



IBOR TRANSFORMATION AUSTRALIAN WORKING GROUP

Meeting of the IBOR Transformation WG

Thursday, 28 March 2019
3:00pm

AFMA Boardroom 1
Level 25 Angel Place, 123 Pitt Street Sydney

Minutes

Attendees

Duncan Marshall	Member	Australia and New Zealand Banking Group Limited
Pieter Bierkens	Member	Commonwealth Bank of Australia
David Ziegler	Member	Macquarie Group Limited
Stuart Crosbie	Member	Westpac Banking Corporation

Secretariat in attendance

David Love	Policy Executive	Australian Financial Markets Association Limited
Murray Regan	Support Executive	Australian Financial Markets Association Limited

Apologies

John Henson	Member	National Australia Bank Limited
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1. Meeting Opening

- 1.1. The meeting opened at 3:04 pm. Attendees and apologies were noted as above.
- 1.2. The previous minutes were accepted and action item noted. Actioned - Secretariat provided clarification on meaning of term AONIA as provided in the Agenda note.
The nuances in the definition and overnight cash rate was discussed at some length.

2. Selection of the cash rate in Australia as the ARR versus developing an overnight secured repo rate

The Group considered in detail the messaging in the speech by Chris Kent in the context of the ongoing dialogue AFMA is having with the RBA.

The direction given by the Bank is considered very significant – *“Users of 1-month BBSW should be considering alternative benchmarks given the illiquidity in the underlying market. We would suggest that participants consider using other robust benchmarks that are already available rather than waiting for the development of a term risk-free rate.”*

The question seeking to be answered is the Bank seeking to shift the market as regulators in other jurisdictions are doing, as it previously has said it was not directing the market what to do.

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This should be discussed directly with the Bank. Group want to invite Ellis Connolly to speak to them on this point at the next meeting.

Action item:
Secretariat to invite Ellis Connolly RBA to speak to the Group.

3. ARRC Follow-ups for the cross currency working group. For further discussion.

With regard to the questions posed (PAI/discounting, notional resets) refer Attachment 2 and the highlighted text.

Groups discussed view of ARRC sub-group that resetting notional principals each quarter to current FX rates as a way to keep mark-to-market valuations. The idea is that this reduces counterparty credit exposures. The Group considered whether it could adopted in interdealer RFR-RFR markets. On the other it is noted that other tools for reducing counterparty credit exposures develop over time, such as greater use of central clearing for cross-currency swaps or greater standardisation of credit support annexes (CSAs), and also that in some circumstances cross-currency basis swaps were used to hedge cash instruments that did not have quarterly resets. The ARRC sub-group has left options open for now.

The Group considered that this is a question that needs to be discussed internally to gauge the views of risk management.

With regard to discounting and price alignment interest (PAI) in the cross-currency market there are no current market practices. The ARRC sub-group thought that as a matter of practice there should be a standard convention for quoting prices in the USD federal funds markets. It was thought likely that quoting prices based on USD discounting and PAI would remain the norm, although other standards could potentially be as efficient.

Again the Group considered that these more technical issues on market practice need to be collated and addressed in a systematic manner for Australia.

4. Engagement with other Associations

There was discussion on the work being done by ASF and a briefing event for members it is arranging on 16 April for members with the participation of the RBA. The Group queried the Secretariat on what industry level discussions there has been, especially with the buy-side and corporate treasurers.

Secretariat noted that AFMA had organised an industry association meeting in October last year consisting of AFMAS, ASF, FTA and APLMA, and it would be timely to organise another one soon.

Action item:
Secretariat to organise meeting of IBOR industry association Group.

5. Next meetings

Next meetings will be dependent on arrangements for industry association talks and the invitation to Ellis Connolly to talk to the Group.

6. Close of Meeting

The meeting closed at 4:05 pm.