

CFBF Benchmark Review Policy

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1 Introduction

The Czech Financial Benchmark Facility (CFBF) is the administrator of PRIBOR. The CFBF has developed and implemented this Benchmark Review Policy, being a formalised and approved process for the review of PRIBOR's definition and methodology at a frequency consistent with legislation, regulation and good practice.

2 Regulation References

2.1 The International Organisation of Securities Commissions (IOSCO)

IOSCO published the Principles for Financial Benchmarks in July 2013 [the Principles]. The Principles are intended to promote the reliability of benchmark determinations, and address benchmark governance, quality and accountability mechanisms. Although the Principles set out uniform expectations, IOSCO does not expect a *one-size-fits-all* method of implementation to achieve these objectives. The Principles provide a framework of standards that benchmark administrators should implement according to the specificities of each benchmark. In particular, the application and implementation of the Principles should be proportional to the size and risks posed by each benchmark and/or benchmark administrator and the benchmark-setting process. Moreover, nothing in the Principles is intended to restrict a benchmark administrator from adopting its own unique methodology or from adapting their methodologies to changing market conditions in order to meet the Principles.

The 19 Principles are divided into four key sections: Governance, Quality of the Benchmark, Quality of the Methodology and Accountability. Principle 10 addresses the Periodic Review of the underlying interest that the benchmark measures, as follows:

10. Periodic review

The Administrator should periodically review the conditions in the underlying Interest that the Benchmark measures to determine whether the Interest has undergone structural changes that might require changes to the design of the Methodology. The Administrator also should periodically review whether the Interest has diminished or is non-functioning such that it can no longer function as the basis for a credible Benchmark.

The Administrator should Publish or Make Available a summary of such reviews where material revisions have been made to a Benchmark, including the rationale for the revisions.

2.2 European Benchmark Regulation

European Benchmark Regulation (BMR), developed subsequent to the IOSCO Principles, provides a legislated framework for National Competent Authorities (NCA's) to develop their own regulatory frameworks for the authorisation and registration of benchmark administrators and their respective benchmarks. BMR empowered the European Securities and Markets Authority (ESMA) to develop Regulatory Technical Standards (ESMA RTS) and Implementing Technical Standards (ESMA ITS) that provide a detailed interpretation of the BMR.

Articles 5, 7 and 13 of BMR contain the necessary prescriptive description of benchmark review requirements. . These are as follows:

Article 5 Oversight function requirements

3. The oversight function shall operate with integrity and shall have the following responsibilities, which shall be adjusted by the administrator based on the complexity, use and vulnerability of the benchmark:

- a. reviewing the benchmark's definition and methodology at least annually;

Article 7 Accountability framework requirements

1. An administrator shall have in place an accountability framework, covering record-keeping, auditing and review, and a complaints process, that provides evidence of compliance with the requirements of this Regulation.
2. An administrator shall designate an internal function with the necessary capability to review and report on the administrator's compliance with the benchmark methodology and this Regulation.
3. For critical benchmarks, an administrator shall appoint an independent external auditor to review and report on the administrator's compliance with the benchmark methodology and this Regulation, at least annually.
4. Upon the request of the relevant competent authority, an administrator shall provide to the relevant competent authority the details of the reviews and reports provided for in paragraph 2. Upon the request of the relevant competent authority or any user of a benchmark, an administrator shall publish the details of the audits provided for in paragraph 3

Article 13 Transparency of methodology

1. An administrator shall develop, operate and administer the benchmark and methodology transparently. To that end, the administrator shall publish or make available the following information:
 - b. details of the internal review and the approval of a given methodology, as well as the frequency of such review;

2.3 ESMA Technical Standards

The ESMA Technical Standard relevant to benchmark review is found in Article 2 of 13.1.3 Transparency of methodology, as follows:

Article 2 Elements of the internal review of the methodology to be published or made available

1. An administrator shall publish or make available the following information regarding the internal review and approval of the methodology of a benchmark:
 - a. any policies and procedures relating to the internal review or approval;
 - b. details of any specific events that may give rise to an internal review including details of any mechanism used by the administrator to determine whether the methodology is traceable and verifiable;
 - c. the bodies or functions within the administrator's organisational structure that are involved in reviewing and approving the methodology;
 - d. the roles performed by any persons involved in reviewing and approving the methodology;
 - e. a description of the procedure for the nomination and removal of the persons involved in reviewing and approving the methodology.

3 CFBF Benchmark Review Policy

3.1 Introduction

The CFBF intends to provide transparency about the benchmark's purpose and methodology.

As part of this transparency, the CFBF will periodically review the underlying market to ensure the fitness of the benchmark methodology in light of the (evolving) structure and depth of the underlying market.

3.2 Periodic review

The CFBF will conduct an annual review of the underlying market and determine the fitness of the benchmark methodology.

3.3 Review Process

The CFBF will use a number of means to determine the structure and depth of the underlying market and will collect the following metrics (where available) on a quarterly basis;

- Number and size of transactions in the underlying market
- Spread to similar markets and other benchmarks/indexes
- Number of outlier submissions to the benchmark
- Number of submitters to the benchmark
- Historical data analysis
- Other metrics that are developed from time to time

The metrics will be collected by the CFBF Secretariat each quarter and provided to the CFBF Oversight Committee as part of the quarterly review process.

Each quarter the Oversight Committee will review the metrics and note any material changes to the underlying market. On an annual basis, the Oversight Committee will make their final assessment of the conditions in the underlying market.

3.4 Responsibility

The responsibility for the annual review lies with the Oversight Committee. The CFBF Secretariat will provide assistance, at the direction of the Oversight Committee, to perform analysis of underlying market activity and the collation of relevant metrics and reports.

3.5 Final Assessment

The Oversight Committee will be responsible for reviewing the conditions of the underlying market and the fitness of the benchmark methodology. It will either determine;

- a. the current benchmark methodology continues to be suitable for its intended purpose

- b. the current benchmark methodology is no longer suitable for its intended purpose and would benefit from some adjustment

3.6 Oversight Committee Recommendations

In the case that the Oversight Committee determines that the benchmark methodology is no longer suitable for its intended purpose, due to changes in the underlying market, it will recommend to the Board of Directors, one of the following courses of action;

- a. a change to the methodology to ensure its suitability to measure the underlying market conditions
- b. investigate alternate comparative benchmarks that could facilitate a cessation of the benchmark

In each case the Oversight Committee would provide a rationale for their recommendation and a request to undertake a consultation on any material change.

3.7 Publication of Benchmark Review

The CFBF will publish on its website the results of its annual review of the benchmark methodology, including any proposed changes to the methodology and the rationale behind such changes.

3.8 Post Benchmark Review actions

In the case that a review of the benchmark, under the Benchmark Review Policy, results in a recommendation for a material change to the benchmark methodology, the Board of Directors will utilise the CFBF Consultation policy to elicit feedback from stakeholders. Subject to the results of the consultation the Board of Directors may decide to implement the recommended changes, and will take appropriate steps to achieve this objective.