sifma
Invested in America

December 4, 2019

Comments submitted to: rateproduction@ny.frb.org

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Re: Statement Requesting Public Comment on a Proposed Publication of SOFR Averages and a SOFR Index

Dear Madam or Sir,

SIFMA[1] is pleased to submit comments regarding the Federal Reserve Bank of New York's ("FRBNY") proposal to publish a SOFR index and three compounded averages of the SOFR with tenors of 30-, 90-, and 180-calendar days on a daily basis.[2] SIFMA supports this proposal and encourages the FRBNY to move expeditiously to implement this proposal and publish the proposed rates and index.

This proposal would result in the publication of SOFR information by a neutral third party, with a known methodology and timing - similar to the production of SOFR itself. While some market participants may build their own compounding and indexing algorithms internally, others will not, and will be well-served by the FRBNY's publication. Smaller market participants and end users may not have the resources to build these algorithms in the near-term. Other market participants, such as trustees or calculation agents, may desire to be able to consume rate information from a trusted source rather than calculate a rate on their own for liability and other reasons. Further, we note that many transaction documents for FRNs or securitizations that currently use LIBOR refer to a specific place of publication of the reference rate (e.g., a specific screen function on an information platform). Publication of SOFR rates and an index by FRBNY will allow for a similar agreement among transaction participants to use a specific, designated source and therefore calculation methodology. Finally, even large market participants who develop internal tools may appreciate the FRBNY publication as a "check" on their work. All in all, for a variety of market participants, the proposal would reduce the risk of disputes and mistakes, ease the implementation of SOFR into their workflows, and provide certainty.

Importantly, publication of the index will simplify calculations for many participants. Rather than compounding SOFR on a daily basis over a given period of time, a firm would be able to simply take a starting and ending index value to compute a SOFR rate over that term, as described in the proposal. This will drive efficiency and ease the adoption of SOFR-based transactions.

Some of our members have suggested that FRBNY should also consider the addition of a simple average-based index to complement the compound average-based index. Many transactions in the market today utilize a simple average, and these types of transactions may continue to be issued. A

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.
[2] Available at this URL: https://www.newyorkfed.org/markets/opolicy/operating_policy_191104

simple interest index would provide similar benefits as noted above. However, other members point out that creation of an additional index could work against guiding the market towards adopting a compounded rate as the standard approach and note that the ARRC has incorporated this preference for compounding into the waterfall for fallbacks (which has as the second step falling back to compounded SOFR) and derivatives markets are moving in this direction as well.

In conclusion, publication of the compound average rates and the index will provide a neutral, third-party source of information for the usage of SOFR in financial transactions, will help ease the transition to SOFR, will reduce disputes, and will be beneficial to the robustness of financial markets and their participants. Accordingly, SIFMA supports this initiative.

Please contact me at ckillian@sifma.org for further discussion or if you have further questions.

Sincerely,

Christopher B. Killian
Managing Director