

Date: December 20th, 2019

The Nibor 2020 Methodology has been published

Norske Finansielle Referanser AS (NoRe) has today published the revised Nibor methodology which will apply from January 2020. The methodology adopted is closely aligned with the draft methodology presented in the public consultation in August. NoRe foresees no significant impact from this change of methodology on the Nibor level at the time of transition.

The EU Benchmarks Regulation (BMR) was incorporated into Norwegian law on 6 December 2019. The amendments entered into force today. On this basis NoRe on 12 December 2019 applied to the Norwegian Financial Supervisory Authority (Finanstilsynet) for authorisation as administrator for Nibor according to the BMR requirements. These requirements are more detailed than the requirements that NoRe's existing authorisation as administrator for Nibor is based on. NoRe was included in the list of pending applications published by ESMA - The European Securities and Markets Authority - on 13 December 2019.

The application for authorisation is based on a revised calculation methodology and governing framework.

Nibor definition unchanged

Nibor is intended to reflect the interest rate lenders require for unsecured money market lending to a leading bank. "Leading bank" is in the Nibor rules defined as a "bank with a high credit rating for short-term debt which is active in the Norwegian money and foreign exchange market on competitive terms". Considering the widespread use of Nibor in contracts and for analysis, the definition of Nibor is kept unchanged.

The underlying market – New requirement on Panel Banks

With the exception of the very shortest tenors/maturities, the volume of unsecured loans in the Norwegian interbank market is small. Most liquidity distribution, in volume terms, takes place in the forward exchange market. Current Nibor Rules state that the panel banks must be active market makers in this market, including providing committed quotes. These requirements will from next year be replaced with a requirement to provide committed quotes on certificates of deposits (CDs or CPs) denominated in Norwegian kroner for all Nibor tenors except the 1-week maturity.

Calculation rules slightly changed

Nibor shall still be calculated as a simple mean of input data from the Nibor Panel Banks, after omitting lowest and highest rates depending on how many banks that have delivered rates. This is usually all six. New from next year is that Nibor shall be published also on a day with insufficient input data to calculate Nibor, as the same value(s) as the previous day. However, if lack of data prevails for more than one day, NoRe shall assess market developments and decide whether it is appropriate to extend the use of the latest fixing for further a subsequent day or temporarily cease the fixing of the tenor in question. The rules governing corrections of errors will also be changed. Today Nibor is to be corrected if error in input data is detected in time to publish a re-fixing within

one hour. As from 2020 corrections may result in a re-fixing as late as 15.00 CET. Today's early fixing of Nibor on New Year eve and on Wednesday before Maundy Thursday will be abolished.

The revised rules for calculating and publishing Nibor can be found in the documents "Nibor Calculation Methodology" and «Nibor Post Publication Re-determination Policy" (re-fixing).

New Waterfall Input Data Methodology

Nibor submissions are today based upon panel banks' judgement of own borrowing costs in foreign currencies. The NOK interest rates are determined as the sum of the relevant foreign interest rate and the return derived from the difference between the relevant spot and forward currency rate. A spread is added to the swapped borrowing rate, so that the bank's Nibor submissions reflects the interest rates that the bank would charge for unsecured lending in NOK to a leading bank.

The new methodology is based on a waterfall approach with three levels, from a) with highest priority to c), summarised as follows:

- a) The Panel Banks's own interbank lending transactions concluded with a leading bank, in the Norwegian Money Market with a minimum value of NOK 100 million.
- b) The Panel Bank's own borrowing transactions concluded from sales of Certificates of Deposits (CDs) or Commercial Papers (CPs) denominated in NOK with a minimum value of NOK 100 million.
- c) The Panel Bank's committed price quotes on CDs or CPs denominated in NOK and expert judgements based on the bank's weighted funding costs in USD and EUR, preferable prices from actual transactions. With exception for the 1 week tenor, committed price quotes on CDs and CPs denominated in NOK shall be given at least 50 percent weight in the calculation of Input Data.

Eligible transactions in a) and b) have to be concluded on the same day before the fixing. Volume Weighted Average Price (VWAP) of multiple transactions is to be used if available. To broaden the scope for using input data based on transaction, the methodology allows for using transactions with deviating maturity, either individually or in interpolation. Transactions with deviating value or maturity date may be valid for use if the value date is no more than two banking days ahead or the deviation in maturity is within the range of two banking days for the one-week maturity and five banking days for the longer maturities. Generally, if the shape of the yield curve indicates that it will not be suitable to use transactions with deviating maturities then such data shall not be used.

The Input Data Requirements are embedded in the Nibor Panel Bank Code of Conduct, Clause 3.

The public consultation

Norske Finansielle Referanser AS (NoRe) launched 20 August 2019 a public consultation on a proposed new methodology for Nibor. The consultation report was made available on NoRe's website. A summary in English was given in a newsletter the same day. NoRe received few comments, all in support of the proposal.

However, the Norwegian Central Bank (Norges Bank) proposed some amendments to the methodology and some measures to strengthen the ability of the administrator to assess the input data from the Panel Banks. [This consultation reply](#) is publicly available from Norges Bank's website. Most importantly, Norges Bank's reply points to that the use of expert judgement directly as basis for input data on the third level of the new waterfall-based methodology should be replaced with input data based on binding quotes for NOK CDs solely, with the addition of a premium in order to arrive at

a lending rate. One advantage of this solution is that it would be clearer whether movements in Nibor are driven by changes in banks' funding costs or changes in banks' required premium on lending. NoRe agrees with this reasoning. However, as Nibor input data must be flexible to reflect market developments as close up to the fixing time as possible, the methodology adopted still allows for up to 50 percent weight on use of discretion based on assessment of lending costs in foreign markets.

The Nibor level – New versus current methodology

The new methodology was tested in June 2019. The testing period included both a day with publication of a change in the Central Bank's signalling rate and value date after the half year end. The test confirmed the lack of unsecured transactions denominated in local currency, a common challenge for most ibors. The test fixings deviated not more than 1 basis point from the official fixing, and 75 of 95 test-fixings equalled the official fixings. On this basis, NoRe anticipates no movement in Nibor at year end as a consequence of the transition to the new methodology.

More detailed requirement on control and governing structure

The new Nibor framework also contains a far more comprehensive documentation on the administrator's governance structure, from responsibilities for review to consultation practices and audit arrangements. The "Nibor Panel Bank Code of conduct" also introduces a set of new requirements on the Panel Banks, as required by BMR and detailed in the accompanying regulatory technical standards.

Those of the governing documents which are thought to have most public interest have also been published today, including the "Nibor Oversight Committee Terms of Reference".

For any enquiries email post@referanserenter.no.