

ASX Prime Bank Conventions

EFFECTIVE DATE

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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 is designed to measure the price at which Prime Bank Eligible Securities trade in the open market at approximately 10:00am on a Sydney business day.

Negotiable Certificates of Deposit (NCDs) comprise over approximately 85 per cent of the market. Bank accepted Bills (BABs) comprise the balance of the market.

Prime Bank Eligible Securities, otherwise referred to as Prime Bank paper, trade homogeneously due to the strict criteria applied to the selection of banks which will be afforded Prime Bank status.

These Prime Bank Conventions support the [BBSW Benchmark Rate 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.



ASX Prime Banks

ASX 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.

Prime Bank Eligible Securities

Prime Bank Eligible Securities are comprised of NCDs and BABs issued or accepted by the Prime Banks, where the remaining maturity of the securities is six months or less, after consideration is given to the early-month and late-month pooling convention which provides flexibility in deliverability and issuance of securities within each tenor. This pooling convention is designed to promote liquidity in Prime Bank Eligible Securities, and is described within the BBSW General Conventions.

Eligibility Criteria for Prime Banks

Prime Banks are determined through a survey of market participants.

To be eligible for consideration in the survey, 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 Securities for Buy Repos at the RBA;
- Satisfy the credit rating benchmark, as approved by the ASX BBSW Advisory Committee in consultation with the NTI Committee, of a Standard & Poor's local short term rating of A1+ and a local long term rating for senior unsecured debt obligations of at least AA-; In the absence of a Foreign branch ADI holding specific Australian credit ratings meeting the local criteria, it will be measured by the foreign credit rating of the parent.



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 support the brokered market at approved venues underlying BBSW, making two way markets in the Straight Run Maturity Pool of Prime Bank Eligible Securities, and endeavour to maintain these markets for the period around the BBSW benchmark rate set – defined as between 9:58:00 and 10:02:00. For clarity it is only required that a two-way market is provided in each tenor across the consolidated view of all venues – i.e. it is not necessary to provide markets on each venue in each tenor.

In normal market conditions a Prime Bank must 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 months and 4 basis points for the 2, 4 and 5 months.

Each Prime Bank may determine when markets are normal or dislocated. Prime Banks must advise ASX if they determine that a market is dislocated by 12:00pm on the day of the set. During dislocated markets Prime Banks are expected to maintain two-way pricing where possible but at wider spreads.

All Prime Banks are to endeavour to maintain A\$ 5 billion Prime Bank Eligible Securities outstanding at all times.

Prime Bank market making will be reviewed by ASX and AFMA Market Committees including the Negotiable/Transferable Instruments committee, with oversight by the ASX BBSW Advisory Committee.

Process for appointing a Prime Bank

An annual survey process is used to appoint Prime Banks:

- On or following the anniversary of the prior election ASX will invite all banks (including existing Prime Banks) which satisfy the *Eligibility criteria for Prime Banks* to nominate for inclusion in the Prime Bank survey.
- Following receipt of nominations ASX will survey institutions deemed by the ASX BBSW Advisory Committee to be significant BAB/NCD traders and investors as a means to determine which of the nominees are appointed a Prime Bank. A weighted voting system, agreed amongst members of the ASX BBSW Advisory Committee and which seeks to ensure that the most active market participants have a proportionally higher involvement in the process than the least active members, applies to individual survey respondents. The survey asks respondents to indicate which nominated bank(s) they believe should be designated Prime Bank(s).
- Each bank nominating for Prime Bank status is provided with the list of survey respondents in advance of the survey.
- An 80% response rate of eligible survey respondents must be obtained in order for a survey to be valid.



The criteria to be appointed and to remain as a Prime Bank are:

- For existing Prime Banks, at least 70% of the weighted survey vote;
- For a new Prime Bank, 80% of the weighted survey vote.

The process assumes that there will be at least three banks eligible and nominated as Prime Banks. Should the survey process result in less than three Prime Banks being elected, then the 80% hurdle for new Prime Banks will be progressively lowered until three Prime Banks are elected, provided a minimum hurdle rate of 70% is maintained.

Should the process fail to elect three Prime Banks, the matter would then be referred to the ASX BBSW Advisory Committee for a recommended course of action to then be considered by ASX management.

Nominees will be advised whether or not they have been appointed a Prime Bank. Voting details are confidential to ASX.

ASX in consultation with the ASX BBSW Advisory Committee and AFMA NTI Committee will monitor market conditions and may recommend that a survey be brought forward in order to ensure market integrity is not impaired (for example, should Prime Bank paper begin to trade on a non-homogeneous basis). A scheduled survey date may be brought forward by ASX management.

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; or
- 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.

Prime Bank contingency plan

The major Australian banks play a significant role in the Australian BAB/NCD 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

- If three of the four major Australian banks continue to qualify as a Prime Bank, the Eligibility criteria for Prime Banks will stand and the downgraded bank removed from the Prime Bank list.



- If less than three of the four major Australian banks qualify as a Prime Bank the credit ratings requirement in the Eligibility criteria for Prime Banks will be lowered until at least three remain as Prime Banks.

A BBSW Advisory Committee meeting will be held as soon as practicable to determine any longer term response and recommendation to ASX management, which may include the immediate commencement of the Prime Bank appointment process should the lower credit rating requirement increase the number of banks eligible to nominate.

Prime Bank reporting requirements

A bank afforded Prime Bank status will

- authorise each authorised venue to disclose to ASX all trading in Prime Bank Eligible Securities during the period 9:45am -10:15am daily;
- authorise ASX to disclose to Australian regulators any data so requested as provided by authorised venues;
- Authorise ASX to disclose to the public aggregate daily volumes traded, one month in arrears;
- Disclose to ASX its trading volumes in Prime Bank Eligible Securities, minimum reporting being during the period commencing 9:00am and concluding 11:00am on all trading days.

ASX Prime Banks

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

Date of appointment of Prime Banks: 30 September 2016



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