

Investments: Order Book for Retail Bonds

Background

In 2010 the London Stock Exchange launched an electronic trading system for bonds aimed at retail investors, known as the Order Book for Retail Bonds or ORB. ORB allows retail investors to access prices and trade in bonds in a similar way to shares. By contrast, most of the bond market has a minimum transaction size of £50,000 nominal value, no central transparent pricing, lack of liquidity in some bonds and is largely the preserve of institutional investors.

Details

The ORB trades around 150 bonds, covering:-

- UK gilts.
- UK corporate.
- Supranational entities.

The ORB has the following features designed to attract retail investors-

- Small minimum transaction size.
- Dedicated market makers, allowing continuous trading and price information.
- Standardised settlement terms of T+1 for gilts and T+3 for corporate bonds.
- Flat rate transaction fee of 90p. Brokers may charge additional transaction fees.

In general, interest is paid six monthly on gilts and annually on corporate bonds. Most of the bonds pay fixed interest, but there is a small number with floating rate, indexed or increasing interest payments.

Information

The London Stock Exchange website has a section on retail bonds:

www.londonstockexchange.com > Prices and markets > Retail Bonds

This includes price information, a downloadable list of the bonds with key details of each bond as well as more general information on ORB, and an advanced search facility. The FT Weekend Money section carries a selection of prices each week.

Prices are quoted on a “clean” basis, but adjustments are made for the interest accrued to give the amount actually payable, the “dirty” price.

The information available on each bond includes:-

- The interest payable on the bond.
- The frequency of interest payments.
- The number of years until the bond is redeemed.
- The current or flat yield from the interest on the bond.
- The gross redemption yield, which is the total return including capital growth or loss that would be made if the bond were held to redemption.
- The TIDM, which is the market data identifying code for the bond.
- Graphs of price movements for the bond.

Tax related matters

Some tax related points are as follows:-

- Interest is paid gross, without deduction of tax at source.
- The interest paid is taxable, and subject to possible adjustment under the accrued income scheme.
- Gains on sales of bonds are not chargeable, and losses are not allowable.
- Transactions in all the bonds within ORB are free from stamp duty and stamp duty reserve tax.
- The bonds are eligible investments for both self-invested pensions and ISAs.

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This 'inform' is designed to give a brief summary of relevant rules, as known at the date of issue. trusted tax adviser can accept no responsibility for any loss arising to any person acting or refraining from action as a result of this 'inform'. Advice should be sought in relation to individual circumstances.