AGAR
Arbetsgruppen för alternativa referensräntor
Working Group for Alternative Reference Rates

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AGAR's conclusions from consultation 4

Introduction

The Working Group for Alternative Reference Rates (AGAR) is working to develop an alternative reference rate for Swedish kronor. Work is underway in many other countries to establish new reference rates in the form of nearly risk-free rates (RFRs) after this was recommended by the Financial Stability Board in 2014. A nearly risk-free rate of this kind was defined by AGAR last summer following a consultation[1]. AGAR carried out a second consultation on various transition issues, which put forward the argument that Stibor does not run the same risk of being discontinued as Libor[2]. The main purpose of developing a new RFR for SEK, therefore, is for it to act as a fallback alternative in contracts that refer to Stibor and for it to be possible to use this interest rate should the market require.

AGAR has also published an example form of the interest rate based on transactions, although no comment has yet been made on a separate consultation and its responses.

A fourth consultation was recently issued concerning how the fixing process itself should be established. Six organisations responded to this consultation. The questions are of a technical nature, but they have a major effect on how the interest rate will be set and, in particular, how it will be handled in situations of stress. Given the importance of the questions that have been asked, AGAR is slightly surprised by the limited interest. The responses received in the consultation and the conclusions AGAR has drawn from these are presented below.

General comments about the fixing process

In terms of the timing of publication of the interest rate, a standard has been developed where the interest rate is published the morning after the transactions have been completed. AGAR has proposed that publication take place at 9 am. One of the suggestions received proposes that 8 am would be more appropriate as this would be in line with when €STR (RFR for the euro) is published. AGAR could not see any commercial benefits to such coordination and instead maintains that

1 https://www.swedishbankers.se/media/4311/definition-of-intereset-rate-decision.pdf
2 https://www.swedishbankers.se/media/4430/conclusions-consultation-2.pdf

publication should take place at 9 am. Should there prove to be reasons to publish earlier, however, there is a readiness to change the publication time.

The proposed volume of data that is intended to be published every day is appreciated by the respondents. It has nevertheless been proposed that some form of statistical dispersion measure be included for the interest rates of the underlying transactions. One of the suggestions was that the interest rates forming the thresholds for trimming (12.5% and 87.5%) should be published. This is the case for a number of RFRs that are already published. Despite this, AGAR considers that the volume of data that is intended to be published should be as originally stated. If a worldwide standard is developed in terms of what should be published in relation to RFRs, the Swedish interest rate can be adapted to these requirements.

With regard to refixing, all those who responded appreciated the method proposed. There is nevertheless a desire for refixing to take place earlier than suggested by AGAR (12 noon). AGAR considers that it would be a good idea to start off with a longer period for refixing of three hours to 12 noon and then to cut down this time should this be possible.

All those who responded on the issue of trimming consider this to be a good, balanced method that may lead to lower volatility. Removing only 25% of turnover, compared with 50% in the eurozone and the UK, is considered to be well balanced given how much smaller the Swedish market is.

None of those who responded to the consultation disagree with how the interest rate should be calculated. This means that the interest rate will be calculated every day using current transactions unless when the exemption rule is applied.

Issue of the exemption rule

When developing new “nearly risk-free rates” (RFRs), the idea has arisen of including an option for recourse to an alternative calculation rule to produce the fixing. Having a robust exemption rule reduces the likelihood of being unable to publish a fixing. It also reduces the likelihood of having to use contractual fallback solutions. A well-designed exemption rule therefore means that contracts which refer to the RFR will be more reliable and robust. The respondents agreed that an exemption rule increases confidence in the interest rate.

In developing the exemption rule, it must first be established when this rule is to be applied, in other words under which conditions, and then how it should be structured. AGAR has proposed that the exemption rule be used if the supporting data is too weak; in other words if turnover before trimming is less than 2 billion for the current day or if there are fewer than three banks that have transactions to report. The consultation asked which exemption rule should be used if the supporting data is too weak. The eurozone and the UK have chosen different variants. The model used by the eurozone was the one that received the most votes in our consultation. It is also the model that AGAR considers to be most appropriate. Primarily because this exemption rule is the one that best handles any weak supporting data at the turn of the year.

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