Working group for alternative reference rates in NOK
Meeting minutes
Tuesday, 21 August 2018
Norges Bank – Bankplassen 2

Present:

Jørgen Gudmundsson	**Sparebanken Vest**
Vidar Knudsen	**DNB Bank**
Nils Gunnar Baumann	**Nordea Bank AB**
Wenche Vatnan	**Handelsbanken**
Tore Waseng	**Skandinaviske Enskilda Banken AB**
Ulrik Sandvig	**Danske Bank**
Dag Olav Uddu	**Sparebankene SMN, Nord-Norge og Østlandet**
Dag Hjelle	**Sparebank 1 SR-Bank**
Ulf Jakobsson	**Swedbank**
George Duffield	**Bloomberg (last part of meeting)**
John Morton (via telephone)	**Bloomberg (last part of meeting)**
Per Erik Stokstad	**Finance Norway** (observer)
Ketil Johan Rakkestad	**Norges Bank** (observer)
Kathrine Lund	**Norges Bank** (observer)

Minutes:

Jørgen Gudmundsson presented the agenda. The minutes of the previous meeting were reviewed. Some comments were discussed and the final version will be distributed by email. Planning of the open meeting to be held in the course of the autumn continued. The secretariat will propose possible dates and an invitation should be published on the website as soon as the date has been decided. The group also agreed that participants other than banks should be present at this meeting, and the possibility of explicitly requesting input from specific participants was discussed.

The group then went on to discuss the criteria an alternative reference rate should meet. There was a lengthy discussion about the challenges related to the lack of transactions in the Norwegian money market. Some members referred to the discussion at the previous meeting about the importance of a reference rate that includes a risk premium reflecting banks' funding costs. This may make it difficult to have a risk-free reference rate. The point was also made that Nibor quoting is not directly dependent on Libor and that Nibor can exist even if Libor is discontinued. However, others argued that if all the major currencies change to overnight rates as the standard for financial contracts and derivatives, it will be very difficult to use Nibor as a reference rate in NOK. At the same time, the transition to the alternative reference rates SOFR and SONIA in the US and UK seems to have taken place sooner than expected, and corporate bonds referencing these rates have already been issued.

Because of the limited size of the Norwegian interest rate market, there are no obvious candidates that would meet the criteria a reference rate should meet. Several group members therefore argued that the list of criteria should not be presented as requirements but as preferred qualities for an alternative reference rate. The members agreed on a list of preferred criteria supported by the group. The criteria will be published on the working group's web page.

The group went on to discuss which rates could be potential alternatives to Nibor. A reformed version of the NOWA rate could be one option, provided that the underlying data were expanded to include more of the unsecured overnight market. The members were, however, uncertain whether the number of transactions in the overnight market was sufficient for this rate to satisfy the requirements for a robust underlying market. Repo rates were also discussed as a possibility. Today, the repo market in NOK is very limited, with only a few, very specialised participants. Some members argued that if Norges Bank had utilised standardised repos in its liquidity management, the repo market could have grown in both volume and number of participants. A reference rate based on a foreign reference rate and then converted into NOK through a foreign exchange swap was also suggested as an option. The group will continue this discussion at the next meeting. The assessments of all the potential candidates will be included in the consultation report, which will also include a request for feedback from other interested parties.

Towards the end of the meeting, George Duffield and John Morton from Bloomberg addressed the group by telephone. They gave a brief description of the international situation, Bloomberg's involvement and its role in international efforts to identify alternative reference rates and some of the challenges involved in making the transition to new reference rates.