

UPDATE:
PUBLISHING FALLBACK RATES
FOR NIBOR
WORKING GROUP FOR ALTERNATIVE
NORWEGIAN KRONE REFERENCE RATES
NOVEMBER 2021

Market update

In December 2020, the working group for alternative NOK reference rates published the report “Recommended market conventions for Nowa and fallback solutions in the event of a cessation of Nibor”. The report contains recommendations for the use of Nowa in financial contracts and for managing a transition from Nibor to Nowa in the event Nibor ceases. In the report, the working group recommends a fallback clause where Nibor is replaced by term-adjusted Nowa plus a spread-adjustment factor for the relevant Nibor tenor for various triggering events.

After the report was published, the sub-group market conventions for Nowa and fallback solutions for Nibor was given an updated mandate where the objectives are as follows:

Objectives

The sub-group is to

- follow up the recommendations given in the report on fallback solutions for contracts with Nibor as the benchmark and market conventions for products referencing Nowa.*
- keep updated on global developments and if necessary implement changes in the Norwegian recommendations.*
- follow up the work with ISDA and Bloomberg to make sure fallback solutions for Nibor are incorporated into ISDA’s standard documentation. The working group must also ensure that Bloomberg or another independent party calculates the spread adjustment between Nibor and compounded Nowa.***
- regularly update the market on its work.*
- aim to recommend the same conventions for the use of Nowa across markets and products to the extent possible.*

The working group has worked closely with ISDA and Bloomberg through 2021 to include fallback solutions for Nibor in ISDA’s standard documentation for derivatives. To the working group’s knowledge, ISDA will be ready to publish an IBOR Fallbacks Supplement for NOK derivatives soon (during 2021 Q4). At the same time, Bloomberg will begin to publish a spread adjustment between Nibor and compounded Nowa, and a replacement rate for Nibor tenors in accordance with the *IBOR Fallback Rate Adjustments Rule Book* from ISDA/Bloomberg:

<https://data.bloomberglp.com/professional/sites/10/IBOR-Fallback-Rate-Adjustments-Rule-Book.pdf>

It is also the working group’s understanding that ISDA will publish a protocol that derivatives market participants can sign to include the corresponding fallback solution in existing Nibor derivatives contracts.

The fallback rate that the working group recommended in the report from December 2020 was based on ISDA’s recommendation. This will ensure that the fallback rate for Nibor will be in line with the working group’s objective “to recommend the same conventions for the use of Nowa across markets and products to the extent possible”.

In the event Nibor ceases, where the aforementioned fallback rate becomes applicable, the individual user of the calculations will have to purchase a licence to use the fallback rates on Bloomberg. The costs as stated in Bloomberg's price list appear to be relatively moderate¹.

A key milestone in the work on alternative reference rates was to put in place a fallback rate for Nibor. This now appears to be close at hand. *Nevertheless, it is important to note that the working group has received no indications that Nibor will cease.* Even so, since a fallback rate for Nibor that is published daily via Bloomberg is crucial if Nibor should cease, this solution helps to maintain financial market stability.

The working group for alternative reference rates has also considered the possibility that an independent party other than Bloomberg calculate and publish spread adjustments using the appurtenant fallback rate. An important element in this consideration has been that ISDA will not use providers other than Bloomberg for calculating spread adjustments and fallback rates. The working group deems it undesirable for there to be two sources of spread adjustments and fallback rates for Nibor. This will create unnecessary confusion and uncertainty in the market and increase the risk of diverging calculations of the same fallback rate.

The working group's recommendation

The working group recommends that the market use spread adjustment using the appurtenant fallback rate, which will be published by Bloomberg as a fallback for Nibor.

The working group for alternative reference rates aims to publish a user's guide for Nowa during 2021 Q4, which will contain specific descriptions for how to use Nowa as a reference rate in different financial products, in addition to how fallback solutions for Nibor can be implemented.

Working group for alternative Norwegian krone reference rates.

¹ <https://www.bloomberg.com/professional/solution/libor-resource-center/>