

3 December 2015

RBA Secretariat  
BBSW Consultation  
GPO Box 3947  
Sydney NSW 2001

## **Yieldbroker Response to Evolution of the BBSW Methodology Consultation Paper**

### **About Yieldbroker**

Founded in 1999, Yieldbroker operates the established electronic exchange for Australian over-the-counter (OTC) interest rate securities and derivatives. We provide regulatory oversight, systems infrastructure and market knowledge that has driven the growth of electronic markets as an efficient alternative to phone and voice-brokered trading.

Yieldbroker holds an Australian Markets License (AML) and is regulated by the Australian Securities and Investments Commission (ASIC). We continually respond to changing market conditions, including new or amended regulation, and evolve our platform to changing customer requirements in an agile manner. We provide connectivity that facilitates straight-through-processing (STP) and transaction reporting; improving transactional efficiency and reducing operational and compliance risk.

### **Yieldbroker's Bank Bill Electronic Trading Platform**

Yieldbroker has operated an electronic platform for trading prime bank paper in the interbank market since 2013. Soon after inception we were invited by the Australian Financial Market Association (AFMA) to be included as a vendor to the revised 10am Bank Bills Swap Rate (BBSW) rate setting process, with our live tradeable pricing contributing to the calculation of BBSW. On most trading days we see 2-way pricing across the curve from multiple prime banks and capture a significant share of volume executed during the rate set period.

Recent trading activity on our platform mirrors the observations reported in the CFR paper; in that our daily traded volumes are now less than half of the volumes we recorded in 2013, and there are an increasing number of days where zero trading activity occurs across the market.

Initially we had 6-8 banks providing executable orders and regularly dealing on Yieldbroker, however over time the non-prime banks have expressed a reluctance to trade in a rate set market and have exited our market. Trading is now limited to the 4 major domestic Australian prime banks, and the

majority of trading occurs in the 9.45am to 10.15am rate set window when the prime banks are compelled to provide live and executable prices.

### **General Comments**

The industry is generally moving to pricing used for valuation purposes being derived from tradeable, observable and auditable data sources due to regulatory requirements and reduction in compliance risks. Electronic markets, and in the Australian context AML (Australian Markets Licence) holders are well suited to these requirements and under legislation they are required to operate fair, orderly and transparent markets and are directly regulated by ASIC.

Yieldbroker, as an AML holder, is well placed to facilitate any subsequent changes to the BBSW rate set process or any other associated changes to trading methodologies or market conventions that may result from this consultation process. We have a long history as working as a partner to the market and providing financial market infrastructure that meets the expectations of participants, regulators and other stakeholders. Our comments to the questions below reflect this perspective. We believe comment on the construction of the benchmark should be determined by the users of the products that reference it.

### **Response to Consultation Questions**

***Q1. The market underlying the BBSW benchmark is currently the interbank market at the time of the rate set. Should the definition of the underlying market be broadened to include all funding transactions with wholesale counterparties, such as pension funds, and non-financial corporations?***

From a market's perspective this would represent a change to the current definition of an interbank derived rate, and so the implications of that change to users of BBSW would need to be fully considered by the CFR.

From a Yieldbroker perspective however it is possible for our linkages to be expanded to a much wider range of counterparties, noting our current client base is in excess of 120 institutions who represent the majority of counterparties who actively trade in the Fixed Income market.

***Q2. Should the eligible securities for calculating BBSW be broadened beyond BABs and NCDs to include other financial products such as term deposits that reflect the cost of the Prime Banks' total wholesale fund raising at the relevant maturities?***

From a market's perspective this would present a much more significant change to the existing process and is a change from the current interpretation of BBSW.

From a Yieldbroker perspective there is no technical reason however to prevent Yieldbroker from expanding the product base to include other financial products such as term deposits etc.

***Q3. What should be the minimum size for wholesale funding transactions to be in scope for BBSW?***

Currently the minimum trading volume on Yieldbroker is 20mil which complies with the AFMA NTI dealing conventions. However our platform is flexible and our parameters can be changed so that any minimum amount can be accommodated.

We believe removing transactions of less than 20mil would remove any price distortions applied to smaller parcels and our experience suggests that this would encourage larger volumes and therefore improve liquidity.

***Q4. Should offshore Australian dollar denominated wholesale funding transactions be included, or only transactions undertaken in Australia?***

If transactions which occur offshore meet the criteria for BBSW calculation (i.e. approved product traded within approved window) then it would make sense for these transactions to be included. Yieldbroker has no limitation around capturing this data.

***Q5. If the NBBO method were not to be used, what should be the fall-back mechanism for Prime Banks and the administrator in the event that there are insufficient transactions for calculating BBSW?***

If trading volumes increased then a VWAP (Volume-Weighted Average Price) calculation methodology would be appropriate. If there are insufficient transactions, then alternatives such as using historical rates (+/- a market determined margin) could be supported.

While the decision on which method is not for Yieldbroker to determine, we note that Yieldbroker could facilitate the role of calculation agent if such is required.

**Q6. Should the set of Prime Banks be larger than the four major banks, and how could the existing criteria for Prime Banks be amended to achieve this?**

Amending the existing criteria would change the definition of what is a prime bank and therefore the definition of what is BBSW i.e. currently homogenous asset class... highest quality with regard to liquidity, credit and consistency of relative yield.

**Q7. Should the timing of the transactions in scope for calculating BBSW be changed? Three options to consider are:**

- a. including all transactions taking place up to the time of the rate set (i.e. morning transactions prior to 10am)**
- b. including all transactions taking place over the 24 hours prior to the rate set**
- c. moving the rate set to a later time (e.g. 11am) to provide a wider window for the transactions underlying BBSW to be contracted up to the time of the rate set.**

Basis risk represents a significant challenge in widening the rate set window.

However from a Yieldbroker perspective we can capture transactions in any specified time period.