



بنك الإمارات دبي الوطني
Emirates NBD

Interest Rates 22 April 2018

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New EIBOR Regulations

The Central Bank of the UAE (CBUAE) recently announced formal regulations regarding Interbank Rate Submissions (EIBOR Regulations) which is in line with the recommendations of the International Organization of Securities Commissions (IOSCO). The new EIBOR Regulations came in effect on 15 April 2018 and are expected to enhance governance, standardization, and transparency in rate setting process at EIBOR Panel Banks. The EIBOR Regulations also require the CBUAE to announce the EIBOR Advisory Committee (EAC). The membership of this committee and its terms of reference will be announced by the end of July 2018. The EAC will include all banks in the EIBOR Panel along with two non EIBOR Panel Banks and is expected to meet at least twice every year. The main task of the EAC will be to promote the implementation of EIBOR Regulations, review compliance, monitor its effectiveness and propose changes in regulations, if and when required.

EIBOR rates will be fixed for tenors of overnight, 1 week, 1 month, 3 month, 6 month and 1 year.

Under new regulations, EIBOR Panel Banks are to rely, as much as possible, on the use of available transaction data from the day before. In absence of actual transaction data, panel banks are to follow a waterfall methodology based on below sequence:

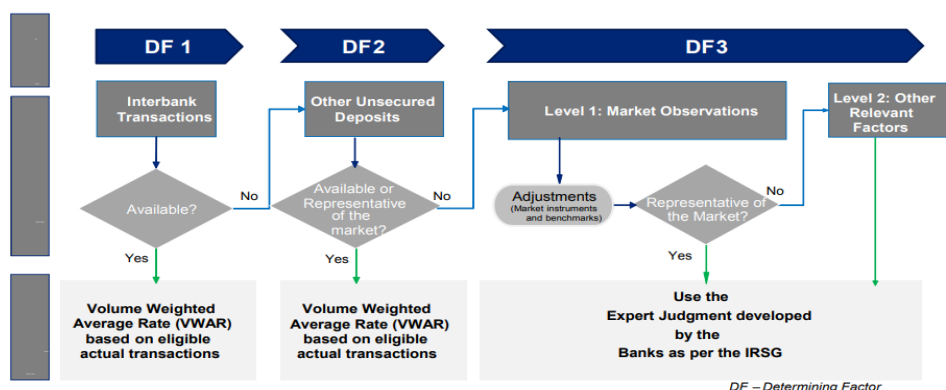
1. Determining Factor 1 (DF1): Unsecured interbank transaction of greater than AED 20 million.
2. Determining Factor 2 (DF2): Unsecured wholesale deposits of greater than AED 20 million from GREs, corporates and NBFIs.
3. Determining Factor 3 (DF3): Internally developed expert judgement. This is expected to be adopted mostly in times of exceptional market events.

EIBOR Panel Banks are expected to have strong and clear governance in place for rate submissions. The 'Maker' of the rates is to be of sufficient experience and the 'Checker' of the rates is to be independent of sales and trading functions and is to be of sufficient seniority to challenge the Maker. An independent review of EIBOR submissions and processes used is to be done every month by the Risk Control function and a Compliance Report is to be submitted on quarterly basis. All files and documentation for EIBOR submissions are to be maintained for at least five years.

Panel Banks are required to appoint an independent auditor from a panel of audit firms nominated by the CBUAE. The CBUAE may from time to time carry out special examination of Panel Banks' rate submission process.

Thomson Reuters has been appointed as the Calculation Agent for indefinite period. For calculation of daily EIBOR rates, the top and bottom quartile of rates submitted by the Panel Banks will be excluded and a mean calculated as an average of the remaining quotes submitted for each tenor. Data will be collected from the Panel Banks after 11am and published to five decimal points by 12.00 hours each working day in the UAE.

Waterfall methodology for EIBOR rate submission



Source: CBUAE, Emirates NBD Research

Currently only conventional banks can be members of the EIBOR Panel. At any given time, there will be 8 to 14 banks on the panel and will include banks that qualify on grounds of three criteria: size, relevance and nature of its operations. As at now, eight banks are confirmed to be on the panel (ADCB, CBD, ENBD, FAB, HSBC, Mashreq, SC and UNB).

Difference between the old and the new EIBOR submissions methodology

- Previously there was no defined formal methodology for EIBOR rates submission. Each bank was using their own best judgement based on its individual liquidity situation. Now the banks are to strictly follow the prescribed methodology and have concrete data to support the rates they submit for each tenor.
- Unlike now, previously there was no requirement for independent audit.
- Previously there were ten banks on the EIBOR panel (down from 11 after the merger of NBAD and FGB). Now there are only eight banks on the panel after Bank of Fujairah and RAK Bank got excluded, possibly because of their size.
- Previously the window for data submission by the banks was from 9.00 to 10.30am and the final rates were published at 11.00am. Now the window for regular data submission is from 11.00am to 11.30 (extendable to 12.00) with the rates to be published at 12.00 noon.

Expected impact on EIBOR rates

Industry participants expect EIBOR rates to become more volatile given the reliance on rates submissions that are to be backed by actual transactions which in turn don't generally happen on a smooth consistent basis. In shorter tenors (overnight and 1 week) there may be sufficient interbank deals and therefore the volatility in submitted rates may not change materially. However given the absence of interbank deals in the tenure beyond one month, banks will rely more on using weighted average rate on all customers deals of over AED20 million. These transactions can be very volatile in their timings which in turn will likely cause EIBOR rates to become more volatile

Previously most banks were using the weighted average rate from interbank deals, customer deposits and FX swap implied rate and then recalibrating it with the rates submitted over the previous 10 days and then averaging it out to submit the final EIBOR rates. This led to more stability in rates submitted on a day to day basis.



Source: Bloomberg, Emirates NBD Research

Central bank of the UAE had asked participants to begin submitting two different EIBOR rates nearly six months ago – one that were following the old existing methodology and another new one that were based on using the above waterfall methodology.

As is evident in the 3m EIBOR rate chart above, the rate appears to have become slightly more volatile on a day to day basis. That said, we also acknowledge the recent increase in volatility in financial markets in general.

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