

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

September 11, 2023, Almaty

On September 11, 2023, the XIII meeting of the Working Group on Money Market Indices (hereinafter – Working Group) was held in Almaty with the participation of representatives of the National Bank of Kazakhstan (NBK), Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (ARDFM), European Bank for Reconstruction and Development (EBRD), JSC "Kazakhstan Stock Exchange" (KASE), Association of Legal Entities "Association of Financiers of Kazakhstan" (AFK), second-tier banks (banks) and OGR Holding a.s.

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

I. OGR Holding a.s company, the Consultant who will run the project of Money Market Diagnostic Framework (MMDF), gave presentation on MMDF and announced the imminent start of the project.

1. OGR Holding a.s informed that MMDF will be structured around large set of questions on the milestones key to the money market development, focusing on four building blocks, namely current level of money market development, environment, central bank's activity and resources.

The NBK, ARDFM and market participants will have separate sets of questions to answer each, as part of the MMDF assessment.

2. OGR Holding a.s reported that the project shall take up to 3-4 months and comprise of the following steps:
 - conducting a workshop;
 - participants filling the questionnaire;
 - checking answers and providing feedback;
 - visit to the Kazakhstan to conduct face-to-face interviews.
 - preparation of a report with assessment and recommendations;
 - final workshop to present the results.

II. The EBRD reminded of importance of using derivatives.

1. The EBRD noted that derivative financial instruments support resilience and growth, as a result of their allowing to manage interest rate and FX risk in an efficient manner. Derivatives also support capital market development, allow for monitoring the monetary policy effectiveness and contribute to efficient distribution of these risks among market participants.
2. The EBRD highlighted the advantage of using interest rate swaps for interest rate risk management, separate from FX and credit risk management. They also don't involve cash notional exchange (in comparison to FX swaps and cross currency swaps).

3. The EBRD also illustrated the SVB case study, underlining the need to manage interest risk exposure.

III. The EBRD emphasized the need to develop local ISDA Master Agreement.

1. The EBRD recalled that the Netting law came into effect on September 12, 2022 with the EBRD's support, allowing for close-out netting between parties of contracts. However, close out netting is currently not enforceable for derivatives between domestic counterparties due to the absence of a local ISDA Master Agreement. In accordance with the legislation, a local ISDA Master Agreement template shall be developed by a professional organization, i.e. the AFK for derivatives between domestic counterparties to be enforceable.
2. When asked by the Working Group participants about the next specific steps to develop a local ISDA Master Agreement, the EBRD shared its experience of local ISDA Master Agreement development in other jurisdictions.
3. The AFK and NBK informed that discussions are ongoing on further actions to develop a local ISDA Master Agreement.

IV. The EBRD draw attention to the need for derivatives valuation guidance.

1. The EBRD noted that Kazakh law requirement linking the required authorisation level for transactions to the value of transactions can impact the validity of transactions if they get challenged in court for not having been approved at the right level of approval. Although it seems that parties should be able to mitigate this risk by including additional Representations in their bilateral master agreements, it seems appropriate to have regulatory guidance as to how to value derivatives, as international best practices don't value derivatives at their notional amount and doing so may restrict the development of the market.

V. KASE presented an analysis of the repo market in Kazakhstan.

1. For eight months of the current year, the total volume of trades amounted to KZT 209.5 trln. tenge. The share of repos amounted to 83% (KZT 174.8 trln.), the share of currency swaps amounted to 18% (KZT 34.7 trln.). In the total volume of the repo market, autorepo with the GS basket amounted to 91%, and with the BSP basket – 5 %.
2. In the last 3 years the average daily volume of the repo market increased from KZT 400 bln. to KZT 800 bln. The major share of the volume on repo transactions falls on brokerage organizations.
3. Since mid-2022, the number of transactions between brokerage organizations increased, while banks remained on the second place. In 2021, banks were in the lead (share decreased from 80% to 40%).
4. From early 2021 through September 2023, the correlation of TONIA with the base rate is 98.1%. Since mid-2023, there has been a gap between TONIA

and the base rate. The correlation with inflation over the same period reached 88%.

5. From 2021 to 2023, there is practically no correlation between the trading volume of banks in the repo market and TONIA, the volume holds steady around KZT 380-400 bln. per day and is correlated depending on the emerging economic situation. In a shorter period of time it can be seen that higher TONIA rates correlate with periods of increased trading volume. During crises the correlation weakens.
6. The Working Group concluded after KASE presentation that TONIA as currently defined correctly reflects the overnight rate at which banks manage their marginal liquidity.

VI. On holding the next MMWG meeting.

1. Parties agreed to hold the next meeting of the Working Group in spring 2024.
2. Specific dates and venue of the next meeting to be agreed upon.