

29<sup>th</sup> November 2021

# Consultation on proposed amendments to the methodology of certain Credit Suisse International indices in connection with LIBOR discontinuation

## LIBOR Replacement Consultation #13: Swaption Indices

This document is addressed to relevant users and stakeholders and is published by Credit Suisse International (“**CSI**”) as the administrator of the CSI indices listed in Schedule 1 (the “**Benchmarks**”).

In light of the upcoming discontinuation of the London Inter-bank Offered Rate (“**LIBOR**”) as further described in “*Background to the Consultation*” below, and since the methodology of the Benchmarks currently incorporates references to LIBOR, CSI, acting through its Benchmark Governance Committee, is consulting on its proposed amendments to the methodology of the Benchmarks (the “**Consultation**”).

The aim of this Consultation is to provide users and stakeholders with: (i) applicable background; (ii) clear information on the proposed amendments; and (iii) practical information on responding to the Consultation and next steps.

If you do not understand the contents of this notice or are unsure how this affects you, you should consult an appropriate professional adviser.

### Background to the Consultation

LIBOR is the benchmark of the interest rates at which major banks lend to each other in the interbank market. It is published in five currencies (US Dollar, Euro, British Pound, Japanese Yen, and Swiss Franc), administered by ICE Benchmark Administration Limited and regulated by the UK’s Financial Conduct Authority (“**FCA**”).

On 5 March 2021, the FCA published an announcement on the future cessation or loss of representativeness of the LIBORs<sup>1</sup>, confirming that:

- publication of all tenors of euro LIBOR, Swiss franc LIBOR, Japanese yen LIBOR, Sterling LIBOR, and the 1-week and 2-month USD LIBOR tenors would cease to be provided or would no longer be representative immediately after 31 December 2021; and
- publication of all other USD LIBOR tenors would cease to be provided or would no longer be representative immediately after 30 June 2023.

In response to the Financial Stability Board recommendation of the development and adoption of alternative nearly risk-free rates, the following alternatives have been proposed:

LIBOR Currency	Proposed Replacement Rate
USD	Secured Overnight Financing Rate (“ <b>SOFR</b> ”)
GBP	Sterling Overnight Index Average (“ <b>SONIA</b> ”)
EUR	Euro Short-Term Rate (“ <b>€STR</b> ”)
CHF	Swiss Average Rate Overnight (“ <b>SARON</b> ”)

<sup>1</sup> Available here: <https://www.fca.org.uk/publication/documents/future-cessation-loss-representativeness-libor-benchmarks.pdf>

JPY	Tokyo Overnight Average Rate (“ <b>TONAR</b> ”)
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Where changing from a term reference rate to an overnight reference rate would have an impact on an instrument referencing such rate, a spread may be applied to address such impact. In the case of LIBORs, the International Swaps and Derivatives Association, Inc (“**ISDA**”) has applied spreads in the LIBOR fallbacks contained in the 2006 ISDA Definitions, calculated using a historical median approach over a five-year lookback period from the date of an announcement on cessation or non-representativeness, and incorporate differences in tenor, credit risk premium and other factors.

#### Proposed amendments to the methodology of the Benchmarks

In the context of the above, CSI, as administrator of each of the Benchmarks proposes the following amendments. The purpose of these amendments is to replace Benchmark inputs which are based on LIBOR with suitable alternative inputs.

#### *Change in reference rates used in the Credit Suisse Rates Volatility Risk Premium Indices*

The underlying components of the Credit Suisse Rates Volatility Risk Premium Indices, including the Benchmarks, consist of interest rate swaps and swaptions denominated in USD where the interest rate swaps (and the underlying interest rate swaps in the case of swaptions) have a LIBOR-based floating leg. It is proposed that with effect from 15<sup>th</sup> December 2021, new interest rate swaps and the underlying interest rate swaps of new swaptions will have a SOFR-based floating leg.

#### *Change in the implied volatility source used in the Benchmarks*

The measure of implied volatility used to calculate the number of index units for the purposes of calculating the Benchmarks will be switched from a LIBOR-based implied volatility metric to a SOFR-based implied volatility metric with effect from 15<sup>th</sup> December 2021.

#### Consultation process

In order to take into account the views of users and stakeholders, CSI, as administrator of each of the Benchmarks, is conducting this Consultation on the proposed amendments. The Consultation opens on 30<sup>th</sup> November 2021 and will run until close of business in New York on Friday 10<sup>th</sup> December 2021 (the “**Consultation Period**”).

Within the Consultation Period, users and stakeholders are invited to send any feedback or comments on this Consultation to: [list.qis-consultation@credit-suisse.com](mailto:list.qis-consultation@credit-suisse.com).

This Notice and any relevant updates relating to the Consultation will be made available here: <https://www.credit-suisse.com/uk/en/investment-banking/financial-regulatory/customer-notices.html?a=32>

#### Exiting positions or products prior to the implementation of any amendments

Users or stakeholders who wish to exit a position or product referencing a Benchmark prior to the implementation of any amendments should contact CSI via their usual contact or via email addressed to [list.qis-consultation@credit-suisse.com](mailto:list.qis-consultation@credit-suisse.com).

**SCHEDULE 1**

**IMPACTED BENCHMARKS AND TICKERS**

<b>Index Name</b>	<b>Bloomberg Ticker</b>
CS US 1M Select Rates VRP 1x Index	CSVIU1SI
CS US 1M Select Rates VRP 5x Index	CSVIU1SV
CS US 1M Select Rates VRP 5x in JPY Index	CSVIU1SY
CS US 1M Select Rates VRP 5x Net Index	CSVIU1SF