

October 27th 2021

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

LIBOR Replacement Consultation #10: Long-Short and Dispersion 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) and 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 LIBORs¹, 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 (“ SOFR ”)
GBP	Sterling Overnight Index Average (“ SONIA ”)
EUR	Euro Short-Term Rate (“ €STR ”)
CHF	Swiss Average Rate Overnight (“ SARON ”)
JPY	Tokyo Overnight Average Rate (“ TONAR ”)

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

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.

A – Calculation of cash and funding components

It is proposed that, with effect from 3 January 2022, each reference to 3-month USD LIBOR used in the provisions of the index rules of the Benchmarks (including the reference rates specified in Table 1 of the Credit Suisse Listed Option Strips Construction Methodology A) to determine the value of a cash component or cash asset, or a funding component, funding asset or an index carry cost (including for the purposes of determining the ‘excess return’ value of any asset), included in the Benchmark calculation, will be amended to refer to the United States SOFR Secured Overnight Financing Rate (BBG: SOFRRATE Index) with a 3-month tenor plus a spread of 0.26161 per cent.

The replacement reference rates input proposed is that recommended by the Financial Stability Board as described in “Background to the Consultation” above, and the spreads is identical to the spread applied to 3-month USD LIBOR pursuant to the fallbacks contained in the 2006 ISDA Definitions.

B – Discount Rates – Change in reference rates used in the Credit Suisse Listed Option Strips Construction Methodology A

Section 2.3 (*Discount Rate*) of the Credit Suisse Listed Option Strips Construction Methodology A details the calculation of the discount rates used in the calculation of the Benchmarks.

It is proposed that the Credit Suisse Listed Option Strips Construction Methodology A will be amended such that, with effect from 3 January 2022 Table 1 in Section 2.3 will be replaced with the following:

“Table 1. Rates

	One-day	Three-month	One-year	Two-year	Three-year
Rate	The par rate for 1-day Interest Rate Swap as set out on Reuters page USDSROIS=TR DL at 11am NY time	The par rate for 3-months Interest Rate Swap as set out on Reuters page USDSROIS=TRD L at 11am NY time	The par rate for 1-year Interest Rate Swap as set out on Reuters page USDSROIS=TR DL at 11am NY time	The par rate for 2-year Interest Rate Swap as set out on Reuters page USDSROIS=TR DL at 11am NY time	The par rate for 3-year Interest Rate Swap as set out on Reuters page USDSROIS=T RDL at 11am NY time
Maturity	1	90	360	720	1080
Compounding Periods	365	4	1	1	1

(data sources described in Section 1.9 Data Sources in the Index Specific Rules)”

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 Wednesday 27 October 2021 and will run until close of business in New York on Tuesday 30 November 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.

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.

SCHEDULE 1

IMPACTED BENCHMARKS AND TICKERS

Index Name	Bloomberg Ticker
Credit Suisse Equity Value USA USD ER Index	CSEAVUE
Credit Suisse Dispersion Gamma-Weighted Index USD Excess Return	CSVPDSPG
CS HOLT Equity Factor Global Low Beta USD Net Beta Hedged Index	CSHTGLBN
CS HOLT Equity Factor Global Quality USD Net Beta Hedged Index	CSHTGOBN