



MARKET NOTICE

Market Notice: 2016_1

Date: 23 March 2016

Subject: Proposed change to Cash Market Conventions

Context

The Reserve Bank collects data on the amount and weighted average rate at which banks transact in the domestic interbank market for overnight unsecured funds. These data are used to calculate the Reserve Bank's measure of the Interbank Overnight Cash Rate (IBOC), which is the Reserve Bank Board's operational target for the implementation of monetary policy. This measure is published each day that the Reserve Bank Information and Transfer System (RITS) is open for interbank settlement.

IBOC is recognised as a systemically important benchmark rate and currently is calculated by the RBA following the receipt of submissions from banks that settle payments across their own Exchange Settlement Account (ESA). During November 2015, and following discussion with AFMA's Cash Committee, the RBA trialled a new data collection methodology which would eliminate the need for data submissions by banks and rely instead on data extracted from RITS.

This trial clearly demonstrated the viability of this methodology, and the RBA subsequently proposed to the Cash Committee certain essential changes to market conventions in order that this robust calculation methodology be adopted.

These changes only impact banks that settle payments across their own ESA. RBA's Market Operations subsequently consulted with these parties (bank ESA holders) and garnered broad support for this endeavour.

Cash Conventions Amendments

The Cash Committee has now endorsed the Reserve Bank proposal, and has drafted amendments to the Cash Market Conventions to reflect the essential changes required. In essence, for the new calculation methodology to function as planned, cash market 'at call' transactions between bank Exchange Settlement Account (ESA) holders will no longer be permitted, i.e.; that upon transition to the new methodology ***all IBOC cash transactions between bank ESA holders must:***

- a) Be for an overnight term;
- b) Be settled through RITS and identified via codes specified in the RBA's Cash Rate Procedures Manual; and
- c) Record the interest rate applicable in the 'Interest Rate' field on the dedicated RITS Cash transfer.

Your feedback is welcomed and we ask that any comments be provided not later than Friday 8 April 2016, and should be directed to [Murray Regan](#) Director Markets and Rates.

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 130 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.