

CFBF A Guide to PRIBOR

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Foreword

I am delighted to present this Guide to PRIBOR, a document designed to assist stakeholders, users of PRIBOR and individuals to gain a clearer understanding of the PRIBOR methodology, the process applied to ensure the integrity of PRIBOR and the PRIBOR Oversight Committee.

In July 2017 the Czech Financial Benchmark Facility assumed the benchmark administration responsibility for PRIBOR. Prior to that time ACI Czech Republic and the Czech Bankers Association had jointly been responsible for the benchmark's administration. The catalyst for the transition was the introduction of the new European Benchmark Regulations (BMR)¹ which came into effect from 1 January 2018. BMR, and the European Securities and Markets Authority (ESMA) Technical Standards² which support them, define a more complex governance and oversight regime for benchmark administrators that doesn't necessarily align to the core purpose and objectives of industry associations.

In December 2018 the CFBF was authorised under BMR as the administrator of PRIBOR. ESMA maintains a register of all administrators located in the EU which have been authorised or registered pursuant to Article 34 of BMR, and the CFBF is now listed on that register. The authorisation of PRIBOR will enable EU supervised entities to continue to use PRIBOR as a reference rate for financial contracts after 31 December 2019.

The CFBF was established specifically for the purpose of providing benchmark administration services within the new regulatory environment. The CFBF has an experienced team of individuals with financial market, financial data and information technology backgrounds that have a single focus of providing benchmark administration services.

In broad terms the benchmark administration services can be categorised into three main areas of activity:

- Benchmark Administration – the overall control of the provision of the benchmark
- Calculation Agent – the technical process of collecting and validating input data, calculating the benchmark in accordance with the defined methodology and disseminating the benchmark to users
- Benchmark Data Licensing – the formalising of contract agreements and subscriptions for the use of the benchmark

I would like to take this opportunity to thank ACI Czech Republic and the Czech Bankers Association for their attentive support and advice which enabled a smooth transition to the CFBF as benchmark administrator for PRIBOR. I would also like to thank those involved in the PRIBOR Oversight Committee for their applied expertise and continued commitment.

Craig Mclvor

Director

Czech Financial Benchmark Facility

¹ EU 2016/2011 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

² ESMA70-145-48 Final Report - Draft technical standards under the benchmark regulation

1 Part 1 – About PRIBOR

1.1 Definition of PRIBOR

The PRIBOR benchmark is defined as the average interest rate at which unsecured CZK³ funds are offered by Panel Banks in the interbank market, just prior to 11:00am local time.

1.2 Classification as Interest Rate Benchmark

PRIBOR has been deemed an 'Interest Rate Benchmark' by the CFBF as it is determined on the basis of the rate at which banks may lend to other banks in the money market.

1.3 Calculation Methodology

The calculation methodology for PRIBOR is detailed in the PRIBOR Calculation Methodology document as published on the www.cfbf.cz.

1.4 Publication of PRIBOR

The PRIBOR rates shall be published immediately after the calculation procedure is completed and shall be made available in real-time through information service providers and the Internet to subscribers of PRIBOR.

Individual Panel Bank contributions of Input data used to calculate PRIBOR shall be published and made available at 3:00pm local Prague time through information service providers and the Internet to subscribers of PRIBOR.

24-hour delayed PRIBOR rates shall be made publicly available on the CFBF website each business day at www.cfbf.cz.

³ Czech Koruna

1.5 Procedure to Review a PRIBOR Rate Set

The PRIBOR Post Publication Re-Determination Policy details the procedures for reviewing a published PRIBOR rate in circumstances where CFBF personnel, Panel Bank employees or any end-user of PRIBOR believes that a published PRIBOR rate may be materially incorrect.

The timing for PRIBOR publication and possible re-determination are as follows:

Time	Event	Frequency
11:00am	PRIBOR published	Each good business day ⁴
11:00am to 1:00pm	Window for reporting errors	As required on any good business day
11:00am to 2:00pm	Window for announcing re-determination	Only when re-determination required
3:00pm	Panel Bank submissions published	Each good business day
3:00pm	Re-determined PRIBOR published	Only when re-determination required

Further details of the PRIBOR Post Publication Re-Determination Policy is available at the CFBF website at www.cfbf.cz

1.6 Operational Aspects of the Czech Financial Market

Like many global financial markets the CZK interbank deposit market lacks liquidity, particularly in longer-term maturities. Naturally the most active tenors are short-term, particularly O/N, T/N and 1 week.

There exists a relatively healthy CZK Interest rate derivatives market, most notably in IRS where price quotation is available out to 10 years and in FRA, and liquidity is accessible out to 1 year. The CZK IRS curve is widely used as a reference for the pricing of mortgages.

Financial market derivative products such as the CZK IRS and CZK FRA market use PRIBOR for the settlement of contractual obligations.

Foreign markets (especially the EUR market) is very important for Czech banks with the most liquid instruments being cross-border EUR/CZK trades. Forward foreign exchange, cross-currency IRS and basis swaps are liquid markets that are frequently traded.

⁴ A good business day is defined as a day when banks are open in the Czech Republic

1.7 Size of the Czech Financial Market

The total average daily turnover for CZK deposits is CZK 124 bn. Daily IRS turnover is CZK 5 bn.

CNB survey for 2017 daily turnovers in the Czech financial market

Product	Total daily average turnover (CZK billion)
Money Market Deposits (residents)	3.5
Money Market Deposits (non-residents)	121
Repo (residents)	2.7
Repo (non-residents)	11.6
IRS (residents)	1
IRS (non-residents)	3.8
FRA (residents)	0
FRA (non-residents)	0.8

2 Part 2 – Processes to Ensure the Integrity of PRIBOR

It is important that financial benchmarks are considered reliable and trustworthy to enhance overall confidence in the financial system they are established to support. Confidence was negatively impacted following revelations of misconduct by some banks contributing to LIBOR, EURIBOR and other high-profile benchmarks in the years subsequent to the global credit crisis. In response to these developments the International Organisation of Securities Commissions (IOSCO) published the Principles for Financial Benchmarks in July 2013. The 19 principles, across four main areas of benchmark administration, provided a framework for benchmark administrators to aspire to in the absence of regulation. In 2013 the UK introduced new benchmark regulation initially focusing on LIBOR but later amended in 2015 to identify 8 more 'specified benchmarks'. The European Union introduced BMR in 2016 and the accompanying ESMA Technical Standards in 2017, which came into effect at the beginning of 2018.

The overall ambition of the IOSCO Principles and regulation is to ensure that the governance and oversight measures for the production of benchmarks prevent the opportunity for benchmark manipulation. In addition, the regulations prescribe processes that benchmark administrators are required to adhere to, including the development of a Code of Conduct for contributors of input data to benchmarks.

The PRIBOR Code of Conduct prescribes policies and procedures that Panel Banks are required to develop and implement to manage any aspects of the Input data contribution process that could have the potential to influence PRIBOR to the advantage of an organisation or individual. Such measures include, but are not limited to, the management of conflicts of interest, the selection of appropriate staff members within Panel Banks to make Input data contributions, training of contribution staff, record keeping, whistleblowing mechanisms and disciplinary procedures to deal with suspicious behaviour or manipulation.

This section of the Guide describes the processes employed by the CFBF to ensure that the integrity of PRIBOR is maintained in accordance with the IOSCO Principles and EU BMR.

2.1 CFBF Control Framework

The CFBF Board is responsible for adopting and maintaining the benchmark control framework ensuring that the PRIBOR benchmark is determined and published in accordance to the applicable principles, regulation and CFBF governance arrangements including the Code of Conduct and CFBF policies, procedures and work practices. The control framework provides the CFBF Board, the PRIBOR Oversight Committee and the CFBF Secretariat with the means to ensure:

- Management of conflicts of interest situations
- Management of operational risk
- The quality of the determination process and PRIBOR data as well as the determination methodology
- Compliance of contributors with defined standards
- The benchmark is operated by experienced and/or adequately trained personnel

2.2 CFBF Accountability Framework

The CFBF Board is responsible for adopting and maintaining the CFBF accountability framework covering record-keeping, auditing and review, and a complaints process.

2.3 Panel Banks

Panel Banks are required to be a supervised entity and a participant in the Czech interbank market. The role of the Panel Banks is to provide Input data to the CFBF for the calculation of PRIBOR. The Panel Banks agree to be bound by the PRIBOR Code of Conduct, the purpose of which is to ensure both the consistent behaviour by Panel Banks and that the Input data is of the quality, accuracy and quantity needed by the methodology used to determine PRIBOR.

The processes for granting and withdrawing Panel Bank status is detailed in the PRIBOR Code of Conduct and the decision for appointment and removal rests with the CFBF and its governance committees.

2.4 Regulation

EU BMR is new legislation that requires all benchmark administrators to be authorised or registered within the EU. Supervised entities within the EU that produce benchmarks are required to be registered whereas non-supervised entities producing benchmarks are required to be authorised.

Not all, but most member states of the EU have a nominated National Competent Authority (NCA). In the Czech Republic the NCA is the Czech National Bank (CNB) and as such it will process authorisation and registration applications.

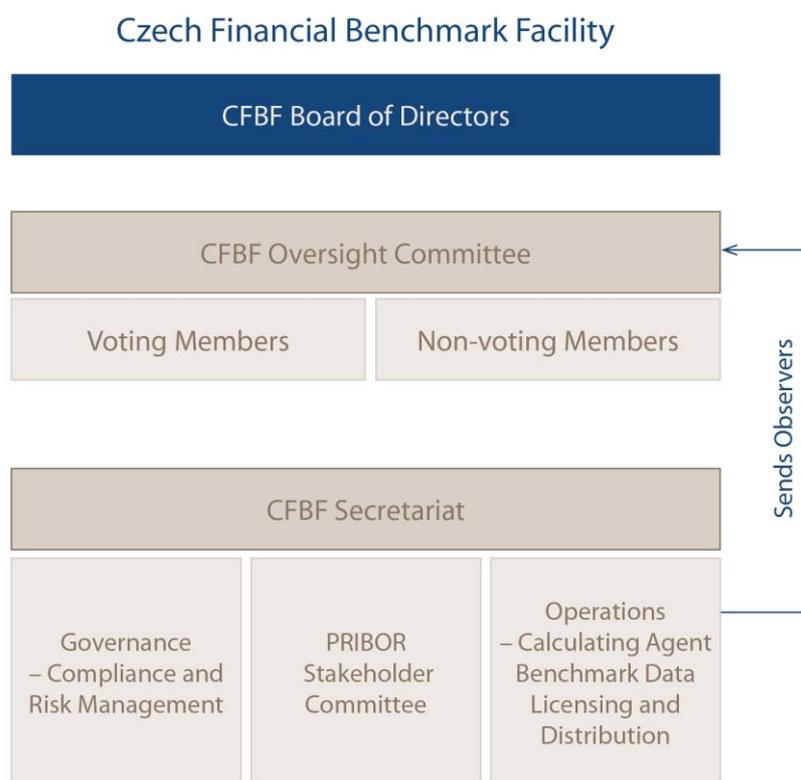
ESMA maintains a register⁵ of all administrators located in the EU which have been authorised or registered pursuant to Article 34 of BMR.

The present Register has been set up by ESMA on the basis of information provided by EU member states in accordance with the procedure laid down in Article 34(7), Article 32(7) and Article 33(3) of BMR. Therefore, the NCA's are responsible for the content of this database regarding Article 34, Article 32 and Article 33 of BMR.

According to Article 29(1) of BMR a supervised entity may use a benchmark or a combination of benchmarks in the EU if the benchmark is provided by an administrator located in the EU and included in the ESMA benchmark register. Article 51 of BMR details the transition provisions for existing benchmarks. The CFBF has been listed on the register since December 2018 as the administrator of PRIBOR.

⁵ <https://www.esma.europa.eu/benchmarks-register>

2.5 Internal Organisation Structure



The CFBF Board has the overall responsibility for operating the CFBF as benchmark administrator. As benchmark administrator the CFBF is responsible for the production of PRIBOR on a daily basis in accordance with regulation and the published PRIBOR Calculation Methodology.

The PRIBOR Oversight Committee (the Committee) is embedded within the organisational structure of the CFBF but distinct from other governance functions of the CFBF. The Committee's role is to assess and challenge the decisions of the CFBF Board with regards to the provision of PRIBOR to ensure the requirements of regulation and the PRIBOR Code of Conduct are being met.

The CFBF Secretariat is comprised of CFBF staff members that support the function of the Committee, provide the liaison between the CFBF Board and the Committee, and manage the CFBF in accordance with the CFBF Board approved policies, procedures and work practices.

The governance function oversees the CFBF operations via a structured reporting regime. The CFBF Compliance Officer reviews daily check list reports and compiles regular reports for the Committee. The Risk and Compliance Committee reviews those reports by conducting independent sampling of reports and source material used to compile them. Minutes of the Risk and Compliance Committee are presented to the CFBF Board and the Committee. The Compliance Officer is responsible for the management of any complaints or whistleblowing reports that the CFBF may receive.

The operations of the CFBF consists of the personnel and systems that are employed to perform the calculation of PRIBOR, in accordance with the published PRIBOR Calculation Methodology, and the dissemination of PRIBOR through information vendor services and the Internet. In addition, the operational function supports the benchmark data licensing function within the CFBF. The purpose of licensing is fundamentally twofold:

- To provide a database of users of PRIBOR, essential for effective communication with users, particularly to determine what users are using PRIBOR for; and
- To provide an income stream to the CFBF to fund the operation of the benchmark administration

The PRIBOR Stakeholder Committee is comprised of representatives from a broad cross section of PRIBOR stakeholders to provide the Committee with the market intelligence it needs to fulfil its mandate as the PRIBOR oversight function. The Stakeholder Committee, being less formalised than the Committee, can enjoy the flexibility to invite individuals to attend meetings as required to best address the meeting agenda. Subject to an invitation from the Committee representatives of the Stakeholder Committee can be invited to attend Committee meetings as observers where their presence will be of use to both the Committee and the invitees.

2.6 Operational Risk Management

It is of vital importance that users of PRIBOR can rely upon the timely and accurate publication of PRIBOR on a daily basis. Business operations of any nature are subject to the influence of risks that have the potential to interrupt the normal flow of business operations. Benchmark administration is no different, so in response the CFBF has established robust policies and procedures to manage operational risks.

Amongst these policies are the Business Continuity Plan and Disaster Recovery Plan (DRP). The DRP is tested twice annually to ensure that back-up systems and people provide the stand-in support capability as required by the DRP. Fall back communication mechanisms with Panel Banks and information vendors are tested, as are alternative Panel Bank emails and telephone numbers.

Given the sensitive nature of Input data provided to the CFBF by Panel Banks and other data that the CFBF retains in performing its role as benchmark administrator the CFBF maintains ISO 27001 certification for its information security management system.

2.7 Transition or Cessation

The CFBF has developed clear written policies and procedures to address the need for possible transition or cessation of PRIBOR, which could be the result of market structural change, product definition change, or any other condition which could make PRIBOR no longer representative of the underlying economic reality it measures. These policies and procedures are proportionate to the estimated breadth and depth of contracts and financial instruments that reference PRIBOR and the economic and financial stability impact that might result from the cessation of the Benchmark.

The CFBF has taken into account the views of stakeholders in determining what policies and procedures are appropriate for PRIBOR.

2.7.1 TRANSITION

The CFBF provides the PRIBOR benchmark to users on the basis that there are a number of factors that may affect the production of the benchmark, including factors outside the control of the CFBF. Users are made aware that, while the CFBF has developed business continuity plans and fall-back provisions for the production of the PRIBOR benchmark, they should have in place their own fall-back provisions in the case that there was a material change in the nature of PRIBOR.

The CFBF Board is responsible for the CFBF Transition Policy and will take into consideration recommendations in regard to the policy or any actions associated with the policy, made by the CFBF Oversight Committee.

The CFBF Board will consider a number of issues in relation to this policy, including;

- Criteria for selection of credible alternate benchmarks
- Practicality of operating parallel benchmarks
- Procedures if no alternate benchmark is available
- Stakeholder engagement for any transition arrangements
- CFBF's inability for any reason to continue to operate as the administrator of PRIBOR leading to the cessation of the benchmark.

2.7.2 CESSATION

The CFBF Cessation Policy outlines the processes that the CFBF will undertake in the case that there is a requirement for the cessation of PRIBOR in entirety or any individual tenor. The scope of the policy is only for the cessation of a tenor or the entire benchmark and does not include the transition to alternate benchmarks which is covered in the CFBF Transition Policy.

The key steps that the CFBF will undertake in regards are to cessation of PRIBOR are;

- Consult and assess
- Decision to cease calculation of the benchmark or an individual tenor
- Inform users
- Implement a process of cessation

Potential reasons for discontinuation may include;

- Change in the underlying market that PRIBOR represents
- Regulatory action
- Lack of demand for the benchmark generally by stakeholders
- Inability of the CFBF to produce PRIBOR for commercial or logistical reasons i.e. inability to obtain sufficient Input data from Panel Banks
- Cessation of the CFBF as an entity

Should the decision be taken to implement the cessation of PRIBOR, or individual tenors, the CFBF will consider a range of factors prior to informing the market of a cessation. Consideration will be given to:

- Sufficient notice to stakeholders of the cessation date and the timing of the cessation
- Any transition measures that can be implemented
- Stakeholder engagement and the timing required for them to consider alternative options, modify documentation, seek legal and compliance advice and modify any materials referencing PRIBOR
- Identification of alternate benchmarks and plans for migration

Once these issues have been considered, the CFBF will notify the market via press release, its website and other communication tools, including details of the cessation and any other information that would assist stakeholders to understand and take appropriate action.

The Transition and Cessation policies will be made available to stakeholders upon request to the CFBF.

3 Part 3 - The PRIBOR Oversight Committee

The PRIBOR Oversight Committee (the Committee) has the primary governance oversight of the methodology, determination and dissemination of PRIBOR.

3.1 Purpose

The Committee's purpose is to support the integrity, accuracy and reliability of the PRIBOR benchmark to the benefit of all users of the benchmark and reliant market participants. It achieves this through regular meetings to review, endorse or challenge decisions of the CFBF Board that have an impact PRIBOR.

3.2 Responsibilities

The Committee responsibilities with respect to PRIBOR determination include:

- Conducting regular reviews of all aspects of the determination methodology and definition of PRIBOR. In conducting these reviews, the Committee should consider the underlying market dynamics and the usage of PRIBOR.
- Oversight of the PRIBOR Code of Conduct including overseeing the practice standards as detailed in the PRIBOR Code of Conduct and reviewing these regularly.
- Defining, reviewing and updating the operational processes and procedures by which PRIBOR Panel Banks contribute to the benchmark.
- Adopting, reviewing and where required updating the PRIBOR Benchmark Control Framework to ensure that PRIBOR is determined and published in accordance with all relevant CFBF governance arrangements including the PRIBOR Code of Conduct and all applicable regulatory standards.
- Monitoring the input data and contributors and the actions of the CFBF as the administrator of PRIBOR in challenging or validating contributions of input data.
- Monitoring Panel Banks' adherence to the PRIBOR Code of Conduct, including but not limited to the regularity and coverage of benchmark contributions.
- Taking effective measures in respect of any breaches of the PRIBOR Code of Conduct or manipulation of PRIBOR.
- Reporting to the Czech National Bank any misconduct by contributors or the CFBF of which the Committee becomes aware, and any anomalous or suspicious input data.
- Developing proposals for consultation of prospective material changes to the PRIBOR determination methodology or definition and have regard to any representations made in response to consultations undertaken.
- Reviewing and approving procedures for cessation of PRIBOR, including any consultation about a cessation.
- Overseeing any third party involved in the provision of PRIBOR, including calculation or dissemination agents.

The Committee responsibilities with respect to PRIBOR contribution panel include:

- Undertaking regular reviews of the composition of the PRIBOR contribution panel.
- Defining rules and procedures to join, remain or leave the PRIBOR contribution panel.
- The Committee may require an external audit of a contributor if dissatisfied with any aspects of its conduct

The Committee responsibilities with respect to the CFBF include:

- Considering existing or potential conflicts of interest where material.
- Taking measures to remain informed about material issues and risks relating to the setting of PRIBOR.

- Overseeing the CFBF's adherence to the PRIBOR Code of Conduct, other governance arrangements and the published PRIBOR methodologies, including calculation, re-fix and business continuity policies.
- Recommending as appropriate that external reviews of PRIBOR be commissioned by the CFBF.
- Assessing internal and external audits or reviews, and monitoring the implementation of identified remedial actions
- Keeping the PRIBOR Oversight Committee Terms of Reference and PRIBOR Oversight Committee Rules and Procedures under regular review.

For the most up-to-date information about the Oversight Committee Terms of Reference and Rules and Procedures for the PRIBOR Oversight Committee, please visit www.cbf.com

3.3 Composition

The composition of the Committee is governed by the PRIBOR Oversight Committee Rules and Procedures which details the processes for the appointment of members to the Committee, the composition of the Committee, removal of members of the Committee and Committee procedures such as meeting frequency, quorum and decision majority. The rules and procedures also address the management of conflicts of interest, should they arise, within the Committee.

The Committee consists of a balanced representation of stakeholders including supervised entities that use the benchmark, contributors and other external stakeholders such as market associations, market infrastructure operators and other input data sources, as well as independent members and staff of the CFBF that are not directly involved in the provision of PRIBOR or any related activities.

The design of the Committee membership aims to populate the Committee with individuals that have the appropriate knowledge, skills and experience to promote balanced, intelligent and focused discussion on all aspects of PRIBOR's determination. The CFBF Board has the authority and responsibility to determine the membership of the Committee on an annual basis. Appointments to the Committee will be for an initial period of one year.

The CFBF Secretariat will assist the CFBF Board in identifying suitable nominees for Committee membership, taking into consideration such matters as the nominee's specialist skills, knowledge and expertise, independence and their availability to attend meetings. The Committee should have sufficient coverage of relevant subject matter including financial markets, legal, regulatory, risk and compliance and accounting. Committee representation from academia is also desirable.

The CFBF Board will ensure that the Committee has a minimum of 6 and a maximum of 12 voting members. Ideally the Committee shall include:

- At least two independent members, preferably one from academia
- Representatives from supervised entities that use PRIBOR
- Representatives from contributors to PRIBOR where the maximum number of these representatives does not form a majority of Committee voting members
- Representatives from external stakeholders such as market associations, market infrastructure operators and other input source data in a non-voting capacity
- At least one CFBF staff not part of the CFBF management body nor directly involved in the provision of PRIBOR or any related activities
- At least one CFBF staff involved in the provision of PRIBOR in a non-voting capacity

Members shall not include persons who have been convicted of financial services related offences, in particular manipulation or attempted manipulation.

Details of the Oversight Committee composition, names of committee members and meeting minutes will be posted on the CFBF website at www.cbf.cz

3.4 Governance

To ensure that the Committee achieves its purpose with the highest degree of efficiency the CFBF Board will nominate a candidate to act as the Committee's Chairperson and the Committee itself will ratify the nomination. If the Committee does not wish to ratify the CFBF Board nominated candidate, the CFBF Board will nominate an alternative candidate for the Committee's ratification. This process will continue until the Chairperson position has been confirmed by the Committee.

The CFBF Board bears the ultimate responsibility for PRIBOR and is the most senior decision-making function within the CFBF. The Committee has autonomy regarding the assessment and challenge of CFBF Board decisions and Committee operates in accordance with the PRIBOR Oversight Committee Terms of Reference and PRIBOR Oversight Committee Rules and Procedures. Material changes to either of these two documents require Board ratification to be effective.

If the Committee challenges a decision of the CFBF Board, because the Committee is of the view that such a decision would have a negative impact on PRIBOR and its stakeholders, but the CFBF Board is not prepared to change their decision in the first instance then a mechanism has been developed by the CFBF to address such a situation.

In the unlikely circumstance that an unresolved challenge should occur the CFBF PRIBOR Oversight Committee Dispute Resolution and Escalation Procedure document details the process to resolve any such situation. In brief the process seeks resolution through internal mediation but provides for escalation to an external mediator that has the authority to make a determination on the disputed matter that both the CFBF Board and Committee are required to accept.