## MARKET NOTICE

**Market Notice: 2016_7**

**Date: 25 August 2016**

**Subject:** Evolution of the BBSW Methodology: Introduction of an Algorithmic Fall-back to the BBSW Calculation Methodology

As advised in the 19 July Market Notice 2016_5, AFMA is changing the calculation methodology for BBSW to place it on a sounder footing going forward. One component of the new methodology is the introduction of an algorithmic fall-back stage, which would come into operation in the event that the NBBO calculation process fails to compute a BBSW rate for all tenors. It is expected that the algorithmic fall-back would be rarely used in practice.

Our development work on implementing the algorithmic fall-back component has progressed to the point where the associated rules will be codified within the BBSW Benchmark Rate Conventions and take effect on Thursday, 1 September 2016.

In summary, should it ever be required, the algorithmic fall-back calculation methodology would operate sequentially as follows:

1. **Primary algorithmic fall-back – Use of tenors formed under the NBBO calculation protocol to extrapolate or interpolate unformed tenors;**
    i. 1 and 6 month BBSW will be extrapolated from the absolute movement (T+0, T-1) in the closest tenor forming under the NBBO protocol.
    ii. 3 month BBSW will be interpolated from the average absolute movement (T+0, T-1) of the two closest bordering tenors forming under the NBBO protocol.
    iii. Should there only be one formed tenor under the NBBO protocol, all unformed 1, 3 and 6 month BBSW will be extrapolated from the absolute movement (T+0, T-1) of that formed tenor.
    iv. Having now formed or derived 1, 3 or 6 month tenors, any unformed 2, 4 or 5 month tenor will be interpolated from the two closest bordering tenors.

2. **Secondary algorithmic fall-back – Use of the absolute movement in the ASX 90 Day Bank Bill Futures contract to extrapolate all BBSW tenors;**
    Conditions precedent for the application of this fall-back are:
    i. the NBBO calculation protocol has failed to calculate BBSW in any tenor, which otherwise would allow calculation of all tenors using the Primary fall-back algorithm;
    ii. ASX has formally agreed to the construct of the algorithm, and this construct is codified within the conventions, absent which any failure of the Primary fall-back will invoke the Tertiary Fall-back.

3. **Tertiary algorithmic fall-back – Use prior day's rate if secondary fall-back fails.**
    i. T-1 BBSW rates will be deemed to be, and published as, T+0 BBSW.

The application of the algorithmic fall-back methodology to derive BBSW rates will not extend beyond two consecutive good business days.

AFMA notes that development work on the rules to implement a volume weighted average price (VWAP) calculation methodology, as also announced on 19 July, is ongoing and subscribers will be kept informed as this work progresses.

Concurrent with the implementation of the VWAP calculation methodology the Administrator will cease publication of 4 and 5 month BBSW, to be also accompanied by a modification of the algorithm as applicable to the 2 month tenor.

Queries in relation to this should be directed to bi-methodology@afma.com.au