



Recommendation regarding the principles and methods of applying the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family) when entering into NEW CONTRACTS for factoring products in Polish zloty (excluding discount products) for products based on reference rates offered by financial market entities

Document of the National Working Group for benchmark reform

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the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index
Family) when entering into NEW CONTRACTS for factoring products in Polish zloty
(excluding discount products) for products based on reference rates offered
by financial market entities**

This Recommendation has been prepared to ensure the correct application of reference indicators in contracts by financial market entities. This objective stems from "REGULATION (EU) 2016/1011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014" taking into account its subsequent amendments (hereinafter collectively referred to as the BMR Regulation).

The recommendation was prepared by the Banking Products Stream of the National Working Group on benchmark reform based on expert analyses and discussions. The recommendation consists of the following recommendations regarding interest calculation principles.

Additionally, the purpose of the recommendation is to indicate to financial market entities **best practices in the application of the POLSTR interest rate benchmark** (Polish Short Term Rate) or indices from the POLSTR Compound Indices Family for determining variable interest rates when **concluding new agreements with clients for Polish zloty products based on reference indicators**.

The recommendations contained in this document are not mandatory and may be applied at discretion, taking into account the specifics of a given financial market entity providing factoring services, product differentiation and forms of financing, as well as the types of clients with whom agreements are concluded.

Financial market entities may apply the POLSTR interest rate benchmark (or indices from the POLSTR Compound Indices Family) to a different extent than results from this recommendation. The recommendations contained in this document are limited exclusively to the application of the POLSTR interest rate benchmark (or indices from the POLSTR Compound Indices Family), while financial market entities may also apply other rates, reference rates or reference indicators, including in particular the reference rate of the National Bank of Poland (provided this does not conflict with legal provisions), which remains outside the scope of the recommendation.

Financial market entities may also apply, for the purposes of determining interest rates in contracts, the POLSTR interest rate benchmark (or an index from the POLSTR Compound Indices Family) in a manner different from that described in this recommendation.

Similarly, financial market entities are not bound by the scope of information obligations proposed in the recommendation.

Introduction:

1. It is recommended that in connection with concluding an agreement with a client, reference should be made to the POLSTR Interest Rate Index Regulation, and in the case of the POLSTR Compound Indices Family to the POLSTR Compound Indices Family Regulation (hereinafter referred to as **Regulations** or in respect of each of them **Regulation**) published on the Administrator's website. The information should also refer to the POLSTR Interest Rate Index Administrator Statement, and in the case of the POLSTR Compound Indices Family to the POLSTR Compound Indices Family Administrator Statement, referred to in Article 27 of the BMR Regulation). Additional information for clients should also be prepared based on these documents.
2. Publication and provision of the POLSTR rate benchmark (or indices from the POLSTR Compound Indices Family) takes place based on the Regulations.
3. This recommendation does not refer to the method of determining product margins and various types of interest rate calculation formulas, which constitute a standard component of the final interest rate calculation and may be applied in contracts together with the POLSTR interest rate indicator (or indices from the POLSTR Compound Indices Family).

Factoring Products (excluding discount products)

Recommendation 1.

It is recommended that for the purposes of determining interest rates, the POLSTR interest rate benchmark developed and published by the Administrator should be used. For a given day in the interest period, the last value of the benchmark published on that day by the Administrator should be adopted. In case of no publication of the benchmark on a given day, the last published value of this benchmark is adopted.

Recommendation 2.

Interest rates based on the POLSTR 1M Compound Rate benchmark are recommended.

The adopted value of the POLSTR 1M Compound Rate benchmark is the value made available by the Administrator in accordance with the Regulations and updated by financial market entities in subsequent interest periods. The principle for determining the date of the POLSTR 1M Compound Rate benchmark will be specified each time in the contractual documentation.

Recommendation 3.

Alternatively, it is recommended that variable interest rates should be based on the POLSTR interest rate benchmark compounded by the financial market entity according to a method involving shifting the observation period up to 5 business days backward (5 days lookback shift).

Justification of Recommended Principles

The principles described in Recommendation 1 take into account the daily variability of interest rates in financial markets and thus reflect current market information and allow for daily updating of financing costs.

The principles described in Recommendation 2 and Recommendation 3 enable the provision of information to the Client about the amount of interest before their payment deadline, whereby the client is provided with information about the amount of remuneration with adequate advance notice and time to accumulate the due funds.

The application of alternative Recommendations results from the differentiation of entities providing factoring services and the diversity of their financing sources (current account credits, credit account credits, bonds). This enables better matching of asset interest rates to liabilities, and thus allows for more complete management of basis risk by financial market entities through appropriate selection of base rates for assets and liabilities.