

MINUTES



DATE: 17 April 2024, at: 10:00-12:00
DEPARTMENT: Markets Department
MINUTE-TAKER: David Pettersson and Carl Fredrik Pettersson

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SWESTR advisory group

PRESENT:

The Riksbank:

Anders Gånge (AG), Chair

Carl Fredrik Pettersson

Per Åsberg Sommar

David Pettersson

Ulf Stejmar

External participants:

Jonny Sylvén (Swedish Bankers'
Association)

Loise Hedberg (Nordea)

Stefan Bartholdson (Nordea)

Jenny Ramstedt (SEB)

Joakim Henriks (Swedbank)

John Esk (Alecta)

Peter Danielsson (Nasdaq)

Participation via Teams:

Danilo Mazzi (Bloomberg)

Gustav Löwing (Euroclear)

Joakim Anjou (Danske Bank)

Filip Andersson (Danske bank)

Magnus Karlsmyr (Handelsbanken)

1. The Chair, Mr Anders Gånge, Sveriges Riksbank, welcomed everyone.

2. The participants introduced themselves

3. Developments since the previous meeting (AG)

The Riksbank reported on the activities carried out since the last meeting of the *SWESTR Advisory Group*, which took place on 22 February 2023. The following activities were noted:

- The publication of the value for the transaction-based reference rate SWESTR will take place at 09:00 with effect from 2 May instead of 11:00 as previously. The information provided on the transaction dataset for SWESTR will be extended at the same time (rates at trimming limits). The earlier publication

time and the extended information on the transaction dataset for the daily value of SWESTR are in line with the proposals submitted by the Riksbank.

- On 23 May 2023, the Riksbank published a *Staff memo* authored by David Petersson and Ingrid Johansson Wallin. Based on the complete transaction dataset for SWESTR during 2022, the authors have analysed how the characteristics of the reference rate are affected by a number of different choices made by the Riksbank when SWESTR was designed. In conclusion, the study showed that the average level and volatility of SWESTR is very little affected by the different choices made by the Riksbank. In other words, the reference rate is robust to changes at a detailed level in the design.
- In June 2023, the Riksbank conducted a survey of market participants' views on the year-end effect in SWESTR. An overwhelming majority of respondents to the survey felt that the year-end effect and its causes are known, but that it is difficult to predict its size. The survey showed that half of the respondents considered that the year-end problems had a negative impact on the use of SWESTR as a reference rate. At the same time, some argued that SWESTR should be defined differently for the last day of the year to completely eliminate the year-end effect. Others saw it as possible to cope with a significantly lower reference rate at the year-end, but uncertainty about where the rate would end up had to be reduced. There was no clear majority in favour of one or the other solution. However, the Riksbank's summarising assessment is that enough respondents saw problems with SWESTR around the turn of the year, which prevents a transition to SWESTR from STIBOR T/N.
- The Swedish Bankers' Association carried out a consultation among market participants on the year-end effect in SWESTR.
- On 8 April this year, the Riksbank sent out proposals for amendments to the regulatory framework for SWESTR for consultation. The consultation responses were to be received no later than 25 April.

4. Swedish Bankers' Association: transition from STIBOR T/N to SWESTR

The Swedish Bankers' Association reported on the activities undertaken since the last meeting. The organisation is leading a *Project 3* that investigates what is required to move from STIBOR T/N to SWESTR in financial contracts. The main message from their consultation with market participants conducted in 2023 is that the uncertainty in the SWESTR value around the turn of the year is currently far too great to make a transition from STIBOR T/N to SWESTR. The Swedish Bankers' Association notes that the Riksbank's proposal in the current consultation is similar to the proposals previously put forward by the Working Group for Alternative Reference Rates (Agar).

The Association also outlined various areas (legal, technical, etc.) where changes need to take place during a transition to SWESTR. The transition is expected to take at least 2 years. The Swedish Bankers' Association also noted that the market for OIS contracts needs to be reshaped, as so-called STINA contracts will cease to exist if STIBOR T/N disappears.

5. The Riksbank's Consultation on changes to the regulatory framework for SWESTR

The Riksbank presented the proposals in the investigation conducted by the Riksbank to change the regulations for SWESTR with the aim of facilitating the transition from STIBOR T/N to SWESTR by reducing the uncertainty in SWESTR values around the turn of the year. The meeting then opened for questions and discussion.

Bank tax and resolution fee are the fundamental problems

One participant recalled that the fundamental problem causing the year-end effect in SWESTR is the design of the resolution fee and the bank tax. The Riksbank acknowledged the problem, but emphasised that the issue was beyond the Riksbank's mandate to change. Another participant pointed out that the solutions proposed by the Riksbank in the consultation would work even if the bank tax were to be abolished or if the resolution fees were to be reduced.

Regarding an anomalous SWESTR value on the last business day of the year

One participant said that the fundamental problem of a different SWESTR value on the last banking day of the year would remain even if the Riksbank implemented the proposed changes to the regulations for SWESTR. Another participant agreed, saying that the problem lies in the way SWESTR is calculated using the normal method and also seeing a problem in the wide spread between the rates for the last business day of the year reported by the banks. There was a broad discussion on the possible hedging of year-end positions and the potentially high costs of these hedges. Costs to protect one's position are always present, regardless of the solution chosen to address the uncertainty of the year-end listing, according to two participants. At the same time, one of these participants found it difficult to see how and with which instruments this uncertainty could be addressed. However, it was pointed out that the current STIBOR reference rate also has problems, such as credibility issues.

A number of participants said that there were no obvious solutions other than those proposed by the Riksbank. The vast majority of the group seemed to agree that an option whereby another day's interest rate or some other measure of the SWESTR value is used for the last business day of the year is not realistic. However, one participant said that there were alternatives to the Riksbank's proposal, which were not seen as sufficient.

On transaction volumes and the Riksbank's proposal to lower the robustness requirement

One participant said that the Riksbank's proposal to lower the robustness requirement for transaction volumes from SEK 6 to 2 billion means that the robustness requirement is very low. The Riksbank replied that the risk of, for example, manipulation is kept at a satisfactorily low level as the other two robustness requirements will remain unchanged at previous levels. Another participant saw a risk in this context that the transaction volumes on which SWESTR is based will fall as the Riksbank sells securities, which reduces liquidity

in the banking system. The Riksbank replied that the central bank's actions might not reduce the volume of transactions between banks at all, as the banks' incentives to smooth their liquidity on the overnight market may be strengthened when the banking system's claims on the Riksbank decrease.

On the definition of overnight deposits with the banks

One participant raised the issue that there may be problems with how reporters choose to report their transactions. A discussion of what is reported to the Riksbank followed, with a distinction being made between explicit overnight deposits on the one hand and deposits in open-end transaction accounts on the other. The Riksbank emphasised that there should be no ambiguity in the Riksbank's instructions to reporters regarding what should be reported to the Riksbank. In this context, one participant argued that banks will not be able to accept traders placing funds in current accounts overnight, especially at the end of the year.

The Riksbank's proposal for handling the first day of the year (the skip method)

One participant reiterated that the fundamental problem is the deduction of the bank tax. Although the participant thinks that the Riksbank's investigation and proposals are generally good, the participant is not satisfied with the so-called 'skip method', according to which the year-end day's transactions are excluded when calculating SWESTR for the year's first banking day using an alternative method. The same participant wondered whether the Riksbank could not use a more sophisticated alternative calculation method for SWESTR (such as in the calculation of the UK reference rate Sonia). The Riksbank replied that a guiding principle is that SWESTR should be transaction-based. A solution similar to the UK example would make the SWESTR value less representative of current day transactions.

The Riksbank asked what more specific arguments there are in favour of not using the skip method, apart from the fact that it would be good to have the same rules for all banking days of the year. One participant said that the skip method means a less transaction-based reference rate, while the Riksbank said that SWESTR actually becomes more transaction-based on the first banking day of the year if the skip method is used, as opposed to if this method is not used. In this respect, three participants expressed that the skip method was an acceptable solution. One of these participants asked whether the skip method could be excluded from the regulatory framework if the year-end problem ceases in the future. The Riksbank replied that this is possible, without changing other parts of the regulatory framework. The Riksbank emphasised that the regulatory framework for SWESTR should be clear and predictable and that changes to the framework should only be made if they are necessary and appropriate in relation to the purpose of providing a robust and representative reference rate.

The continuing process of implementing the new regulatory framework for SWESTR

The Riksbank described the forthcoming process of handling consultation responses, changes to calculation procedures and regulations as well as a future decision. The aim is for the revised regulatory framework for SWESTR to enter into force in the third quarter of 2024, and for this reason the Riksbank asked whether there is anything in particular to consider prior to its entry into force. Participants said that the earlier the changes are in place, the better.

6. Other business

No other business was discussed.

7. Next meeting

The Riksbank plans to hold the next meeting in the fourth quarter of 2024.

The meeting was closed at 11:15.