

WORKING GROUP ON SHORT-TERM REFERENCE RATE

2. MEETING - MINUTES

April 8, 13:00 – 15:00 CET

1. Welcome

Welcome by Danmarks Nationalbank where it was reiterated that due to the information that could be regarded as competitively sensitive, should not be disclosed or exchanged during the meeting.

2. Preliminary results from Workstream 1

Workstream 1 (WS1) went through the preliminary results from their work. First they highlighted some characteristics that the reference rate could be evaluated against. Due to different considerations WS1 rejected the idea of creating a sufficiently stable reference rate based on secured money market or FX forward transactions. This led to a comparison between the existing Tom/Next rate administered by DFBB and the proposed DESTR that will be published by Danmarks Nationalbank.

Especially the superior turnover characteristics of the transactions underlying DESTR was an important factor in the preliminary recommendation of DESTR as the preferred short-term reference rate.

Other working group members all agreed with the preliminary conclusion. This conclusion is in line with the [first public consultation on DESTR](#) conducted by Finance Denmark. It was agreed that WS1 will prepare a draft for the final recommendation for the next meeting in the working group.

3. Initial findings from Workstream 2

Workstream 2 (WS2) elaborated on their initial discussions on the adoption of DESTR and transition from the existing Tom/next rate to DESTR.

The initial thoughts from WS2 on the transition from the existing Tom/Next rate to DESTR showed that the preferred way forward would be the same approach as used in the EONIA to €STR transition. At the same time it was highlighted that further analysis was needed in order to

ensure that this approach also suits the characteristics of the Danish market. Especially the existence of CITA term rates makes a Danish transition somewhat different compared to the euro area. WS2 will conduct further analysis on the best transition prior to the next meeting.

The working group exchanged preliminary views on the potential spread determination if the Tom/Next rate should be made dependent on DESTR. It was highlighted that the adjustment of the monetary policy instruments of Danmarks Nationalbank in mid-March marks a shift in the functioning of the money market. This should be considered when deciding the spread methodology.

WS2 also presented some thoughts on what is needed to make the adoption of DESTR a success. The working group agreed that in order to make the adoption a success it requires that end-users have the option to use DESTR as reference across a broad range of products. The first step will be to ensure the existence of an active swap market based on DESTR.

The working group found that in order to facilitate the use of DESTR across different product it will likely be necessary to develop term rates based on DESTR. As term rates is outside the mandate of this working group the need for term rates based on DESTR (backward and/or forward looking) will be handled in a working group commissioned by Finance Denmark.

4. Update on DESTR

Danmarks Nationalbank requested feedback on the publication time for DESTR. From a trading perspective it would be preferred that it is published as early as possible. From an operational viewpoint a later publication time is preferred as it would give more time to solve issues without affecting the publication of DESTR. In the end there was a broad consensus that publication at latest 10:00 would be a good compromise.

Danmarks Nationalbank implemented a technical adjustment to the monetary policy instruments in March 2021. This could lead to a change in market behaviour. Initial data for the O/N turnover in the few days since the adjustment took effect indicate a continued strong level of turnover although it might be somewhat lower than before the adjustment.

The members agreed that turnover in the O/N segment would most likely decrease somewhat, but it was too early to get a good indication of the extent.

5. Next steps

Danmarks Nationalbank informed that they plan to publish an analysis of the data underlying DESTRA and the proposed methodology during May 2021.

The timetable for the future work is was agreed that for the next meeting in the working group WS1 is expected to present their final recommendation, and that WS2 will have a first draft of the adoption and transition plan.

Next meeting is expected to be held 18 May 2021.