



**FINANCE
DENMARK**

Summary of responses to the public consultation regarding a recommendation for a fallback rate for CIBOR

The public consultation by the Risk-Free Rate Working Group under Finance Denmark regarding a recommendation for a fallback rate for CIBOR closed on 28 April 2023. The follow-up response to the public consultation has been delayed due to the need for further consideration of the complexity within banking- and cross-currency products as reflected in the Final recommendation.

In total 4 market participants submitted responses to the consultation with valuable inputs that the RFR WG has considered carefully.

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

Memo

June 28, 2024

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Contact Morten Frederiksen

Question 1

Do you see other important elements that financial contracts that refer to CIBOR should regulate?

All respondents agree with the RFR WG's proposals and do not see other important elements that financial contracts that refer to CIBOR should regulate.

Question 2

Do you agree with the proposed trigger events and/or do you see other important events that should be included in the list of trigger events?

Respondents generally support and agree with the proposed trigger events.

One respondent finds that trigger event listed in no. 7 might be in discrepancy with international standards for OTC (over the counter) derivatives. At the same time, the respondent recognizes that the consultation states that the trigger event listed in no. 7 can be used only "if the contracting parties deem it necessary".

Another respondent finds that trigger event 5 related to illegality cannot be used in all financial contracts, for example syndicated loan agreements. The respondent further argues that the trigger event has not been recommended by all other currency working groups. For example, the WG on Euro Risk-Free Rates does not recommend the inclusion of such an illegality trigger.

Question 3

Do you agree with the proposal that the general fallback interest rate for CIBOR rate should follow the ISDA (International Swaps and Derivatives Association) principles for calculating the DESTR based fallback interest rate for CIBOR?

Two respondents support this approach while two respondents find that it should be possible to use other international standards for fallbacks to secure the most suitable fallback rate for different product categories, especially banking and cross currency products (e.g., syndicated loans and multi-currency facilities).

A respondent state that another relevant international standard is from the loan market where the calculation methods for a fallback rate differs from ISDA's approach in the following:

1. A daily Non-Cumulative Compound rate approach is used. ISDA uses a Cumulative Compound rate approach.
2. Five RFR business days lookback with no observation shift. ISDA uses two RFR business days with observation shift.
3. Zero floor applies to a daily rate for new contracts, while in legacy contracts zero floor applies to the aggregate of a daily rate plus the credit adjustment spread. ISDA applies period flooring and not on a daily rate.

Question 4

Do you agree with the proposal that the fallback interest rate for CIBOR based mortgage loans, mortgage bonds and certain banking products etc. should be CITA?

All respondents agree with the proposal that the fallback interest rate for CIBOR based mortgage loans and mortgage bonds should be CITA.

Furthermore, two respondents refer to the fragmentation of standards across banking and cross currency products (syndicated/multicurrency loans).

Question 5

Do you agree with the proposal regarding when the fallback rate takes effect?

All respondents agree with the proposal.

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