

WIBOR replacement

WIBOR is coming to an end

A national working group for the reform of benchmarks (the **NWG**) started its work in July 2022. The NWG's main purpose is to select a new benchmark and prepare a roadmap for its smooth implementation.

The NWG includes, among others, the representatives of various credit and financial institutions, professional associations of financial market players, the Office of the Polish Financial Supervision Authority (the **PFSA**), GPW Benchmark S.A. (**GPW Benchmark**) in its capacity as the WIBOR administrator, and the Ministry of Finance. The NWG's activities are supervised and coordinated by the Steering Committee composed of the Ministry of Finance, the PFSA, GPW Benchmark, the Polish Development Fund and ING Bank Śląski S.A. as a representative of the financial sector.

On 1 September 2022 the NWG selected WIRD (*Warszawski Indeks Rynku Depozytowego*, the Warsaw Deposit Market Index) as the alternative benchmark from a selection of three options: WIRD, WIRF and WRR, relying on the results of GPW Benchmark's public consultation with the financial sector. We informed you of each of the proposed benchmarks and of the public consultation in [our first WIBOR newsletter](#). The results of the public consultation are available on [GPW Benchmark's website](#). The NWG indicated that WIRD is based not only on the data sourced from the financial sector, but also from the large enterprises sector, which makes WIRD the benchmark with the largest information pool, not only in terms of the volume, but also the value of transactions. Furthermore, in the case of WIRD the risk of the index not being determined is at its lowest.

What is the timetable for transition away from WIBOR?

On 28 September 2022 the NWG published a roadmap for the implementation of the new benchmark (the **Roadmap**). The NWG announced the official name of WIRD as a new benchmark – WIRON (the Warsaw Interest Rate Overnight). The calculation methodology for WIRON is the same as for WIRD.

The Roadmap is based on the assumption that the Polish benchmark reform will have been completed by the end of 2024 and WIBOR will have ceased to be provided and

published by the beginning of 2025. Since it is merely a framework plan, it may be modified depending on the actual progress of the NWG's work which will be evaluated at the end of 2023. This is also when the Ministry of Finance will publish its regulation stating the WIBOR replacement date and the adjustment spreads.

The Roadmap's main assumptions are presented on the next page:

2022

Completion of works on WIRON

- GPW Benchmark completes its work on WIRON's structure and the formal requirements for its implementation on the financial market.
- The proposed changes in the ISDA Definitions reflecting WIRON are published.
- NWG prepares recommendations on the standards for the use of WIRON in the credit products, debt instruments and derivatives.
- The market participants will be able to use WIRON in new financial instruments as at December 2022.

2023

Gradual introduction of WIRON to credit facility agreements and financial instruments

- WIRON is fully available and can be used in financial products and instruments by entities willing to apply it.
- In addition to WIBOR loans, banks may offer WIRON loans.
- Building liquidity on the market of the OIS (Overnight Index Swap) derivatives for which WIRON is the benchmark.
- Financial institutions are working on adjusting IT systems, internal procedures and standard form agreements to WIRON.
- Changes to ISDA Definitions and IBOR Fallbacks Protocol adding provisions on the terms and conditions of replacing WIBOR in the existing derivatives are published.
- Readiness to replace WIBOR with WIRON is being tested.
- The Minister of Finance's regulation defines the adjustment spread and the date as of which WIRON will be applied.

2024

Gradual withdrawal of WIBOR-based products and instruments

- Banks include the new WIRON-based credit products in their offer, including mortgage loans.
- WIRON-based bonds are issued.
- Clearing houses launch the central clearing of the OIS derivatives for which WIRON is the benchmark.
- The WIBOR-based derivatives market switches from the bilateral transactions phase to the centrally cleared transactions phase; clearing the WIRON-based interest rate swaps is introduced.
- The OIS market reaches its desired liquidity necessary to build the term curve for WIRON.
- By the end of 2024 the clearing houses ensure the conversion of the existing WIBOR-based derivative contracts into the WIRON-based instruments under the relevant provisions of the ISDA IBOR Fallbacks Protocol.

2025

Readiness to discontinue the provision and publication of WIBOR

- Financial institutions amend the existing WIBOR-based agreements and instruments to be in line with the terms and conditions set out in the Minister of Finance's regulation.
- The interest rate clauses in the WIBOR-based agreements include WIRON and the adjustment spread set out in the Minister of Finance's regulation.

The Roadmap's full version is available [on the PFSA's website](#).



What do we know about WIRON?

Scope of the reference market and transaction types

WIRON is an RFR (Risk Free Rate) benchmark provided on the basis of the unsecured deposit transactions concluded by nine data contributors with financial institutions and large enterprises.

Data volume/structure requirements

The minimum threshold for the total volume of the transactions included in the calculation is PLN 1 billion. At least three data contributors must provide data.

Minimum transaction volume

The minimum threshold for the volume of a single transaction is PLN 1 million. In 2022 the maximum threshold for the volume of a single transaction is PLN 2 billion. It will be updated on an annual basis to maintain adequacy in relation to market tendencies.

Measure of central tendency of the rates

Volume-weighted average (rounded to three decimal places).

Narrowing adjustment

WIRON is determined as the volume-weighted interest rate and is calculated based on a set of daily transactions after symmetrical volume-weighted trimming, ie cutting off both tails of the daily volume-weighted distribution of transactions interest rates according to a specified percentage of the total volume of all transactions on a given day. The cut-off point for each side is 25% of the total volume. The set of transactions remaining after the trimming process is used to calculate WIRON.

Fallback procedure

If a daily transaction pool fails to satisfy the conditions above, the fallback procedure, ie a non-standard index calculation method, will apply.

According to the fallback procedure, the benchmark will be calculated as the sum of the current reference rate of the National Bank of Poland and the average spread between the reference rate of the National Bank of Poland and WIRON calculated for five preceding business days.

The detailed methodology of determining WIRON is available [on GPW Benchmark's website](#).

WIRON is calculated daily at 12:15 CET on the basis of transaction data from the preceding business day. The index data is published [on GPW Benchmark's website](#) at 13:00 CET on each business day.

Does the selection of WIRON as a new benchmark affect the existing finance documents?

As we stated in [our first WIBOR newsletter](#), in principle the existing credit facility agreements and hedging documents will have to be amended to reflect the new benchmark. However, can we start adding references to WIRON to these documents now? No, at this phase of work on the WIBOR replacement we do not know the WIBOR replacement date and the adjustment spread calculation method. These are two key pieces of information and without them we are unable to introduce any provisions that regulate in detail the WIBOR replacement in the existing finance documents.

Credit agreements

As far as the credit agreements are concerned, we follow the existing practice of adding to the credit agreements the fallback clause in the LMA standard (the **LMA Screen Rate Replacement**) or the fallback clauses the banks individually drafted on the basis thereof.

The credit agreements that already include the LMA Screen Rate Replacement do not have to be further amended at this stage. Under the LMA Screen Rate Replacement provisions, if one of the conditions set out in the definition of the Screen Rate Replacement Event is satisfied, the parties should amend the credit facility agreement to include in it the reference to the new benchmark. Although the NWG officially selected the new benchmark, it is not an official PFSA or GPW Benchmark statement on the cessation of the WIBOR publication or an official recommendation not to apply WIBOR anymore. Consequently, the conditions set out in the definition of the Screen Rate Replacement Event for introducing additional benchmark-related amendments are not satisfied.

Apart from the LMA Screen Rate Replacement, the LMA drafted the rate switch provisions (the **LMA Rate Switch**).

LMA Screen Rate Replacement

Short and general provisions creating the general framework for adding a new benchmark to an existing credit agreement.

LMA Rate Switch

Detailed provisions that incorporate the new benchmark in the existing credit agreement.

The key elements of these provisions are, among others:

- the benchmark replacement date; and
- the detailed information on a new benchmark structure and functioning that includes the method of its calculation and the adjustment spread amount/calculation method.

Shall we start adding the LMA Rate Switch to the existing/new WIBOR credit agreements? No. We will be able to start doing this only when all the key elements of WIRON are known. Without these parameters, the LMA Rate Switch provisions are 'empty' and the credit agreement will have to be annexed once again to add these key elements. Looking at the Roadmap, we will be able to add the LMA Rate Switch provisions to the credit agreement at the beginning of 2024 at the earliest, this is when the WIBOR replacement date and the adjustment spread will be known.

The LMA Screen Rate Replacement and LMA Rate Switch are two separate sets of provisions that may be used independently. Consequently, the LMA Rate Switch may be added to the credit agreement that does not include the LMA Screen Rate Replacement.

Derivatives documentation

Under on the assumptions presented in the Roadmap the methodology of determining a term rate for WIRON shall be based on the market standard applied to other IBOR indices ie five-year period of the historical differences between the current benchmark and the new benchmark. Although the Roadmap is vague in this respect and does not provide any details of the methodology of determining the term rates for WIRON, we assume that the NWG's intention is to use the methodology agreed via market consultations that International Swaps and Derivatives Association Inc. (ISDA) held for IBOR rates and as further published by Bloomberg Index Services Limited in IBOR Fallback Rate Adjustments Rule Book. Pursuant to this methodology the term rates for WIRON will be calculated as the backward-looking compounded rates and the adjustment spread shall be determined for a pair of indices per tenor (eg 3 months) using a five year historical median calculation.

With respect to the derivatives documentation, we assume that the concepts of the term rates for WIRON and the appropriate adjustment spreads developed by the market will be the basis for the relevant future provisions of the Minister of Finance's regulation defining the adjustment spread and the date as of which WIRON will be applied; the Minister of Finance's regulation will automatically apply only to certain agreements and financial instruments. Such term rates calculation methodology will ensure compliance with the provisions of these agreements to which the Minister of Finance's regulation shall not apply due to the limitations resulting from the BMR Regulation, where the derivative instruments market is anxious to see this compliance as soon as possible. This will be particularly important for the ISDA documentation governed by English law that will require the appropriate amendments before WIBOR will have ceased to be provided.



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