P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance

LIBOR Replacement - A Swiss approach for the Swiss retail lending market

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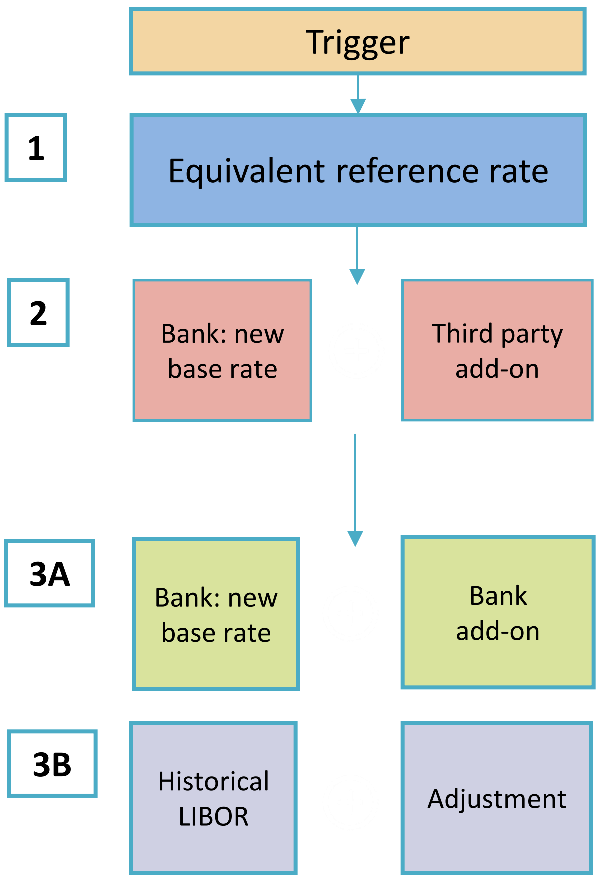
Basis of Proposal

- The model clauses developed internationally by the ARRC, ICMA, ISDA, the LMA, etc. focus on documentation for professional counterparties
- In Switzerland LIBOR is highly relevant for the retail mortgage lending market
- Under Swiss law, contracts with retail counterparties must be
  - easily readable and comprehensible
  - fair
- International model clauses for the replacement of LIBOR do not fit

Concept Underlying Proposal

- The proposed LIBOR Replacement Clause focuses on two key elements:
  - Trigger – when will LIBOR be replaced?
  - Waterfall – how will LIBOR Replacement Rate be determined?
- Trigger: Discontinuation of LIBOR – no hardwired formulation possible today because of uncertainties
- Waterfall:
  - First: Reference rate that is economically as equivalent as possible and quoted by third party
  - Second: Third party determines an add-on (which can be a positive or negative number) to bridge the gap to a new (un-)equivalent reference rate
  - Third: Bank determines addition | deduction itself and applies this in determining the new reference rate

Proposed Clause (English working translation)



1 In case that CHF-LIBOR [*is no longer available as recognized reference rate | is no longer published*], the parties agree that BANK will determine the interest rate on the basis of another reference rate that is economically as equivalent as possible. Equivalent may in particular be recognized reference rates that are calculated with a view to provide a value-neutral replacement for CHF-LIBOR denominated loans.

2 Is no such an equivalent reference rate available from a third party, and there neither is a recognized addition or deduction for an economically neutral replacement of CHF-LIBOR published, then [Alternative A: BANK shall itself determine such addition | deduction and apply it in fixing the new reference rate.] [Alternative B: the new interest rate will be determined by reference to the [average] [median] historic CHF-LIBOR rates for the last ■ bank working days prior to the discontinuation of CHF-LIBOR, adjusted to reflect the general fluctuation of the interest rate level since the discontinuation of the CHF-LIBOR.]

3 The new reference rate will be applied for the first time for the immediately following interest period. Should the disappearance of CHF-LIBOR time-wise be very close to the commencement of the immediately following interest period, BANK may utilize [*for such next interest period | for a next interest period with a duration to be determined*] an interest rate that is based on the last available CHF-LIBOR rate.

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