MEMBER INFORMATION 2021:9

13/09/2021

To the members of the Swedish Bankers' Association
As well as for information to
The Working group for reference rates
The Legal Committee

The Swedish Bankers' Association's recommendation regarding a fallback rate for Stibor

The Working group for reference rates has drawn up a recommendation regarding which fallback rates should apply if Stibor or any of its tenor ceases permanently. Two consultations have been carried out in this process. In addition, the Swedish Central Bank and the Swedish Financial Supervisory Authority have participated in the work as observers. The Legal Committee has been given the opportunity to provide its opinions on the recommendation.

The recommendation has been drawn up to ensure that contracting parties referring to Stibor will comply with the Benchmarks Regulation's rules, which state that situations where the reference rate ceases permanently must be clarified in the agreement. This work can also be viewed as part of a large-scale, international effort aimed at strengthening the function of reference rates and the robustness of the agreements. The recommendation is intended to create a market standard regarding which fallback rate will apply if Stibor ceases permanently. The recommendation will also form the basis for the formulation of agreements from international standards bodies.

The Swedish Bankers' Association

Hans Lindberg | Jonny Sylvén

Besök (Visit):
Blasieholmsgatan 4B
Stockholm
Sverige (Sweden)

Post:
Box 7603
SE-103 94 Stockholm
Sverige (Sweden)

t: +46 (0)8 453 44 00

e: info@swedishbankers.se
www.swedishbankers.se

Recommendation regarding a fallback rate for Stibor

General recommendations

Financial contracts that refer to Stibor should regulate:

- which trigger events in the contract mean that one or more tenors of, or the entire, Stibor will cease to function permanently as a reference rate,
- which interest rate replaces Stibor if a trigger event occurs, which means that a tenor of, or the entire, Stibor will cease to function permanently as a reference rate,
- time when the fallback rate begins to apply to the financial contract.

The following trigger events are recommended to be used in financial contracts that refer to Stibor. Trigger events 1–5 should be used in all financial contracts that refer to Stibor. Trigger events 6–7 can be used in financial contracts that refer to Stibor if the contracting parties deem it necessary.

A statement by a public authority other than the Stibor administrator's supervisory authority that the Stibor rate will be discontinued will not have any impact and will therefore not constitute a trigger event.

Recommended trigger events

1. The supervisory authority for Stibor's administrator makes a public statement or publishes information stating that the administrator is no longer providing or will no longer provide one or more Stibor rates.

2. The administrator of Stibor makes a public statement or publishes information stating that the administrator is no longer providing or will no longer provide one or more Stibor rates.

3. The bankruptcy administrator of Stibor's administrator or the administrator, according to the resolution regulations, of Stibor's administrator makes a public statement or publishes information stating that the administrator is no longer providing or will no longer provide one or more Stibor rates.

4. The supervisory authority for Stibor's administrator makes a public statement or publishes information stating that

a) One or more Stibor rates are no longer, or will no longer be, representative of the underlying market that the Stibor rate or Stibor rates are intended to represent, and
b) The representativeness of the Stibor rate or the Stibor rates will not be restored.

5. The supervisory authority for Stibor's administrator makes a public statement or publishes information stating that it is, or will be, illegal to use one or more Stibor rates as a reference rate in financial contracts.

6. One or more Stibor rates cease to be provided without a statement or publication of information in accordance with items 1–3 above. Contracting parties must agree on what is considered a permanent cessation if this trigger is to be included in the contract.

7. Stibor's administrator or the supervisory authority for Stibor's administrator makes a public statement or publishes information stating that one or more Stibor rates should or may no longer be used, without reference to regulations.

Recommendation regarding fallback rate

The interest rate that replaces the Stibor rate if a trigger event occurs and one or more tenors, or the entire Stibor, permanently cease to function as a reference rate, is recommended to be the adjusted (compounded) Swestr for the same term as Stibor plus a spread adjustment. This division of the fallback rate into two parts conforms to the way fallback rates have been specified internationally. The adjusted Swestr is used to create a term, while the spread adjustment is used to even out the differences between Stibor and the adjusted Swestr. This is to reduce the risk of value transfers between the parties resulting from the change of reference rate.

The adjusted Swestr must be calculated in a conventional manner in line with international standards. In Sweden, this calculation will be made according to the principles established by ISDA. The spread adjustment will also be calculated in the way specified by ISDA. This means calculating the median daily difference between Stibor and the adjusted Swestr over the previous five years.

Adjusted Swestr

To obtain terms for the fallback rate, compound interest on Swestr is calculated for the same terms as the interest rate it is to replace. Calculation of adjusted Swestr can consequently only take place at the end of an interest period. To perform compounded interest calculations, an observation period is required for the days on which the interest is to be read. The convention that will be used here entails that the observation period begins and ends earlier than the interest period. This follows an international convention that is used for other fallback rates and by ISDA.

Adjusted Swestr is calculated for the same terms as Stibor, apart from T/N, i.e. for 1w, 1m, 2m, 3m and 6m. Stibor's T/N has the same term as Swestr, and for Stibor T/N, adjusted Swestr is not used in the calculation of its fallback rate, rather Swestr.

Spread adjustment

A spread adjustment will be used to reduce the risk of value transfer when a reference rate is replaced. A spread adjustment will be calculated for each term for Stibor. The spread adjustment will, in accordance with international standards, be the median difference during the previous five years between the relevant Stibor rate and an adjusted Swestr rate.

The calculation of the difference between the interest rates is performed for the corresponding terms. This means that the most recently calculated difference is calculated on the current adjusted Swestr and relevant Stibor, which was initiated one interest period before, taking into account shifts in observation periods. Differences are only calculated for days when there are historical observations for both rates.

A new spread adjustment is calculated every trading day, up to and including the day of a trigger event. The spread adjustment is calculated every day, for each term, as the median difference between the Stibor rate and the adjusted Swestr for the corresponding period. If a trigger event occurs, the spread adjustment will be locked at the last published value on the date considered to be the trigger event.

Recommendation regarding when the fallback rate takes effect

When a trigger event occurs, which means that the Stibor rate ceases, the change to the fallback rate should take place in connection with an interest rate determination opportunity. The change must take place at the latest in connection with the first interest rate determination opportunity *after* Stibor has ceased. The parties to the contract are recommended to agree on this time in advance.

The financial contract can also describe what applies or which measures are to be taken if Swestr ceases.

Definitions

Fallback solution: A general structure for what should happen if the reference rate in the contract in the form of a Stibor rate is discontinued. The three components of the general fallback solution are triggers, fallback rate and the time when the change is to take place.

Fallback clause: The clause in the contract that describes the fallback solution.

Financial agreement:
a) credit agreement as defined in Article 3(c) of Directive 2008/48/EC,
b) credit agreement as defined in Article 4.3 of Directive 2014/17/EC.

Financial instruments: any of the instruments listed in Annex I, Section C, to Directive 2014/65/EU, for which a request for admission for trading on a trading venue, as defined in Article 4(1)(24) of Directive 2014/65/EU, has been made, or which is traded on a trading venue as defined in Article 4(1)(24) of Directive 2014/65/EU or through a systematic internaliser, as defined in Article 4(1)(20) of that Directive,

Financial contract: financial agreements and financial instruments and other financial arrangements that refer to Stibor as the reference rate.

Adjusted Swestr rate: An interest rate based on Swestr but with a compounded rate adjustment for a term equivalent to 1w, 1m, 2m, 3m or 6m.

Corresponding term: The spread adjustment must be calculated in order to identify the difference in credit risk. Stibor and the adjusted Swestr must relate to the same time period for each calculation. Stibor has a two-day lag from the publication date to the date on which the interest rate is to apply[1]. The relevant period for Stibor will therefore be a term from and including two days after the publication date. Its corresponding term for an adjusted Swestr is the published adjusted Swestr on the final day of Stibor's term, taking into account the deviating observation period.

Reference rate: Refers to an interest rate that is used in a contract between at least two parties. In a contract where a fallback clause is used, the reference rate is at least one Stibor rate. The rate need not be used to calculate the cash flows to be paid between the parties. The reference rate may be an element of future cash flows, conditional cash flows, etc.

Stibor: refers to the whole family of interest rates that follow the same basis for production and are administered by the same administrator.

Stibor rate: An interest rate that is referred to in contracts as Stibor and which has a term defined as T/N, 1w, 1m, 2m, 3m or 6m. If a contract contains multiple references to several terms, the contractual clause must be worded such that a situation where only one of the terms is discontinued is taken into account. The term *Stibor rate* is therefore used for an individual term.

[1] This applies to terms of 1w, 1m, 2m, 3m and 6m. T/N applies from the subsequent banking day.