

Press release

(For meeting minutes, please see page 3 ff.)

National Working Group on Swiss
Franc Reference Rates

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Zurich, 14 June 2019

Executive summary of the 13 June 2019 meeting of the National Working Group on Swiss Franc Reference Rates

The National Working Group on Swiss Franc Reference Rates (NWG) met on 13 June 2019 to discuss current challenges in respect of the LIBOR transition in Switzerland and relevant international developments. At its previous meeting in [February](#), the NWG presented different options for using a compounded SARON in cash products.

The key items of yesterday's meeting were:

- (i) NWG members were briefed about international developments related to term rates. This included information on the recently published FSB note [Overnight Risk-Free Rates: A User's Guide](#), which provides details on the usage of backward-looking term rates. Furthermore, national developments as the provision of compounded SARON by SIX, observable tendencies for using and implementing compounded SARON and legal aspects were discussed.
- (ii) A discussion paper on SARON Floating Rate Notes (FRN), which includes an assessment for different interest rate provisions and a draft fallback language, was presented.
- (iii) The NWG discussed the latest developments in LIBOR fallback languages for cash products and derivatives. ISDA elaborated on the [ISDA IBOR fallback consultations](#) with a focus on pre-cessation issues.
- (iv) A document on potential market conventions for cross-currency swaps referencing overnight risk-free rates (RFRs) was circulated. The aim of the document prepared by the Alternative Reference Rates Committee (ARRC) is to encourage market participants to provide feedback.

- (v) Lastly, the discussion focused on accounting and regulatory challenges regarding the LIBOR transition. These include implications on hedge accounting and potentially on capital requirements under the Fundamental Review of the Trading Book (FRTB) standard.

The NWG members agreed on the following main recommendations:

- SIX should further increase the visibility of compounded SARON by providing certain tenors of compounded SARON, including an explanatory document outlining the calendar conventions applied in the calculations.
- Market participants should provide feedback to the ISDA consultations on technical issues that will apply if the fallbacks are triggered and on pre-cessation issues.
- Moreover, market participants were encouraged to provide feedback on the ARRC document on potential conventions in the cross-currency swap market.
- Publication of the following documents
 - Discussion paper on SARON FRN
 - Paper “IBOR to RFR transition: effects on financial reporting”

The minutes of the meeting will be published in due course on the [NWG website](#).¹

¹ The NWG is the key forum to foster the transition to SARON and to discuss the latest international developments. The NWG ceases to exist once the transition to SARON is materially completed. The NWG is co-chaired by a representative of the private sector and a representative of the Swiss National Bank (SNB). The SNB supports the NWG by co-chairing the working group alongside a representative from the private sector. The NWG publishes recommendations based on consensus. Recommendations are not legally binding. The SNB abstains from voting and acts primarily as a moderator. Furthermore, the SNB runs the NWG’s technical secretariat and facilitates the organisation of the meetings. In this capacity, the SNB also publishes on its webpage documents discussed by the NWG such as this document. The items published do not necessarily reflect the views of the SNB.

Minutes of the 13 June 2019 meeting of the National Working Group on Swiss Franc Reference Rates

1. Introduction

- The two co-chairs of the National Working Group on CHF Reference Rates (NWG) welcomed all attendees to the twenty-second meeting and reminded them of their responsibilities related to [competition law and confidentiality](#).
- Additionally, meeting participants were provided with a summary of the SNB's decision to introduce the SNB policy rate, as announced at its [monetary policy assessment](#) earlier that day. The SNB policy rate replaces the target range for the three-month Libor used previously. The SNB will seek to keep the secured short-term Swiss franc money market rates close to the SNB policy rate. SARON is the most representative short-term money market rate, and is also establishing itself as the reference rate for financial products.

2. Term rates

2.1. International update

- Meeting participants were briefed about the status-quo and the latest developments of international term rate initiatives.¹ The Alternative Reference Rates Committee ([ARRC](#)) and the Financial Stability Board ([FSB](#)) published User Guides on Overnight Risk-Free Rates (RFRs). The documents present options how these RFRs can be used in cash products. All of the options presented by the NWG in February 2019 are covered in these documents. In most currency areas, the alternative to LIBOR is identified and available.² By having the RFR available, backward-looking term rates can be calculated and used in cash products, as potential fallback rates for IBOR-based products, and for derivatives. Where forward-looking term rates (based on RFR derivatives as Overnight Index Swaps or Futures) have been discussed, they are mostly expected not to be available before 2021 (at the earliest Q1 2020 for Sterling). In contrast to most of the RFRs, forward-looking term rates will not be administrated by the official sector entities. It was recapitulated that at the [October 2018 meeting](#), NWG members agreed that a robust forward-looking term rate based on SARON derivatives is unlikely to be feasible and therefore it was recommended to use a compounded SARON as a term rate wherever possible.

¹ See slides 5-7.

² Only for euro the alternative rate (€STR) is not yet finalized, but a pre-version is already available.

2.2. Using compounded SARON

- It was agreed to align the naming of the options for using compounded SARON to the conventions provided by the FSB³, in order to ensure consistency across currency areas.
- Meeting participants discussed the provision of compounded SARON indices, i.e. pre-calculated compounded SARON for specific tenors, e.g. 3 months. Such compounded SARON indices are intended to be provided by SIX (data for illustrative purposes are already available on the [SIX website](#), including a form to provide feedback). The provision entails the challenge that on certain end-dates (also publication date) several possible start dates exist based on the calendar convention applied in the calculation. The publication of compounded SARON indices is expected to enhance visibility. Hence, NWG members agreed that SIX should publish compounded SARON indices for 1-, 3- and 6-month tenors. To avoid confusion, the other tenors and the publication of compounded SARON for 30, 60, 90, 180, 270, and 360 days should be discontinued. Moreover, SIX should publish an explanatory document outlining the calendar conventions applied in the calculations. It was pointed out that other currency areas are also expected to provide compounded RFR indices. It is possible that there might be a need to change the definition for compounded SARON indices in the future to align with emerging global standards in providing compounded RFR indices.
- There was a discussion on the treatment of compounded interest rates in the context of negative interest rates and financial contracts that include an interest rate floor.⁴ In such a case, either the compounded SARON for the respective interest period or the individual daily values of SARON could be floored. NWG members agreed to discuss this at the next meeting, with the aim of making a recommendation.
- NWG members were informed about the webinar for infrastructure providers that was held by the NWG on 26 February 2019. The main take-aways have been that the LIBOR transition is on the radar of infrastructure providers and the majority indicated that they are already engaged with their customers on this topic. Regarding the adjustments which are necessary to embed compounded interest rates, the feedback of webinar participants was more diverse. However, the majority stated that those adjustments should be implementable within one year; nearly all providers stated that it should be possible within two years.
- Meeting participants were provided with an overview of observable tendencies for using and implementing compounded SARON. All options are described in the [FSB user's guide](#). For options 0, 1, 3 and 4, the calculated interest amount to be paid is closely aligned to swap market transactions and the calculation and provision of compounded SARON can easily be centralized. Furthermore, option 3 "Lookback" is underpinned additionally by being the preference for SARON FRN and by already being used for GBP FRN. First anecdotal feedback from market participants indicates that option 3 should also be feasible for syndicated loans.

³ See [FSB user's guide](#).

⁴ See slide 13.

- Related to the use of compounded SARON, a few market participants raised concerns over the past few months on one particular legal aspect, i.e. the prohibition of compounding interest, as embedded in [Article 314 of the Swiss Code of Obligations](#). On this topic, Prof. Dr. Lukas Glanzmann of the law firm Baker & McKenzie provided an assessment.⁵ Prof. Glanzmann pointed out that interest rates can be agreed freely subject to normal limitations such as, e.g., prohibition of usury and compound interest, consumer credit act, limitations by cantons. However, the interest rate must be determined or determinable. For compounded SARON this is the case as it is calculated based on actual rates (SARON fixings), objective criteria make it determinable. Second, compounded SARON is rather part of the interest rate formula used in a simple interest rate calculation and does not imply further compounding of interest. The purpose of the prohibition of compounding interest is the clarity of interest which should be given as compounded SARON is determinable. Lastly, the difference between the arithmetic SARON and the compounded SARON rate for the same period is small, it is unlikely that other general principles of law are violated.
- Meeting participants were informed that the two co-chairs consulted the Competition Commission (WEKO) in order to get to an assessment which level of granularity of NWG recommendations remains in compliance with competition rules. In particular, the aim is to clarify whether a recommendation of one option for using compounded SARON in FRN or a further limitation of calculation options regarding syndicated loans or retails products is compliant with competition rules. The result of the consultation will be published.
- Additionally, it was mentioned that the potential legal issue of a compounding rate in respect to the EU Directive on consumer credit is still open. The query of the NWG to the Working Group on euro RFR is pending.

3. Trigger and LIBOR fallback language

- Meeting participants were given an overview on elements of a fallback, LIBOR fallback provisions across CHF loan and derivatives markets and on the recent recommendations for USD LIBOR cash products by the ARRC. Moreover, a fallback template for the Swiss retail market – presented by the law firm [Homburger](#) at the NWG meeting in October 2018 – was presented again.
- It was pointed out that most fallback languages intend to use an additional trigger beside the statement of the competent authority or the administrator that the rate will be discontinued. The additional trigger is based on an announcement of a competent authority that the rate is no longer representative (often termed as “pre-cessation trigger”). The alignment of the trigger event across cash and derivatives products should reduce basis risks and therefore allow a smoother transition from LIBOR to RFRs.

⁵ See slides 19-23 and «[Das Zinseszinsverbot beim Darlehen](#)» in: Rechtswissenschaftliche Abteilung der Universität St. Gallen (Hrsg.), Rechtliche Rahmenbedingungen des Wirtschaftsstandortes Schweiz. FS 25 Jahre juristische Abschlüsse an der Universität St. Gallen, Zürich 2007, 433-444.

- A representative of ISDA reported on the recent consultations on IBOR fallbacks.⁶ These include:
 - Supplemental Consultation on Spread and Term Adjustments for Fallbacks in Derivatives Referencing USD LIBOR, CDOR and HIBOR and Certain Aspects of Fallbacks for Derivatives Referencing SOR
 - Consultation on Pre-Cessation Issues for LIBOR and Certain Other IBORs
- The [Supplemental Consultation on Spread and Term Adjustments](#) builds on the July 2018 Consultation on Spread and Term Adjustments for Fallbacks in Derivatives Referencing GBP LIBOR, CHF LIBOR, JPY LIBOR, TIBOR, Euroyen TIBOR and BBSW. It seeks input on the approach for addressing certain issues associated with adjustments that will apply to RFR if the fallbacks take effect. These adjustments are necessary because of the differences between the IBOR and the RFR. All market participants are encouraged to respond, even if they responded to the 2018 consultation.
- Based on the responses to this consultation, ISDA will determine the style of approach to implement and whether this should be the same approach that is being implemented for GBP LIBOR, CHF LIBOR, JPY LIBOR, TIBOR, Euroyen TIBOR and BBSW (i.e. the compounded in arrears rate and the historical mean/median approach to the spread adjustment). Before implementing any changes to its standard documentation, ISDA will obtain additional input from market participants on open issues associated with the final parameters of the term and spread adjustments.
- The [Consultation on Pre-Cessation Issues](#) seeks input on the preferred approach for addressing pre-cessation issues in derivatives that reference LIBOR and certain other IBORs that are critical benchmarks within the meaning of the EU Benchmarks Regulation, including in the context of a regulator's statement that the relevant IBOR is no longer representative.⁷
- Responses to both consultations are due by July 12, 2019. Market participants should provide feedback to the ISDA consultations on technical issues that will apply if the fallbacks are triggered and on pre-cessation issues.

4. Effects on financial reporting and regulation

- First, NWG members were provided with an assessment of the open issues with respect to the effects on financial reporting.⁸ The D&C sub-working group summarized the results in a paper "IBOR to RFR transition: effects on financial reporting": the effects will mainly relate to the accounting choice 'hedge accounting', which aims to avoid artificial earnings volatility. This might occur if value changes in the hedging instrument and/or hedged item are recognized in different reporting periods. The D&C sub-working group did not identify

⁶ See slides 29-40.

⁷ As additional reference please see the [speech](#) by Edwin Schooling Latter (FCA) from January 2019.

⁸ See slides 42-47 and paper «IBOR to RFR transition: effects on financial reporting».

any issues related to the Swiss GAAP. For the International Financial Reporting Standards (IFRS), its standard setter the International Accounting Standards Board issued an exposure draft in May 2019 that proposes reliefs to these earnings volatility concerns. Entities can assume existing IBOR-based contractual terms for assessing the hedge accounting requirements. For US Generally Accepted Accounting Principles (GAAP) concrete guidance on potential relief is expected in due course. NWG members agreed to publish the paper and to share it with the FSB's Official Sector Steering Group (OSSG) to highlight potential accounting issues.

- Second, the D&C sub-working group elaborated on the potential effects of the LIBOR transition on the Fundamental Review of the Trading Book ([FRTB](#)) framework on capital requirements.⁹ The FRTB framework stems from the Basel Committee on Banking Supervision (BCBS) to review trading book capital requirements. It is expected to come into force at the start of 2022. Under the internal model approach the transition might cause an increase in capital requirements. Banks should hence raise that potential issue with their FRTB project management team.

5. SARON FRN

- The D&C sub-working group adverted to a discussion paper on SARON FRN. A key part of the discussion paper is the assessment on different options for using compounded SARON, with a preference for the lookback approach (before named “reset days prior”). Additionally, the paper states that two different versions of the lookback approach exist and the version preferred for SARON FRN differs slightly from the standard used in SONIA FRN.¹⁰ Furthermore, the paper provides a fallback for SARON FRN. The fallback proposes a waterfall with two levels. On the first level, a relevant committee including key stakeholders of the relevant market would recommend an alternative benchmark and spread. On the second level, e.g. in case no alternative benchmark is identified, the SNB policy rate and a spread based on the historic median of the last two years would apply. The fallback includes a pre-cessation trigger. NWG members agreed to publish the discussion paper after incorporating the feedback given by meeting participants.

6. SARON-based derivatives

- NWG members were informed about the developments in the SARON swap market. The open interest of SARON swaps increased again after falling at the end of last year.
- The ARRC in cooperation with other national working groups and associations developed a document describing potential cross-currency swap structures (see meeting documents). ARRC has asked ISDA and SIFMA (and its global affiliates) to share this document with their members more broadly in order to obtain market feedback. Market participants are

⁹ See slide 47 and 48.

¹⁰ See slide 65 and 66.

asked for feedback by July 2019. Feedback can be given to Ann Battle (abattle@isda.org) or Chris Killian (ckillian@sifma.org).

- Meeting participants asked for the progress with respect to caps/floors and swaptions. At the last meeting it was agreed that in order to have an efficient hedge, caps/floors should reference compounded SARON (in arrears) for the relevant interest rate period(s) instead of directly referencing each SARON fixing. The design of caps and floors should reflect the design of the on-balance sheet products. The D&C sub-working group will work further on caps/floors and swaptions and provide draft term sheets at the next meetings.
- NWG members were informed that the draft template for a SARON swap confirmation, which was released in January 2017, was slightly amended.

7. Governance

- Meeting participants agreed to some changes of the current [wording of NWG's governance](#):
 - The actual phrase on the objective “...is the key forum for considering proposals to reform reference interest rates in Switzerland and discussing the latest international developments...” will be replaced by “...is the key forum to foster the transition to SARON and to discuss the latest international developments...”
 - So far, no end-date for the NWG was specified. Going forward the following phrase “The NWG ceases to exist once the transition to SARON is materially completed.” will be added.
 - The process of deriving recommendations which is described as “Recommendations are not legally binding. Decisions on recommendations are passed with a simple majority of the votes cast at the meetings.” will be replaced with the phrase “The NWG publishes recommendations based on consensus. Recommendations are not legally binding.”

8. Recommendations

- SIX should further increase the visibility of compounded SARON by providing a pre-calculation (compounded SARON indices):
 - Publication of a compounded SARON indices for tenors 1, 3, and 6 months and renaming from SARC3M to SAR3MC. Discontinuation of other tenors
 - Discontinuation of compounded SARON indices for 30, 60, 90, 180, 270, and 360 days
 - Publication of an explanatory document describing the difference between the compounded SARON index and the money market calendar
- Market participants should provide feedback to the ISDA consultations on [technical issues](#) that will apply if the fallbacks are triggered and on [pre-cessation issues](#).

- Moreover, market participants should provide feedback on the ARRC document (see meeting documents) on potential conventions in the cross-currency swap market. Feedback can be given to Ann Battle (abattle@isda.org) or Chris Killian (ckillian@sifma.org).
- Effects on financial reporting and regulation:
 - Publication of the paper “IBOR to RFR transition: effects on financial reporting” and dissemination to the OSSG Subgroup on “Tax, Accounting, and Regulatory Issues”
 - Banks should raise potential issues with their FRTB project management team.
- Publication of the discussion paper on SARON FRN.

9. Next steps

- Communication (responsibility stated in parentheses)
 - Engage further in discussions to increase acceptance of compounded SARON (all)
 - Prepare additional explanatory material (e.g. amendment of the starter pack in German and French) (secretariat)
- Consider feasibility of options for using compounded RFR in syndicated lending and discuss contractual robustness (L&D sub-working group)
- Monitor and foster national and international developments regarding implementation and / or usage of compounded term rates in cash products and the adoption of SARON in derivatives markets (NWG sub-working groups)
- Consider calculation approaches for “floored” compounded SARON (NWG sub-working groups)
- Continue to work on the design of SARON-based instruments, e.g. publish draft templates for caps/floors and swaptions (D&C sub-working group)

Next meeting

- The next NWG meeting is scheduled for 12 November, 15:00-17:00. Personal attendance is highly appreciated, but it will also be possible to dial in by phone.
- Going forward, documents meant to be discussed at the next NWG meeting will be distributed earlier in order to give members more time for preparation.

Acknowledgment

Lastly, Otto Huber, the chair of the D&C sub-working group, announced that he will step down from this role. The co-chairs expressed their gratitude for his excellent contributions over the last five years, his hard work and dedication for the NWG. They also wished him success with the new opportunity that he will pursue outside of the financial industry. The entire NWG thanked Otto Huber with a round of applause. Felix Roudier (Credit Suisse) will take over the position as D&C sub-working group chair.

Attendance at the 13 June 2019 meeting

Martin Bardenhewer	–	Zürcher Kantonalbank, co-chair
Marcel Zimmermann	–	Swiss National Bank, official sector representative, co-chair
Philipp Ackermann	–	Raiffeisen
Uriel Amitai	–	ICE (by phone)
Olivier Ancel	–	Crédit Agricole next bank (by phone)
Andreas Bachmann	–	Entris
Christian Bahr	–	SIX
Markus Bieri	–	SwissACT / LafargeHolcim
Marie-Anne B. Gorgé	–	BCGE (by phone)
Jonathan Campbell	–	Credit Suisse (by phone)
Christophe Cherdel	–	BCV (by phone)
Thomas Damagnez	–	CA Indosuez (by phone)
Guillermo De La Fuente	–	ACTSR / SITA (by phone)
Patrick Deschwanden	–	Bank CIC (by phone)
Lars Disler	–	ZKB (by phone)
Robert Eigenheer	–	Eurofima
Markus Engeli	–	Zurich (by phone)
Fernando Fasciati	–	Raiffeisen
Kevin Ferrier	–	CA Indosuez (by phone)
Fernando Gardoni	–	SGKB
Christian Gerber	–	AXA
Lukas Glanzmann	–	Baker & McKenzie
Thomas Graf	–	Valiant (by phone)
Stéphane Hegi	–	BCV (by phone)
Valère Henrotte	–	Leonteq
Otto Huber	–	Credit Suisse, chair Sub-NWG D&C
Michelle Hurd	–	ISDA
Jenny Ivleva	–	Eurex (by phone)
Frank Kilchenmann	–	Swiss Bankers Association
Rolf Konrad	–	Bank Cler
Jean-Luc Kyburz	–	UBS
Colt Lake	–	UBS
Alfred Ledermann	–	UBS, chair Sub-NWG L&D
Nicolas Lergier	–	GKB (by phone)
Jon Lindholm	–	SIX
Bruno Marin	–	BNP
Franklin Meimoun	–	Union Bancaire Privée (by phone)
Thomas Miguel Reeg	–	J. Safra Sarasin
Rick Sandilands	–	ISDA (by phone)
Christophe Schaer	–	compenswiss
Beat Schlegel	–	Clientis (by phone)
Henrique Schneider	–	Schweizerischer Gewerbeverband (by phone)
Roland Schwab	–	Postfinance (by phone)
René Schwyzer	–	LGT (by phone)
Barbara Seitz	–	Copenhagen Business School
Marco Steiner	–	Pictet
Roland Studer	–	Credit Suisse (by phone)

Thomas Sturzenegger	–	Julius Bär
Andrea Surro	–	EFG Bank
Isabelle Sutter	–	Bank CIC
Zsolt Szollosi	–	Credit Suisse (by phone)
Pierre-Henri Turc	–	BCGE (by phone)
Matthias Vögeli	–	SwissLife
Hugues Weil	–	Credit Suisse
Marc Wenger	–	Credit Suisse
Philip Whitehurst	–	LCH (by phone)
Sébastien Zöllner	–	Swiss Bond Commission / CS
Nicolas Graafen	–	State Secretariat for International Finance, official sector representative
Paul Koether	–	Swiss Financial Market Supervisory Authority, official sector representative
Roman Baumann	–	Swiss National Bank, official sector representative
Nicolà Eisler	–	Swiss National Bank, official sector representative
Basil Guggenheim	–	Swiss National Bank, official sector representative
Matthias Jüttner	–	Swiss National Bank, official sector representative

National Working Group on CHF Reference Rates

22nd Meeting
13 June 2019

This version is as of 1st of July 2019. The slide set was revised based on the discussion during the NWG meeting.

Agenda

1. Opening remarks
2. Term rates
 - 2.1. International update
 - 2.2. Using compounded SARON
3. Trigger and LIBOR fallback language
4. Effects on financial reporting and regulation
 - 4.1 Hedge accounting
 - 4.2 Fundamental review of the trading book
5. SARON FRN
6. SARON-based derivatives
7. Governance
8. Recommendations
9. Next steps

2.1. International update

Terminology of term rates

Forward-looking term rate

Based on

Cash (e.g. IBOR)

Derivatives

Availability and usage

At the beginning *“in advance”*

Backward-looking term rate (e.g. Compounded RFR)

Based on

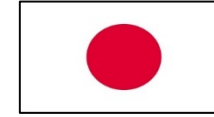
Risk-Free Rates (RFR)

Availability and usage

At the end
“in arrears”

At the beginning
“in advance”

Overview of term rate initiatives



Working group (WG)		Alternative Reference Rates Committee	WG on Sterling Risk-Free Reference Rates	WG on Euro Risk-Free Rates	Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks	National Working Group on CHF Reference Rates
Alternative reference rate		SOFR (Secured Overnight Financing Rate)	SONIA (Sterling Overnight Interbank Average Rate)	€STR (Euro-Short Term Rate)	TONA (Tokyo Overnight Average Rate)	SARON (Swiss Average Rate Overnight)
Backward-looking	Availability	Already available		Start date 2 October 2019 Pre-€STR is available	Already available	Already available and recommended
	Purpose	Can be used for new cash-products , as a potential fallback-rate for IBOR-based products, and for (RFR) derivatives				
Forward-looking	Availability	Not expected before end-2021	Produced and made available in Q1 2020	No release date known yet	Expected to be available by around mid-2021	Not recommended
	Based on	Likely based on Futures or OIS	Likely based on OIS	Likely based on OIS	Likely based on OIS*	
	Purpose	For some cash products which cannot use backward-looking term rates and as a fallback-rate for IBOR-based products			For some cash products for which it is deemed appropriate to use forward-looking term rates for transition and as a fallback-rate	

* In light of the need confirmed by the Committee in Japan for term reference rates based on futures, the Tokyo Financial Exchange is considering to relaunch trading of Over-Night Call Rate Futures in around 2020.

International developments related to term rates



The ARRC released a [User's Guide](#) to help explain how market participants can use Secured Overnight Financing Rate (SOFR) in cash products.



[SOFR linked bond](#) issuance which uses a compounded interest rate calculation, rather than the simple average, and a two-day “lookback” to calculate the payments.



The FSB published a [User's Guide](#) on Overnight Risk-Free Rates (RFR), where it gives an overview on alternative RFRs. Furthermore, the document presents options how these RFRs can be used in cash products.



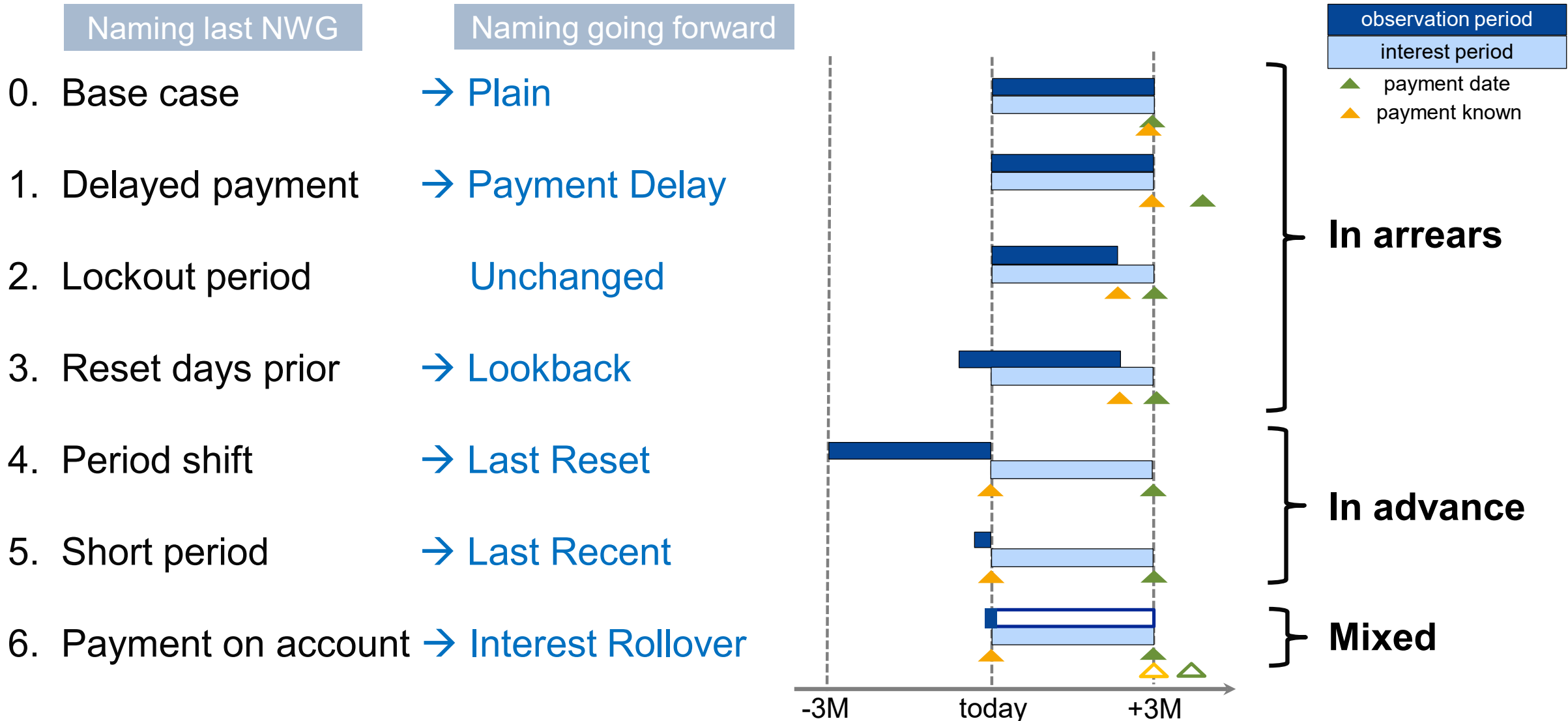
SONIA linked FRN issuance now dominates the sterling floating rate financials issuance and there is clear momentum towards using the compounded SONIA rate across bond markets as stated by Dave Ramsden in his [speech](#) about the LIBOR transition.

2.2. Using compounded SARON

Today's key topics for using compounded SARON

- International developments with respect to compounded RFR
- Provision of compounded SARON by the administrator SIX
- Observable tendencies for using and implementing compounded SARON
- Update on legal aspects

Options for using a compounded SARON – update of naming convention for ensuring consistency across jurisdictions












SIX asks for feedback for the publication of compounded SARON...

Snapshot from SIX homepage

Compound Rates for illustrative purposes

Please provide SIX with your feedback regarding the example calculations [here](#).

Variations	Document
Description compound rate for SARON	
1. Rolling compound rates for 1, 2, 3, 6, 9 and 12 months based on SARON	
2. Rolling compound rates for 30, 60, 90, 180, 270 and 360 days based on SARON	
3. Rolling compound rates for 1 and 3 months based on SARON according to the IMM calendar	
4. Compound SARON calculator	
5. Compound SARON calculator (with macro to refresh data automatically)	
6. Compound SARON calculation matrix	
7. History Compound SARON 3 months	
8. History Compound SARON 90 days	

...and the following feedback is recommended to be given to SIX

Challenge: On certain end-dates backward-looking term rate indices are ambiguous with respect to the start date. However, the impact is marginal and the publication of a compounded SARON index is expected to enhance visibility.

1. Publication of a compounded SARON index for tenors 1, 3, and 6 months and renaming from e.g. SAR3M to SAR3MC. Discontinuation of other tenors
2. Discontinuation of compounded SARON for 30, 60, 90, 180, 270, and 360 days
3. Publication of an explanatory document describing the difference between the compounded SARON index and the money market calendar

Compounded SARON in contracts

The topic was discussed but no conclusion could be drawn. It will be considered again at the next NWG meeting.

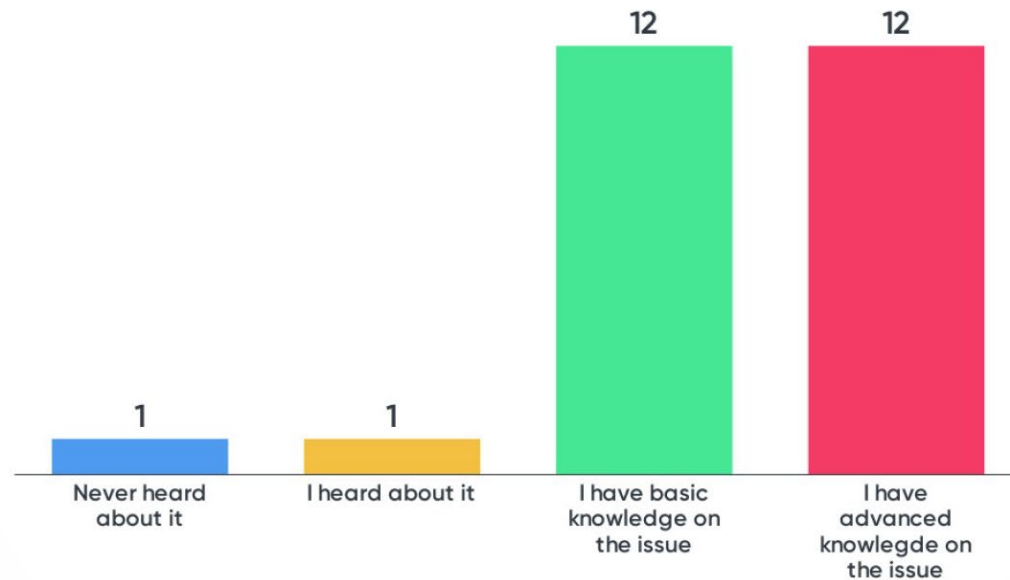
Challenges: Yet no recommendation if compounded SARON or the individual values of SARON should (a) be floored in case of negative interest rates and (b) be the basis on which to apply the margin.

- If a floor is part of the contract, it should be applied to compounded SARON and not on each individual SARON value.
- The margin should be applied on the compounded SARON and not on the individual SARON values.

The LIBOR transition is on the radar of infrastructure providers...

How familiar are you with the LIBOR transition topic?

Mentimeter



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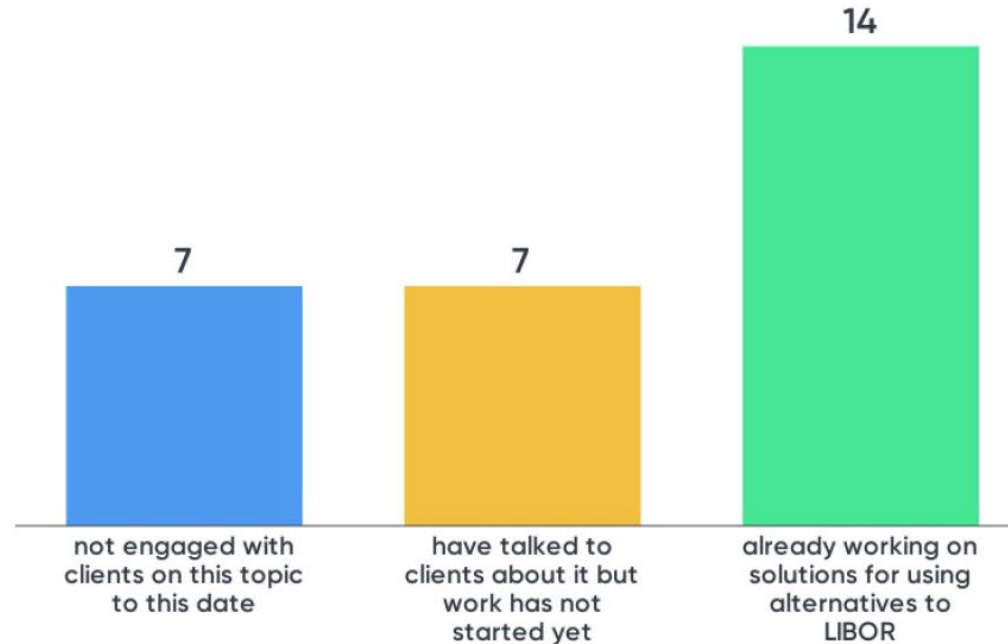
– Webinar held on 26 February 2019

- Bellin, SAP, FIS, Finastra, Finnova, Avaloq, Temenos, Finstar, MSCI Risk Metrics, Blackrock, ICE, Markit, Bloomberg CH, KEYINVEST / Solvians, Refinitiv, BIC-Bred (Suisse), SIX, Clarus FT, Moodys, Eurex / Deutsche Börse, Liechtensteinische Landesbank
- Representative of the secretariat of the UK RFR working group (international coordination)

...and the majority indicates that they have already established the customer contact on the topic

Are you already engaged with clients regarding the LIBOR transition?

Mentimeter

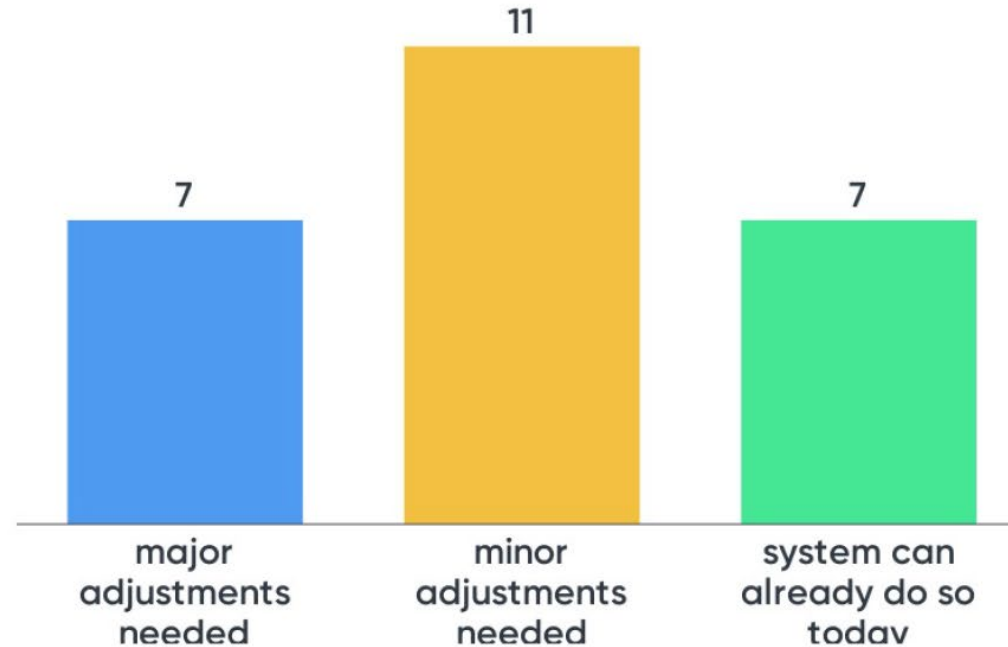


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Adjustments in the systems are necessary to deal with compounded interest rates

How do you rate the capability of your systems to process compounded interest rates?

Mentimeter

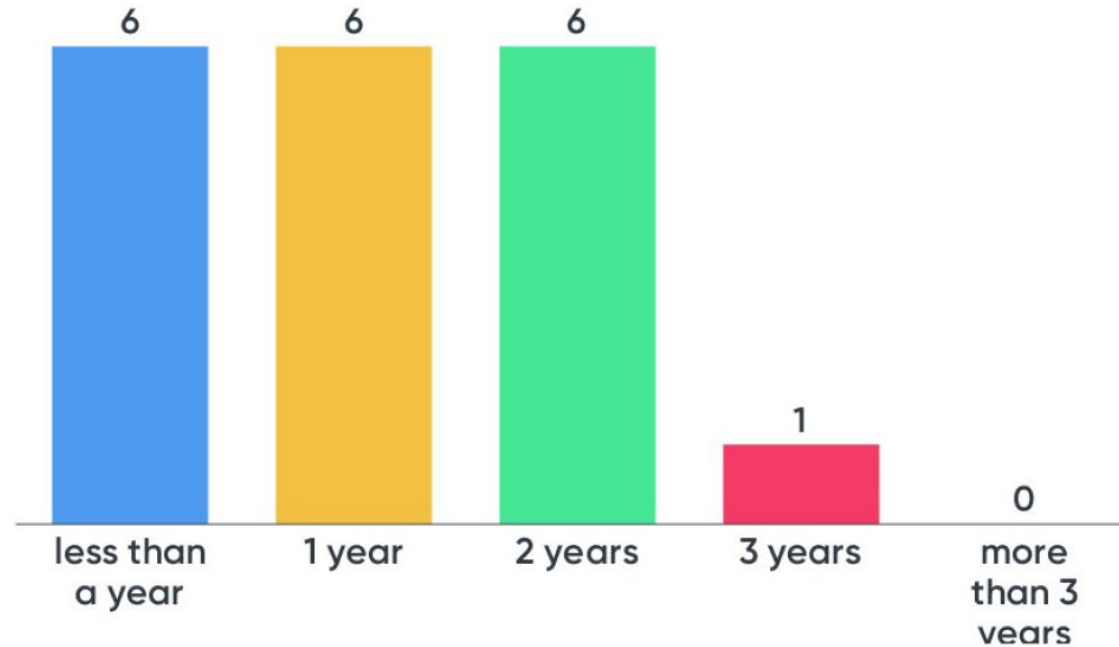


25

Those adjustments should however be implementable within two years

What is the expected time-to-market for compounded cash products?

Mentimeter



19

Observable tendencies for using and implementing compounded SARON

	a.	b.	c.	d.
0. Plain	✓	✓	✓	
1. Payment Delay	✓	✓	✓	
2. Lockout Period	✓	✓		
3. Lookback	✓	✓	✓	✓
4. Last Reset	✓	✓	✓	
5. Last Recent	✓	✓		
6. Interest Rollover	✓			

Legend:

- a. Described in [FSB user's guide](#)
- b. In development by some infrastructure providers
- c. Calculation of compounded SARON can easily be centralized; amount of payment close to swap market
- d. Preferred for SARON FRN; already used for GBP FRN; first feedback indicates feasibility for syndicated loans



Selected legal issues relating to the use of backward compounded SARON

NWG on Swiss Franc Reference Rates / 13 June 2019

Prof. Dr. Lukas Glanzmann, LL.M., Rechtsanwalt

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Statutory Provision

Article 314 Swiss Code of Obligations*

¹ Where the interest rate is not stipulated in the contract, it is presumed to be the customary rate for loans of the same type at the time and place that the loan was received.

² Unless otherwise agreed, the promised interest is payable annually.

³ Any prior agreement that interest will be added to the loan principal and become subject to further interest is void, subject to standard business practices and in particular those of savings banks for calculating interest on current accounts and similar commercial instruments under which the calculation of compound interest is customary.

* unofficial translation

Freedom of Contract

- Interest rate can be agreed freely subject to normal limitations such as, e.g., prohibition of usury and compound interest, consumer credit act, limitations by cantons.
- Interest rate must be determined or determinable.
- Interest rate is determinable if it is (i) based on objective criteria or (ii) determined by one of the parties or a third party.
 - As backward compounded SARON ("BC-SARON") is computed based on actual rates, it would be determinable based on objective criteria.
- Interest rate should be determinable for any period for which it must be calculated.
 - It is my understanding that BC-SARON can be determined for any 365 days period.

Compounding of Interest*

- Compounding of interest means that the interest accrued during an interest period is added to the principal amount at the end of such interest period and interest during the next interest period accrues on the sum of the principal amount plus the accrued interest.
 - Compounding of interest is generally not permissible if it is agreed upon in advance.
- Use of BC-SARON does not, in and of itself, imply compounding of interest.
 - BC-SARON is rather part of the interest rate formula ($i = \text{BC-SARON} + \text{margin}$) used in a simple interest calculation (*einfache Verzinsung*).
- The purpose of the prohibition of compounding interest is the clarity of interest.
 - As it is sufficient if the interest rate is determinable, the use of BC-SARON is no circumvention of the prohibition of compounding interest.
- As the difference between the average SARON rate and the BC-SARON rate for the same period seems to be small, it is unlikely that other general principles of law are violated.

* For a in depth analysis see Lukas Glanzmann, [Das Zinseszinsverbot beim Darlehen](#), in: Rechtswissenschaftliche Abteilung der Universität St. Gallen (Hrsg.), *Rechtliche Rahmenbedingungen des Wirtschaftsstandortes Schweiz. FS 25 Jahre juristische Abschlüsse an der Universität St. Gallen (HSG)*, Zürich 2007, 433 – 444.

The NWG approached the Competition Commission (WEKO) to clarify questions regarding the standardization of SARON-based products

- The NWG contacted the WEKO with a formal consultation request on the standardization of SARON-based cash products.
 - WEKO was consulted to provide an assessment on the compliance with competition rules on the following topics:
 1. Recommendation of one option for using compounded SARON in FRN and regarding fallback language
 2. Limitation of calculation options regarding syndicated loans / retail products?
 3. Guidelines regarding the horizontal and vertical coordination among market participants
- Result of the consultation will be published.

3. Trigger and LIBOR fallback language

Fallback design – elements of a fallback

Trigger event



What triggers the fallback?

Fallback rate:

What replaces
LIBOR?



Base rate



What is the new reference rate?

Spread
adjustment



Which spread is applied?

Distinction between LIBOR fallbacks for loans and derivatives

	Products	Characteristics	Fallback for transition
Derivatives	<ul style="list-style-type: none">• Swaps• Futures• ...	<p>Standardized contracts, often UK Law</p> <p>Often sophisticated counterparties</p> <p>Often maturity >2021</p>	<p>Amendment of Master Agreement</p> <ul style="list-style-type: none">• ISDA protocol• SBA – master agreement
Loans	<ul style="list-style-type: none">• Mortgages• ... <ul style="list-style-type: none">• Syndicated loans• ...	<p>Heterogeneous contracts</p> <p>Also less sophisticated counterparties</p> <p>Often shorter maturities</p>	<p>Fallback template for new loans</p> <ul style="list-style-type: none">• Bilateral under Swiss law• LMA protocol• ARRC recommendation on fallback

The ARRC recommends different USD LIBOR waterfalls for FRN, Syndicated Loans, Securitizations and Bilateral Business Loans

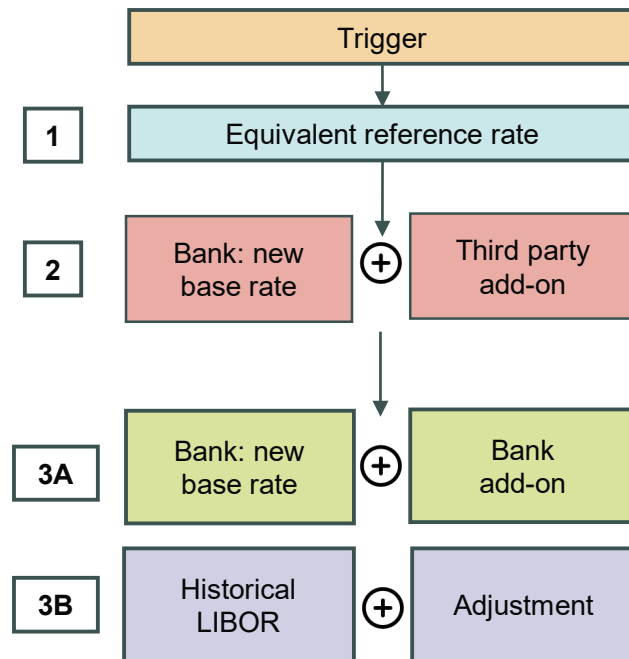
Triggers

Trigger Event	Transition Date
Statement by ICE, the FCA, the FED, or a bankruptcy administrator that publication of the rate has ceased or will cease permanently or indefinitely	The date LIBOR publication actually end, if later than the announcement date
FCA announcement that the rate is no longer representative	The date of the announcement

Waterfall for Replacement Rate

FRN Benchmark Replacement Waterfall	Syndicated Loans Benchmark Replacement Waterfall	Securitizations Benchmark Replacement Waterfall	Bilateral Business Loans Benchmark Replacement Waterfall
1. Term SOFR + Adjustment	1a. Term SOFR + Adjustment	1. Term SOFR + Adjustment	1a. Term SOFR + Adjustment
2. Compounded SOFR + Adjustment	1b. Next Available Term SOFR + Adjustment	2. Compounded SOFR + Adjustment	1b. Next Available Term SOFR + Adjustment
3. Relevant Governmental Body* Selected Rate + Adjustment	2. Compounded SOFR + Adjustment	3. Relevant Governmental Body* Selected Rate + Adjustment	2. Compounded SOFR + Adjustment
4. ISDA Fallback Rate + Adjustment	3. Borrower and Administrative Agent Selected Rate+ Adjustment	4. ISDA Fallback Rate + Adjustment	3. Lender Selected Rate + Adjustment
5. Issuer or its Designee Selected Rate + Adjustment		5. Transaction Specific Fallback Rate + Adjustment	
FRN Adjustment Waterfall	Syndicated Loans Adjustment Waterfall	Securitizations Adjustment Waterfall	Bilateral Business Loans Adjustment Waterfall
1. ARRC Selected Adjustment	1. ARRC Selected Adjustment	1. ARRC Selected Adjustment	1. ARRC Selected Adjustment
2. ISDA Fallback Adjustment	2. ISDA Fallback Adjustment	2. ISDA Fallback Adjustment	2. ISDA Fallback Adjustment
3. Issuer or its Designee Selected Adjustment	3. Borrower and Administrative Agent Selected Adjustment	3. Designated Transaction Representative Selected Adjustment	3. Lender Selected Adjustment

Recap: Homburger developed a proposition for a LIBOR fallback template for loans under Swiss law



1 In case that CHF-LIBOR [is no longer available as recognized reference rate | is no longer published], the parties agree that BANK will determine the interest rate on the basis of another reference rate that is economically as equivalent as possible. Equivalent may in particular be recognized reference rates that are calculated with a view to provide a value-neutral replacement for CHF-LIBOR denominated loans.

2 Is no such an equivalent reference rate available from a third party, and there neither is a recognized addition or deduction for an economically neutral replacement of CHF-LIBOR published, then [Alternative A: BANK shall itself determine an addition | deduction and applies this in fixing the new reference rate.] [Alternative B: the new interest rate will be determined by reference to the [average] [median] historic CHF-LIBOR rates for the last ■ bank working days prior to the discontinuation of CHF-LIBOR, adjusted to reflect the general interest rate fluctuations since the discontinuation of the CHF-LIBOR.]

3 The new reference rate will be applied for the first time for the immediately following interest period. Should the disappearance of CHF-LIBOR time-wise be very close to the commencement of the immediately following interest period, BANK may utilize for such interest period an interest rate that is based on the last available CHF-LIBOR rate.

ISDA IBOR Derivative Fallbacks: May 2019 Consultations



ISDA IBOR Fallbacks: May 2019 Consultations

- ***Supplemental Consultation on Spread and Term Adjustments for Fallbacks in Derivatives Referencing USD LIBOR, CDOR and HIBOR and Certain Aspects of Fallbacks for Derivatives Referencing SOR***
 - Builds on July 2018 *Consultation on Spread and Term Adjustments for Fallbacks in Derivatives Referencing GBP LIBOR, CHF LIBOR, JPY LIBOR, TIBOR, Euroyen TIBOR and BBSW*
 - Seeks input on the approach for addressing certain issues associated with adjustments that will apply to alternative risk-free rates (RFRs) if the fallbacks take effect
 - Adjustments are necessary because of the differences between the IBORs and the RFRs
- ***Consultation on Pre-Cessation Issues for LIBOR and Certain Other IBORs***
 - Relates to pre-cessation issues and seeks comments on how derivatives contracts should address a regulatory announcement that LIBOR or certain other IBORs categorized as critical under the EU Benchmarks Regulation are *no longer representative of an underlying market*

During the consultation periods, please submit questions to fallbackconsult@isda.org

For additional information, go to <https://www.isda.org/2019/05/16/may-2019-benchmark-fallbacks-consultations/>

Supplemental Consultation on Spread and Term Adjustments

Supplemental Consultation on Approaches to Term & Spread Adjustments

- On May 16, 2019, ISDA launched a **supplemental market consultation (of ISDA members and non-members)** to inform final decisions regarding the approaches to **term and spread adjustments** for fallbacks in derivatives contracts linked to **USD LIBOR, CDOR** and **HIBOR** (and certain aspects of fallbacks for derivatives referencing **SOR**)
 - USD LIBOR is used as an input for SOR and, therefore, a cessation of USD LIBOR would result consequently in a cessation of SOR.
- The supplemental consultation is available at <https://www.isda.org/a/n6tME/Supplemental-Consultation-on-USD-LIBOR-CDOR-HIBOR-and-SOR.pdf>
- A set of graphs provided by Bloomberg to illustrate certain of the options for adjustments under consideration in the consultation is available at <https://www.isda.org/a/06tME/Fallback-Consultation-Bloomberg-Graphs-May-2019-Supplemental-Consultation.pdf>
- Responses are due by **July 12, 2019**

Supplemental Consultation on Approaches to Term & Spread Adjustments (cont)

- Based on the responses to this consultation, ISDA will determine the style of approach to implement and whether this should be the same approach that is being implemented for GBP LIBOR, CHF LIBOR, JPY LIBOR, TIBOR, Euroyen TIBOR and BBSW (i.e., the compounded in arrears rate and the historical mean/median approach to the spread adjustment)
- The supplemental consultation also asks questions about the data sources for the historical mean/median approach to the spread adjustment for USD LIBOR because the fallback rate for USD LIBOR, SOFR, was not published until April 2018
- **All market participants are encouraged to respond, even if they responded to the 2018 consultation.** The supplemental consultation contains a link to a template that market participants could use if they want to simply affirm their responses to the 2018 consultation.
- Before implementing any changes to its standard documentation, ISDA will obtain additional input from market participants on open issues associated with the final parameters of the term and spread adjustments
 - ISDA expects that this will occur sometime in **August 2019**
 - The approach published for review and comment will incorporate feedback from the vendor selected to publish the compounded setting in arrears rate and the spread adjustment based on the historical mean/median approach
 - Will cover IBORs from the 2018 consultation and the 2019 supplemental consultation (pending final results of the supplemental consultation)

Term and Spread Adjustments: 2018 Consultation Results

- The **Compounded Setting in Arrears Rate** is the relevant RFR observed over the relevant IBOR tenor and compounded daily during that period
 - Need to calculate and publish for each relevant IBOR tenor
 - Need to analyze and address technical adjustments necessary to fallback from a forward-looking term rate that is available at the beginning of the period to a compounded rate that is not available until the end of the period (including, e.g., adjustments to payment dates, lock-out periods)
- The **Historical Mean/Median Approach** to the spread adjustment is based on the mean or median spot spread between the IBOR and the adjusted RFR calculated over a significant, static lookback period prior to the relevant announcement or publication triggering the fallback provisions
 - Need to calculate and publish for each relevant IBOR tenor based on historical differences between the IBOR for that tenor and the relevant RFR compounded over the relevant tenor (so, the spread will differ across different tenors for the same IBOR)
 - Need to determine final parameters, including whether to use the mean or the median, the length of the relevant lookback period, whether to use a transitional period (as described in the recent consultation) and whether to apply any other variations (some of which are described in the summary of consultation results)

Other Approaches to Term and Spread Adjustments

- **Four possible approaches to term adjustments:**
 - **Spot Overnight Rate:** the RFR that sets on the date that is one or two business days prior to the beginning of the relevant IBOR tenor
 - **Convexity-adjusted Overnight Rate:** similar to the spot overnight rate, but attempts to account for the difference between flat overnight interest at the spot overnight rate versus the realized rate of interest that would be delivered by daily compounding of the RFR over the relevant IBOR tenor
 - **Compounded Setting in Arrears Rate:** the RFR observed over the relevant IBOR tenor and compounded daily during that period
 - **Compounded Setting in Advance Rate:** similar to compounded in arrears rate but with an observation period ending prior to the start of the relevant IBOR tenor
- **Three possible approaches to spread adjustments:**
 - **Forward Approach:** calculated based on observed market prices for the forward spread between the relevant IBOR and RFR in the relevant tenor at the time of trigger
 - **Historical Mean/ Median Approach:** based on the mean or median spot spread between the relevant IBOR and RFR calculated over a significant, static lookback period (*e.g.*, 5 or 10 years)
 - **Spot-Spread Approach:** based on the spot spread between the relevant IBOR and RFR on the day preceding (or a short number of days preceding, *e.g.*, 5 trading days, 10 trading days, 1 month) the relevant announcement or publication of the event triggering the fallback

Consultation on Pre-Cessation Issues

Consultation on Pre-Cessation Issues

- Seeks further input on the preferred approach for addressing pre-cessation issues in derivatives that reference LIBOR and certain other IBORs that are critical benchmarks within the meaning of the EU Benchmarks Regulation, including in the context of a regulator's statement that the relevant IBOR is no longer representative
- The consultation is available at <https://www.isda.org/a/t6tME/Pre-cessation-issues-Consultation.pdf>
- Responses are due by **July 12, 2019**
- ISDA will use the responses to this consultation to determine what protocols or other documentation solutions would be most useful and appropriate for derivatives market participants to use in addressing pre-cessation issues

Consultation on Pre-Cessation Issues (continued)

- Consultation explains background for pre-cessation issues:
 - The Financial Stability Board (FSB) Official Sector Steering Group (OSSG) co-chairs wrote to ISDA encouraging ISDA to seek market opinion on the events that should trigger a move to a spread-adjusted fallback rate for LIBOR
 - Certain public-private sector RFR working groups, such as the Alternative Reference Rates Committee (ARRC) in the US have consulted on and published template fallback language for new cash products which include non-representative “pre-cessation” triggers
 - Recent statements by the UK FCA suggest that market participants may wish to consider including in their LIBOR contracts “pre-cessation” fallback triggers based on an announcement by the FCA that LIBOR is no longer representative, in addition to fallback triggers based on permanent cessation
- Questions relate to:
 - Actions derivative market participants would expect to take if LIBOR or another relevant IBOR is determined to be “non-representative” and reasons for such actions
 - Implications for hedges
 - Implications for moving to an adjusted RFR if LIBOR or another relevant IBOR continues to be published
 - Most appropriate documentation solutions (e.g., protocols) for addressing pre-cessation issues
- **All market participants are encouraged to respond. Respondents do not have to answer all questions if they only have views on certain issues.**

Implementation and Timing

Timeline Going Forward

- Selection of vendor to publish term and spread adjustments: *Expected in Q2 2019 (RFP in process)*
- Supplemental consultation on the term and spread adjustments for USD LIBOR, CDOR and HIBOR: *Responses due by **July 12, 2019***
- Supplemental consultation on the term and spread adjustments for EUR LIBOR and EURIBOR: *TBD, but cannot be until after trading in €STR (likely Q4 2019 or Q1 2020)*
- Market outreach and feedback on open issues associated with the final parameters of the term and spread adjustments: *Expected in **August 2019** (internal work underway to analyze feedback received on these points and perform sensitivity analysis that we will publish along with questions about open issues)*
- Consultation on pre-cessation events: *Responses due by **July 12, 2019***
- Publication of amended definitions and protocol for all benchmarks except EUR LIBOR and EURIBOR: ***December 2019** (with expected effective date in **March 2020**)*

During the consultation periods, please submit questions to fallbackconsult@isda.org

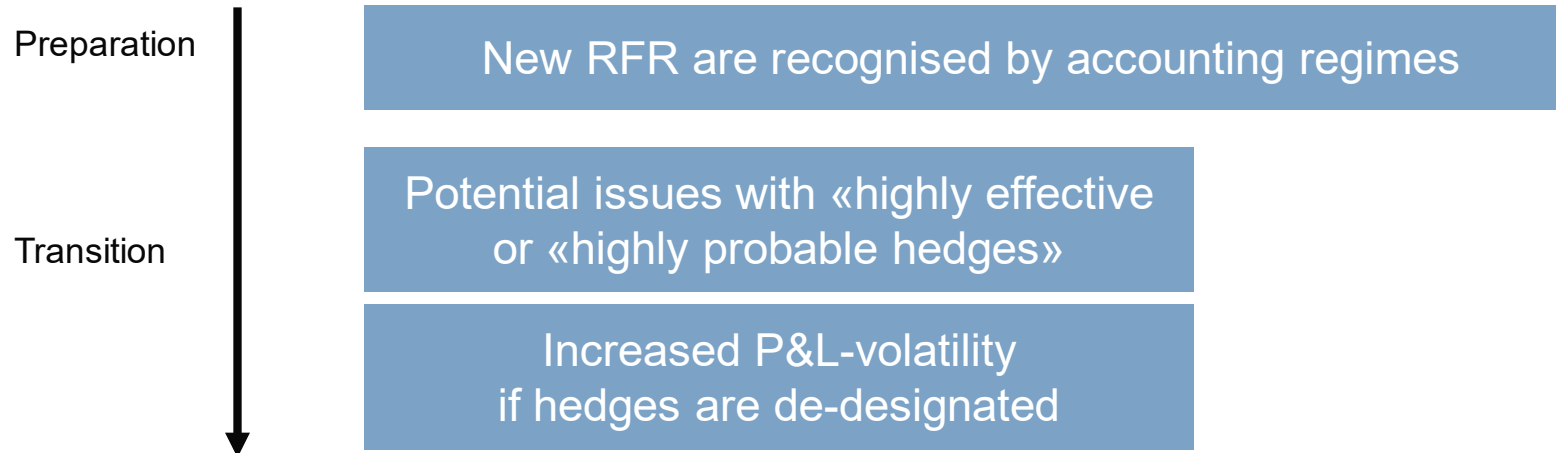
4. Effects on financial reporting and regulation

4.1. Hedge accounting

Overview

- A transition from IBOR to RFR *without* an amendment to existing accounting rules might lead to an increase in earnings volatility due to de-designation of hedge accounting relations (see Appendix).

US GAAP: ASC 815 [FASB] **IFRS:** IAS 39 & IFRS 9 [IASB] **Swiss GAAP:** FER 27



- Swiss GAAP: no issues identified with the IBOR reforms
- IFRS: In May 2019, the IASB issued an exposure draft that reliefs these earnings volatility concerns. Entities can assume existing IBOR-based contractual terms for assessing the hedge accounting requirements.
- US GAAP: Concrete guidance on potential relief from the FASB is expected in due course.

Paper: IBOR to RFR transition: effects on financial reporting

What?

- 9-page overview of the current financial reporting environment (IFRS, US GAAP, SWISS GAAP FER) under the IBOR to RFR transition focusing on hedge accounting including business insights for banks, insurances, and corporates

Why?

- Accounting is affected by the IBOR to RFR transition and the paper portrays where financial reporting is affected most and where standard setter bodies provide relief

So what?

- Broad target audience: paper can be understood with and without accounting background and offers broad but also more in-depth sections
- To be shared on the NWG homepage for interested stakeholders
- To be shared with the OSSG Subgroup on “Tax, Accounting, and Regulatory Issues”

How?

- Institutional analysis without and with relief of the exposure draft
- Business insights (based on interviews with auditors) into current financial reporting issues related to this topic

Structure.

Key Facts & Executive summary

1. Introduction
2. Institutional Background: Three Accounting Regimes
 - a. IFRS
 - b. US GAAP
 - c. SWISS GAAP FER
3. Impact assessment
 - a. Impact for the existing set of rules (without relief)
 - b. Relief from standard setter bodies
 - c. Business insights

Standard Setter Update: IASB

Exposure draft published 3 May 19

- Reliefs to hedge accounting in the period before the reforms are enacted (phase 1 out of 2 phases)
- **Mandatory (retrospective) application** to both existing and new hedges
- Enable hedge accounting to continue for certain hedges that might otherwise need to be discontinued due to uncertainties arising from IBOR reform. The Exposure Draft proposes that:
 - **The 'highly probable' requirement** should be amended such that, when assessing the likelihood that a forecast transaction will occur, an entity would assume that IBOR-based contractual terms are not altered as a result of IBOR reform;
 - **The prospective hedge effectiveness assessment** should be amended such that an entity would assume that the IBOR-based contractual cash flows from the hedging instrument and the hedged item are not altered as a result of IBOR reform; and
 - An entity would continue hedge accounting where a non-contractually specified IBOR risk component met the separately identifiable requirement at the inception of the hedging relationship, although **identification** may be affected by IBOR reform in the future.
- No relief when the uncertainty regarding the timing and amount of cash flows is no longer present/discontinuation of the hedge relationship
- Effective date: **1 January 2020**, early application permitted

May 2019

IFRS® Standards
Exposure Draft ED/2019/1

NEW

Interest Rate Benchmark Reform
Proposed amendments to IFRS 9 and IAS 39

Comments to be received by 17 June 2019

Standard Setter Update: FASB

- Contact with project management:

“We’re still in the research phase because of uncertainty around when and how LIBOR will be replaced. We plan to have a public Board meeting later this year to communicate our findings and proposals.”

- Status Quo:

- Amendment to ASC 815 (No. 2018-16 October 2018): **SOFR OIS is a recognized interest rate for US GAAP**
- **IBOR project is added** to the FASB agenda (as mentioned in ASC 815.BC20): “Facilitation of the Effects of the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR) Transition on Financial Reporting”

4.2. Fundamental review of the trading book

Effects on regulation – fundamental review of the trading book (FRTB)

- The FRTB framework stems from the Basel Committee on Banking Supervision (BCBS) overhaul of trading book capital requirements.
 - It is expected to kick-in at the start of 2022 and aims to align risk modelling and P&L attribution front-to-back, as well as streamline capital modelling among the market participants.
 - FRTB lets banks choose between a Standard Approach (SA) or an Internal Model (IM).
 - **Under IM**, if IBOR and/or RFR markets are deemed **insufficiently liquid** during the transition period, risk factors may be classified as non-modellable, which might cause **significant increase in capital requirements** for banks which are planning to use Internal Models.
- Banks should hence **raise that potential issue** with their FRTB project management team

5. SARON FRN

Summary on SARON Floating Rate Notes

Derivatives and Capital Markets sub-working group finalized the discussion paper on SARON FRN:

- Alignment of the naming conventions to international standards “reset days prior” → lookback
- Specification of the Lookback approach. The chosen approach differs slightly from SONIA FRN to be better aligned with the derivatives markets (see Appendix).
- Finalization of a proposal for Interest Rate Provisions for SARON FRN
- Finalization of a fallback language (if SARON were to be discontinued)

Proposal:



Publication of the discussion paper on SARON FRN

6. SARON-based derivatives

Developments in the SARON swap market

OPEN INTEREST OF SARON SWAPS (SINGLE COUNTING, ALL TENORS)



Update from the ARRC cross-currency subgroup

- The ARRC in cooperation with other national working groups and associations developed a document describing potential cross-currency swap structures (see meeting documents).
 - ARRC has asked that ISDA and SIFMA (and its global affiliates) to share this document with their members more broadly in order to obtain market feedback. Market participants are asked for **feedback** by **July 2019**. The output of the consultation will be a non-binding recommendation.
 - The document suggests potential **conventions**, both for an RFR-RFR dealer-to-dealer template, and for an IBOR-RFR template in markets where RFR-RFR is not possible.
 - The document addresses **fallback language** for cross-currency swaps currently referencing IBORs
 - If counterparties transition from LIBOR to RFR they will need to decide whether to **transition both benchmarks** (i.e. both legs of the swap) or just the impacted leg.
 - In the event that a given leg of a cross-currency swap referencing two IBORs permanently or indefinitely stopped publication or in other circumstances that the counterparties agree, **ISDA has agreed to consider offering templates** which would allow counterparties to agree that **both legs of the cross-currency swap would trigger and fallback** to the designated RFR.
- Market participants are encouraged to provide feedback to the consultation. Feedback can be given to Ann Battle (abattle@isda.org) or Chris Killian (ckillian@sifma.org).

Adjustments to template for a SARON swap confirmation

- NWG released a draft template for a SARON swap confirmation in January 2017.
- Three minor adjustments to the existing template had to be implemented.
- The amended document can be found on the [webpage](#).

Draft-template for a SARON Swap confirmation		22 February 2017
Fixed Rate Payer Period end Date(s)	[Annually, commencing on <u>Effective Date</u> {DDMMYY}, and ending on the Termination Date, inclusive, subject to adjustment in accordance with the Modified Following Business Day Convention.]	
Delayed Payment	[Two (2) Local Business Days following each <u>Floating-Fixed Rate Payer Period End Date</u>]	
Fixed Rate	[x]%	
Fixed Rate Day Count Fraction	[Actual/360]	
Floating Amounts		
Floating Rate Payer	[Party B]	
Floating Rate Payer Period end Date(s)	[Annually, commencing on <u>Effective Date</u> {DDMMYY}, and ending on the Termination Date, inclusive, subject to adjustment in accordance with the Modified Following Business Day Convention.]	
Delayed Payment	[Two (2) Business Days following each Floating Rate Payer Period End Date]	
Floating Rate Option	[CHF-SARON-COMPOUND, (Reuters ticker: "SARON.S, Bloomberg ticker: "SSARON") fixing at 6pm ZH time]	
Spread	+/- [y]%	
Floating Rate Day Count Fraction	[Actual/360]	
Reset Dates	[The last day of each Calculation Period]	
Compounding	[Applicable]	
Compounding Dates	[Daily]	
Business Days	[Zurich]	
Calculation Agent	[Party A]	
Account Details		
Payments to Party A	[]	
Account for payments in CHF	[As advised separately in writing]	
Payments to Party B	[]	
Account for payments in CHF	[As advised separately in writing]	
Offices		
(a)	The office of Party A for the Swap Transaction is: [address]; and	
(b)	The office of Party B for the Swap Transaction is: [address].	

7. Governance

Potential adjustments to the NWG governance

NWG objective:

1. Status quo: *“...is the key forum for considering proposals to reform reference interest rates in Switzerland and discussing the latest international developments...”*
→ *“...is the key forum to foster the transition to SARON and to discuss the latest international developments...”*
2. Status quo: No wording
→ *“The NWG ceases to exist once the transition to SARON is materially completed.”*

Process of deriving recommendations:

3. Status quo: *“Recommendations are not legally binding. Decisions on recommendations are passed with a simple majority of the votes cast at the meetings.”*
→ *“The NWG publishes recommendations based on consensus. Recommendations are not legally binding”*

8. Recommendations

Recommendations I

- SIX should further increase the visibility of compounded SARON by providing a pre-calculation (compounded SARON index):
 - Publication of a compounded SARON index for tenors 1, 3, and 6 months and renaming from e.g. SARC3M to SAR3MC. Discontinuation of other tenors
 - Discontinuation of compounded SARON for 30, 60, 90, 180, 270, and 360 days
 - Publication of an explanatory document describing the difference between the compounded SARON index and the money market calendar

Recommendations II

- Market participants should provide feedback to the ISDA consultations on technical issues that will apply if the fallbacks are triggered and on pre-cessation issues
- Market participants should provide feedback on the ARRC document (see meeting documents) on potential conventions in the cross-currency swap market. Feedback can be given to Ann Battle (abattle@isda.org) or Chris Killian (ckillian@sifma.org).
- Moreover, market participants should provide feedback on the ARRC document on potential conventions in the cross-currency swap market
- Effects on financial reporting and regulation
 - Publication of the paper “IBOR to RFR transition: effects on financial reporting” and sharing with the OSSG Subgroup on “Tax, Accounting, and Regulatory Issues”
 - FRTB: banks should raise potential issues with their FRTB project management team
- Publication of the discussion paper on SARON FRN

Next steps

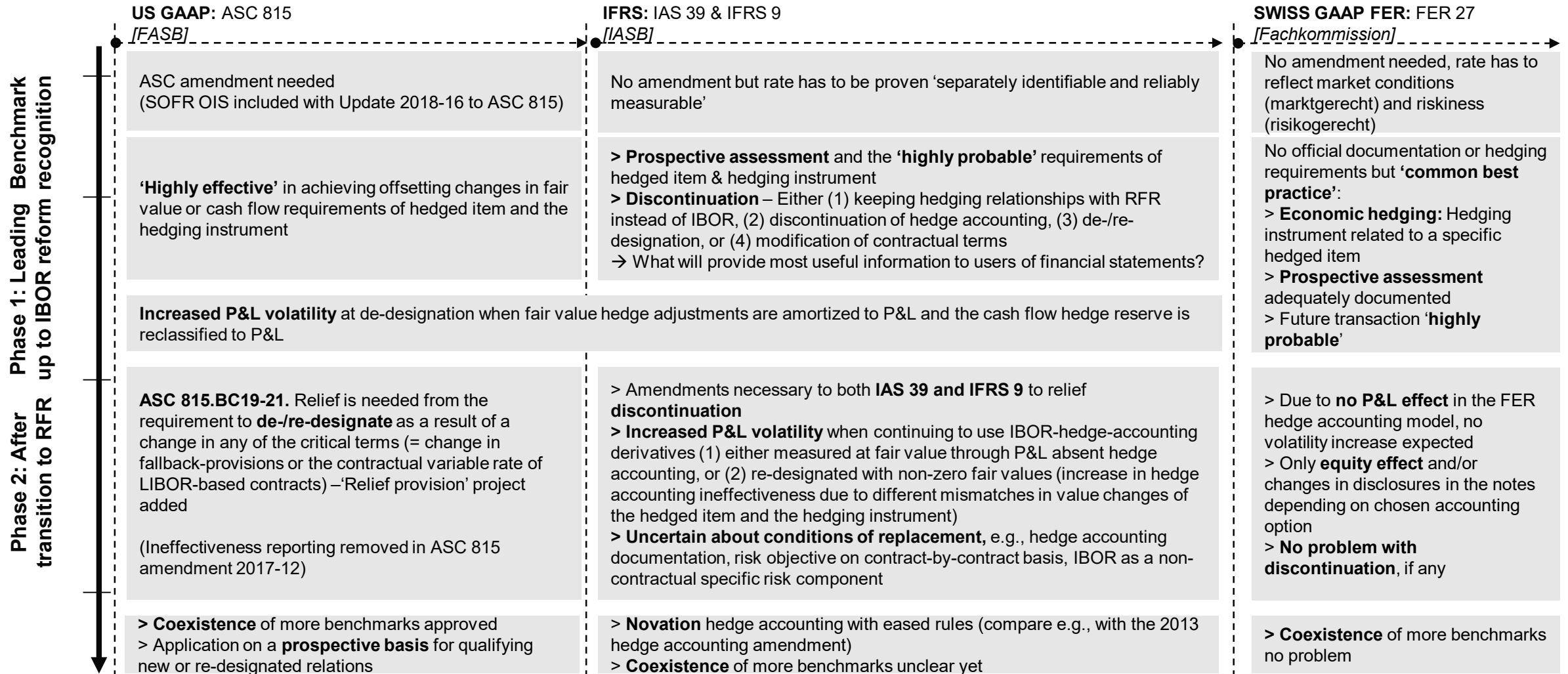
- Communication
 - Engage further in discussions to increase acceptance of compounded SARON (all)
 - Prepare additional explanatory material (e.g. amendment of the starter pack in [German and French](#)) (secretariat)
- Consider feasibility of options for using compounded RFR in syndicated lending and discuss contractual robustness (L&D sub-working group)
- Consider calculation approaches for “floored” compounded SARON
- Monitor and foster national and international developments regarding implementation and / or usage of compounded term rates in cash products and the adoption of SARON in derivatives markets (NWG sub-working groups)
- Continue to work on the design of SARON-based instruments, e.g. publish draft templates (D&C sub-working group)

Next NWG meeting and publication of results

- Next NWG meeting is scheduled for Tuesday, 12 November 2019, 15:00 - 17:00
- Publication of NWG's recommendations
 - Short summary of the meeting by 14 June 2019
 - Meeting minutes will be published within two weeks on NWG website

Appendix

Recap: Impact of the IBOR reform on hedge accounting WITHOUT relief



Two slightly different versions for Lookback

Version 1 (used for GBP FRN so far)

$$\left[\prod_{i=1}^{d_b} \left(1 + \frac{SARON_i \times \mathbf{n}_{i+k}}{360} \right) - 1 \right] \times \frac{360}{d_c}$$

Only the rate itself is shifted but not the number of calendar days the rate applies (\mathbf{n}).

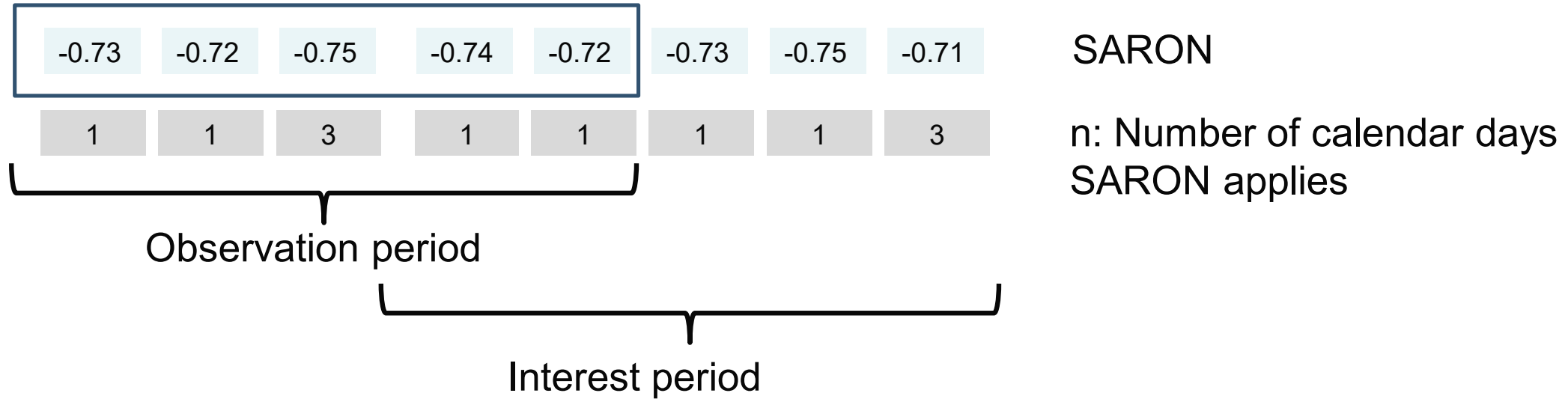
Version 2 (Lookback for all SARON products)

$$\left[\prod_{i=1}^{d_b} \left(1 + \frac{SARON_i \times \mathbf{n}_i}{360} \right) - 1 \right] \times \frac{360}{d_c}$$

For SARON FRN the proposed approach is to shift the rate **and** the number of calendar days.

- Amount of payment close to swap market (also if time lag is less than 5 days)
- Calculation of compounded SARON can easily be centralized

Illustration of the two versions for Lookback



-0.73	-0.72	-0.75	-0.74	-0.72						used values for version 1
			1	1	1	1	3			
-0.73	-0.72	-0.75	-0.74	-0.72						used values for version 2
1	1	3	1	1						