

# Frequently Asked Questions

BBSW methodology and Trade Reporting

## 1.0 About BBSW

### 1.1 What is BBSW?

The Bank Bill Swap rate (BBSW) is a short term money market benchmark interest rate. In general terms, BBSW is designed to measure the price at which Prime Bank eligible securities trade in the open market between 8:30-10am on a Sydney business day.

Prime Bank eligible securities comprise Bank Accepted Bills (BABs) and Negotiable Certificates of Deposit (NCDs) issued by the banks that have met the eligibility criteria and conditions required to be a Prime Bank and have been elected a Prime Bank by ASX, in consultation with market participants.

BBSW is published each Sydney business day at 10:30am.

### 1.2 What is BBSW used for?

BBSW is used to provide reference interest rates for the pricing and revaluation of Australian dollar derivatives and securities such as floating rate bonds.

BBSW is not directly linked to mortgage or other retail lending interest rates. Unlike UK and European interest rates such as LIBIOR and EURIBOR, the only effect BBSW has on retail lending rates is via the general cost of funds, of which it is one component.

### 1.3 How is BBSW calculated?

Consistent with the Council of Financial Regulators recommendations for the reform of BBSW, ASX developed a calculation methodology that is based on transactions in the underlying market. The methodology consists of a calculation waterfall, comprised of three stages:



*This material is general summary information only and is provided for educational purposes. It does not constitute specific advice. ASX does not represent or warrant that the material is complete or accurate. To the extent permitted by law, ASX shall not be liable for or responsible for any losses, damages or costs arising in connection with you relying on, acting upon or refraining from acting upon this material.*



1. A Volume Weighted Average Price (VWAP) calculation will be the primary method used to determine BBSW where the VWAP criteria is met. VWAP is based on actual transactions in eligible securities that occur during the rate set window. As such, timely trade reporting of eligible transactions to ASX is required to perform the calculation and publish BBSW each day at 10:30am **[New methodology]**.
2. Where a BBSW rate cannot be formed under the VWAP method for a Tenor, the existing NBBO calculation method will be used to determine the rate for that tenor **[existing methodology]**.
3. In the event that a BBSW rate cannot be formed under the NBBO method for one or more tenors, the fall-back calculation waterfall will be used **[existing methodology]**.

More details on the calculation methodology can be found [here](#).

#### **1.4 Why did the methodology change?**

Regulators and Central Banks globally have undertaken industry consultation and published recommendations for Benchmark reform to address conflicts of interest and transparency in the formulation of Benchmarks. The VWAP methodology is based on recommendations from the Council of Financial Regulators (RBA, ASIC and APRA) outlined in its discussion paper titled [Evolution of the BBSW Methodology](#) (9<sup>th</sup> February 2016) and is designed to ensure BBSW remains a trusted, reliable and robust benchmark. IOSCO Principles for Financial Benchmarks also recommend the use of transaction based inputs as the primary layer (where possible) in the hierarchy of data inputs (Principles 7 & 8).

#### **1.5 Who are the Prime Banks and how are they selected?**

The Prime Banks are a designated sub-set of the 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.

Prime Banks are determined through an annual appointment process based on minimum eligibility criteria outlined in the [Prime Bank Conventions](#).

## **2.0 Trade Reporting**

### **2.1 Background**

A Volume Weighted Average Price (VWAP) methodology that uses actual transactions in the underlying Bank Accepted Bills (Bills) and Negotiable Certificates of Deposit (NCDs) is used as the primary method for calculating BBSW. The use of transactional data is consistent with global best practice principles and is designed to create a robust and reliable benchmark.

*This material is general summary information only and is provided for educational purposes. It does not constitute specific advice. ASX does not represent or warrant that the material is complete or accurate. To the extent permitted by law, ASX shall not be liable for or responsible for any losses, damages or costs arising in connection with you relying on, acting upon or refraining from acting upon this material.*



To support these changes, ASX in consultation with regulators and participants active in the underlying market, developed the BBSW Trade and Trade Reporting Guidelines (BBSW Guidelines) in response to a number of factors:

1. Request for clarity from participants on market practices to be followed when trading Bills and NCDs at an outright negotiated rate;
2. To define trade reporting requirements for the purpose of calculating a VWAP rate based on actual transactions; and
3. To meet regulatory requirements of Benchmark Administrators following amendments to the Corporations Act as well as the ASIC Financial Benchmark (Administration) Rules 2018.

## **2.2 Why are market participants required to quote/trade outright?**

From the 4<sup>th</sup> December 2017, all market participants must negotiate the rate at which they are willing to buy/sell Prime Bank paper and will no longer be able to trade at BBSW. Trading at an outright rate is essential in forming the basis of a transaction based benchmark. This applies to trades negotiated within or outside of the Rate Set Window (section 3.4 of BBSW Guidelines).

Market participants should be aware that trading post the publication of BBSW will not guarantee transacting at a rate that is the same as BBSW. Outright rates determined should be reflective of a market participant's genuine business purposes (sections 3.1 and 3.4 of the BBSW Guidelines). This may warrant quotation of a rate that is above or below the published BBSW rate for that day.

## **2.3 What is the rolling maturity pool?**

To be eligible for use in the BBSW calculation, a transaction must have a maturity date that falls within a rolling maturity pool that is +/- 5 business days either side of the straight run maturity date for that tenor. This ensures that paper delivered is liquid and pricing within tenors is consistent.

From the 4<sup>th</sup> December 2017, the market ceased quoting early and late rates. The rolling maturity pool replaces the early/late pooling convention.

## **2.4 Volume adjustments**

Volume adjustments can only occur through market participants entering into a separate transaction in which it is the buyer/seller of bank paper (section 3.8 of the BBSW Guidelines). The separate transaction is to be negotiated at an outright rate. Adjusting the traded volume higher or lower based on changing cash flows will no longer be permitted.

## **2.5 Why are trade reports required?**

In order to calculate a transaction based rate in a timely manner, ASX requires market participants to submit trade reports via an Approved Trading Venue (ATV) to be used in the VWAP calculation for BBSW.

## **2.6 Who are the Approved Trading Venues (ATVs)?**

ATV's are the entities authorised to facilitate trading and trade reporting of bank paper transactions to be included in the calculation of BBSW. ATVs must be ratified by ASX in consultation with the

*This material is general summary information only and is provided for educational purposes. It does not constitute specific advice. ASX does not represent or warrant that the material is complete or accurate. To the extent permitted by law, ASX shall not be liable for or responsible for any losses, damages or costs arising in connection with you relying on, acting upon or refraining from acting upon this material.*



BBSW Advisory Committee. ATVs must satisfy the operational requirements determined by ASX and meet the conditions specified in the [ASX BBSW Conventions and Methodology](#) (Appendix A).

The current list of ATV's can be found in the BBSW Conventions (Appendix A).

## 2.7 Who is required to trade report?

The BBSW Guidelines apply to all market participants involved in the issuing and trading of Prime Bank paper, regardless of size. All eligible trades should be reported through to the Administrator (via an ATV) to be used in the calculation of BBSW.

Market participants include Banks, investors and other entities who participate in the interbank and wholesale market for Prime Bank issued Bills and NCDs.

ASX requires single side reporting with the obligation falling to the seller or issuer of bank paper, unless otherwise agreed. Where parties have agreed that bilateral secondary market trades be reported by a party other than the seller, a record of that agreement must be maintained.

## 2.8 What are eligible transactions?

Eligible transactions are all trades in Prime Bank Paper over \$10 million that occur in the Rate Set Window. Where switches are negotiated, market participants must agree the individual tenors at outright prices (section 3.4 of the BBSW Guidelines).

Internal trades of market participants must not be reported for the purpose of BBSW calculation (section 3.6 of the BBSW Guidelines).

Market participants should not delay trading Bank Paper for the purpose of avoiding trading in the Rate Set Window (section 3.2 of the BBSW Guidelines).

## 2.9 What is the VWAP calculation criteria?

In order to ensure the VWAP calculation is anchored in sufficient underlying transactions and to ensure no single name can influence the rate, a set of criteria is applied to the transactions submitted for each tenor to determine if a VWAP calculation can be performed. If the below criteria is not met, a VWAP rate will not be calculated for that tenor and the calculation will fall to NBBO for that tenor.

<b>Minimum Notional</b>	To be used in the calculation, the notional of eligible transactions must be greater than or equal to A\$10 million. No maximum weighting (cap) will be applied to large transactions.						
<b>Trade Validity</b>		<b>1M</b>	<b>2M</b>	<b>3M</b>	<b>4M</b>	<b>5M</b>	<b>6M</b>
	Minimum volume threshold (Millions)	200	100	200	100	100	200
	Minimum number of transactions	3	3	3	3	3	3
	Minimum number of counterparties	4	4	4	4	4	4

*This material is general summary information only and is provided for educational purposes. It does not constitute specific advice. ASX does not represent or warrant that the material is complete or accurate. To the extent permitted by law, ASX shall not be liable for or responsible for any losses, damages or costs arising in connection with you relying on, acting upon or refraining from acting upon this material.*



## **2.10 Must I trade electronically via an ATV?**

There is no requirement to trade electronically through an ATV. The BBSW Guidelines only require trade reports be submitted to the Administrator via an ATV.

Each ATV will have their trading platform set up to enable trade reports to be submitted to the Administrator in the specified format. Each ATV is required to use the same standard protocol to submit trade reports to ASX.

## **2.11 Do trade reports require dual confirmation prior to submission?**

ASX does not require dual confirmation of trade reports, however this is considered best practice. Where a trade report has not been dual confirmed by the end of the trade reporting window, ATV's are required to submit the trade report to ASX for inclusion in the BBSW calculation.

## **2.12 Will ASX provide a trade reporting exemption to SME's and foreign subsidiaries?**

All transactions in Prime Bank paper must be reported to the Administrator, regardless of counterparty size/type.

## **2.13 How are trade reports submitted to ASX?**

Trades executed electronically via an ATV will automatically generate a trade report to be submitted to ASX using standard messaging protocol. Trades executed bilaterally will need to be reported via an ATVs platform using the reporting functionality.

## **2.14 How can I be sure ASX has received my trade report?**

Trade reporting entities (i.e. the market participant obliged to report a trade) are responsible for ensuring all trades in Prime Bank paper are reported to an ATV. There is no obligation on trade reporting entities to ensure that trade reports successfully submitted to an ATV flow through to the Administrator.

Once a trade report has been submitted to an ATV, the ATV becomes responsible for ensuring the trade report is sent to the Administrator. The ATV will receive an acknowledgement message from the Administrator upon successful receipt of a trade report at which point the ATVs reporting obligation is met.

## **3.0 Benchmark legislation**

### **3.1 What legislative changes related to Benchmarks are being introduced in Australia?**

On 6<sup>th</sup> June 2018, ASIC declared BBSW to be one of five significant financial benchmarks in Australia via the [ASIC Corporations \(Significant Financial Benchmarks\) Instrument 2018/420](#).

Treasury amendments to *The Corporations Act 2001* were passed in 2018 giving ASIC the power to implement rules governing the operation of financial benchmarks. This includes rules requiring Administrators of significant financial Benchmarks to obtain a license and giving ASIC power, in

*This material is general summary information only and is provided for educational purposes. It does not constitute specific advice. ASX does not represent or warrant that the material is complete or accurate. To the extent permitted by law, ASX shall not be liable for or responsible for any losses, damages or costs arising in connection with you relying on, acting upon or refraining from acting upon this material.*



critical situations, to compel an Administrator to continue to produce a significant benchmark and an entity to contribute to a significant financial Benchmark.

As the Administrator of BBSW, ASX must obtain a Benchmark Administrators license and incorporate compelled submissions into the BBSW calculation methodology (Final Stage Method). ASX has developed written guidelines dealing with the Final Stage Method. These are contained in the BBSW Conventions and Calculation Methodology (Appendix C).

ASX is also required to maintain written guidelines which prescribe a code of conduct for contributors to the BBSW calculation. ASIC Commissioner Cathie Armour commented *'The Government recently introduced legislation to implement financial benchmark regulatory reform and ASIC consulted on proposed financial benchmark rules. We have worked with the ASX and are confident that the ASX BBSW Guidelines will meet the requirements under Australia's proposed regime, including the proposed ASIC Rules'* (see below media release):

<http://www.asic.gov.au/about-asic/media-centre/find-a-media-release/2017-releases/17-339mr-asic-and-rba-welcome-the-publication-of-asx-bbsw-trade-and-trade-reporting-guidelines/>

#### **4.0 Subscriptions and data access**

##### **4.1 How can I receive updates on BBSW?**

To receive updates on BBSW you can subscribe to ASX market notices via ASX online:

<https://www.asxonline.com/public/subscribe.html>

Expand the notices section and select Benchmark Rates Notices. Market notices are the official ASX method of communication and all BBSW related updates will be sent using the Benchmark Rates notice.

##### **4.2 Where can I access BBSW trade reporting data?**

Anonymised eligible volume data is made available on the website weekly in arrears. Volume data can be found on the [benchmark rates prices page](#) under BBSW Volume Report.

##### **4.3 How can I access BBSW rates?**

BBSW is a subscription service. ASX offer a range of data packages for live, delayed and historical BBSW rates. BBSW rates are published each day at 10:30am via a number of mechanisms. Subscribers can elect to receive BBSW rates via their preferred electronic channel.

For more information on BBSW subscription packages and pricing see [ASX information services schedule of fees](#).

##### **4.4 How do members of the public access BBSW information?**

BBSW rates are made available on the [ASX website](#) on a 24 hour delayed basis. A 10 day history of BBSW rates is also provided on a 24 hour delayed basis.

*This material is general summary information only and is provided for educational purposes. It does not constitute specific advice. ASX does not represent or warrant that the material is complete or accurate. To the extent permitted by law, ASX shall not be liable for or responsible for any losses, damages or costs arising in connection with you relying on, acting upon or refraining from acting upon this material.*



---

Further information:


For further information on BBSW, please contact:

E: [benchmarks@asx.com.au](mailto:benchmarks@asx.com.au)

Sydney: T: 131 279 or +61 9338 0000

W [asx.com.au/services/benchmark](https://asx.com.au/services/benchmark)

 Follow us [@ASX](https://twitter.com/ASX)

 Follow us on [LinkedIn](#)

*This material is general summary information only and is provided for educational purposes. It does not constitute specific advice. ASX does not represent or warrant that the material is complete or accurate. To the extent permitted by law, ASX shall not be liable for or responsible for any losses, damages or costs arising in connection with you relying on, acting upon or refraining from acting upon this material.*