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Stibor transitions to transaction-based calculation methodology

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- › Introduction
- › Revised calculation methodology
- › SBA recommendation
- › SFBF and current situation
- › Comment



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Introduction

The Swedish central bank, the Riksbank, now provides a transaction-based reference rate on the shortest maturity in Swedish krona (the Swedish krona short-term rate, SWESTR), which may be used in financial contracts (for further details, see "[Future of Stibor – challenged by SWESTR as new reference rate for financial contracts?](#)"). SWESTR is a fully transaction-based reference rate calculated on transactions executed on the money market from one banking day to the next, overnight, and reported to the Riksbank by its monetary policy counterparties (currently nine banks report their relevant transactions on a daily basis). The Riksbank also provides compounded average rates for periods of one week, one month, two months, three months and six months for SWESTR, as well as an index based on SWESTR values.⁽¹⁾

Revised calculation methodology

Since the summer of 2020, the Swedish Financial Benchmark Facility (SFBF), which calculates and manages the Stockholm interbank offered rate (Stibor), has been working on the development of a revised calculation methodology and a new calculation system for Stibor to meet the new requirements of the EU Benchmark Regulation (BMR)⁽²⁾ and safeguard the integrity and robustness of the benchmark.⁽³⁾ While the Stibor calculation methodology has remained relatively unchanged in the past few decades, it has now gone through an extensive analysis and revision by the SFBF in close collaboration with the panel banks.⁽⁴⁾ According to the SFBF, the revised methodology continues to measure Stibor's underlying economic reality in a consistently accurate manner, aligned to the historical and intended use of the benchmark. In providing a more direct and transparent link to observable trade data, the revised methodology is said to be more robust, transparent, and to provide assurance to users and be designed to meet applicable regulatory requirements.⁽⁵⁾

SBA recommendation

On 16 December 2021, the Swedish Bankers' Association (SBA) published a recommendation regarding a fallback rate for Stibor in the event that one or several of Stibor's maturities would permanently cease to be provided. In case of such permanent cessation of Stibor, the SBA recommends that the compounded average of SWESTR (plus a credit adjustment spread) should function as the replacement benchmark for the same term as Stibor.⁽⁶⁾ The SBA does, however, accentuate that there are no plans for Stibor to cease, but its recommendation on fallback interest rates for Stibor has been drawn up so that market participants under supervision can live up to the requirements of the BMR in a manner that complies with international standards.⁽⁷⁾

SFBF and current situation

As of January 2022, Stibor has been revised on the basis of SFBF's analysis and, according to the SFBF, has fully transitioned to a transaction-based calculation methodology, which, in an automated and controlled manner, calculates the contributing panel banks' cost of funds using the banks funding transactions.⁽⁸⁾ On 27 December 2021, the SFBF submitted an application for authorisation as administrator of Stibor under the BMR with the Swedish Financial Supervisory Authority, which includes the revised transaction-based Stibor calculation methodology that may continue to be used in financial contracts during the application process unless or until the authorisation is refused.⁽⁹⁾

The process of market participants transitioning to an alternative reference rate (eg, SWESTR) either as a fallback to, or in replacement of, Stibor is still in its early stages. To facilitate necessary flexibility in financial contracts in case of the cessation or unavailability of Stibor, market participants appear to be beginning to encourage the use of a fallback solution in respect of their new financial contracts in line with the SBA recommendation.⁽¹⁰⁾ In relation to legacy contracts referring Stibor, however, the predominant approach by market participants seems to be awaiting further development on the market before commencing any amendment procedures to incorporate fallback provisions or otherwise transition to SWESTR.

Comment

Considering the recent development of the Stibor calculation methodology and that SWESTR is currently only available at the shortest maturity, it will likely take time, possibly a few years, before the vast majority of market participants begin to replace Stibor with SWESTR in their financial contracts (both existing and new), particularly in respect of longer maturities. A similar view has been expressed by the Riksbank, which is perhaps the strongest advocate for a transition from Stibor to SWESTR on all maturities, stating that "such a change must be done in an orderly manner and is a multi-year development project".⁽¹¹⁾ In addition, the SFBF has stated that it is important for Sweden to have and provide an interbank offered rate (Ibor), since most of the countries with which Sweden is trading will have an Ibor as their reference rate.⁽¹²⁾ Furthermore, the SFBF has emphasised that Stibor, with reference to the fact that the total value of financial instruments and financial contracts referencing Stibor is about eight times larger than the gross national product of Sweden, is of vital importance for financial stability and market integrity in Sweden.⁽¹³⁾ Also, nearly one-quarter of Swedish-krona-denominated bonds reference Stibor, and Stibor is used in the pricing of 75% of total loans to Swedish households and non-financial institutions.⁽¹⁴⁾

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Endnotes

(1) For further information, see [here](#).

(2) EU 2016/1011.

(3) For further information, see [here](#).

(4) Ibid.

(5) Ibid.

(6) For further information, see [here](#).

(7) Ibid.

(8) For further information, see [here](#).

(9) For further information, see [here](#).

(10) For further information, see [here](#).

(11) For further information, see [here](#).

(12) For further information, see [here](#).

(13) For further information, see [here](#).

(14) Ibid.