

Working group for alternative Norwegian krone reference rates
Meeting minutes
Monday, 21 September 2020
Video conference

Attendees:

Vidar Knudsen	DNB Bank
Ulrik Sandvig	Danske Bank
Christian Heggen	DNB Markets
Timothy Fitzgerald	DNB Markets
Jan Bjørnsen	Handelsbanken
Wenche Vatnan	Handelsbanken
Karolina Thyman	Nordea Bank ABP
Jenny Ramstedt	Skandinaviske Enskilda Banken AB
Dag Olav Uddu	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)
Michael Hurum Cook	Finance Norway (observer)
Fride Marie Pedersen	Norges Bank (observer)
May-Iren Wassås	Norges Bank (observer)
Kjetil Stiansen	Norges Bank (observer)
Kathrine Lund	Norges Bank (observer)

Minutes:

Vidar Knudsen (DNB Bank) presented the day's agenda, after which Tim Fitzgerald (DNB Markets) provided a brief update on the work by the sub-group for establishing a Norwegian krone OIS market. There have been few responses to the consultation report. LCH is positive to clearing Nowa OIS. They have waited for historical data for reformed Nowa in order to calculate margin payments for Nowa OIS. Norges Bank has now published an estimated time series for reformed Nowa that has been forwarded to LCH. The working group is still aiming to establish an OIS market during the second half of 2021.

Henning Nilsen (Sparebank 1 Boligkreditt) provided an update on the work by the sub-group for market conventions and fallback solutions. A summary of the consultation responses to the previous consultation report will be posted on the working group's web page during the last week of September.

Then Christian Heggen (DNB Markets) and Jan Bjørnsen (Handelsbanken) went through the draft consultation report "Fallback solutions and term and spread adjustments between Nibor and Nowa in the event of a cessation of Nibor". The consultation report discusses how the differences in maturity between the two interest rates is to be dealt with (term adjustment),

various methods for calculating the difference between Nibor and Nowa (spread adjustment) and what should trigger a transition from Nibor to Nowa (triggers).

A key point has been defining so-called triggers, ie events that are supposed to result in conversion from Nibor to the Nowa-based fallback rate (fallback clause). In line with the recommendations made by ISDA and ARRC, it is the working group's assessment that the fallback clause for Nibor should not be triggered until a public announcement is made by the Nibor administrator (NoRe), Finanstilsynet (Financial Supervisory Authority of Norway) or any other body with authority over NoRe to the effect that Nibor will no longer be published. The actual conversion will take place from the date Nibor is no longer published, effective from the first subsequent interest rate period.

An objective of swapping out Nibor in a contract with a fallback rate based on Nowa is to make the use of Nowa as much like the use of Nibor in the same contract. For that reason, the fallback rate for Nibor must be converted to a rate with the same maturity as the Nibor period and compensate the recipient of Nibor for a credit premium.

The Nowa-based fallback rate (FR) will be equal to the sum of the capitalised average of Nowa (ARR) and spread adjustment between Nibor and Nowa (SA). $FR = ARR + SA$.

The working group proposes that term adjustment of Nowa be done by using a capitalised average with two days' observation shift multiplied by 360/365. Owing to the change in the day convention, the fallback rate (FR) is converted to the same day convention as Nibor, since this is the interest rate it is meant to replace. Furthermore, the working group proposes setting the spread adjustment equal to the median difference between Nibor and term-adjusted Nowa over the past five years before Nibor is abolished. Thereafter, the spread adjustment is held constant. This is in line with the recommendation from ISDA and working groups in a number of other countries. In the event data prior to 1 January 2020 are needed, the working group recommends using estimated reformed Nowa as Norges Bank has calculated it using NBO data.

ARR endorsed the report. The working group aims to publish the report on Friday, 25 September. The consultation closing date will be 2 November.

Finally, the working group discussed the possibility of organising a series of webinars to raise awareness of the work on alternative reference rates. The webinars should initially concentrate on presenting the work of the sub-groups so far. Then it may be considered whether to invite other participants to discuss the work. The working group is favourably disposed to arranging webinars and will try to set up some webinars in the second half of October.