

Consultation Paper

CITA Reformation

Date: 3 August 2022



Responding to this paper

The Danish Financial Benchmark Facility (DFBF) invites comments on all matters in this paper and in particular to 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 Friday 2 September 2022.

All contributions should be submitted via email to cpresponses@dfbf.dk under the heading 'Your input - Consultations'.

Publication of responses

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

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

Who should read this consultation paper?

This paper may be specifically of interest to users of CITA, contributors of input data for the determination of CITA, and to any investor dealing with financial instruments and financial contracts whose value is determined by reference to CITA.

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.

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This paper addresses the proposed adjustment to the calculation methodology of CITA and the proposed cessation of two CITA 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.

In late 2021 the DFBF conducted a [public consultation on the transition of the Tom/Next](#) benchmark calculation methodology away from panel bank contributed input data to Denmark Short Term Rate (DESTR) plus a fixed Spread (revised calculation methodology). In addition, stakeholders were asked to respond on the proposed cessation of Tom/Next on 1 January 2026.

In December 2021 the DFBF announced that the conclusion of the consultation process was that on 1 April 2022, the DFBF would adjust the methodology of Tom/Next to be DESTR plus a fixed Spread, determined to three decimal places and that the DFBF will continue to publish Tom/Next every good business day until 1 January 2026, the date on which the benchmark will be discontinued.

In March 2022 the DFBF announced, in concert with Danmarks Nationalbank, that the fixed Spread was calculated at 0,190% (19,0 basis points) and that from 1 April 2022 the Tom/Next methodology would change to DESTR+19 bp.

CITA¹ is an interest rate swap offered rate quoted for Tom/Next against a fixed DKK rate for the following maturities: 1 month, 2 months, 3 months, 6 months, 9 months, and 12 months. To accommodate the change in the Tom/Next methodology effective from 1 April 2022 and the announced cessation of Tom/Next on 1 January 2026, a reform of CITA is necessary.

As administrator of CITA, the DFBF is conducting this consultation to seek feedback from stakeholders for the reformation of CITA as described within this paper.

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 changes which the DFBF can take into consideration for its decision-making processes
- b. sufficient notice to apply the necessary actions to accommodate the changes

This public consultation is open for responses for 30 days from 3 August to 2 September 2022. 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 from the Oversight Committee and decision of the DFBF directors is to adopt the changes to CITA as proposed, then that position will be advised to all stakeholders within the Analysis of Stakeholder Feedback document to be made publicly available on the DFBF website during the fourth quarter of 2022.

It is expected that around 3 months' notice will be provided to stakeholders for the transition to the revised CITA methodology and cessation of two CITA tenors.

¹ Copenhagen Interbank Tomorrow/Next Average

3 Rationale for change

The Working Group on Short-Term Reference Rates was established by Danmarks Nationalbank after it assumed the ownership and administration of DESTR. DFBF representatives have participated in the Short-Term Reference Rates Working Group as observers.

The Working Group on Short-Term Reference Rates within Danmarks Nationalbank furthermore encouraged Finance Danmark to continue the work for a transition model of the current CITA into a new benchmark or a reformed CITA benchmark with DESTR as variable leg.

On 3 March 2022 the RFR Working Group under Finance Denmark announced a [public consultation](#) on the reform of CITA to ensure the continuation of this forward-looking term reference rate. Stakeholders, to which this consultation is addressed, are encouraged to peruse the RFR Working Group's consultation.

On 30 March 2022 the RFR Working Group announced its [final recommendations](#), following the public consultation, as follows:

- The CITA methodology will be changed on 1 February 2023, so that panel banks' submissions are based on DESTR OIS plus a Spread (between Tom/Next and DESTR as determined by DFBF/Danmarks Nationalbank on 22 March 2022) of 19,0 basis points.
- After 1 January 2026, the CITA methodology is changed in a final step so that panel banks' submissions are still based on DESTR OIS, but without the Spread.
- The reference rate will consequently be adjusted lower without the inclusion of this referenced Spread.
- DFBF will revise the CITA methodology during Q4 2022 in accordance with DFBF's Consultation Policy.

The RFR Working Group further recommended that CITA continues with an unchanged name because a renaming may conflict with the wording in contracts with reference to CITA.

In determining the principles for the DESTR OIS market maker agreement, Finance Denmark's Money Market Committee, at its meeting in June 2022, found that the CITA 2- and 9-months tenors are considered less liquid, and recommended DFBF consider their cessation. In support of the CITA transition the committee agreed to the establishment of a DESTR OIS market maker agreement by 1 October 2022 between Finance Denmark's members active in the DKK money market. In light of the committee's observations of CITA 2- and 9-month liquidity the market maker agreement will not include an obligation for the 2- and 9-month tenors.

This consultation paper also offers further clarity on the reforms of CITA.

4 CITA transition

The RFR Working Group determined that a transition approach for the new or reformed CITA should secure:

- The well-established market for a DKK based OIS reference rate should be maintained after the transition
- The transition should be transparent and easy to understand for market participants
- The transition should minimise uncertainty across the financial markets
- The transition should require a minimal use of resources for market participants

The RFR Working Group considered two transition options, one a parallel run and the other a reformation approach and **settled on the reformation approach** under which the CITA methodology would be changed during a transition period to become linked to DESTR OIS. Since Tom/Next is already fixed to DESTR from April 2022 the only difference between DESTR and Tom/Next is the Spread.

A reformation approach is a natural continuation of the transition applied to Tom/Next as CITA is simply reformed to reflect the changes introduced to the underlying floating leg. Further, it ensures continuity since the reformed CITA can continue to be used in existing and new contracts. This is especially important for the mortgage bond market which relies heavily on CITA for floating-rate bonds used to fund long-term lending to both household and business customers.

The reformation approach will also ensure that the market liquidity would not be dispersed during the transition period. Further a reformation will not require the launch of a new reference rate and therefore it will not require product and system development within the banking sector.

The reformation approach requires the CITA methodology to be changed in two sequences to track the transition of Tom/Next to DESTR:

Sequence 1 - This includes an interim definition where the CITA methodology is changed on 1 February 2023, so the panel banks' submissions become based on DESTR OIS plus the Spread (19bp) added by DFBF.

Sequence 2 - As per 1 January 2026, the CITA methodology is changed. The panel banks' submissions to still be based on DESTR OIS, but DFBF will no longer add the Spread. The reference rate will consequently on 1 January 2026 be reduced (fall) with the Spread (all other things being equal).

Question 1:

Do you agree with the recommendation to follow a reformation approach, whereby the reformed CITA continues under a changed definition with a link to DESTR OIS?

Question 2:

Do you agree with the recommendation that CITA is reformed in 2 sequences – first an interim definition, where CITA is defined as the panel banks DESTR OIS submissions plus the Spread, and a final definition, where CITA is the panel banks DESTR OIS submissions (without the Spread)?

5 Cessation of two CITA tenors

As previously stated, Finance Denmark's Money Market Committee will not include the 2- and 9- month tenors within the market maker agreement due to a recognised lack of liquidity in those two tenors.

The DFBF acknowledges the market wisdom of the Finance Denmark's Money Market Committee and supports their recommendation that two tenors, the 2- and 9- months, be removed from CITA. Such tenor removal will also align CITA tenors to those of CIBOR and some international RFR Term Benchmarks such as Refinitiv Term SONIA and CME/ICE Term SOFR Benchmarks.

The DFBF therefore proposes that the 2- and 9-month CITA tenors cease to be offered from the commencement of Sequence 1 from 1 February 2023. For clarification the last date of publication for the 2- and 9-months tenors will be 31 January 2023.

Question 3:

Do you agree with the proposed cessation of the 2- and 9-month CITA tenors to align with CIBOR and RFR Term Benchmarks?

6 CITA definition

The current definition of CITA is “CITA being the interest rate swap offered rate for the day-to-day rate (T/N-rate) against a fixed DKK interest rate, for the following maturities 1, 2, 3, 6, 9 and 12 months.”

To accommodate for the changes in the Tom/Next methodology (April 2022) and the CITA tenor mix, it is proposed that the CITA definition changes from the commencement of Sequence 1 (1 February 2023) to the following:

“CITA being the interest rate swap offered rate quoted for the day-to-day rate Tom/Next (DESTR plus a Spread² until 1 January 2026) against a fixed DKK rate for the following maturities -1 month, 3 months, 6 months, and 12 months' maturity.”

Upon the commencement of Sequence 2, on 1 January 2026, the CITA definition will again be changed to a final definition as follows:

“CITA is a benchmark for risk-free interest rates for DKK over the relevant forward-looking tenors as implied by Overnight Index Swap contracts that reference DESTR.”

Question 4:

Do you agree with the proposal for an interim and final revised definition of CITA?

Question 5:

Do you agree that the change to the interim definition of CITA should take effect 1 February 2023 and that the final definition should take effect on 1 January 2026 equal to the Tom/Next cessation date?

7 Naming of CITA

CITA is an abbreviation for Copenhagen Interbank Tomorrow/Next Average. Following the completion of the transition period on 1 January 2026 the name CITA will no longer reflect the underlying instrument used for its calculation. However, CITA is a well-established brand in the market and is used broadly in existing long-term contracts. Furthermore, the RFR Working Group believed that a change in name may unnecessarily affect the legal basis of existing contacts. The RFR Working Group therefore recommended no name change for CITA.

In support of the RFR Working Group recommendation the DFBF is not proposing a name change for CITA.

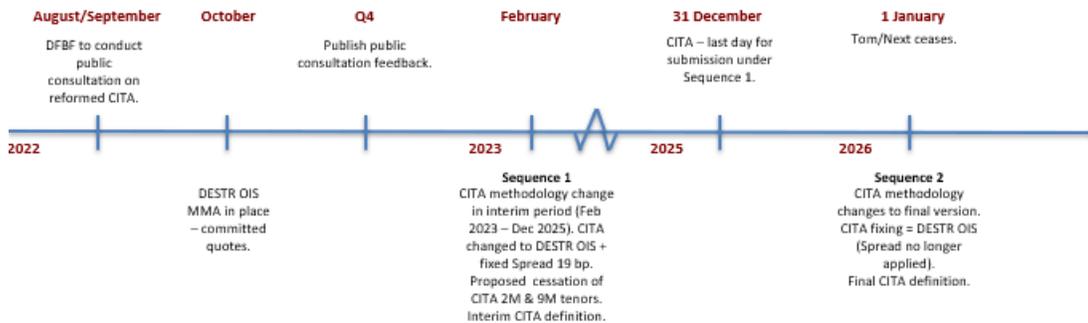
² 0,190% (19,0 basis points) as determined by DFBF and the Danmarks Nationalbank.

8 Timetable for change

As outlined above the CITA changes proposed in this consultation include a transition process³ for the floating reference rate of CITA and the cessation of two CITA tenors at the commencement of the transition period, Sequence 1.

The timeline for CITA changes is shown diagrammatically below:

CITA reform timetable



9 Proposed amendment of related CITA documentation

A number of DFBF CITA public documents will require amendment to reflect the reforms to CITA. These documents include:

- CITA Calculation Methodology (June 2020)
- CITA and SWAP Panel Bank Code of Conduct (September 2020)
- DFBF Post Publication Re-determination policy (June 2022)
- CITA and SWAP Benchmark Statement (June 2022)

10 Legal considerations and potential contractual issues

The DFBF does not offer advice to stakeholders about the legal implications of the recommended changes to the definition of CITA and any other changes. Nor does the DFBF offer legal advice to users of CITA such as banks or their customers about the legal implications in a contractual relationship where CITA is used and where the definition behind CITA is changed by DFBF.

This consultation is being conducted in accordance with the DFBF policies including its Consultation Policy. It was the opinion of the RFR Working Group that the DFBF policies would serve as a strong basis for DFBF's decision to change the definition of CITA subject to DFBF's own approval and hearing process as set out in the Consultation Policy.

The Working Group considered specifically that short dated (existing as well as new) contracts with maturity before 1 January 2026 should be unaffected by the recommended reformation. The same applies for new contracts entered into force after 1 January 2026.

³ Commencing with Sequence 1 on 1 February 2023 and the commencement of Sequence 2 on 1 January 2026.

Stakeholders are encouraged to take necessary actions in respect of existing and new long dated contracts with maturity beyond 1 January 2026. Existing clauses regarding fallback and material change of the reference rate should be reviewed and changed if necessary. It could include update of loan agreements, base prospectuses, derivative-documentation etc. The specific contract may or may not include language about spread adjustment for the shift of level of interest as per 1 January 2026, from which date the reformed CITA is recommended to be linked to DESTRA. Existing contracts with a maturity beyond 1 January 2026 referring to CITA may have terms and fallback clauses that do not allow for a change of definition for CITA. It will be for the contractual parties to make an assessment, and the parties may, of course, try to renegotiate the contract. The DFBF is not aware of any contracts with potential issues but would like to receive inputs from stakeholders in this regard.

11 Consultation timeframes

The standard timeframe for DFBF consultations is 30 days.

The timetable for this consultation is as follows:

- | | |
|---|---------------------|
| • Consultation Paper publication | 3 August 2022 |
| • Closing date for respondents' comments | 2 September 2022 |
| • Collation and consideration of responses | September 2022 |
| • Publication of Analysis of Stakeholder Feedback | Fourth quarter 2022 |

12 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 respondents 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.

13 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 to the DFBF website according to the timeframes detailed above.

Appendix 1 – Summary of questions

Question 1:

Do you agree with the recommendation to follow a reformation approach, whereby the reformed CITA continues under a changed definition with a link to OIS DESTRO?

Question 2:

Do you agree with the recommendation that CITA is reformed in 2 sequences – first an interim definition, where CITA is defined as the panel banks DESTRO OIS submissions plus the Spread, and a final definition, where CITA is the panel banks' DESTRO OIS submissions (without the Spread)?

Question 3:

Do you agree with the proposed cessation of the 2- and 9-month CITA tenors to align with CIBOR and RFR Term Benchmarks?

Question 4:

Do you agree with the proposal for an interim and final revised definition of CITA?

Question 5:

Do you agree that the change to the interim definition of CITA should take effect 1 February 2023 and that the final definition should take effect on 1 January 2026 equal to the Tom/Next cessation date?

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'.