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22 December 2014

Mr Jeremy Rothfield
Network Regulation and Compliance Manager
United Energy and Multinet Gas
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By Email – Jeremy.Rothfield@ue.com.au

Dear Jeremy

I refer to your letter dated 25 November on aggregate measures of Australian non-financial corporate bond spreads and yields published by the RBA.

Background

The Reserve Bank publishes a large number of statistical tables in order to provide the community with a range of data on economic and financial markets. The Reserve Bank began publishing information on bond market conditions faced by Australian corporations in Table F3 in June 2001, with the original title 'Capital Market Yields and Spreads – Non-government Instruments'.

The Reserve Bank regularly reviews all the data that it publishes to ensure that they remain relevant and informative. In light of the development of international best practice for financial benchmarks,[1] in early 2013 the Reserve Bank undertook reviews of selected interest rate series which were potentially referenced in legislation and/or contracts. Furthermore, around the same time, the existing data provider indicated that it would not permit the continued use of the underlying data if the output was to be published.

As a result of this work, a number of changes were made to the data published in Table F3. Details of the methodology for the new measures of Australian corporate bond spreads and yields were published in the December 2013 *Bulletin*.[2] The new series offered a number of improvements, including improved data quality, an extended range of maturities and increased transparency of the methodology and underlying data. The change to the source of the individual bond data also allowed for better access to the information, including publication of a longer time series (since 2005) and the ability to publish data in more user-friendly formats.

Discontinuation of Series

The Reserve Bank has no plans to discontinue the publication of the series in Table F3. However, ongoing publication is always subject to the data remaining relevant, and the underlying data being available and of high quality. In any case, the Reserve Bank will give reasonable notice of any changes to the publication of data contained in Table F3.

[1] International Organisation of Securities Commissions (2013), 'Principles for Financial Benchmarks', July 2013.
[2] Arsov, I, M Brooks and M Kosev (2013), 'New Measures of Australian Corporate Credit Spreads', RBA *Bulletin*, December, pp 15-26.

Payments System Board

The data published in Table F3 were not designed with the intention of informing decisions of the Payments System Board on access regimes or interchange standards, and they are not currently used for this purpose. The data are compiled by staff in the Domestic Markets Department which does not interact with the Payments System Board.

Freedom of Information

Your letter posed a number of questions regarding a Freedom of Information (FOI) request to the Reserve Bank. Any FOI application to the Reserve Bank is required to be assessed on its merits and at the time the application is made. As a result the Reserve Bank is not able to provide United Energy and Multinet Gas with confirmation in advance as to whether particular materials do or do not fall within particular categories of documents which are exempt from the FOI Act or standard court based disclosure. Nevertheless, the Reserve Bank is able to provide United Energy and Multinet Gas with the following limited general guidance:

1. The Reserve Bank is exempt from the operation of the FOI Act in relation to documents in respect of the Reserve Bank's banking operations (including individual open market operations): see FOI Act s7(2) and Division 1 of Part II of Schedule 2. The Reserve Bank does not presently prepare or use the data in Table F3 for the purposes of its banking operations.

2. Documents and information the disclosure of which is prohibited under s79A of the *Reserve Bank Act 1959* (Cth) are exempt from the FOI Act and disclosure to a court: see FOI Act s38(1) and the Reserve Bank Act s79A(9). Furthermore, the disclosure of any such documents in contravention of s79A is an offence punishable by a fine or imprisonment or both. The category of documents and information to which s79A applies includes documents which are given or produced under the Reserve Bank Act and which contain information, and information disclosed or obtained for the purposes of the Reserve Bank Act, relating to the affairs of a financial institution. It does not, however, include information or any document to the extent that it contains information that has already been lawfully made available to the public from other sources. To the extent that the materials used in compiling the corporate bond spread variables in Table F3 contain non-public information which relates to the affairs of a financial institution, those materials will be 'protected documents' and/or contain 'protected information'.

3. The documents which are exempt from disclosure under the FOI Act also include, subject to a number of exceptions, documents the disclosure of which would found an action by a person for breach of confidence: see FOI Act s45. The exceptions to this category of exempt documents include a document to which subsection 47C(1) (deliberative processes) of the FOI Act applies that is prepared by a Reserve Bank officer in the course of their duties for purposes relating to the affairs of the Reserve Bank (unless the disclosure of the document would constitute a breach of confidence owed to a person other than, among others, the Reserve Bank officer). In order to prepare the corporate bond spread variables in Table F3, the Reserve Bank acquires data from Standard & Poor's Financial Services LLC, Bloomberg Finance L.P. and CUSIP Global Services under data licence agreements. Each of those agreements contains strict restrictions on the use and disclosure of the licensed data which is utilised by the Reserve Bank in its preparation of Table F3.

Methodological notes

As noted previously, the methodology, including the weighting method, is discussed in detail in the December 2013 *Bulletin*. Observations with residual maturities closer to target tenor receive higher weights, and the weights are determined by trading off goodness-of-fit and smoothness of the estimated credit spread curve.

Footnote 17 in the December 2013 *Bulletin* article noted that "At the end points of the tenor range (1 and 10 years, but particularly at the 1-year tenor), the Gaussian kernel, and other similar methods, may be somewhat biased because there are no observations below and above the target tenor". The Bank's decision not to use an alternative estimation method reflects the limited availability of data on bonds with longer maturities, the lack of an unambiguously superior methodology and the possible wide range of usages of the data. Transparency of the data and methodology permits users to make their own assessment about whether or not the series are appropriate for their purposes.

As the series are for fixed-rate non-financial corporate bonds, the Reserve Bank is not planning on including floating-rate notes or bonds issued by financial corporations in the construction of the aggregate measures of non-financial Australian corporate bond spreads and yields.

Yours sincerely

Guy Debelle

Guy Debelle
Assistant Governor
(Financial Markets)