

## LIBOR bows out

**In July 2017, the Financial Conduct Authority, the UK market watchdog, announced that banks would no longer be required to participate in the setting of LIBOR after December 31, 2021, thereby putting an end to one of the most widely used indices of the last 30 years or more.**

### What does LIBOR mean?

The London Interbank Offered Rate is a money-market interest rate that serves as a benchmark in various currencies, including the Swiss franc. It represents the average rate at which banks are willing to make unsecured loans to each other, and it is calculated using estimates supplied each day by the largest London banks. LIBOR is the principal benchmark for numerous financial products, such as corporate and consumer loans.

### Why is LIBOR being phased out?

The main reason for moving away from LIBOR is that regulatory changes implemented since the 2008 financial crisis have changed the way banks operate. The volume of interbank loans has declined significantly, which has reduced in turn the number of interbank transactions. LIBOR is therefore less relevant today, because the interbank market on which it is built is not as big as it used to be. Nevertheless, given LIBOR's use as a benchmark, its discontinuation will clearly have a significant impact on financing and lending activities, as well as on numerous financial products.

### Which indices will take its place?

Alternatives to LIBOR are still in the works. Every currency area has created a working group to determine the interest rates that will replace LIBOR. In Switzerland, the National Working Group (NWG), under the joint authority of the SNB and representatives of Swiss banks, including BCV, is managing and coordinating the transition. The Swiss financial market supervisory authority (FINMA) also takes part in the NWG.

In October 2017, the NWG proposed that **SARON (Swiss Average Rate Overnight)** replace LIBOR. SARON is the average rate calculated on the basis of actual secured interbank loan transactions carried out on the Swiss money market. It has been calculated and published daily since August 2009 by the SIX Swiss Exchange.

### How will this affect LIBOR-based financial products?

Current discussions are focusing on what steps will be necessary to ensure a clear and efficient transition. For the moment, this preparatory work will have no impact on existing products or transactions already in effect; these will continue unchanged.

We will let you know of any changes as soon as the NWG's work has been finalized. After LIBOR is discontinued, loans indexed on the money market will continue to be part of our standard product line.