



BBSW Consultation Paper

Consultation for amendments to the term “Publication” and Reducing the Interbank delivery window

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Invitation to comment

ASX is seeking submissions in response to this consultation by 8 August 2023. Submissions should be sent to:

E: ASXBpricing@asx.com.au

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly in your submission. ASX reserves the right to publish the non-confidential submissions it receives and consider publishing those submissions in whole or on a summary basis. Where a submission, or part thereof, is marked confidential ASX will consider publishing the content on a summarised and anonymous basis. Where ASX is required by a regulator or otherwise required by law to produce a submission it has received, ASX will use its best endeavours to advise the submitter ahead of the production of the submission.

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1. Introduction

ASX Benchmarks Pty Limited (**ASX Benchmarks**) is seeking feedback on amendments to the term “publication” within the ‘ASX Bank Bill Swap (BBSW) Conventions and BBSW Methodology’ dated 29 March 2022¹ (**ASX BBSW Conventions and Methodology**).

ASX is further seeking feedback on a proposal to reduce the interbank delivery window (for the purposes of NBBO) from +/- 5 days to +/-3 days.

BBSW is an unsecured short term money market benchmark representing the market assessment of the premium payable by the Prime Banks to a comparable risk-free rate interest rate curve. BBSW is calculated for the 1, 2, 3, 4, 5 and 6-month tenors using the calculation methodology as set out in section 4.1 of the ASX BBSW Conventions and Methodology. The BBSW rate is published via three key distribution channels at 10:30am on each valid NSW Business Day.

ASX Benchmarks, as a licensed Benchmark Administrator for the purposes of Part 7.5B of the *Corporations Act 2001* (Cth), has primary oversight of the Benchmark determination and dissemination process. This includes the accurate and timely calculation, publication and distribution of BBSW.

Terms capitalised but not otherwise defined have the meaning given to them:

- in respect of the amendments to the term “publication”, in the ASX BBSW Conventions and Methodology; and
- in respect of the reduction to the interbank delivery window, in the ASX Prime Bank Conventions.

1.1. Invitation to respond

ASX Benchmarks invites feedback from market participants on the proposals set out in this consultation and any risks or alternative approaches that respondents may wish to raise for consideration. The consultation will be open until 8 August 2023. Please submit your response to ASXBpricing@asx.com.au.

ASX Benchmarks will publish a market notice to confirm the approach by the end of Q3 2023.

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly in your submission. ASX reserves the right to publish the non-confidential submissions it receives and consider publishing those submissions in whole or on a summary basis. Where a submission, or part thereof, is marked confidential ASX will consider publishing the content on a summarised and anonymous basis. Where ASX is required by a regulator or otherwise required by law to produce a submission it has received, ASX will use its best endeavours to advise the submitter ahead of the production of the submission.

2. Amendments to the term “Publication”

As a Benchmark Administrator, ASX Benchmarks is responsible for the calculation and dissemination of BBSW rates. This includes the ingestion, validation, and distribution of the daily BBSW rates. ASX Benchmarks is proposing to amend the term “publication” in the ASX BBSW Conventions and Methodology to provide clarity for end users in respect of the different types of publication for BBSW.

¹ <https://www2.asx.com.au/content/dam/asx/benchmarks/asx-bbsw-conventions.pdf>

ASX Benchmarks will publish BBSW through the following distribution channels.

- The email distribution channel (available via subscription service only)
- Information vendors as described in Appendix B in the ASX BBSW Conventions and Methodology. Such information vendors include, but are not limited to:
 - Refinitiv (available via subscription service only)
 - Bloomberg BBSW (via subscription service only)

BBSW rates are also published on the ASX Benchmarks website 24 hours in arrears².

For the avoidance of doubt, ASX Benchmarks will be deemed to have published BBSW despite a technical issue resulting in BBSW not being available on a particular distribution channel but still available on an alternative distribution channel.

Accordingly, ASX Benchmarks is proposing to amend the definition of “publication” as highlighted in **section 3.5 of the ASX BBSW Conventions and Methodology**. Furthermore, ASX Benchmarks is proposing to amend the wording in **Appendix B** of the **ASX BBSW Conventions and Methodology** document as outlined below:

3.5 BBSW Publication

24. *The calculated BBSW rate for each tenor will be rounded to four decimal places and published ~~at~~ by 10:30:00am AEST/AEDT via information vendors as described in Appendix B or as otherwise notified via email by the Administrator to subscribers of ASX Benchmark Data. If BBSW publication is delayed post 10:30am or there is some other technical issue, the Administrator will promptly place a notice on the ASX system status page (under ASX Benchmarks) advising of the ~~delay~~ issue.*

25. *BBSW for all tenors will be assumed as having been calculated using the VWAP or NBBO Methodology. The methodology used will be communicated in the daily BBSW spreadsheet emailed to subscribers and on the website with the 24 hour delayed publication data.*

Appendix B

73. *Distribution agreements are in place with the information vendors and BBSW is published in the formats specific to that information vendor through Bloomberg, QUICK Corp, Sungard and Refinitiv. BBSW is published on Refinitiv page BBSW and Bloomberg page ASX29 and ASX@342849*

3. Interbank Delivery Window

Prime Banks are a designated sub-set of banks operating in Australia, whose short term securities trade as a homogenous asset class and are recognised as being of the highest quality with regard to liquidity, credit and consistency of relative yield. This homogeneity promotes market liquidity and provides the basis for discovery of Australia’s short term interbank interest rates and in particular BBSW.

In accordance with section **2.2 of the ASX Prime Bank Conventions** dated 25 February 2019³, Prime Banks are expected and have agreed to, post bids and offers across all the tenors included in the BBSW benchmark calculation at a maximum spread of 3 basis points for the 1, 3 and 6 month tenors and 4 basis points for the

² <https://www2.asx.com.au/connectivity-and-data/information-services/benchmarks/benchmark-data/bbsw>.

³ <https://www.asx.com.au/documents/products/asx-prime-bank-conventions.pdf>.

2, 4 and 5 month tenors. The minimum volume required to be shown on the bid and offer at all times during the Rate Set Window is A\$20 million.

For the purposes of calculating an NBBO rate, the Benchmark Administrator determines the BBSW rate for each tenor by first sampling quotes from ATVs at three sample periods (or “sessions”) and then calculating the average mid-point for bid/offer spreads from each sample period. The sample periods are as follows:

- Sample 1: 8:45:00 ± 5 seconds
- Sample 2: 9:15:00 ± 5 seconds
- Sample 3: 9:45:00 ± 5 seconds

It is important to note that the rolling maturity pool for the purpose of NBBO quotation and calculation is defined as +/-5 business days. Note that this differs from the rolling maturity pool that defines eligible transactions included in both VWAP and WLSR calculations. The proposed change to the NBBO delivery window for interbank transactions does not change the rolling maturity pool definition for the BBSW transaction layer. This will remain unchanged at +/- 10 business days for tenors 2 to 6 months and -5/+10 business days for the 1 month tenor.

Proposal:

Based on feedback from the BBSW Advisory Committee and bilateral consultation with the Prime Banks, ASX Benchmarks is proposing to reduce the current interbank delivery window from +/-5 business days to +/- 3 business days.

Whilst Prime Bank paper is deemed homogenous, each Prime Bank prices their own Bank Paper within the Interbank Market in accordance with internal pricing models. These pricing models currently occur within a 10 business day window (+/-5 business days). By reducing this delivery window to six (6) business days (+/-3 business days), it reduces the pricing variability within the delivery window. It has been observed that this results in a closer alignment between BBSW (set using VWAP/WLSR) and the NBBO rate on a particular day.

ASX Benchmarks has presented instances to the BBSW Advisory Committee where it has been identified that a BBSW rate formed using the WLSR and VWAP methodology has set outside the bid/offer quotes on the interbank screens.

Whilst it’s acknowledged that the recent steepness to the yield curve is a contributing factor, it has been proposed that ASX Benchmarks consider reducing the interbank delivery window to reduce the occurrence of these instances. The basis for proposing to reduce the delivery window is to further align the BBSW rates formed transaction layer (WLSR/VWAP) and NBBO rates.

The proposal is outlined below:

The current interbank delivery window is outlined below:

Tenor	1M	2M	3M	4M	5M	6M
Business days either side of the straight-run date	-5/+5	-5/+5	-5/+5	-5/+5	-5/+5	-5/+5

The proposed interbank delivery window is outlined below:

Tenor	1M	2M	3M	4M	5M	6M
Business days either side of the straight-run date	-3/+3	-3/+3	-3/+3	-3/+3	-3/+3	-3/+3

4. Proposals for market consultation

ASX Benchmarks proposes, subject to feedback received through this consultation, to reduce the existing interbank window from +/- 5 business days to +/- 3 business days for tenors 1-month to 6-month. ASX Benchmarks believes this will assist in aligning BBSW rates formed using the transaction layer (WLSR/VWAP) and NBBO.

Market Participants are encouraged to consider the design of the existing BBSW Methodology in addition to the below questions and provide feedback to ASX on your organisations preferred approach by 8 August 2023.

Question 1: Do you support ASX Benchmarks reducing the Interbank Delivery window from +/-5 business days to +/- 3 business days?

Question 2: Do you agree with ASX Benchmarks amendment of the term “publication” for the purposes of providing consistency across the distribution channels for the daily BBSW rate?

Question 3: Are there any other risks or options that you wish to raise for consideration?



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