

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 Benchmark`s Definitions and Methodology

A summary of the underlying methodologies of each of the Danish benchmarks is set out below. The full version of respective benchmark methodology is published on DFBF website www.dfbf.dk.

The OC, at its meeting held on 8th December 2021, has further considered whether there have been any material changes in 2021 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 as of end of 2021.

The OC acknowledged that DFBF will cease three CIBOR tenors (2 weeks; 2 and 9 months) as of 31 March 2021, following a public consultation where no objection was received to the recommendation.

The OC acknowledged that DFBF conducts a public consultation on the Tom/Next Transition where an adjustment of the Tom/Next methodology is proposed, as well as cessation of the benchmark on 1 January 2026. The Tom/Next benchmark calculation methodology is proposed to change from Panel Bank input data contributions to DESTRA plus a pre-determined fixed spread.

About the Danish financial market in the context of the benchmarks

CIBOR and Tom/Next are currently the key benchmark rates for the Danish market which on a daily basis define 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 a 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 2021 which would impact on the underlying construction of the benchmarks and their use in financial markets.

The size of the Danish market

Danmarks Nationalbank has collected market activity in the money market in 2021 – Q2 and the turnover shows a normalisation to 2019 levels across all instruments. This was expected according to Danmarks Nationalbank as the money market turnover in 2020 rose due to increased market volatility and scarce liquidity following the covid-19 crisis. Turnover across all instruments (daily turnover in bio-DKK) was 72 bio down from 93 bio in 2020. Foreign banks dominate the market for borrowing and lending and count for more than two thirds of the daily turnover.

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 Bank composition

There have been no changes to the number and identities of Panel Banks contributing input data for benchmark calculation in 2021. Although not a defining factor, the OC believes that this stability in the makeup of the panel is an extra element to be taken into account when considering whether the benchmarks remain fit for purpose.

Outlier submissions to the benchmarks

In 2021 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 input data where this was beyond agreed pre-defined tolerance levels ("flagged data"). Significantly, after due consideration, in 2021, all explanations for flagged data were accepted by the OC.

Conclusion

Given the attention to detail applied by the OC to the oversight of the four Danish benchmarks and taking into consideration the fine-tuning that has duly be applied as detailed above, the OC firmly believes that the benchmarks remain fit for purpose in the context of their usage in the financial markets.