

Annual Review of Danish Benchmarks` Definition and Methodology

Introduction

As per European Benchmark Regulation (Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014) Article 5, paragraph 3(a) it is the responsibility of the Oversight Committee (OC) to review the benchmarks` definition and methodology at least annually.

The following summarises the results of that review.

The Danish Financial Benchmark Facility (DFBF) is the administrator of the following benchmarks:

- CIBOR
- Tom/Next
- CITA
- SWAP; together the “Danish Benchmarks” or “Benchmarks”.

DFBF Benchmarks` Definitions and Methodology

The methodologies for each of the Danish benchmarks is available at the links below.

- [CIBOR](#)
- [Tom/Next](#)
- [CITA](#)
- [SWAP](#)

The OC, at its meeting held on 3rd December 2020, has further considered whether there have been any material changes in 2020 which would require revision to the methodologies and the OC does not believe that there have been such changes and that the Benchmark methodologies remain fit for purpose.

About the Danish financial market in the context of the Benchmarks

CIBOR and Tom/Next are currently the key benchmarks rates for the Danish market that define on-a daily basis the average rate at which local Banks lend DKK funds to one another for varying short-term maturities. As such, the respective benchmarks have established themselves as the most relevant reference rate, plus margin where relevant, for the settlement of financial contracts, most notably being commercial lending, mortgages, and interest rate derivatives contracts.

The benchmarks CITA and SWAP represent the daily determination for both products based on an average rate for the relevant maturities provided by the Panel Banks, whose contribution is determined by a committed market quote, highlighting the depth of the underlying interest rate derivatives market. More specifically CITA as the Interest rate swap product priced against the day-to-day rate will be used by market participants hedging short-term interest rate exposure, particularly when underlying cash markets lack the necessary liquidity, whereas SWAP will offer this capacity for longer- term maturities.

The OC does not believe that there have been any changes in 2020 which would impact on the underlying construction of the Benchmarks and their use in financial markets.

The size of the Danish Market

The daily turnover in the Danish money market was DKK 93 billion in the 2nd quarter of 2020, which was an increase of 23 per cent compared to the same period last year. This appears from Danmarks Nationalbank's yearly money market survey, which includes turnover from interbank loan transactions and short-term interest rate derivatives in the 2nd quarter. The increased turnover should be viewed in the light of elevated market volatility during the corona crisis and tighter liquidity conditions than previous years.

The OC does not believe that there has been any material change to the underlying Danish financial market such that the appropriateness or usage of the Benchmarks would be compromised in their current state.

Panel Composition

There have been no changes to the number and identities of Panel Banks contributing Input Data for Benchmark calculation in 2020. Although not a defining factor, the OC believes that this stability is an additive factor in considering whether the Benchmarks remain fit for purpose.

Outlier submissions to the benchmark

In 2020 the OC met on a regular basis to consider Panel Banks' Input Data used in the calculation of the Benchmarks. In particular, the OC focused on that Input Data where the data was outside of predefined tolerances previously agreed by the OC ("flagged data"). There were no occasions in 2020 where the Panel Bank explanations for flagged data were not accepted by the OC.

Although not a defining factor, the OC believes that this is an additional factor in considering whether the Benchmarks remain fit for purpose.

Other issues

The global Covid-19 pandemic has negatively affected financial markets. DFBF took steps in 2020 to clarify the methodologies for the calculation of the Benchmarks focusing on where Panel Banks were not able to provide appropriate Input Data. That said the OC does not believe that the pandemic has led to any changes which would question the ongoing appropriateness of the Benchmark.

Conclusion

The OC has considered the points detailed above and believes that the Benchmarks remain fit for purpose in the context of their usage in the Danish financial markets. In line with other jurisdictions, where there is a requirement to replace IBOR benchmarks with alternative rates, the OC has received updates on the progress being made in establishing the new DKK Risk-Free-Rate (DESTR), which would be based solely on actual market transactions concluded in the Overnight tenor and could prove to be a viable alternative for short-end fixings in due course, following detailed analysis.