



Building better markets

## **TITLE: Construction of the JIBOR rate**

Brief executive summary goes here – 2 or 3 sentences

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## **Introduction**

This paper covers the construction of the BESA JIBOR rate. This rate is constructed by averaging the offer rates of the NCDs contributed by ten (10) banks. The term rates that are constructed are the 1 day (overnight rate), 3 months, 6 months, 9 months, 12 months, 18 months, 24 months, 36 months, 48 months and 60 months. There are numerous reasons for using these term rates, one of them being that they are the most liquid.

In discussing the construction of the JIBOR rate we will look at the gathering of data and the construction process. Under the gathering of data we look at the daily process and the contributors who contribute their offer rates towards the construction of the JIBOR rate. Under the construction process we look at the averaging process carried out in constructing the JIBOR rate.

## **Data Gathering**

### **Daily Process**

The data is gathered on a daily basis. An email is sent out daily at around 10:30 requesting data from all the contributors for all the term rates. They then reply to the email with their respective offer rates for the term rates. However, not all the contributors quote the offer rates for the terms 24 months, 36 months, 48 months and 60 months. Those who do, supply us with all the term rates including those beyond 12 months. Data from all the contributors has to be in before 11:00 daily. The contributors who haven't sent in the data at 10:45 are given a call to remind them about the data.

### **Contributors**

There are currently 10 banks who are contributing their offer rates for the construction of the JIBOR rate. These banks are part of the exchange's primary dealers. They include:

- ABSA
- Citibank
- Investec
- JPMorgan
- Nedbank
- RMB
- Standard bank
- Calyon bank
- ABN Amro bank
- Mercantile bank

Out of the above 10 banks only five (5) quote offer rates up to 60 months (5 years) and they are ABSA, Investec, RMB, Standard bank and ABN Amro bank. The rest of the banks only quote offer rates up to the 12 month (1 year) term.

**Construction of the JIBOR rate.**

The JIBOR rate is constructed by averaging the offer rates from all contributing banks. The averaging process carried out is the same one used for the daily averaging of the mark – to – market (MTM) values for the bonds.

The data is sorted in ascending order then the first two and last two values are dropped. The remaining values are then averaged. This is done for the term rates from 1 day (overnight rate) to 12 months. For the longer terms all the rates are averaged as there are only four (4) contributors. The averages are then used as inputs in the construction of the JIBOR rate. The JIBOR rate is then the average value of the averages of the offer rates.