



Decision

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SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

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Establishment of a forum for dialogue on reference interest rates

Decision

The Riksbank has decided to convene a forum for dialogue on the market conventions for reference rates in order to promote the stability of the financial system.

Background

The Riksbank shall promote a secure and efficient payment system. This means, for instance, that the Riksbank shall act for the stability of the financial system. The Riksbank shall also monitor developments in the currency and credit markets, take the necessary monetary policy measures and regularly publish statistical data on currency and credit conditions. As part of this, since September 2021, the Riksbank has provided the fully transaction-based reference rate SWESTR and also, since October 2021, average interest rates and indices based on SWESTR.

Reference rates fulfil an important function in the financial system in Sweden and in other countries and are used as a common benchmark when pricing financial contracts.

In general, there are two types of reference rate: transaction-based reference rates based on actual transactions, such as SWESTR, and traditional interbank rates based on banks' bids or assessments of interest rates, rather than interest rates for realised transactions. There are also certain types of reference rate on the market that are partly transaction-based but also include discretionary assessments.

The international trend is for more and more central banks to take responsibility for providing fully transaction-based reference rates. Several of these new reference rates are in use and are on the way to replacing traditional reference rates based on interbank rates.

Like the other central banks that issue reference rates, the Riksbank complies, where applicable and relevant, with the principles for financial reference rates adopted by the

International Organisation of Securities Commissions (IOSCO). Among other things, the IOSCO Principles for Financial Benchmarks indicate that public authorities should cooperate with and guide the private sector in order to ensure that any costs arising from a change of reference rate are borne proportionately by market participants and that this does not unnecessarily affect the real economy. It also states that, as far as possible, the authorities must seek to promote international coordination in any recommendations for the transition.¹

Considerations

The Riksbank considers that fully transaction-based reference rates are more reliable than other types of reference rates, such as assessment-based interbank rates, and that the increased use of fully transaction-based reference rates contributes to the promotion of financial stability. Similar assessments have been made internationally. Against this background, several countries and currency areas have already begun, and in some cases have developed concrete plans, to move from assessment-based interbank rates to fully transaction-based reference rates.

The Swedish financial market is integrated with the rest of the world. It is therefore important that Sweden actively monitors international developments in order to reduce risks and increase the efficiency of the Swedish financial system. In order to safeguard the good reputation of Swedish reference rates, the Riksbank therefore sees a need for participants in the Swedish market to switch to using fully transaction-based reference rates. For this same reason, as well as to achieve international harmonisation, the Riksbank also sees a need for the market to switch to the convention of using the overnight maturity as the shortest maturity for the reference rate in Swedish kronor.

At present, a number of issues need to be resolved before the market can use SWESTR or any other fully transaction-based reference rate enough to achieve the Riksbank's objectives. Among other things, this has been shown by the Riksbank's survey on SWESTR, which pointed out that market participants have a number of outstanding questions on matters such as the organisation of market conventions and technical issues.²

Against this background, the Riksbank needs to gain a better understanding of the conditions needed by the private sector to move smoothly and to a greater extent to fully transaction-based reference rates and how any obstacles to this can be overcome. In particular, discussions in the forum should focus on issues such as

- whether market participants share the Riksbank's objective for reference rates in Swedish kronor to be fully transaction-based and what measures need to be taken to achieve this
- how costs for market participants and the impact on the real economy resulting from a transition to such fully transaction-based interest rates can be minimised
- how the increased use of SWESTR and any other fully transaction-based reference rates may be possible in the near future

¹ IOSCO Principles for Financial Benchmarks, 2013 - [Principles for Financial Benchmarks \(iosco.org\)](https://www.iosco.org)

² See the memorandum "Summary of the Riksbank's survey on SWESTR", April 2022, Sveriges Riksbank.



In order to comprehensively illustrate and analyse these issues, the Riksbank needs to involve market participants.

The Riksbank should therefore convene a forum with these participants for dialogue on the market conventions for fully transaction-based reference rates. Forum participants will consist of potential users of SWESTR and other reference interest rates, as well as relevant agents and authorities. The forum will help to develop the conditions for using fully transaction-based reference rates.

In order to act as a joint resource for all stakeholders and market participants, the forum shall strive for transparency in its work. Consequently, the assumption is that information on discussions held at the forum should be published on the Riksbank's website.

The Riksbank will act as convener and take responsibility for administrative work.

Olof Sandstedt

Head of the Financial Stability Department