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Project 3 - Compilation of consultation responses

In a consultation, the Bankers' Association has asked how the market would react to a switch of the term STIBOR T/N to SWESTR, if STIBOR T/N were to cease to be published and market participants would use SWESTR instead of STIBOR T/N. The consultation also aims to get an idea of the most suitable solutions for how such a change could take place. The consultation is not about whether STIBOR T/N should end or not, but only about how a possible change could take place. Any decision to cease publication of STIBOR T/N can only be made by its administrator (Swedish Financial Benchmark Facility, SFBF) or its supervisory authority (The Swedish FSA, Finansinspektionen).

The Bankers' Association has received 12 responses to the consultation. Those who have responded to the consultation are either large players in the markets that may be affected by the current change or representatives of many players. Below follows a compilation of the answers and the Bankers' Associations conclusions.

Question 1: Do you use STIBOR T/N in any way that is not stated above? In such cases, please explain whether a lack of STIBOR T/N as a reference rate or a change to another reference rate such as SWESTR could affect you and in what way.

The responses show that STIBOR T/N is not used to a greater extent than is described in the consultation document. It also appears that that use is not something that would affect a change from STIBOR T/N to SWESTR.

The Bankers' Association's conclusion: STIBOR T/N is not used to any great extent by those who responded to the consultation. The reference rate is also used to a very limited extent by the Bankers' Association's members. There is no indication that ceasing the publication of STIBOR T/N would affect the functioning of the market or disrupt outstanding financial contracts if sufficient time is given for a transition.

Question 2: Do you consider that SWESTR in its current state is suitable for use in financial agreements? If not, what do you think needs to be improved regarding SWESTR for the interest rate to be a robust reference interest rate that can be used in financial contracts?



The majority of those who responded to the consultation are of the opinion that SWESTR in its current state is not suitable for use in financial contracts. The main reason for this is the so-called year-end effect, that SWESTR deviates a lot at the end of the year in relation to other days. If there are too few transactions, the alternative method is used. Since it is not known whether the alternative method will have to be used at, for example, the turn of the year, the uncertainty is very high regarding how big the change in SWESTR will be at the turn of the year or other times when the alternative method is used. Comments have also been made that the transparency of the underlying transactions should increase. There is also uncertainty because the Riksbank is considering changing the method for the turn of the year. In the answers, it can be deduced that before a switch is started, it should be clearly stated which method is used at the turn of the year.

A couple of those who responded to the consultation are of the opinion that SWESTR is sufficiently robust and that a change could therefore be carried out.

The Bankers' Association's conclusion: A large group of respondents want to see a solution to the year-end effect before a switch can come in question, so it is appropriate if the year-end effect is managed. Only the Riksbank can decide how a possible change in method should be implemented so that the year-end effect is handled. A majority of the Bankers' Association's members believe that the year-end effect should be handled by adjusting robustness requirements and/or alternative calculation methods. How such a change is to be made should be based on analysis carried out by the Riksbank. At least one bank believes that the year-end effect should be removed.

Question 3: Do you think this is a fair description of what needs to be done over time or is there something missing?

The overall opinion is that the description is fair. A couple of those who answered the question also commented that it should be considered to phase out all maturities of STIBOR, see more about this under question 11.

The Bankers' Association's conclusion: If it is decided that a switch should take place, it must begin with SFBF making an announcement that they plan to stop publishing STIBOR T/N. This must be done according to the rules that follow from BMR. SFBF must announce the date after which it is no longer appropriate to enter into contracts with reference to STIBOR T/N and the date on which publication ceases. For this to work legally, dialogue with the Financial Supervisory Authority must take place in line with the regulation. In order for it to work for the derivatives market, coordination should take place with clearinghouses and parties in the derivatives market so that they can implement relatively coordinated measures around PAI and CSA agreements.

Question 4: How much time do you think you need between the time for the publication and the fact that it will no longer be possible to sign new agreements? Justify your answer.

The answers vary depending on the type of actor who submitted the answer, the estimated time required varies from 30 days to 24 months. Which method is used for a possible replacement is mentioned as a factor that can affect the time taken. The number of existing agreements that need to be rewritten also affects the time required.

The Bankers' Association's conclusion: The Bankers' Association sees that there is a wide spread of answers. It is important to succeed in this transition that the time does not deviate too much from what has been customary internationally and that it can be just under a year. A prerequisite for this to be implemented is that there is an alternative to STINA that works on the day it is no longer considered appropriate to enter into new agreements with reference to STIBOR T/N.

Question 5: How much time do you think you need from when it is not appropriate to sign new contracts and STIBOR T/N stops being published? Justify your answer.

The answers to this question also vary depending on the type of actor who submitted the answer. Some actors are of the opinion that very little or no additional time is needed than that stated in question 4. Others believe that anything from 30 days to 18 months may be needed.

The Bankers' Association's conclusion: There is variation in the answers. Overall, it is appropriate that at least one year is needed for this part. All in all, it is the Bankers's Association opinion that a period of two years is needed from the announcement that STIBOR T/N will stop being published until the publication actually ceases.

Question 6: Changes to the calculation basis for collateral should follow an agreement between the parties. Do you think it would help if the Baners' Association made a recommendation to its members about how this should be handled?

There are divided opinions in this regard. One opinion is that it is not needed as long as this takes place in the same way as has happened internationally, through ISDA and the clearing houses, and that it is clear how the reference rate will be designed. Another view is that for CSA agreements in the case of bilateral business, it might be helpful if the Bankers' Association should make recommendations. For CCPs, EACH, (European Association of CCP Clearing Houses), should be involved where a

coordination of a transition to SWESTR for valuation and PAI is done to ensure an orderly exchange of interest.

The Bankers' Association's conclusion: There is no major reason for the Bankers' Association to produce any further recommendation regarding the calculation basis for collateral, but international guidelines should be followed.

Question 7: Which method of transition do you prefer? Please state how you argue, why you prefer your alternative and why the other alternatives are not recommended. Since there are already parallel markets, we ask that you only indicate how this can be handled in the most appropriate way, also considering other uses of STIBOR T/N (valuation) and occurrence of STIBOR T/N in other types of agreements.

Method 1, the parallel method, is advocated by one actor. The reason is that after an announcement that STIBOR T/N is to cease, the use of SWESTR OIS will increase. This would increase the incentive for clearing houses to switch to SWESTR for valuation and PAI. Which in turn would reduce the use of STIBOR T/N. This is also facilitated by the fact that the maturity of cleared STINA OIS is usually short.

Method 2, the redefinition method, is predicted by two actors. One reason for this method is that the method has been used in other countries. It is also considered complicated to manage two different curves and the basis risk it entails.

Method 3, variant of the parallel method, is advocated by two actors. A combination with a recommendation from the Bankers' Association.

The Bankers' Association's conclusion: The results of the consultation do not give a clear idea of which method is preferred. This is primarily something that the clearinghouses will decide, and since there is no clear opinion among the members of the Bankers' Association or in the market, it will be up to the clearinghouses to decide.

Question 8: Do you see any other alternative method of transition or a combination of the proposed alternatives?

The overall view of those who have answered this question is that there is no need for any alternative method of transition.

Question 9: Do you think that the fallback rate should be calculated in a different way than described above? Justify your answer.

The overall opinion of those who answered the question is that the fallback rate should be calculated in the manner specified in the consultation.

Question 10: Do you think that the Bankers' Association should give a more detailed description of how the fallback rate should be calculated than what is stated by Bloomberg? Is further clarification needed regarding daily conventions? Feel free to exemplify what needs to be supplemented.

Three of those who answered the question are of the opinion that a more detailed description would be appropriate because Bloomberg's documentation and the Bankers' Association's previous letters are perceived as somewhat unclear. Otherwise, there are no strong opinions on the matter.

The Bankers' Association conclusion: Of the respondents, a majority do not consider it significant that the Bankers' Association provide any further clarification. Therefore, the opinion is that no major clarification will be needed in the Bankers' Association's upcoming recommendation. However, since there are respondents who want to see clarification, certain parts may possibly be clarified in the upcoming recommendation.

Question 11: Is there anything else to add regarding the method of changing STIBOR T/N to SWESTR?

Some of those who responded to the consultation are of the opinion that a change from STIBOR T/N to SWESTR should only be perceived as a first step towards replacing all STIBOR maturities.

The Bankers' Association's comment: It has not been included in the assignment for the current project to look at any other change than from STIBOR T/N to SWESTR.