

Working group for alternative reference rates in NOK
Meeting minutes
Wednesday, 6 February 2019
Norges Bank – Bankplassen 2

Present:

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

Minutes:

Kathrine Lund presented the agenda, in the absence of the chair of the Working Group (WG), Jørgen Gudmundsson (who participated by telephone). The minutes of the previous meeting were approved. The WG reviewed the comments on the consultation report published in October 2018. The deadline for comments expired on 1 December 2018, and five market participants submitted comments. Norges Bank had prepared in advance an anonymised summary, which was sent to the WG. The summary will be published on the WG's home page. There was little discussion about the comments on the consultation report. The WG noted that the feedback largely supported the recommendations in the consultation report, in particular the recommendation to find a reference rate that is as similar as possible to the international orientation towards overnight rates. A reformed or expanded Nowa stands out as the most relevant candidate. The WG agreed not to provide official feedback on the comments received, but to take them into consideration in the further work on reference rates.

Michael Hurum Cook of Finance Norway gave a presentation on Nowa and the work underway in the Nowa steering group, in particular the challenges arising owing to the fact that publishing Nowa often has to be deferred to the next date as some panel banks fail to send in their contributions. This was a theme discussed by the Nowa steering group in autumn 2018. Same-day publication of Nowa was introduced in April 2017 on the initiative of the Nowa steering group. It was commented that the new international reference rates (such as Sofr and Sonia) are not published until the following day. Some members of the WG members were of the view that same-day publication was not that important in

relation to derivatives and that harmonising the interest rate in Norway with international interest rates was more important than same-day publication of Nowa.

Marit Øwre-Johnsen of Norges Bank gave a presentation of Nowa, with particular focus on the method for estimating Ester and Sonia if there are not enough underlying transactions, and on how movements in Nowa would have been using those methods than otherwise.

The WG devoted considerable time to discussing how a *reformed Nowa* will provide the most representative reference rate and the trade-off between undesired volatility and the consideration of capturing genuine market movements. Several members commented that a change in Nowa from a lending rate to a deposit rate would substantially reduce end-quarter volatility. The WG also discussed the possibility of asking the panel banks in the Nowa panel to submit estimates of the interest rate required to accept deposits until end of next quarter in order to determine what that interest rate might.

Norges Bank pointed out that the work on an *expanded Nowa* can only be pursued if Norges Bank receives data via the Bank's own money market collection system. The data collection, which has been started by Norges Bank independently of the work on alternative reference rates, will likely not be up and running until around Q2/Q3 2019. The WG therefore agreed that the next consultation report should be postponed until autumn 2019. A new deadline for the work was not decided.

All members agreed that a reformed or expanded Nowa now seems to be the most relevant alternative as a reference rate and the feedback from market participants provided clear guidance for the work ahead. The WG should now consider how a reformed/expanded Nowa can be shaped. The WG discussed the challenges relating to the current lack of availability of the underlying data in a reformed Nowa. Several members were of the view that the WG should nonetheless be able to draw up a proposal as to the structure, data basis and methods for estimating Nowa whether those data available or not.

The WG concluded that the work ahead should focus on the ongoing international work, with particular focus on the implementation of foreign reference rate and the work of the ISDA, while drawing on the experience of other central authorities that have been involved in the work on reference rates.