

# Minutes from the meeting of the National Working Group on CHF Reference Interest Rates (11 January 2018)

## 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, SRR administrator                |
| Marc Bonfils             | – PostFinance  |
| Marie-Anne Bourgoz Gorgé | – Banque Cantonale de Genève (by phone)                |
| Beat Cavegn              | – Cosmorex   |
| Christophe Cherdel       | – Banque Cantonale Vaudoise (by phone)                 |
| Patrik Epstein           | – Cosmorex   |
| Fernando Fasciati        | – Raiffeisen   |
| Andreas Franke           | – Eurex Clearing (by phone)                            |
| Beat Gabathuler          | – Zürcher Kantonalbank                                 |
| Fernando Gardoni         | – St. Galler Kantonalbank                              |
| Andreas Giannopoulos     | – Barclays (by phone)                                  |
| Raffael Goldenberger     | – Entris Banking                                       |
| Thomas Graf              | – Valiant Bank (by phone)                              |
| Sacha Guillemin          | – Association of Corporate Treasurers - Suisse Romande |
| Stephane Hegi            | – Banque Cantonale Vaudoise (by phone)                 |
| David Horner             | – LCH (by phone)                                       |
| Otto Huber               | – Credit Suisse, chair Sub-NWG D&C (by phone)          |
| Manuela Inauen           | – St. Galler Kantonalbank                              |
| Samuel Indermühle        | – UBS  |
| Colt Lake                | – UBS  |
| Alfred Ledermann         | – UBS, chair Sub-NWG L&D                               |
| Ernst Lienhard           | – Swiss Re   |
| Dominic Makin            | – Gottex Brokers (by phone)                            |
| Cédric Martin            | – Leonteq Securities                                   |
| Jonathan Martin          | – ISDA   |
| Stefan Pomberger         | – Bank Vontobel  |
| Felix Roudier            | – Credit Suisse  |
| Daniel Schenker          | – Zürcher Kantonalbank                                 |
| Thomas Schulthess        | – CIC  |
| Raeto von Sprecher       | – SIX Repo   |
| Marco Steiner            | – Pictet & Cie   |
| Roland Studer            | – Credit Suisse  |
| Martin Svrcek            | – Credit Suisse (by phone)                             |
| Pierre-Henri Turc        | – Banque Cantonale de Genève (by phone)                |
| Philip Whitehurst        | – LCH (by phone)                                       |
| Stefan Kurt              | – FINMA, official sector representative                |
| Roman Baumann            | – SNB, official sector representative                  |
| Matthias Jüttner         | – SNB, official sector representative                  |
| Silvio Schumacher        | – SNB, official sector representative                  |
| Surya Singh              | – SNB, official sector representative                  |

## 1. Introduction

- The two co-chairs of the National Working Group on CHF Reference Rates (NWG) welcomed all attendees to the eighteenth meeting. The aim of the meeting was to approve the confidentiality as well as competition language presented, to give an update on the international reform process, to review the transition from TOIS fixing to SARON, to approve the terms of reference for the newly established sub-groups “loan and deposit markets” and “derivatives and capital markets”, and to discuss key elements of the stakeholder and communication strategy.

## 2. Governance framework of NWG

- An introduction on competition law specifically regarding the behaviour in working groups and standard setting was presented. A proposal for the competition law language was approved and will be published in the NWG’s subsection on the SNB’s website. It is the obligation of members of the NWG and its sub-groups to ensure they understand their responsibilities under all applicable competition laws.
- Moreover, meeting participants agreed that any information disclosed or opinions expressed during meetings of the NWG and its sub-groups will be treated as confidential unless and until their public release has been authorised by its chair. Accordingly, the NWG’s subsection on the SNB’s website will be updated.

## 3. Update on international reforms

- Meeting participants were provided with a brief summary on the progress of the working groups on alternative risk-free rates in other jurisdictions:
  - At the end of November, the Federal Reserve published plans to reconstitute the ARRC in early 2018 in order to more directly facilitate issues of legacy contract robustness and transition for cash products as well as derivatives. The ARRC is organising several sub-groups to focus on matters related to corporate loans, consumer loans, floating rate notes, securitisations, and legal or accounting issues.<sup>1</sup>
  - Shortly afterwards, the Bank of England and the Financial Conduct Authority announced the next phase of work with market participants on Libor transition in the UK. From January 2018, the Working Group on Sterling Risk-Free Rates will have an extended mandate and broader participation. Four sub-groups will be or already have been established to focus on loan markets, bond markets, term rates and futures on SONIA.<sup>2</sup>
  - Also at the end of November, the European Central Bank (ECB) announced a public consultation on the development of the new euro unsecured overnight interest rate.<sup>3</sup>

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<sup>1</sup> Cf. <https://www.newyorkfed.org/arrc>

<sup>2</sup> Cf. <https://www.bankofengland.co.uk/news/2017/november/bank-and-fca-launch-next-phase-of-sterling-libor-transition-work>

<sup>3</sup> Cf. [https://www.ecb.europa.eu/paym/cons/html/euro\\_unsecured\\_overnight\\_interest\\_rate.en.html](https://www.ecb.europa.eu/paym/cons/html/euro_unsecured_overnight_interest_rate.en.html)

Simultaneously, the ECB published a call for expressions of interest in participation and the terms of reference for the soon-to-be established working group tasked with identifying and recommending alternative risk-free rates.<sup>4</sup>

- Meeting participants were informed on progress within International Swaps and Derivatives Association (ISDA) working groups on identifying fallback rates that would apply in the event of a discontinuation of IBOR.

#### 4. TOIS-SARON transition

- The TOIS fixing has been discontinued by end of December 2017. Meeting participants gave an update on the TOIS-SARON transition and discussed the key success factors that led to a smooth transition.
  - Since the last meeting of the National Working Group, Eurex Clearing and LCH have changed their PAI for CHF cash collateralized instruments from TOIS fixing to SARON and the corresponding discounting curves to refer to SARON. In addition, SARON swaps are now eligible for clearing.
  - Market participants and infrastructure providers report that there were no major issues during the transition and the trading volume in the SARON swap market has increased significantly since the last NWG meeting, reaching levels comparable to past TOIS volumes.<sup>5</sup> However, compared to outstanding Libor-based interest rate swap volumes the market is still relatively small.
  - The group discussed the key success factors that led to a smooth transition from TOIS fixing to SARON: the work and discussion by the NWG to understand the challenges as well as the agreement on recommendations, the identification and early involvement of key stakeholders, the close cooperation and coordination with international standard setting bodies and the communication via publication of minutes and term sheet. Meeting participants agreed that future initiatives could be further improved if a broader set of market participants are involved at an earlier stage of the process.

#### 5. Sub-working groups

- Two sub-groups were established since the last NWG meeting. Initially called sub-groups on “retail and corporate market” and “wholesale market”, they were renamed to “loan and deposit market” and “derivatives and capital market” in order to better identify their field of work.
- The chairs of the sub-groups presented the outcome of the first meeting:
  - Participants discussed the terms of reference of the sub-groups which consist of their governance and objectives.

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<sup>4</sup> Cf. [https://www.ecb.europa.eu/paym/initiatives/interest\\_rate\\_benchmarks/WG\\_euro\\_risk-free\\_rates/html/index.en.html](https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html)

<sup>5</sup> LCH reported outstanding SARON swap notional volumes of around CHF 20 bn.

- The main objectives of both groups are to identify the affected products and stakeholders, the evaluation of the appropriateness of SARON based benchmarks as alternative as well as the development of a transition plan and metrics.
- The main tasks of the two sub-groups in the upcoming months will be to propose a term fixing or a compounded overnight fixing as alternative to e.g. CHF 3-month Libor. In a first step, the selection criteria shall be defined and different approaches for term fixings evaluated. Additionally, a transition mechanism from Libor-based contracts to SARON-based contracts shall be discussed in due course to minimize the uncertainty of a transition of contracts with a maturity beyond 2021.

## **6. Stakeholder and communication strategy**

- The NWG shall remain the main body for the communication of the work on CHF reference rates reform. The NWG regularly communicates through its minutes. Additionally, the NWG (or its co-chairs) may also communicate through other channels (e.g. interviews, articles, speeches, roundtables).
- Furthermore, communication principles were discussed. All relevant information from the NWG and sub-working groups shall be published such that no stakeholders have any advantage of information.
- The NWG and its sub-working groups shall remain open for everyone. However, for the sake of efficiency and to provide timely results, the sub-working groups shall remain of manageable size. Specifically, sub-working group members should be designated experts in the field to be covered and have sufficient resources to provide added value to the discussions in the group. In case of too much demand for participation in the subgroups, the two co-chairs of the NWG may limit the number of participants.

## **7. Recommendations**

- NWG members approved the competition and confidentiality language that will be published on the SNB's website.
- NWG members approved the terms of reference for the two sub-working groups that will be published on the SNB's website.

## **8. Next steps and organisational issues**

- Sub-working groups will continue their work according to the objectives outlined in their respective terms of references.
- The next NWG meeting is scheduled for Monday, 4th June 2018, 2:30 pm – 4:30 pm. Personal attendance is highly appreciated, but it will also be possible to dial in by phone.