Press release

(For meeting minutes, please see page 4 ff.)

National Working Group on Swiss Franc Reference Rates

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Zurich, 2 February 2021

Executive summary of the 1 February 2021 meeting of the National Working Group on Swiss Franc Reference Rates

The National Working Group on Swiss Franc Reference Rates (NWG) met on 1 February 2021 to discuss the progress of the LIBOR transition in Switzerland and relevant international developments.

The key items and main recommendations of yesterday's meeting were:

(i) NWG members were reminded of two important events regarding the future of LIBOR. First, IBA started at the end of 2020 a consultation on its intention to cease the publication of all settings for GBP, EUR, JPY and CHF LIBOR and for USD 1W and 2M LIBOR at end-2021. All other USD LIBOR settings are intended to continue until end-June 2023 for use in legacy contracts. Second, with the soon expected publication of the final statement by IBA, ISDA adjustment spreads for all LIBOR settings will be fixed. A synthetic rate for CHF LIBOR is not expected.

(ii) FINMA provided an update on their self-assessment survey and mentioned that the frequency has been increased to monthly. Moreover, FINMA showed their LIBOR transition roadmap by which new contracts in general shall be based on risk free rates (RFR) by 30 June 2021 and full operational readiness is required by 31 December 2021.

(iii) The proposed "Rate Switch Amendment Agreement" for syndicated loans, which is based on the recommended standard for the Swiss market (i.e. lookback with observation shift and lag as alternative, compounded SARON, and a floor for compounded SARON, if a floor is included), was presented. Meeting participants agreed to publish the document on the NWG's webpage.

(iv) To further foster the adoption of SARON in the cash market, a representative from SIX reported that SIX intends to provide the formulas for calculating the compounded SARON based on the shift and lag method.

(v) NWG members were briefed about certain financial products, where the rate should be known at the beginning of an interest period (e.g. trade finance). This rate does not necessarily need to be a forward-looking term rate. A potential solution could be a historical rate, a cost-of funds rate or a reference to a composite curve provided by a recognised market data provider. A working group with focus on trade finance will continue to discuss potential solutions. Further work will also be undertaken regarding the use of SARON Compound Rates in intercompany loans.

(vi) CHF hybrid bonds mostly reference the CHF LIBOR swap curve. In order to foster a smooth transition of those CHF hybrid bonds with a reset date beyond 2021, the following *recommendations* were approved:

a. In case of a reference to a swap rate (e.g. 5Y) with CHF LIBOR as a reference rate (typically for repricing at call dates), the SARON swap rate (e.g. 5Y) + (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used.

b. In case of a direct reference to CHF LIBOR, compounded SARON (as for SARON FRN) + (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used.

(vii) A representative from ISDA briefed meeting participants on the broad acceptance and current adherence of the ISDA 2020 IBOR Fallbacks Protocol. Furthermore, NWG members were reminded that a new documentation for the Swiss Master Agreement for OTC Derivatives has been published following the last NWG meeting.

(viii) NWG members discussed the slow development of the SARON swap market and the advantages of a gradual transition to SARON ahead of end-2021. There was a general consensus to work towards a faster transition to SARON-based derivatives. A representative from LCH reported on the latest proposal by LCH to transition cleared CHF LIBOR-based swaps to standard SARON-based swaps ahead of end-2021. Meeting participants in general favored this approach and the following *recommendations* were stated:

a. The transition of bilateral derivatives should occur ahead of end-2021 (i.e. by following the principle "transition now", as ISDA fallbacks are just a "safety belt").

b. *All clearing houses should consider a transition of cleared derivatives ahead of end-2021.*

(ix) Different options for transitioning the remaining cross currency basis swaps (CCBS) based on USD and CHF LIBOR were shown. The conclusion was to *recommend considering a renegotiation of remaining LIBOR based into RFR based USD / CHF CCBS ahead of end-2021.*

(x) The NWG members were briefed about the results of the Webinar "From LIBOR to SARON", which was held for infrastructure providers on 5 January 2021. Overall, the survey results show that most software providers are on track to fulfill the transition requirements to RFRs in a timely manner.

(xi) The last point on the agenda dealt with robust fallback languages for SARON-based products and the NWG expressed a *recommendation that market participants review all SARON-based contracts and ensure that all contracts (e.g. cash products and other derivatives) include a robust fallback language. ISDA's fallback language for SARON is one option.*

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 acts 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 1 February 2021 meeting of the National Working Group on Swiss Franc Reference Rates

1. Opening Remarks

- The two co-chairs of the National Working Group on CHF Reference Rates (NWG) welcomed all attendees to the 26th meeting and reminded them of their responsibilities related to competition law and confidentiality. Due to the ongoing COVID-19 pandemic, the meeting was held virtually for the third time.

2. Future of LIBOR and Roadmap 2021

- NWG members were reminded of two important events regarding the future of LIBOR. First, ICE Benchmark Administration (IBA) started at the end of 2020 a consultation on its intention to cease the publication of all settings for GBP, EUR, JPY and CHF LIBOR and for USD 1W and 2M LIBOR at end-2021. All other USD LIBOR settings are intended to continue until end-June 2023 for use in legacy contracts. Second, if IBA would confirm the cessation of LIBOR settings, the International Swaps and Derivatives Association's (ISDA) adjustment spreads for all LIBOR settings, including USD LIBOR, would then be fixed. A statement from IBA based on the results of the consultation, which closed on 25 January 2021, is expected soon.
- The private sector co-chair of the NWG described the current developments around synthetic LIBOR. New proposed powers would allow the Financial Conduct Authority (FCA) to require IBA to publish a synthetic LIBOR, based on the methodology defined by the FCA. Such a rate will likely be based on a forward-looking term rate plus ISDA's spread and is intended to be available for a maximum of ten years. Whereas a synthetic LIBOR is likely for GBP and JPY LIBOR, it is not expected for CHF LIBOR. On the one hand, a CHF forward-looking term rate is neither recommended nor expected. On the other hand – based on banks' and securities firms' self-assessments during 2020 – the Swiss Financial Market Supervisory Authority (FINMA) –concluded that the CHF LIBOR tough legacy volume is small and not an existential issue. A synthetic USD LIBOR might not be needed, as most USD LIBOR settings continue until end-June 2023.
- The current hypothetical ISDA spreads calculated by Bloomberg were shown. For CHF 3M LIBOR, the spread is currently close to zero and for the 1M and 6M tenors around -6 and +7 basis points respectively. Further, the spreads for CHF LIBOR are much smaller compared to other currencies. Once there is a cessation statement by IBA, those spreads will be fixed. The development of the current spread until the fixing date is expected to be rather stable due to the five-year median calculation.

- In addition, an overview on (forward-looking) term rates (based on RFR-derivatives) was given. A CHF forward-looking term rate is neither expected nor recommended.
- FINMA's LIBOR transition roadmap was presented, by which new contracts for all LIBOR currencies shall be based in general on risk-free rates (RFR) and system and process changes should be implemented by 30 June 2021. In addition, full operational readiness is required by 31 December 2021 with all new contracts based on RFR.

3. Update by FINMA

- A representative of FINMA gave an update on their communication and their roadmap, and presented the results of the Q3 2020 self-assessment which included 26 banks and securities firms:
    - FINMA issued three communications regarding the LIBOR transition in late 2020. The FINMA Guidance 08/2020, published in October, strongly recommends to adhere to the ISDA Fallbacks Protocol and the Benchmark Amendment Agreement by the Swiss Banking Association (SBA). The FINMA Guidance 10/2020, released in December, defines a roadmap for the LIBOR transition until end-2021 based on the roadmap published by the Financial Stability Board. Lastly, the FINMA Risk Monitor 2020 highlights the discontinuation of LIBOR as one of the seven most important risks for the supervised institutions and the Swiss financial center. As a synthetic CHF LIBOR is not expected, FINMA will intensify their monitoring to track adherence to the roadmap. In particular, the frequency of the self-assessment has been adjusted from quarterly to monthly and the top 20 most impacted firms are included. In addition, there will be dedicated audits on tough legacy exposures for heavily impacted banks (with a focus on CHF and EUR LIBOR in 2021), with several audits already started.
    - Regarding FINMA's roadmap, four main themes were highlighted. First, relevant Fallback Protocols such as ISDA's or SBA's Benchmark Amendment Agreement should be signed. Second, new LIBOR contracts, if any at all, shall have robust fallback clauses and there should be a transition toward exclusive use of RFRs during 2021. Third, to wind down legacy contracts and fourth to ensure full operational readiness for the application of fallback rates and RFRs by the end of this year.
    - One key result of the Q3 2020 self-assessment was that the CHF LIBOR tough legacy volume decreased significantly through 2020. This is due to firms having further progressed with their analysis about what they assess to be tough legacy. Further, there was only a 23% decrease of CHF LIBOR volumes without robust fallback clauses since Q1 2020. This is mainly driven by i) ISDA and SBA fallbacks not yet being available by the end of Q3 2020, and ii) most firms stating that they will start their client outreach between Q4 2020 and Q1 2021. Lastly, SARON issuances have increased during the year though volumes remain relatively low.

4. SARON-based cash products

4.1. Market developments

- NWG members were given a summary from the 23rd NWG meeting on the options for using compounded SARON, which centered on the three options Plain, Lookback and Last Reset. Since this meeting, many banks in Switzerland have launched SARON-based cash products and all of them are using one or more of the aforementioned options.
- Furthermore, a list of currently available calculators for compounded RFRs was presented. The one provided by IHS Markit offers additional options such as Lookback with “lag” and “shift” or markups. SIX provides such a calculator for compounded SARON as its administrator, supporting the option plain. These calculators help to increase the acceptance by retail customers.
- A representative from the Loan Market Association (LMA) gave an update on the developments regarding documentation:
  - Publication of RFR Terms in November 2020, which supplements the existing replacement of the screen rate clause. It facilitates an approach between “pre-agreed conversion terms” and an “agreed process for renegotiation” by providing for upfront agreement of key terms.
  - Publication of updated exposure draft rate switch facility agreements and term sheet in November 2020 following market feedback. At the same time, a new exposure draft based on “observation shift” was published. A webinar presented by Clifford Chance outlining the key elements of the exposure drafts has also been released.
  - End of January 2021, two multicurrency RFR facility agreements (one for “observation shift”, one for “without shift”) based on RFRs from the outset alongside EURIBOR were published, along with a term sheet and commentary. These documents contain also a switch mechanism which can be applied to EURIBOR or other IBOR to switch to compounded RFRs.
  - Moreover, LMA is going to update the existing single currency exposure drafts and works on drafting a guide for incorporating rate switch mechanics into non-investment grade facilities.
  - In addition, there are preparations of “consideration points” for using compounded RFRs / rate switch mechanics in sectors other than investment grade lending[1] and considerations for using the SONIA term rates.
  - Lastly, the work on a Sterling RFR Working Group paper on active transition credit adjustment spread methods for loans was mentioned. In the UK market, two key methodologies have emerged.

[1] These documents were published in the meantime.

- Further, the representative of the LMA gave an update on recent loan market activity. A few more switch deals took place, including the first switch deal in the Swiss market. In general, it is positive to see that there are multiple interest rate periods emerging across compounded RFR loans with some periods of up to six months. Additionally, there is no clear market preference in terms of "shift" and "lag". Finally, in terms of previously executed deals, particularly on the bilateral side, it was understood that compounded SONIA deals are being drawn and this demonstrates that borrowers and lenders are practically working through how an interest drawing and payment process works for RFR loans.

4.2. Structured business loans

- The meeting attendees were reminded regarding the three main areas in terms of cash products, where diverging conventions between the international working groups have emerged. As a further step, the working group on euro RFRs has been added, which follows the conventions adopted by the CHF NWG. Further, the first syndicated SARON loan from November 2020 was mentioned, which applies the Lookback option with a "shift".
- The meeting attendees were informed about the rate switch amendment agreement drafted by Baker McKenzie and which is based on the work done by LMA. It is a simplified version with the aim to have a standardized amendment agreement for syndicated CHF single currency credit facility/-ies agreements in English language governed by Swiss law. The agreement is based on the recommended standard for the Swiss market (i.e. lookback with observation "shift" and "lag" as alternative, compounded SARON, and a floor for compounded SARON, if a floor is included). Drafted for syndicated loans, it can, with appropriate adjustments, also be used for bilateral loans. Meeting participants agreed to publish the document on the NWG's webpage.[2]
- A representative from SIX informed the meeting participants that SIX intends to provide formulas for calculating a compounded SARON based on the "shift" and "lag" method until the end of Q2 2021. Such an official source can facilitate the adoption of compounded SARON for structured business loans. Further, SIX will review the request by some market participants to provide indices for compounded SARON using the "shift" and "lag" methodology. SIX will work closely with the NWG in order to implement these requests.

4.3. Other products

- Meeting attendees were informed about the current discussion on products such as trade finance, where there is a need of a rate fixed at the beginning of an interest period ("discount products"). Even as these products require such a rate, the rate does not necessarily need to be forward-looking. Although trade finance is mostly denominated in USD, CHF is used as well especially in industrial trade finance. A potential solution could be a historical rate, a cost-of funds rate or a reference to a composite curve provided by a recognized market data

[2] The Rate Switch Amendment Agreement has been published in the meantime.

provider. An expert group is currently discussing several alternatives and an update will be given at the next NWG meeting.

- A further challenge is how to use RFRs as LIBOR alternatives in intercompany loans. So far, two relevant requirements for RFRs in intercompany loans were identified. First, the rate needs to be accepted by tax authorities and second the accounting software needs to be able to handle the rate. Regarding the acceptance by tax authorities, a rate provided by an administrator (i.e. benchmark) is clearly beneficial in contrast to e.g. a reference to a composite curve. The second requirement, compatibility with accounting software, is relevant for intercompany loans used by globally active companies. In some currency areas, a transition from IBORs to in-arrears rates is not intended and therefore the local accounting software might not be able to handle in-arrears rates in the near future. A representative from the Alternative Reference Rates Committee (ARRC) informed the NWG members about the ARRC's recently published recommendations on intercompany loans. The ARRC recommends the use of 30 or 90-day SOFR Averages as published by the Federal Reserve Bank of New York. Following this recommendation, the current proposal by the NWG is to use the SARON 1M Compound Rate for intercompany loans in CHF. However, this proposal will be discussed in more detail with Swiss corporates and an update will be given at the next NWG meeting.

4.4. CHF hybrid bonds

- The meeting participants were informed on the current evaluation of CHF hybrid bonds with a maturity beyond 2021. The fallback language of these CHF hybrid bonds is currently not robust. CHF hybrid bonds issued from H2/2017 onwards typically have a fallback language, where an expert determines an adjustment spread such that the transition is neutral in terms of present value. For other CHF hybrid bonds without any fallback language, a consent solicitation can be done to include a robust fallback language. In order to provide guidance for a robust fallback language and to foster a homogenous approach, the NWG approved the following *recommendations*:
    - *In case of a reference to a swap rate (e.g. 5Y) with CHF LIBOR as a reference rate (typically for repricing at call dates), the SARON swap rate (e.g. 5Y) plus (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used.*
    - *In case of a direct reference to CHF LIBOR, compounded SARON (as for SARON FRN) plus (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used.*

5. SARON-based derivatives

5.1. Market developments

- A representative from ISDA gave an update on the adherence to the ISDA 2020 IBOR Fallbacks Protocol, which came into effect on 25 January 2021. As of this moment, all new derivatives contracts that reference ISDA's standard interest rate derivatives definitions will incorporate the ISDA fallbacks. 13'092 institutions from over 80 jurisdictions have so far adhered to the protocol and signing-up to the protocol is still possible.

- NWG members were reminded that a new documentation for the Swiss Master Agreement for OTC Derivatives has been published by the Swiss Banking Association (SBA) shortly after the last NWG meeting. Counterparties that enter into the Benchmark Amendment Agreement ensure that their existing LIBOR transactions will be transitioned to RFRs in accordance with the ISDA standards. The same is ensured for new transactions by referencing the Supplemental Definitions in the respective transaction documentation. However, market participants should consider to renegotiate legacy LIBOR-based into SARON-based contracts ahead of end-2021. Fallbacks are just a "safety belt".
- NWG members took note of the slow development of the SARON-based swap market and the advantages of a gradual transition ahead of end-2021. In particular, the CHF LIBOR-based swap market is still more liquid, especially for longer tenors and the turnover for SARON-based swaps is so far not increasing. Therefore, there is a risk of a big bang transition instead of a gradual transition. An early transition would allow to reduce remaining risks (ISDA fallbacks are more complex and not perfectly aligned with standard RFR swaps) and is in line with the guidance by FINMA to use RFR-based derivatives after June 2021. *The NWG repeats its recommendation to transition ahead of end-2021.*
- ICE informed about their planned changes to the three-month SARON Index Futures. These changes, done for harmonization purposes, include a reduction of the "Unit of Trading" from CHF 10'000 to CHF 2'500 and a change in the "Minimum Price Movement" from 0.001 to 0.0025 for the front contract and 0.0050 for all other contracts. Furthermore, the exchange will open the Central Limit Order Book and introduce Inter-Contract Spreads with Three Month Euroswiss Futures Contract. The Go Live, subject to regulatory approval, is planned for 1 March 2021.

5.2. Transition of CHF LIBOR-based swaps to SARON-based swaps

- A representative from LCH reported on their latest proposal of how to transition cleared CHF LIBOR-based swaps to SARON-based swaps ahead of end-2021. Under LCH's proposed approach, LIBOR swap contracts would be converted to standard OIS along with cash compensation on a date at or immediately prior to a cessation effective date. Currently, LCH is processing the feedback received on their consultation and a statement should be issued by mid-February. A representative from Eurex Clearing explained that they welcome the current discussion on this matter and would be supportive of a converged approach across the cleared market segment. Meeting participants in general favored the approach and the following *recommendations* were stated:
    - *All clearing houses should consider a transition of cleared derivatives ahead of end-2021.*
    - *The transition of bilateral derivatives should occur ahead of end-2021 (i.e. by following the principle "transition now", as ISDA fallbacks are just a "safety belt").*

5.3. IBOR Transition and implications for cross currency swap markets

- Two options for transitioning the remaining cross currency basis swaps (CCBS) based on USD and CHF LIBOR were shown. Without any action by market participants, ISDA's fallback language will apply. However, in case of USD / CHF CCBS, the two legs will not transition simultaneously. The CHF leg will most likely switch at the end of 2021 and the USD leg most likely at end-June 2023. This lagged transition of the USD leg compared to the CHF leg will result in slight economic mismatches and increased technical and operational challenges. The second option presented was to restructure legacy LIBOR-based CCBS into RFR-based USD / CHF CCBS ahead of end-2021 by using the term sheet published in May 2020. This option has the advantage that trades can easily be amended after end-2021. The conclusion was to *recommend considering a renegotiation of remaining LIBOR based into RFR based USD / CHF CCBS ahead of end-2021.*

6. Webinar for software providers

- The NWG members were briefed about the results of the webinar "From LIBOR to SARON", which was held for a broad range of software providers on 5 January 2021. This was the third webinar with software providers and all webinars had the same two main purposes. First, to inform software providers on the main calculation functionality that needs to be implemented and second to review the current status of operational readiness of software providers. Overall, the results indicate that all main solutions are either already implemented or will be implemented until end-June 2021, which would be in line with the guidance given by FINMA. However, these results are based on the answers given during the webinar and all market participants are advised to review the operational readiness of their software solutions individually and contact their provider in case of any issues.
- The individual results indicate that most software providers are able to offer the options on compounded SARON and the simple calculation method for the respective currency. Further, most software providers have the Lookback option "shift" already implemented. The "lag" option is intended to be implemented until end-June 2021. Regarding flooring conventions, the majority is ready to floor the compounded RFR, while flooring individual RFRs will be implemented until end-June 2021. Lastly, software providers are able to handle the "standard" RFR OIS, while "fallen back" LIBOR swaps are expected to be operationally ready until end-June 2021.

7. Robust fallback language

- The last point on the agenda was on robust fallback languages for all kind of SARON-based products. Based on the experience with the current LIBOR transition, robust fallback languages are crucial. The NWG expressed a *recommendation that all market participants review all SARON-based contracts and ensure that all contracts (e.g. cash products and other derivatives) include a robust fallback language. ISDA's fallback language for SARON* *is one option.* In that regard, ISDA's fallback language for SARON was briefly shown, which is based on the SARON FRN paper published in July 2019.

8. Recommendations

- The NWG recommends that for CHF hybrid bonds in case of a reference to a swap rate (e.g. 5Y) with CHF LIBOR as a reference rate (typically for repricings at call dates), SARON swap rate (e.g. 5Y) plus (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used. In case of a direct reference to CHF LIBOR, compounded SARON (as for SARON FRN) plus (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used.
- In addition, the working group recommends a transition of bilateral derivatives ahead of end-2021 (i.e. "transition now", as ISDA fallbacks are just a "safety belt") and all clearing houses to consider a transition of cleared derivatives ahead of end-2021.
- Further, the NWG recommends to consider to renegotiate legacy LIBOR-based to RFR-based USD / CHF CCBS ahead of end-2021.
- Finally, it recommends to review all SARON-based contracts and to ensure that all contracts (e.g. cash products and other derivatives) include a robust fallback language. ISDA's fallback language for SARON is one option.

9. Next steps

- NWG sub-working groups will support SIX in relation with the documentation on "lag" and "shift" formulas.
- NWG sub-working groups will continue to discuss (with feedback from other experts and stakeholders) potential solutions for a "discount rate" (e.g. for trade finance), and intercompany loans.
- 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 liaise with other international working groups to align and coordinate efforts, in particular in areas where alignment is beneficial.
- The next NWG meeting is scheduled for 1 July 2021, 15:00 – 17:00 (CEST)

Attendance at the 1 February 2021 meeting

Martin Bardenhewer	–	Zürcher Kantonalbank, co-chair
Marcel Zimmermann	–	Swiss National Bank, official sector representative, co-chair
Uriel Amitai	–	ICE
Pascal Anderegg	–	ZKB
Christian Bahr	–	SIX
Roger Baumeler	–	LUKB
Markus Bieri	–	SwissACT / LafargeHolcim
Marie-Anne Bourgoz Gorgé	–	BCGE
David Bowman	–	Federal Reserve Board (ARRC representative)
Christoph Börlin	–	Baloise
Marco Brück	–	Valiant
Zoran Celeketic	–	UniCredit Bank Austria
Christophe Cherdel	–	BCV
Thomas Damagnez	–	CA Indosuez
Guillermo De La Fuente	–	ACTSR / SITA
Michel Erni	–	BKB
Dominik Fehr	–	UBS
Kevin Ferrier	–	CA Indosuez
Andreas Franke	–	Eurex
Hans-Ulrich Furger	–	AXA
Fernando Gardoni	–	SGKB
Raffael Goldenberger	–	Entris
Steven Hamilton	–	ICE
Stéphane Hegi	–	BCV
Stefan Hoeferlin	–	Eurofima
Jenny Ivleva	–	Eurex
Rolf Konrad	–	BKB
Soeren Kretschmar	–	Deutsche Bank
Sebastiaan Michel Krist	–	Raiffeisen
Colt-Spenser Lake	–	UBS
Alfred Ledermann	–	UBS (Chair L&D sub-working group)
Nicolas Lergier	–	GKB
Ernst Lienhard	–	SwissRe
Kam Mahil	–	LMA
Samuel Marbacher	–	Baker McKenzie
Bruno Marin	–	BNP
Cédric Martin	–	Leonteq
Jonathan Martin	–	ISDA
Elizabeth McGowan	–	Wells Fargo
Neil McLeod	–	Erste Group Bank AG
Christopher Meadowcroft	–	Credit Suisse
Franklin Meimoun	–	Union Bancaire Privée
Rolf Meyer	–	Bank CIC (Schweiz) AG
Yusuf Mohammad	–	JP Morgan
Paolo Monticolo	–	Zurich Insurance
Claus Neumeier	–	SwissLife

Franck Paniandy	–	ACTSR / Maus Frères S.A.
Etienne Perret	–	UBS
Salvatore Poidomani	–	Intesa Sanpaolo
Stefan M. Pomberger	–	Vontobel
Thomas Miguel Reeg	–	J. Safra Sarasin
Félix Roudier	–	Credit Suisse (Chair D&C sub-working group)
Attila Santa	–	Erste Group Bank AG
Martin Scheck	–	ICMA
Daniel Schenker	–	ZKB
Beat Schlegel	–	Clientis
Christof Schlenk	–	BKB
Philipp Schmid	–	SIX
Sandro Schmid	–	Swiss Risk Association / AAAccell
Henrique Schneider	–	Schweizerischer Gewerbeverband
Marco Schneider	–	SBB
Roland Schwab	–	Postfinance
René Schwyzer	–	LGT
Marco Steiner	–	Pictet
Roland Studer	–	Credit Suisse
Andrea Surro	–	EFG Bank
Isabelle Sutter	–	Bank CIC (Schweiz) AG
Fabrizio Tallei	–	Intesa Sanpaolo
Pierre-Henri Turc	–	BCGE
Hugues Weil	–	Credit Suisse
Philip Whitehurst	–	LCH
Markus Wolf	–	Baker McKenzie
Anne Feidt	–	Swiss Financial Market Supervisory Authority (FINMA)
Roman Baumann	–	Swiss National Bank, official sector representative
Luca Freiermuth	–	Swiss National Bank, official sector representative
Lucas Fuhrer	–	Swiss National Bank, official sector representative
Basil Guggenheim	–	Swiss National Bank, official sector representative

National Working Group on CHF Reference Rates

26th Meeting, 1 February 2021

Agenda

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2. Future of LIBOR and Roadmap 2021
3. Update by FINMA
4. SARON-based cash products
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   b) Structured business loans
   c) Discount rate, e.g. for trade finance
   d) CHF hybrid bonds
5. SARON-based derivatives
   a) Market developments (ISDA, SMA, development of derivative markets)
   b) Transition of CHF LIBOR-based swaps to SARON-based swaps
   c) IBOR Transition and implications for cross currency swap markets
6. Results from the webinar with software providers
7. Robust fallback language for SARON-based products
8. Recommendations and next steps

1. Opening remarks

2. Future of LIBOR and Roadmap 2021

Future of LIBOR

Nov. / Dec. 2020

Consultation by IBA:

Possible cessation of all settings for GBP, EUR, JPY and CHF LIBOR and for USD 1W and 2M LIBOR at end-2021. Other USD LIBOR settings at end-June 2023.

Statement by FCA: See next slide (synthetic LIBOR).

Jan. 25, 2021 (…)

Consultation period ends: IBA intends to publish the results *shortly thereafter*.

ISDA spreads are fixed as soon as the final statements are published. It will cover all LIBOR settings (including USD LIBOR).

End-2021

Discontinuation of GBP, EUR, JPY and CHF LIBOR → Fallbacks apply (ISDA spreads)

USD 1W and 2M LIBOR → linear interpolation

GBP & JPY LIBOR → synthetic LIBOR is likely

Discontinuation of all USD LIBOR settings at end-June 2023 → Fallbacks apply

Further usage of USD LIBOR only recommended for legacy contracts (see supervisory guidance by US authorities).

FCA expects with confidence that USD LIBOR will be published on a representative basis till its discontinuation.

Synthetic LIBOR

Tough legacies are tough because these contracts cannot be renegotiated or amended before end-2021. CHF LIBOR tough legacy volume appears to be small and not an existential issue.

New proposed powers for the FCA

- The FCA could use its power to require modification of the methodology (i.e. no longer panel-based).
- The FCA can require IBA to publish the synthetic LIBOR, based on the methodology as defined by FCA.
- A synthetic LIBOR will only be allowed to be used in tough legacy contracts (in the UK).
- Synthetic LIBOR will likely be based on a forward-looking term rate + ISDA's spread.
- Intended to be available for a maximum of 10 years (with a yearly review).

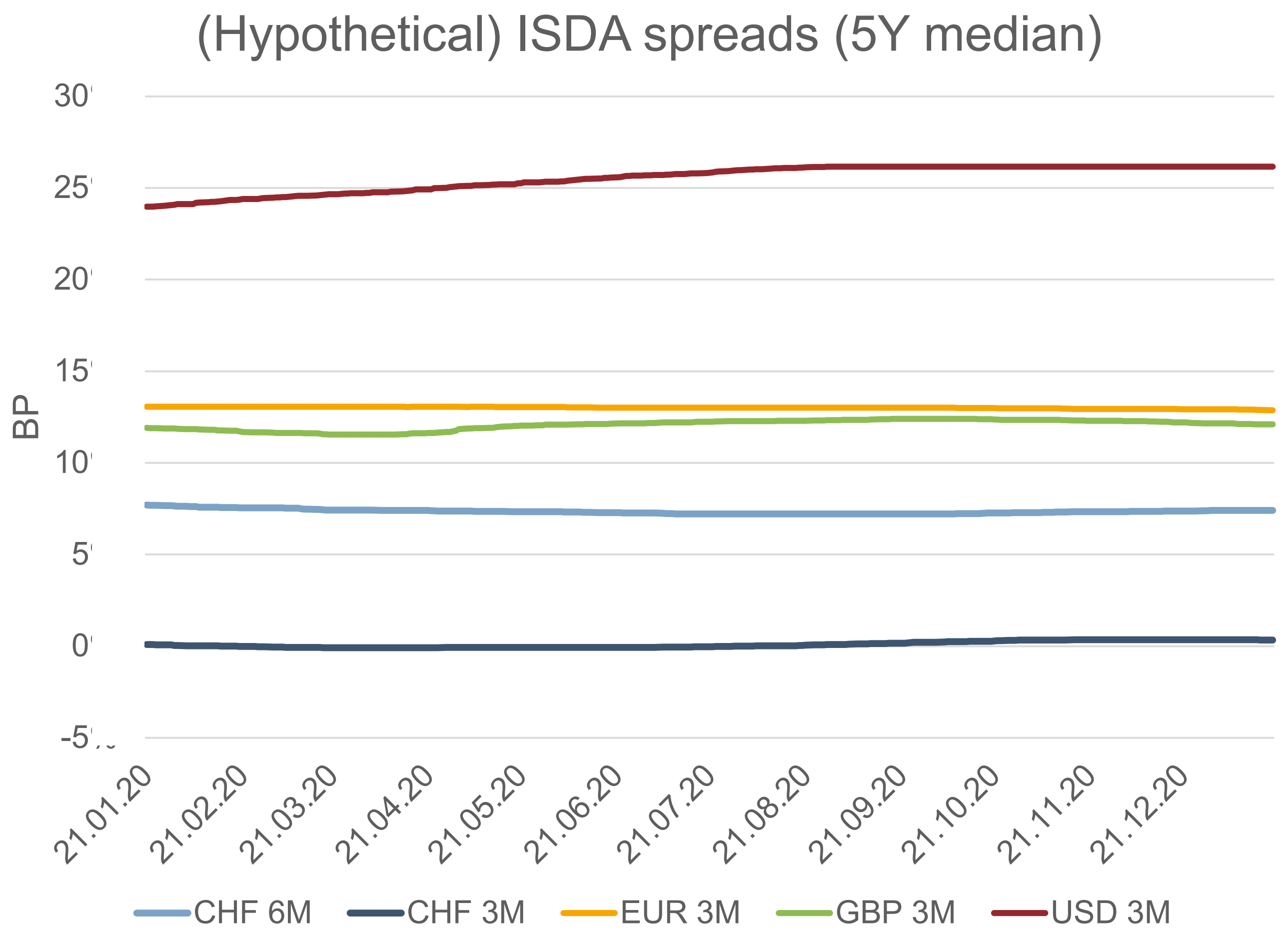
According to FCA

- Synthetic GBP and JPY LIBOR for some tenors is likely.
- ***Synthetic CHF*** and EUR ***LIBOR is not expected.***
- Synthetic USD LIBOR might not be needed, as most USD LIBOR settings continue until end-June 2023.

Current ISDA spreads (by Bloomberg) Stable development due to 5Y median

ISDA spreads (as of 19.01.2021, in BP)

	1M	3M	6M
CHF	-5,67	0,34	7,41
EUR	7,60	12,88	20,48
GBP	3,47	12,10	28,08
USD	11,46	26,17	42,85



Source: Bloomberg LP, Ticker FBAK

Overview on (forward-looking) term rates (based on RFR-derivatives)

GBP: SONIA term rate

- Official SONIA term rates: Refinitiv and IBA launched on 11 January 2021 their Term SONIA Reference Rates (both for 1M, 3M, 6M and 12M).
- Administered by Refinitiv Benchmark Services Limited (RBSL) and ICE Benchmark Administration in compliance with UK Benchmarks Regulation
- FTSE Russell produces indicative term rates (i.e. test rates)
- Ideally, term rates are only used for certain cases (usage of the term rate cannot be restricted under UK BMR; the usage of the synthetic rate is restricted to tough legacies)

USD: SOFR term rate

- Goal for completion: in 2021 H1
- Still unclear if it will be available (depends on liquidity of SOFR derivatives)
- Currently the ARRC is seeking an administrator
- CME currently publishes test rates for a SOFR term rate

EUR: €STR term rate

- Not yet available, although potential administrators are working on term rates
- Currently being consulted on whether €STR term rate should be used for EURIBOR fallbacks

JPY: Tokyo Term Risk Free Rate (TORF)

- Test rate for 1M, 3M and 6M are available

CHF: SARON term rate: Not recommended and not expected

FINMA Guidance 10/2020 – LIBOR transition roadmap

By 25 January 2021

- Signing of ISDA 2020 IBOR Fallbacks Protocol*

By 31 January 2021

- No new “tough legacy”
- Readiness to grant loans based on risk free rates (RFR)

By 31 March 2021

- Plans for the reduction of “tough legacy”

By 30 June 2021

- System and process changes implemented
- Mitigation of risks for remaining “tough legacy”
- New contracts in general based on RFR

By 31 December 2021

- Full operational readiness
- All new contracts based on RFR

31 December 2021: intended discontinuation of LIBOR**

* According to Guidance 08/2020: LIBOR replacement for derivatives

** Except for individual tenors of USD LIBOR that may continue to be available until the end of June 2023

3. Update by FINMA

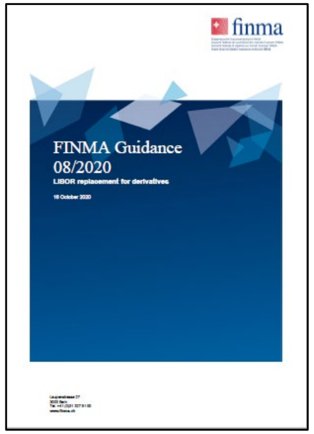
LIBOR replacement
- Update by FINMA

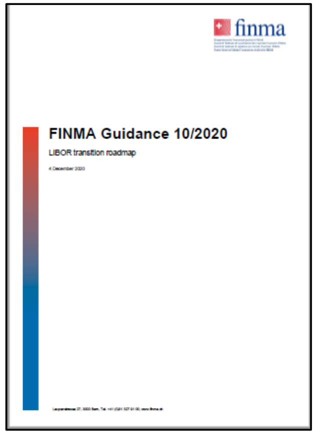
Incl. Q3 2020 self-assessment results

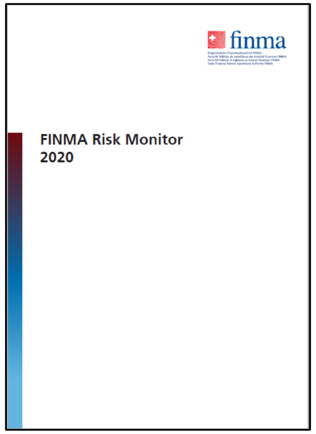
1.2.2021

Update on FINMA activities

Two **FINMA Guidance** documents (08/2020 and 10/2020) published in October and December 2020. LIBOR replacement remains one of the key risks for the Swiss financial center, as communicated in the **FINMA Risk Monitor 2020**.







2021: Countdown to the end of LIBOR for most currencies and tenors, in particular for new business, with possible "safety nets" for "tough legacy" in some currencies and tenors. **No safety nets for CHF LIBOR (i.e. no synthetic LIBOR).**

- **Intensification of LIBOR exposure monitoring** for most heavily impacted banks and securities firms:
  - **Monthly** self-assessment of top 20 most impacted firms (prior-year: quarterly self-assessment by the top 26).
  - The monthly self-assessment tracks **adherence to the roadmap** communicated in the FINMA Guidance 10/2020.
- Dedicated audits on tough legacy exposures for heavily impacted banks (focus in 2021: CHF and EUR LIBOR)

Countdown to the end of LIBOR – FINMA recommendations for 2021

Roadmap (Supervisory Guidance 10/2020):

By 25 January 2021:
- Signing of *IDSA 2020 IBOR Fallbacks Protocol**

By 31 January 2021:
- No new "tough legacy"
- Readiness to grant loans based on ARR

By 31 March 2021:
- Plans for the reduction of "tough legacy"

By 30 June 2021:
- System and process changes implemented
- Mitigation of risks for remaining "tough legacy"
- New contracts in general based on ARR

By 31 December 2021:
- Full operational readiness
- All new contracts based on ARR

31 December 2021: intended discontinuation of LIBOR**

* According to Guidance 08/2020: *LIBOR replacement for derivatives*

** Except for individual tenors of USD LIBOR that may continue to be available until the end of June 2023

LIBOR replacement and **"mass" risk mitigation for OTC derivatives** through ISDA protocol and/or SBA Benchmark Amendment Agreement.

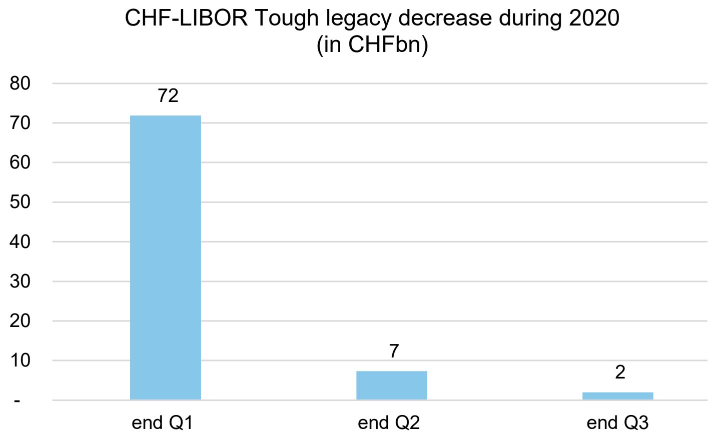
New business: new LIBOR contracts, if any at all, only with robust fallback clauses. Transition during 2021 to <u>exclusive</u> use of risk-free rates.

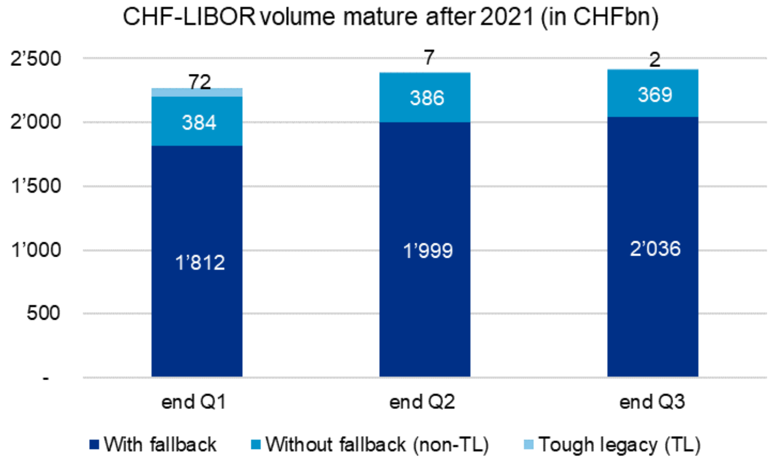
Get rid of "legacy" (LIBOR contracts without fallback clauses):
Negotiations with counterparties, inclusion of fallback clauses, termination of contracts, termination by variation of contract, migrate to a different contracts (based on fixed interest or risk-free rates).
Where this is not feasible (**worst case - actual "tough legacy"**): risk assessment and definition of mitigating measures.

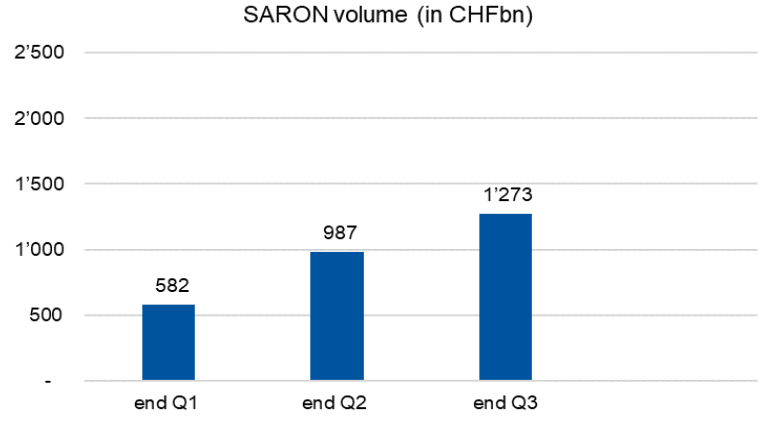
Operational readiness for the application of fallback rates and risk-free rates.

Q3 2020 self-assessment by 26 banks and securities firms: CHF-LIBOR and SARON

Aggregated view of all product types:







- Only approx. 23% decrease of CHF-LIBOR volumes **without robust fallback** clauses since Q1 2020, driven by:
  - ISDA and SBA fallbacks not yet available by end of Q3 2020 (available since October 2020).
  - For cash products, individual firms are progressing with client outreach, but most banks start client outreach in Q4 2020 or Q1 2021.
- Firms further progressed their analysis of what will be potential "**tough legacy**". As a result, the "tough legacy" volume in CHF-LIBOR **decreased by 97%** since Q1 2020 and makes up only 0.08% of the CHF-LIBOR volume mature after 2021.
- Key drivers for assessing contracts as potential "tough legacy" are: multi-party counterparties, complexity of OTC derivatives, counterparties not responsive due to wind-down or incapacity/death.
- **SARON issuances** have increased during the year though volumes remain relatively low. This is the case in particular for corporate loans and syndicated loans. Readiness for SARON retail loan issuance has been prioritized.
- Please refer to the appendix for further details.

4. SARON-based cash products

Topics

a) **Market developments**
   - SARON cash market
   - Update by LMA

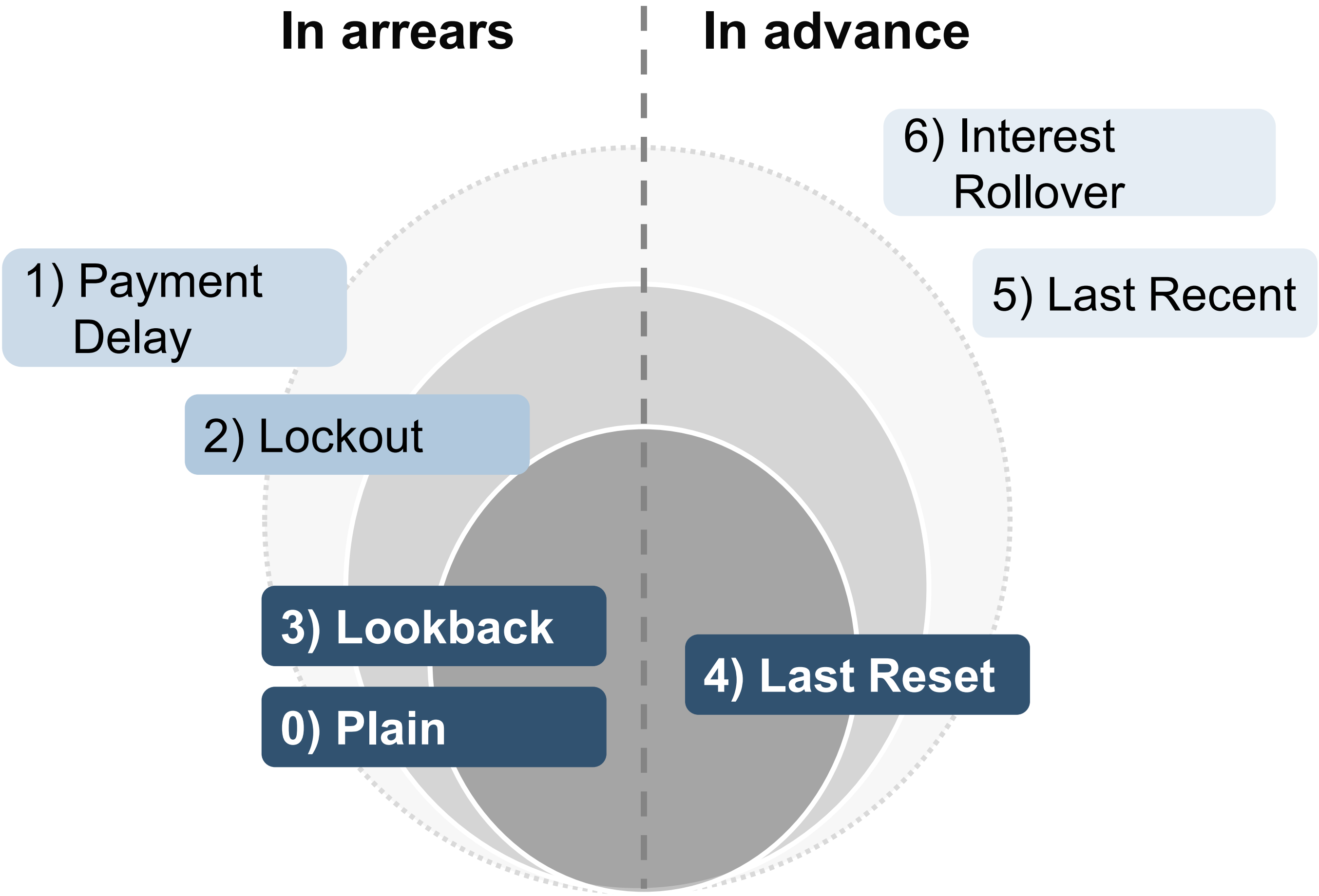
b) Structured business loans

c) Other products (trade finance, intercompany loans)

d) CHF hybrid bonds

Recap NWG 23

Further guidance regarding options using compounded SARON



- Discussions on national and international level on loan options is currently centered around options 0), 3) and 4)
- Preference varies according to client segments and currencies
- For a detailed assessment please also see the NWG Slides from February 2019

Institutions should individually define their product strategy given the guidance on options using compounded SARON

SARON-based cash products: Client feedback so far very positive

This list was created based on available information. The list is not necessarily complete.

0) Plain

- Banca dello Stato del Cantone Ticino
- Bank Cler
- Basler KB
- CS
- Hypothekarbank Lenzburg
- Raiffeisen
- Thurgauer KB
- UBS
- Urner KB

3) Lookback, with an observation shift of 2 – 7 days

- Aargauische KB
- Acrevis Bank*
- Baloise Bank
- Bank Avera
- Bank CIC
- Bank Gantrisch
- Bank Linth
- Basellandschaftliche Kantonalbank
- Clientis
- Crédit Agricole next bank*
- Glarner KB
- Graubündner KB
- Liechtensteinische LB
- Luzerner KB
- Migros Bank
- Nidwaldner KB
- Obwaldner KB
- Postfinance
- Schaffhauser KB
- Schwyzer KB
- Spar und Leihkasse Gürbetal
- St. Galler KB
- Valiant
- Vontobel
- Zuger KB*
- Zürcher KB

4) Last Reset

- Appenzeller KB
- Bank CIC
- Bank Linth
- Berner KB
- CS
- Liechtensteinische LB
- Nidwaldner KB
- Regiobank Solothurn
- WIR Bank

** announced for 2021*

Overview on risk free rate calculators (cumulative compounded rate)

	SIX	Raiffeisen	IHS Markit	ICE	NatWest
Risk free rate:					
SARON	☑	☑	☑	☐	☐
SOFR, SONIA, €STR, TONA	☐	☐	☑	☑	☑
Calculation options:					
Plain, i.e. base case	☑	☑	☑	☑	☑
Other options, i.e. lookback	☐	☐	☑	☑	☑
By administrator	☑	☐	☐	☐	☐
Further options (e.g. margin)	☐	☐	☑	☑	☑

LMA update – LMA documentation developments

LMA work on RFR documentation suite

Replacement of screen rate clause: publication of RFR Terms in November 2020 (facilitates an approach between “pre-agreed conversion terms” and an “agreed process for renegotiation”).

Updated exposure draft rate switch facility agreements and term sheet published in November 2020 following market feedback. Two versions available: “lag” and “observation shift”. Webinar released.

Work on exposure draft multicurrency RFR facility agreement (based on RFRs from the start and incorporating EURIBOR) along with term sheet.

Updating of existing single currency exposure drafts and work on drafting guide for incorporating rate switch mechanics into non-investment grade facilities.

Preparation of “consideration points” for using compounded RFRs / rate switch mechanics in sectors other than investment grade lending (e.g. real estate, export and leveraged finance); considerations for using the SONIA term rates.

Note: Work on Sterling RFR Working Group paper on active transition credit adjustment spread methods for loans, where we have seen two key methodologies emerging.

LMA update – selection of compounded RFR loans in practice

Date	Borrower	Amount / Tenor	Lender(s)	RFR construction	Observation shift	Interest periods	Other useful information
Dec 2020	TRIG	£500m (3 years)	6 bank club	Compounded in arrears; 5 banking days lookback (using non-cumulative rate)	No		EURIBOR used for euro loans
Dec 2020	Ahold Delhaize	€1bn (3 years)	16 bank syndicate				Rate switch for USD LIBOR
Dec 2020	AstraZeneca	US$3.375bn (3.5 years)	9 bilaterals	Compounded in arrears; 5 banking days lookback (using non-cumulative rate)	No	1 month (or as otherwise agreed)	
Nov 2020	dormakaba Group	CHF525m (5 years)	8 bank syndicate	Compounded in arrears; 5 banking days lookback	Yes	1, 3 and 6 months	First switch deal in the Swiss syndicated loan market
Nov 2020	Seastar	Confidential	Confidential	Compounded in arrears; 5 banking days lookback (using non-cumulative rate)	Yes	3 and 6 months	
Oct 2020	LKT Gas Carriers	US$29m	2 bank club	Compounded in arrears; 5 banking days lookback (using non-cumulative rate)	No	3 and 6 months	
Sep 2020	Tesco	£2.5bn (3+1+1 years) (*Currencies: £, $, €*)	15 bank syndicate	Compounded in arrears; 5 banking days lookback (using non-cumulative rate)	No	1 week, 1, 3 or 6 months	EURIBOR used for euro loans
Aug 2020	GlaxoSmithKline (GSK)	£1.9bn (3 years); US$2.5bn (364 days)	12 bilaterals	Compounded in arrears; 5 banking days lookback	No	1 month only	

See LMA "List of RFR referencing syndicated and bilateral loans" for more deals: https://www.lma.eu.com/libor

Topics

a) Market developments

b) Structured business loans

c) Other products (trade finance, intercompany loans)

d) CHF hybrid bonds

Diverging conventions for cash products

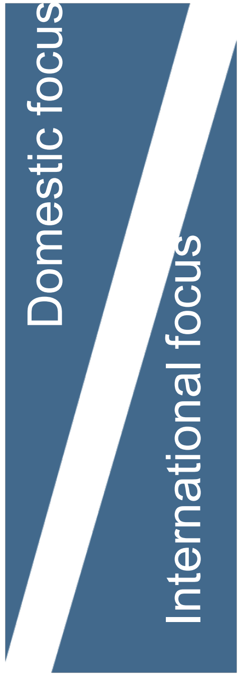
	CHF NWG (Sep 2020)	ARRC (July 2020) *Syndicated loans*	UK RFR WG (September 2020) *Syndicated loans*	EU WG (Nov 2020) *Cash products*
Term rate methodology:				
compounding	☑	☑	☑	☑
simple	☐	☑	☐	☐
Lookback options:	**Focus NWG 25: Same conventions for syndicated loans?**			
lag	☐	☑	☑	*alternative*
shift	☑	☐	*alternative*	☑
Flooring conventions:	**Focus NWG 25: Same conventions for syndicated loans?**			
Floor each RFR …	☐	☑	☑	*alternative*
…compounded RFR	☑	☐	☐	☑

Need for alignment for structured business loans

Situation

- Version «shift» and flooring of the compounded SARON is so far used in the domestic loan market
- Diverging conventions for USD & GBP
- Strong preference for international consistency for syndicated loans
- Strong preference for unchanged recommendations for the domestic market

	Lookback	**Flooring**
Domestic mortgages	Shift so far used; in line with NWG recommendation	Flooring of compounded RFR
Domestic corporate loans	Shift so far used; in line with NWG recommendation	Flooring of compounded RFR
Multi-currency facilities	No transaction yet	
Syndicated loans	**First syndicated SARON loan in November 2020** Dormakaba Group as borrower; 8 banks; ZKB as acting agent and coordinator; Lookback with shift	



Recommendations NWG 25:

- to use the "shift" methodology, as long as the domestic market is in the focus.
  In case international consistency is important, the "lag" methodology is a viable alternative.
- to floor the compounded SARON, as long as the domestic market is in the focus.
  In case international consistency is important, flooring individual SARON values is a viable alternative.

→ For the Swiss cash market, there is a unique set of conventions.

→ Internationally, the standard conventions for structured business loans have not yet materialized.

«Rate Switch Amendment Agreement» for syndicated loans

Challenge

- LMA has drafted agreements which can be used to transition from IBOR- to RFR-based credit agreements.
- Current agreements by LMA are multicurrency and cover the sterling recommendations. This results in complexity for the Swiss market given differences with the NWG recommendations.

Proposal

- Baker McKenzie has drafted a «Rate Switch Amendment Agreement» based on the work done by LMA.
- The «Rate Switch Amendment Agreement» is a simplified version with the aim to have a standardized credit amendment agreement for CHF single currency credit facility/-ies agreement in English language governed by Swiss law.
- The «Rate Switch Amendment Agreement» is based on the recommended standard for the Swiss market (i.e. lookback with observation shift and lag as alternative, compounded SARON, and a floor for compounded SARON, if a floor is included).
- The «Rate Switch Amendmend Agreement» was drafted for syndicated loans. With appropriate adjustments, it can also be used for bilateral loans.

Next step

- The «Rate Switch Amendment Agreement» will be published on the NWG's webpage.

Update by SIX

- SIX intends to provide the formulas for calculating a compounded SARON based on the shift and lag method.
- An official source for these formulas can facilitate the adoption of compounded SARON for structured business loans.
- SIX also supports the initiatives to provide “SARON Compound Rates” using the shift and lag methodology.
- For the shift version, this primarily means an extended description, since in this version the interest rate is calculated analogously to the base case, but the observation period used is slightly different.
- SIX will work closely with the NWG in order to implement these requests.

Topics

a) Market developments

b) Structured business loans

c) Other products

- Trade finance
- Intercompany loans

d) CHF hybrid bonds

Trade Finance: Current discussion on «discount products»

Challenge

- Certain products require a rate, which is known at the beginning, but not necessarily forward-looking (see also a paper by the UK RFR WG on use cases).
- Those products include e.g. discount products in trade finance or factoring.
- For USD and GBP LIBOR, a forward-looking term rate might be established, which might be used in trade finance, for example.
- For CHF, however, such a rate is not expected.

Current work

- A working group with focus on trade finance will discuss potential solutions.
- A potential solution could be a historical rate, a cost-of funds rate or a reference to a composite curve provided by a recognised market data provider.

Intercompany loans (I)

Challenge

- So far, LIBOR and other IBORs are used for intercompany loans. Intercompany loans are used by corporates to finance other group companies, which can be located in different jurisdictions.
- Hence, using a fixed rate, known at the beginning of the interest period, is the standard and a transition to an in-arrears rate might be challenging in this context e.g. with tax requirements and accounting software available in some countries.
- However, a forward-looking term rate is not required. The rate only needs to be known at the beginning of the interest period.

Proposal

- Using the option “last recent” and a benchmark provided by an administrator for intercompany loans has the following advantages:
  - A publicly available benchmark should foster the acceptance of the rate, e.g. for tax authorities.
  - A benchmark determined at the beginning of the interest period simplifies its usage, e.g. for accounting software and for hedging and payment purposes.
  - The option “last recent” performs better than the option “last reset”. The option “last recent” uses a shortened observation period and is therefore more adaptive to interest rate changes than the option “last reset”.

Intercompany loans (II)

International coordination

- As intercompany loans can be used across various jurisdictions, international coordination is beneficial.
- ARRC recommended to use the 30 or 90-day SOFR Averages as published by the Federal Reserve Bank of New York for intercompany loans, e.g. with non-financial corporates. This 30 or 90-day SOFR can be used at the beginning of the interest period for an intercompany loan of any period length (e.g. a one-year intercompany loan).

Possible solution: SARON Compound Rates

- SARON 1M Compound Rate is the Swiss equivalent to the 30-day SOFR Average.
- SARON Compound Rates are provided by SIX on a daily basis.
- Using a single SARON Compound Rate to reduce complexity and uncertainty.

Next steps

- This possible solution will be discussed with corporates.

Topics

a) Market developments

b) Structured business loans

c) Other products (trade finance, intercompany loans)

d) CHF hybrid bonds

CHF hybrid bonds with call dates beyond 2021 (I)

Challenge

- A set of potential CHF LIBOR tough legacies has been identified. According to FINMA, the volume is small and not an existential issue.
- This set consists of CHF hybrid bonds with call dates beyond 2021 (if not called).
- The coupon of these CHF hybrid bonds is usually reset based on the swap rate plus the initial credit spread, with the swap rate referring to the CHF 6M LIBOR as reference rate.
- In some cases, the CHF hybrid bonds reference the CHF LIBOR itself and not the swap curve.
- The CHF hybrid bonds issued from H2/2017 on typically have a fallback language, where an expert determines an adjustment spread such that the transition is neutral in terms of present value. The NWG seeks to provide guidance to these experts.
- For the small number of CHF hybrid bonds without any fallback language, a consent solicitation can be done to include a robust fallback language. However, due to the potential large number of investors (usually denomination of CHF 5’000), this might not always be feasible.

→ An homogenous approach for all remaining CHF hybrid bonds would be beneficial (next slide).

CHF hybrid bonds with call dates beyond 2021 (II)

Proposal

- The NWG has recommended compounded SARON (lookback with shift) for plain vanilla SARON FRNs.
- For contracts under ISDA, the fallback rate for CHF 6M LIBOR is compounded SARON plus ISDA's 6M adjustment spread.
- A fix spread on compounded SARON transfers into an almost equal fix spread on the swap rate (minor differences, much smaller than 1bp possible e.g. through day count conventions, 30/360 for CHF LIBOR swap rate vs. act/360 for CHF SARON swap curve and ISDA's adjustment spread).
- Thus, the ISDA adjustment spread is reasonable for the replacement of the CHF LIBOR swap rate in hybrid bonds as well.

The NWG recommends:

- In case of a reference to a swap rate (e.g. 5Y) with CHF LIBOR as a reference rate (typically for repricings at call dates), SARON swap rate (e.g. 5Y) + corresponding* ISDA's adjustment spread should be used.
- In case of a direct reference to CHF LIBOR, compounded SARON (as for SARON FRN) + corresponding* ISDA's adjustment spread should be used.

* corresponding w.r.t. the tenor

5. SARON-based derivatives

Topics

a) Market developments

- ISDA: Overview on current adherence
- Publication of SMA annex by SBA
- Overview on derivative markets

b) Transition of CHF LIBOR-based swaps to SARON-based swaps

- Potential approach to cleared LIBOR swap contracts
- Guidance for transition of cleared and bilateral CHF LIBOR-based swaps to SARON-based swaps

c) IBOR Transition and implications for cross currency swap markets

ISDA 2020 IBOR Fallbacks Protocol - Overview of adhering parties

As of 26 January 2021

Switzerland*

- Aargauische Kantonalbank
- Adecco Group AG
- Arab Bank (Switzerland) Ltd.
- Bâloise Holding AG
- Banca del Ceresio SA
- Banca dello Stato del Cantone Ticino
- BANCA POPOLARE DI SONDRIO (SUISSE) SA
- Bank CIC (Schweiz) AG
- Bank Julius Baer & Co. Ltd.
- BANK VONTOBEL AG
- BankMed (Suisse) SA
- Banque Audi (Suisse) SA
- Banque Cantonale de Genève
- Banque Cantonale du Jura SA
- Banque Cantonale du Valais
- Banque Cantonale Vaudoise
- Banque Cramer & Cie SA
- Banque de Commerce et de Placements SA
- Banque du Léman SA
- BANQUE HERITAGE SA
- Banque Lombard Odier & Cie SA
- Banque Pictet & Cie SA
- Banque Syz SA
- Banque Thaler SA
- Basler Kantonalbank
- Basler Leben AG
- Basler Versicherung AG
- BBVA SA
- Berner Kantonalbank AG
- Blom Bank (Switzerland) SA
- BNP Paribas (Suisse) SA
- BODYCOTE PLC
- CA Indosuez (Switzerland) SA
- compenswiss (Fonds de compensation AVS/AI/APG)
- Cornèr Banca SA
- Crédit Agricole Financements (Suisse) SA
- Credit Europe Bank (Suisse) SA
- Credit Suisse (Switzerland) Ltd.
- Deutsche Bank (Suisse) SA
- DOW PERSONALVORSORGESTIFTUNG (SCHWEIZ)
- EDL Global Opportunities Master Fund Ltd
- Edmond de Rothschild (Suisse) S.A.
- EFG BANK AG
- Freemont Management SA
- Gazprombank (Schweiz) AG
- GERIFONDS SA
- Givaudan SA
- Glencore AG
- Global Climate Partnership Fund SA SICAV-SIF
- Habib Bank AG Zurich
- HBM Partners AG
- HSBC Private Bank (Suisse) SA
- IBKR Financial Services AG
- JMS Invest AG
- LafargeHolcim Helvetia Finance Ltd
- Leeuwin Holding Co. Ltd.
- Leonteq Securities AG
- Luzerner Kantonalbank AG
- MERCURIA ENERGY TRADING SA
- Migros Bank AG
- MKS (Switzerland) SA
- Mondelez Global LLC
- New Reinsurance Company Ltd.
- Pensionskasse des Bundes PUBLICA
- Philip Morris International Inc.
- PKB PRIVATBANK SA
- PostFinance AG
- Privatbank IHAG Zürich AG
- PSA International SA
- Raiffeisen Schweiz Genossenschaft
- Regional MSME Investment Fund for Sub-Saharan Africa S.A. SICAV-SIF
- Santander Consumer Finance Schweiz AG
- Sberbank (Switzerland) AG
- Schwyzer Kantonalbank
- Stichting Dow Pensioenfonds
- Stiftung für Mitarbeiter-Beteiligung der "Basler"
- Suva
- Swiss Life Holding AG
- Swissquote Bank SA
- SYMBIOTICS SICAV (LUX.) - EMERGING IMPACT BOND FUND
- Syngenta Crop Protection AG
- Taloca GmbH
- Trafigura Pte Ltd
- UBS Switzerland AG
- Unilever Finance International AG
- UNION BANCAIRE PRIVEE UBP SA
- Urion Holdings (Malta) Limited
- Vifor Pharma AG
- Vontobel Fonds Services AG
- VZ Depotbank AG
- Woodman Asset Management AG
- Würth Finance International B.V.
- Zürcher Kantonalbank

By Country

United States:	10215
United Kingdom:	466
Singapore:	235
Japan:	149
Canada:	115
Hong Kong:	115
China:	62
France:	57
Germany:	34
Italy:	22
Spain:	16
Russia:	9

***Total Switzerland**
All entities: 136
Consolidated: 94

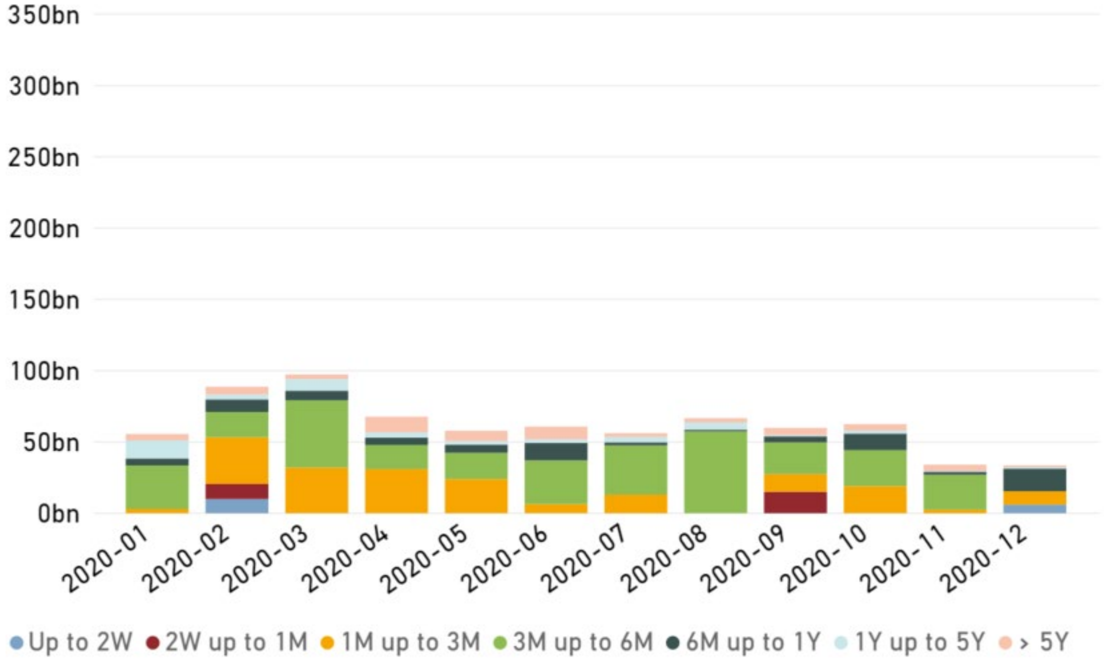
Source: ISDA, https://www.isda.org/protocol/isda-2020-ibor-fallbacks-protocol/adhering-parties/data

SBA published new documentation for the Swiss Master Agreement for OTC Derivatives (SMA)

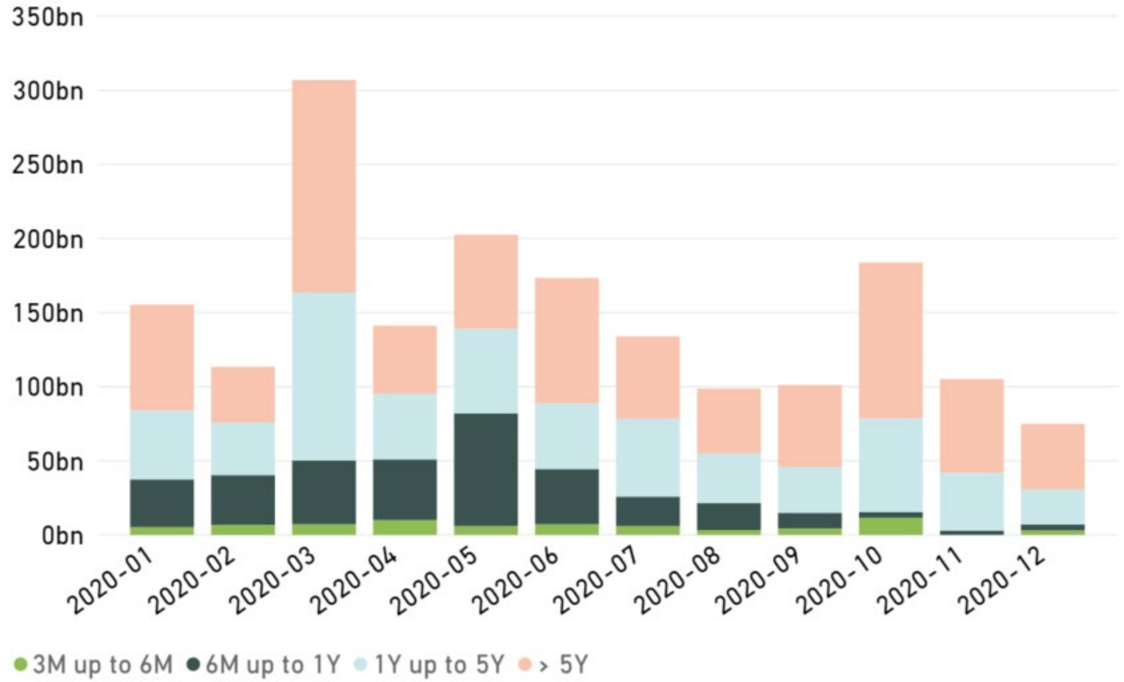
- To support and facilitate the transition from LIBOR to risk free rates, the Swiss Banking Association (SBA) has developed and published two documents, the Benchmark Amendment Agreement and the Supplemental Interest Rates, Risk Free Rates and EONIA Definitions (Supplemental Definitions). By signing the Benchmark Amendment Agreement, counterparties incorporate for their open Legacy Transactions under the SMA the international standard fallback clauses of the IBOR Fallbacks Protocol of the International Swaps and Derivatives Association (ISDA).
- The same fallback clauses will be incorporated into new LIBOR transactions by referencing the Supplemental Definitions in the respective transactional documentation. In addition, the Supplemental Definitions provide the necessary definitions to be able to enter into transactions referencing EONIA and risk free rates.
- Thus, counterparties that enter into the Benchmark Amendment Agreement ensure that their existing LIBOR transactions will be transitioned to risk free rates in accordance with the international standards as well as FINMAs recommendation. The same is ensured for new transactions by referencing the Supplemental Definitions in the respective transaction documentation. The SBA recommends to all market participants to use these new documents going forward. However, market participants should consider to renegotiate legacy LIBOR based into SARON based contracts ahead of end-2021. Fallbacks are just a “safety belt”.
- The Benchmark Amendment Agreement has to be entered into by way of bilateral agreement. There is no protocol approach available similar to the one provided by ISDA. However, by adhering to the ISDA protocol legacy transactions entered into under the Swiss Master Agreement can be remediated.
- The documents are available free of charge following the link below.
  IBOR Transition Documentation for Swiss Master Agreement for Over-the-Counter (OTC-)Derivatives — Swiss Bankers Association (swissbanking.org)

Current development of the SARON-based swap market

SARON-based swaps (estimated monthly turnover)



CHF LIBOR-based swaps (estimated monthly turnover)



- CHF LIBOR derivatives market is still far more liquid for longer tenors.
- Turnover in SARON-based swaps is so far not increasing.

→ There is a risk of a big bang transition instead of the (recommended) gradual transition.

Source: SNB, trade repository data pursuant to Financial Market Infrastructure Act (FinfraG)

Reasons for a slow and for a gradual transition

Reasons for a slow transition (big bang at end-2021)

- Market participants prefer to stick to the market with the current higher liquidity and avoid uncertainty.
- Existing hedging relationships with LIBOR-based products.
- In the end, the customer is responsible to renegotiate existing IBOR to RFR trades.

Reasons for an increased usage of SARON-based swaps ahead of end-2021 (gradual transition)

- With fixed ISDA adjustment spreads, a further shift to SARON should be expected, because SARON swaps will be economically similar to CHF LIBOR swaps.
- Largest market participants of the CHF LIBOR swap market are already active in the SARON swap market.
- The increased usage of SARON in the cash market should also foster the usage in the derivative market.
- Readiness for using SARON swaps should progress.

→ FINMA Guidance 10/2020: By 30 June 2021, new contracts in general based on RFR

Furthermore, there is a risk for a big bang transition

- An early transition reduces remaining risks (ISDA fallbacks are more complex and not perfectly aligned with standard RFR swaps).
- TOIS-transition as a positive example. The transition took place before the actual discontinuation. The discontinuation itself was a non-event.

The NWG recommends an early transition.

Planned Changes to ICE's Three Month SARON® Index Futures

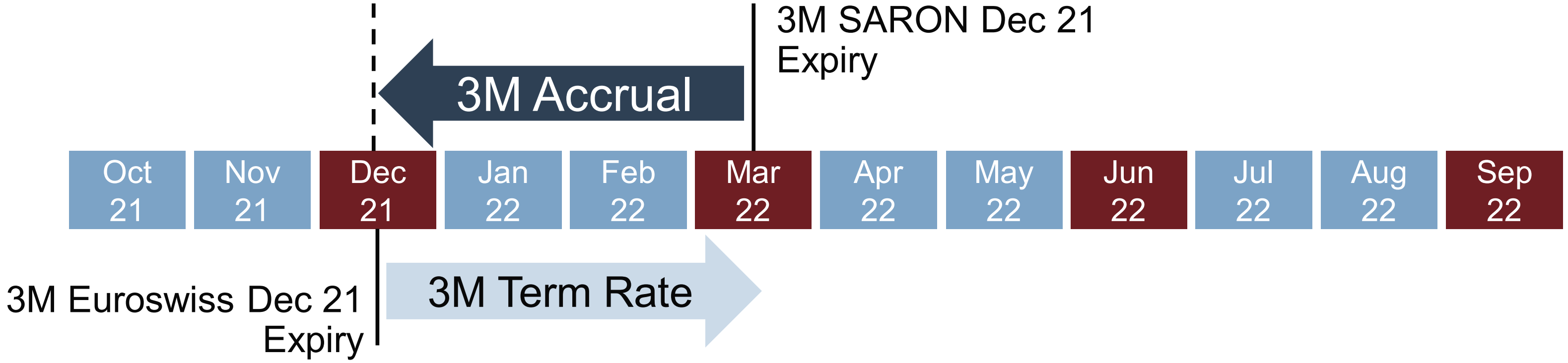
Planned Go Live is 1 March 2021 (subject to Regulatory Approvals)

1. The "Unit of Trading" will be reduced from CHF 10,000 (CHF 4m notional equivalent) to CHF 2,500 (CHF 1m notional equivalent).
2. The 'Minimum Price Movement' will change from 0.001 (CHF 10.00 on a unit of trading size of CHF10,000) to 0.0025 (CHF 6.25 on unit of trading size of CHF 2,500) for the front Contract and for all other Contracts 0.0050 (CHF 12.50 on a unit of trading size of CHF 2,500).
3. The Exchange will open the Central Limit Order Book ('CLOB') and introduce the Inter-Contract Spreads ('ICS') with Three Month Euroswiss Futures Contract.

Contract	Three Month SARON
Unit of trading	CHF ~~10,000~~ 2,500 * Rate Index
Delivery months	Mar, Jun, Sep, Dec
No. of delivery months available for trading	16 Quarterly
Unit of Trading	CHF ~~10,000~~ 2,500
Minimum price movement (Value)	~~All delivery months: 0.001 (CHF 10.00)~~ Front delivery month: 0.0025 (CHF 6.25) All other delivery months: 0.0050 (CHF 12.50)
Minimum EDSP Price Increment	0.00001
Rate Index	100.00 minus the numerical value of the EDSP Rate
First Accrual Day	Third Wednesday of the Delivery Month
Last Accrual Day	The business day prior to the Third Wednesday of the next quarterly Delivery Month
Last Trading Day	The business day prior to the Third Wednesday of the next quarterly Delivery Month
EDSP Rate	Compounded in Arrears - SARON Overnight

Three Month SARON Naming Convention

SARON is an overnight rate quoted on a daily basis and accrued for a three month period. The EDSP of ICE Three Month SARON Index Futures is the daily compounded rate over the accrual period. The month code for ICE SARON Futures corresponds with the initiation of the accrual period.



In the example above, ***both of these futures would have a December month code***

SARON/LIBOR basis trade: 3M SARON Futures/ 3M EUROSWISS Futures

Example:

Three Month SARON Dec21

Last trading day: 15th **March** 2022 at 17:00 (London) – one business day prior to the third Wed of the next quarterly Delivery Month.

Notional amount: CHF 1,000,000

Example:

Three Month Euroswiss Dec 21

Last trading day: 13th **December** 2021 (11:00am two business days prior to the third Wednesday of the delivery month)

Notional amount: CHF1,000,000

Topics

a) Market developments
- ISDA: Overview on current adherence
- Publication of SMA annex by SBA
- Overview on derivative markets

b) Transition of CHF LIBOR-based swaps to SARON-based swaps
- Potential approach to cleared LIBOR swap contracts
- Guidance for transition of cleared and bilateral CHF LIBOR-based swaps to SARON-based swaps

c) IBOR Transition and implications for cross currency swap markets

LCH: Potential approach to cleared LIBOR swap contracts

- LCH's assumption regarding the use of benchmarks in cleared interest rate swap contracts is that, with the possible exception of USD LIBOR, the market cannot rely on LIBOR rates being published after the end of 2021.
- LCH will adopt the fallback provisions in the ISDA IBOR Fallbacks Supplement into the SwapClear trade population as of 25th January 2021. This will cover all new trades registered on or after that date as well as all trades registered before that date.
- The ISDA IBOR Fallbacks are a safety measure, designed to provide contractual certainty and a defined outcome across a broad range of derivatives. However, triggering this fallback may not be the best outcome for all products. In a cleared setting, CCPs have specific risk management responsibilities: LCH must ensure all cleared contracts remain liquid and can be unwound safely in case of a member default. LCH-cleared swaps are governed by its rulebook, rather than bilateral arrangements, allowing contractual amendments to be made more broadly across the cleared portfolio in a uniform and transparent manner. This legal structure can also be utilised for the provision of cash compensation for economic amendments.
- For these reasons, LCH has consulted with its members & clients regarding a proposed conversion process for LIBOR contracts which is tailored towards cleared swaps and aims to provide the best possible outcome for participants in the face of LIBOR cessation.
- The proposed conversion would be similar to that agreed for EONIA contracts, for example involving the use of cash compensation.
- This conversion process would cover all CHF LIBOR trades outstanding at that time. LCH have proposed a date at or immediately prior to a cessation effective date, such that a definitive date can only be provided following announcement of a trigger event.
- The conversion as proposed would convert respective LIBOR swap contracts to standard OIS along with cash compensation. The calculation of the cash compensation will use ISDA's fallbacks as a baseline.
- LCH's consultation ran until 29th January 2021 and the responses are currently being analysed.

Eurex Clearing – IBOR transition

Background

- A potential LIBOR cessation scenario is expected to occur at or around the end of 2021.
- ISDA has developed a fallback framework for benchmarks and concrete fallbacks for certain IBORs („IBOR fallbacks") and is in the process of amending its definitions.
- This is an important input and solid basis for the actual transition efforts of market participants and CCPs

Cleared derivatives routes

Eurex Clearing

- Eurex Clearing's rules include a fallback framework and respective references to ISDA applicable for all trades.
- **"Fallback route"** – use ISDA fallbacks published by Bloomberg (operational transition):
  - Contracts still contain the phrase "Libor" but are (non-standard) RfR swaps from an exposure perspective
  - Operationally comparatively cumbersome and complex
  - <u>Not likely to represent the end of the Libor story</u> - short to mid term fungibility of legacy swaps and split liquidity pools may raise concerns over default management and the overall risk management
- **"1-step conversion"** – cancel and re-book <u>all</u> trades mandatorily (legal transition) on or prior to cessation date(s)
  - Convert all cleared Libor portfolios to vanilla RfR swaps / stop accepting Libor trades
  - Combine equivalent exposures (OIS on RfR + Libor) into a single Legal netting set and liquidity pool
  - Legally more intrusive than fallbacks routes but likely unavoidable at some point in any case
- "**Compression**" – complement efforts with services to reduce Libor exposures

→ **Eurex Clearing welcomes the current discussion on the matter and would be supportive of a conversion solution ideally facilitating a converged approach across the cleared market segment**

Transition of CHF LIBOR derivatives to SARON derivatives

- The current proposal by LCH is to transition all CHF LIBOR swaps to standard SARON swaps ahead of end-2021. The fixed rate would remain unchanged and a single compensation payment would be made.
- This approach is in line with the general recommendation «transition now».
- All market participants should consider to the extent possible to transition remaining CHF LIBOR derivatives to SARON derivatives ahead of end-2021. This includes cleared derivatives and bilateral derivatives.
- In any event, market participants (with outstanding swaps under ISDA) should consider adhering to the ISDA fallback protocol.

> The NWG recommends all clearing houses to consider a transition of cleared derivatives ahead of end-2021.

> A transition of bilateral derivatives ahead of end-2021 is recommended (transition now).
> ISDA fallbacks are just a "safety belt".

Topics

a) Market developments

- ISDA: Overview on current adhearence
- Publication of SMA annex by SBA
- Overview on derivative markets

b) Transition of CHF LIBOR based swaps to SARON based swaps

- Potential approach to cleared LIBOR swap contracts
- Guidance for transition of cleared and bilateral CHF LIBOR based swaps to SARON based swaps

c) IBOR Transition and implications for cross currency swap markets

IBOR transition and implications for cross currency swap markets

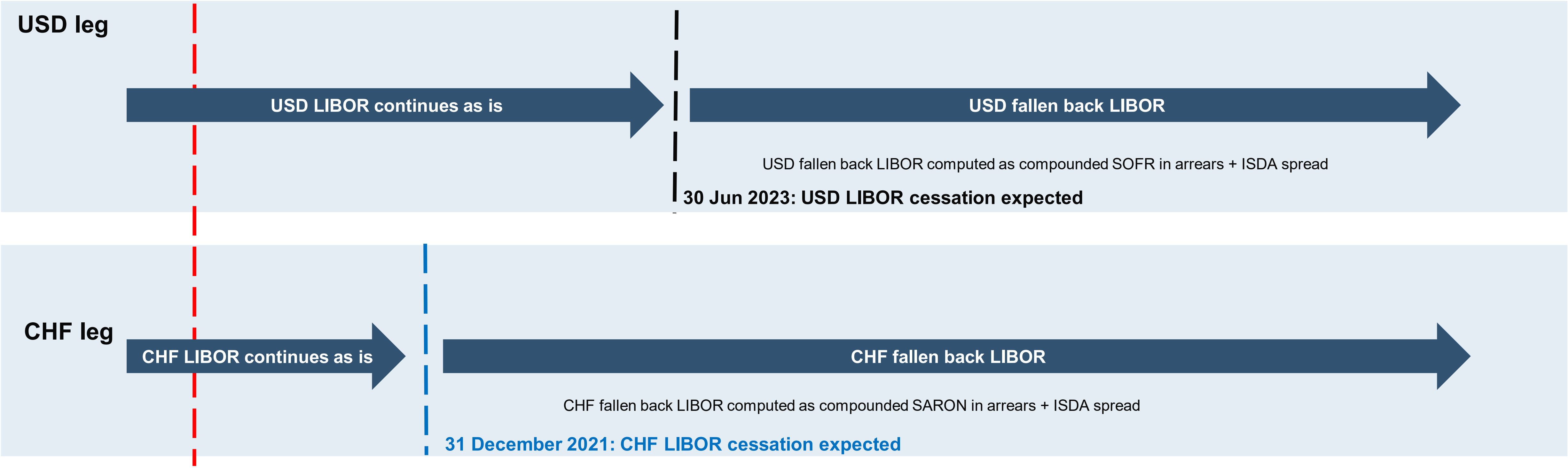
Challenge

- CHF LIBOR will most likely be discontinued at the end of 2021.
- Most USD LIBOR settings will likely continue until the end of June 2023.
- For **new** USD / CHF CCBS, the NWG and ARRC recommended using **RFRs for both legs** and the NWG has published a term sheet.
- For **legacy** USD / CHF CCBS, the **two legs will not transition simultaneously**.

Possible options

- Market participants have to decide between the following options for **legacy** USD / CHF CCBS
  1. **Stick to ISDA fallback language**. Both legs will switch to compounded RFR in arrears + ISDA spread at their given cessation dates.
     - **CHF** will switch after the CHF cessation date, most likely at the **end of 2021**.
     - **USD** will switch after the USD cessation date, most likely at the **end of Q2 2023**.
  2. **Restructure** legacy LIBOR-based CCBS into RFR-based USD / CHF CCBS ahead of end-2021.

CCBS – expected timeline after 2021 for USDCHF CCBS legs



Q1 2021 expected declaration by ICE and/or FCA
→ ISDA spreads are fixed for both currencies at this point

Challenge
– Spreads are fixed at the same time, ***but*** are not used at the same time
– Small basis risk, e.g. observation period of CHF fallen back LIBOR is shifted by 2 days compared to USD LIBOR

CCBS – Discussion on possible solutions

	Pros	Cons
Stick to ISDA Fallback language	– No negotiation required (assuming counterparties have agreed to the ISDA protocol) – Payment dates for both legs remain unchanged	– Slight economic mismatch in fallen back IBOR possible (see last NWG meeting, slide 47 of 88) – Technical and operational challenges
Restructure legacy LIBOR based CCBS to RFR based USD / CHF CCBS ahead of end-2021	– Increases liquidity for RFR derivative markets – Can easily be amended after end-2021	– Interest payment dates change (OIS standards) – Valuation might not match legacy trade – Trades need to be renegotiated

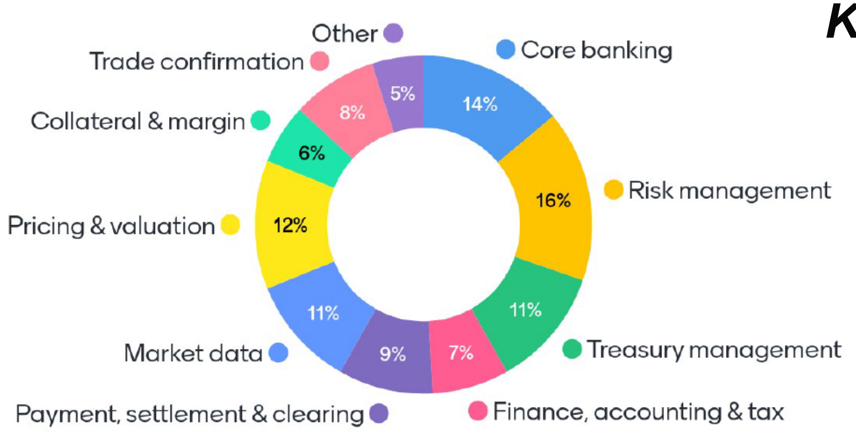
Following the general recommendation “transition now”, market participants should consider to renegotiate legacy LIBOR-based into RFR-based USD / CHF CCBS ahead of end-2021.

6. Results from the webinar with software providers

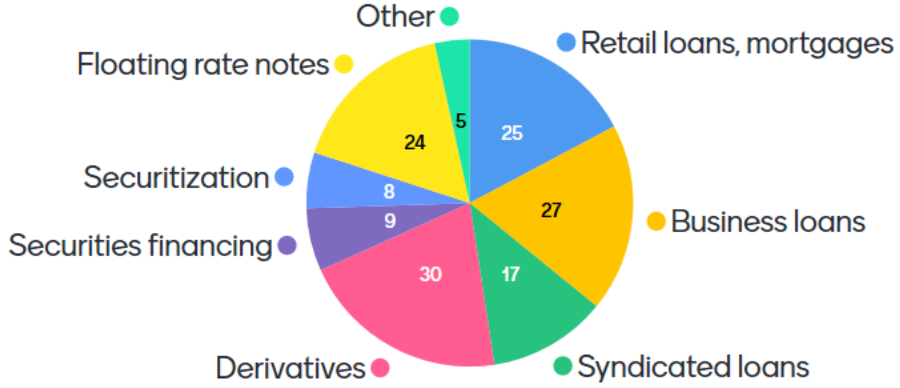
Broad range of software providers participated in the January 2021 webinar

Participants (among others)

Key functions



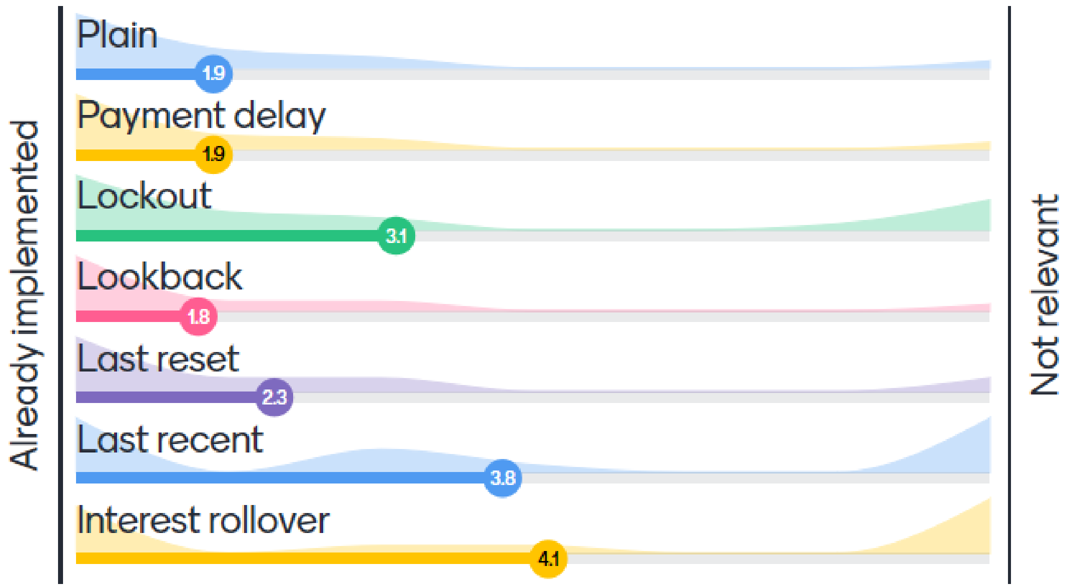
Key products, instruments



Results of selected questions

Options used and "simple" calculation method

Options used and planned implementation



Handling of «simple» calculation regarding term rate methodology

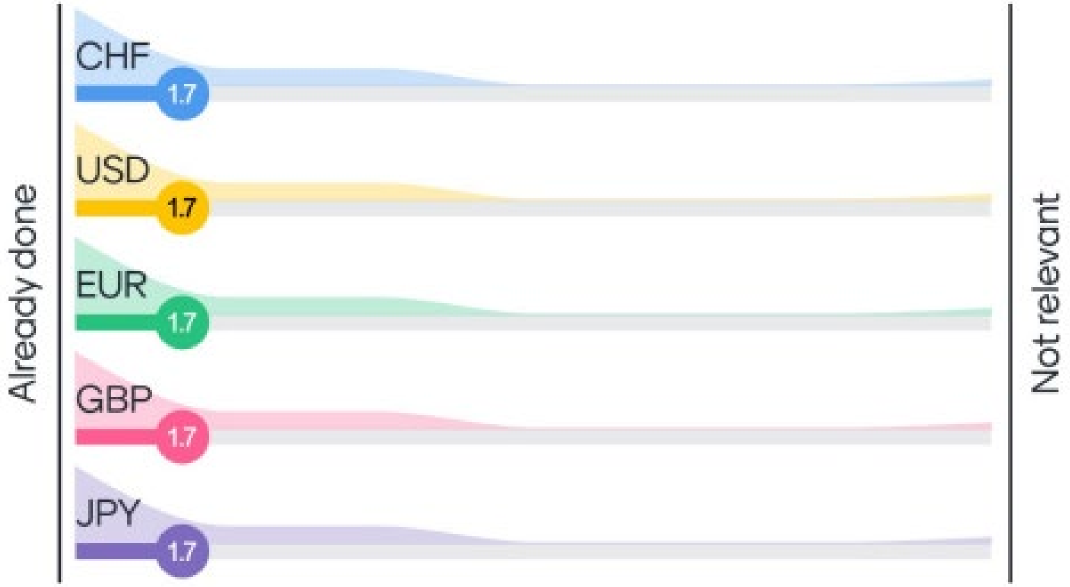
Legend (how to interpret the values in the graphs, e.g. value of 2 indicates that average of software providers intend to implement «simple» for JPY in Q1):

1: already implemented → 2: Q1 → 3: Q2 → 4: Q3 → 5: Q4 → 6: beyond 2021 → 7: not relevant

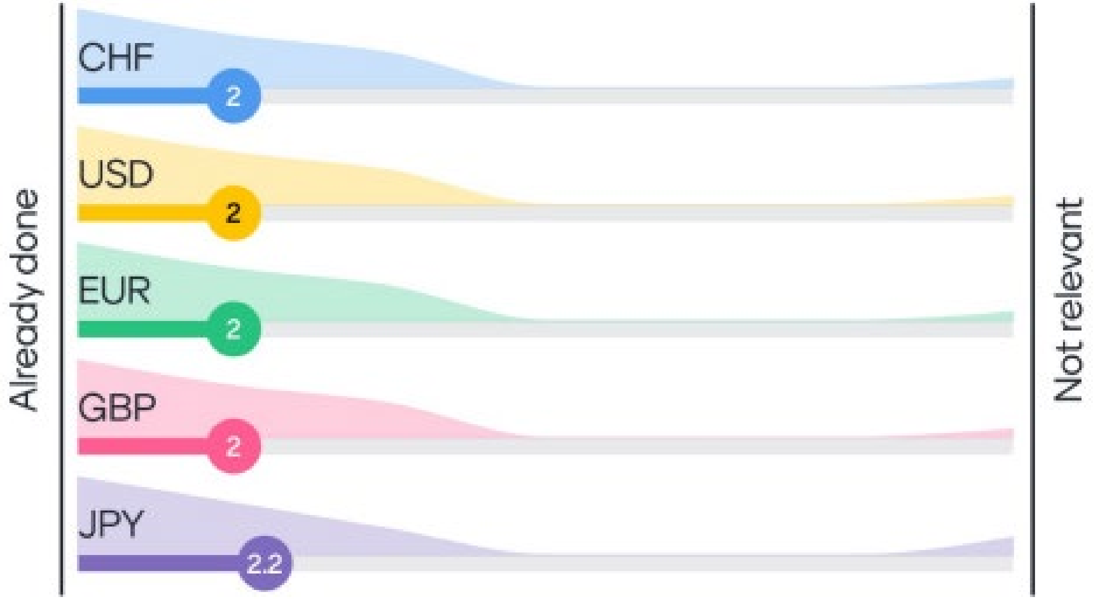
Results of selected questions

Lookback options “shift” and “lag”

Handling of the Lookback option with a «shift»



Handling of the Lookback option with a «lag»



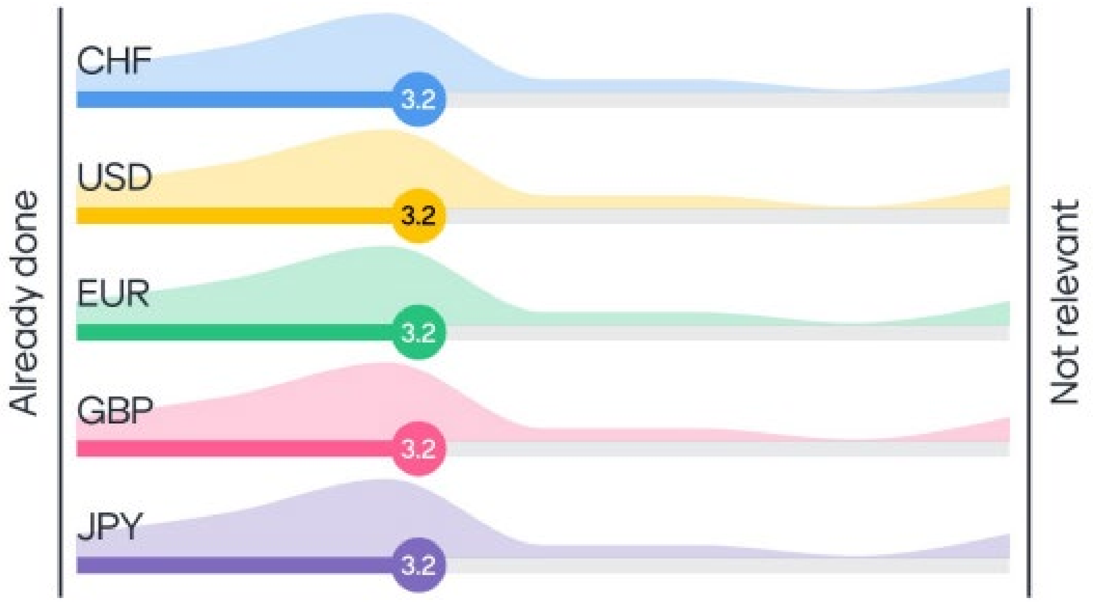
Legend:

1: already implemented → 2: Q1 → 3: Q2 → 4: Q3 → 5: Q4 → 6: beyond 2021 → 7: not relevant

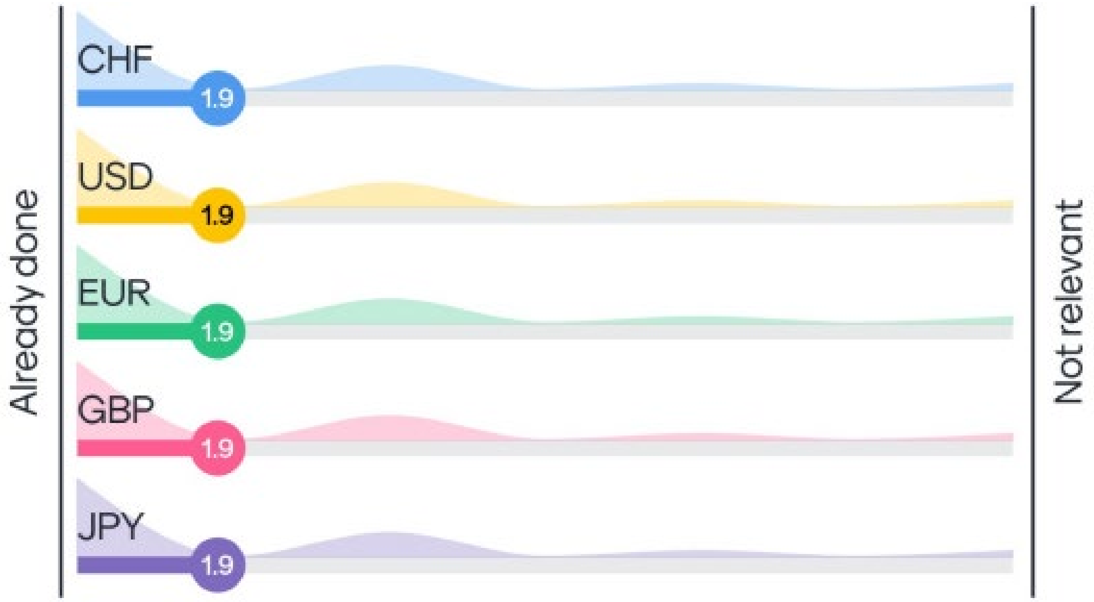
Results of selected questions

Flooring conventions

Readiness to floor each RFR observation



Readiness to floor the compounded RFR



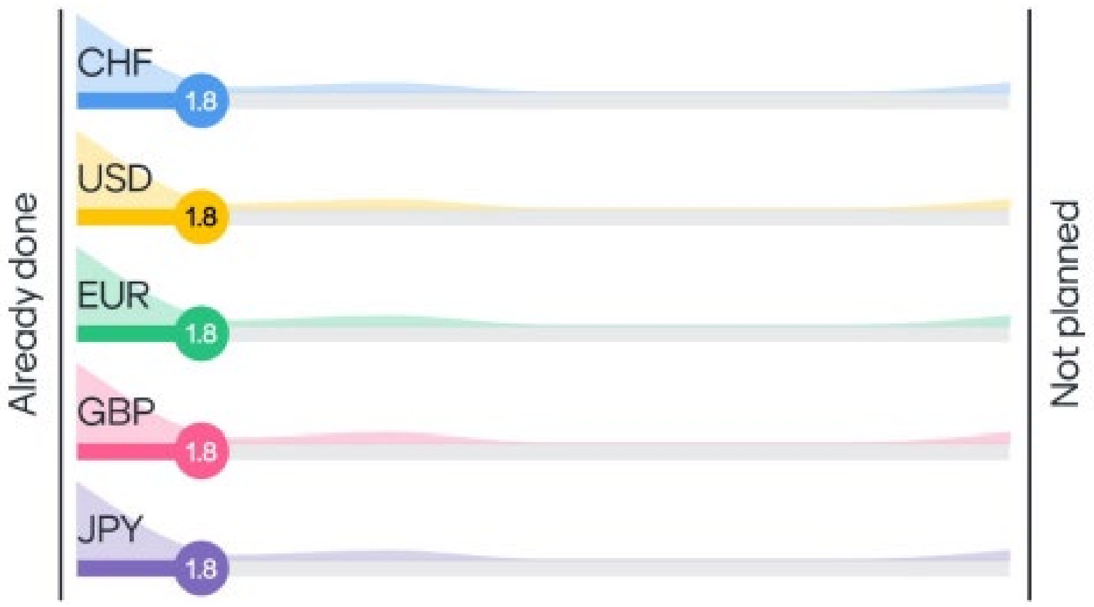
Legend:

1: already implemented → 2: Q1 → 3: Q2 → 4: Q3 → 5: Q4 → 6: beyond 2021 → 7: not relevant

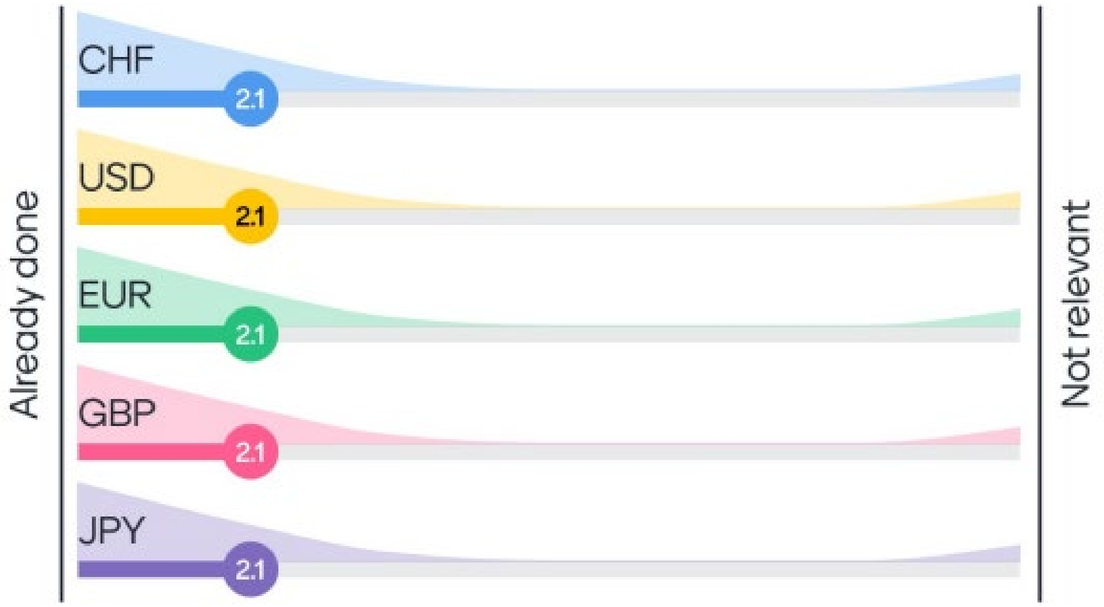
Results of selected questions

"Standard" RFR OIS & "fallen back" LIBOR swaps

Handling of «standard» RFR OIS (Payment Delay for SARON)



Handling of «fallen back» LIBOR swaps (Lookback 2 day)



Legend:

1: already implemented → 2: Q1 → 3: Q2 → 4: Q3 → 5: Q4 → 6: beyond 2021 → 7: not relevant

7. Robust fallback language for SARON-based products

ISDA’s fallback language for SARON

Background

– ISDA’s fallback language for SARON is based on the SARON FRN paper published in July 2019

Fallback for SARON in ISDA Protocol

– Without Cessation Event
  – Previous day SARON
– With Cessation Event and effective at Index Cessation Effective Date *(fallback based on waterfall approach)*
  1. NWG Recommended Rate (inclusive of any spread or adjustment)
  2. Modified SNB Policy Rate = SNB Policy Rate + SNB Spread

NWG Recommended Rate: recommended by the NWG or a similar working group

Modified SNB Policy Rate: a rate equal to the SNB Policy Rate plus the SNB Spread

SNB Spread: historical median between SARON and SNB Policy Rate over an observation period of two years

Robust fallback language for SARON based products

- Robust fallback language should be included in all contracts.

The NWG recommends to review all SARON-based contracts and to ensure that all contracts (e.g. cash products and other derivatives) include a robust fallback language. ISDA's fallback language for SARON is one option.

8. Recommendations and next steps

Recommendations

- The NWG recommends:
  - for CHF hybrid bonds:
    - In case of a reference to a swap rate (e.g. 5Y) with CHF LIBOR as a reference rate (typically for repricings at call dates), SARON swap rate (e.g. 5Y) + (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used.
    - In case of a direct reference to CHF LIBOR, compounded SARON (as for SARON FRN) + (corresponding w.r.t. the tenor) ISDA's adjustment spread should be used.
  - a transition of bilateral derivatives ahead of end-2021 (i.e. "transition now", as ISDA fallbacks are just a "safety belt")
  - all clearing houses to consider a transition of cleared derivatives ahead of end-2021.
  - to consider to renegotiate legacy LIBOR-based to RFR-based USD / CHF CCBS ahead of end-2021.
  - to review all SARON-based contracts and to ensure that all contracts (e.g. cash products and other derivatives) include a robust fallback language. ISDA's fallback language for SARON is one option.

Next steps

- The Executive Summary of today's meeting will be published together with the «Rate Switch Amendment Agreement» on the NWG's webpage by tomorrow.
- NWG sub-working groups will support SIX in relation with the documentation on lag and shift formulas.
- NWG sub-working groups will continue to discuss (with feedback from other experts and stakeholders) potential solutions:
  - for a "discount rate" (e.g. for trade finance), and
  - intercompany loans.
- 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 liaise with other international working groups to align and coordinate efforts, in particular in areas where alignment is beneficial.

Next NWG meeting and publication of results

- The next NWG meeting is scheduled for 1 July 2021, 15:00-17:00 (CET).
- Publication of NWG's recommendations
  - Executive summary of the meeting by 2 February 2021
  - Meeting minutes will be published on NWG website

Appendix

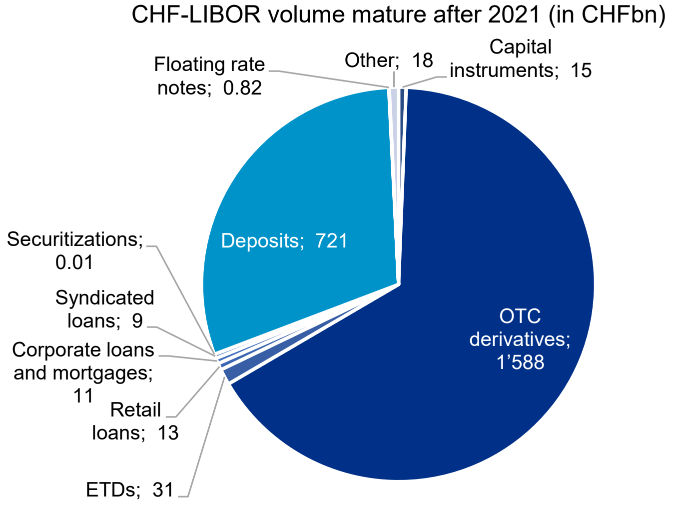
Appendix

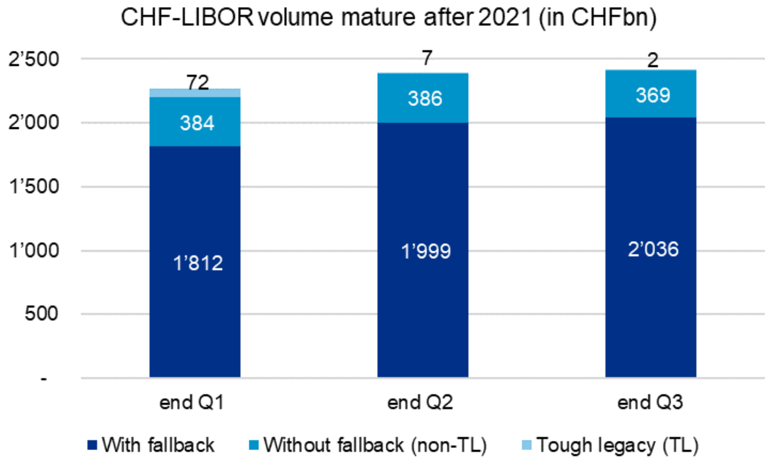
Q3 2020 self-assessment results for CHF products

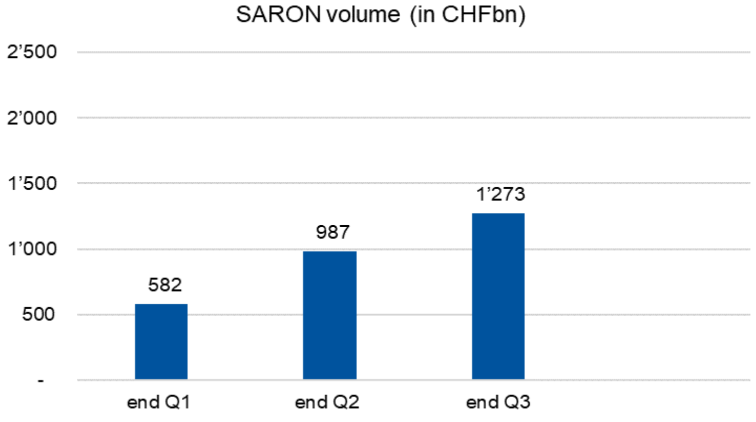
The sample consists of 26 banks and securities firms.

LIBOR and SARON exposures shown are gross volumes, aggregated across the sample.

CHF total volume



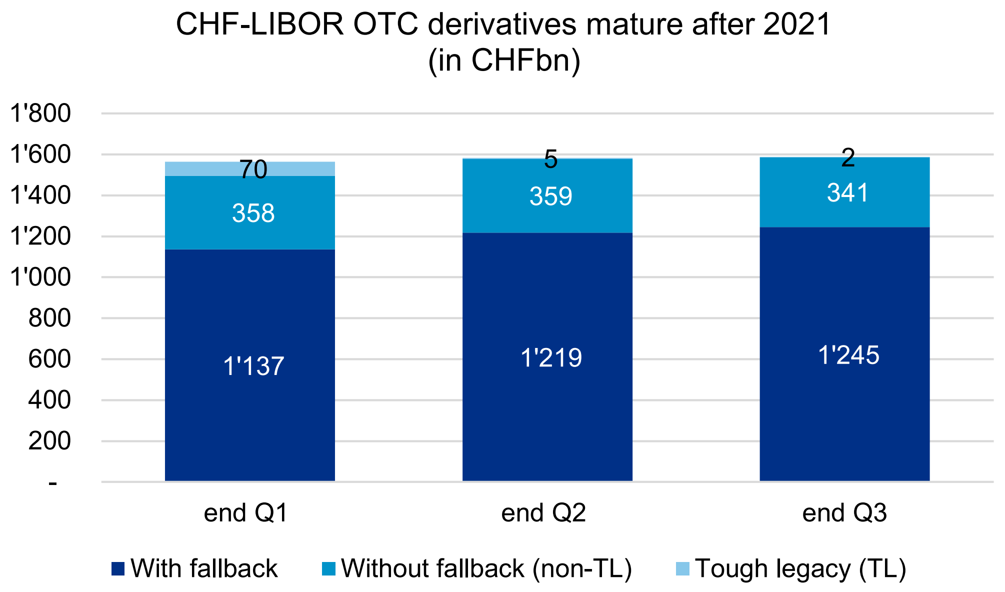


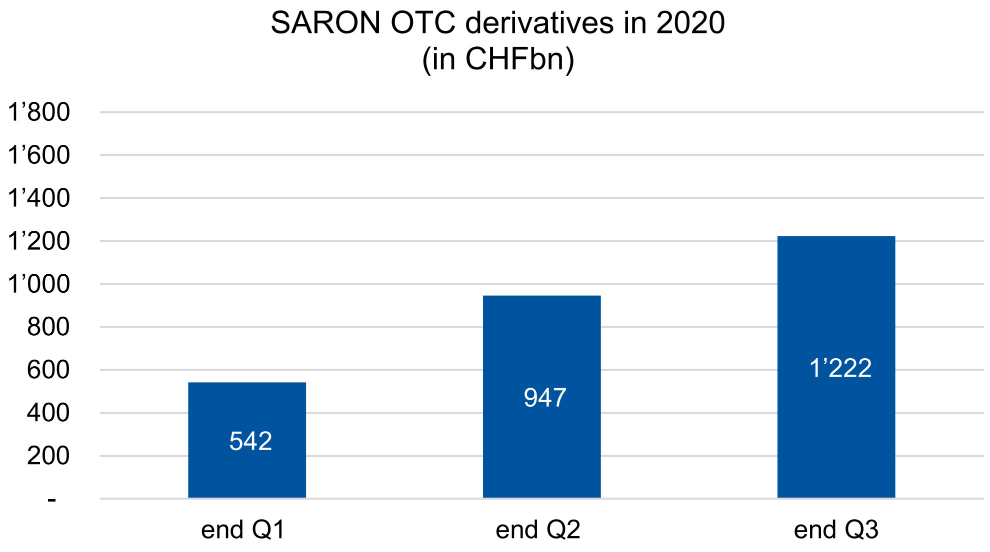


- As per end of Q3 2020, the total volume of CHF-LIBOR contracts mature after 2021 was CHF 2'407bn, of which 66% from OTC derivatives*.
- The portion of legacy contracts without fallback options (but not assessed as "tough legacy" by firms) has only slightly decreased, the main driver being that the ISDA and SBA fallbacks were not yet available by the end of Q3.
- Legacy contracts considered as "tough legacy" decreased during the year, driven by a more precise analysis and definition of what constitutes "tough legacy" by firms.
- The volume of SARON contracts has increased during the year but is smaller than the existing legacy LIBOR portfolio.

*While LIBOR-linked deposits contribute 30% to the total volume, they are not relevant to the majority of firms. Therefore no further details are provided in this presentation.

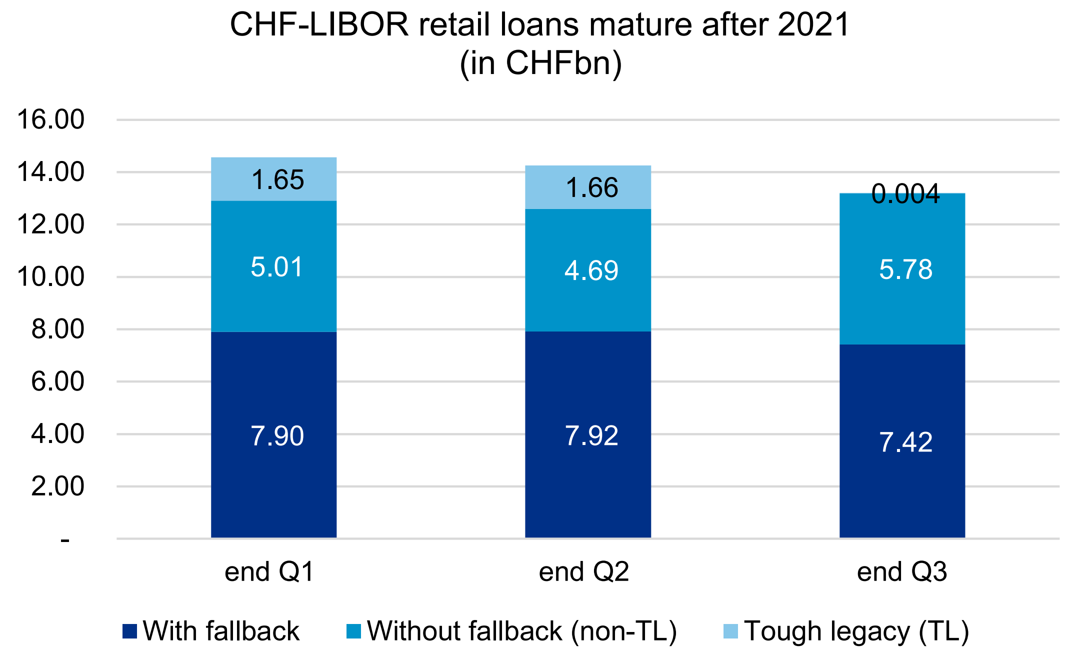
CHF OTC derivatives

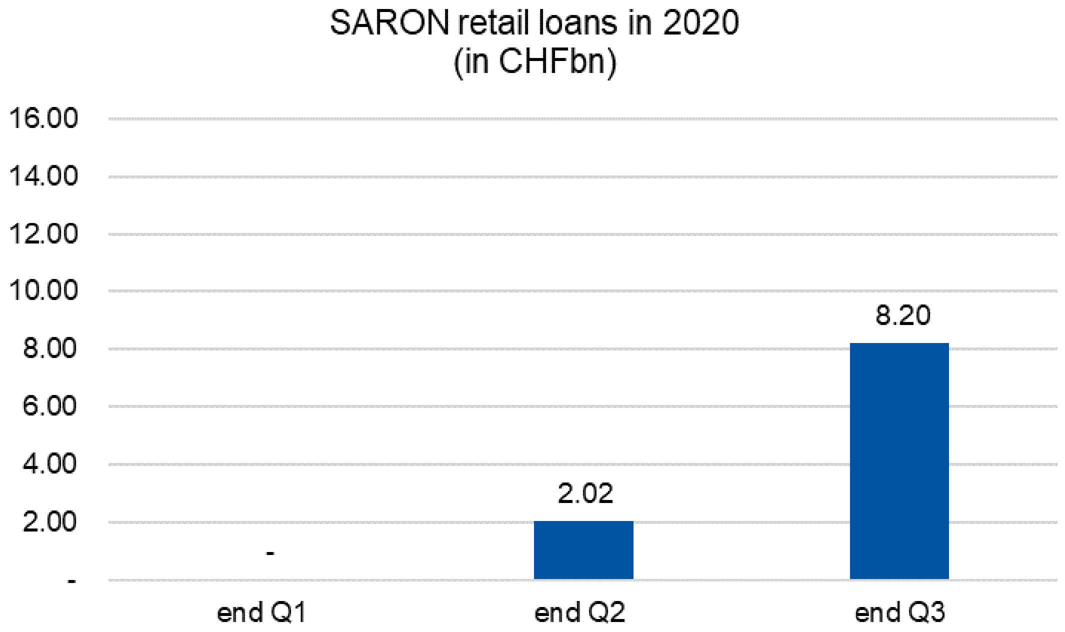




- There was no significant decrease for contracts without fallback (but not considered "tough legacy" by firms) as the ISDA 2020 IBOR Fallbacks Protocol and SBA Benchmark Amendment Agreement had not yet been published.
- 7% of the volume without fallback is against non-financial intermediary counterparties.
- "Tough legacy" decreased by 97% since Q1 2020 as firms deepened their analyses of what they consider to be potential "tough legacy".
- Key factors for current potential "tough legacy" are: 1) counterparties are in wind-down, 2) contracts are with multi-party counterparties and consent may not be reached in time, 3) complexity of the contract (e.g. longevity trades) so that the ISDA fallback cannot be applied.
- Commentary provided highlights that the SARON derivative market is still considered illiquid.

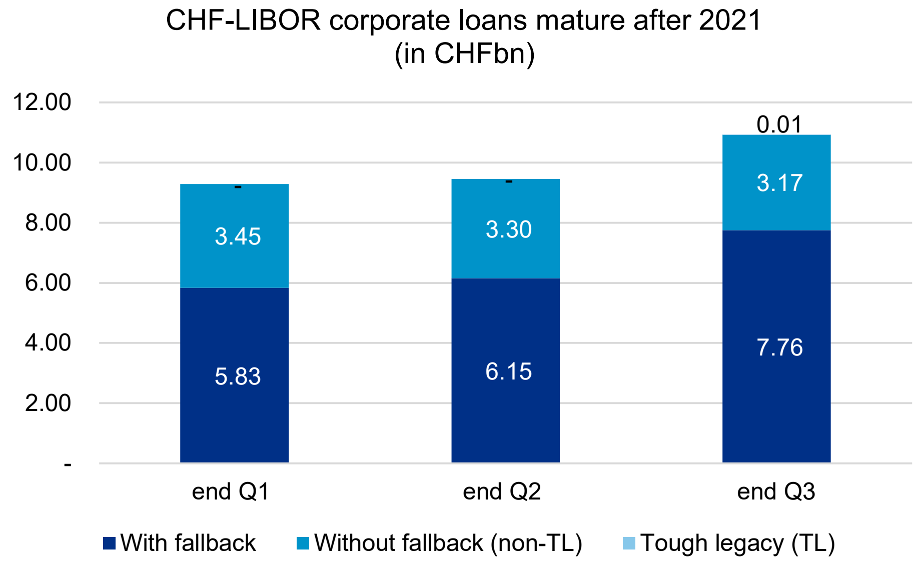
CHF retail loans

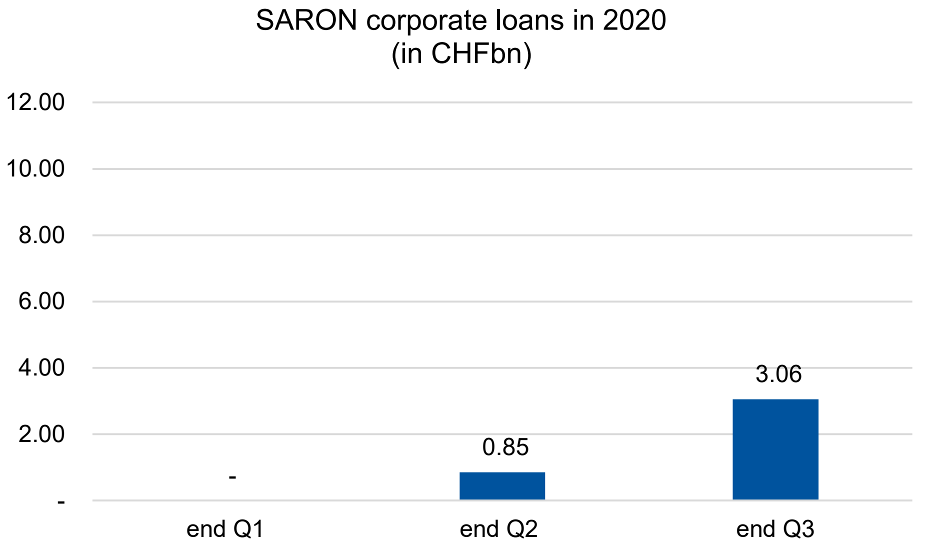




- Firms indicate that they can unilaterally migrate 50% of the retail loan volume mature after 2021 to SARON contracts.
- The legacy LIBOR book without fallback clauses overall has not yet changed significantly. Client outreach has started or will start in Q1 2021.
- Firms do not consider that retail loans will become "tough legacy" as the move to SARON does not result in higher interest rates and retail clients so far have reacted positively. Also the short timeline left is not considered an issue. A negligible portion of contracts may not be adapted or migrated in time in case of clients' incapacity or death.
- SARON retail loan issuance increased significantly during 2020 driven by the launch of SARON mortgages.

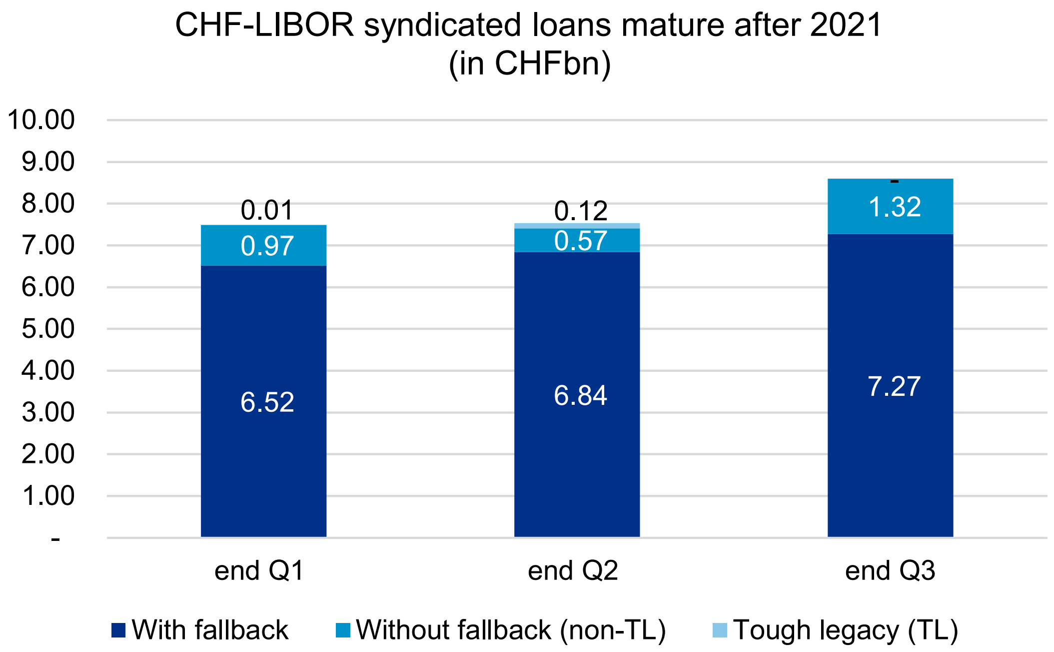
CHF corporate loans and mortgages





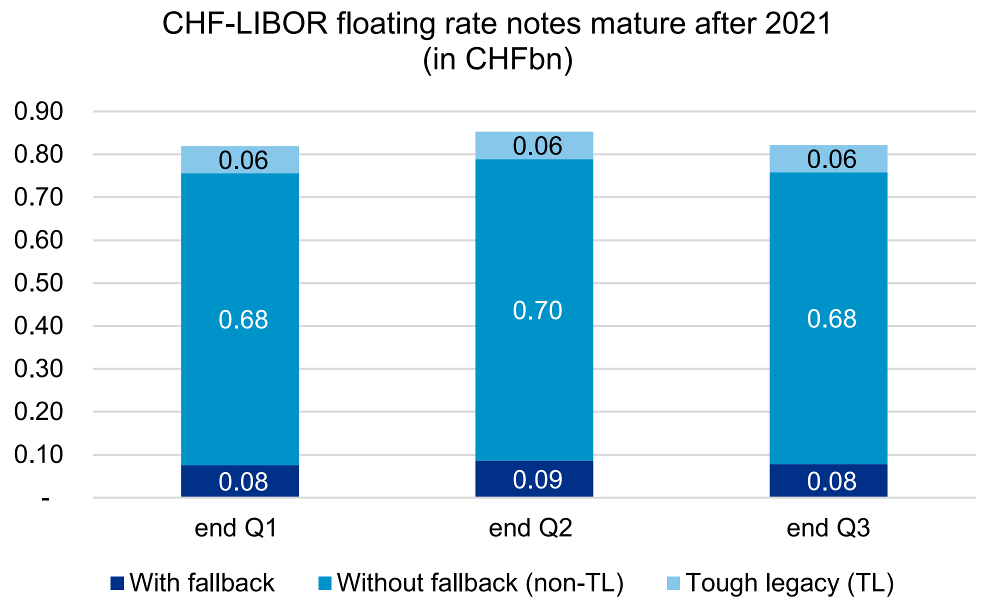
- LIBOR corporate loan and mortgage exposures mature after 2021 overall increased during 2020. Firms indicated that 46% can be amended unilaterally.
- The portion without robust fallbacks has remained stable to-date. Firms plan to start client outreach in Q4 2020 or early Q1 2021. Where unilateral terminations by variation of contract are possible, some banks plan to switch to SARON contracts by end of Q1 2021 after initial notification of clients in Q4 2020.
- "Tough legacy" is considered to be very small (0.1%) and to only potentially materialize in rare cases where counterparties are not responsive or where previous experience has shown that specific counterparties are generally not willing to negotiate changes.
- SARON corporate loan issuance started but focus was put first on readiness for issuing SARON retail loans.

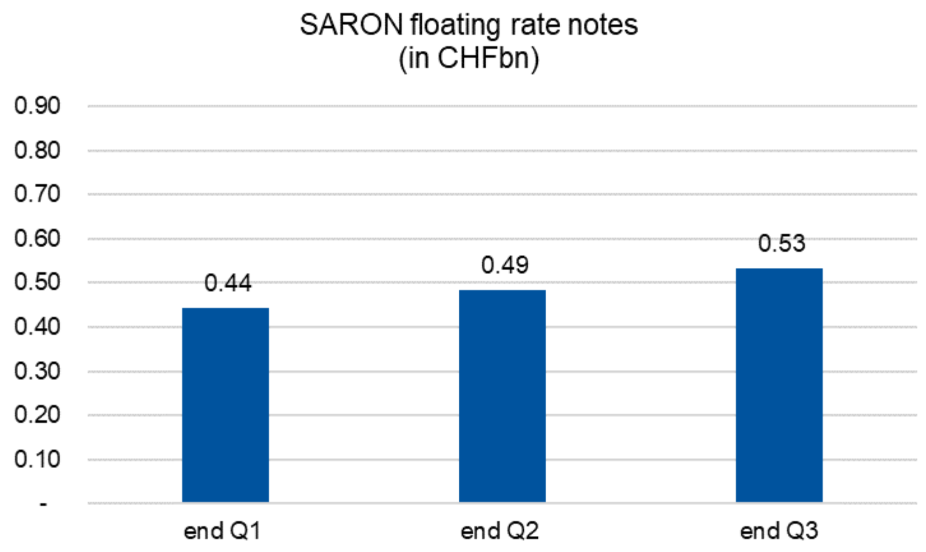
CHF syndicated loans



- 15% of the contract volume is still without fallback clauses.
- Syndication partners in some cases have been contacted already; in most cases this is planned to be done by year-end 2020 or early 2021.
- Firms do not expect their syndicated loans to turn into "tough legacy" contracts, since counterparties are knowledgeable and have so far shown themselves to be amenable.
- No SARON-based syndicated loans have been reported as at end of Q3 2020.

CHF floating rate notes





- Only 4 firms reported CHF-LIBOR FRNs, representing a diverse set of note types, e.g. structured notes or refinancing contracts.
- While the volume of CHF-LIBOR FRNs is overall small (0.03% of the CHF-LIBOR volume mature after 2021), 91% have been assessed by firms as not yet containing robust fallback clauses.
- Outreach by issuing parties has either already been done or is planned to be done in Q1 2021.
- A small portion (8%) is considered to be potential "tough legacy" to account for the possibility that multi-party consent will not yet have been obtained by end of 2021.