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MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Friday, 27 October 2023, 11 a.m. – 1 p.m.

The meeting took place in remote mode via Zoom.

Discussion Summary

Question 1. Proposals for the composition of the Ukrainian Money and Foreign Exchange Market Indicators Oversight Council

*(speaker: **Oleksandr Arseniuk**, Head of the Office for Effective Regulation of Money Market of the Open Market Operations Department).*

In considering this issue, the meeting participants summarized the work of the the [Committee of Ukrainian Money and Foreign Exchange Market Indicators Oversight](#) (hereinafter referred to as the “Committee”). Specifically, the meeting participants noted that over the period of its work (2020–2022), the Committee streamlined the methodology for calculating the money market and FX market indicators (UONIA, official/reference exchange rate of the hryvnia) and introduced the calculation of compounded UONIA average rates and index . The Committee also took important procedural measures to define and publish the money market and FX market indicators. In particular, the Committee approved the mechanisms and regulations for:

- preventing conflicts of interest
- addressing inquiries about the indicators
- conducting regular reviews of the indicators.

The meeting participants noted that the first review of the indicators, which was prepared and scheduled for late February 2022, didn't take place due to the large-scale invasion. The first review is currently planned for Q1 2024.

In addition, the meeting participants also identified the candidates whom the Money and foreign exchange markets contact group (hereinafter referred to as the “Contact Group”) recommended to the NBU to include in the composition of the [Money and Foreign Exchange Market Indicators Oversight Council](#) (a group-decision-making body created to replace the eponymous Committee). These candidates are:

Anton Kovalenko (Director, Capital Markets Department, CB PRIVATBANK JSC)

Andrii Potapov (Board Member for Financial Markets and Treasury, ING Bank Ukraine JSC)

Anton Stadnyk (Director, Investment Business Department, FUIB JSC).

Question 2. Consideration of a proposal by the Independent Association of the Banks of Ukraine (IABU) to create an additional interest rate index that would be calculated based on banks’ data on corporate deposits.

Question 2.1. Problematic aspects of the UIRD index application

(speakers: **Oleksandr Prymachenko**, Head, Market Risk Control Office, Risk Management Department, Ukreximbank JSC, **Anton Boldyryev**, Director, Treasury and Investment Services Department, Ukreximbank JSC).

To consider every aspect of the IABU’s proposal, Ukreximbank JSC representatives outlined the IABU’s position on using the UIRD index and other existing money market indicators, and proposed ways to improve the UIRD index and possible options for creating new indices.

Question 2.2. Banks’ use of money market indicators in loan and deposit products

(speaker: **Oleksandr Arseniuk**, Head, Office for Effective Regulation of Money Market, Open Market Operations Department, NBU).

In addition to the presentation by Ukreximbank JSC experts, the NBU representative informed the meeting participants that according to statistical reports from banks, most loan and (to a lesser extent) deposit products with a floating rate are currently tied to UIRD indicators.

It will be viable to introduce a new index only if solutions are proposed on how to eliminate the deficiencies inherent in existing indicators, specifically UIRD

and UONIA, the Contact Group members said during the discussion. The meeting participants also said that creating an index that will be calculated based on declarative rates (instead of on rates used in real transactions) and applying it to corporate deposits will make this indicator too vulnerable to manipulation. This is especially true because banks usually have much wider spreads between rates on corporate deposits than between those on retail ones.

In addition, compliance procedures in many banks (including foreign-owned ones) require involving at least three people in the procedure for determining and providing declarative rates for calculating indices. This does not add incentives for such banks to participate in the calculation of an index. Due quality of the new index can therefore be ensured only if it is calculated on the basis of real-transactions data that banks submit to the NBU as part of statistical reporting.

With this in mind, some of the meeting participants said that the UONIA indicator looks conceptually better than the UIRD index, as UONIA is calculated on the basis of real transactions. But its main downside is that Ukraine's interbank money market is currently extremely narrow and there are no prospects for its significant revival in the foreseeable future.

As a result of the discussion, the Contact Group members found it viable to continue to look into the issue of improving existing and/or creating new money market indicators within the scope of the work of the Oversight Council for Ukrainian Money Market and FX Market Indicators.

Question 3. Repo transactions and FX swap agreement with central counterparty

[Oleh Tkachenko, Chairperson, Board, Settlement Center PJSC (hereinafter referred to as the "Settlement Center ")].

The meeting participants learned about the stages of the formation of the repo market with the central counterparty, as well as its current condition, and familiarized themselves with relevant statistical data. The meeting participants were also made aware of the growing interest in this instrument and the recent revival in the business activity of this market's participants.

The FX swap clearing service was presented during the discussions. This is a new service that the Settlement Center provides as a counterparty that services financial market agreements. The advantages of using FX swaps

with a central counterparty were also considered. FX swap parameters were also presented. These parameters were agreed upon with the participants of the Repo and Swap Development Working Group of the Settlement Center.

Special attention was paid to the risk management and guarantee system that will be used by the Settlement Center in the clearing of obligations under repo agreements and FX swaps.

During the discussion, the meeting participants said that in order to stimulate the further development of “controlled-risk repo” transactions, the NBU should remove, from the base that banks use to meet [reserve requirements](#), the funds raised by banks from the central counterparty through repo transactions.

List of participants

Chairperson of the Contact Group

Yuriy Heletiy

– National Bank of Ukraine

Deputy Chairperson of the Contact

Group Oleksii Lupin

– National Bank of Ukraine

Members of the Contact Group:

Maksym Abrosimov

– A-BANK JSC

Yurii Artemenko

– MTB BANK PJSC

Anton Boldyriev

– Ukreximbank JSC

Alla Brovkova

– Oschadbank JSC

Andrii Varzar

– Pivdennyi Bank JSC

Oleksii Dmytriiev

– UNIVERSAL BANK JSC

Oleksandr Duda

– UKRSIBBANK JSC

Maksym Dumanskyi

– BANK FOR INVESTMENTS
AND SAVINGS PJSC

Andrii Dutskyi

– BANK VOSTOK PJSC

Oleksii Yefremov

– UKRGASBANK JSB

Oleh Klimas

– Raiffeisen Bank Aval JSC

Anton Kovalenko

– CB PrivatBank JSC

Serhii Kucheriavyi

– KREDOBANK JSC

Stanislav Lysianskyi

– BANK ALLIANCE JSC

Viacheslav Ozerov

– CREDIT AGRICOLE BANK JSC

Vladyslav Pariokha

– TASCOMBANK JSC

Liudmyla Pylypiv

– PROCREDIT BANK JSC

Andrii Potapov

– ING Bank Ukraine JSC

Anton Stadnyk

– FUIB JSC

Rostyslav Shapoval

BANK 3/4 JSC

Andrii Shpylevskyi

– OTP BANK JSC

Secretary of the Contact Group

Oleksandr Arseniuk

– National Bank of Ukraine

Invited participants:

Sergiy Nikolaychuk

– National Bank of Ukraine

Serhii Demydenko

– National Bank of Ukraine

Maksym Drobyazgin

– National Bank of Ukraine

Iryna Zhak

– National Bank of Ukraine

Anna Zakrenychna

– National Bank of Ukraine

Liudmyla Kima

– National Bank of Ukraine

Maryna Matviienko

– National Bank of Ukraine

Tetiana Nurmukhametova

– National Bank of Ukraine

Mykola Selekman

– National Bank of Ukraine

Kateryna Semenchenko

– National Bank of Ukraine

Oleksandr Prymachenko

– Ukreximbank JSC

Oleh Tkachenko

– SETTLEMENT CENTER PJSC