

Document of the Polish National Working Group
for benchmark reform



**Summary of the expected Roadmap
for the replacement of WIBOR and WIBID
benchmarks with WIRON index**

This document sets out an overview of objectives and assumptions of the Polish National Working Group for benchmark reform (PL: Narodowa Grupa Robocza – NGR), appointed by Polish Financial Supervision Authority following the request of financial market participants.

Initiatives for the introduction of the alternative interest rates benchmarks to replace Interbank Offered Rate (IBOR) benchmarks, such as Warsaw Interbank Offered Rate (WIBOR) are being undertaken globally. These international efforts follow the regulatory recommendations of the International Organisation of Securities Commissions (IOSCO) and the Financial Stability Board (FSB), which, in the case of the European Union legal framework have been transposed into the Benchmark Regulation (BMR).

The NGR aims to foster a process of effective implementation of the new Risk-Free Rate (RFR) benchmark into the Polish financial market and support and encourage a transition from the currently used WIBOR interest rate benchmark. The primary assumption of the NGR's with regard to achieving the above-mentioned objectives is to act in accordance with the applicable law, pursue the goals in an orderly manner, and avoid the threats to the stability of the Polish financial sector and Polish economy. The UKNF invited wide and diverse groups of Polish financial market participants whose business involve application of benchmarks to join the NGR. The following parties are involved in the Group's activities: representatives of financial institutions, i.e. mainly banks, investment funds, insurance companies, factoring companies, leasing companies, issuers of bonds, including corporate bonds and municipal bonds, clearing houses, as well as representatives of the UKNF, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, and Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie), BondSpot and GPW Benchmark.

The activities of the NGR are overseen and coordinated by the Steering Committee composed of representatives of Polish Financial Supervision Authority, National Bank of Poland, Ministry of Finance, Bank Guarantee Fund, Polish Development Fund, as well as GPW Benchmark – a benchmark administrator, and ING Bank Śląski, representing the banking sector.

In the course of their activities, the expert teams of the National Working Group have identified and prioritised a group of tasks and milestones and have estimated the time needed for their efficient finalisation by all market participants in order to ascertain proper and safe replacement of the current WIBOR and Warsaw Interbank Bid Rate (WIBID) benchmarks. The Warsaw Interest Rate Overnight (WIRON) selected by the Steering Committee is to ultimately become the critical interest rate benchmark as defined in the BMR. The new benchmark will be applied in financial contracts (e.g. loans including mortgages), financial instruments (e.g. bonds and derivatives) and by investment funds (e.g. to determine the asset management fees).

The calculation methodology for WIRON is the same as for WIRD, an index developed and published by GPW Benchmark and remains unchanged. The change of the future's critical benchmark's name was carried out to, to better reflect its characteristics (reliance on the data representing overnight transactions).

The Roadmap has been set up so as to ensure compliance of the benchmark replacement process with the BMR framework, create a liquid market of cash and derivative financial instruments using the selected RFR benchmark for the Polish currency (PLN), prepare all financial market participants (issuers, investors, market infrastructure institutions), for the replacement of WIBOR and WIBID benchmarks with WIRON benchmark in terms of operational and technical aspects, introduce the necessary amendments to the Polish and EU legislation, and to raise awareness of the reform and its consequences for all financial market participants, including consumers.

Considering that the benchmark reform involves many interrelated elements, the process will require adequate time for its completion. In the Roadmap, the NGR expects that with an effective cooperation of all parties involved, the benchmark reform in Poland will be completed by the end of 2024, while the new offer of financial products using the WIRON index is expected to progress gradually in 2023 and 2024. The objectives of the Roadmap prepared within the National Working Group indicate that the market will be ready for a cessation of WIBOR and WIBID Reference Rates by the start of 2025.

The expected Roadmap for the replacement of WIBOR and WIBID benchmarks with WIRON index

Schedule | Milestones

2022

Task:

To select the ultimate RFR benchmark and identify activities to be carried out by the NGR to ensure its safe and effective implementation

- In the third quarter, the National Working Group (NGR) for benchmark reform was appointed, and its objectives, activities and operating procedures were defined. The Steering Committee of the NGR selected WIRON as the recommended alternative to the WIBOR benchmark.
- In the fourth quarter, the administrator of WIRON (GPW Benchmark) closes the adjustment process, ensures the availability of the index and publishes the relevant documents. All formal requirements have been fulfilled to start to use WIRON in the financial contracts.
- In the fourth quarter, changes in ISDA Definitions are to be published to include WIRON, the new index., The change is of key importance to the promotion of the index in the international market, thus the development of the market of financial instruments linked to the new benchmark.
- Work is now under way to start publishing the NGR's analytical documents and recommendations defining the standards for application of the WIRON index in loans, bonds, and derivatives. The documents include, in particular, the recommended catalogue of interest rate conventions for WIRON- based instruments.
- It is expected that from December 2022, WIRON will be available for application in new financial instruments.

Preparatory phase

2023

Task:

To ensure gradual introduction of the newly selected benchmark into financial contracts and instruments: to lay real foundations for the reorganisation of the financial system. The new financial products are necessary to ensure smooth self-adjustment of the financial system

- Main objective: the WIRON benchmark is fully available and can be used in financial products and instruments by entities that declare their preparedness to apply it.
- Banks may offer WIRON-based loans in parallel with WIBOR-based loans.
- New products are being offered, including loans for businesses (where interests are calculated based on WIRON).
- An educational and awareness-raising campaign regarding the application of the new benchmark is in progress.
- Work is under way to adjust IT systems, internal processes and – where harmonisation and standardisation is appropriate – contract forms so as to achieve full operational preparedness to offer all types of WIRON-based financial products to customers.
- The process of building liquidity in the overnight indexed swap (OIS) market is under way for derivatives for which WIRON is to be the interest rate benchmark. In the initial phase, swap transactions are bilateral, i.e. they will be settled between two parties to the contract. Gradual accumulation of liquidity in the derivatives market aims to create a term structure for WIRON, which is conducive to the development of the cash instruments market.
- Changes to ISDA Definitions and IBOR Fallbacks Protocol are published, covering the introduction of clauses pertaining to the replacement of WIBOR in the existing derivative instruments. The objective adopted by the NGR is to recommend a widespread usage of the the method of the fallback rate calculation based on the standard currently applied to other IBOR indices, i.e. five-year period of the historical differences between the current benchmark and the new benchmark.

Implementation phase

- A review of the premisses for the occurrence of a regulatory event under Article 23c(1) of the BMR. A regulatory event will be the basis for setting of, a replacement for the critical WIBOR benchmark under a statutory procedure, in a form of Regulation of the Minister of Finance. Under a Regulation of the Minister of Finance, the replacement will apply to financial contracts and instruments that meet the requirements laid down in the BMR. The Regulation of the Minister of Finance will also define the adjustment spread and the date from which the replacement applies.

2024

Task:

The plan is to create a space for phasing out WIBOR-based products and instruments and promote WIRON-based products and instruments, until the former ones are completely phased out.

- Banks and other entities offer new WIRON-based products, mainly to consumers, sole traders, and companies. In particular, banks are offering housing loans at an interest rate based on the WIRON, with parallel development of the housing loan market based on a fixed/temporarily fixed interest rate. New bonds linked to WIRON or new fixed interest rates bonds are issued, including bank bonds, corporate bonds, and municipal bonds. National and international clearing houses (KDPW_CCP, LCH, etc.) achieve regulatory and operational preparedness and start to centrally clear OIS derivative transactions for which WIRON is to be the interest rate benchmark.
- In consequence, the derivatives market shifts from the phase of bilateral transactions to the phase of centrally cleared transactions. The main component of market infrastructure, i.e. the service of clearing swaps based on the new benchmark, is provided.
- The OIS market achieves the required liquidity, necessary to build the term structure for WIRON.
- The adjustment of market participants' IT systems, internal processes and contract forms is completed for all types of products and other elements that require effective implementation of the index in financial contracts and products.
- By the end of the year, clearing houses ensure the conversion of the existing WIBOR-based derivative contracts into WIRON-based instruments, pursuant to the ISDA IBOR Fallbacks Protocol.

2025

Task:

To ensure widespread use of the RFR

- The objectives of the Roadmap of the National Working Group provide for the preparedness to cease WIBID and WIBOR Reference Rates calculation and publication.
- Following the entry into force of the Regulation of the Minister of Finance, financial institutions carry out the conversion of the existing WIBOR-based contracts and instruments, in accordance with the rules laid down in the Regulation. The replacement and the adjustment spread specified in the Regulation of the Minister of Finance are applied in contractual clauses on interest rates.