

Working group on CHF reference interest rates

Minutes from the 14th meeting (27 October 2016)

Attendees:

- Martin Bardenhewer – Zürcher Kantonalbank, co-chair
Marcel Zimmermann – SNB, official sector representative, co-chair
- Pascal Anderegg – Zürcher Kantonalbank
Christian Bahr – SIX Swiss Exchange Ltd., SARON administrator
Marc Bonfils – PostFinance
Christophe Cherdel – Banque Cantonale Vaudoise
Patrik Epstein – Cosmorex
Fernando Fasciati – Raiffeisen Schweiz
Christian Gerber – AXA Winterthur
Raffael Goldenberger – Entris Banking
Raphael Heuberger – SIX Repo Ltd
David Horner – LCH.Clearnet Group Ltd
Otto Huber – Credit Suisse, Chair CHF Alternative Rates Working Group
Uesh Jha – CME (by phone)
Francois Jourdain – Barclays, Chair GBP Alternative Rates Working Group (by phone)
Colt Lake – UBS
Bruno Langfritz – ACI Suisse, TOIS fixing administrator
Ernst Lienhard – Swiss Re
Dominic Makin – Gottex Brokers (by phone)
Jacques Piasko – Bank Julius Bär & Co
Raeto von Sprecher – SIX Repo Ltd
Roland Studer – Credit Suisse
Franco Umiker – Cosmorex
Matthias Vögeli – Swiss Life
Andreas Wälchli – Basler Kantonalbank
Philip Whitehurst – LCH.Clearnet Group Ltd
- Stefan Kurt – FINMA, official sector representative
Roman Baumann – SNB, official sector representative
Basil Guggenheim – SNB, official sector representative
Matthias Jüttner – SNB, official sector representative

1. Introduction

- The two co-chairs of the Working Group on CHF Reference Interest Rates (NWG) welcomed all attendees to the fourteenth meeting. At the last meeting, the main recommendations were: a) to conduct broader market outreach, b) to continue to focus the reform efforts on SARON, and c) to review and discuss the timeline of the potential transition from TOIS fixing to SARON. This work has been done by the Working Group on Alternative CHF Reference Rates (CHF ARR) and its two workstreams (SARON and transition). The aim of the fourteenth NWG meeting was to discuss the results and to formulate further recommendations in order to carry forward the transition from TOIS fixing to SARON.
- Meeting participants were provided with a brief summary of the reform efforts undertaken by the other currency groups. The update on the Working Group on Sterling Risk-Free Reference Rates was given by its chair, Francois Jourdain. The update on the US dollar, euro and yen working groups was delivered by Martin Bardenhewer based on publicly available information.¹ In contrast to the other currency groups, the focus of this working group is on transitioning from TOIS fixing to SARON, not on transitioning away from Libor.

2. Results of the CHF ARR

- The results from the broader market outreach were presented. At the request of the CHF ARR, the SNB conducted a survey and received responses from roughly 30 market participants. Overall, while several issues were reported, there were no show-stoppers for a transition away from TOIS fixing towards SARON. Responses in the first part of the survey (current usage of the TOIS fixing) indicate that TOIS fixing is principally used for remuneration of CHF cash collateral and derivative valuation whereas the volume of TOIS fixing-based derivatives is typically low. On aspects of the transition, responses emphasised the importance of clear guidance, market acceptance and a clearly defined timeline. Most responses indicated that three to six months would be sufficient for renegotiations. For SARON, no major issues were expressed and the notion of establishing an Index Commission as a consultative body was favoured.
- The SARON workstream, a sub-group of the CHF ARR, presented its results on the reform efforts. A technical workshop was held to discuss reform proposals. The main outcome of this is that an Index Commission for SARON (ICS) is to be established which will conduct periodic reviews and propose reforms to the administrator. The ICS will consist of major participants in the repo market, the SNB, an administrator, a calculation agent, and, at a later stage, SARON users. Proposals for fallback procedures for SARON, an output statement and a review of the methodology were presented at the meeting. These proposals will be refined by the ICS. The establishment of the ICS will be driven by the administrator.
- The transition workstream, a sub-group of the CHF ARR, presented an impact analysis and laid out the steps necessary for a transition. The main issues are: a) how to deal with the mark-

¹ Cf. also <https://www.newyorkfed.org/arrc/publications.html>, <http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/rfr/rfr.aspx> and <http://www.boj.or.jp/en/paym/market/sg/index.htm>.

to-market impact on existing CHF cash collateralised contracts when switching from TOIS fixing to SARON for discounting purposes and for interest paid/received on collateral and b) how to deal with contracts directly linked to the TOIS fixing. It seems unlikely that ending the TOIS fixing will lead to substantial market disruption or entail widespread litigation risks. It is recommended that remaining TOIS fixing-based derivatives should be terminated early or re-striking to SARON-based derivatives. Interim results show that a compensation payment for CHF cash collateralised derivatives would be difficult to determine and virtually impossible to enforce. A compensation payment of zero is therefore suggested. As a prerequisite for the transition, market participants would have to adjust their technical systems and ISDA would have to update its protocols. These adjustments are projected to be completed by February 2017 and bilateral trading of SARON-based derivatives could start thereafter. In order to have a liquid bilateral SARON swap market, infrastructure would need to be adapted (e.g. broker screens). Clearing houses would need to establish infrastructure for central clearing of the new product (SARON swaps) and to set up a new discounting curve for CHF cash collateralised derivatives. Cleared trading of SARON-based derivatives could be available by November 2017.

- Participants were informed by the ACI Suisse representative about the future of the TOIS fixing. With only seven panel members, the size of the panel reached a critically low level. At its next meeting on 7 November 2016, ACI Suisse intends to decide on the discontinuation of the TOIS fixing at the end of 2017. An official communication will be published by ACI Suisse once this decision has been taken.

3. Recommendations and next steps

- The timeline for the transition from TOIS fixing to SARON remains unchanged. Meeting participants discussed what steps need to be taken by the next NWG meeting in January 2017. The following recommendations were issued:
 - An Index Commission for SARON (ICS) is to be established. The ICS will be the primary forum for addressing SARON-related issues (e.g. methodology, fallback, output statement).
 - Subject to a discontinuation decision taken by the Board of ACI Suisse, an announcement by ACI Suisse will be supported. ACI Suisse and all remaining TOIS fixing panel banks are requested to maintain the TOIS fixing until the end of 2017.²
 - A formal request to ISDA to create a legal framework for OTC SARON swaps will be submitted. Framework conditions for the SARON swap market (support of banks, establishment of central clearing) are to be established. Institutions are requested to obtain internal governance approvals and embark on system upgrades to ensure that they are capable of trading the new product (SARON swaps); they should also set up a new discounting curve for CHF cash collateralised derivatives.

² Cf. also <http://www.acisuisse.ch/website/var/assets/aci-suisse-statement-tois-15nov2016.pdf>.

4. Organisational issues

- The next NWG meeting is scheduled for Thursday, 26 January 2017, 9:30 am – 11:30 am. Personal attendance is greatly appreciated, but it is also possible to dial in by phone.