



# Decision Guidance Document

DATE: 5 December 2019  
DEPARTMENT: AFS, AFM

SVERIGES RIKSBANK  
SE-103 37 Stockholm  
(Brunkebergstorg 11)

Tel +46 8 787 00 00  
Fax +46 8 21 05 31  
registratorn@riksbank.se  
www.riksbank.se

---

DNR 2019-00912

## The Riksbank's role in providing a reference rate

### Proposal for Executive Board decision

The Executive Board decides to

1. The Riksbank shall provide a reference rate for the very shortest maturity (overnight, O/N) in Swedish kronor in accordance with the timetable presented in the decision guidance document.
2. Task the Heads of Department for the Financial Stability Department and the Markets Department to establish the necessary organisation and processes to provide a reference rate that fulfils the requirements in accordance with the principles for financial benchmarks developed by the International Organization of Securities Commissions (IOSCO).

### The matter at hand

#### Background

Reference rates fulfil a central and important function in the financial system. They are used by a number of different actors on the financial markets and make it possible to achieve a high degree of standardisation of the pricing of financial products. Historically, this applies not least to the reference rates known as 'IBORs' (Interbank Offered Rates). These rates form the basis of many financial contracts that are of central importance to the ability of banks and non-financial companies to manage risk. They are also of significance for the interest rates that households and companies have to pay.

During the financial crisis of 2007–2008, liquidity in unsecured interbank loans deteriorated considerably, particularly for loans with longer maturities. With this, reference rates based on interbank loans (IBORs) and their ability to reflect prevailing market conditions started to be questioned. In 2012, the Libor scandal was also exposed, in which a number of banks manipulated their Libor bids for the gain of the bank or the personal gain of its employees. Confidence in these reference rates thereby

decreased even further and, as a consequence of these events, a comprehensive review of reference rates began around the world.

In light of this, the International Organization of Securities Commissions (IOSCO) issued a report in 2013 that included 19 principles for financial benchmarks.<sup>1</sup> These principles were drawn up to increase the reliability of reference rates and other benchmarks and contribute to improved governance, transparency and quality in the setting of reference rates. The year after, the Financial Stability Board (FSB) published a report containing two main recommendations:<sup>2</sup>

- *Existing reference rates (IBORs) need to be strengthened.* The meaning of this recommendation was that the existing reference rates should be based on actual transaction data as far as possible, instead of just being based on bids. This recommendation was also followed by changes to the frameworks for several major IBORs.<sup>3</sup>
- *New alternative reference rates should be developed.* The aim of this recommendation was to develop alternatives to the existing reference rates. These alternatives could either exist in parallel with, and hence complement, or entirely replace the already existing reference rates. This decision guidance document focuses on the work to develop and publish such a reference rate on the Swedish market.

### **New alternative reference rates takes shape**

In light of the FSB's second recommendation, comprehensive international work began on the development of alternative reference rates. It has also been decided that some of the current reference rates are set to disappear entirely in the future, including Libor (London Interbank Offered Rate) and Eonia (Euro OverNight Index Average). This has forced a more rapid development of alternative reference rates in countries that use Libor and Eonia.

In the current situation, there are no plans to cease publication of the current Swedish reference rate, Stibor (Stockholm Interbank Offered Rate). However, work is ongoing to develop a proposal for an alternative reference rate for the Swedish market, work in which the Riksbank is also involved. On the initiative of the Swedish Bankers' Association, the Working group for alternative interest rates (AGAR) was created in December 2018.<sup>4</sup> So far, the working group has published a number of consultations and has also recommended the following definition for an alternative reference rate in Sweden:

- Maturity: overnight (O/N)

---

<sup>1</sup> See IOSCO (2013), "Principles for financial benchmarks, final report", 17 July 2013

<sup>2</sup> See FSB (2014), "Reforming major interest rate benchmarks", 22 July 2014

<sup>3</sup> For further information on the work of reforming IBORs, see FSB (2018), "Reforming major interest rate benchmarks: Progress report", 14 November 2018

<sup>4</sup> The seven Stibor banks take part in the working group as members while the Riksbank, Finansinspektionen, the Swedish National Debt Office and the Swedish Bankers' Association participate as observers. In addition, the Swedish Bankers' Association administrates the working group's activities.

- The rate shall be based on unsecured transactions made by the reporting bank with the Swedish National Debt Office, banks and financial institutions
- The transactions shall lead to a deposit at the reporting bank.

### **The Riksbank's role in providing a reference rate**

The Riksbank already runs a project aimed at enabling a better evaluation of the implementation of monetary policy and obtaining better information on which transactions that are made on the short-term money market in Swedish kronor.<sup>5</sup> The aim of the project is to develop methods and system support to be able to calculate and publish one or more overnight rates.<sup>6</sup> This rate, or these rates, will be calculated based on the information on transactions on the money market in Swedish kronor reported by the monetary policy counterparties to the Riksbank since October 2019.<sup>7</sup> One of the rates being developed by the Riksbank for the very shortest maturity could also be used as an alternative reference rate on the Swedish market.

On 26 September 2019 the Riksbank published the consultation "The Riksbank's role in providing a reference rate" (ref. no. 2019-00912). In this document, the Riksbank presented the work of developing an alternative reference rate in Sweden and the reasons that make it appropriate for the Riksbank to be the actor that calculates, publishes and administrates (i.e. provides) such a reference rate. The aim of the consultation was to gather the opinions of other public authorities, financial institutions and other interested parties on the standpoints expressed in the consultation prior to a decision on the matter. All referral bodies that have responded to the consultation have given their support to the Riksbank's proposal and no comments have been received that have led to any change in the Riksbank's standpoints (see Annex: summary of responses to the consultation for a summary of the consultation responses).

### **The way forward and outstanding issues**

Several steps are required, however, before a reference rate that is ready for publication by the Riksbank comes into question (approximate timetable in brackets):

- Decision on the rate's final design, after consultation with the market via the Working group for alternative interest rates (early spring 2020).
- Setting-up of IT systems, operative routines and functions and routines for internal audit and control of the reference rate (spring 2020).
- Publication of a provisional reference rate, a test period in which the market has the opportunity to prepare itself for using the rate (first half of 2020).
- Publication of the final reference rate (second half of 2020).

---

<sup>5</sup> Under Chapter 6, Article 2 of the Sveriges Riksbank Act, the Riksbank shall follow developments on the foreign exchange and credit markets and implement necessary monetary policy measures.

<sup>6</sup> Under Chapter 6, Article 4, second paragraph of the Sveriges Riksbank Act, the Riksbank shall make public data that is of interest for the assessment of the conditions on the credit and foreign exchange markets. Through this, those who are active on these markets can obtain guidance in their trading (see Government Bill 1986/87:143 p. 83).

<sup>7</sup> A request for reporting will nevertheless be sent to the relevant counterparties, in which it is specified what kind of reporting is needed by the Riksbank to provide one or more rates and what the reporting will be used for (in practice, however, this means that the Riksbank will not require any additional reporting to that which already takes place).

Work on reference rates will also continue at the international level in the period ahead. Many new reference rates are already being published but a number of issues are still outstanding. One major issue is how to develop rates for longer maturities. This is because the new reference rates only exist for the very shortest maturity (overnight, O/N). The Riksbank will continue to monitor ongoing projects in other countries and currency areas as well as the work being done in the Swedish working group, AGAR. Reasonably, the Swedish method for developing any rates for longer maturities should not differ from the international practices under development.

Another major issue going forward is how the transition to the new reference rates should take place. This is an issue that is particularly topical in countries where it has already been determined that the existing reference rate will disappear completely. How Stibor is to be managed going forward is an issue that the actors on the Swedish financial markets and the Riksbank will need to address. As regards this issue, too, the Riksbank will monitor how other countries and currency areas choose to implement the transition to new reference rates.

## Considerations

The Riksbank's aim is for reference rates on the Swedish financial markets to enjoy a high level of confidence. Both actors on the financial markets and the general public should be able to rely on the pricing of financial contracts taking place in a fair and transparent way. This is of considerable importance in order to enable well-functioning financial markets and efficient interest-rate setting. There are several reasons for why it is appropriate for a central bank, in this case the Riksbank, to provide a reference rate. The most important reasons are presented below.

### **The Riksbank can contribute to the reliability and quality of the reference rate**

Reference rates fulfil an important function on the financial markets. Credible, robust, and relevant reference rates make it possible to standardise financial products to a high degree. These rates will not only benefit the financial sector but also benefit both households and companies. Reference rates also reduce the costs of drafting financial contracts, while they also reduce the complexity on the financial markets and allow less informed actors to participate to a greater extent without the costs becoming too high.

Experiences from the last financial crisis show that the market has not always been able to provide a reference rate in a satisfactory manner. There is therefore reason for the public sector, in this case the Riksbank, to contribute by providing a reference rate. The Riksbank could thereby also contribute to the reliability and quality of the reference rate.

### **The Riksbank providing a reference rate is a cost-effective solution for society**

As the Riksbank, since October 2019, already collects the information required to calculate and publish one or more overnight rates, the use of one or these rates as a reference rate on the Swedish market is a cost-effective solution.

The central banks that currently provide reference rates evaluate themselves in accordance with IOSCO's *Principles for Financial Benchmarks*, something which the



Riksbank also intends to do. A number of organisational requirements are attached to these principles. For example, several risk and control functions are required. Several of these functions are something that the Riksbank already has in place and can derive economies of scale from.

**In several other countries, it is the central bank that provides the new reference rate**

Several other central banks have taken on the responsibility to provide the rate or rates that are intended to work as alternative reference rates. This applies not least to the European Central Bank, Bank of England, Federal Reserve Bank of New York, Bank of Japan and Bank of Canada. In some cases, these central banks have also taken a leading role in the work on developing the new reference rates. In other cases, the central bank has provided, as before, different types of rates and instead updated the methodology for an existing rate and uses this as an alternative reference rate. The task of providing different types of rates is hence neither new nor unfamiliar for a central bank. That the central bank provides a reference rate can also affect the credibility of the reference rate in a positive manner.