



# The Adoption of SARON as the Major CHF Risk-Free Benchmark Rate

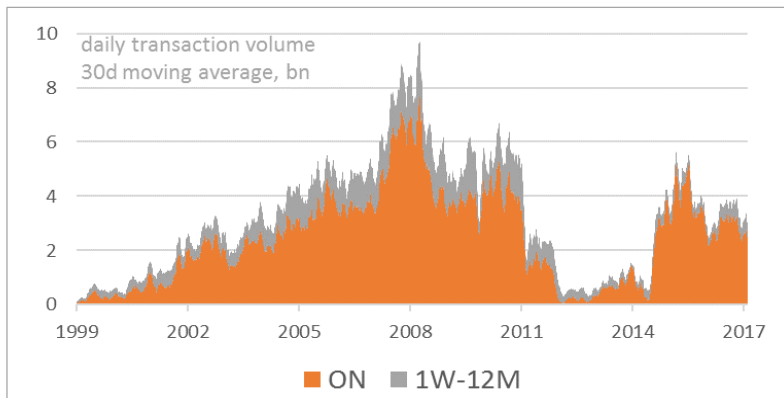
Background and Challenges

Martin M. Bardenhewer, 22 September 2017

# SARON: Swiss Average Rate Overnight

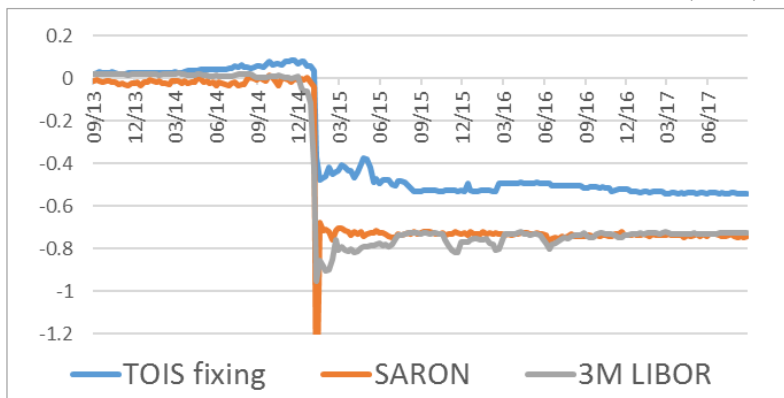
Member of the Swiss Reference Rate (SRR) Family

The Swiss Average Rate is a reference price based on transactions and tradable quotes on the SIX Repo electronic trading platform. A quote filter and volume weights are applied.



source: SNB, Eurex, SIX

SARON covers the most liquid segment of the CHF interbank market



source: Bloomberg

SARON is the risk-free interest rate

# The Evolution to SARON as a Benchmark Rate

A National Working Group on CHF reference rates was founded in 2013

2013	Efforts to reform the TOIS fixing
2014	Evaluation of the possibility of a money market platform
2015	Analysis of the possibility to strengthen SARON
2016	Market consultation Announcement of discontinuation of TOIS fixing by end of 2017
2017	Set-up of an Index Commission for SARON administered by SIX Exchange Preparation and start of SARON swap market CCPs switch from TOIS fixing to SARON CCPs start clearing of SARON swaps in October

SARON is now an IOSCO compliant benchmark rate. Interest rate risk can be hedged with SARON swaps.

# Benefits & Opportunities

Today: TOIS fixing → SARON

This transition is relevant for interbank markets

Existing: SARON is the benchmark in the CHF repo market

New: SARON becomes the standard for interbank deposits, remuneration of collateral and discounting (calculation of PV)

A single rate in the CHF interbank market makes hedging of interest rate risk more efficient

Tomorrow: LIBOR → SARON

This transition will be relevant for all

SARON has the potential for being the single benchmark rate for all CHF interest rate products:

- Loans & Mortgages
- Deposits
- Bonds
- Structured Products
- Derivatives
- ...

A single rate for all CHF interest rate products, administered in Switzerland, would bring trust, transparency and a significant increase in efficiency

# LIBOR → SARON: Challenges Ahead

“The transition away from LIBOR will take time, but will be less risky and less expensive if it is planned and orderly. In Switzerland, for instance, ... once a date was agreed for the discontinuation of TOIS fixing did serious work on transition to the new reference rate, SARON, begin.” (Andrew Bailey, CEO FCA, The Future of Libor)

1. How to construct a term rate from an overnight rate

(much-needed e.g. for coupon payments in loans)

2. How to deal with legacy contracts

(fallback language)

3. How to calculate a LIBOR-SARON spread

(seems not to be a big problem for CHF)



Other currencies face the same challenges

The transition will be coordinated internationally

We are in a good starting position: SARON established in 2009 and swap market has started.

# How you can Contribute to a Successful Transition

## Prepare for trading swaps

Liquidity increases efficiency:

A strong benchmark interest rate needs a liquid market to hedge interest rate risks

## Stay informed

Progress on the reform of benchmark rates on the National Working Group's website on [snb.ch](http://snb.ch)

Index information on Swiss Reference rates on [six-swiss-exchange.com](http://six-swiss-exchange.com)

## Participate in the discussion

### National Working Group

Key forum for considering proposals to reform reference interest rates in Switzerland and discussing the latest international developments. (~ every 3 to 4 months)

### Sub-working groups of NWG

Discussion of issues framed by the NWG and other international groups, proposals for solution and preparation of NWG meetings (active participation and responsibility for work packages required)

### ISDA working groups

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## Q & A

Die nahe Bank



Zürcher  
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