



**FINANCE
DENMARK**

Terms of Reference for the work on the transition of CITA to be based on DESTR and fallback for CIBOR

Background

In November 2020, Danmarks Nationalbank assumed responsibility for the new reference rate Denmark Short-Term Rate (DESTR). Reference rates are used in a wide range of financial contracts, including bank loans, mortgage bonds and interest-rate swaps. Thus, it is important for the financial system in Denmark that a short-term transaction-based reference rate is introduced in Danish kroner in line with international standards.

The recent Public Consultation on the Transition from Tom/Next to DESTR by the Working Group on Short-Term Reference Rates¹ recommends that the existing Tom/Next rate (published today by DFBF) will be fixed to DESTR plus a spread and will cease by January 1, 2026 – all subject to the pending hearing process.

The Public Consultation encourages Finance Denmark to continue the work to analyze and recommend a transition model and timeline for the reformation of the current CITA (reference-rates based on OIS swaps with the Tom/Next as the variable leg) into a new benchmark or a reformed CITA benchmark with DESTR as the variable leg instead (hereafter the “current” and “new” CITA (which can be a new benchmark or a reformed CITA benchmark)). The transition should follow the establishment of a market in DESTR-based OIS-swaps as also envisaged by the Public Consultation.

In the memo from the Risk Free Rate (RFR) Working Group under Finance Denmark dated July 8 2021² it was concluded that there will be a need for forward- as well as backward-looking reference-rates in the Danish market. The RFR working group has recommended that the administrator for DESTR (Nationalbanken) publish the relevant backward looking compounded indexes and potentially period averages for DESTR. This leaves the task of CITA-reform to ensure the existence of forward-looking term reference rates.

The launch of DESTR and backward-looking indices also provides the possibility of establishing a market standard for a fallback solution for CIBOR. This fallback will provide a common solution for contracts that have CIBOR as reference rate. This

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¹ https://www.nationalbanken.dk/da/markedsinfo/transaktionsbaseret_referencerente/Sider/Konsultation-om-overgangen-fra-TomNext-til-DESTR.aspx

² <https://finansdanmark.dk/media/47854/memo-on-the-potential-use-of-forward-and-backward-looking-reference-rates-in-the-danish-market-after-destr.pdf>

process would be similar to what has taken place internationally with other IBOR's (LIBORs, EURIBOR, STIBOR and NIBOR).

Composition of the RFR Working Group

Finance Denmark gives the current RFR Working Group with reference to the Money Market Committee the task of making recommendations on 1) the CITA transition and 2) fallback for CIBOR. The composition of the Working Group will be re-assessed in order to fit the deliverables below. The Working Group will still comprise of senior officials with relevant expertise from Danish banks and mortgage institutions.

Representatives from Danmarks Nationalbank and Danish Financial Benchmark Facility (DFBF) will be invited to participate as observers.

Finance Denmark will continue to provide Secretariat.

Deliverables of the RFR Working Group

Against this background, the RFR Working Group is expected to provide the following deliverables:

1. Make a recommendation on the preferred transition model from the current to the new CITA, including a proposed model, timeline and specific recommendations to DFBF.
2. Make a recommendation on a market standard for a fallback solution for CIBOR based on DESTR.

Indicative timeline

The Working Group should make their recommendations on the first deliverable along with the expected introduction of DESTR in 2022.

The Working Group should make their recommendations on the second deliverable before the end of 2022.

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