



Frequently Asked Questions

New BBSW methodology and Trade Reporting

Background

As Benchmark Administrator, ASX has responsibility for the development of the BBSW calculation methodology. ASX has developed a Volume Weighted Average Price (VWAP) methodology that uses actual transactions in the underlying Bank Accepted Bills (Bills) and Negotiable Certificates of Deposit (NCDs). The VWAP methodology will be the primary method for calculating BBSW (replacing the current calculation methodology other than where the VWAP criteria is not met), and is designed to create a robust and reliable benchmark.

To support these changes ASX in consultation with regulators and participants active in the underlying market has developed the ASX 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 new ASIC Financial Benchmark (Administration) Rules (anticipated to come into effect in early 2018).

Given feedback from market participants on the extent of change required, ASX will be taking a phased approach to the implementation of the new methodology and BBSW Guidelines. Sections 1, 2 & 3 of the Guidelines, to the extent they pertain to trading practices, will come into effect from 4th December 2017. The remaining sections of the Guidelines which cover trade reporting activities with respect to the VWAP calculation (sections 4-8) will come into effect in late Q1 2018.

Phase 1- Market Practices

Sections 1, 2 & 3 of the BBSW Guidelines effective 4th December 2017

Why are market participants required to quote/trade outright?

From the 4th 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.

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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 4th December, the market will cease to quote early and late rates. The rolling maturity pool will replace the early/late pooling convention.

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.

Are the NBBO times changing?

Effective 4th December, the NBBO period will be brought forward to 9:44, 9:45 & 9:46am from the current 9:59, 10:00 & 10:01am. In support of this, the RBA's Open Market Operations (OMO) results will be made available between 9:20-9:35am giving participants the opportunity to trade in the rate set window and trade report by 10:15am.

When will BBSW be published?

BBSW (prior to moving to VWAP calculation) will continue to be published each day at 10:15am (on Reuters page BBSW and Bloomberg page ASX29). Under VWAP, BBSW will be published each day at 10:30am.

Phase 2- Trade Reporting

Sections 4-8 of the BBSW Guidelines effective late Q1 2018 (date to be confirmed)

How is BBSW calculated under the new methodology?

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

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]**.

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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 new calculation methodology can be found [here](#).

Why is the methodology changing?

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](#) (9th 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).

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.

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

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

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.

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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).

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.

Minimum Notional	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.						
Trade Validity		1M	2M	3M	4M	5M	6M
	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

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.

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.

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

All eligible transactions in Prime Bank paper must be reported for the calculation of BBSW, regardless of counterparty size/type.

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.

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

Trade reporting entities (ie the market participant obliged to report a trade) are responsible for ensuring all eligible trades 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 ASX upon successful receipt of a trade report at which point the ATVs reporting obligation is met.

What is the effective date for trade reporting?

ASX will be conducting an Industry Wide Test (IWT) 1 month prior to the go live date for VWAP. During this time, all participants will be required to trade report and comply with the BBSW Guidelines.

The indicative date for the IWT is late Q1 2018, with a firm date to be announced in early 2018. Market participants should be ready to trade report from late March 2018 but are advised that this date could change subject to market readiness.

Will the results of the Industry Wide Test be published?

ASX will calculate VWAP BBSW in parallel with NBBO BBSW each day during the IWT. During this time, BBSW will continue to be published under the current methodology at 10:15am.

ASX will publish on its website, 1 week in arrears, the results of the IWT showing the rate calculated for each tenor and the calculation method used (VWAP or NBBO). ASX will determine the acceptance criteria for VWAP and set variance tolerance levels for VWAP and NBBO calculation results. Upon successful completion of the IWT, ASX will confirm the go live date for VWAP.

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

Treasury amendments to *The Corporations Act 2001* are expected to be passed by early 2018. The amendments will give ASIC power to implement rules governing the operation of financial benchmarks, which were released for consultation in 2017. This will include rules requiring administrators of significant financial Benchmarks to obtain a license and giving ASIC power, in critical situations, to compel an entity to contribute to a significant financial Benchmark.

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As the administrator of BBSW, ASX will be required to obtain a Benchmark administrators license and, where applicable, incorporate compelled submissions into the final stage methodology for the calculation of BBSW (Final Stage Method). ASX is also required to have 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/>

ASX will also develop written guidelines dealing with the Final Stage Method.

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.

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Further information:


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