

Working group on CHF reference interest rates

Minutes from the 15th meeting (26 January 2017)

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., SRR administrator
- Thorbjorn Bors – x-clear
- Sophie Bonner – ICAP (by phone)
- Beat Cavegn – Cosmorex
- Roland Schwab – PostFinance
- Patrik Epstein – Cosmorex
- Catherine Farrer – ISDA (by phone)
- Fernando Fasciati – Raiffeisen Schweiz
- James France – Credit Suisse (by phone)
- Andreas Franke – Eurex Clearing (by phone)
- Beat Gabathuler – Zürcher Kantonalbank
- Christian Gerber – AXA Winterthur
- Raffael Goldenberger – Entris Banking
- David Horner – LCH.Clearnet Group Ltd (by phone)
- Otto Huber – Credit Suisse, Chair CHF Alternative Rates Working Group
- Colt Lake – UBS
- Ernst Lienhard – Swiss Re
- Dominic Makin – Gottex Brokers
- Tim Nicholson – Gottex Brokers
- Jacques Piasko – Bank Julius Bär & Co
- Steven Richards – CME (by phone)
- Raeto von Sprecher – SIX Repo Ltd.
- Thomas Sturzenegger – Bank Julius Bär & Co
- Roland Studer – Credit Suisse
- Matthias Vögeli – Swiss Life
- Andreas Wälchli – Basler Kantonalbank
- Philip Whitehurst – LCH.Clearnet Group Ltd (by phone)

- Stefan Kurt – FINMA, official sector representative
- Roman Baumann – SNB, official sector representative
- Matthias Jüttner – 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 fifteenth meeting. At the last meeting, the main recommendations were: a) to establish an index commission for the Swiss Reference Rates (SRR), b) to support the TOIS fixing until it is discontinued at the end of 2017, c) to prepare the start of the bilateral SARON swap market (e.g. legal framework, risk approvals), and d) to continue working on transitional issues (e.g. compensation payment). The aim of the fifteenth NWG meeting was to reflect on the progress regarding the different recommendations and to focus on the upcoming start of the bilateral SARON swap market.
- Meeting participants were provided with a brief summary of the reform efforts undertaken by the other currency groups, based on publicly available information.¹

2. CHF Alternative Reference Rates (ARR)

- A representative of SIX Swiss Exchange (SSE, administrator of the SRR) informed the participants about the establishment of the Index Commission for the SRR (ICS). A first meeting of the ICS took place in mid-January. The ICS is the primary forum to discuss any SSR related issues. As the administrator is responsible for the SRR, the objective of the ICS is to deliver proposals to the administrator. The ICS consists of representatives from the administrator, the calculation agent (SIX Repo AG), the SNB, and major participants in the repo market. At the next meeting of the ICS in March 2017, proposals for fallback procedures and the output statement for SARON will be finalized.
- The International Swaps and Derivatives Association (ISDA) presented the work done so far of the newly established working group on transitional issues from the TOIS fixing to SARON. The ISDA working group is discussing the possibilities of developing a non-legally binding guidance note, possibly accompanied by a bilateral amendment letter. This could be used as a tool for bilaterally negotiating amendments to contracts. Furthermore, the ISDA working group concluded that before contracts will be renegotiated, it would be preferable for a bilateral SARON swap market to evolve. The working group therefore is working on adding a compound rate definition for SARON to the 2006 ISDA definitions to hopefully aid development of the SARON market. The aim is to publish the definition by the end of February 2017 however publication will be dependent on the comments received and agreement within the ISDA membership base.
- The CHF ARR working group presented its work done on the preparations for the bilateral SARON swap market and on transitional issues. This included the following elements:
 - A template for a termsheet for SARON swaps was presented. Even as bilateral SARON swaps can be defined individually, the template is supposed to reflect market standards. The template was discussed at the meeting and the NWG members were asked to

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

provide further feedback. The aim is to publish the final template on SNB's website in February 2017.²

- An approach for achieving internal risk approval was presented. As SARON swaps have not been traded hitherto, a major impediment to start trading these swaps are internal risk and valuation approvals by market participants. By applying the approach presented (see appendix), one member of the NWG has already gotten the internal risk approval to trade SARON swaps for up to two years.
- The rationale of a compensation payment of zero by switching to SARON for the remuneration of collateral was presented at the meeting. The NWG members discussed the rationale and deemed it to be appropriate for counterparties to agree on. The rationale will be published on SNB's website in February 2017.
- The NWG members discussed their operational readiness in regards to the bilateral SARON swap trading. The internal risk approval was highlighted as the main impediment for market participants and the presented proposal was supported. Furthermore, several NWG members stated that their IT infrastructure has been updated. All three brokers present at the meeting reported that they are ready to launch broker screens as soon as market participants are willing to quote SARON swaps. These broker screens already have an automated feed to Bloomberg and Reuters.

3. Recommendations and conclusions

- Market participants are reminded to get operationally ready to start bilateral SARON swap trading (e.g. internal risk approval and IT infrastructure).
- Market participants are encouraged to be active in the SARON swap market as soon as all preparations are finalized.
- The ISDA working group and its progress is supported. Further work on the framework for the bilateral and cleared SARON swap market by ISDA and clearing houses is recommended.
- The rationale for a compensation payment of zero when switching to SARON for the remuneration of collateral is appropriate.

4. Next steps and organisational issues

- NWG members were asked to provide feedback on the template for the SARON-swap termsheet by 5 February 2017. The final template will thereafter be published on the SNB's website.
- The next NWG meeting is scheduled for Monday, 15 May 2017, 3:00 pm – 5:00 pm. Personal attendance is highly appreciated, but it is also possible to dial in by phone.

² Cf. http://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates

Appendix

Slide presented on proposal for an internal risk approval

Risk approvals as a critical factor

- Problem: SARON swaps trading rejected by risk due to missing price history
- Proposal
 - Start trading with shorter maturities as fixed rates tend to deviate less from the current fixing
 - VaR: Historic volatility (h_v) of the SARON Fixing is below the h_v of the TOIS fixing, which allows using the TOIS risk framework without understating volatility
 - Position limits provide comfort and ensure limited risk taking

Ensure that front and back office systems are able to process SARON Swaps

- Market data feed for SARON fixing (6pm fixing, e.g. Reuters and Bloomberg)
- Set appropriate Day Count Fraction, Day Count Convention, Fixing Offset, etc. (see SARON Termsheet)