



Notice on the terms and conditions of five- and ten-year floating rate forint monetary policy interest rate swaps¹

I. Description of the transaction and access conditions

Starting from 18 January 2018, until withdrawal, the Magyar Nemzeti Bank is introducing a floating-rate-payer forint monetary policy interest rate swap facility (MIRS) with terms of five and ten years for resident credit institutions subject to reserve requirements with direct VIBER or BKR membership (Counterparties) under the terms and conditions set out in this notice (the Notice). The objective of the MIRS is to let loose monetary conditions be effective on the longer section of the yield curve as well.

Under the MIRS, the MNB pays the six-month BUBOR interest rate based on the interest rate computation algorithm of the actual number of days/360 to the Counterparty during the six-month interest period, while the Counterparty pays the annual fixed interest rate defined in the transaction based on the interest rate computation algorithm of the actual number of days/365 to the MNB. All mutual obligations between the MNB and the Counterparty applying to the same value date will be offset and settled on a net basis by paying the resulting balance only. Interest settlement dates will be defined by the MNB in the tender notice published on the website. The MNB computes the interest rate for the first period by applying linear interpolation to the value of the two nearest BUBOR reference interest rates prevailing on the transaction date bracketing the term of the first period.

The maturity of the MIRS is the day corresponding to the third Wednesday (if it is a working day; otherwise the next working day) of the last month of the calendar quarter following the quarter of the value date by five and ten years. The MNB determines the date of maturity in the tender notice. The MIRS may not be closed before the date of maturity.

The MNB will conduct two fixed-price tenders from the 1st of February 2018 – instead of variable-price tender – of the five- and ten-year maturities every other Thursday, with the following Wednesday being the value date (provided that it is a working day; otherwise the next working day). The date of the first fixed-price tender is 1 February 2018. It is the Counterparties that are allowed to participate in the tenders.

The MNB defines the fixed interest rate in the tender notice, and publishes the announced quantity. Following the submission of bids, the MNB is entitled to define the accepted quantity,

¹ Effective from 1 February 2018

which may diverge upwards or downwards from the announced quantity. The MNB reserves the right to declare the tender unsuccessful.

Each Counterparty may submit one bid under the tender, and the submitted bid may be modified during the period of receiving the bids. In the case of modifications, the bid submitted at the latest point of time is to be considered valid.

In the distribution of the limited quantity available in the tender, the MNB attempts to make sure that each Counterparty is able to utilise the interest-rate swap facility in the ratio of its size compared to the whole of the banking system. Another key consideration in the distribution is that the full quantity offered by the MNB in the tender is distributed to the Counterparties. Considering these two principles, the following allocation mechanism of two rounds will be used in the tender:

In the first round of the allocation, the MNB applies an allocation in proportion of balance sheet totals. The basis for the allocation is the quantity accepted in the tender, which will be multiplied by a certain ratio for each Counterparty by the MNB, and then it will be rounded down to million forints. The value received this way shows the size of the MIRS the Counterparty may place from the first-round allocation.

$$\text{Ratio} = \frac{\text{Individual banks' balance sheet total (including balance sheet total of correspondent banks)}}{\text{Summarised balance sheet total of credit institutions subject to reserve requirements}}$$

In the numerator of the ratio: for the last month of the second quarter preceding the quarter that contains the tender date, in the “Statistical balance sheet and profit and loss account of credit institutions” – without the data of foreign branches – submitted by the Counterparty (MNB identifier code: M01; hereinafter: Statistical balance sheet), in the fourth column entitled “Total” of table 01, line 987. “Balance sheet total”, a value increased by the balance sheet total in the Statistical balance sheet data supply of the Counterparty's correspondent credit institutions subject to reserve requirements in the same period.

In the denominator of the ratio: for the last month of the second quarter preceding the quarter including the tender date, the amount of balance sheet totals included in the Statistical balance sheet data supply submitted by all the credit institutions subject to reserve requirements (i.e. the summarised balance sheet total of credit institutions subject to reserve requirements).

Because of the subsequent modifications in the data supplies, the changes in balance sheet totals and the modifications in correspondent bank relations shall be considered by the MNB up to the 10th working day preceding the date of the first tender of the current quarter. The denominator of the figure will be published by the MNB in the tender invitation in HUF billion, rounded to three decimals.

Following the first round of allocation, if there are still unsatisfied requests on the basis of the submitted bids, in the second round of the allocation, the volume not distributed in the first round will be distributed in units of HUF 1 million, according to the rules of card allocation, until the quantity to be accepted is exhausted, with the limitation that the accepted quantity of the second

round cannot exceed the accepted quantity of the first round by Counterparty. The quantity of the MIRS notional value due to a Counterparty in the tender equals to the sum of the quantities due in the allocations of the first and second round.

In order to ensure the parties' claim stemming from a MIRS transaction, initial and variable margins are related to the transaction. The initial margin is asymmetrical – the Counterparty gives it to the MNB – in order to ensure the favourable future revaluation of the transaction for the MNB. In a symmetrical manner, the variable margin is given to the other party by the one for whom the transaction has a negative present value. The MNB defines the values of the two margins regarding MIRS transactions every day for each Counterparty, and accounts for them after netting. The MNB keeps records of the balance of the margin on a margin account kept for the Counterparty.

The multipliers to be used for calculating the initial margin – which are different according to the remaining term – are shown in the table below.

Initial margin multipliers of MIRS transactions (the MNB reserves the right to change it)

Remaining term	Multiplier (%)	Remaining term	Multiplier (%)
0–1 years	0.5	5–6 years	3.0
1–2 years	1.0	6–7 years	3.5
2–3 years	2.0	7–8 years	3.5
3–4 years	2.5	8–9 years	3.5
4–5 years	3.0	over 9 years	4.0

The required balance of the margin account is calculated on the basis of the following formulas:

$$M_i = NPV_{fixed.leg,i} + NPV_{var.leg,i} + N_i * h_i$$

$$M = \sum_i M_i$$

where

M the margin account balance required because of the MIRS by Counterparty

M_i the part of the margin account balance required because of the ith MIRS

NPV_{fixed.leg,i} present value of the fixed-rate leg of the ith MIRS

NPV_{var.leg,i} present value of the variable-rate leg of the ith MIRS

N_i nominal value of the ith MIRS

h_i multiplier corresponding to the maturity of the ith MIRS; the value of this multiplier can be as shown in the above table

The Counterparty's margin account balance must be equal at every evaluation to the margin requirement on the Counterparty's transactions. If the forint margin of a counterparty does not reach the required amount upon daily revaluation, the MNB, simultaneously notifying the Counterparty, will debit the Counterparty's MNB settlement account by the amount needed to restore the required margin and will credit the amount to the Counterparty's margin account. If the forint margin exceeds the required amount upon daily revaluation, the MNB will subtract the amount in excess of the required margin from the Counterparty's margin account and add to its MNB settlement account. The MNB remunerates the Counterparty's positive balance on the margin account at the prevailing central bank base rate, with interest settled on the Counterparty's MNB settlement account on the last working day of the month. The Counterparty pays interest to the MNB at the prevailing central bank base rate for the negative balance on the Counterparty's margin account, with interest debited by the MNB to the Counterparty's MNB settlement account on the last working day of the month.

II. Detailed parameters and technical criteria

Description of the transaction	Floating rate forint monetary policy interest rate swap
Date, place and contents of notice/invitation	The MNB will announce the tender on its website (www.mnb.hu) as well as on Reuters NBH0 and Bloomberg NBH5 every two weeks at 12:00 p.m. on Thursdays. The tender notice published on the website defines the transaction date, the interest period starting dates, the last day of the interest periods, the interest payment settlement date, the date for defining floating interest, the floating interest rate of the first period, the fixed rate and the announced quantity, and the summarised balance sheet total of credit institutions subject to reserve requirements (considered in the first round of the allocation)
Eligible counterparties	Resident credit institutions subject to reserve requirements with direct VIBER or BKR membership
Maturities	Defined in the tender notice
Proposed by	Counterparty
Business hours for receiving bids	Between 13:00 and 13:30 hours on the day of the tender
Content and formal requirements for the bids	Bids can be submitted via Reuters Dealing platform or, alternatively, by fax, specifying the notional forint value of the requested interest rate swap

Number of bids accepted from any bidder per maturity	1
Offer limit	At least HUF 10 million per bid, which can be increased by the integer multiple of HUF 1 million
Corrections	The last bid is valid among the amended bids submitted within the window of acceptance
Bid increment	HUF 1 million
Time and place of the announcement of results	14:30 hours on the day of the tender, on Reuters' NBH0 and Bloomberg's NBH5
Content of announcement of results	Amount of the bids submitted, amount of the bids accepted
Time of daily revaluation and margin account transactions	Counterparties are notified via a SWIFT message. Time of account transactions: until VIBER closing

In respect of issues not regulated here, the 'Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets' shall be authoritative.

Budapest, 1 February 2018
MAGYAR NEMZETI BANK