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# Future of Stibor – challenged by SWESTR as new reference rate for financial contracts?

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In December 2019, the Swedish central bank, the Riksbank, decided that it would provide a new transaction-based reference rate in Swedish krona at the shortest maturity – overnight – for transactions that run from the trade date to the next banking day. After the conclusion of a test period of approximately seven months, the new reference rate could be used as the reference rate in financial contracts beginning with the value date 1 September 2021. Thus, the Swedish krona short-term rate (SWESTR) was published on 2 September 2021.

## Compounded average rates and index based on SWESTR

From 1 October 2021, the Riksbank also publishes compounded average rates and an index based on SWESTR. These average rates may be used as a fall-back in case the Stockholm interbank offered rate (Stibor) ceases to be published or becomes unavailable during the contractual term, meaning that, in such situations, they may form the basis for an alternative interest rate. Average rates may also be used to facilitate and promote the use of SWESTR as a basis for the calculation of interest rates in new financial contracts. In selecting the definition for average rates and the index, the Riksbank has considered international best practice as well as market conventions used in the Swedish money market.

The Riksbank has encouraged market participants to replace Stibor with SWESTR, at its shortest maturity, as the reference rate in financial contracts denominated in the Swedish krona. In the longer run, the Riksbank considers that Stibor should, in an orderly manner and as a multi-year development project, cease for all maturities.

## Calculation and administration of Stibor

Stibor has been on the list of critical benchmarks under the EU Benchmarks Regulation<sup>(1)</sup> since 19 October 2018. Since 20 April 2020, the calculation and administration of Stibor has been managed by the Swedish Financial Benchmark Facility (SFBF), a Swedish subsidiary of the Global Rate Set Systems (an independent specialist on and provider of financial benchmarks), which took over these assignments from Financial Benchmarks Sweden (a subsidiary of the Swedish Banker's Association (SBA)) and also introduced a revised code of conduct for panel bank contributors to the benchmark.<sup>(2)</sup>

Furthermore, a comprehensive review of the methodology was launched in July 2020 to ensure that Stibor, among other things, accurately reflects the current underlying economic reality and conforms to the EU Benchmarks Regulation. This was carried out in close dialogue with panel banks, the SBA and the Swedish Financial Supervisory Authority (SFSA). The results of the review indicated a need for reform of the methodology and the potential clarification of the current definition of Stibor. The SFBF anticipated that adjustments may be made to achieve a seamless transition without impacting on either the value or volatility of the benchmark.

## Evolution of Stibor

On 1 March 2021, the SFBF published a public consultation paper on the evolution of Stibor.<sup>(3)</sup> The comprehensive review indicated the potential need to evolve Stibor in such a manner that does not cause disruption to contracts referencing it. It also indicated that a clarification of the Stibor definition and a revision of the calculation methodology are desirable. The SFBF has also published a paper alongside the consultation which provides a more detailed supplemental explanation of the proposed revised calculation methodology.<sup>(4)</sup>

According to the Riksbank, the provision of a transaction-based reference rate is in line with international development, according to which several national central banks have taken responsibility for providing transaction-based reference rates. A number of these new reference rates are in use and on the way to replace traditional interbank rates. In Sweden, reference rates are primarily used in loans to companies.

## Ibors

Traditionally, so-called "interbank offered rates" (Ibors) (eg, Stibor) have been used as reference values for these purposes. Ibors, which are calculated in various different ways, reflect the interest rates that banks demand from each other regarding short-term uncollateralised loans (in other words, the cost for borrowing funds from another bank). Typically, the calculation of Ibors has been partly based on banks' submissions or judgements of a reasonable interest rate for unsecured loans for the maturity in question under prevailing market conditions. These interest rates are thus not directly based solely on actual transactions.

During the global financial crisis of 2008-2009, liquidity in the interbank loan market deteriorated significantly. This contributed to uncertainty concerning whether Ibor really did reflect prevailing market conditions. When reference rates are based on banks' submissions and provide scope for judgement, a risk of manipulation is at hand. During the scandal involving the London interbank offered rate (Libor) in 2012, it was revealed that a number of international banks had manipulated the Libor reference rate for their own

benefit or for the benefit of individual employees.

### **Reform**

The abovementioned factors led to a decreased global confidence in existing reference rates. Therefore, extensive reform work with the aim of strengthening the reliability of and confidence in reference rates was initiated. In 2013, the International Organization of Securities Commissions issued a report including 19 principles for reference values.<sup>(5)</sup> The same year, the Swedish Financial Stability Board (SFSB) was tasked with reviewing the reference rates. The SFSB had two main recommendations. First, it considered that lbors needed to be reformed. Second, it advocated the development of alternative reference rates based on actual transactions as a complement to lbors. In light of the abovementioned international reform work to develop transaction-based reference rates, the Riksbank, similar to a number of other national central banks, took on the task of publishing a transaction-based reference rate, SWESTR, for the Swedish krona.

### **Comment**

The future of Stibor appears to be uncertain, both due to the Libor scandal and the progress and promotion of SWESTR. However, the question may be asked when or to what extent the banks in financial transactions will start to lend funds based on SWESTR instead of Stibor. It should also be noted that the fact that SWESTR is now published and available does not mean any automatic cessation of the publication of Stibor, nor have any such decisions been made.

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### **Endnotes**

(1) Further information is available [here](#).

(2) Further information is available [here](#).

(3) Further information is available [here](#).

(4) Further information is available [here](#).

(5) Further information is available [here](#).