

Minutes of the 8th meeting of the Working Group on Money Market Indices (MMWG)

May 21, 2021, videoconference

On May 21, 2021, the 8th meeting of the Working Group on Money Market Indices was held online with the participation of representatives of the National Bank of Kazakhstan (NBK), European Bank for Reconstruction and Development (EBRD), "Kazakhstan Stock Exchange" JSC (KASE), second-tier banks (Banks), Association of Legal Entities "Association of Financiers of Kazakhstan" (AFK).

According to the Agenda the following issues were discussed during the meeting:

I. EBRD presented latest updates on LIBOR reform.

1. EBRD updated MMWG participants on recent developments with the global regulatory drive to replace LIBOR with Risk Free Rates (RFRs). LIBOR will cease to exist from 31 December 2021 for all tenors for GBP, CHF, JPY and EUR LIBOR currencies and 30 June 2023 for main USD LIBOR tenors (although authorities made it clear that firms are expected to cease entering new USD LIBOR linked contracts after 31 Dec 2021).
2. EBRD explained options to use overnight RFRs in cash products and presented the recommended main features for its new SOFR (Secured Overnight Financing Rate) linked loans: SOFR compounded with a 10 business day lookback with an observation shift and calculated using the SOFR Index.

II. EBRD presented the results of the questionnaire circulated ahead of the meeting to market participants on historical data, money market indices, and calculation of compounded rates and a new TONIA Index (to assist with the calculation of compounded TONIA between two dates).

Based on Banks' responses to the questionnaire on TONIA by the majority of the MMWG members, it was decided to:

1. Start calculating values for new (current) methodology TONIA only from December 28th, 2020 (no backdating of the revised calculation methodology is needed and historical TONIA data prior to December 28th, 2020 would reflect data using the old methodology).
2. Historical values of the TONIA and its visual representations are somewhat important.
3. It is important to only show the relevant indicator(s) that reflect the current state of the MM on the main page of the KASE – preferably TONIA and TRION.
4. All banks find that the daily publication of a compounded rate for various tenors and a new TONIA Index would be useful.
5. Banks neither started nor are planning to start offering products indexed to TONIA due to its high volatility and absence of clients' interest. Also, banks indicated that nowadays TONIA is being used mainly for Treasury products.

EBRD explained that compounded TONIA over each interest period would be much less volatile (than overnight TONIA) and would allow market participants to develop new instruments, giving the example of the fast development of RFR linked products in Turkish Lira (TL). Although TLREF (the TL equivalent of TONIA) is also volatile and clients initially had no interest in TLREF linked products, market participants promptly started offering and executing transactions indexed to TLREF, as they understood how TLREF could be used to manage risks and increase their product range to clients.

Based on Banks' responses to the follow-up questionnaire on TONIA by the majority of the MMWG members, it was decided to:

1. Approve the following formula for calculating the TONIA Compounded Index:

$$\text{Compounded Index}_{cd} = \text{Compounded Index}_{bd} \times \left(1 + \frac{\text{TONIA}_{bd} \times \text{Weighting}}{365}\right)$$

Where:

Compounded Index_{cd} = the Index value for calendar day *cd* (i.e. both for business and non-business days), calculated and published at the end of the business day that precedes the calendar day *cd*.

Compounded Index_{bd} = the Index value for latest business day *bd* preceding calendar day *cd*, calculated and published on business day preceding business day *bd*.

TONIA_{bd} = the TONIA rate with an effective date of business day *bd*, calculated and published by the Kazakhstan Stock Exchange (KASE) at the end of business day *bd*.

Weighting = the weighting to apply to the *TONIA_{bd}*. The Weighting will equal the number of calendar days from business day *bd* to calendar day *cd*, i.e. the number of calendar days between the previous business day and the current calendar day.

TONIA Compounded Index is to be calculated for non-business days as well as business days.

2. Publish TONIA Compounded Index with values rounded to 10 decimals.
3. Publish TONIA Compounded Rates for 1-month, 3-month, and 6-month tenors on every calendar day.
4. Round TONIA Compounded Rates to 4 decimals.

III. EBRD presented TONIA index linked Floating-Rate Notes (FRNs).

1. EBRD introduced TONIA index linked FRNs, advantages of using TONIA index in FRNs, methodology for calculating interest rates and recent Feedback on discussions on TONIA-linked bond issuance.

IV. On holding the next meeting of the MMWG.

1. The parties agreed to hold the next meeting of the Working group in 3rd quarter of 2021.
2. The specific dates and venue of the next meeting shall be agreed upon additionally.

**Response provided by Banks to
MMWG questionnaire on TONIA index: historical data, money market indexes, and calculation of compounded rates**
(updated May 21st, 2021)

Bank	Question 1	Question 2	Question 3	Question 4	Question 5
	<i>Should the backdated values be calculated for the new (current) methodology TONIA?</i>	<i>How relevant/useful [for your operations or your clients'] is having historical values of the TONIA and its visual representations readily available?</i>	<i>Should the number of current MM indicators for KZT market be decreased?</i>	<i>Would banks find the daily publication of a compounded rate for various tenors and that of an Index as described above useful?</i>	<i>Please advise whether you have started or are planning to start offering products indexed to TONIA.</i>
1	No, start producing TONIA from 28 December 2020	d. Unimportant	a. Yes, it is confusing and irrelevant to have so many indicators. If you select this answer, please indicate which indicators you would like to keep – TONIA, TRION.	Yes	b. If not, why and are there any hurdles that need first be addressed (please describe) – Bank is not interested in offering such products at the moment.
2	No, start producing TONIA from 28 December 2020	d. Unimportant	a. Yes, but only from the main page of KASE to stress the relevant indicator(s) that reflect the current state of the MM	Yes	b. If not, why and are there any hurdles that need first be addressed (please describe)? Will do so in case of client's interest
3	No, start producing TONIA from 28 December 2020	c. Somewhat important	b. Yes, but only from the main page of KASE to stress the relevant indicator(s) that reflect the current state of the MM	Yes	NO Because the "bank" is monoproduct bank
4	Yes, concatenate with the existing values of "old" TONIA	c. Somewhat important	d. No, it should be left as it is	Yes	b. If not, why and are there any hurdles that need first be addressed (please describe)? Our bank does not use TONIA indicator for any Banks product.
5	Yes, backdate the current methodology and on-load the values	c. Somewhat important	c. No, but it is important to stress the relevant indicator(s) that reflect the current state of the MM	Yes	b. If not, why and are there any hurdles that need first be addressed (please describe)? No interest in products indexed to TONIA, because of high volatility.
6	No, start producing TONIA from 28 December 2020	c. Somewhat important	a. Yes, it is confusing and irrelevant to have so many indicators. If you select this answer, please indicate which indicators you would like to keep	Yes	b. If not, why and are there any hurdles that need first be addressed (please describe)? No interest in products indexed to TONIA, because of high volatility.

**Response provided by Banks to
MMWG follow-up questionnaire on TONIA (Compounded index) index**
(updated August 2nd, 2021)

#	Question 1	Question 2	Question 3	Question 4
	<i>Please indicate if you agree to the proposed methodology of the TONIA Compounded Index as described above. If no, please specify what shall be changed.</i>	<i>Please indicate if your system allows rounding up to 10 decimals</i>	<i>Please indicate if such compounded rates shall be published.</i>	<i>In the UK and the US, respectively, the compounded rates are rounded to 4 (SONIA) and 5 (SOFR) decimals. If TONIA Compounded Rates were to be published, what number of decimals such compounded rates shall be rounded to?</i>
1	Yes, agreed with the proposed methodology	No, it can round up to less than 10 decimals (please indicate how many) – 9	Yes, for 1-month, 3-month, and 6-month tenors	5 decimals
2	Yes, agreed with the proposed methodology	Yes, it can round up to 10 decimals	Yes, but it should be for fixed number of days (e.g. 30, 90, 180 days)	4 decimals
3	Yes, agreed with the proposed methodology	No, it can round up to less than 10 decimals (please indicate how many) Request required, currently 4 decimals	Yes, for 1-month, 3-month, and 6-month tenors	4 decimals
4	No, it needs to be changed (not specified)	No, it can round up to less than 10 decimals (please indicate how many) – 5 decimals	Yes, but it should be for fixed number of days (e.g. 30, 90, 180 days)	5 decimals
5	Yes, agreed with the proposed methodology	Yes, it can round up to 10 decimals	Yes, for 1-month, 3-month, and 6-month tenors	4 decimals
6	Yes, agreed with the proposed methodology	Yes, it can round up to 10 decimals	Yes, but it should be for fixed number of days (e.g. 30, 90, 180 days)	4 decimals
7	Yes, agreed with the proposed methodology	Yes, it can round up to 10 decimals	Yes, for 1-month, 3-month, and 6-month tenors	4 decimals
8	Yes, agreed with the proposed methodology	No, it can round up to less than 10 decimals (please indicate how many) – 4	Yes, for 1-month, 3-month, and 6-month tenors	4 decimals