



Recommendation on the rules and methods of applying the WIRON benchmark (or benchmarks from the WIRON Compound Indices Family) when entering into new contracts in PLN for factoring products (excluding discounting products) for benchmark-based products in PLN offered by financial market entities

Document of the National Working Group for benchmark reform

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This Recommendation has been prepared to ensure proper and precise application of benchmarks in contracts by financial market entities. This objective follows 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, and REGULATION (EU) 2021/168 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 10 February 2021 amending Regulation (EU) 2016/1011 as regards the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation, and amending Regulation (EU) No 648/2012.

This Recommendation has been prepared by the Banking Products Stream of the National Working Group for benchmark reform based on analyses and discussion of experts. This Recommendation consists of the following recommendations on the rules for calculating interest.

This Recommendation aims to provide financial market entities with **best practices for applying the WIRON benchmark (Warsaw Interest Rate Overnight) or benchmarks from the WIRON Compound Indices Family** to calculate interest rate **when entering into new contracts with clients for benchmark-based products in PLN.**

These recommendations are not obligatory and they may be applied freely in terms of freedom of choice, considering the specific nature of each financial market entity and clients with whom the contracts are concluded. Financial market entities may apply the WIRON benchmark (or benchmarks from the WIRON Compound Indices Family) to an extent other than as set forth in this Recommendation, as well as other rates and/or benchmarks. For the purpose of determining interest rate in contracts, financial market entities may also adopt a value of the WIRON benchmark calculated otherwise – and apply it otherwise – than as described herein. Likewise, financial market entities are not bound by the information requirements proposed herein.

These recommendations result from product and business diversification in the customer profile of factoring companies, and from the multiple ways in which those companies finance their business.

Introduction:

1. Information submitted when entering into a contract with a client should include a reference to the Rules of WIRON Interest Rate Index, adopted by Resolution of the Management Board of GPW Benchmark (hereinafter referred to as ‘Administrator’) No 85/2022 of 30 November 2022, as amended, and for the WIRON Compound Indices Family – to the Rules of WIRON Compound Indices Family, adopted by Resolution of the Management Board of GPW Benchmark No 86/2022 of 30 November 2022, as amended (hereinafter referred to as ‘Rules’). The above-mentioned information should also include a reference to the Administrator’s statement referred to in Title IV of the Benchmarks Regulation (Transparency and consumer protection, Article 27 of the Benchmarks Regulation).

Additional information for clients should also be prepared on the basis of those materials.

2. The WIRON benchmark or benchmarks from the WIRON Compound Indices Family are published and made available on the basis of the Rules.

Factoring products (excluding discounting products)

Recommendation 1.

It is recommended that the interest rate be based on the WIRON 1M Compound Rate.

The adopted value of the WIRON 1M Compound Rate is a value made available by the Administrator under the Rules and updated by financial market entities in subsequent Interest Periods. The rule for setting the WIRON 1M Compound Rate Date will be each time defined in the contract documentation.

Recommendation 2.

It is recommended that the interest rate be based on the WIRON benchmark provided and published by the Administrator. For a given day in the Interest Period, the last value of the WIRON benchmark made available by the Administrator and available on that day should be adopted.

Recommendation 3.

Alternatively, calculation of interest rate should involve the application of the WIRON benchmark (the compound rate of financial market entities) in accordance with the rule of the 5-Business-Day Lookback with Observation Period Shift.

Justification for the rules recommended

Recommendation 1 allows, as required by legislation for certain groups of clients, for informing the clients about the interest rate before the beginning of the Interest Period, so that the client can receive, sufficiently in advance, information about remuneration due and have time to accumulate the necessary funds. In view of the foregoing, this method has been proposed as the first recommended method.

The rules described in Recommendations 2 and 3 take into account daily interest rate volatility in financial markets, and the 5-day shift of the interest rate value used in Recommendation 3 also allows for informing the clients about the amount of remuneration before the deadline for remuneration payment.

The application of two alternative recommendations (Recommendations 2 and 3) to Recommendation 1 results from the diversity of entities providing factoring services and the diversity of sources of their financing (overdrafts, credit/loan other than overdraft, bonds). This allows for better matching of interest rates of assets and liabilities, thus allowing financial market entities to better manage underlying risk through an appropriate selection of base rates for assets and liabilities.