



EBRD and money market benchmarks reform: International and Kazakhstan RFR work

March 2020



- **Why focus on interest rate benchmarks and EBRD's experience with Benchmark reform**
- **International overview – LIBOR reform**
- **Money market benchmark reform in Kazakhstan**

Why are benchmarks important?



Support development of longer term and more flexible financing to economy at more efficient prices

EBRD experience with Benchmark reform

- EBRD is an active member of different WGs: ISDA Benchmark WG, Sonia RFR WG, Sonia RFR sub-WG
- EBRD has worked (and is still working) with local banks and authorities in many of its Countries of Operation to help develop domestic money markets and improve the transparency and credibility of local interbank indices
- For example, in Russia, EBRD actively promoted the development of MOSPRIME (launched in 2005), RUONIA (2010) and ROISFIX (2011) and subsequently indexed (loans, bonds and swaps) transactions to these benchmarks.
- Experience with Risk Free Rates:

	Russia RUONIA	Georgia Reformed TIBR	Turkey TLREF	Egypt CONIA	Kazakhstan Reformed TONIA	Morocco MONIA
Available now?	Since 2010	Since August 2018	Since June 2019	Since October 2019	Reformed index announced on 2/10/19 and yet to be implemented	Since 2/1/20
Secured?	No	No	Yes	No	Yes	Yes

Why will Libor disappear?

Why will Libor disappear?

- Manipulation risk with Libor
- No longer representative of underlying markets
- Too important for the financial system to remain unchanged

Needs replacing by a rate that is:

- Transparent
- Reflective of a deep underlying market
- Designed in line with the IOSCO principles for financial benchmarks

What will replace LIBOR?

2014- 2017 working groups established in US, UK, Eurozone, Switzerland, and Japan identified alternative Risk Free Reference rates (**RFR's**) as the replacement to Libor

LIBOR => RFR + Spread Adjustment

Where RFR is the domestic so called overnight 'Risk Free Rate'
In USD, the RFR will be SOFR

(! Not all 'IBORs' will necessarily be replaced by RFRs e.g. EUR loans will most likely remain indexed to EURIBOR)

The main RFRs



Overview of identified alternative RFRs in selected currency areas

Table 1

	United States	United Kingdom	Euro area	Switzerland	Japan
Alternative rate	SOFR (secured overnight financing rate)	SONIA (sterling overnight index average)	ESTER (euro short-term rate)	SARON (Swiss average overnight rate)	TONA (Tokyo overnight average rate)
Administrator	Federal Reserve Bank of New York	Bank of England	ECB	SIX Swiss Exchange	Bank of Japan
Data source	Triparty repo, FICC GCF, FICC bilateral	Form SMMD (BoE data collection)	MMSR	CHF interbank repo	Money market brokers
Wholesale non-bank counterparties	Yes	Yes	Yes	No	Yes
Secured	Yes	No	No	Yes	No
Overnight rate	Yes	Yes	Yes	Yes	Yes
Available now?	Yes	Yes	Oct 2019	Yes	Yes

FICC = Fixed Income Clearing Corporation; GCF = general collateral financing; MMSR = money market statistical reporting; SMMD = sterling money market data collection reporting.

Sources: ECB; Bank of Japan; Bank of England; Federal Reserve Bank of New York; Financial Stability Board; Bank of America Merrill Lynch; International Swaps and Derivatives Association.

How is LIBOR different from RFRs?

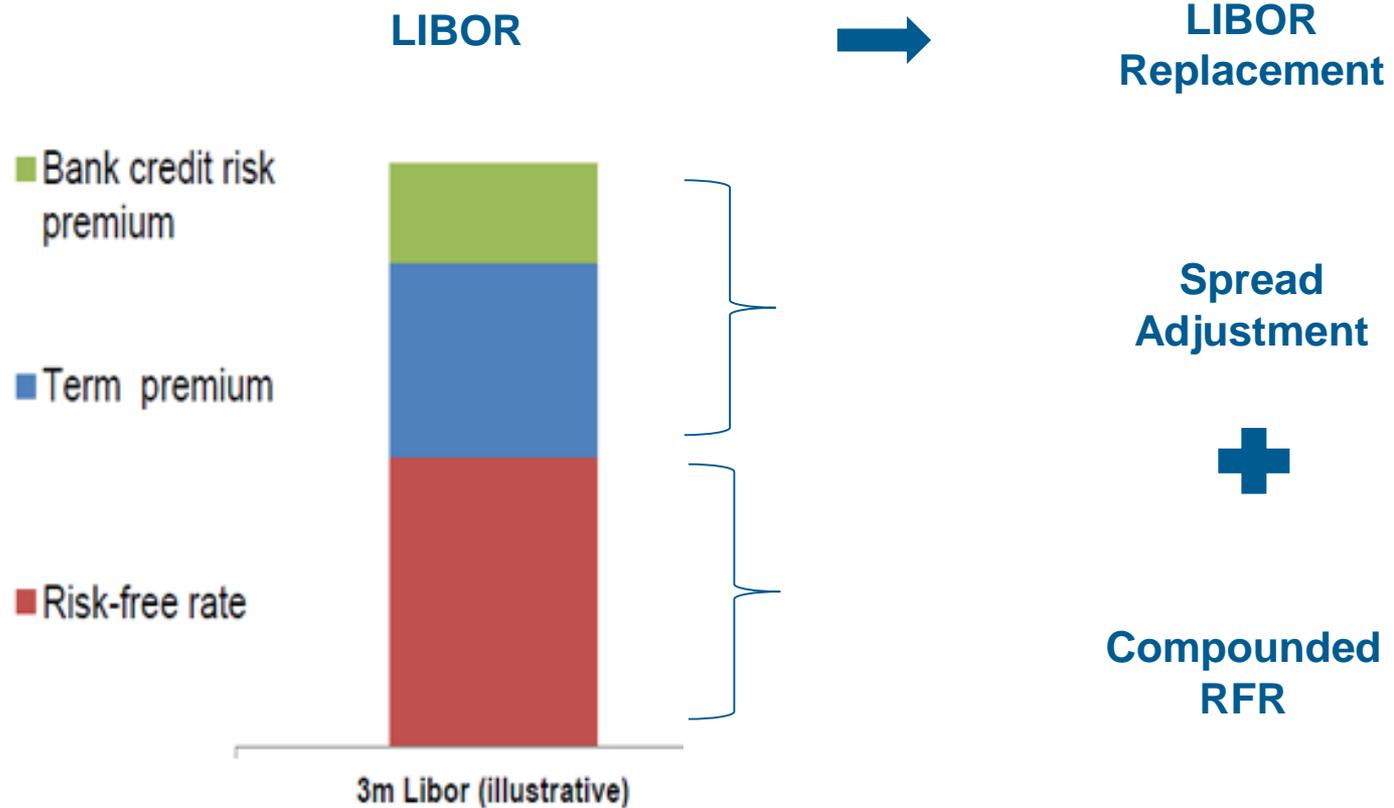
IBORs	RFRs
✓ Forward Looking Term including Credit and Term Liquidity premium	✓ Overnight with minimum credit and term liquidity premium
✓ Indicative Rates or partially transaction based at best	✓ Wholly transaction based
✓ Shallow and declining underlying markets	✓ Deeper underlying markets
✓ Private Administrators	✓ Mainly Administered by central banks

How is LIBOR different from RFRs?

The Spread Adjustment



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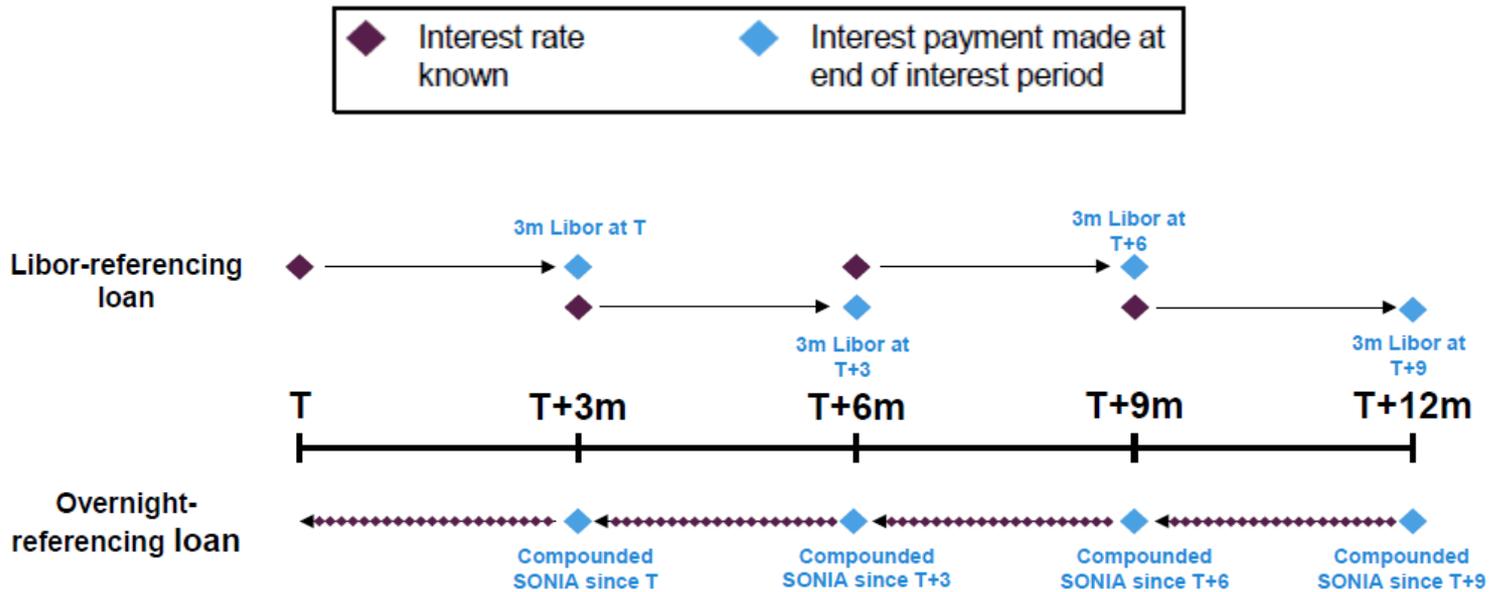
How is LIBOR different from RFRs?

Forward Looking => Compounding in arrears



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Example of impact of using an overnight rate – overnight compounding in arrears



Working Group on Sterling Risk-Free Rate Transition

Money Market Working Group as a platform for spearheading RFR benchmark reform in Kazakhstan

Creation

4/6/18 – decree by Governor Akishev to set up the WG for review of the current money market indicators and development of new money market indicators.

Purpose

The MMWG is a platform for interaction between the NBK and industry-wide market professionals involved in Kazakh money markets to develop, reform and ensure the adoption of Kazakh money market indices.

As such the WG is also a good platform to discuss measures to improve money markets e.g.:

- introduction of extended window to help banks with additional placement of funds,
- discussion of impact of seasonal factors,
- importance of timely settlement of payments for efficient money markets,
- presentation by Dentons on the EBRD assistance project on derivatives legal reform

6 WG meetings between July 2018 and January 2020

Assessment of KZT O/N RFR candidates

Tonia Selection



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	Kibor/ Kazpri me	Unsec ured O/N traded	Kase secure d O/N	OTC secure d O/N	Swap (1D) or (2D) implied	Centra l Bank Rate
1 - Quality of the benchmark and methodology:						
Existence of sufficient and reliable market data to produce a robust and reliable index (quantity, quality, availability of data for the	Red	Orange	Green	Orange	Green	Yellow
Quality of the calculation methodology (does it allow for a fair reflection	Orange	Orange	Green	Orange	Green	Yellow
Robustness to changes in market structure over time	Orange	Orange	Green	Orange	Green	Yellow
Minimal opportunities for market manipulation	Red	Red	Yellow	Red	Yellow	Green
Published and governed by an appropriate administrator	Red	Red	Yellow	Red	Yellow	Green
Commercial sustainability for administrator and data contributors	Yellow	Red	Yellow	Red	Yellow	Yellow
Appropriate controls and governance for administrator and data	Yellow	Red	Yellow	Red	Yellow	Yellow
2 - Transparency and sustainability						
Clarity of definition	Green	Yellow	Green	Yellow	Green	Green
Clarity of calculation/setting	Yellow	Red	Green	Orange	Green	Yellow
Acceptable/stable fallback mechanisms	Red	Red	Yellow	Red	Yellow	Yellow
Clarity on procedures for evolution in case change of benchmark	Orange	Red	Yellow	Red	Orange	Yellow
3 - Sensitivities						
Credit premia	Orange	Yellow	Red	Green	Yellow	Red
Liquidity premia	Yellow	Green	Yellow	Green	Yellow	Yellow
Can be easily replicated by market participants	Yellow	Yellow	Yellow	Orange	Yellow	Yellow
Technical effects (Period-end, Availability of collateral,...)	Red	Yellow	Yellow	Orange	Yellow	Orange
Proximity to policy rate (Monetary policy target)	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Regulatory change	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Changes in the monetary policy framework	Green	Yellow	Green	Yellow	Green	Green
4 - Other considerations for adoption/transition						
Ease /low cost of implementation	Yellow	Green	Yellow	Green	Yellow	Orange
Already used by the market as a benchmark	Red	Orange	Green	Red	Yellow	Green
Reflect market funding rate during normal and market stress situations	Red	Yellow	Green	Red	Green	Yellow
Same day availability (e.g. at close of business)	Orange	Yellow	Yellow	Orange	Green	Yellow
Ease of building a term curve extension	Orange	Red	Green	Red	Yellow	Yellow

Reformed TONIA: Proposed methodology



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- **Calculated** as volume-weighted trimmed rate of eligible transactions, based on central 90% of the volume-weighted distribution of rates. The top and bottom 5 percent of traded volumes (associated with the highest and lowest interest rate) are considered outliers and removed from the observations

- **Defining contingency plan**
 - i) triggered if total volume of eligible transactions is below KZT100bn
 - ii) with the fall-back rate as the NBK Base Rate plus the mean of the spread of the TONIA to the Base Rate over the previous [five] publication days.

- At least **annual reviews** of the methodology.

Next steps for Reformed TONIA

- Implementation of the reformed methodology
- Publication, raising awareness
- Compounded Index publication
- Start using it!
 - Bond issuances
 - Loans
 - OTC and standardized derivatives



Q&A



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