



IBOR TRANSFORMATION AUSTRALIAN WORKING GROUP

Meeting of the IBOR Transformation WG

Tuesday 3 December 2019

10:30am

AFMA Boardroom 1

Level 25 Angel Place, 123 Pitt Street Sydney

Minutes

Attendees

Duncan Marshall	Member	Australia and New Zealand Banking Group
Pieter Bierkens	Member	Commonwealth Bank of Australia
David Ziegler	Member	Macquarie Group Limited
John Henson	Member	National Australia Bank Limited
Greg Kaspar	Member	Westpac Banking Corporation

Guest

Harri Vikstedt	Senior Director, Financial Markets	Bank of Canada
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Secretariat in attendance

David Love	Policy Executive	AFMA
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1. Meeting Opening

- 1.1. The meeting opened at 10:32 am. Attendees were noted as above.
- 1.2. The previous minutes were accepted.

2. Discussion with Harri Vikstedt

The discussion involved an exchange between the group and HV in a compare and contrast on the Australian and Canadian approach to benchmark reform.

The Canadian market has a lot of similarities to the Australian 'multi-rate' approach. HV described the Canadian Alternative Reference Rate Working Group (CARR). Bank of Canada through HV plays a key role in coordinating this joint effort with industry. It is sponsored by the Canadian Fixed-Income Forum tasked with identifying and developing a Canadian dollar term risk-free rate benchmark that is robust, reliable, and resilient to any market stress, as well as consistent with the IOSCO Principles for Financial Benchmarks and compliant with any applicable regulations. CARR will also explore possible enhancements to the existing Canadian overnight risk-free rate, the Canadian Overnight Repo Rate Average (CORRA).

CARR began a consultation on proposed enhancements to the methodology for calculating the ORRA in February 2019. The consultation concluded on April 30, 2019. Respondents were very supportive of the proposed methodology for enhancing CORRA. The most frequent responses focused on the treatment of “tomorrow-next” (tom-next) trades and on ensuring that the proposed enhancements to the calculation methodology remain appropriate going forward. The enhanced methodology for calculating CORRA has these characteristics:

- Transactions involve Government of Canada bond or treasury bill collateral and are settled in Canadian dollars.
- Transactions include repurchase transactions (repos) that are conducted between any two unaffiliated counterparties where data can be sourced.
- Transactions are for an overnight term for same-day settlement (i.e., trades that are agreed to and settled on the same day or T+0).
- The final rate is computed as the daily trimmed volume-weighted median (trimmed median) of eligible transactions. The trimmed median is calculated after removing the lower volume weighted 25th percentile of transactions by repo rate from the set of eligible repos listed above (with the intent to exclude transactions that aim to source a specific scarce security, “specials,” rather than funding).

3. Review draft letter to CFR relating to conduct risk

There was discussion about the draft letter to Council of Financial Regulators relating to conduct risk which was an action item from the last meeting. Members are still discussing internally. The Chair and Secretariat are to progress draft and circulate final draft to group for approval.

Action item: The Chair and Secretariat are to progress draft and circulate final draft to group for approval.

4. Briefing on the first meeting of the IBOR Market Responses working group

The Chair gave a briefing on the first meeting of the IBOR Market Responses working group. That group is considering market dynamics and market signals that could be identified as early markers of such a shift in the Australian market. It decided to put together a list of issues to socialise to the market.

5. Close of Meeting

The meeting closed at 11:48 am.