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MONEY AND FOREIGN EXCHANGE MARKETS CONTACT GROUP

Friday, 24 July 2020, 2-4 p.m.

Extended meeting (inviting banks' representatives dealing with asset and liability management)

The meeting was held remotely in Zoom

Discussion Summary

Issue 1: UONIA: a new benchmark of the Ukrainian money market
(Speaker: **Oleksandr Arseniuk**, Head of the Office for Operative Regulation of Money Market of the Open Market Operations Department)

The meeting participants received the explanations about what prompted the NBU to introduce a new money market indicator. Specifically, the speaker noted that due to low activity of interbank credit market of Ukraine and insufficient number of market transactions, the Ukrainian Index of Interbank Rates (UIIR), the preliminary indicator, was not calculated on certain days. In addition, the UIIR was previously calculated for two categories (loans and deposits, and swaps) and 5 time parameters (for most of them, the UIIR was not de facto calculated due to insufficient number of transactions at the market). Instead, the best world practice suggests that there should be one main indicator (benchmark) on the money market.

In view of the above, the NBU decided to stop calculating the UIIR and introduce a new indicator, the Ukrainian Overnight Index Average (UONIA). The main difference between the UONIA and the UIIR overnight loans and deposits is that in addition to agreements between banks, the UONIA calculation includes 10% of banks' agreements with the NBU on placement of funds on NBU overnight certificates of deposit, as well as 10% of agreements on obtaining refinancing overnight loans by banks from the NBU. Also, in order to prevent possible manipulation, all agreements of a single bank with the same counterparty shall be aggregated into one agreement by the weighted average interest rate under such agreements when calculating the UONIA.

To this end, the UONIA provides a procedure for calculating the indicator under special conditions (if the number of transactions to be calculated by the UONIA for a certain day was less than five and/or the number of counterparties under such agreements was less than three). Under such conditions, the UONIA will be calculated as the key policy rate on that day adjusted by the average for the last 5 business days of UONIA deviation from the NBU key policy rate.

Issue 2: Interest rate swap transactions with the NBU as a tool for interest rate hedging by banks: initial experience, approaches to determining rates (Speaker: **Mykola Selekman**, Deputy Director of the Open Markets Department, Head of the Open Market Operations and Government Securities Placement Office of the National Bank of Ukraine; Speaker: **Artem Andriushchenkov**, Head of the Office for Macroeconomic Modelling and Forecasting, the NBU Monetary Policy and Economic Analysis Department)

The meeting participants received the analysis findings of first interest rate swaps auctioned by the NBU. The speakers offered the NBU plans for future, particularly on further auctioning once a month. The speakers noted that the first auctions demonstrated rather noticeable difference in the estimates of future trends rates trends by the NBU and banks. In view of this, the participants' attention was focused on the fact that when determining the price parameters of auctions, the interest rate swap with the NBU will follow the trends of UONIA that corresponds to the projected change in the NBU key policy rate. The NBU publishes the latter quarterly in the Macroeconomic Forecast in the form of a fan chart.

At the same time, the speakers presented a mechanism of forecasting the key policy rate in the context of achieving NBU goals. That included factors that determine a long-term equilibrium level of the NBU key policy rate, as well as ones that determine the volatility around the equilibrium level.

The speakers also outlined the issues of forecast uncertainty (fan chart) and factors of revision of the NBU key policy rate forecast.

Issue 3: Impact of interest rate swap transactions on economic ratios of banks (Speaker: **Pervin Dadashova**, Head of the Macprudential Policy and Research Office, the NBU Financial Stability Department)

The meeting participants received explanations suggesting that when calculating the ratios and credit risk, banks should take into account only book value of assets or liabilities arising from the interest rate swaps with the NBU.

Specifically, the amount of assets under the transactions shall be taken into account when assessing the credit risk in accordance with the Regulation *On Measuring Credit Risk Generated by Banks' Exposures*. Balance sheet assets arising from interest rate swaps with the NBU shall be weighed on credit risk for evaluation of capital adequacy ratios (H2, H3) and shall be taken into account in credit risk ratios (H7, H9).

The credit risk under transactions shall depend on the counterparty's risk: transactions with the NBU are risk-free, transactions with other counterparties will comprise the risk varying in accordance with applicable regulations.

If consider a short-term liquidity ratio (H6), the amount of assets and liabilities under interest rate swaps with the NBU shall be included according to a standard formula depending on the term. Regarding LCR, according to the applicable methodology, the only impact on it from a transaction may arise due to a failure to include assets provided as collateral within the highly liquid assets when entering into agreement on swap interest rate with the NBU, and therefore such LCR shall be encumbered.

Issue 4: Applying for participation in interest rate swap transactions with the NBU: what paperwork to file (Speaker: **Nina Horlova**, Head of the FX Transactions Division, the Office of Open Market Operations and Government Securities Placement of the NBU Open Market Operations Department)

The meeting participants received information regarding the list of documents to be provided to the NBU for signing the General Agreement on interest rate swaps with the NBU. The speaker paid special attention to the correct provision of information regarding the authority of signatories of documents for entering into an interest rate swap transaction with the NBU when incorporating a guarantee fund.

The meeting participants demonstrated most of their interest to the issue of the list of documents that must be provided if maximum conditional amount under the agreement exceeds 10% of the bank's assets. The participants' attention was focused on the fact that in that case, as a rule, a decision of the bank's supervisory board shall be required. Moreover, if the amount exceeds 25% of assets, the decision of the general meeting of shareholders shall be provided as well.

Issue 5: How banks can open a depository securities account with the NBU (Speaker: **Andrii Suprun**, Head of the NBU Office for Custodial Activity)

The meeting participants received justification of the model of opening a bank account in securities of the depositor with the NBU based on international practice and legal aspects of introduction a new model of accounting collateral securities in favor of the NBU. The speaker explained that the new model has been introduced for guaranteeing interest rate swaps with the NBU, and it will be spread on other products.

The speaker also went into details on the specifics of opening securities account of the depositor (owner) with the NBU, who operates a custodian, as well as on the principles of all possible custodial transactions under that account, payment of income on securities and obtaining information on securities accounted in that account.

Issue 6: How to form a collateral pool to participate in interest rate swap transactions with the NBU (Speaker: **Oleh Novakovskiy**, Director of the NBU Loan Management Department)

The meeting participants received information about determining the guarantee fund, types of assets provided by the bank as collateral/guarantee coverage, coverage of interest rate swaps with the NBU by the guarantee fund.

The participants considered the process of formation the guarantee fund and recommendations on registration and submission of applications for allocating assets to the guarantee fund. The speaker focused the participants' attention on the need to sign applications by authorized persons of banks by applying qualified electronic signatures and on the availability of all necessary details in the applications. The speaker recommended to form the guarantee fund at least one working day before the day of the auction on the interest rate swap with the NBU.

Issue 7: Approaches to making accounting entries for interest rate swap transactions with the NBU (Speaker: **Nataliia Kolomiets**, Head of the Methodology of Accounting and Reporting Division, the NBU Accounting Department)

The speaker presented the reflection of interest rate swaps with the NBU in the accounting of banks, namely allocating the guarantee coverage to the NBU, concluding interest rate swap agreement, calculating payments in accordance with contract terms, revaluating interest rate swap to fair value, paying/receiving payment to the/from the NBU, executing the agreement and

repayment of debt, derecognizing the agreement and repaying debt at the expense of the guarantee fund.

Issue 8: Approaches to determining the fair value of an interest rate swap instrument with the NBU (Speaker: **Nadiia Meshenko**, Head of the NBU Financial and Operational Risk Office)

The meeting participants received clarifications on the NBU's definition of the fair value of the interest rate swap. The NBU determines the fair value on the UONIA overnight index according to the model that considers the interest rate swap with the NBU as a combination of two bonds with opposite positions: demand (liability) under a fixed-rate bond and liability (demand) under a floating-rate bond. A detailed description of this model is specified in the *Procedure for Estimating the Fair Value of Derivatives, With Which the NBU Carries Out Its Transactions*, approved by the decision of NBU Board No. 437 dated 13 July 2017 (as amended).

Banks may but are not obliged to use the fair value of the UONIA overnight interest rate swap instrument that is determined by the NBU and published on its official website for accounting and financial reporting purposes in line with the International Financial Reporting Standards (IFRS). Banks may also develop and use their own models to assess the fair value of interest rate swaps, taking into account the requirements of IFRS and the NBU's ones for models (Chapter 14 of Section I of the Regulation *On Organization of Risk Management System in Ukrainian Banks and Banking Groups*).

Meeting attended by:

Deputy Chairman of the Contact Group National Bank of Ukraine
Serhii Ponomarenko

Members of the Contact Group

Oleksandr Borshchuk	BANK FOR INVESTMENTS AND SAVINGS
Andrii Varzar	Pivdenny Bank
Oleksii Dmytriiev	Universal Bank
Olena Domanova	Oschadbank
Oleksandr Duda	UKRSIBBANK

Oleksii Yefremov
 Stanislav Lysianskyi
 Yurii Maliuk
 Viacheslav Ozerov
 Andrii Oliinyk
 Liudmyla Pylypiv
 Tetiana Popovych
 Andrii Potapov
 Oleh Sekun
 Yurii Spasov

UKRGASBANK
 BANK ALLIANCE
 KREDOBANK
 CREDIT AGRICOLE BANK
 MEGABANK
 ProCredit Bank
 Alfa-Bank
 ING Bank Ukraine
 Ukreximbank
 CB PrivatBank

Meeting invitees:

Artem Andriushchenkov
 Oleksandr Arseniuk
 Nina Horlova
 Pervin Dadashova
 Nataliia Kolomiiets
 Nadiia Meshenko
 Oleh Novakovskiy
 Mykola Selekman
 Andrii Suprun

National Bank of Ukraine
 National Bank of Ukraine
 National Bank of Ukraine
 National Bank of Ukraine
 National Bank of Ukraine
 National Bank of Ukraine
 National Bank of Ukraine
 National Bank of Ukraine
 National Bank of Ukraine

Andrii Azarov
 Kyrylo Bahlaiev
 Serhii Beryslavskiy
 Tetiana Boiko
 Vladyslav Brovko
 Olena Burdina
 Andrii Burovskiy
 Karl Varga

BTA Bank
 Europe Bank
 Motor-Bank
 Alfa-Bank
 CB ZEMELNY CAPITAL
 RWS BANK
 AVANGARD BANK
 Crystalbank

Maryna Veres	Ukrainian Bank for Reconstruction and Development
Serhii Veshchikov	SEB CORPORATE BANK
Oleh Vyskrebets	BANK GRANT
Oleksandr Vorobei	Citibank
Ivan Hazda	KredoBank
Nataliia Haiova	BANK PORTAL
Serhii Hnezdilov	RADABANK
Olena Honcharova	UKRAINIAN CAPITAL BANK
Iryna Davydova	KIB
Oksana Derevska	IndustrialBank
Serhii Dmytrenko	BANK 3/4
Viacheslav Dubinin	Oschadbank
Askhat Erzhanov	SKY BANK
Yurii Yefremov	CB ACCORDBANK
Alla Zahorodnia	CLEARING HOUSE
Oksana Zadniprovska	ASVIO BANK
Olha Kazmyrchuk	SBERBANK
Oleksandr Kalashnikov	BANK VOSTOK
Kairat Karasaiev	CB PrivatBank
Serhii Klevaichuk	CB GLOBUS
Ihor Klymenko	FIRST INVESTMENT BANK
Oleksandr Kozachok	SBERBANK
Oleksandr Kontopets	IIB
Liudmyla Korniiichuk	ALPARI BANK
Olena Koroliova	Unex Bank
Ivan Kuliaba	ACCENT-BANK
Oleh Kurinnyi	Bank Credit Dnipro
Iryna Kornieva	COMINVESTBANK
Oleksandr Kutsovskyi	UKRBUDINVESTBANK
Roman Leshchyshyn	Universal Bank

Nataliia Lozynska	Prominvestbank
Oleh Lutsenko	Idea Bank
Herman Marchenko	CIB
Anton Mariukhnich	IndustrialBank
Valeriia Ovchynnikova	FUIB
Andrii Oliinyk	MEGABANK
Vladyslav Pariokha	TASCOMBANK
Viktoriiia Petryshak	MetaBank
Yaroslav Popov	ProCredit Bank
Dmytro Reznik	BANK FAMILNYI
Yaroslav Romanenko	DEUTSCHE BANK DBU
Serhii Sokyрко	Ukreximbank
Iryna Starychenko	KIB
Nataliia Stelmakh	ALTBANK
Viacheslav Timkov	MTB Bank
Yuliia Tyturenko	Pivdenny Bank
Olekh Trybulkin	A-BANK
Andrii Khemych	OKSI BANK
Oksana Shveda	AVANGARD BANK
Liubov Shynder	Bank Lviv
Nataliia Shyshatska	Forward Bank
Oleksandr Shtefan	Agroprosperis Bank
Ihor Yakobchuk	Piraeus Bank
Oleksii Yarmonenko	BANK TRUST-CAPITAL