

Working group on CHF reference interest rates

Minutes from the 16th meeting (15 May 2017)

Attendees:

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| Martin Bardenhewer | – Zürcher Kantonalbank, co-chair |
| Marcel Zimmermann | – SNB, official sector representative, co-chair |
| Pascal Anderegg | – Zürcher Kantonalbank |
| Christian Bahr | – SIX Swiss Exchange Ltd., SRR administrator |
| Beat Cavegn | – Cosmorex |
| Patrik Epstein | – Cosmorex |
| Beat Gabathuler | – Zürcher Kantonalbank |
| Christian Gerber | – AXA Winterthur |
| Andreas Giannopoulos | – Barclays PLC (by phone) |
| Raffael Goldenberger | – Entris Banking |
| David Horner | – LCH.Clearnet Group Ltd (by phone) |
| Otto Huber | – Credit Suisse, Chair CHF Alternative Rates Working Group |
| Sören Kretschmar | – Deutsche Bank (by phone) |
| Colt Lake | – UBS |
| Ernst Lienhard | – Swiss Re |
| Dominic Makin | – Gottex Brokers |
| Luc Michaud | – BNP Paribas (by phone) |
| Tim Nicholson | – Gottex Brokers |
| Michael O'Donovan | – Zürich Versicherung (by phone) |
| Kevin Oestinger | – Eurex Clearing (by phone) |
| Stefan Pomberger | – Bank Vontobel AG |
| Jean-Christophe Reocreux | – BNP Paribas (by phone) |
| Roland Schwab | – PostFinance (by phone) |
| Raeto von Sprecher | – SIX Repo Ltd. |
| Thomas Sturzenegger | – Bank Julius Bär & Co |
| Matthias Vögeli | – Swiss Life |
| Andreas Wälchli | – Basler Kantonalbank |
| Philip Whitehurst | – LCH.Clearnet Group Ltd (by phone) |
| Roman Baumann | – SNB, official sector representative |
| Basil Guggenheim | – SNB, official sector representative |
| Matthias Jüttner | – SNB, official sector representative |
| Stefan Kurt | – FINMA, official sector representative |

1. Introduction

- The two co-chairs of the National Working Group on CHF Reference Rates (NWG) welcomed all attendees to the sixteenth meeting. At the last meeting, the main recommendations were: a) to remind market participants to get operationally ready, b) to promote trading SARON swaps, c) to support the work done by ISDA and d) to consider the rationale for a compensation payment of zero when switching to SARON for the remuneration of collateral. The aim of the sixteenth NWG meeting was to share experiences on the first trading activity in the SARON swap market, to promote more participants to become active and to review the overall progress of the transition from TOIS fixing to SARON.¹
- Meeting participants were provided with a brief summary on the international reform process:
 - After a request by the FSB Official Sector Steering Group in Q3 2016, the International Swaps and Derivatives Association (ISDA) established working groups to address fallbacks for each IBOR, amendments to the ISDA Definitions and potential plans to amend legacy contracts.
 - The administrator of Euribor decided not to implement a fully transaction-based methodology, but to develop a hybrid methodology instead. Stakeholder consultations are foreseen in 2018.²
 - The Working Group on Sterling Risk-Free Reference Rates has announced SONIA as its preferred near risk-free interest rate benchmark for use in sterling derivatives and relevant financial contracts.³
 - Further details on the EU benchmark regulation are now available and SIX Swiss Exchange (SSE, administrator of the SRR) is evaluating the options on how to satisfy these regulatory requirements.

2. CHF Alternative Reference Rates

- Meeting participants were informed on the work done so far by ISDA with respect to the TOIS transition. On 3rd April 2017, ISDA published a supplement to the 2006 ISDA Definitions, including a compound rate definition for SARON. This amendment aids trading SARON swaps under an ISDA agreement. The ISDA working group continues its work and currently discussions include whether to update certain fallbacks in order to add a reference to Bloomberg as a rate source.
- In April 2017 first activity in the bilateral SARON swap market could be observed. Quoted prices for SARON swaps are now available for tenors of up to 50 years. Although the number, maturity and volume of transactions conducted so far is rather limited, these initial steps are

¹ The final fixing of SARON is published at 18:00 CET by Swiss Stock Exchange (ISIN: CH0049613687) and redistributed to vendors, e.g. Thomson Reuters (Ric: SARON.S) and Bloomberg (Ticker: SRFON3 Index). There are several fixings per day for all tenors of the Swiss Reference Rates. However, the final fixing of SARON at 18:00 CET is used for the SARON swap market.

² Cf. <https://www.emmi-benchmarks.eu/euribor-org/euribor-reform.html>.

³ Cf. <http://www.bankofengland.co.uk/publications/Pages/news/2017/033.aspx>.

very important for the transition. Further transactions will be facilitated by improved automatic settlement procedures, as MarkitWire released a new version. Three brokers (Gottex, ICAP and Cosmorex) currently provide screens and feed Bloomberg and Reuters.

- The two clearing houses present at the meeting (LCH.Clearnet and Eurex Clearing) stated that (subject to regulatory approval) they both intend to switch their price alignment interest (PAI) from TOIS fixing to SARON in the second half of this year and to adjust the discounting rate accordingly.
- NWG members not yet ready to trade SARON swaps discussed their progress on operational readiness. The internal risk approval and updates of IT infrastructure are ongoing. Representatives of several institutions (including both large Swiss banks) stated that they expect to be operationally ready within 6 weeks to 4 months and that the reason for not yet being ready is merely driven by the period required for the operationalization and not by the lack of willingness to actively engage in the market. NWG members reported that there is still some lack of consensus on how to handle remaining TOIS contracts after 2017.
- A representative of SIX Swiss Exchange (SSE, administrator of the SRR) informed the participants about the work done by the Index Commission for the SRR (ICS). First meetings of the ICS took place in January and in April 2017. The output statement for SARON has been finalized and is now available on the webpage of SSE.⁴ The next meeting of the ICS will be held in summer and will focus on fallback procedures.

3. Recommendations

- Meeting participants discussed what steps need to be taken by the next NWG meeting in October 2017. The following recommendations were issued:
 - To promote market participants to review their operational readiness.
 - To promote market participants to be active in the bilateral SARON swap market.
 - To promote market participants to review their CSA and to replace TOIS fixing by SARON.
 - To promote clearing houses to adjust their PAI and discounting rate to SARON.

4. Next steps and organisational issues

- To discontinue TOIS fixing at the end of 2017 in an orderly manner and respecting the required six-month notice period, ACI Suisse will send termination letters to all panel banks and to the Calculation Agent in June.
- The next NWG meeting is scheduled for Thursday, 5th October 2017, 3:00 pm – 5:00 pm. Personal attendance is highly appreciated, but it will also be possible to dial in by phone.

⁴ Cf. https://www.six-swiss-exchange.com/indices/data_centre/swiss_reference_rates/reference_rates_en.html.