

# Consultation Paper

Date: 16 August 2021

### Responding to this paper

The Danish Financial Benchmark Facility (DFBF) invites comments on all matters in this paper and in particular on the specific questions summarised in Appendix 1. Comments are most helpful if they:

- respond to the question stated;
- indicate the specific question to which the comment relates;
- contain a clear rationale; and
- describe any alternatives DFBF should consider.

DFBF will consider all comments received by 15 September 2021.

All contributions should be submitted via email to [cpresponses@dfbf.dk](mailto:cpresponses@dfbf.dk) under the heading 'Your input - Consultations'.

### Publication of responses

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All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed.

### Data protection

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Information on data protection can be found at <https://dfbf.dk/privacy/> under the heading Privacy.

### Who should read this consultation paper?

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This paper may be specifically of interest to contributors of input data to the DFBF benchmarks and to any investor dealing with financial instruments and financial contracts whose value is determined by the DFBF benchmarks or with investment funds whose performances are measured by means of the benchmarks.

This public consultation is not intended to provide legal, regulatory, or other advice and should not be construed, or relied on in any manner, as such. The information (of a legal, factual or any other nature) included in the paper has not been independently verified. It is not comprehensive and may change.

The DFBF does not assume any responsibility for any use to which this document may be put, including any use of this document in connection with a privately negotiated transaction.

This paper discusses the proposed cessation of three CIBOR tenors. Recipients of this public consultation are responsible for making their own assessments of the proposals.

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# 1 Introduction

The Danish Financial Benchmark Facility (DFBF) is the administrator of four Danish benchmarks: CIBOR®, Tom/Next, CITA and SWAP. Authorisation, under European Benchmark Regulation (BMR) was granted to the DFBF as of 1 January 2020 by the Danish financial regulator, Finanstilsynet, who acts as supervisor.

On 16 June 2021, the DFBF Business Working Group (BWG) held its 7<sup>th</sup> meeting. The main agenda item for discussion was recent reviews of CIBOR tenors and their usage. After thorough internal investigations within the CIBOR contributor Panel Banks (PBs), and based on a survey of selected DFBF customers, a conclusion was reached that a cessation of three CIBOR tenors (2 weeks, 2 and 9 months) was recommended. The recommendation of the cessation was considered by the DFBF Oversight Committee which was supportive of the recommendation and offered the same cessation recommendation to the DFBF Board of Directors. In accordance with the DFBF Consultation Policy the directors asked that a public consultation be held to gather feedback from a broad range of CIBOR users.

The primary reason for the proposed cessation is a general lack of support from the PBs to submit data for these three tenors, just as there is a perceived lack of demand from users for the CIBOR tenors proposed to be ceased. Furthermore, it is argued that CIBOR tenors should be aligned with the tenors of the EURIBOR benchmark, those being the 1 week, 1, 3, 6, and 12-months tenors currently in use.

## 2 Consultation responsibility

The DFBF directors have authorised this consultation process to be undertaken as the proposed changes are considered material as defined by the DFBF Consultation Policy.

As such the DFBF is conducting a public consultation to allow stakeholders and the broader community:

- a. the opportunity to provide feedback on such material change which the DFBF can take into consideration for its decision-making processes
- b. sufficient notice to apply the necessary actions to accommodate the changes

## 3 Rationale for change

Over recent years a number of national benchmarks have been reformed following the introduction of international standards such as the IOSCO Principles for Financial Benchmarks (July 2013) and regulations, including the European Benchmark Regulation<sup>1</sup> (BMR). Tenors that relied heavily upon expert judgement by contributors with limited underlying transactions were discontinued. The decision to discontinue was supported where doing so would not cause disruption to the smooth operations of financial markets relying upon the availability of the ceased tenors.

Within Denmark, contributing PB's have noted a scarcity of underlying transactions in the 2-week, 2 month and 9 months tenors which has the potential to undermine the integrity of the CIBOR benchmark for those tenors. Also, an analysis of the usage of those tenors by the DFBF and the PB's has indicated a limited demand for them. In addition, a streamlining of the tenors will simplify the PB submission process.

An alignment with the EURIBOR benchmark is further supported by the linkage between the Danish kroner and the euro currencies managed within the Exchange Rate Mechanism<sup>2</sup> (ERM II).

The combination of a desire to cease contributions for the tenors, and a perceived lack of demand for the tenors, has indicated to the DFBF that a cessation of the tenors can be implemented in a managed way to limit any inconvenience for users.

<sup>1</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016

<sup>2</sup> [European Commission](#)

## Question 1:

- a) Would the cessation of the CIBOR 2-weeks, 2 month and 9 months tenors be problematic for your organisation?
- b) If yes, what problems would arise?

## 4 Timetable for change

This public consultation is open for responses for 30 days from 16 August to 15 September 2021. At the end of the consultation period the DFBF will analyse the stakeholder feedback and present the feedback to the DFBF Oversight Committee for their further consideration and recommendation to the DFBF directors.

If the recommendation and decision of the DFBF directors is to cease the three CIBOR tenors as proposed advance notice will be advised to all users within the Analysis of Stakeholder Feedback document to be made publicly available on the DFBF website.

It is expected that 6 months' notice will be provided to stakeholders of any cessation. It is anticipated that any final cessation decision will be taken in October 2021 with the publication of the Analysis of Stakeholder Feedback document published shortly thereafter. It can therefore be assumed that any cessation of tenors will occur in April 2022 or thereabouts.

## Question 2:

Does the 6 months' notice for any cessation of CIBOR tenors allow sufficient time for the necessary changes to your systems and processes to be implemented for a smooth transition?

## 5 Clarification of the CIBOR definition

CIBOR is defined as follows:

"CIBOR being the rate of interest, at which a Panel Bank would lend DKK, if they were to do so, for a period of 1 week, 2 weeks, 1, 2, 3, 6, 9 and 12 months' maturity to a prime bank on an uncollateralized basis (i.e. unsecured interbank loan)".

Assuming the cessation of the three tenors is implemented the CIBOR definition will be clarified as follows:

"CIBOR being the rate of interest, at which a Panel Bank would lend DKK, if they were to do so, for a period of 1 week, 1, 3, 6, and 12 months' maturity to a prime bank on an uncollateralized basis (i.e. unsecured interbank loan)".

## Question 3:

Do you consider that the DFBF's clarification of CIBOR's definition will be generally accepted by stakeholders and counterparties to transactions that reference CIBOR and therefore minimise the risk of contract frustration?

## 6 Proposed amendment of related CIBOR documentation

A number of CIBOR public documents will require amendment to reflect the adjusted CIBOR tenor range should such an adjustment be implemented. These documents include:

- CIBOR Calculation Methodology (June 2020)
- CIBOR and Tom/Next Panel Bank Code of Conduct (September 2020)
- DFBF Post Publication Re-determination policy (September 2020)
- CIBOR Tom/Next Benchmark Statement (June 2020)

## 7 Consultation timeframes

The standard timeframe for DFBF consultations is 30 days.

The timetable for this consultation is as follows:

- |   |                   |
|---|-------------------|
| • Consultation Paper publication                  | 16 August 2021    |
| • Closing date for respondents' comments          | 15 September 2021 |
| • Collation and consideration of responses        | 30 September 2021 |
| • Publication of Analysis of Stakeholder Feedback | 15 October 2021   |

## 8 Respondent's confidentiality

In the case that some respondents indicate that they would like their responses kept confidential, the DFBF will ensure that the respondent's individual response is not published. The DFBF however, will be able to include their response in any aggregated summary of responses from all respondents – as long as the aggregate summary would not identify the respondent who require confidentiality.

All responses, whether requiring confidentiality or not, will be processed and reviewed by the DFBF and may also be shared with the DFBF secretariat, governance and potentially regulatory bodies.

## 9 Post consultation summary to stakeholders

The DFBF will respond to comments by stakeholders, provided as part of the consultation process, after collation and approval by both the Oversight Committee and the DFBF directors. The DFBF will provide a summary of responses and will declare its position regarding the aggregated feedback on each issue contained in the consultation paper. The outcome of the consultation process will be posted according to the timeframes detailed above to the DFBF website and in some cases provided directly to stakeholders via email.

## Appendix 1 – Summary of questions

### Question 1:

- a) Would the cessation of the CIBOR 2-weeks, 2 month and 9 months tenors be problematic for your organisation?
- b) If yes, what problems would arise?

### Question 2:

Does the 6 months' notice for any cessation of CIBOR tenors allow sufficient time for the necessary changes to your systems and processes to be implemented for a smooth transition?

### Question 3:

Do you consider that the DFBF's clarification of CIBOR's definition will be generally accepted by stakeholders and counterparties to transactions that reference CIBOR and therefore minimise the risk of contract frustration?

### Other:

If you have any comments or remarks on any of the aspects regarding the proposed changes described within this Consultation Paper, please include them in your response under 'Other comments'.