Stibor requires reform

On the basis of the empirical evaluation begun by the Riksbank in autumn 2011, there are no signs of manipulation of the Stibor benchmark rate. However, the Riksbank has identified a number of shortcomings in the framework for the benchmark rate. These shortcomings relate to the fact that no individual agent has overall responsibility for Stibor. The structure for the governance and control of the processes is also unclear. In addition, transparency concerning the pricing of Stibor is inadequate and it is difficult to verify how Stibor is determined, particularly for longer maturities.

Stibor (Stockholm Interbank Offered Rate) is defined as the average interest rate that the banks in the so-called Stibor panel state that they can offer one another for unsecured loans in Swedish kronor.[1] Stibor is determined daily for loans at eight different maturities.

Stibor has been used as a benchmark rate in Sweden for over 30 years. In general it has served its purpose. However, the framework for Stibor has a number of shortcomings that need to be dealt with in order to enhance that confidence in this benchmark rate is maintained. In brief, these relate to the following areas:

- *Lack of responsibility*. The five banks in the Stibor panel are currently jointly responsible for the contract that regulates how the benchmark rate is determined.[2] There is thus no individual agent who is responsible for the contract and who can be held accountable.
- *Lack of governance and control*. There is no clear structure that can ensure that confidence in Stibor is maintained. For example, there is no organisation that monitors whether the banks comply with the Stibor contract or that can deal with questions or complaints about Stibor from external parties.
- *Lack of transparency*. The Stibor contract is not public. Information on what Stibor is and how it is determined is not easily available. This makes it difficult for external parties to assess and understand the benchmark rate.
- *Lack of possibility to verify Stibor*. Swedish banks largely use loans in foreign currencies for their short-term funding and there is no liquid Swedish market that can form the basis for the pricing of Stibor. The banks also very rarely use unsecured interbank loans in Swedish kronor. There is thus no verifiable starting point for Stibor.
- *Inadequate incentive structure when Stibor is determined*. At present, the banks that determine Stibor do not have sufficiently strong incentives to specify correct Stibor rates in that they are not bound by their submissions. Furthermore, the Swedish financial market is relatively small with few banks in the Stibor panel, which means that there is a risk that the banks collaborate when determining Stibor.

[1] See the *Riksbank's review of Stibor*, Sveriges Riksbank, 2012.
[2] Danske Bank, Handelsbanken, Nordea, SEB and Swedbank.

Differences between different benchmark rates

An extensive review of benchmark rates is now underway in several countries as a result of the discovery of a number of shortcomings, primarily in connection with the financial crisis of 2007–2009. Since 2009, the supervisory authorities in, for example, the United Kingdom and Japan, as well as the EU, have examined the Libor (London Interbank Offered Rate), Euribor (European Interbank Offered Rate) and Tibor (Tokyo Interbank Offered rate) benchmark rates. To date, it is only the review of Libor that has resulted in a number of proposed measures.[3] The on-going review of benchmark rates around the world may lead to extensive changes in the way these rates are organised. The Swedish benchmark rate may then need to be adapted to these changes. However, it is important to take into account that there are differences between Stibor and the other benchmark rates.

One important difference between the benchmark rates concerns how they are defined. When Stibor is determined, a bank should take the interest rate it believes it can offer to the other banks in the Stibor panel as its starting point. When the British benchmark rate Libor is determined, the bank should instead take the interest rate it believes it may be offered by the other banks as its starting point. When the European benchmark rate Euribor and the Danish benchmark rate Cibor (Copenhagen Interbank Offered Rate) are determined, the bank should assume that the counterparty is a financially strong bank with a high credit rating. In the case of Euribor, the bank should also not take its own situation as the starting point but assess the lending rates of two typical banks with a high credit rating, which means that the rate set is purely hypothetical.

Another difference concerns who is responsible for the benchmark rates. Stibor differs from the other rates in this respect in that it is regulated by a contract between the banks in the Stibor panel. In contrast responsibility for the other benchmark rates is managed and regulated by a bankers' association in the country or currency area concerned. The situation regarding responsibility for the other benchmark rates is thus clearer than in the case of Stibor.[4]

[3] See *The Wheatley Review of Libor*, Final report, HM Treasury, 2012.
[4] Among other measures, it has been proposed that responsibility for Libor be transferred from the British Bankers' Association to a new, independent actor to be appointed through a tender procedure.