

Minutes of the 3rd Meeting of the Working Group on Money Market Indices (MMWG)

1 February 2019, Almaty

On 1 February 2019, the 3rd meeting of the Working Group on Money Market Indices (hereinafter - MMWG) was held in Almaty with the participation of the representatives of the European Bank for Reconstruction and Development (EBRD), National Bank of Kazakhstan (NBK), second-tier banks (STBs), “Kazakhstan Stock Exchange” JSC (KASE) and Association of Legal Entities “Association of Financiers of Kazakhstan” (AFK).

The meeting was held in a business-friendly atmosphere, aimed at discussing the money market indices.

In accordance with the agenda the following issues were discussed during the meeting:

I. Results and agreements on the types of Risk Free Rate following the outcomes of MMWG 2nd meeting

1. The EBRD representatives summarised the main conclusions of the second working group meeting and in particular the choice of Tonia by the working group for the Kazakh risk-free rate.
2. The NBK representatives informed about the plans to introduce the deposit auctions instead of 7-day short-term notes, and terminate the attraction of 7-day deposits. The National Bank is also exploring, jointly with the KASE, the matter of establishing a special floor, where the additional continuous access transactions (deposits, REPO, swaps) would be concluded after the closure of KASE money and foreign exchange markets. Transactions will be concluded exclusively between the banks, on the one part, and the National Bank, on the other part. These transactions will be concluded at the rates of the base rate corridor limits and currency swap, respectively.

II. EBRD presentation on proposed changes in the methodology for the calculation and definition of the TONIA index

1. The EBRD representatives reminded the main guiding principles for reliable money market benchmark rates in line with international best practices and suggested some changes to the current TONIA index calculation methodology and definition to reduce manipulation risk and strengthen transparency of governance of the index.

In particular, the EBRD representatives proposed measuring TONIA index as a trimmed mean of interest rates on eligible transactions, introducing a contingency plan in case of insufficient transactions on any given day and introducing a formal transparent regular review of the benchmark methodology by the Administrator.

2. Representatives of the STB, AFK and KASE noted that they have no issues with the current methodology of TONIA index calculation.

EBRD, explained that further development of the current methodology of TONIA index calculation would allow for a stronger benchmark (in line with international best practices), that would support the development of derivatives and other instruments, with longer tenors, and would in turn support the development of deeper, more liquid and efficient KZT markets.

3. The Working Group discussed in particular whether eligible transactions for the benchmark calculation should include all (or more) market segments currently included in the Tonia calculation.
4. The NBK representatives informed that by the next meeting of the Working Group they would jointly with KASE prepare the extended information on TONIA index using truncation on specific market segments for further investigation of opportunities to change calculation of TONIA index.

III. The National Bank presentation of seasonal factors of the money market and foreign exchange market: tax weeks and utilization of budgetary funds

1. The NBK representatives noted that dynamics of the foreign exchange market is formed, to a large extent, by such seasonal factors as the tax period and utilization of budgetary funds. In this regard, development of the derivatives market will promote smoothing of the seasonal factors' impact on the money market.
2. The STB representatives agreed that the seasonal factors influence the formation of dynamics of the money and foreign exchange markets.

IV. Importance of timely settlements of payments for effective money markets

1. The STB representatives noted an uneven distribution of liquidity in the money market.

V. Based on results of the meeting the parties have agreed as follows:

1. The participants have agreed that it is necessary to continue analyzing the methodology and determining calculation of TONIA index for the need to make changes.

VI. On holding the next meeting of the MMWG

1. The Parties have agreed to hold the next MMWG meeting in the second quarter of 2019, in Almaty.

2. The definite dates and venue of the next meeting will be agreed upon additionally.