

# Sub-Working Group “Derivatives and Capital Market” Terms of Reference

## Background

The National Working Group on CHF Reference Rates (NWG) is the key forum for considering proposals to reform reference interest rates in Switzerland and discussing the latest international developments. At the meeting on 5 October 2017, the working group recommended SARON as the alternative to the Swiss franc Libor and decided to form two sub-working groups. The “loan and deposit market” sub-group (the “Sub-NWG L&D”) will focus on the loan and deposit segment and the “derivatives and capital market” sub-group (the “Sub-NWG D&C”) on derivatives and capital market instruments.

## Governance

The Sub-NWG D&C is committed to promote a fair, competitive and effective derivatives and capital markets, both in the transition from CHF Libor to SARON as well as in the post-Libor world. The participants will bring in their expertise about client preferences and current wholesale product value propositions. Sub-NWG D&C members are subject to confidentiality and competition law.<sup>1</sup> The Sub-NWG D&C will report its progress on the objectives stated below at forthcoming meetings of the NWG. Based on the results and proposals of the Sub-NWG D&C, the NWG will coordinate and recommend next steps. The Swiss National Bank runs the technical secretariat and facilitates the process, e.g. by hosting roundtable meetings and publishing documents on its webpage.

## Objectives

The objective of the Sub-NWG D&C is to

1. *Affected products.* The Sub-NWG D&C will identify the different financial market products that are affected by the transition away from Libor.
2. *Stakeholders.* The Sub-NWG D&C will identify and reach out to all relevant stakeholders.
3. *Benchmark.* Evaluate appropriateness of SARON and SARON based benchmarks (e.g. compounding) for affected financial market products and determine product design adjustments. This work should be done in coordination with the Sub-NWG L&D.
4. *Transition plan and metrics.* The Sub-NWG D&C will propose a timeline and identify key success factors for a transition and propose observable metrics that reflect the adoption of SARON as the alternative to CHF Libor.

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<sup>1</sup> See the NWG’s subsection on the SNB’s website: [https://www.snb.ch/en/ifor/finmkt/finmkt\\_benchm/id/finmkt\\_reformrates](https://www.snb.ch/en/ifor/finmkt/finmkt_benchm/id/finmkt_reformrates)

5. *Infrastructure and legal requirements.* The Sub-NWG D&C will analyse the infrastructure and legal requirements for implementation of financial market products based on SARON.
6. *Communication plan.* The Sub-NWG D&C will propose to the NWG a communication plan to inform a broad group of market participants, including end users, on the progress of work.
7. *International comparison.* The Sub-NWG D&C will review and consider comparable efforts in other currency areas.
8. *Contract robustness.* The Sub-NWG D&C will consider the best practices related to robust contract design that ensure that contracts are resilient to the possible cessation or material alteration of an existing or new benchmark. To that extent, the Sub-NWG D&C will maintain close contact to relevant ISDA Working Groups and act as their first point of correspondence.

## **Membership**

The Sub-NWG D&C shall remain open for everyone. However, for the sake of efficiency and to provide timely results, it shall remain of manageable size. Specifically, Sub-NWG D&C 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, the two co-chairs of the NWG may limit the number of participants.