



**Summary of the conclusions
from the public consultation
on Recommendation
on the rules and methods
of conversion of WIBOR-based
debt instruments**

**Document of the National Working
Group for benchmark reform**

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Background

The subject-matter of the public consultation was a draft Recommendation on the rules and methods of conversion of WIBOR-based debt instruments ('Recommendation'). The Recommendation was prepared by the National Working Group for benchmark reform (NWG) based on analyses and discussion of experts. The Recommendation aims to provide financial market participants with solutions and practices in the area of management of debt instruments (legacy portfolio) where rules regarding interest rate refer to a benchmark.

Conclusions from the consultation

In the opinion of the NWG experts, the comments received on the draft Recommendation do not require any modification of the document being consulted on.

In order to address all doubts and to consider the importance of all the issues and of raising awareness among market participants, the NWG experts provided detailed answers to the comments. Please see the answers in section 'Summary'.

Scope and period of the consultation

The consultation on the draft document was held by:

1. publishing an invitation to the consultation on the KNF website in the section dedicated to the NWG's activities:
 - https://www.knf.gov.pl/dla_ryнку/Wskazniki_referencyjne/aktualnosci?articleId=83013&p_id=18
 - https://www.knf.gov.pl/en/news?articleId=83023&p_id=19
2. sending the invitation to the consultation and the document to professional associations of financial market entities

The consultation ran from 7 July 2023 to 20 July 2023.

All interested parties could send their comments to a dedicated e-mail address: konsultacjengr@knf.gov.pl.

Summary of the comments submitted during the public consultation and the NWG's answers

Until 20 July, two opinions were received from professional associations of financial market entities.

Associations' comments:

1. An entity participating in the consultation pointed out that the process of changing the terms and conditions of issuance by signing agreements or as part of bondholders meetings may be difficult to execute. The entity also noted that early redemption of bonds may generate the risk that issuers lose liquidity.

The purpose of Recommendation on the rules and methods of conversion of WIBOR-based debt instruments is to present a full range of conversion options for each issuance of debt instruments. The NWG experts are aware of related risks and difficulties in certain cases, e.g. lack of approval, by all or some bondholders, of changes to the terms and conditions, lack of favourable market conditions for new issuance (early redemption combined with a new issuance). In other cases, e.g. where an issuance is owned by one entity, the NWG experts believe that the chances of changing the terms and conditions by signing agreements are high and the process itself is practicable.

2. An entity participating in the consultation pointed out to lack of information and rules concerning the calculation of interest for individual days of a given interest period.

Such information is contained in a previous publication: *Precision of rounding for calculating interest flows in issues of floating-rate debt securities*¹ and in the enclosed spreadsheet: *Calculation of cash flows*², in tab #1 (4b).

3. An entity participating in the consultation requested an increased scope of information contained in the material concerning the analysis of fallback clauses (page 23), from the Annex to the Recommendation.

In the opinion of the NWG experts, terms and conditions of a high number of debt instruments contain a number of various provisions applicable in case of unavailability of WIBOR. In some terms and conditions, the provisions appear in two places: in the definitions and in the rules for calculating interest rate, unfortunately the order of application of each solution has not always been described adequately. Therefore, the terms and conditions must be carefully analysed for any arrangements that may constitute grounds for designating a replacement for WIBOR.

In most cases, the combination in which the definition of WIBOR contains a reference to an official replacement occurs in the terms and conditions which contain further a reference to quotes from reference banks (pages 21–22 of the Recommendation) or to the last available value (pages 19–

¹ https://www.knf.gov.pl/knf/en/komponenty/img/NGR-Precision_of_rounding_for_calculating_interest_flows_in_issues_of_floating-rate_debt_securities_81486.pdf

² https://www.knf.gov.pl/knf/en/komponenty/img/NWG_calculator_81487.xls

20 of the Recommendation). According to the NWG experts, the proposed provisions on the rules to be followed if WIBOR is abolished should be interpreted as fallback clauses that do not provide for a permanent replacement³. In consequence, such terms and conditions must be treated as conditions subject to the national regulations designating the replacement for WIBOR indicated under Article 23c of the BMR (the definition provided in the Recommendation).

4. An entity participating in the consultation pointed to limited access to the value of the Spread Adjustment (as defined in the Recommendation), in particular for retail investors. The values of the Spread Adjustment are published regularly in the Bloomberg system.

To the best of the NWG experts' knowledge, Bloomberg currently does not provide a licence for publishing information about the current value of the Spread Adjustment on other news sites. However, delayed data are published on the Bloomberg website that is publicly available⁴. In any case one may assume that if requirements for the cessation of the WIBOR benchmark arise, the value of the Spread Adjustment will be determined and communicated to the public.

³ https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_klauzule_awaryjne_83440.pdf The Polish Financial Supervision Authority (UKNF) Statement of fallback clauses (as defined by BMR) that do not provide for a permanent replacement for a benchmark. This document contains information about the different types of fallback clauses that do not provide for a permanent replacement for the benchmark no longer provided. There is also an explanation for each type.

⁴ <https://www.bloomberg.com/professional/solution/libor-resource-center/>