

**Cyclical Review of the Method for Determining the WIBID and WIBOR
Reference Rates, including the Waterfall Method
and the mandatory assessment of their ability to measure relevant
market or economic reality**

Summary of findings

Warsaw, July 7th, 2023

Pursuant to Article 23(2) of the Benchmarks Regulation ("BMR"), the WIBID and WIBOR Administrator conducted a Cyclical Review of the Method for Determining the WIBID and WIBOR Reference Rates, including the Waterfall Method*. The undertaken analytical work, as a result of the mandatory assessment of critical benchmark's capability to measure the underlying market, was aimed at confirming its representativeness and ensuring that the Method remains robust and resilient. With this in mind, a number of analytical steps were carried out on the Underlying Market, the Related Markets, as well as data from other segments of the money market. Furthermore, identification was made of any possibilities, favourable from the point of view of representativeness of the benchmarks to be determined, to recalibrate the Method of their determination, upon the assumption that the robustness and resilience of this benchmark would not be affected by such recalibration.

The Administrator's assessment allows to conclude that the WIBOR benchmark, which aims to measure the market for unsecured interbank deposit, effectively reflected economic realities in the segment of unsecured interbank deposits over the 2-year period of provision dating from the authorisation of the Administrator of interest rate benchmarks including the critical benchmark, including the impact of changes in economic realities on the domestic money market as well as shifts in the National Bank of Poland's monetary policy parameters. The analysis covered a period from December 16th, 2020 to December 15th, 2022.

The detailed position includes in particular the following items:

1. No worse, i.e. stable or better, compared to the beginning of the analysis period, i.e. the moment of Administrator's authorisation to act as administrator of the WIBID and WIBOR Reference Rates, values of descriptive statistics concerning, inter alia, the number and volume (understood as nominal value) of transactions concluded on the interbank market and on Related Markets defined, and higher Transactionality Levels for most Fixing Tenors. The least active subset of the analysed money market segment is described by the 1Y Fixing Tenor and the most active one - by the O/N Fixing Tenor. As regards the assessment of the above, the Administrator sees a rationale for discontinuing the provision of the WIBOR and the WIBID for Fixing Tenor 1Y, as well as Fixing Tenor 2W, given the general knowledge about the scope of use of these Fixing Tenors, with the statistical rationale for discontinuing the Reference Rates for Fixing Tenor 1Y arising from the assessment of the size of transactional set of the Underlying Market and the Related Markets.
2. Overall increase in the eligible transactions pool for the Underlying Market and Related Markets, including primarily the number of transactions during the Analysis Period, while the increase followed a period of strong factors reducing the transactions pool in 2020 (including the COVID-19 pandemic, persistence of ultra-low NBP interest rates), and at the same time during a time of strong adjustments in the economic and political environment, most notably

the period of intense interest rate hikes, rising CPI and PPI inflation levels and increased geopolitical risk factors, all of which remain closely linked.

3. Indirect and direct impact of market, economic, systemic and political factors affecting the functioning of the domestic money market and financial market, on the Input Data submitted by the Fixing Participants, which, particularly in the second half of the Analysis Period, translated into an increase in the demand for liquidity in PLN in the interbank market related to the situation in the foreign exchange market, including the pressure on the weakening of the Polish currency against certain currencies of the region, generating a real increase in the cost of raising funding in certain remaining segments of the money market against foreign currencies (FX-swaps market). The changing economic environment indicates that similar economic, market, political and systemic factors affected other money market segments during the period under analysis.
4. Persistence of a weak upward trend in the number of transactions for Tenors of more than 1M and, above all, for 6M and 1Y Tenors, with an observed increase in the number of transactions at Level 1 of the Waterfall Method in certain sub-periods over the Analysis Period (including above all for Fixing Tenor T/N, but also 1M, 3M and sometimes 6M).
5. Execution of transactions by Fixing Participants within the Transaction Window also for longer Fixing Tenors and the concentration of transactions by Fixing Participants in the interbank market, which confirms the essence of the Committed nature of the Input Data in the form of Committed Quotes, which are different than Input Data based directly on transaction data i.e. Model Quotes.
6. Considering the conclusions in para. 5, the relevance of a panel of Fixing Participants homogenous in terms of transaction/credit limits and risk profiles, including above all the selection of entities that allows them to trade in the Transaction Window.
7. In view of the testing of the parameters of the Method carried out in accordance with the rules, there is no realistic possibility of recalibrating the Method for Determining the WIBID and WIBOR Reference Rates without increasing the risk to the resilience of the Reference Rate and the risk of allowing tools that may increase the risk of manipulation of WIBOR. This is due to the impossibility of completely removing the Eligibility Threshold (minimum level of volume of a single transaction, currently established at PLN 1 million) and reducing the quality of the elements of the Method relating to the Procedure of Extrapolation while, inter alia, limiting to merely 1 Fixing Day the minimum number of days, from which transactions used to determine the extrapolation factor are to be derived - all without exposing the Method to the risk of losing the stability and reliability of the Input Data preparation process.
8. Impossibility of determination of such a hypothetical Method for the WIBID and WIBOR Reference Rates that would neither create the risk of not being able to reflect the market it intends to measure nor provide an increase in the transactions pool without generating undesirable, high volatility in WIBOR benchmark that could lead to a material impact on, among other things, the levels of interest payments when referred to the rules for defining such payments, e.g. the average of selected Fixing Days.
9. Assessment of data availability revealed that a potential of expanding the Related Markets lies only in the large enterprises' unsecured deposit segment as the only market that could have an impact on longer Fixing Tenors, including the Transactionality Level of the 3M and 6M Fixing Tenors in particular, in light of the absence of other money market segments that:
 1. would provide a strengthening of the transactions pool at longer Fixing Tenors (in the case of the repo / bsb markets) or

2. would not be susceptible to temporary or medium-term disruptions (in the case of the FX swap market).

However, inclusion of the large enterprises' deposits could lead to an increase in WIBOR volatility, as indicated in para. 8, and introduce a market segment with different characteristics (including a different interest rate distribution), making it less similar to the interbank market, which remains the target for measurement of the analyzed benchmark. Furthermore, segments distant from the interbank market will be influenced by specific factors, including regulatory, liquidity, systemic or strategic ones, which could distort

10. In view of the long-term deposit market statistics presented, the Administrator does not identify any factors likely to provide a surge in the level of the eligible transactions pool in the future¹. In light of the trends characterising the behaviour of the transactions pool, safeguarding the elements of the Method against the risk of manipulation or loss of resilience remains critical. At the same time, taking into account the materiality of the binding nature of the Committed Quotes within the Transaction Window element of the Method, the Administrator, as part of the accompanying reviews, i.e.: Review of the Definition of Material Method Change, Key Elements of the Method and Materiality Criteria, proposes to elevate the binding nature of Committed Quotes (committed quotes as in Article 11(2)(a) of the Benchmark Regulation and para. 1(c) of Annex I to the Regulation. (c) of Annex I to the Regulation) to the status of Key Method Elements, as well as to update internal controls of Fixing Participants to include monitoring and review of situations where, despite the objective possibility of concluding a transaction, it would not take place within the Committed Quotes provided.

11. In view of the foregoing, the Administrator's Board further states that:

- a. recognition of the binding nature of the Committed Quotation as a Key Element of the Method builds a basis for managing the risk of a Fixing Participant or Participants losing their transaction/credit limits with other Fixing Participants as an extreme situation that could lead to actual loss of the binding nature in the case of Committed Quotes submitted by an entity that would have lost its limits with other Fixing Participants. This will have the effect of adjusting the WIBID and WIBOR Reference Rates documentation by including the possibilities of suspension or exclusion of such an entity from the panel of Fixing Participants, or extension of scope of Related Markets including a change to the rules set out in the Extrapolation Procedure, as well as conducting a Review of the Method for Determining the WIBID and WIBOR Reference Rates in the event that such a risk materialises;
- b. Appropriate are the steps taken to move away from the use of indices affected by a broad range of market risks, including current and future proprietary and financial sector liquidity risk, credit risk, market risk arising from political factors or uncertainties in the business environment, towards building an environment for the introduction of benchmarks close to the risk-free rate, as these limit the transfer of specific persistent market conditions, as reflected in benchmarks capturing a broad range of market risks, to the real economy through the instruments in which they are used.

12. The Administrator is going to take steps to update the documentation, including the Code of Conduct for WIBID and WIBOR Fixing Participants and the Regulations for the WIBID and WIBOR Reference Rate and Benchmark Statement, in accordance with the adopted rules for amending thereof.

¹ Annexes 1 and 2 contain data on basic descriptive statistics on the number and volume of transactions in each money market segment

13. In developing the documentation, the Administrator will take into account, inter alia: the correction of the description of the Materiality Criteria in connection with their review and the clarification of the description of the procedure for Fixing Suspension, as a substitute procedure triggered in the event where the Method of Determining the Reference Rates, i.e. the Fixing in accordance with the algorithm set out in the Regulations, cannot be applied.
14. From the point of view of compliance with the BMR requirements and having regard to the analysis of extraordinary events, recorded errors² and other difficulties, e.g. of an operational nature in the process of the WIBOR Fixing, it is concluded that there are no grounds for any changes to the Method and that it meets all requirements set out in the BMR and the relevant Delegated Regulations.

In accordance with Article 23(4) of the BMR, the Administrator has received from the KNF (the Polish FSA) the results of the assessment of the benchmark's ability to measure the market or economic realities, carried out upon submission of the results of the Cyclical Review of the WIBID and WIBOR Reference Rate Method, including the mandatory assessment of the benchmark's ability to measure the relevant market or economic realities. The KNF assessment indicates that, based on the qualitative analysis of the source materials provided by the Administrator and the quantitative analysis of these data, that the critical benchmark WIBOR has the capacity to measure the market and economic realities.

Considering the results of its own assessment and the supervisory authority's position, the Administrator, due to limited scope of use of the WIBOR for Fixing Tenor 1Y and additionally taking consideration the lowest Transactionality Level assigned to this Fixing Tenor,, is going to launch public consultations related to the determination of the date appropriate for safe cessation of the provision of the 1Y WIBID and WIBOR Reference Rates.

*Terms in capital letters defined in the WIBID and WIBOR Fixing Participant Code of Conduct and the Regulations for WIBID and WIBOR Reference Rates available at <https://gpwbenchmark.pl/en-dokumentacja>

² Compare with the summary of the WIRON Data Transmission Audit <https://gpwbenchmark.pl/Papers>