

Danish Benchmarks Oversight Committee Meeting

Danish Financial Benchmark Facility, Amaliegade 7, 1256 Copenhagen K
8 June 2023 10.00 – 12.00 CET

Agenda:

- I. Introduction**
 - a) Introductory remarks by Chair including OC ratification of new Chairman*
 - b) Overview of agenda*
 - c) Declaration of potential conflicts of interest with respect to meeting agenda*
 - d) Review of action items from Committee meeting of 8th March 2023*

- II. Determination Methodology**
Operational Metrics report (AC)

- III. Governance, Regulatory & Supervisory Issues**
 - a) DFBF Benchmarks - Quarterly Report Feb 2023 – Apr 2023*
 - b) Governance artefacts*
 - i. The DFBF Board of Directors approved update of DFBF Suspicious Behaviour Policy in March 2023*

- IV. Evolution of Danish Benchmarks**

- V. Board & Stakeholder Communication**

- VI. AOB**

Recommendation for CIBOR fallback rate (MF)

Minutes

Chair: JP Neergaard (*independent*) – voting member (**JPN**)

Martina Mozerova (DFBF) - non-voting member (**MM**)

Jacob Ramskov (Danske Bank) – voting member (**JR**)

Morten Frederiksen (FIDA) – voting member (**MF**)

Christine E. Habel (*independent*) – voting member (**CEH**)

Tomáš Kvapil (CFBF) – non-voting member (**TK**)

Neil Donaldson (GRSS) - voting member (**ND**)

Apologies: Nicolaj Verdelin (*Nykredit*) – voting member (**NV**)

DFBF Secretariat: Eva Kops (DFBF) (**EK**)

Invitees:

Nina Byrne (DFBF) (**NB**)

Andrej Chudožilov (CFBF) (**AC**)

i. Introduction

- a) *Introductory remarks by Chair including OC ratification of new Chairman*
EK started by asking if there were any objections to recording the meeting, there were none.

JPN welcomed the OC members and gave an update on current market challenges. The volatility continues and the market is more difficult to maneuver and should be approached with due diligence.

MM asked the OC to proceed with the ratification of the new Chairman. This was confirmed.

- b) *Overview of agenda*
- c) *Declaration of potential conflicts of interest with respect to meeting agenda*
NV sent his apologies; a proxy was issued. Quorum was met for the meeting.
- d) *Review of action items from Committee meeting of 8th March 2023*
None were registered.

ii. Determination Methodology

Operational Metrics report – AC

The report covers the period 1 Mar 2023 to 31 May 2023.

CIBOR

High volatility during the period 9-31 March where all PBs were consulted for an explanation of the rate moves. Reasons were several, a DNB rate hike on 17 Mar, volatility in the market due to SVB failure, and an ECB rate hike on 22 Mar. All PBs were consistent in their moves and no further action was deemed necessary.

One PB showed flagging in the period between 28 Apr and 2 May, when asked by Helpdesk (HD) it was confirmed that movements were in line with the methodology

of the bank. All PBs increased their 1W contributions on 3 May, this was in preparation for the rate hike by DNB on 8 May and fully in line with expectations. Static movement flagging of 12M tenor on 26 Apr for all PBs, this was consistent, and no further action was required.

On 27 Apr one PB showed a relative movement on their 1W tenor, this was seen as an early reaction to the upcoming DNB rate hike. A PB had deviations on 3M, 6M, and 12M tenors between 4-12 May, when asked by HD it was established that the movements were in line with the bank's methodology.

CITA

The benchmark shows identical curves to that of CIBOR with all PBs having the same pattern of contribution in connection with DNB rate hikes. No action was required. Spike flagging on and around 7 March in connection with DNB rate hike, but only on 7 March were the thresholds breached. As all PBs showed the same pattern of contribution the HD concluded no action was required.

SWAP

The day-to-day changes have been significant and for the same reasons as CIBOR/CITA. There was extensive static movement flagging for all PBs between 9-30 March caused by a number of factors which are also mentioned under CIBOR/CITA.

T/N

No issues to discuss related to this benchmark.

AC mentioned that thresholds are continuously being monitored, the aim is to ensure flagging when there is due reason for it while avoiding daily extensive flagging for PBs in this volatile market. AC explained how thresholds are tested and assessed.

On 2 March the threshold for CITA 1M was changed from 4bp to 8 bp.

Regarding back testing, it was agreed in 2022 to carry out such checks on a regular basis. DNB policy is closely aligned with that of ECB and hence DFBF has chosen to base the back testing on a comparison to Euribor. Indeed, a clear correlation is seen when considering the curves of CIBOR, CITA, Euribor as well as an implied DKK rate calculated for the purposes of back testing. MF pointed out specific deviations of the implied rate (a "spike") and AC responded that by its nature, these can occur because the data is different to the benchmark data it is compared to, but it can potentially also be errors in the external data which is used.

ND asked concerning spread on quotations in CITA during volatility and whether these are considered in the MMA and the trading obligations changed accordingly. NB replied that PBs manage the trading obligations, the information is registered in their logbooks which may be used as documentation. DFBF checks LCH daily to follow trade/turnover. MF said that assessment of spreads is essential, and this is discussed at the quarterly MMA meetings. The oversight of the obligation to trade has been strengthened in the banks and the procedures are being followed, a positive development has been seen over the last year. JPN asked a PB member of the OC if this corresponds to what the bank sees from their end and this was confirmed.

iii. Governance, Regulatory & Supervisory Issues

a) Compliance Report Feb 2023 – Apr 2023

There have been no whistleblowing incidents during the period. Col has been collected as required. No complaints were received during the period nor had any suspicious behaviour been detected. There is no erroneous input data to be reported. The PBs have already confirmed their compliance with the Codes of Conduct.

No anomalous activity in regard to operational security.

The CA system has been working without problems, no down time or challenges. No cyber-attacks detected. Disaster Recovery Test (DRT) to be planned later in 2023.

b) Governance artefacts

i. The DFBF Board of Directors approved update of DFBF Suspicious Behaviour Policy in March 2023

In March 2023 the DFBF Board approved a change to the Suspicious Behaviour Policy. MF enquired why the mentioned changes had been carried out and MM explained that Compliance regularly performs reviews to ensure the policy is in line with the market and that our procedures are continuously improved.

i. Evolution of Danish Benchmarks

NB mentioned that DESTROIS is being used more frequently and the LCH turnover is currently at 86 bn. Volatility has been extensive during the last 3 months and the PBs have carried out an impressive job in managing their contributions under these market conditions and that methodologies are adjusted accordingly. It is obvious that PBs must continue the review of methodologies to keep up with market changes. Variable rate mortgages relying on the fixings deriving from the PBs are at 800 bn. The market is already preparing for the changes to T/N once it ceases on 1 Jan 2026.

ii. Board & Stakeholder Communication

The OC discussed meetings held with the DFSA and DNB since the last OC meeting in March 2023.

iii. AOB

Recommendation for CIBOR fallback rate (MF)

MF mentioned that a consultation has been carried out regarding CIBOR fallback rate. No conclusion has been reached, but a recommendation is soon on the way and should be released prior to the summer holiday.

Next OC meeting is scheduled for 6 September 2023 at 10.00-14.00 hrs.

The meeting ended at 11.00 hrs.