

Benchmark Factsheet



Swiss Average Rate Overnight - (SARON)

This document must be read in conjunction with the respective *Product Summary*

What is SARON?

SARON is an overnight interest rate benchmark – also known as a reference rate or a benchmark rate. It is based on the Swiss (CHF) repo market.

The Swiss Stock Exchange (SIX) is the administrator of SARON and is responsible for its daily calculation and publication. SIX developed SARON in collaboration with the Swiss National Bank in 2009. The National Working Group on Swiss Franc Reference Rates (NWG) has recommended SARON as the alternative to CHF LIBOR.

Differences between SARON and LIBOR

1. SARON is described as a risk-free, or near risk-free, rate (RFR) as unlike LIBOR it does not contain material term risk or bank credit risk.
2. SARON is an overnight rate which is published in arrears. In contrast LIBOR is a term rate which is published at the start of the relevant interest period. This means that for products referencing SARON, unless adjustments are made to the methodology, the actual amount of interest payable is not known until the end of the agreed interest period.
3. SARON is based on repo transactions which are secured. In contrast LIBOR is an indication of the average rates at which banks could obtain wholesale, unsecured funding.

How is SARON calculated?

SARON is calculated from transactions and binding quotes posted on the SIX repo trading platform. In total around 160 banks and insurance companies take part in providing quotes on the platform.

It is continually calculated in real time and published every ten minutes. A fixing is conducted three times a day at 12pm, 4pm and 6pm Swiss time. The 6pm fixing serves as a reference reading for derivative financial products and the valuation of financial assets.

Lloyds Bank uses the 6pm rate for its upcoming overnight calculations for CHF transactions.

Features to consider

Interest for SARON products may be payable for periods longer than overnight (e.g. monthly, quarterly) so the daily SARON rate will be aggregated in order to determine the effective interest rate that will apply for the relevant interest period.

As RFRs are overnight rates, the interest due for the respective period will not be known until the end of the interest period i.e. on the actual payment date. Lloyds Bank has adopted a number of possible conventions to address this uncertainty. These are explained below.

Please note: The effective interest rate for a period will not be known at the start of that period.

Conventions for interest calculation

Where Lloyds Bank uses SARON the rate of interest is calculated on a compounded basis (that is, interest is calculated daily on both the notional and any interest already accrued).

As the interest rate for a period is calculated in arrears, the last piece of data for the calculation will only be available at the end of the interest period. This may present operational difficulties in making timely payments, as amounts due will not be known until the actual payment date.

To address this, the NWG has recommended the use of different methodologies for its domestic and international markets. Lloyds Bank provides a range of different conventions and calculation methods for RFR products.

Conventions continue to evolve as the market develops, and consequently there may not be an exact match for certain structure or derivative types. However, the expectation is that, in most circumstances, the difference in floating rate calculated between these various conventions is likely to be minimal.

You should ensure that you understand the requirements of any convention applicable to your transaction. More information about the calculation conventions referenced in this factsheet is available in our [RFR Floating Rate Conventions Factsheet](#). If you have any questions please contact your Lloyds Bank representative, or for further information refer to the links below.

It is important for all parties to a transaction to understand:

- **The calculation method that will be used to determine the aggregate rate of interest**
- **When the floating interest rate for a given period will be known**

Further Information

- https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_NWG_milestones
- https://www.six-group.com/dam/download/sites/exchange-services/Factsheets/saron_factsheet_en.pdf

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