MINUTES

FINANCIAL MARKETS CONTACT GROUP - BANKS

27 March 2025 13.00-15:00 CET
Danmarks Nationalbank, Langelinie Allé 47, 2100 København Ø

DANMARKS NATIONALBANK

ATTENDEES:

Arbejdernes Landsbank
Danmarks Nationalbank
Danske Bank
Jyske Bank
Nordea
Nykredit Bank
SEB
Spar Nord Bank
Sparekassen Kronjylland
Sydbank

BY INVITATION:

LCH

OPENING REMARKS

Chair Henrik Nørby gave introductory remarks, reminding participants of the mandate of the working group as stipulated in the Terms of Reference.

DESTR & REFERENCE RATE TRANSITION

Danmarks Nationalbank gave presentation on developments in the Denmark Short-Term Rate (DESTR) over the past year and the broader reference rate landscape in Denmark.

DESTR remains a robust, risk-free reference rate, which is representative of the underlying market it is intended to measure. Volumes in overnight deposits, which underpin the calculation of DESTR, had remained stable and the share of transactions involving non-banks had grown further.

DESTR continued to be a reliable vehicle for monetary policy transmission, for the most part remaining stable just below DNs deposit facility rate, reflecting an environment of ample krone liquidity.

It was noted that even during a recent fall in available liquidity, DESTR had not risen above DN's deposit rate. This most likely reflected that sufficient liquidity had been obtained via DN's standing lending facility (see later section on DKK funding pressures).

The market infrastructure for trading interest rate swaps (IRS) which reference DESTR had also developed notably. Both Bloomberg and

Tradeweb had enabled trading of DESTR swaps via their platforms, with options to clear via LCH or Eurex in contracts up to 11 years. Improvements in trading infrastructure had driven turnover higher, with activity broadly split across the 2–10-year segments.

Activity in the interest rate swap market was now evenly split between those that reference DESTR and those which reference CIBOR. Participants noted this bifurcation was harmful to liquidity and a consolidation to one reference rate would be beneficial. It was noted by the group that it would benefit liquidity if publicly backed entities would transition from CIBOR to DESTR swaps. In general, it was also noted that the transition up to this point had progressed faster than expected at DESTR's launch three years ago.

DN noted that CIBOR remained dominant in the exposures of the large Danish banks and that as a term rate, it met demand for contracts in which payments need to be known with certainty, such as those in the mortgage market.

Despite reform to the calculation of CIBOR, it was noted that there are still rarely any transactions to incorporate -leaving only quotes from the 5 panel banks to underpin it. The foundation of CIBOR is potentially vulnerable and progressively more of an outlier in the global reference rate landscape. Particularly when contrasted to Euribor, which is now predominantly transaction based.

The group discussed the merits of a term DESTR based upon a combination of quotes for, and transactions in, DESTR swaps as a potential replacement for CIBOR. It was acknowledged that although term DESTR may still rely on quotes to some extent, its representativeness would be anchored by both DESTR at the short end, and an active market in DESTR swaps across the maturity spectrum.

Regarding reference rate transition, participants voiced support for a more concrete move towards either ceasing or redefining CIBOR as a function of DESTR.

It was also highlighted from participants that a pure market-based transition was unlikely, and that the official sector needed to drive the process through establishing working groups and setting realistic timelines for such a transition.

CLEARING IN DKK MARKETS

London Clearing House (LCH) gave a presentation on their role in clearing in DESTR swap markets and their experience with reference rate transition in other jurisdictions.

LCH shared turnover data on cleared DESTR swaps which broadly corroborated the picture earlier painted by DN. The activity in longer tenors (10-31 years) was now evenly split between CIBOR & DESTR, despite the latter only being cleared out to 11 years.

Participants agreed that the clearing of DESTR swaps out to at least 31 years was a necessary precondition for reference rate transition. In addition, participants were supportive of modifying the payment lag in the contracts from t+2 to t+1, in line with ESTR in the euro area. This alignment would promote cross-currency activity between the two rates.

The implications of the cessation of the Tom/Next rate at the end of 2025 was also discussed, where a shift in discounting and PAI are needed. The timeline for the shift is not exact yet but is expected to take place in Q4. There was an overall agreement that the shift should mirror the one from EONIA to €STR.

LCH agreed to return to the group at a later date with implementation timelines for the changes.

DKK FUNDING MARKETS

Danmarks Nationalbank presented some insights into recent funding pressures in Danish krone.

Available liquidity in the money market (the net position) had been forecast to fall to around 170bn DKK at the start of April, which although still high by historical standards, had caused the price of DKK liquidity on a forward basis to rise in anticipation of this date.

In FX forward markets, the implied 1-month rate differential between Denmark and the euro area had risen into positive territory, significantly higher than the -40bps spread between DN's policy rate and the ECB's. Spreads in other funding markets, such as those for repos & covered bonds had also risen, although to a lesser extent.

In response, DN had emphasised that its operational framework was designed to work regardless of the level of the net position and that monetary policy counterparties (MPCs) were expected to draw from DN's weekly liquidity facility as part of their regular liquidity management. In addition, MPCs were expected to be proactive in redistributing liquidity between each other and clients to promote monetary policy transmission.

Participants noted DN's important role in highlighting the lack of stigma in its standing facilities. Uptake had initially been slow, but drawdown was sufficient to contain the moves in funding markets. Banks highlighted both regulation and the rigidity of their internal structures as factors limiting the potential to become more active in funding markets during times of mispricing and stress.

Participants discussed the robustness of DN's monetary policy toolbox and suitability in preventing a recurrence of disruptions in DKK funding markets. Some thought the continued emphasis on lack of stigma would be sufficient, while others expressed a desire for a wider variety of lending facilities: both shorter maturities to counter more fleeting liquidity pressures, and longer term to support their compliance with liquidity regulation as well as lending DKK against euro cash collateral.

CLOSING REMARKS

Chair Henrik Nørby concluded the meeting by discussing Danmarks Nationalbank's use of reported FX & money market (FXMMSR) data in its market intelligence activities.

The purpose of collecting the FXMMSR data is to monitor monetary policy transmission and flows in to, and out of DKK. The data is often used in DN's analysis and as an input to policy decisions.

Data is also treated with confidentially, and only published on an aggregated basis, such that no information on individual institutions can be identified.

Danmarks Nationalbank can, if deemed necessary, contact relevant parties- either reporters or counterparties directly- to better understand the motivations behind their transactions in DKK FX and money markets. These market intelligence interactions are a valuable input to DN's policy decisions and crucial to its role in fulfilling of its mandate of monetary and financial stability.

Finally, it was noted that one yearly meeting with physical attendance would continue to be the norm, complimented by ad hoc meetings if necessary.