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The Riksbank's response – Open consultation on a fallback rate for Stibor

The Riksbank has read the open consultation regarding a fallback rate for STIBOR which the Swedish Bankers' Association has published. The Riksbank does not have any views to express regarding the specific questions in the consultation. However, the Riksbank would like to express some more general views. The Riksbank supports the Swedish Bankers' Association's work on producing a recommendation for a fallback rate for STIBOR as such a rate contributes to financial stability. This consultation is an important step in the work. However, the production of a fallback rate for STIBOR should not be regarded as a replacement for the transition to using SWESTR instead of STIBOR in new financial contracts as soon as is possible.

The EU Benchmark Regulation has established since 2017 that those who use reference rates (such as STIBOR) are obliged to have fallback rates written into financial contracts in the event of the reference rate no longer being available. If there is no fallback rate, there is a possibility of confusion and disputes regarding financial contracts that refer to reference values that are no longer available, which would have consequences for financial stability. The EU's Benchmark Regulation further establishes quite clearly that it is incumbent on the private sector to ensure that fallback rates are included in financial contracts. The importance of obtaining a fallback rate for STIBOR through private initiative has also been accentuated by the Ministry of Finance not currently proposing any legislation that would enable Finansinspektionen to establish one or more fallbacks for STIBOR pursuant to Swedish law.¹

STIBOR's administrator, the Swedish Financial Benchmark Facility (SFBF), is now working on reforming STIBOR with the purpose of ensuring that it meets the requirements in the EU Benchmarking Regulation. If STIBOR is to continue to be used after 2021, the SFBF must apply to Finansinspektionen (FI) for authorisation by the end of this year. If STIBOR receives authorisation, FI will in accordance with the Benchmark Regulation

¹ <https://www.riksbank.se/globalassets/media/remisser/riksbankens-remissvar/svenska/2021/remissvar-om-promemorian-regellattnader-pa-vardepappersmarknaden-och-nagra-fragor-om-referensvarden.pdf> (Riksbank's ref.no. 2021-00554)

continuously assess STIBOR's capacity to measure the underlying market and evaluate whether it still lives up to the requirements of the Regulation. The authorisation process for STIBOR further emphasises the importance of robust fallbacks for STIBOR being written into financial contracts as soon as possible, something that is already required by law since 2017.

The SFBF has published an open consultation that presents proposals for adjustments to increase the robustness and transparency of STIBOR. The Riksbank stated in its response to that consultation that STIBOR would continue to be based to an excessive extent on judgements rather than actual transactions. It is not possible to determine whether STIBOR is fair with regard to the underlying market when it is to such a large degree based on expert judgements. This applies in particular to STIBOR at the shortest maturity (T/N), where 90 per cent of the calculation is based on expert judgements (so-called level 3 contribution). For the same reason, the Riksbank does not consider that the proposed calculation method for STIBOR inspires confidence.²

The Riksbank is contributing to the work on producing fallback rate for STIBOR by producing estimates for average history SWESTR for STIBOR's maturities (except Tomorrow/Next). This is done by gathering, compiling and processing historical transaction data from relevant banks on their deposit transactions with a one-day maturity (over/night). It is therefore very important that these banks assist the Riksbank with good quality data that makes it possible to calculate historical estimates of the average rate for SWESTR.

The Riksbank finally wishes to emphasise that while it is important for financial stability to produce a fallback rate that can be used in contracts that refer to STIBOR, this cannot replace the imminent transition to the transaction-based reference rate SWESTR, instead of STIBOR, in new financial contracts. The transition, which is in line with international developments, should be made as soon as possible.³ The Riksbank therefore considers that the market participants should prepare by taking measures to promote such a transition.

A decision on this matter was made by Olof Sandstedt after a report was presented by adviser Anders Rydén.

Olof Sandstedt

Anders Rydén

² [The Riksbank's response - Open consultation on reformed of STIBOR \(Riksbank's ref.no. 2021-00434\)](#).

³ See the article in Financial Stability Report 2021:1 [SWESTR is a part of the global reform of reference rates](#)