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Definition of interest rate: Decision

The Working group for alternative reference rates has been given the assignment¹ of drawing up proposals for and recommending an alternative reference rate for the Swedish krona in line with the virtually risk-free interest rates (RFR) that are being developed in other currency areas. The definition of these rates has varied slightly between currency areas. A common feature, however, has been the use of overnight rates (O/N) that are based on completed borrowing transactions.

In order to identify which transactions could provide a suitable basis for a Swedish RFR, the Working group has analysed a large number of transactions. As it must be possible to construct an interest rate, the need to be able to capture the completed transactions has been taken into account. The decision has therefore been based solely on those transactions where banks in the Working group have been a party to the transaction. The Working group has decided to recommend a definition as follows:

- The term must be (O/N)
- Counterparties must be the Swedish National Debt Office, banks or financial institutions
- The transactions must be unsecured
- The transactions must lead to borrowing at the reporting bank

This means that the reference interest rate must reflect the Swedish banks' O/N borrowing from financial operators.

During the period examined (01/12/2015–31/12/2018), it was found that on average there were 36 such transactions per day at an average turnover of SEK 25 billion. On no day were there fewer than five transactions.

The reasoning behind the choice is that this is the form of transactions that have a large enough daily turnover and a large enough average volume per transaction and that most of the reporting banks have been involved in such transactions every day. The main argument for this choice, however, is that this is a definition that works in Sweden and at the same time is consistent with the definition chosen by other countries.

The Working group will now proceed to develop a method to be used for the fixing of this rate. This involves drawing up rules on whether certain transactions are to be excluded

¹ <https://www.swedishbankers.se/fraagor-vi-arbetar-med/arbetsgruppen-foer-alternativa-raentor/uppdraagsbeskrivning-foer-arbetsgruppen/>

when determining the rate, how daily fixing is to take place, how to ensure compliance with the rules and how changes can be made. It must also be made clear who will be responsible for the administration of the interest rate and ensured that this takes place in accordance with the applicable legal system. The new interest rate will be published at some point during 2020.



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