



# ASX Prime Bank Conventions

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## PREFACE

The ASX Bank Bill Swap (BBSW) benchmark rates play a prominent role in Australia's financial infrastructure, finding extensive application in both lending transactions and interest rate derivative products and is critical for the sound operation and stability of Australia's financial markets. BBSW rates, as calculated in accordance with the primary methodology i.e. the VWAP Methodology, represent the price at which Eligible Trades in all specified tenors occur in the market on a Business Day.

Negotiable Certificates of Deposit (NCDs) comprise the majority of the market. Bank accepted Bills of Exchange (BABs) comprise the balance of the market.

Short term securities of Prime Banks are generally expected to trade homogeneously due to the criteria applied to the selection of banks which will be afforded Prime Bank status.

These Prime Bank Conventions support the [BBSW Conventions](#), describing protocols which govern the selection of Prime Banks and the ongoing requirements that Prime Banks must adhere to in order to maintain Prime Bank status.

## 1. Competition Law Policy

Market Participants are reminded to have regard to their obligations under competition law when engaging in the process for the appointment or review of a Prime Bank as set out in these Prime Bank Conventions. In particular, please note recent changes to the Competition and Consumer Act to prohibit a corporation from engaging with one or more persons in a concerted practice that has the purpose, effect or likely effect of substantially lessening competition.

## 2. Prime Banks

Prime Banks are a designated sub-set of the banks operating in Australia, whose short term securities trade as a homogeneous 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.

### 2.1. Eligibility Criteria for Prime Banks

Prime Banks are determined through an annual appointment process.

To be eligible for consideration a bank must:

- Be an APRA Authorised Deposit-taking Institution (ADI) and classified by APRA as an Australian-owned Bank, a Foreign Subsidiary Bank or a Branch of [a] Foreign Bank, that is authorised to carry on banking business pursuant to the Banking Act 1959 (as amended) or comparable legislation in its country of origin;
- Issue securities which are eligible for buy Repos at the RBA<sup>1</sup> (for the purposes of this section, “eligible securities”);
- Have a minimum average of A\$10 billion of eligible securities on issue in the domestic market on a rolling 6 monthly basis and endeavour to maintain A\$15 billion in outstanding eligible securities at all times;
- A minimum credit rating of A (long term) and A1 (short term) or equivalent, is required from at least two of the recognised credit rating agencies.<sup>2</sup>

### 2.2. Prime Bank Market Making Obligations

There are benefits in funding that accrue to banks that agree to participate in the markets as a Prime Bank and continue to meet the associated obligations. As an ongoing condition of accepting Prime Bank status, banks agree to price support the Approved Trading Venues (ATVs) by making two way markets in securities which

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<sup>1</sup> See eligibility criteria applied to purchases of securities under a repurchase agreement on the RBA website at <https://www.rba.gov.au/mkt-operations/resources/tech-notes/eligible-securities.html>.

<sup>2</sup> ASX only considers publically available and final credit ratings from Standard & Poors, Moody's and Fitch.

meet the criteria for an Eligible Trade, that is, Bank Paper with a parcel size of \$10 million or more and within the rolling maturity pool specified in the BBSW Conventions, as detailed in section 3.8 of the BBSW Conventions, and endeavour to maintain these markets between 8:40am and 10:00am AEST/AEDT.

For clarity it is only required that a two-way market is provided in each tenor across the consolidated view of all ATVs – i.e. it is not necessary to provide markets on each ATV in each tenor.

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

Each Prime Bank may determine when markets are normal or dislocated, or if the delivery dynamic is creating an illiquid asset pool i.e. assets delivered are to the immediate front end of the pool. Prime Banks must advise the Administrator if they determine that a market is dislocated or if the asset pool is determined to be illiquid by no later than 10:00am on the day of the publication. During dislocated markets Prime Banks are expected to maintain two-way pricing where possible but at wider spreads (see section 3.10 of the BBSW Conventions).

Prime Bank market making will be reviewed annually by the Administrator with oversight by the BBSW Advisory Committee (the Committee). Prime Banks must advise the Administrator as soon as practicable if they become aware of any issue in meeting their market making obligations.

If the Administrator becomes aware of any material issue in Prime Bank market making, the Administrator will report the issue to the regulator.

### **2.3. Bank Paper Quotation and Trading**

All Bank Paper trading must be conducted at an outright rate irrespective of whether the trades are negotiated within or outside the Rate Set Window. Prime Banks must quote at an outright rate and advise any investor requesting to trade at BBSW that they must trade at an outright rate. Where switches are negotiated, Market Participants must agree the individual tenor outright prices at prevailing market rates.

Pricing by Prime Banks may vary reflecting their genuine business purposes as outlined in the [ASX BBSW Trade and Trade Reporting Guidelines](#) (BBSW Guidelines).

### **2.4. Prime Bank ISINs**

The Administrator requires the ISIN for all Eligible Trades to be reported to the Administrator via an ATV as outlined in the BBSW Guidelines. Each Prime Bank is required to produce 1 ISIN per maturity date for a minimum of 13 months in advance. This process assists Prime Banks in the timely and accurate reporting of trades to the ATVs for the purpose of calculating BBSW under the VWAP Methodology.

Prepopulated ISIN files should be updated at least monthly and the ISIN file provided to clients upon request. Where an ISIN is required for a non-standard template, the Administrator will endeavour to create the ISIN

within 20 minutes. If the ISIN is not available by the time the Trade Report is required to be submitted, a placeholder ISIN (as provided by the Administrator to the ATVs) may be used as an interim measure. The Trade Report must be updated with the correct ISIN by 3pm on the day of settlement.

### **3. Process for appointing a Prime Bank**

The Administrator will appoint the Prime Banks annually based on the Prime Bank eligibility criteria as listed in this document. The Administrator will also give consideration to the following:

- The amount of Bank Paper on issue
- The level at which Bank Paper trades relative to the highest rated Prime Bank
- Market Participants' perception of the underlying credit quality of the Prime Bank issuers
- The level of perceived expertise in addition to other qualitative criteria such as reputation

Banks that are eligible will be contacted by the Administrator to determine their willingness to participate and comply with the Prime Bank Conventions. Once finalised, the Administrator will consult with the Committee and the broader market on the nominations.

#### **3.1. Annual consultation process**

The Administrator will directly contact members of the Committee and issue a market notice to announce the nominations and request feedback on the suitability of the names. A notification will also be placed on the [benchmarks page](#). The consultation will be open for a period of four weeks, if circumstances allow.

During this time the Committee and Market Participants may express in writing, their support for or rejection of the nominated banks.

At the close of the consultation, all responses received will be collated and reviewed by the Administrator. Respondee feedback will be considered with regard to the respondees commercial involvement in the underlying bank bill market.

Once finalised, the Administrator will contact the nominated banks advising of their status. The Administrator will directly notify the Committee and issue a market notice confirming the list of Prime Banks and effective date.

The Administrator will endeavour to maintain a minimum of 3 Prime Banks at all times. Should the process fail to appoint 3 Prime Banks, the Administrator would consult with the regulators on a course of action.

#### **3.2. Ongoing review of Prime Banks**

The Administrator in consultation with Market Participants and the Committee, will monitor market conditions and may recommend bringing forward the annual appointment of Prime Banks to ensure continued market integrity is not impaired (for example, should Prime Bank paper begin to consistently trade at levels materially different from the highest rated Prime Bank).

### 3.3. Exclusion from the list of Prime Bank names

An institution will be excluded from the list of Prime Bank names if:

- It no longer meets the eligibility criteria for Prime Banks;
- A request in writing to the ASX benchmark manager is submitted by the Prime Bank asking that it be removed from the list of Prime Banks.

In either case, Market Participants will be immediately advised of the exclusion and the list of Prime Banks will be amended as soon as practicable.

## 4. Prime Bank contingency plan

The major Australian banks play a significant role in the Australian Bank Paper market and accordingly it is prudent that a contingency plan exists should one or more be impacted by a credit rating downgrade which precludes Prime Bank eligibility.

Should one or more lose Prime Bank status through a credit rating downgrade, and:

- three of the four major Australian banks continue to qualify as a Prime Bank, then the eligibility criteria for Prime Banks will stand and the downgraded bank removed from the Prime Bank list;
- less than three of the four major Australian banks qualify as a Prime Bank, then the credit ratings requirement in the eligibility criteria for Prime Banks will be lowered until at least three remain as Prime Banks.

Credit rating downgrades are effective immediately. In the event that a single Prime Bank is downgraded and loses its Prime Bank status prior to BBSW publication at 10:30am, the calculation waterfall will revert to the NBBO Methodology to ensure the downgraded bank is not captured in that day's BBSW calculation. The normal waterfall calculation will resume the following Business Day.

In the event that the downgrade results in an increase in the number of banks eligible to nominate as Prime Banks, the Administrator may call a Committee meeting to determine any longer term response, which may include the immediate commencement of the Prime Bank appointment process.

## 5. Prime Bank reporting requirements

A bank afforded Prime Bank status will:

- Permit each ATV at a minimum, to disclose to the Administrator all trading in Bank Paper;
- Authorise the Administrator to disclose to Australian regulators any data so requested as provided by ATVs;
- Authorise the Administrator to disclose to the public aggregate daily volumes traded, one week in arrears;
- Authorise the Administrator to disclose to the public any errors, monthly in arrears;
- Disclose to the Administrator its trading volumes in Bank Paper, on all trading days.

## 6. Prime Banks

Prime Banks
ANZ Banking Group Limited
Commonwealth Bank of Australia
National Australia Bank Limited
Westpac Banking Corporation

**Date of appointment of Prime Banks:** 14<sup>th</sup> December 2018



## Appendix A

### Definitions

- Administrator - means the entity responsible for the calculation and publication of BBSW in accordance with Part 7.5B of the Corporations Act and the ASIC Financial Benchmark (Administration) Rules.
- Approved Trading Venue (ATV) - means those entities facilitate trading and trade reporting of Bank Paper transactions.
- APRA – means that Australian Prudential Regulation Authority.
- Bank Paper - means Bills of Exchange accepted or endorsed by Prime Banks or Negotiable Certificates of Deposit (NCDs) issued by Prime Banks, or their dematerialised versions (EBAs and ECDs), with a parcel size of A\$10 million or more, regardless of maturity date or tenor.
- BBSW – means Bank Bill Swap Rate.
- BBSW Conventions - means the ASX BBSW Conventions and Methodology which detail the operational aspects and calculation rules and methodology used in the determination of BBSW.
- BBSW Guidelines - means the BBSW Trade and Trade Reporting Guidelines, which outline the obligations of Market Participants in connection with the generation and administration of BBSW and set out guidance for trading and reporting of trades in Bank Paper to the Administrator.
- Bill of Exchange – has the meaning given to that term in the AFMA NTI Conventions.
- Business Day - has the meaning given to that term in the AFMA NTI Conventions.
- Committee – means the BBSW Advisory Committee, a committee including Market Participant and regulator representation and chaired by the Administrator.
- EBAs – has the meaning given in the Austraclear Regulations.
- ECDs – has the meaning given in the Austraclear Regulations.
- Eligible Trades means all trades in Bank Paper that occur in the Rate Set Window for A\$10 million or more and within the rolling maturity pool specified in the BBSW Conventions, as detailed in section 3.8 of the BBSW Conventions, other than where the BBSW Guidelines provide that they are not intended to apply to such trades or that those trades do not need to be reported.
- Market Participants – means traders, issuers and investors in Bank Paper.
- NBBO - National Best Bid and Best Offer.

- NBBO Methodology – the secondary layer in the BBSW calculation waterfall as detailed in the BBSW Conventions sections 3.1 and 4.1.
- Negotiable Certificate of Deposit (NCD) - has the meaning given to that term in the AFMA NTI Conventions.
- Prime Bank - means a designated sub-set of banks operating in Australia as defined in the Prime Bank Conventions.
- Prime Bank Conventions - means these ASX Prime Bank Conventions which details the eligibility and ongoing obligations of designated Prime Banks
- Rate Set Window - means the period 8:30:00am to 10.00:00am AEST during which Eligible Trades determine the BBSW rates under the VWAP Methodology.
- Trade Report – has the meaning given in the BBSW Guidelines.
- VWAP - Volume Weighted Average Price
- VWAP Methodology – the primary layer in the BBSW calculation waterfall as detailed in BBSW Conventions.

### Change Control

This document has been revised according to the table below:

Author	Comment	Effective date
ASX	Conventions updated to reflect change in Administration from AFMA to ASX. AFMA to remain as calculation agent for an interim period.	1 <sup>st</sup> January 2017
ASX	Conventions updated to reflect ASX taking over as calculation agent from AFMA.	31 <sup>st</sup> July 2017
ASX	Change to NBBO sample times and replacement of early/late maturity pooling with a rolling maturity pool and quoting/trading at an outright rate.	4 <sup>th</sup> December 2017
ASX	Changes to reflect implementation of an additional layer in the BBSW Calculation waterfall (VWAP), Prime Bank market making obligations and new ISIN creation process.	21 <sup>st</sup> May 2018
ASX	Changes made to eligibility criteria for Prime Banks. Minimum credit rating required from at least two of three credit rating agencies (previously just S&P). Increase in level of	7 <sup>th</sup> June 2018

	minimum issuance volume to \$10 billion from \$5 billion.	
ASX	Inclusion of statement on competition law policy. Minimum Prime Bank credit rating lowered 2 notches as part of the eligibility criteria.	10 <sup>th</sup> August 2018
ASX	Annual review of Prime Bank Conventions. Alignment of BBSW Conventions, BBSW Guidelines and Prime Bank Conventions. Addition of definitions (appendix A).	25 <sup>th</sup> February 2019

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