



MARKET NOTICE

Market Notice: 2016_13

Date: 28 November 2016

Subject: Evolution of the BBSW Methodology: An update on Operational Developments to Facilitate Market Change

AFMA advised the market in July that the calculation methodology for BBSW will be changed to place it on a sounder footing going forward – see [Market Notice 2016_5](#). In particular, the Council of Financial Regulators' principal recommended methodology change, to place primary reliance on a Volume Weighted Average Price (VWAP) calculation, is being implemented. As previously noted, this is a significant exercise as it requires the development of new market infrastructure and a change in the way that a significant part of the market operates. Concrete steps have been taken by industry participants towards this purpose.

In short, solid progress is being made towards a market that trades Prime Bank eligible securities on an outright price basis but, as expected given the time that has elapsed, further work is required. The three main groups taking part in the market change process are Approved Trading Venues (ATVs) as providers of essential market infrastructure, Prime Banks and Investors. Each is making progress in their own way.

ATVs, taken as a group, are advanced in building the necessary infrastructure to facilitate active trading by Prime Banks and investors at outright prices, and the reporting of trades negotiated off-screen. Individual ATVs are at differing stages of system development, with each promoting its own respective service offering for clients in a competitive environment. Platforms have been developed to serve as a conduit through which institutional investors can record their interest and execute transactions at outright prices. Facilities also are available that allow the reporting of bilateral trades to the ATV. Thus, the infrastructure to facilitate trading at outright pricing and trade reporting to the Administrator that is required to support the new methodology is coming into place.

From the beginning of November, the Prime Banks have been encouraged to make markets for the full period of the VWAP Rate Set Window (from 9.00am to 10.10am), at spreads of their discretion outside of the National Best Bid and Offer (NBBO) period. Consequently, bid and offer prices have been available on ATV

screens for this period each day. This progress is incremental but significant. Prime Banks are working through a number of other matters, like trade reporting systems, which are required to transition the market.

With regard to investors' participation in the market transition, AFMA's engagement with them has been constructive and an Institutional Investors User Group has been formed to provide an opportunity for the buy side to discuss any issues or concerns they may have ahead of the implementation of the VWAP methodology. This Group has met to consider a number of relevant matters, such as proposed thresholds for VWAP under the new methodology.

While initial usage of the new and emerging market infrastructure by market participants is expected to be light, it provides an important opportunity to test and refine the new infrastructure and also to prove out and refine the VWAP methodology.

AFMA's secretariat has kept the Council of Financial Regulators informed on these developments.

Queries in relation to this should be directed to bi-methodology@afma.com.au

About AFMA

The Australian Financial Markets Association (AFMA) is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets and provides leadership in advancing the interests of all market participants. These markets are an integral feature of the economy and perform the vital function of facilitating the efficient use of capital and management of risk. Market participants perform a range of important roles within these markets, including financial intermediation and market making. AFMA represents over 120 members, including Australian and international banks, leading brokers, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.