

DESTR METHODOLOGY AND POLICIES

1. Background

In November 2020 Danmarks Nationalbank took over the responsibility of the proposed short-term reference rate in Danish kroner, Denmark Short Term Rate (DESTR) based on overnight unsecured fixed rate deposit transactions. Following the change in responsibility Danmarks Nationalbank has reviewed the methodology and data underlying DESTR.¹ DESTR will be launched 1 April 2022. The design and implementation of the new unsecured overnight rate is considered to be consistent with international best practice as set out in the IOSCO Principles for Financial Benchmarks.² This document provides details on how DESTR is calculated and managed.

2. DESTR administrator

Danmarks Nationalbank is the administrator and retains the overall responsibility for the rate.

3. Definition of DESTR

3.1 Statement of underlying interest

DESTR is a rate which reflects the wholesale Danish krone unsecured overnight borrowing costs of banks active in the Danish krone market. The rate is published for each Danish banking day based on transactions conducted and settled on the previous banking day (reporting date T) with a maturity date of T+1 and which are deemed to be executed at arm's length and in competition, hence reflecting market rates in an unbiased way.

¹ [DESTR – Review of Underlying Data and Methodology](#)

² See OICV-IOSCO Principles for Financial Benchmarks, Final Report of July 2013

3.2 Statement of methodology

DESTR is exclusively based on borrowing transactions in Danish krone conducted with financial counterparties. DESTR is calculated using overnight unsecured fixed rate deposit transactions above DKK 5 million. Unsecured deposits are standardised and the most frequent means of conducting arm's length transactions on the basis of a competitive procedure for unsecured transactions, thereby limiting idiosyncratic factors potentially influencing the volatility of the rate.

DESTR is calculated for each Danish banking day as a volume-weighted trimmed mean rounded to the third decimal.

The volume-weighted trimmed mean is calculated by:

1. ordering transactions from the lowest rate to the highest rate;
2. aggregating the transactions occurring at each rate level;
3. removing the top and bottom 12.5 per cent in volume terms; and
4. calculating the mean of the remaining 75 per cent of the volume-weighted distribution of rates.

A pro rata calculation is applied to volumes that span the thresholds for trimming to ensure that exactly 75 per cent of the total eligible volume is used in the calculation of the volume-weighted mean.

4. Data

DESTR is based on daily money market transactions collected as part of Danmarks Nationalbank foreign exchange and money market statistics from the largest banks active in the Danish market. The data quality management process includes a set of technical checks which verify that the submitted data complies with the structure and formats required for the statistical reporting. Furthermore, data quality checks are carried out to ensure the correctness of the reported data. In addition, a set of targeted data quality checks are carried out to identify non-competitive trades and decide which transactions, if any, should be excluded from the calculation of DESTR. Reporting agents will be asked to confirm the outliers.

5. Publication

5.1 Standard daily publication arrangements

DESTR will be published with three decimal places³ at 10:00 CET on the next Danish banking day.⁴ Together with DESTR, the following related information is published:

- total nominal value of transactions before trimming in DKK millions;
- percentage of total nominal amount reported by the largest contributing bank that day, as a whole number;
- calculation method: *normal* or *contingency*;
- publication method: *standard* or *republication*;

6. Contingency arrangements

6.1 Data sufficiency triggering contingency

A short-term contingency procedure will be triggered where:

(i) the total volume is below DKK 0.5 billion;

or (i) the total volume is below DKK 1.5 billion; and

(ii) one bank accounts for more than 70 per cent (rounded to nearest whole number) of the total transaction volume.

These criteria are intended to address, among others, cases where (i) there is a genuine lack of transactions, or (ii) systems break down, preventing a sufficient data feed, thereby impairing the calculation of a representative transaction-based rate.

6.2 Contingency computation methodology

If the contingency procedure is triggered, DESTR will be calculated as the level of the central bank rate plus the mean of the spread between DESTR and the central bank rate over the previous five days where a normal calculation method has been used, excluding the days with the highest and lowest spread to the central bank rate.

The central bank rate is defined as the average of the rate on the current account and the lending rate of Danmarks Nationalbank.

³ Using standard rounding, i.e. rounded to the nearest third decimal (below 0.0005% is rounded down, above and equal to 0.0005% is rounded up).

⁴ Time zone is CET (including change to Central European Summer Time)

If Danmarks Nationalbank does not publish DESTTR at latest by the republication deadline at 11:00 CET, the applicable rate for DESTTR is calculated as described above for contingency procedure.

7. Policies for handling data errors

Section 4 outlines the process that ensures the quality of the data used to calculate DESTTR and allows for timely publication. However, given that limited errors could still potentially occur, this section sets out how such errors would be handled; including in which circumstances the benchmark would be republished.

7.1 Republication policy

If errors are detected following standard publication that affects the published DESTTR by more than 2 basis points, DESTTR is revised and republished on the same day, no later than 11:00 CET.⁵

In case of non-publication of DESTTR at 10:00 CET, a republication can take place no later than 11:00 CET.

7.2 Transparency policy

In order to support the transparency of the benchmark determination process, a summary on errors larger than 0.5 basis points that were detected after the standard publication and did not meet the republication criteria will be published periodically.

8. Review of methodology

The methodology and policies will be reviewed regularly to ensure that the underlying interest is adequately measured and captured by the methodology and that the procedures and policies are effective.

9. Trademark protection, access and usage

9.1 Protection

The name DESTTR has been trademarked.

9.2 Access and usage

Use of DESTTR is free of charge and not subject to a license agreement. DESTTR is published on Danmarks Nationalbank's website and via market vendors.

⁵ Time zone is CET (including change to Central European Summer Time)