

Publication date

6 March 2020

MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Wednesday, 19 February 2020, 3:00 p.m.–6:00 p.m.

9, Instytutska St., Kyiv, room 306

Discussion Summary

Oleg Churiy, *Deputy Governor of the National Bank of Ukraine (NBU)*, in his **opening speech** noted the importance of appointing a Money and Foreign Exchange Markets Contact Group (Contact Group) as the leading platform for expert discussion of issues, generation of ideas and drafting decisions on advancing the development of financial markets. Deputy Governor set out operation plans of the Contact Group for the near future, suggesting to focus on advancing the market of interest rate and foreign exchange derivatives, as well as improving Money Market and Forex Exchange Market benchmarks .

At the same time, Oleg Churiy pointed out that the Contact Group efforts should go both ways meaning that the agenda is not just a prerogative of NBU representatives. Any participant of the Contact Group can put an issue for consideration in view of his/her vision of the urgency of an issue for the development of financial markets.

Axel van Nederveen, *Treasurer of the European Bank for Reconstruction and Development (EBRD)*, gave an **opening speech** to the meeting attendees. He expressed the EBRD's approval of establishing the Contact Group noting that for resolving issues of effective development of financial markets and improving Money Market and Forex Exchange Market benchmarks it was of great importance to engage not only regulator's representatives, but market professionals as well. Foreign countries (both developed and developing countries), where such groups have already been appointed and are operating, have also proven this in practice. In particular, engaging market players in improving indicators (benchmarks) of the money market will build up trust to these indicators, which is crucial for active

development of the derivatives market. Axel van Nederveen added that today the best world practices for defining the money market benchmark apply estimations based on the unsecured overnight interest rate.

Issue 1: Money Market and Forex Contact Group: Organizational issues (speaker: **Oleksandr Arseniuk**, Head of the Office for Operative Regulation of Money Market of the Open Market Operations Department).

When considering the issue, it was noted that the Contact Group is an advisory body appointed for sharing information and opinions between the NBU and market players on the current status and developments of Money and Forex Markets, as well as interest rate and Forex Exchange derivatives. Conclusions reached at the Contact Group meetings shall be taken into consideration by the NBU when approving respective decisions, and as required will be referred to other regulators for respective review and response.

The Contact Group will comprise 3 representatives from the NBU and 25 financial market experts delegated by banks rated as the most active in the money market and Forex. The Deputy Governor in charge of market operations will chair the Contact Group, the Director of the Open Market Operations Department will be deputy chair of the Contact Group. As a rule, the Contact Group will hold a meeting every quarter and the agenda will be decided according to motions of the group members. Engaging market players as main experts for consideration of agenda items is highly welcome.

The Contact Group will operate based on maximum transparency: all materials considered at the meeting of the Contact Group as well as conclusions of discussions will be released on the page of the Contact Group of NBU official web site.

Bank representatives present at the meeting have expressed unilateral support to establishing the Contact Group and its suggested framework and operation.

Issue 2: Improvement Progress of the Money Market and Forex indicators: (speaker: **Oleksandr Arseniuk**, Head of the Office for Operative Regulation of Money Market of the Open Market Operations Department).

Regarding improvement of Money Market indicators, NBU representatives presented a road map for harmonization of the Ukrainian Index of Interbank Rates (UIIR) on overnight loans and deposits with the principles of the International Organization of Securities Commissions

(IOSCO). The coming-up measures of this road map include establishing the UIIR Oversight Committee and improving the index calculation method.

The UIIR Oversight Committee shall be the agency authorized to address issues associated with calculation, administration and control of index, including determining and implementing UIIR calculation method, drafting procedures for international control and review of complaints, avoiding conflict of interest, and considering internal audit findings etc. The Committee will include 4 members of the NBU (directly engaged in administration and calculation of UIIR) and three external representatives that will be nominated by the mentioned Contact Group.

Proposals on improving UIIR calculation methodology that will be put for consideration of the Oversight Committee will ensure a back-up calculation for the index, should the application of the main algorithm become impossible, on drafting the policy for rectifying errors, shaping the data credibility assessment system, and approving procedure for methodology review.

When discussing the mentioned issues, some attendees at the meeting noted that due to structural features of the interbank market, its unsecured contracts take up a rather small segment. Consequently, they consider it prudent to apply the swap interest rate as the main indicator. However, NBU representatives were of the opinion that the money market indicator should reflect the price of hryvnia loans and not the difference between the rates in hryvnia and foreign currency. At the same time the issue of low activity in the blank contracts segment, according to NBU specialists can be solved by including in the calculation the contract rates that banks execute on Money Market with the NBU.

Also some attendees raised the issue regarding the possibility to calculate money market benchmarks for a different term (week, month). NBU and EBRD representatives rebutted that such indicators are not considered reference indicators of the market by the global community and that a long-term interest rate is in fact the reflection of the overnight rate, and its estimated value (for any term) may be derived from the overnight rate using a compounding mechanism.

When considering the issue of Forex indicators the meeting attendees asked about the acceptable Forex Exchange indicator for estimations under the Forex Exchange nondeliverable forward (NDF). In particular, at present the NBU calculates two Forex Exchange market indicators (both are weighted average under contracts a day before the estimation): the official hryvnia exchange rate against foreign currency and the reference value of the hryvnia exchange rate against the U.S. dollar as of 12:00 p.m. Also, market players

have available indicators estimated by trading systems Bloomberg and Refinitive as fixings as at a certain time.

During the discussion, the attendees agreed that today there are enough indicators and the issue of improving the current and /or introducing a new indicator will only become imminent, when all other issues withholding the development of NDF market in Ukraine will be resolved.

Issue 3: NBU approaches to transacting interest rate swaps (IRS) (Speakers: **Oleksandr Arseniuk**, Head of the Office for Operative Regulation of Money Market of the Open Market Operations Department, **Mykola Selekhman**, Deputy Director of the Open Markets Department, Head of the Open Market Operations and Government Securities Placement Office of the National Bank of Ukraine).

NBU representatives informed banks on NBU intentions in H2 2020 for banks to transact interest rate swap contracts. The goal is to initiate development of such derivatives market in Ukraine. The NBU is so vested since this will foster the interest rate channel of the monetary transmission and favor long-term lending by mitigating the interest rate risk. The NBU has already expanded the range of interest rate policy assignments and is finalizing a regulatory act on interest rate swap transactions.

The NBU plans in the first stage that the total volume of IRS transactions with banks to be about 5% of the loan portfolio issued by banks in domestic currency to legal entities and individuals (at preset this accounts for UAH 11–12 billion). Interest rate swaps will be transacted as an auction for two years with monthly interest payment. The marginal fixed interest rate for such transaction will be calculated considering the NBU forecast of the key policy rate published in the NBU macroeconomic forecast.

The meeting attendees were keen about the NBU's intention to introduce the new instrument. Some technical issues were agreed to be discussed in further detail at the next meeting of the Contact Group. At the same time, Oleg Churiy requested the banks to review internal procedures for such transactions in order to be ready in H2 2020 to take active part in NBU auctions.

Issue 4: Some aspects of banks' transactions to purchase/sell foreign currency on nondeliverable forward (NDF) terms (speaker **Tetiana Popovych**, Director of Capital Markets, Alfa Bank JSC)

The presentation showed that broadly claimed loss estimations from hryvnia appreciation last year in fact demonstrate the low rate of using

hedging instruments for Forex Exchange risks, regardless of the improved regulatory conditions.

Experience of Alfa-Bank JSC as one of the first banks that began executing NDF showed that customers do not require a lot of clarifications on the benefits of this instrument that is more flexible in contrast to a deliverable forward.

The presentation showed an accounting model for NDF, and possible taxation implication of such transactions were discussed. Some attendees expressed the need for general clarifications from tax authorities on such issues. Alfa Bank JSC benchmark for estimations under such transactions is the reference Forex Exchange rate of the hryvnia against the U.S. dollar as of 12:00 p.m. estimated daily by the NBU.

Meeting attended by:

National Bank of Ukraine	Oleg CHURIY
National Bank of Ukraine	Serhii PONOMARENKO
National Bank of Ukraine	Oleksandr ARSENIUK
National Bank of Ukraine	Mykola SELEKHMANN
National Bank of Ukraine	Nataliia VAHINA
Representative of the European Bank for Reconstruction and Development	Axel VAN NEDERVEEN
Representative of the European Bank for Reconstruction and Development	Andrii DABIZHA
Oschadbank JSC	Olena DOMANOVA
UKRGASBANK JSB	Oleksii YEFRIEMOV
CB PrivatBank JSC	Yurii SPASOV
CB PrivatBank JSC	Kairat KARASAEV
Ukreximbank JSC	Oleh SEKUN

Raiffeisen Bank Aval JSC	Yurii HRYNENKO
Raiffeisen Bank Aval JSC	Volodymyr KRAVCHENKO
OTP BANK JSC	Anton KOVALENKO
SBERBANK JSC	Oleksandr KOZACHOK
KREDOBANK JSC	Yurii MALIUK
CREDIT AGRICOLE BANK JSC	Viacheslav OZEROV
ProCredit Bank JSC	Liudmyla PYLYPIV
ALFA-BANK JSC	Tetiana POPOVYCH
ALFA-BANK JSC	Oleksandr VOROBEL
CITIBANK JSC	Vladyslav SOCHYNSKYI
ProCredit Bank JSC	Kostiantyn RADCHENKO
UKRSIBBANK JSC	Dmytro TSAPENKO
BANK FOR INVESTMENTS AND SAVINGS JSC	Oleksandr BORSHCHUK
CRYSTALBANK JSC	Karl VARHA
UNIVERSAL BANK JSC	Oleksii DMYTRIIEV
BANK ALLIANCE JSC	Stanislav LYSIANSKYI
Megabank JSC	Andrii OLIINYK
TASCOMBANK JSC	Vladyslav PARIOKHA
AVANGARD BANK JSC	Viacheslav SEREDA
AVANGARD BANK JSC	Oksana SHVEDA
FUIB JSC	Anton STADNYK
INDUSTRIALBANK JSCB	Mykhailo STETSIUK
CB Globus PJSC	Dmytro LAZARIEV
InterBusinessFinance LLC	Yurii KRUT
InterBusinessFinance LLC	Pavlo BAKLANOV