

**Working group for alternative reference rates in NOK**  
**Meeting minutes**  
**15 May 2019**  
**Norges Bank – Bankplassen 2**

**Attendees:**

Jørgen Gudmundsson	<b>Sparebanken Vest</b>
Ulrik Sandvig	<b>Danske Bank</b>
Vidar Knudsen	<b>DNB Bank</b>
Wenche Vatnan (via telephone)	<b>Handelsbanken</b>
Karolina Thyman	<b>Nordea Bank ABP</b>
Jenny Ramstedt (via telephone)	<b>Skandinaviske Enskilda Banken AB</b>
Dag Olav Uddu	<b>Sparebankene SMN, Nord-Norge and Østlandet</b>
Dag Hjelle	<b>Sparebank 1 SR-Bank</b>
Joakim Henriks	<b>Swedbank</b>
Michael Cook	<b>Finance Norway</b> (observer)
Kathrine Lund	<b>Norges Bank</b> (observer)
Marit Øwre-Johnsen	<b>Norges Bank</b> (observer)
Tom Bernhardsen	<b>Norges Bank</b> (observer)

**Minutes:**

*First, Norges Bank presented an analysis of the transactions in the overnight market in NOK. Based on this analysis, the working group spent some time discussing the definitions of a new alternative reference rate. Finally, the working group discussed the organisation of their work going forward and the schedule.*

To achieve a better overview of the transactions conducted in the overnight market, Norges Bank used data from Norges Bank's settlement system (NBO) back to October 2006. However, these data only show activity in the interbank market. To supplement these figures, the banks in the working group reported their own overnight transactions, involving a broader set of counterparties, to Norges Bank for the period December 2015 to March 2019.

Norges Bank presented the analysis of both data sets at the meeting. The NBO data largely confirmed the working group's impression that activity in the interbank market has picked up since the introduction of Norges Bank's quota system at the end of 2011. However, the disadvantage of using these data is that, owing to regulatory considerations, transaction data at the end of each quarter and year are not available. This has previously been put forward by the working group as an argument against recommending the current interbank rate (Nowa) as a new reference rate.

In view of the above, the working group has focused on whether it is possible to construct a rate based on a broader set of transaction data. The working group has therefore conducted test reporting of all unsecured overnight transactions in NOK in the period 1 December 2015 to 31 March 2019.

Norges Bank collated the data and presented the results to the working group. The figures showed that there are very few overnight transactions with counterparties other than financial enterprises. Test reporting also showed that the volume of deposits is generally larger than the volume of loans. The reported volume of bank lending to financial enterprises is largely consistent with Nowa, indicating that there appears to be little lending to non-bank financial enterprises. However, the test reporting does not distinguish between banks and other financial market participants. Norges Bank went on to focus on bank deposits by financial enterprises. The average volume of deposits in the test period was just over NOK 26 billion, which is considerably higher than the volume reported by the Nowa banks. The volume of deposits declines at the end of each quarter, although to a lesser extent than the Nowa transactions. The number of transactions is also higher. If these deposits are used to calculate a volume-weighted rate, this rate will on average be about five basis points below the sight deposit rate. Unlike Nowa, which rises at the end of each quarter or year, such a deposit rate will fall markedly at these times.

The members of the working group discussed the results of the test reporting. Most agreed that the transactions underlying the deposit rate outlined above appeared to be more robust than the transactions underlying the current Nowa rate. The fact that a deposit rate will on average be lower than Nowa and thus be further from the sight deposit rate generated some discussion. Most of the members were of the opinion that this was not a problem.

On the other hand, there was concern that increasing the number of counterparties could lead to unnecessary noise and rate volatility. The challenges related to foreign banks' krone deposits were emphasised in particular, and the working group discussed to what extent these deposits are real overnight deposits that should be included in the basis for a reference rate.

No conclusion was reached on how the new reference rate should be defined. The members of the working group agreed that Norges Bank should continue to analyse the test data and that further discussion could continue via telephone and e-mail.

Towards the end of the meeting, the members discussed how the work should be organised going forward. Some subgroups were suggested by Norges Bank and the group members discussed the need to include other types of participants in these groups, stressing that it would be useful to include other users of reference rates and participants with legal expertise. The working group also suggested that Finanstilsynet (Financial Supervisory Authority of Norway) should be included as an observer in addition to Finance Norway and Norges Bank. Norges Bank expressed the view that the various subgroups should share secretariat responsibilities. The working group agreed, but felt that it was important for Norges Bank to continue to fulfil the role of secretariat for the main working group.

Note: After the meeting, some members of the working group felt that the deposit transactions should be analysed in more detail in order to arrive at a well-founded recommendation for an alternative reference rate, particularly deposit transactions

involving foreign banks that do not have accounts with Norges Bank. The working group therefore submitted more detailed transaction data to Norges Bank after the meeting. The new test data distinguish between banks and other financial market participants and between Nordic and non-Nordic participants. The results of this reporting will be presented to the working group at their meeting on 23 August. The members agreed to postpone the report, including its recommendation, until the new test data have been presented and discussed.