

## **Minutes of the 4<sup>th</sup> Meeting of the Working Group on Money Market Indices (MMWG)**

*30 April 2019, Almaty*

On 30 April 2019, the 4<sup>th</sup> 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), Association of Legal Entities “Association of Financiers of Kazakhstan” (AFK) and Dentons.

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 developments since the 3<sup>rd</sup> MMWG meeting**

1. The EBRD representatives summarized the main conclusions of the third working group meeting and in particular the choice of TONIA by the working group as the Kazakh risk-free rate benchmark.
2. The NBK representatives informed about the plans to introduce jointly with the KASE an additional liquidity window for REPO and swaps. Those 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 official corridor respectively.
3. Dentons made a presentation on the EBRD technical assistance project on derivatives legal reform (“Developing a new regulatory framework of the Republic of Kazakhstan regarding derivative financial instruments”), following which the NBK representatives pointed out the need to accelerate work on the project.

### **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. 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.

2. The Working Group discussed in particular whether the TONIA calculation should include more or exclude some market segments from the current TONIA calculation, the impact of different trimming levels (5 to 20% of the extremes) and triggers for the contingency fall-back rate

### **III. Based on results of the meeting the participants have agreed as follows:**

1. To recommend KASE to consider the possibility of the revision of the calculation methodology for TONIA or creation of alternative index to TONIA with different title, to embrace the following features:
  - calculated as the volume weighted trimmed rate of eligible transactions, based on the central 90% of the volume-weighted distribution of rates. The top and the bottom 5 percent of the traded volumes (associated to the highest and the lowest interest rate) are detected as outliers and removed from the observations
  - with a contingency plan (i) triggered if total volume of eligible transactions is below KZT 100 billion and (ii) defining the fall-back rate as the NBK Base Rate plus the mean of the spread of the TONIA to the Base Rate over the previous five publication days.
  - and with at least annual reviews of the methodology.

### **IV. On holding the next meeting of the MMWG**

1. The Parties have agreed to hold the next MMWG meeting in October 2019, in Almaty.
2. The definite dates and venue of the next meeting will be agreed upon additionally.