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Banking - Norway

No manipulation of NIBOR?

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In December 2012 the Ministry of Finance asked the Norwegian Financial Supervisory Authority (NFSA), in cooperation with the Norwegian Central Bank, to evaluate the existing system for fixing the Norwegian Interbank Offered Rate (NIBOR). NIBOR is an important reference rate for the pricing of, among other things, derivatives products, bonds and loans for business borrowers. The NFSA recently delivered its findings to the ministry, concluding that it had found no evidence that NIBOR has been manipulated or that there had been attempts to manipulate it; however, it stated that it could not verify that manipulation of NIBOR had not taken place.

The NFSA maintains that there are no clear alternatives to fixing NIBOR based on the market. Except for very short-term loans (daily loans), the interbank market in Norwegian kroner is very limited. According to the NFSA, NIBOR is based on a US dollar interest rate which is supposed to reflect the cost of the bank borrowing dollars unsecured in the interbank market and then changing them into Norwegian kroner. The NFSA believes that an interbank market in kroner cannot be established through regulatory measures, and that in practice it would be difficult to get the participants in the panel of banks fixing NIBOR to make quotation of interest rates without having regard to the interest swap rate market.

NFSA has suggested that the framework for fixing NIBOR should be strengthened and made more robust against manipulation, and the quotations of participating banks should be open to testing and control. A more robust system would increase the confidence in NIBOR. The fixing of NIBOR will be subject to increased attention in future; further, in May 2013 the NFSA will carry out inspections at all banks on the panel.

The NFSA has stated that there are three main areas in which the authorities need to strengthen the existing system:

- The responsibilities of the banks on the panel and the Norwegian Banking Association must be made more concrete, and the Banking Association must establish bodies for supervising and controlling the fixing of NIBOR.
- There must be requirements for the publication, documentation, recordkeeping and control of each panel bank's quotations and the considerations on which the quotations have been based. Documentation and recordkeeping will make it possible to examine and control the quotations.
- The Banking Association should establish a supervisory body and an investigative body with broader representation than is the case with the existing steering committee. Such supervisory authority should have overall responsibility for supervision of the processes and quotations of participating banks. The supervisory body should also be the addressee for any inquiries about possible irregularities in connection with the fixing of NIBOR.

The NFSA added that it will revisit the need for public regulation of the NIBOR fixing framework once inspections of the panel banks have taken place and the Banking Association has implemented its measures to strengthen the system.

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