

Three-Month SARON[®] Futures

Supporting the Swiss market transition to a new risk-free rate

Regulatory pressure, along with ongoing issues regarding LIBOR, has created the need for alternative risk-free reference rates (RFRs). In Switzerland the National Working Group (NWG) has proposed SARON[®] as an alternative interest rate benchmark. To support the market with an orderly transition to the new benchmark, Eurex has launched a Three-Month SARON[®] Futures contract, the first exchange-traded SARON[®] Futures globally, in October 2018.

In Switzerland both LIBOR and the TOIS-fixing stopped being the most reliable way to determine the cost of debt securities. In 2017 the NWG proposed SARON[®] as an alternative interest rate benchmark. At the end of 2017 the Swiss market replaced the TOIS-fixing with SARON[®]. Eurex Clearing AG stopped clearing TOIS Indexed Swaps at the end of 2017 and at the same time switched to a SARON[®] swap discounting curve for CHF swap transactions. ECAG offers clearing for SARON[®] swaps since 2017.

In response to market demand and in order to facilitate the orderly transition to the new benchmark rate, Eurex is launching Three-Month SARON[®] Futures on 29 October 2018. SARON[®] Futures constitute a market-driven alternative that seeks to attract market participants by providing the opportunity to hedge their CHF exposures while benefiting from cross margining opportunities at Eurex Clearing AG.

Key points about SARON[®]:

1. A collateralized reference rate based on **actual market transactions** and quotes in the regulated SIX Repo market.
2. Calculated **transparently** in accordance with the Index Regulations, which are available on the SIX Swiss Exchange website. SIX uses the IOSCO Principles for financial benchmarks making SARON[®] compliant with international benchmark standards.
3. The **new risk-free interest rate** for the discount of CHF OTC Interest Rate Swaps. You can clear SARON[®] OIS swaps at Eurex Clearing AG.

Three-Month SARON[®] Futures benefits

Hedging: Help the Swiss market transition smoothly to the new risk-free rate. Hedge with a future referencing the same rate as the one used for discounting.

Liquidity: Orderbook liquidity supported by dedicated market makers.

Flexibility: Can be traded in the orderbook or in TES (block).

Margin efficiency: Included in the same liquidation group as CHF OTC Swaps cleared at Eurex Clearing and CONF Futures & therefore offering opportunities for margin reduction with PRISMA margin methodology.

Contract Specifications

Underlying: Average rate of the effective overnight reference rate for Swiss franc (SARON[®] – Swiss Average Rate Overnight) for a three-month Swiss franc deposit, taking into account the compounded interest effect.

Contract value: CHF 1,000,000

Minimum price change (tick size):
0.005, equivalent to CHF 12.50

Minimum block trade size:
100 contracts (10 contracts for EFP services)

Contract specifications

Product name	Three-Month SARON® Futures
Underlying	Average rate of the effective overnight reference rate for Swiss franc (SARON® – Swiss Average Rate Overnight) for a three-month Swiss franc deposit, taking into account the compounded interest effect.
Contract value	CHF 1,000,000
Price quotation	100 minus rate of interest (R). R = daily compounded SARON® interest during contract reference quarter. Reference quarter: IMM Dates (Mar, Jun, Sep, Dec). Contract delivery months are named by the end date of the accrual period. Example: For a March contract, the accrual period starts on IMM Wed of December and ends with the last trading day before IMM Wed of March – the contract delivery month.
Minimum price change	0.005, equivalent to CHF 12.50
Contract months	Minimum of 3 years
Settlement	Cash settlement, by reference to final settlement price, one Swiss business day after the last trading day
Last trading day and final settlement day	Last trading day is the final settlement day. Final settlement day is the exchange business day first preceding the 3rd Wednesday of the delivery month. Close of trading in the maturing futures on the last trading day is at 18:00 CET.
Daily settlement price	The daily settlement price for the current maturity month of the SARON® Futures is derived from the volume-weighted average of the prices of all transactions during the minute before 17:15 CET (reference point), provided that more than five trades have been transacted within this period. For the remaining maturity months, the daily settlement price for a contract is determined based on the average bid/ask spread of the combination order book.
Final settlement price	The final settlement price is determined by the exchange on the final settlement day; published after the last SARON® fixing (after 18:00 Zurich time).
Minimum block trade size	100 contracts (10 contracts for EFP & EFS Services)

Block Trade Service

In order to complement the Eurex Exchange orderbook, Three-Month SARON® Futures trades can also be agreed bilaterally, and subsequently registered via our Eurex T7 Entry Services (TES). Thus Eurex allows investors to combine the flexibility of customized trading with the advantages of standardized clearing and settlement. For the Eurex Block Trade Service, the transactions are subject to the minimum block trade threshold (see contract specifications). Furthermore the TES functionalities EFS and EFP-Fin are also available for the Three-Month SARON® Futures.

Mitigating risks through CCP clearing

Eurex Clearing is one of the leading CCPs globally – assuring the safety and integrity of markets while providing innovation in risk management, clearing technology and client asset protection. We clear the broadest scope of products under a single framework in Europe – both listed products and OTC – and offer the world's widest spectrum of eligible collateral.

Vendor codes for Three-Month SARON® Futures

Eurex Code	Bloomberg
FSO3	SRTA <CMDTY>

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