

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 to review the benchmarks` definition and methodology at least annually.

The process of the review of Danish Benchmarks` definition and methodology is being formalised in the DFBF Benchmark Review Policy as published on DFBF website www.dfbf.dk.

The Danish Financial Benchmark Facility (DFBF) is the administrator of Danish Benchmarks` and as such it conducts an annual review of the underlying market and determines the fitness of the benchmark methodology in line with DFBF Benchmark Review Policy in place.

This document is a redacted version of the document which was presented to DFBF Oversight Committee (OC) as supporting material for its review on benchmark definition and methodology.

The following summarises the results of that review.

The 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

The full version of the respective benchmark methodologies is published on DFBF website www.dfbf.dk.

The OC, at its meeting held on 7th December 2022, has duly considered whether there have been any further material changes in 2022 which would require revision to the methodologies. The OC resolved that the benchmarks' definition and methodology remain fit for purpose in the context of their usage in the financial markets, also giving consideration to the changes already applied to CIBOR and Tom/Next Benchmarks and the planned changes to the CITA Benchmark. For more details to the changes applied, see <https://dfbf.dk/public-consultations/>.

About the Danish financial market in the context of the benchmarks

CIBOR and Tom/Next (based on DESTRA) are currently the key benchmark rates for the Danish market which daily 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 2022 which would impact the underlying construction of the benchmarks and their use in the financial markets.

The size of the Danish market

Danmarks Nationalbank has also in 2022 – Q2, collected market activity in the money market and the turnover shows little change compared to 2021 for unsecured lending and borrowing transactions. Foreign banks continue to place their krone liquidity with domestic banks, and they currently make up the majority of the daily turnover. Turnover across all instruments (daily turnover in bio- DKK) was 84 bio up from 73 bio in 2021.

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 calculations in 2022. Although not a defining factor, the OC believes that this stability is an element to consider when evaluating if the benchmarks remain fit for purpose.

Outlier submissions to the benchmarks

In 2022 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 the agreed pre-defined tolerance levels ("flagged data"). After due consideration, all explanations for flagged data were accepted by the OC and shared with Finanstilsynet on a quarterly basis.

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 been 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.