



## WKF BENCHMARK STATEMENT (Cost of Funds Benchmark)

Instytut Rynku  
Finansowego  
ul. Wilcza 31 lok. 1A  
00-544 Warszawa  
e-mail: [irf@irf.org.pl](mailto:irf@irf.org.pl)

## Table of contents

FOREWORD.....	3
GENERAL INFORMATION.....	4
MARKET, ECONOMIC REALITY.....	4
INPUT DATA AND METHODOLOGY.....	5
USE OF EXPERT JUDGEMENT OR EXERCISE OF DISCRETION BY ADMINISTRATOR OR DATA CONTRIBUTORS.....	10
CESSATION OF THE BENCHMARK AND MODIFICATION OF THE METHODOLOGY.....	11
POTENTIAL LIMITATIONS OF THE BENCHMARK.....	13
SPECIFIC REQUIREMENTS FOR INTEREST RATE BENCHMARKS AND CRITICAL BENCHMARKS.....	16
APPENDIX 1: DEFINITIONS OF KEY TERMS.....	18
APPENDIX 2: ASSOCIATED DOCUMENTS.....	19

## FOREWORD

1. This Statement is issued by Instytut Rynku Finansowego (hereinafter called the "IRF") due to actual Cost of Funds Benchmark administration (hereinafter called "WKF"). The statement is a fulfilment of the requirements of Regulation (EU) 2016/1011, of the European Parliament and of the Council of 8 June 2016 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. The statement should be interpreted together with the accompanying documents laid down in Annex 2.

On 3 November 2020, the IRF obtained the consent of the Polish Financial Supervision Authority (KNF) to act as the Administrator of WKF.

## GENERAL INFORMATION

Benchmark Name	WKF (PL: Wskaźnik Kosztu Finansowania, EN: Cost of Funds Benchmark)
Date of publication of the Statement	16 November 2020
Date of last Statement update	16 November 2020
Review and update of the Statement	IRF shall review and, as necessary, update the benchmark statement at least every two years and in the event of any changes to the information, which IRF is obliged to publish under BMR Regulation.
ISIN	<i>Not applicable</i>
Contributed input data	WKF is based on the input data provided by Panel Banks. The List of Panel Banks is available on the website <a href="http://www.irf.org.pl">www.irf.org.pl</a>
Type of benchmark	WKF is an interest rate benchmark provided in accordance with BMR Regulation.
Definitions of key terms	Key terms are explained in Annex 1 of this document.

## MARKET, ECONOMIC REALITY

Market or economic reality measured by the benchmark

Active market for the purposes of WKF shall be understood as the market of deposit transactions contracted for a specific time between contributors meeting the criteria specified in the WKF Methodology and their clients.

WKF represents interest rate measuring cost of funding of the entities contributing the input data. The above mentioned is reflected as an index based on interest rates on Term Deposits accepted in PLN by entities providing the input data, which is calculated in accordance with the WKF Methodology.

WKF is published for four following tenors: 1 month (1M), 3 months (3M), 6 months (6M), 12 months (1Y or 12M).

Geographical boundaries of market or economic reality

WKF measures cost for funding of the entities operating in Poland.

Present and potential market participants. Size of the market or economic reality

Present and potential market participants are cooperative banks operating in Poland.

The balance sheet total of cooperative banks operating in Poland is about PLN 154 billion. Liabilities of cooperative banks are based mainly on deposits on current and term accounts. The total amount of funds on current and term accounts is about PLN 138 billion (Polish Financial Supervision Authority (KNF) data as of the end of July 2020).

## INPUT DATA AND METHODOLOGY

Rationale for adopting the benchmark methodology

WKF Methodology assumes the use of actual transactional data on term Deposits accepted by Panel Banks.

The methodology shall take into account the requirements and recommendations contained in the BMR Regulation, in particular those relating to the priority given to the use of transactions concluded on an active and observable market.

---

The WKF Methodology does not provide for the use of expert judgements, nor does it provide for the use of quotes when calculating WKF.

The aim of WKF is to reflect the economic reality of the cost of acquiring liabilities by Panel Banks. Deposits are the main component of liabilities of cooperative banks.

Deposit transactions concluded on the days preceding the date of publication of WKF are taken into account in the process of calculating WKF.

The WKF Methodology was developed on the basis of analyses conducted in 2019 on data for the period between 1.01.2018 and 30.06.2019 collected from Panel Banks.

The WKF Methodology uses the results of tests and analytical research conducted on SMRP repository database ([www.smrp.pl](http://www.smrp.pl)) in the years 2012–2019.

At the stage of determining the parameters of the WKF Methodology, discretion was exercised. The methodology was assessed by the WKF stakeholders during the consultations that took place in the 2nd and 3rd quarter of 2019.

---

The criteria and procedures used to determine the benchmark, including a description of the input data, the priority given to different types of input data, the minimum data needed to determine a benchmark, the use of any models or methods of extrapolation and any procedure for rebalancing the constituents of a benchmark's index.

The entities submitting input data to WKF are cooperative banks operating in the Republic of Poland with a balance sheet total below the threshold value of the balance sheet total indicated in the WKF Methodology.

Input data consist exclusively of actual transactional data concerning term deposits concluded by Panel Banks.

Transactions qualified for calculating WKF:

- from the following segments: public sector, corporate clients, retail clients, non-banking financial institutions;
- with interest rate, denomination, maturity date within the specified parameters of the WKF Methodology;
- only deposits not older than 4 years (calculated as the difference between the date of transferring the funds to the bank and the deposit start date);
- containing above the lower rate quartile (25th percentile relative to volume).

---

WKF is calculated in two steps:

- step one – daily Volume Weighted Average Rate (VWAR) is calculated on eligible transactions;
- step two – after calculating the daily VWAR, the ten-day arithmetic mean for working days is calculated.

In case of interruptions in the continuity of input data generation by Panel Banks or in case of disruptions in data transmission, a data substitution mechanism is in place to ensure continuity and stability of the published benchmark. This mechanism is described in the WKF Methodology.

---

#### Procedures for the review and approval of the methodology

WKF Methodology and its parameters shall be regularly reviewed.

The Administrator reviews the threshold volume of the balance sheet of contributors of input data and market and economic reality measured by WKF.

At least once a year the Administrator shall submit to the IRF Steering Committee a report on the review of the WKF Methodology. In particular, it analyses:

- the adequacy of the WKF Methodology in relation to the economic reality described by WKF,
- parametrization of the WKF Methodology in relation to input data,
- alternative data sources,
- the size and liquidity of the physical market being assessed by WKF,
- the adequacy of the provision of WKF,
- representativity of the Panel and WKF,
- resistance of WKF to manipulation.

The Administrator shall review the WKF Methodology. For this purpose, the analysis of the input data after publication is used in order to check the correctness and adequacy of the WKF Methodology in relation to the current market conditions. During this process, a back testing of the methodology is performed.

In order to prepare a report on the review of the WKF Methodology, the Administrator may (apart from the input data) use all available and reliable data.

---

---

The Administrator shall inform on their website ([www.irf.org.pl](http://www.irf.org.pl)) about carried out review of the WKF Methodology.

In case the IRF Steering Committee recommends a change of the WKF Methodology, this will be done in accordance with the Policy and procedure concerning review, change or cessation of the benchmark determination and consultations.

---

Procedures for dealing with errors in input data or in the determination of the benchmark, including when a re-determination of the benchmark is required

The Administrator has implemented the procedure of qualitative verification of the input data, which is described in the WKF Methodology. In addition, the WKF Methodology provides a mechanism for substituting the data in the situation: (i) lack of data from a bank with a significant share in the input data; (ii) poor quality of the input data revealed in the procedure of qualitative verification. The substitution mechanism allows to download data from the previous working day for the bank for which the procedure was applied.

In accordance with the WKF Methodology, a validation of input data is carried out in order to detect possible inadequacies of the applied WKF Methodology or problems with the input data.

The Administrator shall verify the integrity of input data, review the WKF Methodology and assess the evolution of business processes described by the input data.

The Administrator should monitor, assess and validate input data during daily processing, prior to the publication and after publication of WKF.

Prior to the publication of WKF, during the daily monitoring process a formal and technical control is performed to check the completeness, correctness and compliance with the qualitative verification parameters of the input data (in accordance with the parameters specified in Annex 1A of the Key Elements of the WKF Methodology). Any deviations or missing data are automatically reported to persons supervising the WKF system.

Verification and validation of input data after publication is used by Administrator to analyse the term deposit market. In particular, this concerns the identification of material change on the bank funding market. The conclusions and findings of this analysis, as a synthesis of the economic

---

---

reality of the market from which the transactions included in the calculation of WKF originate, are used to verify WKF. The analysis also allows to monitor the effectiveness of WKF against the objective defined in its definition.

The analysis of the data is performed for the whole WKF Panel as well as for each Panel Bank.

On the basis of conducted analyses the Administrator prepares reports that are presented to the IRF Management Board as well as to the IRF Steering Committee.

---

Information on how users will be informed of any delays in the publication of the benchmark or of any cases of re-determination of the benchmark, including the (expected) duration of the measures

In case of any interruptions in the WKF publication process, the following rules shall apply:

#### A. LATE PUBLICATION

1. In a situation when it is not possible to publish WKF at 3:30 p.m., the Administrator announces on their website an information about the planned delay of publication.
2. If possible, the above information will be posted on the Administrator's website no later than at 3:15 p.m. on the Publication Day and should include the planned time of publication of WKF.
3. Late publication of WKF should take place no later than at 6:30 pm on the Publication Day.
4. The Administrator informs the IRF Steering Committee about the reasons for the delay of WKF publication no later than by the end of the Publication Day on which the delay occurred.

#### B. RE-PUBLICATION

1. In case the Administrator becomes aware that the published WKF is incorrect or was based on incorrect input data, WKF shall be re-determined.
2. In the event that the re-determined WKF differs from the original by more than one basis point, the re-determined WKF is published.
3. Information about re-publication of WKF appears on the Administrator's website jointly with the scheduled time of re-publication.

4. The re-publication of WKF may occur on the same Publication Day as the original publication of WKF, but no later than at 6:30 p.m.
5. The Administrator informs IRF Steering Committee about the reasons for re-publication of WKF no later than by the end of the Publication Day.

#### C. NO PUBLICATION

1. In the event that it is not possible to calculate or publish WKF, WKF shall not be published.
2. If possible, the Administrator shall inform about the inability to calculate and publish WKF on a given Publication Day no later than at 3:15 p.m.
3. In the event of no publication, WKF from the previous Transaction Day shall apply.
4. The information will be posted on the Administrator's website.
5. The Administrator informs IRF Steering Committee about the reason of no publication of WKF no later than by the end of the Publication Day.

---

## USE OF EXPERT JUDGEMENT OR EXERCISE OF DISCRETION BY ADMINISTRATOR OR DATA CONTRIBUTORS

Elements of the calculation of the benchmark in relation to which discretion may be exercised, the criteria applicable to the exercise of such discretion and the position of the individuals that can exercise discretion, the controls and rules that govern any exercise of judgement or discretion by the administrator or any contributors

The parameters of the WKF Methodology detailed in the Key Elements of the WKF Methodology (KEM) (Annexes 1A and 1B and 3) are based on the principles of discretion. Parameters applied are periodically fixed. The justification for the implemented principle of discretion can be found in Annex 4 of the Key Elements of the WKF Methodology. The Administrator may modify the values of the parameters following periodical reviews of the methodology.

The Administrator is entitled to apply any change in the parameters of the methodology following a consultation procedure in accordance with the Policy and procedure for reviewing, amending or discontinuing the development of the benchmark and conducting consultations.

---

In the process of calculating WKF, there are no circumstances in which the Panel Banks or The Administrator employees use expert judgement. The exercise of discretion in the selection of the parameters of the WKF Methodology may take place after a phased process of consultation and acceptance of the change of the WKF Methodology.

---

An outline of each stage of the process of ex post evaluation of the application of discretion, with a clear indication of the position of any individuals responsible for carrying out evaluations.

*Not applicable*

---

## CESSATION OF THE BENCHMARK AND MODIFICATION OF THE METHODOLOGY

---

Notice of the possibility that factors, including external factors beyond the control of the administrator, may necessitate changes to, or the cessation of, the benchmark

The Administrator has developed a procedure in case of changes on the market requiring the modification of the WKF Methodology: Policy and procedure for reviewing, amending or discontinuing the development of the benchmark and conducting consultations.

A significant change in the WKF Methodology is one that may alter the current characteristics of the benchmark.

A significant change in the WKF Methodology concerns:

- 1) The way of obtaining information about the economic process that the benchmark describes (e.g. the range of entities from which data is collected, types of transactions for which data is used to develop the benchmark).
  - 2) The ability to use negative values by the benchmark
  - 3) Introducing the possibility of using elements of expert judgement or discretionary powers of the Panel Banks or the Administrator or changing the number of parameters of the WKF Methodology set by the Administrator in accordance with the principle of discretionary powers.
-

---

The Key Elements of the WKF Methodology that represent a significant change are:

- 1) The change involving modification of the selection criteria for Panel Banks.
- 2) The change involving modification of the definition of an active market.
- 3) The change in the formula for calculating WKF so that the benchmark can take negative values.
- 4) Allowing the Panel Banks to prepare input data using expert judgement, quotes or in accordance with the principle of discretion.
- 5) Introducing new parameters of the WKF Methodology defined in accordance with the principle of discretion of the Administrator.

Note:

Any change in the values of the parameters determined by the Administrator in accordance with the principle of discretion, as listed in the WKF Methodology as a result of the review of the WKF Methodology does not represent a significant change.

---

Procedures for public consultation regarding any substantial change in methodology

The Administrator has a policy and procedure in place entitled: "Policy and procedure for reviewing, amending or discontinuing the development of the benchmark and conducting consultations". The document is publicly available on the Administrator's website: [www.irf.org.pl](http://www.irf.org.pl).

---

Notice to users that changes to, or the cessation of, the benchmark may have an impact upon the financial contracts and financial instruments that reference the benchmark or the measurement of the performance of investment funds.

Should the WKF Methodology change, users will be made publicly aware that any proposed change or discontinuation of the benchmark may affect the financial agreements and instruments that relate to the benchmark.

## POTENTIAL LIMITATIONS OF THE BENCHMARK

The identification of potential limitations of the benchmark, including its operation in illiquid or fragmented markets and the possible concentration of inputs

The Administrator has introduced several instruments to reduce the probability of no contribution from all banks in the WKF Panel. These instruments are:

- (i) averaging daily rates over 10 consecutive working days – average VWAR,
- (ii) the substitution mechanism.

The averaging procedure ensures that the benchmark always builds on transactions from a ten-day time frame, which reduces the variance of the benchmark and ensures resistance to short-term market fluctuations. Meanwhile, the replenishment mechanism causes banks with a statistically high impact on the value of the benchmark to always be included in the calculation of the benchmark, even in the case of a one-off failure to submit data. In such cases, the time series is supplemented by data from the previous working day. The mechanism reduces the sensitivity of the benchmark to technical problems on the part of Panel Banks, limiting its variance and the effect of random non-market factors on the benchmark value.

The risk of segmentation of the market is limited by geographical diversification and quality parameters of the Panel Banks and the WKF Methodology, which takes into account the time-weighted, volume-weighted average from individual days of monitoring. Taking into account the market segments where the processes of obtaining liquidity by the banks are concentrated, helps to generate time series that are stable in terms of prices and volumes.

The risk of concentration is limited by a sufficient number of Panellists with different balance sheet sizes and pricing policies. This risk, however, may manifest itself in a reduction in the number of banks in the WKF Panel.

Definition of the potential limitations of the benchmark and the circumstances under which the measurement of the market or economic reality may become unreliable

The main limitation of the WKF Methodology may be the loss of term deposits, which are the basis for calculating the benchmark. The research carried out by the Administrator has shown that cooperative banks, which are the WKF data contributors, are more resistant to the decrease in liquidity of term deposits than the banking sector as a whole. Nevertheless, the decline in interest

rates, especially the negative reference rate, may reduce the volume of term deposits in favour of overnight deposits. If the market situation so requires, the Administrator shall carry out a procedure to amend WKF Methodology so that it adequately reflects the financing costs of banks.

Description of the circumstances in which the administrator would lack sufficient input data to calculate the benchmark according to the methodology

If the volume or number of term deposits described in the previous paragraph is permanently and substantially reduced or ceases to exist, the amount of data to determine the benchmark may be insufficient.

Description of situations where the accuracy and reliability of the method used to determine the benchmark can no longer be ensured, for example where the administrator considers that there is insufficient liquidity in the underlying market

The Administrator monitors several parameters of the reference market quality, namely:

- (i) liquidity (depth) of the term deposits market in particular customer segments and maturities,
- (ii) intra-day price dispersion and variance of daily price changes,
- (iii) concentration of turnover of each Panel Bank,
- (iv) individual impact of each Panel Bank,
- (v) resilience of the benchmark to market disturbances,
- (vi) stability of the benchmark in terms of the distribution of daily changes for individual maturities,
- (vii) representativeness of the benchmark in relation to the economic reality that it describes,
- (viii) representativeness of the WKF Panel in relation to the number of cooperative banks.

Abnormalities in the aforementioned parameters are assessed in terms of economic reasons, scale of impact and persistence of impact. On this basis, the Administrator decides on the need to change the WKF Methodology in order to adapt it to the new economic reality.

---

Any other information that the administrator reasonably considers relevant or useful to help users and potential users understand the circumstances in which the measurement of the market or economic reality may become unreliable, including a description of what may represent an exceptional market event.

The purpose of WKF measurement is the cost of financing of cooperative banks, which at the time of developing the WKF Methodology was best represented by unsecured term deposits (derived mainly, but not exclusively, from the retail segment).

In the future, it may turn out that banks will change their form of balance sheet financing (e.g. the main source of liabilities may become for example bank securities or transactions secured on assets). The Administrator monitors the market on an ongoing basis so that WKF is best able to represent the economic reality. The change of the WKF Methodology in the light of regulatory requirements is a natural consequence of the changing realities in the banking market.

The change may be the result of a gradual change of structural nature or a sudden change resulting from extraordinary market events. Changes in economic reality will lead to changes in the WKF Methodology in consultation with stakeholders.

---

The procedures which govern the determination of the benchmark in periods of stress or periods where transaction data sources may be insufficient, inaccurate or unreliable and the potential limitations of the benchmark in such periods.

Due to the fact that it is not possible to foresee extraordinary events and prepare scenarios for every circumstance disrupting the functioning of the benchmark, the Administrator established procedures to ensure benchmark continuity. Periods of stress may result in:

- (i) the delay in the publication of the benchmark;
- (ii) the need to revise an already published benchmark;
- (iii) no publication of the benchmark.

The aforementioned situations are described in the WKF Methodology. Inability to publish may be temporary or permanent. The entities using the benchmark shall prepare their own procedures for dealing with the lack of publication or the permanent loss of representativeness of the benchmark, as well as with the withdrawal of the supervisory authority's approval for the IRF to act as the Administrator.

---

## SPECIFIC REQUIREMENTS FOR INTEREST RATE BENCHMARKS AND CRITICAL BENCHMARKS

---

### Accurate and sufficient data

*Priority of use of input data shall be as follows:*

The WKF Methodology allows only transactional data to be used. For the calculation of the benchmark, unsecured term Deposits accepted by Panel Banks in the 10-day period preceding the publication date are taken into account. This data shall be verified in terms of quality. The Administrator, in accordance with the algorithm adopted by the WKF Methodology, flags transactions that ultimately do not contribute to the calculation of the benchmark. A detailed description of the algorithm and criteria determining the flagging of transactions is described in the WKF Methodology.

---

### Adjustment of input data

The WKF Methodology does not provide for input data to be adjusted

---

### Oversight function

The IRF has established and operates an independent oversight function, the IRF Steering Committee. This function exercises independent supervision over all aspects of benchmark development by the Administrator.

The IRF Steering Committee is an organizational unit separate from the IRF Management Board and from other management functions.

Details concerning the principles of functioning of the oversight function are set out in the document Steering Committee Code Of Conduct, which is publicly available on the Administrator's website ([www.irf.org.pl](http://www.irf.org.pl)). The document also sets out the roles, responsibilities and obligations of IRF Steering Committee members.

The information concerning the meetings and decisions of the IRF Steering Committee is publicly available through the publication on the Administrator's website ([www.irf.org.pl](http://www.irf.org.pl)) of the meeting minutes containing, among others, statements of IRF Steering Committee members concerning conflicts of interest.

Details of the membership of the IRF Steering Committee shall be made public on the Administrator's website ([www.irf.org.pl](http://www.irf.org.pl)), along with any declarations of any conflict of interest and the processes for election or nomination of its members.

---

---

## Auditing

IRF established procedures for the appointment of an independent external auditor to review and report on the Administrator's compliance with the WKF Methodology and BMR (Principles for selecting the external auditor and conducting the audit).

The external audit of the Administrator shall be carried out for the first time six months after the introduction of the Code of Conduct of the Panel Bank.

Subsequent external audits will be carried out every two years from the date of the first audit.

The external audit may be carried out at any time upon request of the IRF Steering Committee.

---

## Contributor systems and controls

The systems and control measures established by the Panel Banks (as required by the provisions of BMR, Annex I 5-12) are described in the Code of Conduct of the Panel Bank in the following sections:

- a) procedures for the transmission of input data;
  - b) rules on the exercise of discretion;
  - c) requirements for validation of the input data;
  - d) rules on record keeping;
  - e) requirements concerning suspicious input data;
  - f) management of conflicts of interest.
-

## APPENDIX 1: DEFINITIONS OF KEY TERMS

- **WKF (Cost of Funds Benchmark)** – an interest rate benchmark developed on the basis of the WKF Methodology and supporting documents such as the Code of Conduct of the Panel Bank; a benchmark that meets the requirements of the BMR regulation.
- **Benchmark Regulation or BMR** – (\*) Regulation (EU) 2016/1011, of the European Parliament and of the Council of 8 June 2016 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.
- **RTS** – COMMISSION DELEGATED REGULATION (EU) 2018/1639 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the content of the statement on the benchmark published by the benchmark administrator and the cases in which an update of that statement is required.
- **Input data** – data concerning transactions, understood in accordance with BMR 3, 1.14), provided to the Administrator. This is the data containing information on Deposits accepted by a Panel Bank and used for the purpose of calculating WKF, understood in accordance with BMR 3, 1.15).
- **Panel Bank** – a supervised entity, understood in accordance with the definition set out in Article 3(1.10) of the BMR, meeting the criteria specified in the Code of Conduct of the Panel Bank and providing input data to WKF.
- **IRF Steering Committee** – an oversight entity; a supervisory unit as defined in the IRF organizational regulations, performing the functions set out in Article 5 of the BMR regulation.
- **Term deposit** – a cash deposit placed on a term bank account.
- **WKF Methodology** – a procedure adopted and applied by the Administrator, defining a set of rules for determining WKF on the basis of received input data.
- **IOSCO Principles for Financial Benchmarks** – general principles for financial benchmarks prepared by the International Organization of Securities Commissions (IOSCO); IOSCO, FR07/13, July 2013.
- **WKF system** – computer programs used in the process of calculating WKF.
- **Key Elements of the WKF Methodology (KEM)** – a selection of the most important elements of the WKF Methodology published on the Administrator's website.

## APPENDIX 2: ASSOCIATED DOCUMENTS

The Administrator's statement is the result of the organisational arrangements adopted by the IRF and the internal documents adopted, and should be read in the context of the following documents that are available on the IRF website ([irf.org.pl](http://irf.org.pl)):

1. GENERAL PRINCIPLES OF THE FUNCTIONING OF THE IRF
2. STEERING COMMITTEE CODE OF CONDUCT
3. CONFLICTS OF INTEREST POLICY AND PROCEDURE
4. CODE OF CONDUCT OF THE PANEL BANK
5. KEY ELEMENTS OF THE WKF METHODOLOGY
6. POLICY AND PROCEDURE FOR REVIEWING, AMENDING OR DISCONTINUING THE DETERMINING OF THE BENCHMARK AND CONDUCTING CONSULTATIONS
7. WHISTLEBLOWING POLICY AND PROCEDURE
8. HANDLING COMPLAINTS POLICY AND PROCEDURE