

Consultation Paper CITA Reformation

Analysis of Stakeholder Feedback and Confirmed CITA Reforms

Date: 7 October 2022

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This paper offers further discussion on the proposed reformation of CITA in two sequences – the first from 1 February 2023 and the second from 1 January 2026. Recipients of this paper are responsible for making their own assessments of the proposals.

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1 Executive Summary

On 3 August 2022, the DFBF published a consultation paper on the proposed reformation of CITA in two sequences – the first sequence to commence on 1 February 2023 and the second on 1 January 2026. The consultation period closed on 2 September 2022. The DFBF received 2 responses to the consultation, one from a CITA panel bank and the other from a market infrastructure provider.

At the launch of the consultation process the DFBF sent notification of the consultation process to the known users of CITA and provided all the consultation details on its website. The DFBF acknowledges that there was a limited response from stakeholders which, in its opinion, indicates that stakeholders were accepting of the proposed reformation of CITA as presented in the consultation paper.

The respondents did not offer any objection to the proposals as stated in the consultation paper.

This document summarises the respondents' feedback to the DFBF's questions and confirms the reform decisions as adopted by the DFBF.

2 Feedback to the Questions Presented in the Consultation Paper

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 DESTR?

The respondents agreed to the recommendation.

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)?

The respondents supported the 2 sequence reformation recommendation.

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?

The respondents agreed with the cessation of the 2- and 9-month CITA tenors.

Question 4:

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

The respondents were supportive of the interim and final definitions 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?

The respondents were supportive of the dates proposed for the interim and final definitions of CITA.

Other Comments:

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'.

The respondents did not offer any additional comments.

3 DFBF Decision

The DFBF Board of Directors has considered the feedback received from stakeholders in response to the consultation paper. The DFBF Board of Directors has the responsibility to determine if CITA will be reformed as described within the Consultation Paper.

As no objections to the proposals have been received, either from stakeholders or the DFBF Oversight Committee, the DFBF Board of Directors has decided to adopt the reformation approach which requires the CITA methodology to be changed in two sequences to track the transition of Tom/Next to DEST¹:

- Sequence 1 - An interim definition effective from 1 February 2023, where the CITA methodology is adjusted such that panel banks' submissions become based on DEST¹ OIS plus a Spread (19bp) added by DFBF.
- Sequence 2 - Effective from 1 January 2026, panel banks' submissions to CITA will remain based on DEST¹ OIS, but DFBF will no longer add the defined Spread. Consequently, the reference rate will on 1 January 2026 be reduced (fall) (all other things being equal, by the 19bps spread previously applied).
- The 2 and 9-month CITA tenors will cease to be calculated and published 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.
- To accommodate for the changes in the Tom/Next methodology that were effective from April 2022 and the CITA tenor mix that will come into effect on 1 February 2023, the CITA definition will change from the commencement of Sequence 1 on 1 February 2023 to the

¹ Denmark Short Term Rate

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.”

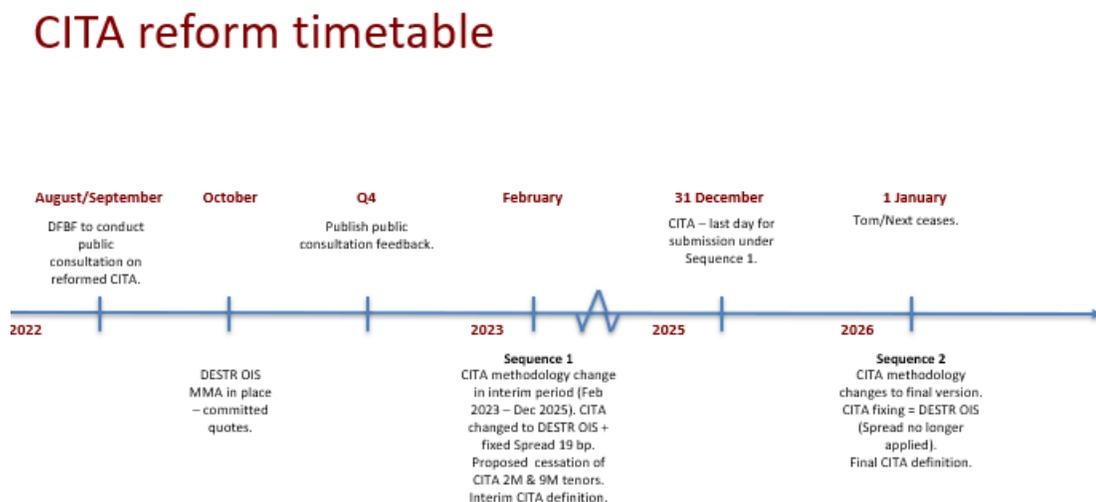
4 Communication of Transition

The CITA reformation is being communicated well in advance of the implementation dates in order to allow market participants time to adjust to the change and therefore avoid any market disruption.

5 Timetable for Change

As outlined above the CITA changes 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:



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

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

6 Amendment of Related CITA Documentation

On 1 February 2023 the DFBF will publish, to its website, a number of updated DFBF CITA related governance and determination framework documents to reflect the reforms in CITA effective from 1 February 2023. Those documents are the:

- CITA Calculation Methodology
- CITA and SWAP Panel Bank Code of Conduct
- DFBF Post Publication Re-determination policy
- CITA and SWAP Benchmark Statement.

7 Cessation Plan for the CITA 2- and 9-month Tenors

The DFBF hereby notifies users of CITA, and stakeholders generally, that the DFBF will continue to publish the current CITA tenors every good business day until 31 January 2023, the date on which the 2 and 9-month CITA tenors will be discontinued. The last day of publication for CITA 2 and 9-month tenors will be Tuesday 31 January 2023.

Users and stakeholders are reminded to modify documentation and to seek legal and compliance advice and modify any materials referencing the CITA tenors to be discontinued.

End.