

MINUTES



DATE: 21 September 2022
DEPARTMENT: AFM
MINUTE-TAKER: Denise Hansson
DOCUMENT RB PUBLIC

SVERIGES RIKSBANK
SE-103 37 Stockholm
(Brunkebergstorg 11)

Tel +46 8 787 00 00
Fax +46 8 21 05 31
registratorn@riksbank.se
www.riksbank.se

Ref.no.: 2022-00140

SWESTR Advisory Group

PRESENT: Sveriges Riksbank Nordea
 Alecta Refinitiv
 Bloomberg SEB
 Danske Bank Skandia Liv
 DNB Swedbank
 Euroclear Sweden Swedish Association of Corporate Treasures (SACT)/Ericsson
 Handelsbanken Swedish Bankers Association
 Insurance Sweden Swedish National Debt Office
 LCH Swedish Securities Markets Association
 Nasdaq

1. The Chair welcomes the meeting participants

The Riksbank, via Chair Anders Gånge, welcomed participants to the meeting, which for the first time was held in a hybrid setting. Most of the attendees participated in person at the Riksbank, and a few participated digitally via link.

In the introductory remarks, the Chair emphasised the importance of the SWESTR Advisory Group as a key source of information for the Riksbank in the work to maintain and develop SWESTR.

2. The participants introduce themselves

All participants introduced themselves. All invited organisations were represented with the exception of Citibank who was not able to attend.

3. Recap since the last meeting

Issues discussed at the 24 February meeting

The Riksbank recapitulated the issues discussed at the last SWESTR Advisory Group meeting, held on 24 February 2022, and commented on the Riksbank's progress with regard to some of these issues.

At the last meeting, several participants requested that more information about the transaction dataset be made public in order to increase the understanding and the use of SWESTR. In particular, interest rates for different percentiles of the dataset were requested. The Riksbank informed that it, since the last meeting, had worked on a proposal to this effect, see agenda item 6.

Another issue raised at the February meeting was the minimum size of individual transactions for inclusion in the SWESTR dataset. The Riksbank informed that the issue had been analysed since the last meeting and that its analysis had found that raising the minimum size from 10 MSEK to 100 MSEK would not affect the level of SWESTR in a systematic manner. Moreover, the Riksbank informed that, during the twelve month-period ending 31 August 2022, less than 2 percent of the aggregate transaction volume underlying SWESTR had been derived from individual transactions with a volume of 100 MSEK or less. The Riksbank said that the participants' comments on the minimum transaction size had been noted and proposed to periodically publish information on the distribution of the aggregate transaction dataset, see agenda item 6.

During the last meeting, one participant requested that the times of publication for SWESTR and, if needed, a corrected SWESTR be moved to earlier in the day. The Riksbank informed that it is currently looking into this matter.

Other developments that are pertinent to SWESTR and the money markets

The Riksbank informed that it had recently launched a Forum for the promotion of transaction-based reference rates and that the first meeting was held on 8 September 2022.¹ The purpose of the Forum is to promote the use of fully transaction-based reference rates in financial markets.

The Riksbank also informed that the number of monetary policy counterparties reporting money market data to the Riksbank on a daily basis will increase 1 January 2023. Furthermore the Riksbank emphasised that the additional reporting agents will not contribute to the SWESTR transaction dataset immediately, but are likely to do so over time.

The Riksbank also commented on the change in the Riksbank's policy rate since the 24 February meeting. The Riksbank noted that the reported transaction data suggests that the increases in the policy rate have been transmitted almost 1:1 to money market rates, and consequently to SWESTR. Since the meeting in February, SWESTR has thus remained stable at approximately 10 to 12 basis points below the policy rate, i.e. close to the rate of the Riksbank's standing deposit facility.

There was no further information shared by participants in the Group.

4. The Riksbank's SWESTR framework

¹ There is also a corresponding working group under the Swedish Bankers' Association.

The Riksbank informed that it only had made editorial changes to the SWESTR information document since the February meeting. The changes that have been made were motivated by non-SWESTR related changes at the Riksbank. The Riksbank added that the changes are outlined in the newly-added revision history.

Beginning with this meeting, the Chair shall decide ahead of each meeting, whether said meeting will be held in Swedish or in English, in accordance with the updated Terms and References for the SWESTR Advisory Group. This change has been made in order to enable relevant people to be able to participate from the invited organisations.

The Riksbank opened up for participants to comment on any remaining ambiguities and/or missing information in the SWESTR information document. No one raised any such issues.

5. The underlying market for SWESTR

Participants were invited to share their views, thoughts and insights on the functionality and dynamics of the underlying market for SWESTR i.e. the unsecured overnight market in Swedish kronor. In particular, the Riksbank requested comments on the transmission to money markets from recent policy rate increases.

One participant shared that there had been calm reactions to the Riksbank's announcement the previous day that the policy rate would be raised by 100 basis points, although the size of the hike was a bit surprising according to the participant. The participant clarified that they were referring to developments in short-term markets and the short-term FX-market, more generally.

Another participant, who said they were less active in these markets, added that they in general see wide spreads in short-term money markets.

One participant commented on the cap the Riksbank imposes on the offered volume of Riksbank certificates in the weekly market operations. The participant argued that the level of the cap affects the transaction volumes in the SEK overnight market and that the transaction volume in the interbank market would likely increase if the Riksbank offered a larger share of the liquidity surplus in the issues of Riksbank certificates.

6. Increased transparency regarding the transaction dataset for SWESTR

The Riksbank presented two proposals to share additional information about the transaction dataset underlying SWESTR. The proposals were:

- (1) To supplement the daily publishing of the SWESTR value with the interest rates corresponding to the 12.5th and 87.5th volume-weighted percentiles of the untrimmed transaction dataset, and
- (2) To extend the quarterly *Report on the transaction dataset for SWESTR* with information about the distribution of the aggregate transaction dataset during the quarter across counterparty types and the individual transactions' volume

The Riksbank motivated the proposals by saying that this would increase transparency and potentially increase the understanding of the underlying dynamics of SWESTR, thus promoting the use of SWESTR in financial contracts. The Riksbank continued by saying that the proposals are in line with the requests for increased transparency in the transaction dataset that the SWESTR Advisory Group have put forward. Publishing the information about the interest rates at certain percentiles of the transaction dataset on a daily basis, would also be in line with the standard of comparable reference rates.

In general, the Riksbank's proposals to provide more information on the transaction dataset were supported by the SWESTR Advisory Group.

Commenting in more detail, one participant argued that the suggested percentiles deviate from international standards, arguing that it is customary to publish the interest rates at the 25th and 75th percentiles.² The same participant requested that the interest rates at the 1st and 99th percentiles be published as well, in order to illustrate the range of interest rates in the untrimmed transaction dataset. They said that such information about the tails of the distribution is important for the sake of transparency, which could affect the use of SWESTR, and that it would be a harmonisation to other reference rates, such as SONIA and SOFR.

In addition, the same participant requested that the proposed new information about the distribution of the total transaction dataset be published more frequently than quarterly. In response to one of the questions³ that the Riksbank had posed ahead of the meeting, they further argued that the provision of more information about the transaction dataset would not result in an information advantage for any institution. On the contrary, the participant argued that publishing more information would decrease any information advantage resulting from private information various actors may have about the transactions that have gone into the calculation. The participant also requested that retroactive information about the distribution be published as a time series.

In response to these comments, the Riksbank stated that they see no reason to deviate from international standards, which is the reason for proposing the 12.5th and 87.5th percentile. The administrators of the reference rates SONIA and €STR, which are similar in construction to SWESTR, publish the interest rates at the same percentiles as their trimming boundaries (25th and 75th). Due to this, the Riksbank propose to publish the interest rates at the trimming boundaries for SWESTR, which are the 12.5th and 87.5th percentiles. Furthermore, the Riksbank promised to look into the question of publishing the interest rate for the 1st and 99th percentile, as well as time series for the distribution of the aggregate transaction dataset.

² After the meeting the participant clarified that they did support publishing the interest rate at the trimming boundaries, but they suggested that the trimming be changed to a total of 50 percent of the transaction volume in line with the trimming for €STR and SONIA.

³ The questions were (1) "Are the proposed interest rates, which correspond to the boundaries of the trimming, the dispersion measures that are relevant to publish?" (2) "Are any of the proposed information points redundant?" and (3) "Is there a risk of any actor gaining an information advantage over other actors if the information is made public?". See the material that was provided before the meeting.

Another participant suggested that the Riksbank should start to publish the volumes that were not included due to trimming, that is, the total volume of transactions that are excluded from the calculation of SWESTR.

7. Any other business

One participant directed a question to the Riksbank, asking if the Riksbank expected SWESTR to remain close to the deposit rate in the years to come, and the volatility to remain limited. The Riksbank responded that forecasts of future SWESTR values are not made. The Riksbank argued, however, that the calculation methodology of SWESTR and in particular the fact that the rate is based on reporting agents' SEK deposits from a broader set of counterparties than just the monetary policy counterparties, suggests that there is an economic reason for the interest rate formation in the overnight market to result in a level of SWESTR near or slightly below the Riksbank's deposit rate. The Riksbank also added that the level of reserves in the banking system will likely affect the level of SWESTR going forward.

Another participant wondered if the Riksbank had discussed the year-end issue any further.⁴ The Riksbank responded that there was nothing new to share with the SWESTR Advisory Group with regard to this issue.

One participant opined that the STIBOR reference rates were not functioning well at present and was curious to know more about the progress in the Swedish Bankers Association's working group on promoting the use of SWESTR as a reference rate in financial contracts. The participant also wondered if the Riksbank has considered taking a more active role in this transition, i.e. that the Riksbank instead of market participants drives this change. The Riksbank responded that it is planning to keep encouraging discussions and work on this matter, not least through the Forum that the Riksbank has launched for the promotion of transaction-based reference rates. The Swedish Bankers Association responded that it had nothing new to share with regard to the progress of the working group.

8. Next meeting

The Riksbank proposed that the next meeting be held in early February 2023. No objections were raised to this proposal. One participant asked whether the Riksbank would revert on the matter of publishing more information about Swestr before that, to which the Riksbank responded that it would do so.

⁴ Short-term market rates tend to drop to remarkably low levels during the last days of the year i.e. banks tend to offer customers unusually low rates for deposits at year-end. Since SWESTR is a fully transactions-based interest rate, this year-end effect also affects the level of SWESTR with SWESTR dropping to unusually low levels at year-end.