



Bank Bill Swap (BBSW) Reference Rate Procedures

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1. BBSW Panellist Elections

The BBSW panel comprises organisations which input rates for the calculation of the BBSW rate set.

The number of panellist is determined by AFMA. There are currently 14 members as listed in *Appendix 1*.

An election for the BBSW panel is held at AFMA's discretion. The BBSW Committees may recommend to the AFMA Market Governance Committee that an election be conducted if and when circumstances warrant, i.e. resignation of a panellist, non-contribution of reference rates, contribution of out-of-market reference rates, changed participant circumstances, etc. As well, contributing to end of day bill rates is seen as important and there is an expectation that BBSW Panel members will be regular contributors to BABs EOD.

1.1. Ballot Procedure

Nominations shall be called from organisations who are the foremost traders of short dated securities (or otherwise as recommended by the AFMA Negotiable/Transferable Instruments Committee) and the current BBSW panellists. All current AFMA eligible BBSW Reference Banks (AFMA Prime Banks) will automatically be appointed to the BBSW panel without being subject to any ballot procedures. Should a Prime Bank lose that status after being appointed to the panel under this provision, it will remain on the panel until the next election.

All current AFMA eligible BBSW Reference Banks (AFMA Prime Banks), and other AFMA Financial Market Members who nominate themselves for the BBSW panel, are eligible to vote on the nominations though voting is not compulsory.

New members appointed to, and members retiring from, the panel will be informed in writing.

All BBSW panel members are required to contribute mid rates on the basis specified. Failure to contribute rates on the basis specified on three consecutive occasions without an explanation satisfactory to the AFMA Market Governance Committee may result in the organisation being replaced as a member of the BBSW panel.

2. BBSW Calculation Mechanism

The BBSW rate setting calculation mechanism is determined by AFMA in consultation with AFMA's BBSW Committee.

2.1. Rate Input

BBSW mid rates for each tenor (1 to 6 months) and quoted to two decimal places are input into the AFMA *data* system by the BBSW panel members on every Sydney business day.

Mid rate contributions are provided for each tenor by 10:05am Sydney time to reflect each BBSW panellist's view of the mid rates (mid of bid/offer rates for each tenor) for BBSW reference bank bills of exchange (AFMA Prime Bank paper - as defined in *Appendix 2*) at 10:00am. A consistent basis point bid/offer spread (currently 10 basis points), defined by the BBSW Committee from time to time, will be applied to the mid rate produced bid/offer rates for each tenor. The consistent basis point spread to obtain bid/offer rate is 5 basis points either side of the mid rate.

AFMA, via its Market Committees (including: Markets Governance; BBSW; NTI; Swaps and Interest Rate Option Committees), has agreed that from 5 January 2009, AFMA will no longer collect and publish BBSW rate data for 9 and 12 month tenors.

The basis for the contributed mid rates for BBSW reference bank bills of exchange for tenors from 1 to 6 months shall be the mid of the BBSW panellists' bid/offer rates for each tenor for non-government guaranteed bank paper.

BBSW rates are only produced on and for days that are business days in Sydney (as defined in the AFMA Australian Business Day Conventions) and are displayed on various Information Vendor systems (e.g. Reuters pages BBSWAV (BBSY), BBSWHIST and BBSWCONT).

2.2. Tenor/Maturity

Each BBSW panellist shall contribute mid rates for maturities of one, two, three, four, five, six months.

The maturity date is determined on a modified following basis (i.e. if the straight date for a specific tenor falls on a non business day in Sydney, the date will be the next business day, unless that day crosses the mid-month (15th) or end of a month then it will be the preceding business day).

The rates quoted should reflect the relevant maturity period (i.e. 1st – 15th, or 16th -31st of a month). The straight date for each maturity will be displayed. Although quoting rates for the relevant trading maturity period, panellists are requested to quote their prices as close as possible to the straight date.

2.3. Consistent Spread

For the purpose of calculating BBSW rates, AFMA data shall use a consistent spread of five basis points either side of the mid rate to obtain the BBSW bid/offer rates for each tenor.

2.4. Ineligible Contributions

BBSW contributor rates that are ineligible for inclusion in the BBSW calculation process include those that:

- Fail to update by 10:05am Sydney time.
- Fail to update all mid rates for each maturity.

2.5. Elimination and Averaging Procedure

The calculation mechanism calculates the mid rate for all input rates, rounding up to two decimal places if necessary. From these mid rates an elimination process will eliminate the highest and lowest rates for each individual tenor until a maximum of eight mid rates remain.

These contributions will then be displayed on page BBSW.

Note:

- If between five and eight eligible input rates are available for any tenor, only those contributions will be displayed on BBSW for that tenor.
- If less than five eligible input rates are available for any tenor, no contributions will be displayed and no average rates will be displayed for that tenor.
- Rates displayed on page BBSW on a row by row basis across all tenors will not necessarily belong to the same contributor.

2.6. Page BBSW

Before calculating the BBSW rate, the highest and lowest mid rates are eliminated.

The average of the remaining mid rates will be calculated to four decimal places for each tenor and displayed under the eligible bid/offer contributor rates on page BBSW.

Note:

- If five, six, seven or eight contributions are displayed for any tenor, only three, four, five or six respectively will be included in the averaging calculation for that tenor (ie. after the above mentioned elimination of the highest and lowest contributions).
- If there are less than five eligible input rates for any tenor, no contributions are displayed and no calculation will be performed for that tenor.

2.7. Page BBSWHIST

The current day's average mid rates for each tenor will be displayed on page BBSWHIST, together with the rates for the preceding nine business days.

2.8. Page BBSWAV

The average bid and offer rates for each tenor are also calculated on the same basis as BBSW and are displayed together with the average BBSW mid rates for each tenor on page BBSWAV.

3. BBSW Committee

3.1. Responsibilities

The BBSW Committee is responsible for the overall management of the BBSW rate, rates directly related to the BBSW rate, the procedure for the production of the BBSW rate and the resolution of any disputes among AFMA members involving BBSW and directly related rates (refer *Section 5.7*).

3.2. Membership

The BBSW Committee is comprised of two representatives from each of the Negotiable/Transferable Instruments Committee, Interest Rate Options Committee and Swaps Committee. Each of the above mentioned committees is responsible for electing its own representatives to the BBSW Committee. If a broker is not selected, MGC will appoint one as an additional member. As well, two members will be appointed to represent investment manager interests and one member to represent corporate treasury or borrower interests.

4. Contingency Rate Setting Procedure for BBSW

These procedures are the contingency rate setting mechanism for AUD short term interest rates when BBSW does not set on a designated Sydney business day for any reason. In particular, refer to excerpts from the 2000 ISDA[®] definitions in *Appendix 3*, regarding BBSW, Reference Banks, Reuters and Disruption Events.

The Reference Banks rate setting calculation mechanism will be determined by AFMA and overseen by the BBSW Committee.

4.1. Panel

The Reference Banks panel will be the BBSW panellists (refer *Appendix 1*)

The panel members will be required to contribute mid rates on a basis specified in the BBSW Procedures.

4.2. Mechanism

4.2.1. Rate Input

Reference Bank (AFMA Prime Bank) rates will only calculate after a BBSW has failed to calculate on a Sydney business day (as defined by the AFMA in the Business Day Convention). BBSW is deemed to have failed to calculate if for any maturity date, a rate has not appeared on Reuters page BBSW by 10:30am Sydney time.

The number of panellists for the contingency rate setting mechanism will be determined by AFMA, taking into consideration market conditions. To ensure the integrity of the rate setting procedure, no less than 5 contributions are to be received for each individual tenor.

Reference Bank panellists will be advised as soon as practical when a BBSW rate set has not eventuated and that further input or re-input may be required.

AFMA may source the Reference Bank panel rates input in any manner determined by AFMA.

Each panellist, as defined in *Section 1* and listed in *Appendix 1*, mid rate (mid of bid/offer) input must be for BBSW reference bank bills of exchange (AFMA Prime Bank paper) at 10:00am Sydney time.

4.2.2. Ineligible Contributions

Reference Bank contributor rates that are ineligible for inclusion in the calculation process are defined in *Section 2.4*.

4.2.3. Elimination and Averaging Procedure

The calculation mechanism calculates the arithmetic average of the Reference Banks mid rates for each tenor requested by AFMA, rounded to four decimal places.

These Reference Banks rates will then be used as a substitute for the BBSW rate settings on a day when a BBSW rate set has failed to calculate.

4.2.4. Publication

The Reference Banks rate setting will be publicly published by AFMA as soon as practical, but not later than 1:00pm Sydney time.

5. Correction to Published and Displayed BBSW Rates

These procedures are for the purposes of determining the relevant BBSW rate for any day, should that BBSW rate set be materially incorrect for reasons other than contribution variances.

The exception to a correction because of contribution variances (refer *Section 5.6*) is when a particular contributing financial institution advises AFMA that its own rate contribution(s) for that day are incorrect.

AFMA's authority in this BBSW rate set change process rests with the Executive Director and AFMA staff authorised by the Executive Director for this purpose.

5.1. Who Can Lodge a Request for a Review of a BBSW Rate Set?

Any AFMA Financial Markets Member can request a review of a BBSW rate set if it believes that the rate set is materially incorrect for reasons other than contribution variances. The reasons for a perceived error may include, but are not restricted to, errors such as a failure/error in the BBSW calculation mechanism and the publication and display of incorrect maturity dates.

5.2. Lodging a Request for a Review of a BBSW Rate Set?

A request to review a BBSW rate set must be lodged by telephone to the offices of AFMA by 10:30am Sydney time on the day of the disputed rate set and evidenced by a following email together with any supporting documentation. Two or more requests to review must be received by AFMA before an investigation is initiated.

5.3. Recalculation of BBSW Rate Set

Upon being notified of a request to review a BBSW rate set, in accordance with *Section 5.2*, AFMA shall investigate the rate setting process and determine, at its sole discretion, the validity of that request for change in the published BBSW rate.

If AFMA determines that the BBSW rate set has been incorrectly calculated for any reason other than contribution variances, AFMA will, at its sole discretion, recalculate the BBSW rate set based on contributions received in accordance with the initial rate set process.

5.4. Notification of Changes to BBSW Rates

If AFMA determines that a recalculation of the BBSW rate(s) is necessary, the incorrect BBSW rate(s) will immediately be cleared from the *AFMAdata* system, a notice posted that a recalculation of the BBSW rate(s) is in progress and that BBSW will be republished and displayed in accordance with *Section 5.5*.

5.5. Publication and Display of BBSW Rates

AFMA will republish and display the modified BBSW rate by 11:10am on that day and that republished rate will be the relevant BBSW rate for that day.

5.6. BBSW Contribution Input Errors

A request to change a previously contributed rate(s), following the publication and display of that particular day's BBSW rate set, will only be undertaken if a contributing financial institution advises that it had made a material input error and that its particular contributed rate(s) are materially incorrect. The materiality of any error must be in the magnitude of greater than 25 basis points (as an indication) because of the BBSW calculation mechanism.

A request for changes to any contributed rate(s) must be lodged by telephone to AFMA by 10:20am Sydney time, and evidenced by a following e-mail, on that particular day by a person so authorised by that particular contributing institution.

5.7. BBSW Complaint Procedures

All complaints are to be in writing and preferably with rate evidence. The complaint procedure is for the use of AFMA members in a self-disciplinary manner. Complaints where the complainant is anonymous or where a reported organisation is not named cannot be effectively processed.

All complaints should be addressed to the Executive Director of AFMA and received within two business days of the event.

AFMA will normally contact the reported organisation and request that the organisation investigate the report and submit a written response to the BBSW Committee within seven days.

The BBSW Committee will discuss and evaluate data and relevant information to determine what further action, if any, is to be taken.

Should no response be received in the time requested, or the BBSW Committee believe further action is warranted, then all relevant information will be forwarded to the AFMA Market Governance Committee for its consideration.

Appendix 1 - BBSW Panellist List

Panellists (Prime Banks in **bold**):

- **Australia and New Zealand Banking Group Limited**
- **BNP Paribas, Australia Branch**
- Citibank NA, Australia Branch
- **Commonwealth Bank of Australia**
- Deutsche Bank AG, Australia Branch
- HSBC Bank Australia Limited
- J. P. Morgan Chase Bank NA, Australia Branch
- Lloyds TSB Bank plc Australia branch*
- Macquarie Bank Limited
- **National Australia Bank Limited**
- Royal Bank of Canada, Australia Branch
- RBS Group (Australia) Pty Limited
- UBS AG, Australia Branch
- **Westpac Banking Corporation**

(*Name change 15th November 2010 from Bank of Scotland Plc, Australia Branch)

Reserves (in alphabetical order):

- Bendigo and Adelaide Bank Limited
- Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (RaboBank), Australia Branch
- ING Bank (Australia) Limited
- Morgan Stanley Australia Limited
- Suncorp-Metway Limited

Last election held – April 2010

Appendix 2 - BBSW Reference Banks (AFMA Prime Banks) Definition

The following definition has been approved by the AFMA Market Governance Committee on the recommendation of its BBSW Committee for the purposes of defining eligible BBSW Reference Banks (AFMA Prime Bank non-government guaranteed paper). To be considered a BBSW Reference Bank (AFMA Prime Bank name), a bank must:

- Be an APRA Authorised Deposit-Taking Institution and classified by APRA as; an “Australian-owned Bank”; a “Foreign Subsidiary Bank”; or a “Branch of a Foreign Bank” that is authorised to carry on banking business pursuant to the Banking Act 1959 (as amended) or “comparable legislation in its country of origin”
- Satisfy a credit rating benchmark, as determined on the recommendation of the NTI Committee and ratified by the Market Governance Committee, and which requires a Prime Bank to be rated by Standard & Poor's as having a short term rating of A1+ and a long term rating of at least AA- for senior unsecured debt obligations, and
- Be eligible securities for use in RBA's open market operations and standing liquidity facilities.

It is also expected that its non-government guaranteed acceptances &/or non-government guaranteed certificates of deposit trade at the lowest benchmark yield, as determined by the market.

AFMA's list of BBSW Reference Banks (AFMA Prime Bank names)

(Effective 30 November 2011)

- Australia and New Zealand Banking Group Limited
- BNP Paribas, Australia Branch
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

Note:

Australian Prudential Regulation Authority (APRA) Authorised Deposit-Taking Institutions (ADIs) are corporations which are authorised under the Banking Act 1959. ADIs include banks, building societies and credit unions. All ADIs are subject to the same Prudential Standards but the use of the names 'bank', 'building society' and 'credit union' are subject to corporations meeting certain criteria.



Appendix 4 - ISDA Definitions

ISDA 2006 Definitions (ANNEX) Section 7.1 - Rate Options (BBSW)

For the purposes of determining a Australian Dollar “relevant rate”: “AUD-BBR-BBSW” means that the rate for a Reset Date will be the average mid rate, for Australian Dollar bills of exchange having a tenor of the Designated Maturity, which appears on the Reuters Screen BBSW Page at approximately 10.10 a.m., Sydney time, on that Reset Date. If such rate does not appear on the Reuters screen BBSW page by 10.30 a.m., Sydney time, on the Reset Date, then the rate for that Reset Date will be the arithmetic mean of the mid of the bid and ask rates quoted by 5 of the Reference Banks to the Calculation Agent. The quotations will be for rates which the Reference Banks quoted or would have quoted at approximately 10.00 a.m., Sydney time, on the Reset Date for Australian Dollar bills of exchange having a tenor of the Designated Maturity and of the type specified for the purpose of quoting on Reuters Screen BBSW Page. If in respect of a Reset Date the rate for that Reset Date cannot be determined in accordance with the foregoing procedures then the rate for that Reset Date will be the rate determined by the Calculation Agent having regard to comparable indices then available. The rate calculated or determined by the Calculation Agent will be expressed as a percentage rate per annum and will be rounded up, if necessary, to the next higher one ten-thousandth of a percentage point (0.0001%).

ISDA 2006 Definitions (ANNEX) Section 7.2 – Certain Published and Displayed Sources

(xiii) “Reuters Screen” means, when used in conjunction with any designated page and any Floating Rate Option, the display page so designated on the Reuters Service, or any Successor Source.

ISDA 2006 Definitions (ANNEX) Section 7.6 - Corrections to Published and Displayed Rates

For the purposes of determining the Relevant Rate for any day:

- In any case where the Relevant Rate for a day is based on information obtained from Reuters, Screen, ICAP swappx Screen or swapmarker Screen, that Relevant Rate will be subject to the corrections, if any, to that information subsequently displayed by that source within one hour of the time when such rate is first displayed by such source;
- In any case where the Relevant Rate for a day is based on information obtained from H.15(519) or H.15 Daily Update, that Relevant Rate will be subject to the corrections, if any, to that information subsequently published by that source within 30 days of that day; and
- In the event that a party to any Swaps Transaction notifies the other party to the Swap Transaction of any correction referred to in subsections (a) or (b) above no later than 15 days after the expiration of the period referred to in such subsection, an appropriate amount will be payable as a result of such correction (whether such correction is made or such notice is given before or after the Termination Date of the Swap Transaction), together with interest on that amount at a rate per annum equal to the cost (without

proof or evidence of any actual cost) to the relevant party (as certified by it) of funding that amount for the period from, and including, the day on which, based on such a correction, a payment in the incorrect amount was first made to, but excluding, the day of payment of the refund or payment resulting from such correction.

ISDA 1991 Definitions Section 7.7 – Effects of Market Disruption Events

In the event that a Market Disruption Event exists on any Reset Date and an alternative method for determining the Relevant Rate in the event of a Market Disruption Event has not been specified by the parties, such date shall not be considered a Reset Date. In such event the next succeeding Business Day on which a Market Disruption Event does not exist shall be considered the Reset Date and a price shall be obtained for that Reset Date in accordance with the terms of the relevant Price Option. If a Market Disruption Event exists on each of the five Business Days immediately following the original Reset Date, a price shall be determined based on the latest available quotation for the relevant Price Option, whether or not a Market Disruption Event exists on that date.