



4 July 2018

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Australian Energy Regulator

By Email – [REDACTED] u

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Request for assistance on revisions to F3 data series – June 2018

Thank you for your letter dated 26 June 2018 requesting assistance with respect to Reserve Bank of Australia (RBA) data that is used by the Australian Energy Regulator (AER) in its regulatory determinations

In response to the three questions raised in your letter:

1. In June 2018 the RBA made a number of changes to its method for the calculation of Statistical Table F3. The revised yields were on average 5 basis points (i.e. 0.05%) lower than previously published data, with the difference ranging between almost no change to 59 basis points. More specifically, the changes made by the RBA in June 2018 to the RBA's method for the calculation of Statistical Table F3 were:
 - Improvements to the methodology used by the RBA to convert bonds issued in US dollars into Australian dollar equivalent terms. The change in June 2018 affects the entire series prior to September 2014 but does not affect the series from and including September 2014. The average change in the series due to this change is difficult to determine. When a similar change was made by the RBA in June 2017 to the series from and including September 2014 the average yield decreased by 6 basis points, as set out in further detail in the letter from the RBA to the AER dated 27 September 2017.
 - Improvements to the methodology used by the RBA to calculate spreads for bonds with embedded options. This change only affected bonds with a maturity of 3-years or less. The size of this change is difficult to determine.
 - A change to the methodology used by the RBA for calculating published yields. Previously, weighted-average spreads at each target tenor were calculated using the Gaussian kernel. The final published yields were calculated by adding the weighted-average spreads to the relevant benchmark rate. Now a weighted-average yield is calculated using the Gaussian kernel. Published spreads are then calculated by subtracting this yield from the relevant benchmark rate. Revised yields were on average 2 basis points lower due to this change.
2. The change to the methodology for calculating weighted-average yields (as outlined above) is the only departure from the methodology described in Arsov, Brooks and Kosev (2013). This change was made to improve consistency when comparing bond yields at the 3-year target tenor with quarterly swap rates.

3. As outlined above, the entire series has now been revised to reflect improvements to the methodology used by the RBA to convert bonds issued in US dollars into Australian dollar equivalent terms.

We note that Statistical Table F3 has been constructed by the RBA for addressing specific research topics. The data are not accorded any special status by the RBA and are provided as a convenience for the public

The RBA does not provide comments or recommendations on the appropriateness of the use of the data for any particular purpose.

We also note that the data may be subject to further revisions, such as in the event of further improvements to the RBA's methodology and/or changes to the available data.

Finally, the contents of this letter may be shared with AER's stakeholders, if required.

Yours sincerely



Securities Markets

Domestic Markets Department