

Working group on CHF reference interest rates

Minutes from the 13th meeting (24 May 2016)

Attendees:

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| Martin Bardenhewer | – | Zürcher Kantonalbank, co-chair |
| Dewet Moser | – | SNB, official sector representative, co-chair |
| Pascal Anderegg | – | Zürcher Kantonalbank |
| Heiko Cassens | – | LCH.Clearnet Group Ltd |
| Thomas Graf | – | Valiant Bank Ltd (phone) |
| Daniel Gasser | – | Raiffeisenbank |
| Raffael Goldenberger | – | Entris Banking |
| David Horner | – | LCH.Clearnet Group Ltd |
| Ernst Lienhard | – | Swiss Re |
| Jacques Piasko | – | Bank Julius Bär & Co |
| Raeto von Sprecher | – | SIX Repo Ltd |
| Andreas Wälchli | – | Basler Kantonalbank |
| Marcel Zimmermann | – | ACI Suisse, TOIS fixing administrator |
| Florian Baumgartner | – | FINMA, official sector representative |
| Basil Guggenheim | – | SNB, official sector representative |
| Matthias Jüttner | – | SNB, official sector representative |

1. Summary of the introductory discussion

- The two co-chairs of the Working Group on CHF Reference Interest Rates (NWG) welcomed all attendees to the thirteenth meeting. At the last meeting, participants agreed on the recommendations of the CHF Alternative Reference Rate Group (CHF ARR, chaired by Otto Huber, Credit Suisse). The main recommendations were to focus on reform efforts for SARON (deprioritise TOIS fixing) and to consider transition issues from TOIS fixing to SARON. A shift away from CHF Libor is not under consideration. The aim of the current NWG meeting is to discuss the interim results of the CHF ARR.
- The participants of the meeting were provided with a summary on the roadmap and questionnaire for Libor, both published in March 2016. The roadmap sets out the ICE

Benchmark Administration's reforms based on feedback to the two position papers. The reforms will be implemented during 2016.¹

- Participants were also provided with a brief summary of the reform efforts done by the other currency groups. The US dollar working group published an interim report summarising its progress in narrowing the set of potential rates that might be chosen as an alternative to the US dollar Libor, including the consideration of potential plans for transition to the chosen rate.² The Sterling working group also published an interim report.³

2. Interim results and recommendations by the CHF ARR

- The CHF ARR (represented by Martin Bardenhewer) presented its interim results. The main recommendations are a) to conduct a broader market outreach, b) to review and discuss the timeline of the potential transition from TOIS fixing to SARON, and c) to continue to focus the reform efforts on SARON.
- The broader market outreach shall be done in form of a questionnaire. At the request of the CHF ARR, the SNB is willing to conduct this survey on TOIS fixing and on SARON on behalf of the CHF ARR. The survey will consist of three parts. The first part shall help to clarify the current usage of the TOIS fixing. The second part considers aspects of a possible transition from TOIS fixing to SARON and the third part shall allow to identify remaining weaknesses of SARON. The aim of the survey is to allow all market participants to raise any issues with the proposed reforms and transition preparation. All responses are to be handled confidentially, and the evaluations will be made available on a cumulative basis only. A draft of the questionnaire was discussed at the meeting. The final questionnaire will be sent out in June and responses can be sent by the end of July 2016 to moneymarket@snb.ch. The cumulative results will be presented and discussed at the next NWG meeting.
- The CHF ARR presented a timeline for the potential transition from TOIS fixing to SARON. The timeline envisages the CHF ARR to review cumulative results of the questionnaire and to prepare the transition with clearers, ISDA and other relevant stakeholders during summer 2016. For SARON, final reforms shall be presented at the next NWG meeting in October 2016 and implemented until the end of 2016. Furthermore, in October 2016, ACI Suisse could potentially announce the discontinuation of the TOIS fixing in Q4 2017. Assuming benchmark rate users would stand ready to adopt SARON for the functions now performed by TOIS, such use of SARON could be phased in over the course of 2017. Given the fragility of the TOIS fixing process, ACI Suisse encouraged working on a seamless transition from TOIS fixing to SARON.⁴
- The CHF ARR also presented an analysis of areas impacted by a discontinuation of the TOIS fixing. The main foreseen impacted areas would be derivative valuation, collateral interest, and

¹ Cf. also https://www.theice.com/publicdocs/ICE_LIBOR_Roadmap0316.pdf.

² Cf. also <https://www.newyorkfed.org/arrc/publications.html>.

³ Cf. also <http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/rfr/rfr.aspx>.

⁴ Cf. also http://www.acisuisse.ch/docs/player/ACI_Suisse_PR20160315_final.pdf.

TOIS fixing based contracts. Based on a first preliminary assessment of ARR members, it appears that it is unlikely that discontinuing TOIS fixing would lead to substantial market disruption or litigation risk. However, it is prudent to conduct further investigations and prepare best practices for the affected areas.

- Interim results for possible SARON reforms were discussed at the NWG meeting. The purpose of this work is to ensure that SARON meets all the requirements for a benchmark, e.g. compliance with IOSCO principles, daily availability and ability to adapt to an evolving market environment over time. Additionally, the calculation methodology is under review.

3. Next steps

- The questionnaire on TOIS fixing and SARON will be sent out to all relevant stakeholders in June 2016. The survey is conducted on a voluntary basis and all initial recipients of the survey are invited to forward it to other relevant stakeholders. The SNB will publish results on a cumulative basis only. Responses can be sent by the end of July 2016 to moneymarket@snb.ch.
- The CHF ARR and its sub-groups shall continue their work and provide recommendations at the next NWG meeting in October 2016. For the SARON workstream, this includes final recommendations on the governance, methodology and fallback solutions for SARON. For the transition workstream, this includes analysis of the cumulative results of the questionnaire and recommendations on the potential transition from the TOIS fixing to SARON.
- Furthermore, going forward, minutes of the NWG meetings shall be published on the SNB's website. This will increase the transparency and allows all stakeholders to follow the on-going reform process in this area. Meeting participants are asked to raise any objections against the publication of the minutes (including the list of attendees) by 30 June 2016.

4. Organisational issues

- The next NWG meeting is scheduled for Thursday, 27 October 2016, 9:30 am – 11:30 am. Personal attendance is highly appreciated, however, there will also be a possibility to dial in by phone.
- Marcel Zimmermann will take over the co-chair of the NWG as the representative from the official sector with the next meeting. Dewet Moser was thanked for the valuable work conducted as co-chairman over the past years.