



## MARKET NOTICE

**Market Notice: 2016\_3**

**Date: 11 May 2016**

**Subject: AFMA to Refocus its Support for Financial Benchmarks**

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The Bank Bill Swap (BBSW) is a significant short term benchmark rate in the Australian financial markets and is used to provide reference interest rates for the pricing and revaluation of Australian dollar derivatives, business loans and securities such as floating rate bonds.

AFMA is the administrator of BBSW, which in practice means that it electronically extracts live and executable bids and offers from the approved trading venues, calculates the rate and then publishes it to the market on a daily basis.

The administration of benchmarks is by its nature a practical, operational task that depends on advanced IT systems and is increasingly conducted by specialist data businesses. The growing complexity of benchmark administration is illustrated by the Council of Financial Regulators' proposal to move to a volume weighted average price (VWAP) methodology as the primary calculation mechanism, which will require development of a trade repository capability, amongst other things.

AFMA has determined that benchmark administration has now evolved to a point where it is appropriate for it as an industry body to step away from the function of being a benchmark administrator. This will provide AFMA with greater capacity to conduct the policy advocacy and market development activities that form the core of its mission.

AFMA will begin the process to identify an alternative benchmark administrator over coming months and enable the transfer of BBSW administrator responsibilities to another entity in a reliable manner.

A key condition for change is that the ongoing integrity and reliability of BBSW as a significant benchmark is maintained. AFMA operates BBSW in accordance with the IOSCO principles for financial benchmarks, which is the global regulatory standard, and would require an alternative administrator to do likewise.

Going forward, AFMA will then focus its support for the effectiveness of financial benchmarks in Australia by maintaining OTC market conventions and standards that promote the operational efficiency and fairness of markets from which benchmarks may be drawn, and by offering an important avenue for benchmark administrators to engage with market participants. This approach is consistent with our other engagements with providers of financial system infrastructure.

**About AFMA**

The Australian Financial Markets Association (AFMA) is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets and provides leadership in advancing the interests of all market participants. These markets are an integral feature of the economy and perform the vital function of facilitating the efficient use of capital and management of risk. Market participants perform a range of important roles within these markets, including financial intermediation and market making.

AFMA represents over 120 members including Australian and international banks, leading brokers, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.