

Decision

DATUM: 02/10/2020
DEPARTMENT: Markets Department



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Consultation on the Riksbank's new reference rate

Proposal for Executive Board decision

The Executive Board hereby decides that the Riksbank shall conduct a consultative procedure on the definition and calculation method for the Riksbank's new transaction-based reference rate in accordance with the attached memorandum.

The Executive Board delegates to Head of the markets Department the decision on which organisations and authorities the attached memorandum shall receive the consultation. Consultation responses are to have been received by no later than 21 October 2020.

Considerations

In December 2019, the Executive Board of the Riksbank announced that the Riksbank shall provide a reference rate for the very shortest maturity (overnight or O/N) in Swedish kronor. In October 2019, the Riksbank started to collect data on transactions on the money market from the monetary policy counterparties on a daily basis, with the aim of being able to calculate and publish a new transaction-based reference rate in Swedish kronor. In 2020, the Riksbank has been drafting a suitable definition for the new reference rate for the very shortest maturity in Swedish kronor based on this transaction data. The proposal for a definition includes:

- The sample of transactions from the information reported by monetary policy counterparties to the Riksbank on a daily basis, upon which the reference rate will be based,
- The normal calculation method to be used to calculate the reference rate and
- The robustness requirements that the transaction data must fulfil in order for it to be possible to use a normal calculation method.

In addition, an alternative calculation method for when the underlying transaction data does not fulfil the robustness requirements or when it is impossible to collect transactions for some reason. Finally, a process for calculating and determining the



Riksbank's reference rate (fixing process) prior to publication of the reference rate for each banking day.

The Riksbank intends to start publishing the provisional reference rate in January 2021. Reference rates are used as a common benchmark, or a basic value, when pricing financial contracts such as loan derivatives, FX derivatives and debt securities, and when pricing variable-rate loans for households and companies. The proposed reference rate will therefore not just affect the Riksbank's monetary policy counterparties but also other actors. It is therefore proposed that the Riksbank should gather comments and views from a wide set of stakeholders via a consultative procedure prior to the Executive Board taking a decision on the final design of the Riksbank's new reference rate. Such a consultative procedure is deemed appropriate in order to secure support for the Riksbank's proposal and contribute to due process by ensuring that the underlying basis has been carefully analysed prior to a decision being taken. This is particularly important bearing in mind that the Riksbank, like other central banks, has voluntarily undertaken the task of providing a reference rate with consideration for the requests and requirements of the market. New international requirements make it urgent to also provide a transaction-based reference rate in Sweden and the Riksbank therefore intends to offer the most effective process possible for this consultative procedure.

In addition to making it possible to submit comments via the Riksbank's website, the Riksbank intends to send out information by email to a wide group of stakeholders to ask and encourage them to participate in the consultative procedure. In addition, the Riksbank is conducting bilateral meetings with the reporting agencies that report transaction data for calculation of the reference rate, during which they may also submit their views and comments. Via this consultative procedure, the Riksbank will gather comments and views from relevant stakeholders. The consultative procedure needs to be conducted over two weeks in October 2020 so that any changes to the proposed definition can be implemented in accordance with the specified timetable, which states that a six-month test period for publication of a provisional reference rate shall begin in January 2021.

The consultative procedure will begin when the attached memorandum is published on the Riksbank's website at 10.30 on 7 October 2020.