



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 Polish zloty products based on reference rates offered by financial market entities

Document of the National Working Group for benchmark reform

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 Polish zloty products based on reference rates offered by financial market entities

The recommendation has been prepared to ensure the correct application of reference rates 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 has been 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 the principles of interest calculation.

Additionally, the objective of the recommendation is to provide financial market entities with **best practices regarding the application of the POLSTR interest rate benchmark** (Polish Short Term Rate) or indices from the POLSTR Compounded Index Family for establishing variable interest rates when **entering into new contracts with clients for Polish zloty products based on reference rates**.

The recommendations contained in the document are not mandatory and may be applied at discretion, taking into account the specificity of a given financial market entity as well as the clients with whom contracts are concluded.

Financial market entities may apply the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family) to a different extent than indicated in this recommendation. The recommendations contained in the document are limited exclusively to the application of the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family), while financial market entities may also apply other rates, reference rates or reference benchmarks, 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 the POLSTR interest rate benchmark (or index from the POLSTR Compounded Index Family) for the purpose of determining interest rates in contracts 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).

RETAIL CLIENT (CONSUMER)

Mortgage loans and loans and advances other than mortgage loans

When determining recommendations for loans and advances for individual clients, the following factors were taken into account:

- wide and easy access for clients to publications on the Administrator's websites regarding the POLSTR 1M Compounded Rate benchmark level,
- easy and comprehensible formula for clients to determine interest rates for loans using the recommended method,
- possibility of effective notification to clients about the loan installment amount due for repayment with appropriate advance notice before the payment due date.

The adopted value of the POLSTR 1M Compounded Rate benchmark is the value made available by the Administrator in accordance with the Rules before the commencement of each subsequent interest period and updated by financial market entities in successive interest periods.

Recommendation No. 1.

For loans with variable interest rates, interest rates based on the POLSTR 1M Compounded Rate benchmark for a one-month interest period are recommended.

Recommendation No. 2.

For loans with periodically fixed interest rates, after the expiry of the period of validity of such interest rates, the client may execute the contract with periodically fixed interest rates or variable interest rates defined in that contract (recommended variable interest rates based on the POLSTR 1M Compounded Rate benchmark for a one-month interest period).

Justification for the recommended principles

The principles described in Recommendations 1 and 2 above have been recognized by the Banking Products Stream of the National Working Group on benchmark reform as the best compromise between the frequency of interest rate changes, which should occur in periods closest to the periods of interest rate changes occurring in the market (i.e., daily periods - overnight), and taking into account the legitimate

interests of the consumer. The POLSTR 1M Compounded Rate benchmark provides the possibility of informing about the interest rate level before the commencement of the interest period, thereby ensuring that the consumer has information about the applicable interest rate level with appropriate advance notice and time to accumulate the required funds.

CORPORATE CLIENT

Current account credit (overdraft)

Recommendation

It is recommended that for the purpose of establishing 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 by the Administrator on that day should be adopted. In case of no publication of the benchmark on a given day, the last published value of that benchmark is adopted.

Justification for the Recommendation

The principles described in the Recommendation 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.

Credit/loan other than current account credit

Recommendation No. 1.

For credits/loans other than current account credit, it is recommended that variable interest rates be based on the POLSTR interest rate benchmark **compounded by the financial market entity** according to the method involving shifting the observation period **up to 5** business days backward (5 days lookback shift).

Recommendation No. 2.

In connection with the diversification of the structure of business clients served by financial market entities, it is advisable to apply interest rate determination principles based on the POLSTR 1M Compounded Rate benchmark.

The adopted value of the POLSTR 1M Compounded Rate benchmark is the value made available by the Administrator in accordance with the Rules before the commencement of each subsequent interest period and updated by financial market entities in successive interest periods.

Justification for the recommended principles

The principles described in Recommendation No. 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. They also allow for effective hedging of interest rate risk. The use of shifting the observation period up to five days (5 days lookback shift) enables the provision of information about the interest amount before the payment due date. Due to the above, this method has been proposed as the first of the recommended ones.

There is often a need to inform about the interest amount before the commencement of a given interest period, therefore the principle indicated in Recommendation No. 2 has been proposed as an alternative. The POLSTR 1M Compounded Rate benchmark enables informing about the interest rate level before the commencement of the interest period, thereby providing the client with information about the applicable interest rate level earlier than in Recommendation No. 1.

INDIVIDUAL CLIENT (CONSUMER) AND BUSINESS CLIENT

Bank accounts

They include: settlement accounts including current accounts, auxiliary accounts, VAT accounts and trust accounts, escrow accounts, savings and settlement accounts, variable interest rate deposits, savings accounts, security deposit accounts, deposit sum accounts, cash pools, and collateral deposits.

Recommendation

It is recommended that for the purpose of establishing 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 available value of the POLSTR benchmark made available by the Administrator on that day should be adopted. In case of no publication of the benchmark on a given day, the last published value of that benchmark is adopted.

Credit cards and charge cards

Recommendation

It is recommended that financial market entities for a given settlement period adopt the value of the POLSTR 1M Compounded Rate benchmark made available by the Administrator from any day falling within the last month period and update it in successive settlement periods, in accordance with the contract concluded with the client.

Justification for the recommended principles

The principles recommended for products from the banking accounts group are based on the POLSTR interest rate benchmark, which best reflects the daily variability of interest rates in financial markets.

The principles indicated for credit cards and charge cards, due to the specificity of these products (these cards function based on a monthly settlement cycle for which an interest rate is established, applicable during that cycle), have been recognized as a solution taking into account the frequency of interest rate changes, which should occur in periods closest to the settlement periods (one-month periods). The POLSTR 1M Compounded Rate benchmark provides the possibility of establishing interest rates in advance, both at the moment of concluding a contract with the client and during the contract duration for a given settlement period.