Summary of responses to public consultation on the reformation of CITA

FINANCE DENMARK

Memo

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The public consultation by the Risk-Free Rate Working Group under Finance Denmark regarding a CITA-reform closed on 23 March 2022.

In total 3 market participants submitted responses to the consultation and there was a general support to the proposed reformation for CITA.

Below is a summary of the responses to the questions raised in the consultation document.

Question 1
Do you see other important product types or exposures referencing or linked to CITA, which should be considered in the transition as described below?

A respondent asks about bank deposits and commercial bank deposits.

Question 2
Do you agree with the recommendation to follow a reformation approach, whereby CITA continues under a changed definition with a link to OIS DESTR?

All respondents support the reformation approach.

A comment was made on the issue that CITA mortgage bonds are used to fund mortgage loans. Many of those loans are 30-year commitments against retail borrowers. The number of borrowers is vast. That means that having to individually renegotiate all those loan agreements would in practice prove impossible. Therefore, it is crucial for the mortgage institutions that the transformation to the new CITA is done in a way that provides for an 'en bloc' approach towards the mortgage borrowers. This would be easier to achieve if the reformation approach is chosen.

Question 3
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 a Spread, and a final definition, where CITA is the panel banks DESTR OIS submissions (without the Spread)?

A respondent has expressed concerns about defining CITA for one period (February 23 to January 2026) as DESTR + spread and without spread from January

2026. This methodology has in their view an inherent ambiguity. When T/N ceases to exist from January 2026, wouldn't it make the most sense also to cease CITA? Thereby we would have a similar approach as in Europe, where EONIA ceased to exist from January 2022.

Another respondent expresses that the 2-sequence approach would ensure that panel banks make their contributions to DFBF against DESTR. This will support the transition into DESTR and support the recommendation by the Working Group on Short-Term Reference Rate to refrain from entering new contracts based on Tom/Next from April 2023.

Question 4

Do you agree that the change to the interim definition of CITA could take effect 1 February 2023 (subject to DFBF approval and consultation process) and that the final definition takes effect on 1 January 2026 equal to the Tom/Next cessation date?

The respondents have no concerns regarding using February 2023 as start date for changing the CITA methodology.

Question 5

Do you think it would be beneficial to cease the 2- and 9-month tenors to align with international RFR Term Benchmarks?

A respondent has expressed that the liquidity in SONIA swaps and SOFR swaps is such that they do not rely on a tenor fixing to give transparency to the swap market or are relied on for a mark-to-market reference. Can the same be said of the CITA market? The respondent finds that an elimination of the 2- and 9-months fixing points will remove a much-needed mark-to-market reference for the non-interbank participants in the Danish Market.

Another respondent expresses that CITA 2-and 9-month tenors are considered less liquid and therefore they support that the 2-and 9-month tenors are ceased to align CITA with CIBOR and international RFR Term Benchmarks.

Question 6

Do you agree that CITA should continue with the same name?
Do you see other arguments in favor of a changed or unchanged naming for CITA?

A respondent expressed that a renaming may conflict with the wording in an individual contract. We therefore support an un-changed name.

Another respondent finds that, as alluded in Question 3, they think it is clearer to continue with a name with reference to DESTR after January 2026.

Question 7

Do you have contracts with no or insufficient fallback language referencing or linked to CITA (tough legacy contracts)? And do you see a need for a sector recommendation in this respect? Would any reference to international recommendations on Credit Spread Adjustment be helpful?

A respondent expresses that even though "tough legacy contracts" may be limited or even non-existing, a sector recommendation would be helpful. It would be even more supportive with an endorsement from the Danish FSA and/or Danmarks Nationalbanken. Furthermore, it is expressed that a recommendation on a Credit Spread Adjustment would also be helpful as a reference for any contracts to be renegotiated.

Another respondent expresses that to the best of their knowledge, they do not have tough legacy contracts.