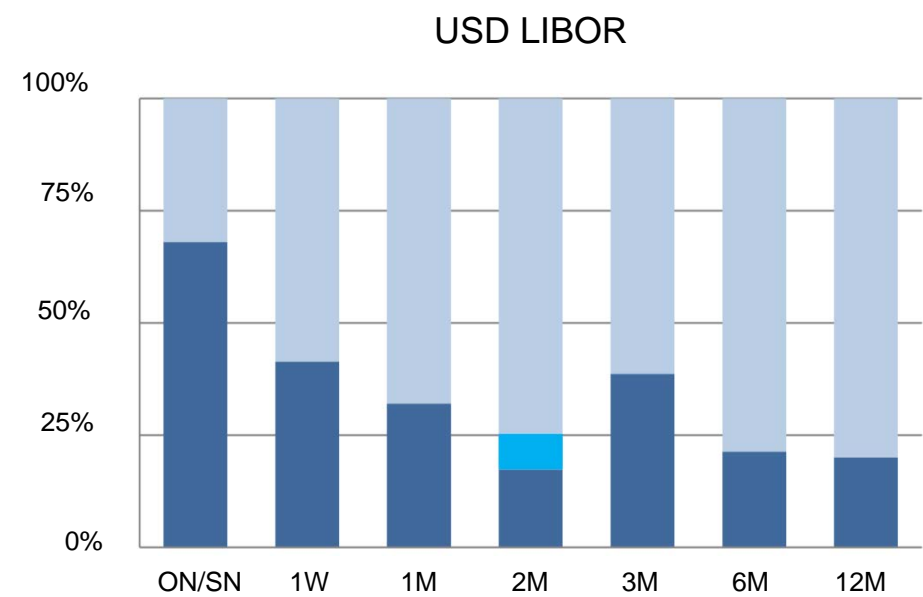


Transition to SARON

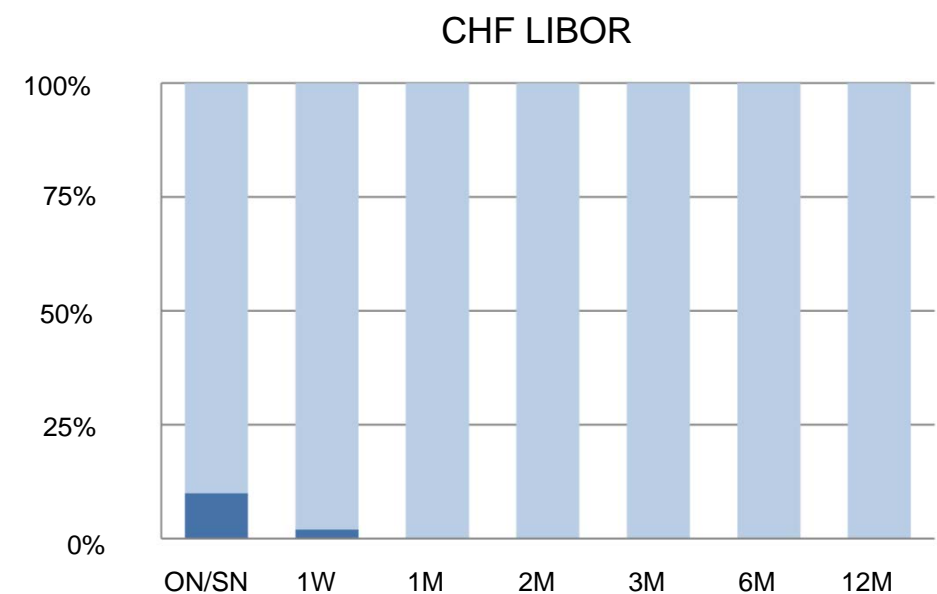
SIX-ICMA-Event: LIBOR to SARON – are you ready?

Dr. Martin M. Bardenhewer
Co-Chair National Working Group

The LIBOR problem

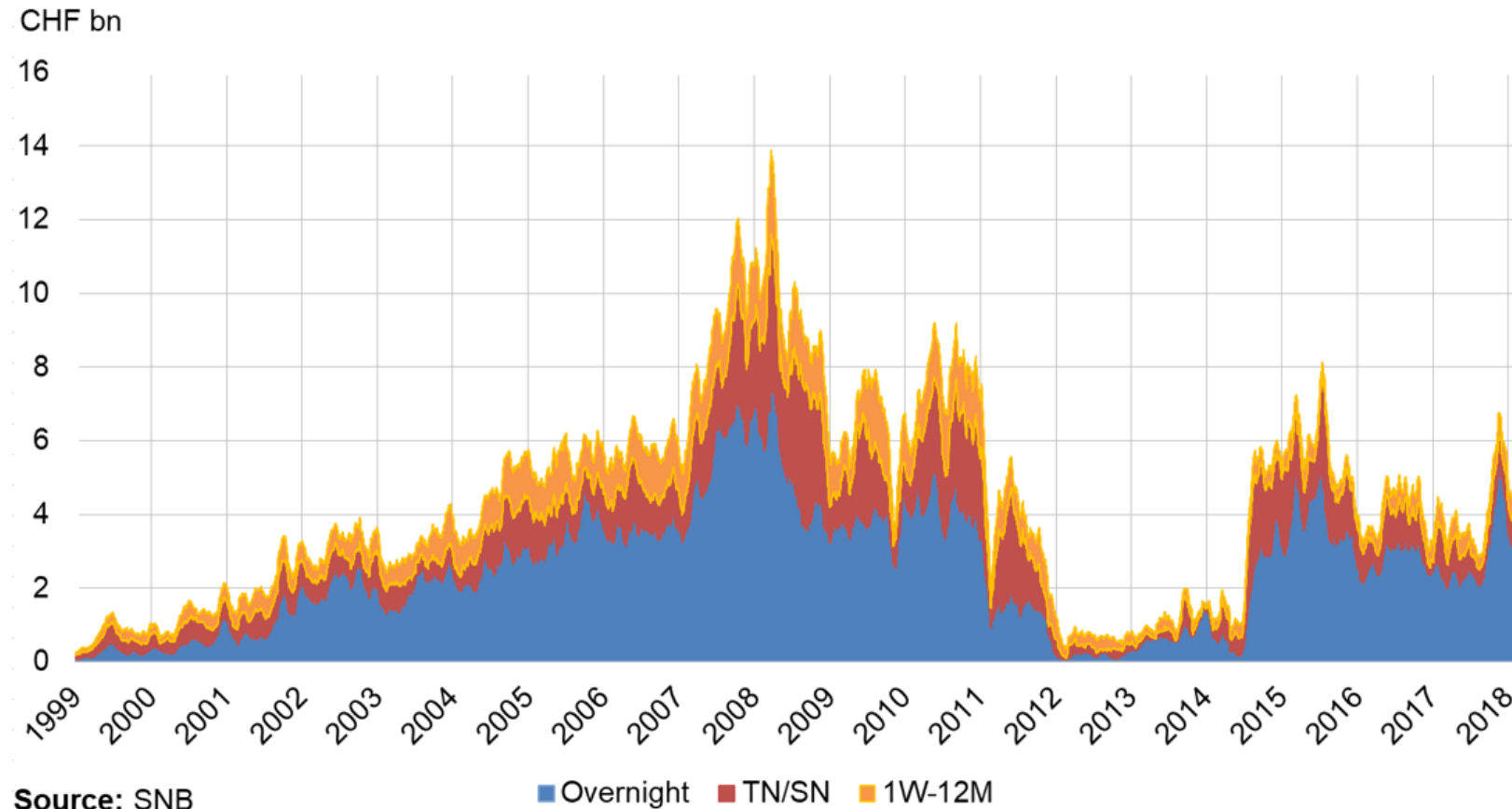


- Based on transactions
- Derived from transactions
- Expert judgment



The CHF repo market is liquid

Daily turnover (30-day moving average)



SARON – Swiss Average Rate Overnight

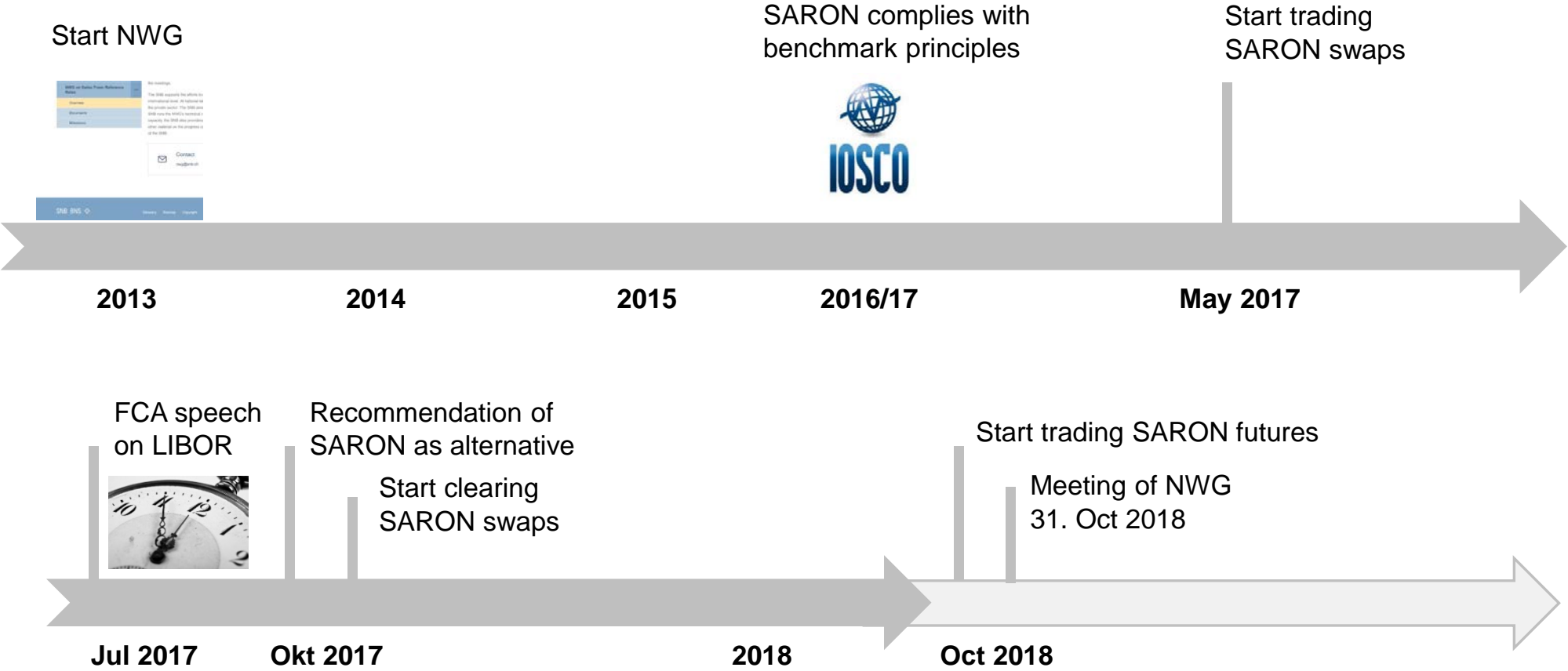
	SARON
Basis	<ul style="list-style-type: none">• CHF Repo overnight• Transactions and binding quotes• SNB GC basket• 150 participants
Design	<ul style="list-style-type: none">• Jointly by SNB and SIX• Start in 2009• IOSCO compliant since 2017
Calculation	<ul style="list-style-type: none">• Volume-weighted rate• Filters are applied
Fixing	noon, 4pm, 6pm (variable leg swaps)
Tickers	SSARON (Bloom) SARON.S (Reuters)



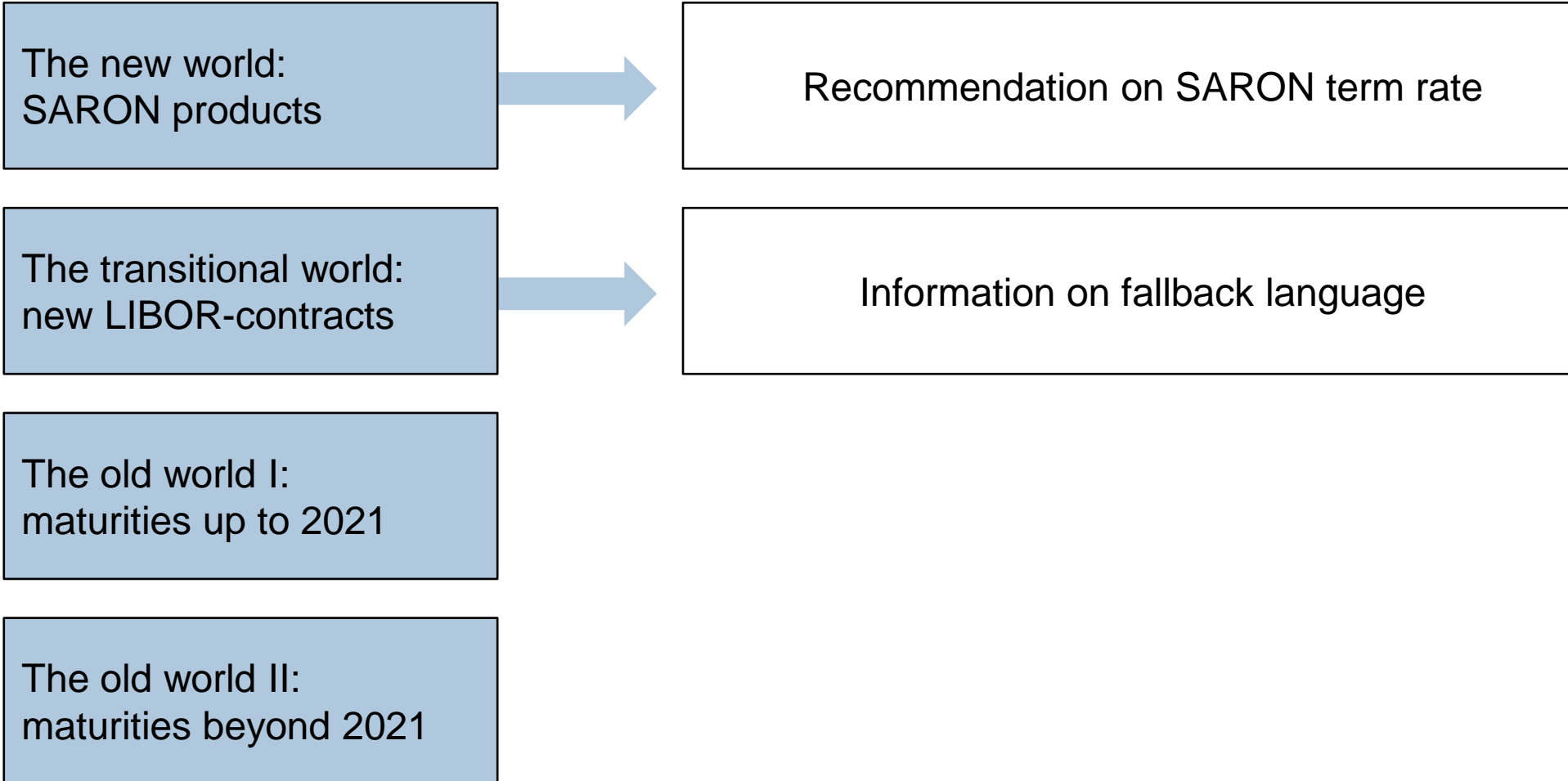
SARON is robust

- Anchored in transactions
- High liquidity
- Clear governance
- Transparent

Milestones



Yesterday's meeting of the NWG: key issues



Term rate terminology

Forward-looking term rate

expected sequence of
overnight rates

Cash-
based

*e.g. 3M
LIBOR*

Derivatives-
based

e.g. ICE-fix

Compounded term rate

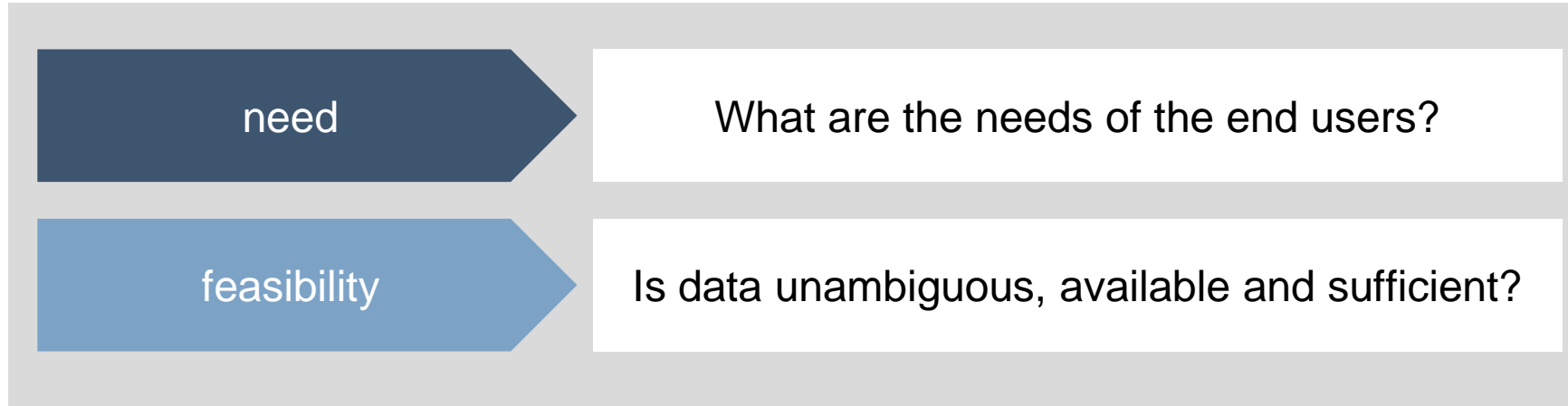
sequence of realized
overnight rates

Compounde
d in arrears

Compounde
d in advance

Term rate terminology based on FSB (2018)

Criteria for a term rate recommendation

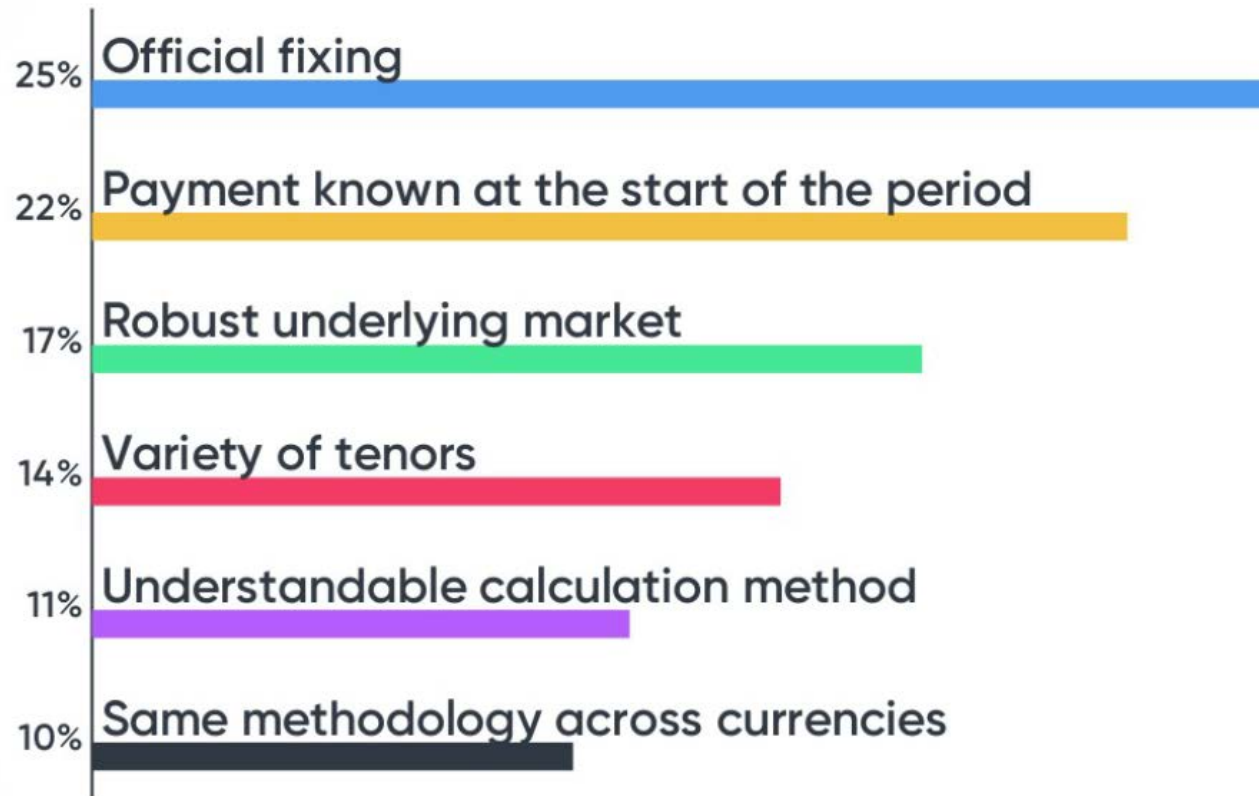


Recommendation of a SARON term rate

Statement of the Financial Stability Board (July 2018)

A variety of needs indicated by end-users

Results from a corporate round table in September 2018 (n=25)



Feasibility

	Daily Volume (Ø 2018)	# Daily trades (Ø 2018)
Compounded term rate:		
Compounded SARON 3M (Sum of SARON rate volume over 90 days)	CHF 388'911 mn	2'800
Forward-looking term rate (derivatives-based):		
SARON futures	Started on Monday	Started on Monday
SARON swaps 3M	CHF 221 mn	Less than 1

Source: SNB, Bloomberg, LCH (data as per 16.08.2018)

Proposition: Every term rate based on derivatives of SARON will not be as robust as the reference rate itself.

Recommendation on term rate

- It is unlikely that a robust derivatives-based term fixing is feasible.
The use as of a term rate as a fallback rate might be reassessed.
- NWG recommends using a compounded SARON wherever possible.



in line with statement
of FSB in July 2018

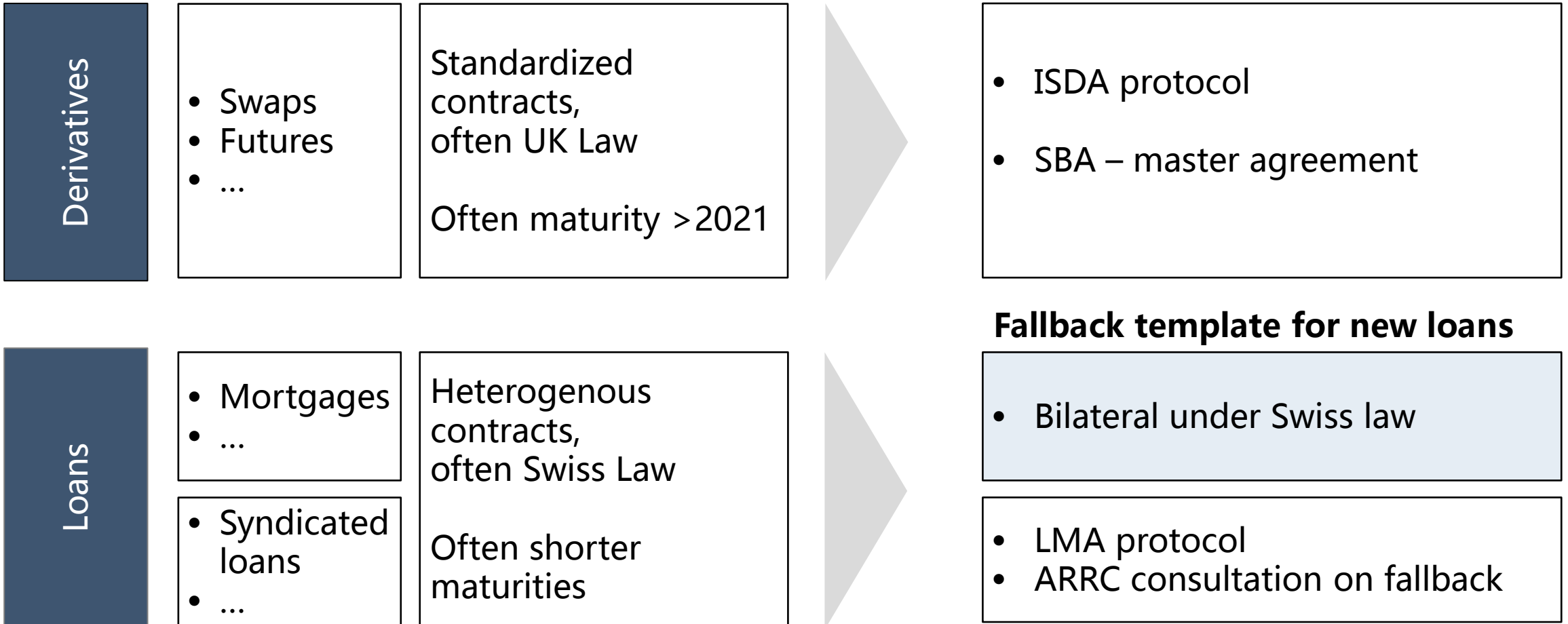
– There are ways to mitigate or solve cash flow uncertainty.
Considerations based on feasibility and end users' needs:

Robustness

Official fixing

Payment known

Fallback Language



Deliverables of the NWG

Oct 18	SARON term rate	Recommendation of a compounded rate
	Fallback language	Information on language for loans under Swiss law
	Check list	«Operational Readiness»
Feb 19 and beyond	Calculation	Options on how to calculate a compounded SARON
	Hedging	Evaluation of cash-flow hedging techniques and their effectiveness in accounting
	Products	Specifications for FRN, caps/floors, cross-currency swaps

