

Working group for alternative Norwegian krone reference rates
Meeting minutes
Monday, 22 June 2020
Video conference

Attendees:

Vidar Knudsen	DNB Bank
Ulrik Sandvig	Danske Bank
Timothy Fitzgerald	DNB Markets
Wenche Vatnan	Handelsbanken
Karolina Thyman	Nordea Bank ABP
Jenny Ramstedt	Skandinaviske Enskilda Banken AB
Ronny Sørensen	Sparebankene SMN, Nord-Norge og Østlandet
Henning Nilsen	Sparebank 1 Boligkreditt
John Hopp	Sparebanken Vest
Dag Hjelle	SR Bank
Joakim Henriks	Swedbank
Joar Johnsen	Finance Norway (observer)
Kathrine Lund	Norges Bank (observer)
Marit Øwre-Johnsen	Norges Bank (observer)

Minutes:

Vidar Knudsen (DNB Bank) presented the day's agenda, after which the minutes of the meeting of 11 June were approved, with a minor comment. The remainder of the meeting was spent on going through a draft consultation report on the establishment of a Norwegian krone OIS market. Tim Fitzgerald (DNB Markets), who is heading up this work, went through the report.

The first part of the report addresses the group's terms of reference and the background for its work. This is followed by a discussion of the benefits of establishing a derivatives market based on Nowa. Here, regulation was emphasised as a key point. Given the uncertain future of IBOR rates, establishing a derivatives market based on overnight interest rates also in Norway was considered important. The possibility of an independent discount curve based on overnight rates, improved risk management, harmonisation with international financial markets and increased transparency were also factors that were emphasised as benefits of establishing a Norwegian krone OIS market.

The primary challenge pointed out in the report concerns liquidity. It will be difficult to establish a sufficiently liquid OIS market linked to Nowa. Moreover, it will be necessary to facilitate central clearing of trades in Nowa derivatives, since central clearing is required for many interest rate derivatives trades. Technical challenges related to enabling systems to handle overnight interest rates, and challenges relating to updating mandates and increased credit premium volatility were also mentioned.

The final part of the report outlines what can be done to facilitate the establishment of an OIS market. The working group is seeking input from market participants on the proposals. To ensure sufficient liquidity for Nowa derivatives, the working group proposes that banks active in the interest rate derivatives (IRD) market agree to support the market by quoting prices both to customers and directly to one another. The working group will also work with brokers in Norwegian krone IRD contracts so that they too will be able to quote prices.

Furthermore, the working group will work with one or more central counterparties to ensure that clearing is in place before launch. The launch date for an OIS market based on Nowa will be announced in sufficient time to allow market participants to put in place systems and mandates. As of today's date, the working group envisages a launch during 2021 Q3. A more specific timeline will be published later.

The ARR working group endorsed the report and envisages publication during the last week of June. The consultation closing date will be 1 September, the same as for the report on market conventions for the use of Nowa for financial products.