

## **Minutes of the 9<sup>th</sup> meeting of the Working Group on Money Market Indices (MMWG)**

*November 19, 2021, Almaty*

On November 19, 2021, the 9<sup>th</sup> meeting of the Working Group on Money Market Indices was held in Almaty 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. KASE presented presentation on TONIA Compounded Indicators.**

1. KASE updated MMWG participants on LIBOR cessations dates as well as alternative rate to LIBOR.
2. KASE provided overview on Money Market Indices and Money Market Indicators.

### **II. EBRD presented LIBOR transition recent developments.**

1. EBRD updated MMWG participants on recent acceleration on SOFR (Secured Overnight Financing Rate) adoption.
2. EBRD presented graphs on increasing liquidity in Risk Free Rates (RFRs) derivatives markets.
3. EBRD presented recommendations of Alternative Reference Rates Committee (ARRC) on the use of SOFR Term Rates.

### **III. EBRD presented stages for TONIA-linked market development.**

1. EBRD suggested stages of Kazakhstan's Money Market Development: (1) creating a Risk-Free Overnight Rate, (2) promoting the use of TONIA, (3) establishing Overnight Index Swaps Market.
2. EBRD analyzed the difference between TONIA Compounded Rates and TONIA Compounded Index and their uses.

Publishing the TONIA Compounded Rates and Index will allow market participants to track their interest rate profit evolution over the published reference periods and help them to price TONIA products.

The TONIA Compounded Index will be the preferred method for calculating interest for the different products indexed to TONIA through deriving the TONIA compounded rate for the exact number of days in each specific period from the TONIA Index as shown in the formula below.

$$TONIA \text{ Compounded Rate}_{period} = \left[ \frac{TONIA \text{ Index}_{End \text{ period}}}{TONIA \text{ Index}_{Start \text{ period}}} - 1 \right] \times \frac{365}{T}$$

Compounded TONIA is less volatile than the overnight rate (volatility was mentioned as the main issue in survey in May 2021).

Utilisation of the recently published TONIA Compounded Index in pricing formula creates simplicity and transparency in the actual interest rate charged without need for complicated data management.

Any IT development to support the use of TONIA will be the same as that needed to use SOFR.

#### **IV. EBRD presented pioneering TONIA-linked issuance.**

1. EBRD introduced pioneering TONIA Compounded Index Bond.

EBRD provided the following formula for calculating coupon rate:

$$\text{Coupon rate}_{3\text{-months}} = \text{TONIA Compounded Rate}_{3\text{-months}} + \text{"Issuance Spread"}$$

Where the TONIA Compounded Rate for the period will be calculated as below:

$$\text{TONIA Compounded Rate}_{3\text{-months}} = \left[ \frac{\text{TONIA Index}_{\text{End}}}{\text{TONIA Index}_{\text{Start}}} - 1 \right] \times \frac{365}{T}$$

if TONIA Index is not available

$$\text{TONIA Compounded Rate}_{\text{period}} = \left[ \prod_{i=1}^d \left( 1 + \frac{\text{TONIA}_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{T}$$

Main loan features are TONIA compounded with a 14 calendar day lookback calculated using the TONIA Compounded Index.

#### **V. EBRD presented information on the use of TONIA in derivatives, on developing an Overnight Index Swap (OIS) Market and its benefits of developing KZT OIS Market as well as on establishing process of an OIS market.**

1. With the phase-out of LIBOR, the swap market for OIS contracts with SOFR, SONIA, or ESTR as the underlying overnight index has been growing. Accordingly, the plan is to promote an OIS market that is based on TONIA as the overnight index to be in line with the global movement of favoring OIS contracts over other types of interest rate derivatives.
2. EBRD justified the need of OIS Market providing that it will contribute to increasing banks' ability to lend, enhancing transmission of monetary policy decisions, enabling the government to extend its debt portfolio maturity at more favorable rates, enhancing banks' assets liability management and bank's liquidity.
3. EBRD asserted that the first step to establish an OIS market, is to have an OIS curve that market participants would use to determine the fixed leg of the OIS

contract. An OIS Curve is a curve of average banks' quotations for their expectations of the compounded overnight rate over the curve's tenors.

4. EBRD also proposed KZT IOS Convention.

**VI. On holding the next meeting of the MMWG.**

1. The parties agreed to hold the next meeting of the Working group in the first half of 2022.
2. The specific dates and venue of the next meeting shall be agreed upon additionally.