

# MINUTES



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## SWESTR Advisory Group, 22 February 2023

PRESENT:	Sveriges Riksbank	PRESENT VIA	Bloomberg
	Alecta	TEAMS:	Handelsbanken
	Danske Bank		Swedish Association of Corporate Treasurers
	Euroclear		LCH
	Nasdaq		Nordea
	Swedish Bankers' Association		Swedish National Debt Office
	Swedish Export Credit Corporation		SEB
	Insurance Sweden		Skandia Liv
	Swedish Securities Markets Association		Swedbank

### 1. The Chair welcomes the meeting participants

Chairperson Anders Gånge, on behalf of Sveriges Riksbank, welcomed participants to the meeting.

### 2. The participants introduce themselves

All the participants present introduced themselves.

### 3. Summary of developments since the previous meeting

The Riksbank summarised a number of events relevant to SWESTR and the Riksbank's work with SWESTR since the last meeting of the SWESTR Advisory Group on 21 September 2022:

- The Riksbank emphasised that clearing of OIS contracts referencing SWESTR is now offered by both Nasdaq and LCH, and that the first bond referencing SWESTR has been issued.

- The Riksbank pointed out that the new Sveriges Riksbank Act (2022:1568), which entered into force on 1 January 2023, clarifies the Riksbank's mandate to provide SWESTR, average rates and index.
- The Riksbank informed about forthcoming organisational changes regarding the Riksbank's work with the benchmarks. The Markets Department will continue to have overall responsibility for operationalising the Riksbank's role as administrator, while the Statistics Division of the Monetary Policy Department will in future carry out the daily process of determining and publishing the benchmarks. In connection with the organisational changes, which are expected to come into force at the end of the quarter, the governing documents for the Riksbank's work with SWESTR, average rates and index will be revised.
- The Riksbank discussed the technical problems that led to the SWESTR value with a value date of 25 January having to be calculated using an alternative method. The Riksbank informed that the absolute impact on the SWESTR value was 0.3 basis points. The Riksbank takes a serious view of the incident and is taking measures together with its IT operations supplier to ensure that it does not happen again.
- The Riksbank announced that it is currently working on a couple of analyses on, among other things, the design and determination process for SWESTR, as well as on the year-end effect, and that these are expected to be published in the spring. In addition, the Riksbank announced that it intends to publish an annual report for SWESTR in the future.

There were no questions or comments from participants on the issues raised under this agenda item.

#### **4. The SWESTR framework**

The Riksbank presented the governing documents for SWESTR, average rates and index that entered into force on 1 January 2023. The revisions were mainly made in the light of the Riksbank's annual review of all governing documents and the new Sveriges Riksbank Act. No substantive changes have been made, but some sections were clarified.

There were no questions or comments from participants on the issues raised under this agenda item.

#### **5. Underlying market for SWESTR**

The Riksbank began the discussion on the underlying market for SWESTR by presenting the recent changes in the application of the operational framework for monetary policy, that is, the Riksbank's offer to issue Riksbank certificates corresponding in principle to the entire liquidity surplus that the banking system has against the Riksbank. The Riksbank presented the background to the changes and the Riksbank's expectations that the banking system will eventually choose to invest volumes in Riksbank Certificates that are larger than previously possible and larger than the volumes of certificates outstanding on the day of the meeting.

One participant asked how these changes will affect overnight deposits in the money market, to which the Riksbank responded that time will tell and speculated that the money market between monetary policy counterparties may become more active.

The Riksbank then invited free discussion and information sharing on how the Riksbank's changes have affected or can be expected to affect the underlying market for SWESTR in terms of interest-rate formation in the shortest segment of the money market (*overnight*) and in different customer segments.

One participant said that the increase in the volume of certificates offered was welcome, but that it could be considered aggressive of the Riksbank to remove the entire restriction on the issued volume straight away. The participant therefore felt that it was good that the Riksbank retained the restriction of SEK 20 billion as a buffer for a transitional period. The same participant also considered that the caution that has characterised the bidding in the few auctions of Riksbank certificates that have been held since the change is due to uncertainty on the part of the monetary policy counterparties. The participant also speculated that the changes should, in due course, increase the transaction volumes between monetary policy counterparties at overnight maturity.

## **6. Consultation on SWESTR**

The Riksbank presented the consultation on SWESTR, which was sent to the consultation bodies on 15 February 2023 and published on the Riksbank's website. The consultation proposes that SWESTR shall in future be published earlier on the day of publication and that the Riksbank shall provide more information on the transaction dataset for SWESTR.

### **Bringing forward the publication time**

The Riksbank presented the proposal to bring forward the publication of the benchmarks, including the timing of any corrected values, and then opened the floor for questions and comments.

One participant, whose organisation is also a reporting agent for SWESTR, commented on the timing of the validation of transactions and asked whether the Riksbank had considered the impact this would have on reporters and their internal validation procedures. The Riksbank replied that it had of course considered such issues, but that it welcomed views from reporting agents on this topic. The participant mainly highlighted the problem of making contact with the relevant dealers in the early morning and that the proposal could lead to increased staffing costs if dealers needed to be in place earlier in the morning.

### **Increased provision of information on the transaction dataset**

The Riksbank reviewed the two proposals to publish daily information on the interest rate levels at the trimming limits in the dataset for SWESTR and to publish information on the composition of the transaction dataset in an extended *Report on the dataset for SWESTR*. The Riksbank emphasised the importance of considering the confidentiality provisions and the impact on the overnight market that additional information may have.

One participant asked whether there is a risk that the new information could reveal whether a bank has funding problems in times of crisis or stressed market conditions. The Riksbank emphasised that this is one of the reasons why it takes the issue of

confidentiality so seriously, but said that it should not be possible to tell from the daily information which bank it is.

One participant asked whether the Riksbank will carry out confidentiality assessments prior to each publication. The Riksbank explained that prior to each publication of the *Report on the transaction dataset for SWESTR*, i.e. quarterly, an assessment will be made of whether it is compatible with the confidentiality provisions to publish the report in question. However, it is not possible to carry out a daily confidentiality assessment prior to the publication of interest rate levels at the trimming limits. It is therefore necessary for the Riksbank to make an *ex-ante* assessment of whether there is a risk of confidential information being disclosed when publishing this data. The Riksbank assesses that there is no such risk.

One participant asked whether the information on the transaction dataset will be published with a certain lag. The Riksbank explained that the quarterly publication is intended to take place with a lag of just over one month and that the reported composition will refer to a rolling observation window of four calendar quarters. The same participant who earlier raised the question of possible crisis signals then pointed out that the interest rate levels at the trimming limits are not intended to be presented with any lag and expressed some concern about this.

Another participant commented that it will not be possible to distinguish in which customer segment the published interest rate levels at the trimming limits originate.

The Riksbank thanked the participants for their comments and encouraged them to also submit actual consultation responses with the comments made.

## **7. Year-end effect and robustness requirements**

The Riksbank began by showing publicly available data on the latest year-end for SWESTR. The Riksbank emphasised the sharp decline in the level of SWESTR, and also highlighted the decline in the number of reporting agents who had transactions on the day in question. However, the Riksbank noted that the overnight market seemed to have functioned satisfactorily on the whole, but with a noticeably lower turnover on the last banking day of the year.

The Riksbank also pointed out that there seems to be some concern in the market about a situation in which one or more robustness requirements are not met, or about technical problems, which could affect the SWESTR value both at actual year-end, and on the first two banking days of the new year. In such situations, SWESTR would be severely affected. The Riksbank opened up the floor for discussion on these issues.

One participant expressed that the uncertainty and magnitude of possible movements is a problem, but that they have no solution to it. Furthermore, the participant stressed that specialised solutions for the Swedish market are normally not desirable as they may scare away foreign stakeholders and thus negatively affect the liquidity of SWESTR-linked instruments.

The same participant then asked an open question to the other participants, mainly the banks, whether they considered the fall to -9 per cent to be reasonable and fair based on how they saw the market on the day in question. The answer they received was that the interest rate could have been even lower. One bank said that they also did not consider that the previous year's -3 per cent was representative of what they saw then, but that they had expected SWESTR to be lower on that occasion.

There was then a discussion on why the effect is not as significant in countries with similar conditions. One participant pointed out that NOWA, for example, did not contain any actual transactions over the year-end, which is why the rate did not fall. The question of whether Denmark and Euroland have the same resolution fee as Sweden, and thus whether DESTR has the same conditions as SWESTR, was asked. The Riksbank replied that as far as the Riksbank knows, the answer to this question is yes.

One participant pointed out that the year-end effect in combination with alternative calculation methods could disrupt the derivatives market. The participant also said that a special solution could deter foreign participants from making currency swaps where one leg is in kronor.

Another participant noted that their colleague had said that there is wording in the IOSCO principles ("...eliminate factors that might result in a distortion of the price, rate, index or value of the Benchmark") which, according to the participant's colleague, could open up the possibility of a special solution over year-end.<sup>1</sup> The participant did not want to comment on whether they consider it appropriate to take such action, even if it might be possible to do so. The Riksbank said that they will look more closely at the wording.

The Riksbank then asked the participants what they think will happen next year with regard to the year-end effect. One participant pointed out that previous years' datasets for SWESTR over year-end has probably been mistakes made by other banks.

One participant pointed out that the problem was discussed in AGAR and that AGAR also developed an alternative method which, according to the participant, worked well over the year-end, mainly because the robustness requirements were designed differently.

## 8. Further questions?

One participant (an issuer) asked a question to another participant in the group (a CSD) regarding the payment of variable coupons on bonds and how far in advance CSDs needed to know the interest rate on which the payment flow would be based. The participant wondered why there seems to be a standard of five banking days for bonds, while for the clearing of e.g. derivatives it is two banking days. The other participant could not answer immediately, but promised to get back to the first participant.

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<sup>1</sup> The extract referred to by the participant was: "The design of the Benchmark should seek to achieve, and result in an accurate and reliable representation of the economic realities of the Interest it seeks to measure, and eliminate factors that might result in a distortion of the price, rate, index or value of the Benchmark." Part of Principle 6 of the *Principles for Financial Benchmarks*, International Organisation of Securities Commissions, July 2013.



The Riksbank then asked whether the first participant believed that there was an international movement towards a standard of two banking days for settling bond coupons, and the participant replied in the affirmative.

#### **9. Next meeting**

The Riksbank proposed that the next meeting of the SWESTR Advisory Group should take place in late September or early October. There were no objections from the participants. The Riksbank thanked the participants for their time and commitment and then closed the meeting.