

Minutes of the 5th meeting of the Working Group on Money Market Indices (MMWG) and Libor transition workshop

October 1&2, 2019, Almaty

On October 1, 2019, the 5th meeting of the Working Group on Money Market Indices (hereinafter - the MMWG) was held in Almaty with the participation of representatives of the European Bank for Reconstruction and Development (EBRD), the National Bank of Kazakhstan (NBK), second-tier banks (Banks), "Kazakhstan Stock Exchange" JSC (KASE), Association of Legal Entities "Association of Financiers of Kazakhstan" (AFK). The meeting was followed on October 2, 2019, by a workshop on Libor reform organized by EBRD.

The meeting was-held in a business setting aimed at discussing money market indices.

According to the Agenda, the following issues were discussed during the meeting:

I. Results and understandings of the 4th meeting of the Working Group

1. An agreement was reached to change the methodology for calculating the TONIA index. The new methodology involves calculating TONIA as a trimmed mean based on a central 90% of the volume-weighted transactions. If the total volume of transactions is below 100 billion tenge, then TONIA will be calculated as the NBK Base Rate plus the average TONIA spread to the Base Rate for the previous five days. In addition, a TONIA calculation methodology will be reviewed annually.
2. Representatives of the NBK and Banks discussed the features of the planned launch of an additional liquidity window for repos and swaps. These transactions will be concluded exclusively between banks and the NBK. Transactions will be concluded at official corridor rates.

II. EBRD made a presentation on how to use Tonia in transactions

II. EBRD Workshop on LIBOR Index Reform

1. The purpose of the workshop was to raise awareness among domestic market participants of the imminent disappearance of LIBOR (from as early as 2022), explaining the reasons for the reform and its expected impact on both lenders and borrowers. Although 2022 still seems far away, the transition from Libor to a replacement rate may not be as straightforward as it may seem and it is time market participants start preparing for it.
2. EBRD representatives explained that
3. (i) the Libor reform was triggered by manipulation scandals during the great financial crisis that were made possible by the combination of a benchmark based on indicative rates (as opposed to actual transactions) reflecting a dying

underlying term market, extremely high volumes (around USD 200 trillion) of transactions indexed to Libor and weak governance of Libor and that

4. (ii) Libor should be replaced by a more transparent, representative and tightly governed benchmark reflecting actual transactions and developed in accordance with the IOSCO principles for financial indicators.
5. EBRD introduced the alternative overnight Risk-Free Rates (RFRs) expected to replace LIBOR (such as SOFR in the USA, SONIA in the UK, €STER in the Eurozone, SARON in Switzerland and TONA in Japan) and explained to the audience how a term benchmark like Libor could be replaced by an overnight RFR .
6. The EBRD works closely with relevant authorities and market participants in EBRD's Countries of Operation in order to increase transparency, confidence and use by market participants of local interbank indices which are a corner stone to market development

III. Following the MMWG meeting, the parties agreed as follows:

1. On securing the status of TONIA index administrator for the KASE.
2. To recommend KASE to begin work on reforming the TONIA index.
Start indexing transactions to reformed TONIA, once available.

IV. On holding the next meeting of the MMWG

1. The parties agreed to hold the next meeting of the Working Group in January 2020 in Almaty.
2. The specific dates and venue of the next meeting will be agreed upon additionally.