Responses to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Anonymous 1

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☒ *5-year median is preferred*	☐ *Other method is preferred*
Securitizations	☒ *5-year median is preferred*	☐ *Other method is preferred*
Syndicated Loans	☒ *5-year median is preferred*	☐ *Other method is preferred*
Bilateral Business Loans	☒ *5-year median is preferred*	☐ *Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

N/A

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)* Bilateral Business Loans.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?* No

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

No

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

It would make it more complicated.

Questions 8- 11 refer to Consumer Products – N/A.

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

N/A

Anonymous 2

Below are our responses to the ARRC Spread Adjustment Consultation that was published on January 21, 2020. We have requested our response to be anonymous, but would note that we are a US-based life insurance company.

We appreciate the ARRC's effort to develop a robust alternative rate to Libor, the outreach on the spread adjustment proposals, and the opportunity to provide our feedback on the questions. Each of the questions has been copied below, and our responses are in **bold blue text**.

Part V: Consultation Questions
Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans
Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes **5-year median is preferred**
Securitizations **5-year median is preferred**
Syndicated Loans **5-year median is preferred**
Bilateral Business Loans **5-year median is preferred**

We strongly prefer a method that is consistent across all markets, including derivatives. This will ensure a consistent standard across markets that issuers, investors, and consumers can better understand, reduce operational risk, and ensure that market participants can better manage market risk. We also strongly prefer that consistent methodologies not just across spread adjustment mechanism, but also fallback trigger, fallback rates, compounding convention, etc.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median*
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average

N/A, prefer 5 year median

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

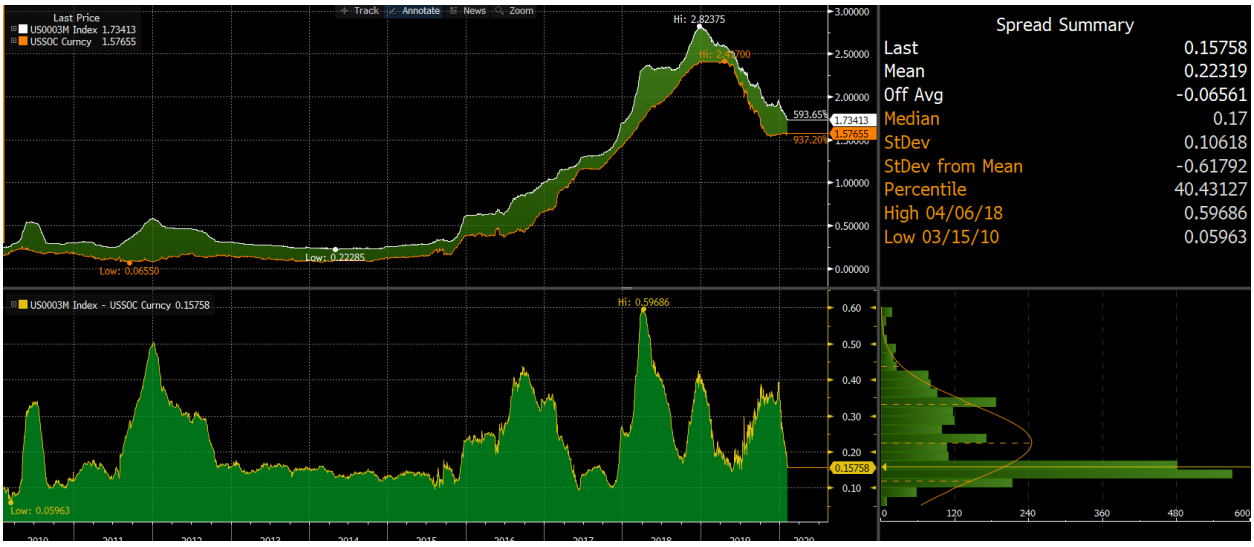
B. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

To the extent that Term SOFR in advance is supposed to be a market expected level of compound SOFR levels in arrears, it would argue that the spread adjustment should be the same. For operational ease and to improve understanding across market participants and consumers, it may be preferred to have a single spread adjustment for a given tenor, regardless of whether calculated in arrears or advance. Additionally, if a Term SOFR rate was published in the future and the rate determination switched from an in arrears calculation to an in advance calculation, it may be confusing if different spread adjustments are applied at different points in time.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

No, we do not believe a transition period should be applied for any of these cash products or consumer facing instruments, unless it will also be done in every market in a consistent manner. Consistency is a key goal across markets, because it will increase ease of understanding for participants and consumers, regardless of level of sophistication.

Additionally, perceptions of consumers should also be considered, and we assume they are more apt to be borrowers or payers of the rate. If the spread smoothing adjustment is difficult to understand, they may not adopt it. If the spread smoothing adjustment has risk of being a large increase in cost, they may not adopt it and may complain if they are hit by it. Visually analyzing USD 3m L-OIS suggests that the size of the adjustment in the 90th percentile (high) may appear much more punitive than the benefit received in the 10th percentile (low) event. Put another way, the distribution of L-OIS prints is not normally distributed, but is skewed and has larger outliers on the high side (see lower right of the attached image). From a consumer fairness or protection standpoint, it may be fairer to avoid any smoothing period.



Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*
No response. We have not studied the impact for these short tenors.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*
No. We do not have a strong opinion, but would suggest the additional complexity of having multiple spread adjustments may not be worth the marginal amount of improvement in precision.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*
Yes, it would be problematic to use different approaches across products.

This is already an incredibly challenging transition to explain to market participants and consumers. Using different approaches for any element of this increases this challenge and makes it less likely that end-users will embrace the transition and SOFR. Consistency across products, fallback triggers, spread adjustments, and smoothing approach are key.

If differences exist across currency, this is apt to be less concerning as long as all products treat it consistently for a given currency.

Questions 8- 11 refer to Consumer Products
Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*
Yes, we believe it would still be an acceptable choice, to the extent that the market believes the 5-year median is a fair adjustment. If there is a compelling reason that it should be different here, then it would also suggest that there is a compelling reason for the entire market (ISDA included) to reconsider approach for consistency.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*
No, we do not believe a transition period should be applied. Please see response to Question 4 for detail and rationale.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

B. a compound average of SOFR in advance

Using the credit spread adjustment for a shorter tenor (like 3-month Libor) would not be a reasonable proxy for 6-month or 1-year Libor as there is more implied credit risk and spread in a longer tenor rate.

Note, that this is based on the assumption that the compound average of SOFR in advance that is used represents a comparable time frame / term structure as the 6-month or 1-year Libor observation. We clarify this point given that it appears that ARRC recommended fallback language and whitepapers for some consumer loans have suggested a move to a historical rate for consumer loans.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

This is consistent with our response to question 3, so please see our response to that question for any additional detail.

Question 12 applies to all products
Question 12. *Please provide any additional feedback on any aspect of the proposals.*
As general feedback, we would recommend that fallbacks, spread adjustments, and triggers be as consistent as possible across all markets. It will increase ease of understanding, reduce operational risk, make it easier for market participants to manage and hedge risk, and hopefully increase adoption rates of these recommended fallbacks.

While we realize that ARRC isn't forcing anyone to use these recommendations, and regulators aren't mandating a particular replacement rate, there may be steps that they can take to nudge the market along. For instance, ARRC in coordination with regulatory bodies could develop dates beyond which no new issuance should contain a Libor reference. Having issuance directly tie to an alternative reference rate like SOFR (as opposed to Libor with a fallback to SOFR) may help increase liquidity, build a SOFR term structure, and speed adoption. It would also help to reduce the amount of Libor-linked assets outstanding and reduce operational risk from a fallback being triggered. That said, any such action should only be related to new investments that are issued after a given date, and that date should be at a reasonable point in the future to ensure market participants have an opportunity to prepare systems and processes to support an alternative rate, educate consumers, and preparatory steps.

Anonymous 3

Alternative Reference Rates Committee

Via email: arrc@ny.frb.org

2 March 2020

RE: Consultation on spread adjustment methodologies for fallbacks in cash products referencing USD LIBOR

Our firm welcomes the opportunity to respond to the Alternative Reference Rates Committee (ARRC) consultation on spread adjustment methodologies for fallbacks in cash products referencing USD LIBOR. Our firm has set out our responses to the questions contained in the consultation paper released on January 21 2020 below.

Our firm requests that its response please be posted anonymously.

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes	5-year median is preferred	Other method is preferred
Securitizations	5-year median is preferred	Other method is preferred
Syndicated Loans	5-year median is preferred	Other method is preferred
Bilateral Business Loans	5-year median is preferred	Other method is preferred

Answer: The ISDA methodology of a 5 year median should apply to all listed cash products (FRNs, Securitizations, Syndicated Loans, and Bilateral Business Loans).

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

Answer: n/a

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Answer: c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

Answer: We prefer no transition period. If markets are normally priced at the time of cessation, a transition period only adds another level of complexity. Perhaps this could be an optional inclusion if both parties agree, eg. if markets were particularly dislocated, as they might be, ahead of LIBOR's discontinuance etc.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Answer: We do not have a view.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Answer: Yes, to the extent that such averaging continues to be used in the cash market.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Answer: Consistent spread adjustments should be used whenever possible, so aligning with ISDA as much as possible is preferred. We favour as much as possible, synchronization across asset classes. Different approaches would be problematic across products but would be manageable across currencies.

Questions 8- 11 refer to Consumer Products

Our firm has no comment in relation to questions 8-11.

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

Our firm has no comment in relation to question 12.

Anonymous 4

Confidential [responses to remain anonymized]

Please find our feedback to the ARRC consultation on spread adjustment for cash products. We are happy to answer any questions or further discuss. Many thanks for your support, engagement and efforts on the transition.

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☐	*5-year median is preferred*	☐	*Other method is preferred*
Securitizations	☐	*5-year median is preferred*	☐	*Other method is preferred*
Syndicated	☐	*5-year median is preferred*	☐	*Other method is preferred*
Bilateral Business Loans	☐	*5-year median is preferred*	☐	*Other method is preferred*

Response: Yes, we would agree that using the ISDA methodology is the best choice for the cash products referenced in Question 1 of the consultation. Further, we would note that while a 5 year historical lookback may be too long of a historical lookback for the loan market, we believe it is important to be aligned with the ISDA methodology. Also, a shorter cycle (i.e., 2 or 3 years) would be affected by a recent rate spike event, such as the spikes in September'19; whereas, a 5 year historical median would support a flatter curve.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. 5-year trimmed mean	*f. 3.5-year median*
b. 5-year average	*g. 3.5-year trimmed mean*
c. 10-year median	*h. 3.5 year average*
d. 10-year trimmed mean	*i. Other (please specify)*
e. 10-year average	

Response: N/A; no "Other Method" specified for any product.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Response: Our preference would be option c (use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR). We prefer option c because (i) EFFR is considered the best proxy of SOFR and (ii) using EFFR would allow for the use of real data as opposed to SOFR, which does not have as much historical data. Moreover, SOFR's potential volatility at month/quarter/year end was a consideration in selecting our preference; EFFR are steadier during these periods further supporting our preference of option c.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response: We believe a transition period may be useful and we potentially would be supportive of a 1-year transition period; however, a transition period may be overly complex to include, difficult to operationalize and require significant or challenging external and internal system updates and changes. Further, given the ISDA methodology does not use a transition period, the misalignment between derivatives and cash products may pose additional challenges or issues. As a result of these operational challenges, and the misalignment with ISDA, we would not be supportive of a 1 year transition period.

However, we would also like to note that a 1-year transition could be included only if the market spread between LIBOR and SOFR differs significantly from the 5-year median spread and the regulators enforce the transition (through a pre-cessation trigger?). Under these circumstances, the 1-year transition would smooth out the impact for the customers and the lenders. It would make sense if the difference between the current spread and the 5-year mean is larger than 1 or 2 Mean Absolute Error level. This would force all vendors to prepare for the 1-year transition period and include a trigger to toggle between 'no transition period' and '1 year transition period'. An alternative could be a quarterly (4 steps) or semi-annual (2 steps) step function, rather than a linear interpolation (but such alternative would add a cliff effect at each step date). It could be easier to explain, code and monitor. Given the amount of transparency required to explain all these transition changes, it may be difficult for people less familiar with these types of details to understand.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response: Yes. Given the loan market does have loans priced on 1-week or overnight LIBOR, we would suggest the ARRC recommend spread adjustments for such LIBOR tenors. Borrowers may request or want to see the spread adjustment for such tenors, if even the spread adjustment is minimal.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR* ***and*** *simple averages of SOFR in addition to compound averages?*
Response: Yes. The ARRC should recommend such spread adjustments given, in particular in the business loans context (for revolving loans that will not be hedged and may be frequently traded), there is a likelihood that simple SOFR will be the SOFR methodology used. Our expectation for FRNs and securitizations, as well as institutional term loans, is that SOFR compounded in arrears will be the market or preferred methodology; however, due to the potential of simple SOFR in the lending market we think the ARRC should also recommend the above-referenced spread adjustment.

Question 7*. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response: Our preference would be to align approaches across products and currencies because differing approaches may lead to operational challenges and require significant drafting for loan documentation to reflect required approaches and mechanics (e.g., for a multi-currency transaction). With that said, alignment may not be possible based on current market discussions, what RFRs or conventions may be adopted in particular jurisdictions or markets, industry guidance and client readiness and adoption. For example, SONIA compounded in arrears appears to be the UK market approach being adopted and supported the Bank of England; whereas, in the US, we may have four SOFR conventions and methodologies published by the NY Fed and available in the US market.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If*

another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Response: In principal, we are supportive of using a 5 Year median of historical difference between LIBOR and SOFR fallback rate methodology. The "lookback period" of 5 Years appears to be a reasonable middle point compared to looking back only 2 Years or extending the lookback period to a 10 Year time frame. Further, a 5 Year median spread appears to be not much different from 5 year trimmed median and 5 Year average; again supporting the case of using a 5 Year median as a reasonable choice.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Response: We do not believe a 1 Year transition period is needed for consumer products (mortgages) mainly due to remaining maturity of the ARM being long enough. The short term errors will be averaged out in a long term, as per the analysis conducted by the authors of the paper.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. *the next longest tenor of term rate recommended by the ARRC*
b. *a compound average of SOFR in advance*

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Response: We would prefer 'b' a compound average of SOFR in advance calculated to the reset structure of the mortgage: 1 Year, 6 Months, 3 Months etc.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Response: We would prefer 'c'.

Question 12 applies to all products
Question 12: *Please provide any additional feedback on any aspect of the proposals.*

Response: With respect to our response to Question 1 and from an overall perspective with regard to spread adjustment, we believe aligning with ISDA and the ISDA methodology makes sense to ensure and support consistency across the balance sheet during the LIBOR/IBOR transition and demise, especially between hedges and hedged items/products.

Further, as a point for confirmation, we know the LMA consultation on spread adjustment focused on cessation event. We would presume the ARRC consultation would be on ***pre-cessation*** or cessation. We kindly ask the ARRC to confirm in its consultation response/recommendations.

We did want to raise an additional consideration as we think through spread adjustments and client response or reaction to spread adjustment: will clients be incentivized to renegotiate its LIBOR-based products due to the implications or impacts of a spread adjustment on pricing. For example, typically in the lending market, borrowers have the option to select a particular LIBOR tenor and may convert or re-borrow from one tenor to another. There will be different spread adjustments for each tenor. How will the lookback spreads be applied to such loans and will the clients' ability to choose the loan's/borrowing's applicable tenor, which choice may be made based on what the spread adjustment for such tenor is, result in a shift in tenors/spreads? This could then, similarly, result in clients renegotiating ahead of the transition, creating significant operational and execution risk due to the increased volume of renegotiated deals.

Anonymous 5

ARRC Spread Adjustment Consultation

Consultation Questions	Responses
Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?* • *Floating Rate Notes 5-year median is preferred Other method is preferred* • *Securitizations 5-year median is preferred Other method is preferred* • *Syndicated Loans 5-year median is preferred Other method is preferred* • *Bilateral Business Loans 5-year median is preferred Other method is preferred*	5-year median (consistency with ISDA and ARRC research)
Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:* *a. 5-year trimmed mean f. 3.5-year median* *b. 5-year average g. 3.5-year trimmed mean* *c. 10-year median h. 3.5 year average* *d. 10-year trimmed mean i. Other (please specify)* *e. 10-year average*	Not applicable
Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:* *a. Use the longest span of indicative term rate data available* *b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*	We are comfortable with whatever ISDA decides.

Consultation Questions	Responses
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR	
Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*	Transition period should not be required for institutional products unless needed to match the cash flows of the underlying asset (consumer products only), e.g., MBS pass thru security backed by consumer ARMs with transition period.
Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*	No response.
Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR [and] simple averages of SOFR in addition to compound averages?*	No response.
Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*	While consistency is preferred overall, in certain cases the spread adjustment methodology or approach should be based on the needs of a particular product or industry. For example, in the case of Single-Family ARMs, we support implementing a transition period for the full phase-in of the historical spread adjustment to avoid potential payment shock issues for consumers; however, we do not believe a transition period is necessary for institutional products.
Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*	Yes (for consistency with ISDA and ARRC research).
Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*	Yes, for consumer products.

Consultation Questions	Responses
Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:* *a. the next longest tenor of term rate recommended by the ARRC* *b. a compound average of SOFR in advance* *(Note that in these instances, the rate would still reset annually or semi-annually and spreads would be calculated relative to 1-year or 6-month LIBOR).*	a.
Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:* *a. Use the longest span of indicative term rate data available.* *b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.* *c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR.*	Our recommendation is "b" unless a hybrid approach can be employed to come up with 5 years of data by using the longest span of indicative forward-looking term rate data available plus the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears.

Anonymous 6

Response to ARRC consultation on spread adjustment methodologies for fallbacks in cash products referencing USD LIBOR

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	*5-year median is preferred*	*Other method is preferred*
Securitizations	*5-year median is preferred*	*Other method is preferred*
Syndicated Loans	*5-year median is preferred*	*Other method is preferred*
Bilateral Business Loans	*5-year median is preferred*	*Other method is preferred*

Response: In order for the cash market to be consistent with the ISDA methodology, we prefer using a 5-year median when determining the spread adjustment for all the cash products listed above.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

Response: Given our response to Question 1, this question is not applicable.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Response: We prefer the method described in alternative c. above. We believe that using a compound average of SOFR in arrears when calculating the spread adjustment for a forward-looking term rate, as in alternative b, introduces an unnecessary error in the calculated spread. When calculating the spread adjustment for a forward-looking term rate, the historical spreads used in the calculation should be based on forward-looking rates in order to avoid this

unnecessary error. We also believe that basing the calculation of the spread adjustment on less than 5 years of data should be avoided in order not to introduce unnecessary noise in the calculated spread. Furthermore, since the liquidity in the SOFR futures market is rather limited, basing the spread calculation of forward-looking term rates implied by the SOFR derivatives market would also add noise to the calculated spread. For these reasons, we prefer alternative c. above. Out of the two remaining options we prefer alternative b. to alternative a.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response: Using a transition period will only affect payments that are within one year from the date the fallback takes effect. Furthermore, since the spread during the transition period will heavily depend on the spot spread at the trigger date, this makes the resulting spread during the transition period vulnerable to market manipulation. We also prefer that the spread adjustment for cash products is consistent with the ISDA methodology. For these reasons, we believe that a 1-year transition period should not be included for any of the listed cash products.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response: Yes, we believe that it is important with consistency regarding the definition and calculation of spread adjustments for all relevant LIBOR tenors.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response: Yes, we believe that this is important. It is likely that not all loan market participants will be able to handle rates based on compound averages due to limitations in IT systems. Since the calculated spread adjustment for simple averages most likely will not be identical to the calculated spread adjustment for compound averages, it is important that the implemented spread adjustments are as valuation neutral as possible.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response: Consistency across products and currencies is very important since it makes it easier to handle the transition operationally. Furthermore, consistency would make the interest markets more transparent. The only reason to forego consistency across currencies would be if it were impossible to retrieve reliable proxy data for certain currencies.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Response: Since we are not involved in the consumer market, this question is not applicable.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Response: Since we are not involved in the consumer market, this question is not applicable.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*
a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Response: Since we are not involved in the consumer market, this question is not applicable.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Response: Since we are not involved in the consumer market, this question is not applicable.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Response: *Small and medium sized borrowers, that are not active in the capital markets, are probably not too concerned with consistency between cash products and the derivatives market. As a professional participant in the capital markets, we however believe that for the financial market as a whole it is important that the cash market products are as consistent with the ISDA methodology as possible. Consistency with the derivatives markets avoids introducing new basis risks into the books of market participants, which would lead to increased transaction costs. Possibly, there could be exceptions for consumer products.*

Anonymous 7

Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes: 5-year median is preferred

Securitizations: 5-year median is preferred

Syndicated Loans: 5-year median is preferred

Bilateral Business Loans: 5-year median is preferred

No. Using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the compound average of SOFR in arrears is the best choice for all the cash products in which a forward-looking term rate or a compound average of SOFR in arrears is used as the unadjusted replacement benchmark. We prefer to use the ISDA's spread adjustment itself as the spread adjustment for all the cash products.

[Question 2 is omitted]

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

We prefer b, in the sense that the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears for the whole 5 years of the historical lookback period, including the period in which a forward-looking term rate is available, should be used as an appropriate spread adjustment for the forward-looking term rate, not only when there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate but also when there are more than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate. In other words, we prefer not to use any historical data of forward-looking term rate for calculating the spread adjustment, but we do prefer to use the ISDA's spread adjustment for the compound average of SOFR in arrears as the spread adjustment for the forward-looking term rate in all instances.

We would like to note that we are concerned with potential confusions and ambiguities of the consultation paper. The second bullet on page 13 of the consultation paper described the second option for calculating the spread adjustment for the forward-looking term rate "could be based on the historical difference between LIBOR and these compounded averaged during periods of time for which historical data on a term

SOFR rate is unavailable", which seems to be different from the option b of Question 3. We interpreted that the option b of Question 3 meant that the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears for the whole 5 years of the historical lookback period, including the period in which a forward-looking term rate is available, should be used as an appropriate spread adjustment for the forward-looking term rate.

We strongly recommend that the ARRC recommend exactly the same spread adjustment for compounded average of SOFR in arrears and term SOFR. Because the term SOFR is intended to measure the market expectation of the compounded average of SOFR in arrears, exactly the same spread adjustment should be used irrelevant to the choice of unadjusted replacement benchmark (i.e., the choice of compounded average of SOFR in arrears or term SOFR). If different spread adjustments are recommended by the ARRC for the compounded SOFR and term SOFR, then parties of a financial contract will be incentivized to try to choose the unadjusted replacement benchmark so that they can benefit from the relevant spread adjustment, which would significantly increase the litigation risks and induce confusions. It will become impossible for market participants to manage the basis risks between USD LIBOR falling back to compounded SOFR and USD LIBOR falling back to term SOFR, because cleared derivatives market referencing USD LIBOR falling back to term SOFR will not be developed. It would also be very difficult to calculate accounting fair values and risk measures (such as Value-at-Risk) of financial contracts referencing USD LIBOR falling back to term SOFR because market rates of interest rate swaps referencing USD LIBOR falling back to term SOFR would not be available but should be different from market rates of interest rate swaps referencing USD LIBOR falling back to compounded SOFR reflecting the different spread adjustment methodologies.

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

No. We do not believe that any transition period should be included. We are afraid that the inclusion of a 1-year transition period could potentially undermine hedge effectiveness between cash transactions and hedge instruments from hedge accounting point of view because the ISDA is not going to include any transition period. If it is absolutely desirable to avoid a sudden jump up in rates upon a trigger event for certain products, then that should be introduced in the relevant financial contracts through agreements by relevant parties and not within the ARRC-recommended fallback rate itself.

[Question 5 is omitted]

[Question 6 is omitted]

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Yes, it would be problematic. We generally prefer to use the same approaches to calculate spread adjustment across products and currencies.

Questions 8- 11 refer to Consumer Products

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you

prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

No. Using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the compound average of SOFR in arrears is the best choice for all the cash products in which a forward-looking term rate or a compound average of SOFR in arrears is used as the unadjusted replacement benchmark. We prefer to use the ISDA's spread adjustment itself as the spread adjustment for all the cash products.

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

No. We do not believe that any transition period should be included. We are afraid that the inclusion of a 1-year transition period could potentially undermine hedge effectiveness between cash transactions and hedge instruments from hedge accounting point of view because the ISDA is not going to include any transition period. If it is absolutely desirable to avoid a sudden jump up in rates upon a trigger event for certain products, then that should be introduced in the relevant financial contracts through agreements by relevant parties and not within the ARRC-recommended fallback rate itself.

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

We prefer a, the next longest tenor of term rate recommended by the ARRC.

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

We prefer b. Please refer our response to Question 3.

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

As we recommended in our response to the ARRC's Consultation Regarding More Robust LIBOR Fallback Contract Language for New Issuances of LIBOR Floating Rate Notes, we strongly believe that the ARRC should not recommend different spread adjustments for compounded SOFR and term SOFR but that the ARRC should recommend the ISDA's spread adjustment to be added to compounded SOFR as the spread adjustment for all the cash products, not only when the compounded SOFR is selected as the unadjusted replacement benchmark but also when the term SOFR is selected as the unadjusted replacement benchmark. We understand that the Working Group on Sterling Risk-Free Reference Rates is planning to take the same approach as the one we recommend.

This point was not explicitly addressed in the current consultation paper and we suggest the ARRC consider to re-consult on this point specifically if appropriate and necessary.

Anonymous 8

March 6, 2020

Via email to the ARRC Secretariat at: arrc@ny.frb.org

Alternative Reference Rates Committee, convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York

Re: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Anonymous responses to the request for consultation.

Question 1: *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☐	*5-year median is preferred*	☐	*Other method is preferred*
Securitizations	☐	*5-year median is preferred*	☐	*Other method is preferred*
Syndicated Loans	☐	*5-year median is preferred*	☐	*Other method is preferred*
Bilateral Business Loans	☐	*5-year median is preferred*	☐	*Other method is preferred*

Response to Question 1:
We prefer the 5-year median spread methodology for all loan types to align cash products with ISDA's methodology for hedging products. Additionally, the MSE improvement for methods other than the 5-year median are negligible as presented in the consultation.

Question 2: *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5-year average
i. Other (please specify)

Response to Question 2:
A response to Question 2 is not applicable per the above response for Question 1.

Question 3: *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR.

Response to Question 3:
No response submitted.

Question 4: *4.Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response to Question 4:
We believe commercial products should not include a 1-year transition period in order to minimize the creation of additional basis risk with derivatives hedging products, which will not include a transition period per ISDA's methodology. Commercial end users concerned with a sudden jump in rates due to the transition should hedge this risk separately.

Question 5: *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response to Question 5:
No, spread adjustments for 1-week and overnight LIBOR are not needed based on our institution's exposure profile.

Question 6: *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response to Question 6:
Yes, given the uncertainty in operational and systems capacities to use compound averages of SOFR in a timely manner, we believe there should be an ARRC-recommended spread adjustment for simple averages of SOFR.

Question 7: *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response to Question 7:
We believe that it would be problematic to use different approaches across products, but not across currencies. The various products under consultation (FRNs, securitizations, and business loans) may act as natural hedges across a portfolio and the spread methodologies should be consistent across these cash products. Differences in spread methodologies are less significant across currencies, where they may become one additional factor among many resulting in different rates and prices.

Question 8: *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Response to Question 8:
Yes, we are comfortable that a 5-year median methodology is an acceptable choice for the spread adjustment for consumer products.

Question 9: *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Response to Question 9:
Yes, we believe that a 1-year transition period should be included for consumer products. Consumers are more likely to be negatively impacted by a rate shock induced by a transition spot rate significantly different than the long run median. Consumers are less able to hedge away this rate risk and less likely to have a technical understanding of the cause of an immediate rate jump or fall due to a sudden transition.

Question 10: *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Response to Question 10:
If a 1-year or 6-month term rate is not available, we believe that it would be preferable to base the spread adjustment on the equivalent compound average of SOFR in advance. This reduces the uncertainty of which tenor of term rate will be available, and the compound average of SOFR in advance is expected to have relatively little basis difference to the corresponding term SOFRs when that basis is averaged out over the life of the product.

Question 11: *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Response to Question 11:
No response submitted.

Question 12: *Please provide any additional feedback on any aspect of the proposals*.

Response to Question 12:
No additional feedback to provide.

_____

Thank you for your time and attention to this feedback.

Anonymous 9

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method? (for floating rate notes, securitizations, syndicated loans, bilateral business loans)*

For consistency reason we agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products

- Floating rate notes
- Securitizations
- Syndicated loans
- Bilateral business loans

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median*
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average

Not applicable.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Answer a: use the longest span of indicative term rate data available.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

For simplicity reasons we believe that a transition period should not be included for any of these cash products, as many operational issues would arise during such a transition period.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

The ARRC should recommend spread adjustments for overnight LIBOR.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

No, the ARRC should not recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Yes it would be problematic and increase operational and hedging complexity. It is preferable to have a consistent methodology across products and currencies when possible.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Yes, we agree that using the ISDA methodology is an acceptable choice.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

We believe that a transition period should not be included for consumer products as there would be many operational issues that would arise with a transition period.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

We have no preferred choice between answers a and b.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Answer A: use the longest span of indicative term rate data available.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals*

- ➔ The ARRC should recommend a 1-year or 6-month term rate (question 10).
- ➔ We would like to have a consistent methodology with ISDA across all products and currencies.

Anonymous 10

Part V: Consultation Questions
Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	5-year median is preferred	*Other method is preferred*
Securitizations	5-year median is preferred	*Other method is preferred*
Syndicated Loans	5-year median is preferred	*Other method is preferred*
Bilateral Business Loans	5-year median is preferred	*Other method is preferred*

5-year median is preferred for all the above products.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median*
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average
We are supportive of a consistent approach for all IBORs utilising Median over five year lookback.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Method b - Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate is our preferred option, noting that the Federal Reserve Bank of New York started officially publishing SOFR on April 3, 2018, and has also made available indicative SOFR values dating back to August 1, 2014. We are supportive of using indicative SOFR rates dating back to August 22, 2014 when calculating the spread adjustment, as these rates have been widely published and acknowledged as sound data points. Based on these circumstances, we believe 5 years of data points will be available for calculating the spread adjustment.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

The results of ISDA's consultation on Final Parameters for the Spread and Term Adjustments cited that "a clear majority of approximately 71% of respondents did not prefer to include a transitional period in the calculations of the spread adjustment…[due to] operational difficulty and the complexity associated with a transitional period, that any costs would outweigh any benefits, and that it would not help insulate against any potential value transfer." We support consistency with ISDA's approach and therefore do not support a transitional period for any cash products in the calculations of the spread adjustment.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

We are supportive of calculating spread adjustments for all historic LIBOR interest periods in order to facilitate full transition of LIBOR across all tenors.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Cash products are likely to adopt both simple and compounded averages. We support calculating separate spread adjustments for both averages.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

We believe consistency across IBORs and products is very important as this will make the transition easier. It is especially helpful for clients who are dealing in more than one region by reducing:

- Operational challenges and burden;
- Risk of incorrect calculation methodology being applied;
- Exposure to litigation risk if one methodology is more favourable/harmful to clients.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

We are supportive of a consistent approach for all IBORs utilising Median over five year lookback.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

The results of ISDA's consultation on Final Parameters for the Spread and Term Adjustments cited that "a clear majority of approximately 71% of respondents did not prefer to include a transitional period in the calculations of the spread adjustment…[due to] operational difficulty and the complexity associated with a transitional period, that any costs would outweigh any benefits, and that it would not help insulate against any potential value transfer." We support consistency with ISDA's approach and therefore does not support a transitional period for any cash products in the calculations of the spread adjustment.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Option a. The next longest tenor of term rate recommended by the ARRC

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Method b - Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate is our preferred option, noting that the Federal Reserve Bank of New York started officially publishing SOFR on April 3, 2018, and has also made available indicative SOFR values dating back to August 1, 2014. We are supportive of using indicative SOFR rates dating back to August 22, 2014 when calculating the spread adjustment, as these rates have been widely published and acknowledged as sound data points. Based on these circumstances, we believe 5 years of data points will be available for calculating the spread adjustment.

Question 12 applies to all products
Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Anonymous 11

Part V: Consultation Questions
Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes 5-year median is preferred Other method is preferred
Securitizations 5-year median is preferred Other method is preferred
Syndicated Loans 5-year median is preferred Other method is preferred
Bilateral Business Loans 5-year median is preferred Other method is preferred

We believe a dynamic credit spread adjustment should be explored. If a static spread is adopted it should include a static credit premium as well. A lender moving from a credit sensitive rate to a risk free rate would rationally charge a premium to account for the lack of credit sensitivity. Any methodology that contemplates a static spread and does not at least address the question of a credit premium is deficient. On this point the comparison to swap methodology is incomplete since swap counterparts do not have the same cost of funds/ credit concerns as lenders. We note that we do recognize that a spread adjustment that differs from swap methodology would raise challenging issues for loans that are hedged, so any recommendation that differs from ISDA's recommendation should also include a narrative regarding the challenges associated with disparate methodologies and leave open the possibility that in certain circumstances market participants may wish to voluntarily adopt swap methodology.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*
a. 5-year trimmed mean
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average
f. 3.5-year median

N/A See above.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

a. Use the longest span of indicative term rate data available

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

We do not feel strongly about including a 1-year transition period, but believe that it is important that the transition period should be aligned between the securitization and the underlying loan. In addition, we believe it would be extremely helpful if the ARRC could provide historical difference between SOFR analogs and LIBOR using the ISDA spread methodology (5-year median) in order to identify the frequency of significant mismatch between 5-year median difference and spot differences in the rate. Ultimately, the administrative burden of implementing a transition period should be weighed against the probability of a significant mismatch.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

No

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Yes

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Yes, aligning spread adjustment calculations across products and currencies will ensure that hedge accounting relationships and tax/accounting relief guidance are maintained.

Questions 8- 11 refer to Consumer Products
Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Align with language in #1 - We believe a SOFR-based lending framework should include a credit risk premium. That framework could consist of a dynamic spread that reflects changes in banks' cost of funds over forward-looking term periods and is added on a periodic basis to SOFR-based rates.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

A 1-year transition period would be beneficial for Private Student Loans and Hybrid ARMS provided that it will be published by the Federal Reserve along with the other compounded rates.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

a. or c.

Question 12 applies to all products
Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Part VI. Response Procedures / Next Steps

Market participants may submit responses to the consultation questions by email to the ARRC Secretariat (arrc@ny.frb.org) no later than March 6, 2020. Please coordinate internally and provide only one response per institution. Please attach your responses in a PDF document and clearly indicate "Consultation Response" in the subject line of your email. Comments will be posted on the ARRC's website as they are received without alteration except when necessary for technical reasons. Comments will be posted with attribution unless respondents request anonymity. If your institution is requesting anonymity, please clearly indicate this in the body of your email and please ensure that the PDF document you submit is anonymized. Questions regarding the consultations should be sent to the ARRC Secretariat (arrc@ny.frb.org) and will not be posted for attribution.

Following this market-wide consultation, the ARRC plans to recommend spread adjustments that would apply to its fallback recommendations.

Anonymous 12

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☒ *5-year median is preferred*	☐ *Other method is preferred*
Securitizations	☒ *5-year median is preferred*	☐ *Other method is preferred*
Syndicated Loans	☒ *5-year median is preferred*	☐ *Other method is preferred*
Bilateral Business Loans	☒ *5-year median preferred*	☐ *Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Answer: NA.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Answer: Option "b."

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Prefer not to use a 1-year transition period. The preference is to not have a transition period. Operationally also it would be challenging for the bank to manage transactions with transition period.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

No further comments.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Yes, the simple average should be published (in addition to the compound average).

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Yes, it would be problematic to use different approaches being used across products. This would likely confuse clients and lead to a greater chance of legal / reputational dispute. .

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Preference is cash market is aligned ISDA conventions to remove the basis risk (due to methodology choices).

Anonymous 13

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

No.	Question	Response
	Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans	
1	Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method? o Floating Rate Notes: □**5-year median is preferred** □Other method is preferred o Securitizations**:** □ **5-year median is preferred** □Other method is preferred o Syndicated Loans: □**5-year median is preferred** □Other method is preferred o Bilateral Business Loans: □**5-year median is preferred** □Other method is preferred	5-year median is preferred for calculation of spread for LIBOR fallbacks of Floating Rate Notes, Securitizations, Syndicated Loans and Bilateral Business Loans. This is in line with the ISDA proposal for derivatives fallbacks as well as our response to the recent Bank of England consultation on fallback spread adjustment for cash products referencing GBP LIBOR.
2	If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method o a. 5-year trimmed mean o b. 5-year average o c. 10-year median o d. 10-year trimmed mean o e. 10-year average o f. 3.5-year median o g. 3.5-year trimmed mean o h. 3.5 year average o i. Other (please specify)	N/A
3	If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate. **c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR**	We prefer the option c as it is expected that SOFR term rates would move closely with EFFR OIS rates.
4	Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should	No. This is to align to the ISDA proposal for derivatives fallbacks.

	be included, but that it should be longer or shorter than 1 year, please note this and explain why.)	
5	Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?	No, as the 1-week or overnight LIBOR are rarely used for cash products.
6	Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?	Yes. It would be beneficial to the market if ARRC would recommend both spread adjustments based on the differences between LIBOR and simple averages of SOFR as well as compounded averages. This will have the benefit of creating transparency in the transition process.
7	Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.	Yes. Divergence of spread adjustment approach and methodology would create basis risks across products and currencies as well as operational burdens.
Questions 8- 11 refer to Consumer Products		
8	Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).	Yes.
9	Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).	Yes. The 1-year transition period would help the consumer customers to better absorb any interest rate shocks (i.e. "cliff effect" at the time the fallback applies if the LIBOR/SOFR spread at that time differs from the long-term historical spread).
10	If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on: a. the next longest tenor of term rate recommended by the ARRC b. a compound average of SOFR in advance	We think that neither options are compatible successor rates to the consumer ARMs referencing 1y or 6m LIBOR. Producing and making available the relevant SOFR term rates are crucial for a successful transition of existing ARMs and to minimise value transfers for the consumers.
11	If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate **c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR**	We prefer the option c.

Question 12 applies to all products		
12	Please provide any additional feedback on any aspect of the proposals.	We would like to seek clarity and guidance from the official sector and industry on how to navigate and manage the risk of, in the event where upon the fallback trigger event the market players transitioned to a compounded SOFR in advance (as a forward looking term SOFR is not available at that time), a 2nd migration potentially being taken by certain market players once a term SOFR is subsequently published. We would also like to seek guidance from ARRC on if and when ARRC will consider taking up the work on the development of a credit sensitive add-on to SOFR or another credit sensitive index for new lending products.

Anonymous 14

Comments to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR
March 6, 2020

The comments below are respectfully submitted with the request of anonymity, and are made in the effort of providing perspectives to improve the uptake of these recommendations by market participants.

Response to Question 12:

Using different approaches to calculate the spread adjustment across different products will introduce significant and unintended issues. While a 12-month transition period for consumer products may be beneficial to the consumer, it could ultimately lead to serious economic mismatches if cash products and derivatives do not adopt the same methodology as the consumer product. For example, businesses who have very little control over how the cessation of LIBOR will ultimately unfold will bear the brunt of absorbing this mismatch over the 12-month transition period. Therefore, we believe it is imperative for only one methodology to be selected for across all products, and see no compelling justification to provide for multiple methodologies.

Anonymous 15

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

We are supportive of this proposal, cross product alignment is a key factor in market transition.

Floating Rate Notes 5-year median is preferred ***Agreed***
Other method is preferred
Securitizations 5-year median is preferred Other method is preferred ***Agreed***
Syndicated Loans 5-year median is preferred Other method is preferred ***Agreed***
Bilateral Business Loans 5-year median is preferred ***Agreed***
Other method is preferred ***N/A***

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

We are not supportive of an alternative method
a. 5-year trimmed mean
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average
f. 3.5-year median

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

We would be supportive of this option, the figures shown in Table 8 of the consultation produce reasonable results and the look back period will be in line with ISDA's proposals. Whilst spreads based on a current 3.5 year look back also look reasonable this could change between now and the end of 2021 risking divergence with ISDA.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Whilst we can see merit in smoothing any potential elevated spread adjustments we would not be supportive of a one year transition period, alignment with ISDA fallback arrangements will better facilitate transition. Any divergence may lead to additional basis risk.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

No comment on this

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR*
simple averages of SOFR in addition to compound averages?

This may be helpful for some parts of the market and we would be supportive of this approach.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*
We would see this as problematic.

Yes this could be problematic and there will be a dependency on alignment across products, absent alignment there could be Operational, Legal and Conduct related issues.

Questions 8- 11 refer to Consumer Products ***{No comments on Consumer Products}***

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate .
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

In relation to pre-cessation triggers we are of the opinion that there should only be a single spread adjustment and not a pre cessation /permanent version. Alignment with ISDA's work in relation to this matter is a key consideration.

Further, cross currency alignment is an important factor in transition in particular where there are multi-currency facilities. Any divergence will (at a minimum) increase Operational complexity and may lead to confusion and mismatches by/between market participants and end users.

We would welcome coordination on alignment matters between the ARRC and other national RFR working groups to the greatest extent possible.

Once the methodology has been agreed the market and transition activity in general will benefit from adjustment spreads being published and available for use at the earliest opportunity.

Anonymous 16

March 6, 2020

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Questions 1- 6 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☑ *5-year median is preferred*	☐ *Other method is preferred*
Securitizations	☑ *5-year median is preferred*	☐ *Other method is preferred*
Syndicated Loans	☑ *5-year median is preferred*	☐ *Other method is preferred*
Bilateral Business Loans	☑ *5-year median is preferred*	☐ *Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

N/A

Question 3. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. ***[ANSWER SELECTED] Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.***
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

[ANSWER] No, as this is not consistent with the ISDA consultation results. Consistency across asset classes is key for certainty in the market.

We do not believe, given historical LIBOR-OIS spreads, there is a high likelihood of a spot/spread dislocation at any given time unless LIBOR unexpectedly becomes or is deemed to be "non-representative" prior to its cessation date.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

[ANSWER] 1-week: YES, Overnight: YES. Certain loan agreements can have short "rate tenures" so it is useful to have spread adjustments for these tenures.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

[ANSWER] No

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

[ANSWER] Yes, it would be problematic to use different approaches to calculate the spread adjustment across products and currencies.

The most significant inconsistency would be the issue of hedging/derivatives on such products. It would likely be best to apply the same methodology as ISDA to cash products.

For securitizations, there is a natural tendency to match asset-liability terms as often as possible; outside of the need to hedge/use derivatives that completely offset/match the underlying rate risk of a cash product, use of different approaches to calculate the spread adjustment would likely lead to confusion.

Questions 8 - 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

[ANSWER] Yes

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

[ANSWER] Yes
A 1-year transition period using linear interpolation for consumer products would seem to avoid any shock to consumers in products that transition to SOFR; perhaps a threshold spread should be considered (i.e., if the spread adjustment is less than [15bps], the rate could occur at the next reset date upon notice to the consumer, but if the spread adjustment were higher than the threshold, the 1-year transition period with linear interpolation would be used)

1 year seems like the right time frame given the historical data that shows that LIBOR-OIS typically converge to a long-term spread within 1 year of a dislocation.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fallback to a spread adjusted rate based on:*
a. the next longest tenor of term rate recommended by the ARRC
b. [ANSWER SELECTED] a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. [ANSWER SELECTED] Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals*

[ANSWER] ARRC should ensure timelines & methodologies align as much as possible with the proposals coming from ISDA to ensure consistency across asset classes

As mentioned in our response to question 1, a 5-Year median historical spread adjustment is our preferred methodology for the conversion to SOFR of legacy portfolios of cash products despite the reallocation of risk and pricing between borrowers and lenders that it inevitably triggers.

For new contracts, a credit sensitive pricing is highly desirable, as those new will not be priced of an average credit risk historical level (as legacy contracts would), but priced on current credit conditions. This point is critical as the absence of credit sensitivity in cash lending products can cause a restriction of credit from banks to their clients.

Furthermore, Trade Finance was not addressed in this consultation, however the subset has unique characteristics which we believe merits further consideration. We respectfully encourage the ARRC to develop a working group focused on trade finance to address issues specific to this subset of the industry.

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Question 1. 5 year median is preferred for all products.

Question 2. N/A

Question 3. No preference

Question 4. Yes, bilateral commercial loan products would benefit from having a one year transition period from LIBOR to the SOFR + spread alternative. This would give borrowers the benefit of smoothing the impact rather than facing a sudden change in rates. While the borrower may benefit if the new rate is lower, the scenario where their rate spikes due to the new index would be problematic for middle market commercial clients.

Question 5. No preference

Question 6. Yes

Question 7. Yes

Question 8. Yes

Question 9. Yes

Questions 10-12. No preference/No additional feedback

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March 5, 2020

Anonymous Response to ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes:	5-year median is preferred	Other method is preferred
Securitizations:	5-year median is preferred	Other method is preferred
Syndicated Loans:	5-year median is preferred	Other method is preferred
Bilateral Business Loans:	5-year median is preferred	Other method is preferred

Answer:
5 year median in each case

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average

Answer:
N/A

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Answer:
b

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

Answer:
No.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Answer:

Yes - both

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Answer:
Yes

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Answer:
Yes. We believe that ideally, for simplicity and ease of understanding by market participants, the same approach should be used across products and currencies. We don't see a reason why the 5 year median could not be used for all products.

Questions 8- 11 refer to Consumer Products

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Answer:
Yes, we believe it is appropriate.

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

Answer:
No, we don't believe it is appropriate. While it may indeed mitigate against cliff effects, it adds unnecessary complexity, and it may have the downside that during the transition period, the adjustment spread would be heavily influenced by a small number of LIBOR fixings, which occurred just prior to discontinuation.

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:
a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Answer:
b

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:
a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Answer:
b

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

Answer:
N/A

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ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Question 1 – Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Yes, we agree that the ISDA methodology of a historical median approach with a 5-year lookback period is the best choice for Floating Rate Notes, Securitizations, Syndicated Loans and Bilateral Business Loans. This answer is based on a desire to have alignment between the cash and derivatives markets in order to reduce/eliminate basis risk between the cash product and its associated hedge.

We also have additional concerns about public perceptions of the ARRC spread adjustments and the nature of a static spread adjustment. These concerns are further discussed in our response to Question 12.

Question 2 – If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method.

N/A.

Question 3 – If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: (a) Use the longest span of indicative term rate data available, (b) Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate, and (c) Use the spread between LIBOR and EFFR OIS rate.

We do not have a strong position on the Options listed, but do have concerns regarding each one. For Option A, we have concerns with the indicative rate and whether there is sufficient liquidity underpinning it. Market liquidity in SOFR products is needed to produce a robust forward-looking rate and by extension an indicative rate. For Options B and C, a compounded average of SOFR in arrears and the EFFR OIS rate are different rate than a forward-looking term SOFR. It may not be appropriate to use these to calculate the spread for the forward-looking term SOFR.

Question 4 – Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

A transition period should not be included for these commercial cash products. Other major jurisdictions are not considering a transition period for these asset classes nor is it being contemplated for USD LIBOR derivatives products. A US-only transition period for these commercial cash products will only increase market confusion, addition complexity to the transition and increase execution risk.

Question 5 – Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

The ARRC should recommend a spread adjustment for both 1-week and overnight LIBOR. This is in order for the ARRC recommended spread adjustments to be comprehensive and cover as many LIBOR rates as possible. However, the 1-week or overnight LIBOR rate may not be widely used as other tenors (e.g. 1-month, 3-month etc.), minimizing the commercial utility of these spread adjustments.

Question 6 – Should the ARRC recommend spread adjustments based on the differences between LIBOR and simple averages of SOFR in addition to compound averages?

The ARRC should not recommend spread adjustments based on differences between LIBOR and simple averages of SOFR in addition to compounded averages. The simultaneous publication of two sets ARRC spread adjustments could lead to market confusion. Some market participants may not have the operational capabilities to manage two sets of spread adjustments. Two sets of ARRC spread adjustments will only increase the complexity of the transition and potentially hinder the market shift from USD LIBOR to SOFR.

Given the low interest rate environment, the differences between the spreads of LIBOR against simple averages of SOFR and compounded averages of SOFR is expected to be minimal. There may not be much commercial utility for spreads against simple averages of SOFR. However, should the current interest rate market change, it may become necessary for the ARRC to publish spread adjustments based on differences between LIBOR and simples averages of SOFR.

Question 7 – Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

It would be problematic to have different spread adjustment methodologies across products and currencies. It may lead to market confusion and increase complexity/execution risk in the transition from

IBORs to RFRs. While the spread adjustment applied will ultimately be different for each currency, the methodology to determine the spread adjustment should be the same.

Questions 8-11 re: Consumer Products

Our firm does not have material exposures to USD LIBOR consumer cash products. As such, we will not be commenting on these questions. However, consistency with the conventions in the commercial cash product market is preferred where appropriate.

Question 12 – Please provide any additional feedback on any aspect of the proposals.

Public Perception of ARRC Spread Adjustments

We have concerns about the public perceptions of the ARRC spread adjustments. Market participants may not appreciate what these spread adjustments are intended to do: facilitate the transition of legacy cash products from USD LIBOR to SOFR. The ARRC spread adjustments do not account for counterparty credit risk and other factors dealers/banks consider when setting a credit spread on their products. The ARRC spread adjustments may give market participants an incorrect perception about the credit spread dealers/banks would apply to new SOFR products, potentially leading to disputes.

Static vs. Dynamic Spread Adjustment

Our most significant issue with the options provided (including the ISDA historical median approach with a five-year lookback period) is that they result in a static spread adjustment for cash products as they transition USD LIBOR to SOFR. USD LIBOR (as with the other IBORs) incorporate the banks' credit risk into the rate, which can change with market conditions, while SOFR (and the other RFRs) do not. A static spread adjustment will not be able to capture banks' changing credit risk. Banks will have wrong way and basis risk exposure in the event USD LIBOR and SOFR diverge (e.g. during a time of market stress); the costs to fund SOFR products with a static spread adjustment will increase significantly. To mitigate against these risks, Banks may have to hold additional contingent liquidity, tying up assets that could be deployed towards other economically productive activities.

A dynamic spread adjustment or an alternative rate which incorporates bank credit risk would address these concerns. US Fed Chairman Jerome Powell acknowledged a growing desire among market participants for a dynamic spread adjustment or an alternative rate when speaking with US Senators on February 12. In his comments, Chairman Powell noted that agency is open to exploring a separate alternative reference rate to USD LIBOR that would be credit sensitive (see link). We urge the ARRC to support such efforts.

Products with Optionality

We have concerns regarding products with optionality – where a counterparty can select different interest periods throughout the lifespan of the contract (e.g. a loan where the counterparty can select 1-, 3-, or 6-month LIBOR on a rolling basis). The spread adjustment between LIBOR and compounded SOFR are expected to be smaller for shorter tenures. For products with optionality, counterparties will be incentivized to pick the lowest tenure rate available and take advantage of the smaller, static spread adjustments. The increased number of roll-overs will increase the operational complexity and costs to manage such products. The ARRC (and perhaps specifically the Bank Loans and CLOs) working group should examine this issue and look to provide guidance to the market.

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ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	*□ 5-year median is preferred*	*□ Other method is preferred*
Securitizations	*□ 5-year median is preferred*	*□ Other method is preferred*
Syndicated Loans	*□ 5-year median is preferred*	*□ Other method is preferred*
Bilateral Business Loans	*□ 5-year median is preferred*	*□ Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. 5-year trimmed mean

b. 5-year average

c. 10-year median

d. 10-year trimmed mean

e. 10-year average

f. 3.5-year median

g. 3.5-year trimmed mean

h. 3.5 year average

I. Other (please specify)

The below is applicable for syndicated and bilateral loans only:

We appreciate the value of aligning credit adjustment calculations across products, to minimize basis risk – which would indicate a desire to remain consistent with the ISDA historical median approach. However, loan products' use of LIBOR rates also merits alignment with the cost of funds incurred in providing the loans.

Optimally, we would use a risk-sensitive adjustment which is based on visible transaction data and periodically updated to reflect current market conditions. Such an adjustment may be developed as a result of the work to be conducted by the new working group, to be established with sponsorship of the Federal Reserve, to consider a risk-sensitive alternative to USD LIBOR. We believe it is critical to permit this working group sufficient time to conduct its work, make recommendations to the market and provide market participants the opportunity to assess and adopt such recommendations.

Absent a risk-sensitive adjustment, we would consider a longer lookback period than described above, such as a 15 year median or trimmed mean, to capture data through the most recent economic cycle.

We also note using a different period from ISDA creates basis risk for hedges related to the loan, and this would need to be carefully considered by parties selecting such an approach.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

We would prefer option B, because the term rate is derived from the market's price for the forward overnight rates, the same spread adjustment for the forward looking term and spot rates should be appropriate (ignoring a negligible convexity adjustment).

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Transition periods of any duration are not warranted for these products. Introduction of such periods will require additional changes to accounting systems for all market participants, add complexity to reconciliation of invoices and may create more confusion in the market around the all-in rate upon transition. While we appreciate the idea of a gradual move to the transition rate, particularly if there are significant differences between the prior and new all-in rate, the benefit of muting the impact is overcome by the additional complexity of using a transition period.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Yes, the ARRC should recommend spread adjustments for 1-week or overnight. We believe that it would be beneficial to have those options available.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Yes, the ARRC should recommend spread adjustments based on the differences between LIBOR simple averages of SOFR and compound averages. We believe it is beneficial to have both options available.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Different approaches to calculate the spread adjustment may be warranted across different products.

We prefer to use the same approach for a particular product across currencies as it minimizes operational burden and increases efficiency of technical change. However, should a risk-sensitive credit adjustment become available in one jurisdiction, we would favor that approach as more accurate, even if it was not available in other jurisdictions.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Our response for Consumer Products aligns with the response to Questions 1 and 2 for bilateral and syndicated loans. Please see above for commentary.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

There should be a transition period for consumer products however the transition period should be 6 months or less. We would also be supportive of foregoing a transition period if the spread adjustment is less than 25 bps.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

We strongly encourage the ARRC to recommend a credit spread adjustment for a 1-year or 6-month term rate. However, if ARRC does not make a recommendation we support option A, the next longest tenor of term rate recommended by ARRC.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

For consumer products the preference is option C.

Question 12 applies to products all

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

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ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

January 21, 2020

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	*X 5-year median is preferred*	*Other method is preferred*
Securitizations	*X 5-year median is preferred*	*Other method is preferred*
Syndicated Loans	*X 5-year median is preferred*	*Other method is preferred*
Bilateral Business Loans	*X 5-year median is preferred*	*Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Response*: We do not prefer a method other than the 5-year median for any cash product. Any inconsistency in methodology will introduce additional risks that cannot be hedged.*

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for themean difference between compound averages of EFFR and SOFR*

Response*: We prefer option B.*

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response*: No, any transition period for cash products that is not matched by a transition for derivatives will introduce additional risks. The methodology should mirror that of derivatives.*

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response*: Yes for consistency, although we do not participate in these markets.*

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response: *No. We believe that every market should use compound averages. More choices will create more confusion.*

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response*: It would be problematic to use different approaches for different products because it would be a systems nightmare to have multiple versions of fallback LIBOR, in addition to making risks impossible to hedge.*

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Response*: It was not our first preference, but we prefer alignment between derivatives and cash items.*

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Response*: No. The calculation for the transition will be too complex for systems to handle. Alignment between the derivatives and cash items is ideal.*

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*
a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Response*: We prefer B.*

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for themean difference*
d. *between compound averages of EFFR and SOFR*

Response*: We prefer B as the most consistent method.*

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Response: *Cash items should mirror the derivatives as much as possible and there should be a single spread per LIBOR term.*

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ARRC – Spread Adjustment Consultation

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☐ *5-year median is preferred*	☐ *Other method is preferred*
Securitizations	☐ *5-year median is preferred*	☐ *Other method is preferred*
Syndicated Loans	☐ *5-year median is preferred*	☐ *Other method is preferred*
Bilateral Business Loans	☐ *5-year median is preferred*	☐ *Other method is preferred*

Response: for all products, option *5-year median is preferred* as this is the ISDA recommended methodology.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Response: N/A

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Response: alternative a) is preferred

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response: No

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response: We don't think is necessary as we do not hold any exposure in these tenors. But ARRC should evaluate if this is important for other market participants.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response: We don't think it is necessary.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response: Yes, our preference is always to have alignment among Products and currencies as it simplifies operational processes and client education / communication.

Questions 8- 11 refer to Consumer Products

Response: we don't have any comments regarding Consumer Products.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Response: we reiterate our preference on having the same approach for different classes of products and currencies.

Anonymous 23

Response to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Yes, we agree that the ISDA methodology is best suited for all cash products. We strongly support standardization across cash products and derivatives.

We find that consistency across products (cash and derivatives) is critically important to reduce operational difficulties, economic impacts and basis risks that would arise due to methodological differences. Additionally, this is the methodology preferred by market participants from extensive consultations.

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median b. 5-year average g. 3.5-year trimmed mean c. 10-year median h. 3.5 year average d. 10-year trimmed mean i. Other (please specify) e. 10-year average

No, we would not consider other methodologies.

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate. c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Regardless of whether there is sufficient historical data for the forward looking term rate, we are supportive of using the same spread adjustment for both term SOFR and overnight SOFR compounded in arrears. We recommend using the spread adjustment associated with the difference between LIBOR and a compounded average of SOFR in arrears in both cases.

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

We do not believe that a 1-year transition period should be included for any of these cash products. Such would deviate from the ISDA methodology and establish additional complexities and operational challenges.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Yes, we believe the ARRC should recommend spread adjustments for 1-week and overnight LIBOR.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

We are supportive of using the same methodology to calculate simple averages.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of

any differences in the recommended spread adjustment methodologies. Questions 8- 11 refer to Consumer Products

Yes, it would be problematic to have different spread adjustment methodologies across products and currencies. Fallbacks should seek to minimize value transfer as much as possible.

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Yes, we believe that is an acceptable choice for consumer products in order to ensure consistency across both cash and derivatives and minimize value transfer.

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

As discussed in the response to question 4, we do not believe that a 1-year transition period should be included for any of these cash products. Such would deviate from the ISDA methodology as well as establish additional complexities and operational challenges. Additionally, we do not believe that a gap between the level of LIBOR pre- and post-fallback would be a problem for consumer products. If it is large enough, such a gap would very likely result in a decrease in interest payments, which would benefit consumers, who are predominately LIBOR borrowers.

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on: a. the next longest tenor of term rate recommended by the ARRC b. a compound average of SOFR in advance (Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

We prefer choice b: a compound average of SOFR in advance

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

As discussed in the response to question 3, we recommend using the spread adjustment associated with the difference between LIBOR and a compounded average of SOFR in arrears regardless of whether there is sufficient forward-looking term rate data or not.

Question 12. Please provide any additional feedback on any aspect of the proposals.

We find that consistency across products (cash and derivatives) is critically important to ensure market stability and reduce operational difficulties, economic impacts and basis risks that would arise due to methodological differences. In particular, we would seek clarity on the date on which the spread adjustment will be calculated. We would support consistency with ISDA which we understand would use the announcement date in the case of both cessation and pre-cessation (which could take place in advance of the effective date).

Anonymous 24

March 9th 2020

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

- ~~o~~ *Floating Rate Notes* ***5-year median is preferred*** | ~~*Other method is preferred*~~
- ~~o~~ *Securitizations* ***5-year median is preferred*** | ~~*Other method is preferred*~~
- o *Syndicated Loans* ***5-year median is preferred*** | ~~*Other method is preferred*~~
- o *Bilateral Business Loans* ***5-year median is preferred*** | ~~*Other method is preferred*~~

Response: 5-year median is preferred for all products mentioned above as this will align with the ISDA spread methodology and will create consistency and reduce complexity from a hedging perspective.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median*
b*. 5-year average g. 3.5-year trimmed mean*
c*. 10-year median h. 3.5 year average*
d*. 10-year trimmed mean i. Other (please specify)*
e*. 10-year average*
Response: See above response, not applicable.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*
Response: For shorter forward looking term rates (e.g. 1mL) difference between the three options above is unlikely to be large. For longer forward looking term rates, the differences may be larger in which case option A is the best

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*
Response: No, this introduces additional operational complexity which may be confusing to the market. This approach also deviates with derivatives, which may cause market confusion and generate basis risk for loan markets that function regularly with derivatives hedges. Other measures could be taken to ensure SOFR isn't idiosyncratically above or below LIBOR at the time of transition (in comparison to the 5 year median) without adding unnecessary complexity that would hinder market adoption (e.g. FRB NY could maintain repo facilities, as it did around year end 2019, to reduce noise in SOFR rate around transition).

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*
Response: Certain businesses within the bank would find it beneficial if the ARRC recommended spread adjustments for 1-week and Overnight LIBOR as these options exist in legacy credit agreements and borrowers may request to continue with those options.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*
Response: Recommending separate spread adjustments for simple average SOFR in addition to compound averages of SOFR and Term SOFR would be more technically precise; however, it comes at the cost of greater complexity, which could be confusing to the market. Provided that the explanation of why there are different adjustments is concise and easy to comprehend, then publishing the additional spreads for greater precision is preferred.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*
Response: Consistency across markets, currencies, and products is preferred due to ease in implementation.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*
Response: 5-year median is the preferred methodology. Based on whitepaper (ARRC Spread Adjustment Consultation), the 5-year median methodology produced the least errors from statistical perspectives for consumer products. 5-year is an also reasonable time window to calibrate spread for consumer products especially for residential mortgage ARM products (consumers prepay the mortgage around 5-7 years with a 30 year contract).

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*
Response: No. One year transition may smooth out one sudden shock (gradually converting to long run mean), however it will create more operational complexity. It could cause more confusion to the consumer and market, and it will create more difficult to hedge risks during transition period.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).
Response: Option A, the next longest tenor of term rate recommended by the ARRC

For consumer products, a compound average of SOFR in advance may come up with a more precise spread, but it is very difficult for consumers to understand the methodology and follow up with market movement. If the longer term of 6m or 12m is not available, the next longest tenor would be preferred, given there is enough data to support a 30 day or 90 day spread and other key ARM features such as floating period, margin, and caps can be adjusted to the next longest tenors accordingly.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR
Response: For consumer products such as residential mortgage, the preference is to have a one year term SOFR. It will be easier for the consumer to understand the change (12month to 12 month floating period) rather than referring them to a publicly available alternative index.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*
Response: N / A

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ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

Anonymous submission.

Consultation paper:
https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Spread_Adjustment_Consultation.pdf

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1:

Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes: 5-year median is preferred / Other method is preferred

Securitizations: 5-year median is preferred / Other method is preferred

Syndicated Loans: 5-year median is preferred / Other method is preferred

Bilateral Business Loans: 5-year median is preferred / Other method is preferred

Response 1:

Product	Preferred methodology
Floating Rate Notes	5-year median is preferred
Securitizations	5-year median is preferred
Syndicated Loans	5-year median is preferred
Bilateral Business Loans	5-year median is preferred

Comment: The preference is to follow ISDA's guidelines.

Question 2:

If “Other Method” was specified for any product, please provide additional feedback on your institution’s preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean

b. 5-year average

c. 10-year median

d. 10-year trimmed mean

e. 10-year average

f. 3.5-year median

g. 3.5-year trimmed mean

h. 3.5-year average

i. Other (please specify)

Response 2: “Other Method” was not specified in Response 1. In the event ISDA would change its recommendation we would prefer to choose what their new recommendation would be.

Question 3:

If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a

compound average of SOFR in arrears as an appropriate spread adjustment for the

forward-looking term rate.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference

between compound averages of EFFR and SOFR

Response 3: We would follow ISDA's guidelines on the matter.

Question 4:

Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

Response 4: ISDA proposes no transition period. We would follow ISDA's recommendation.

Question 5:

Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Response 5: Yes.

Question 6:

Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Response 6: No. Now that the Fed has selected 30/90/180 SOFR term rates based on daily compounding in arrears, simple compounding is out of scope.

Question 7:

Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Response 7: Yes. The only necessary difference is the use of gap periods specific to the notification terms of individual loans, as per Federal and state laws.

Questions 8- 11 refer to Consumer Products.

Response 8 to 11: As our institution does not deal with Consumer Products, we do not wish to provide feedback on this matter.

Question 8: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Question 9: Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

Question 10: If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and

spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11:

If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12 applies to all products

Question 12:

Please provide any additional feedback on any aspect of the proposals.

Response 12:

- Fallbacks will be used both for imputing LIBOR coupons and for any embedded LIBOR optionality, such as a cap or floor.
- Trimmed means need to specify a specific percentage to cut off symmetrically from the top and bottom of the distribution (Cf. Question 2).
- If ISDA is proposing new guidelines, our responses would also be modified accordingly.

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Thank you for the opportunity to respond to this consultation. The spread adjustment methodology is an important step to take as we progress towards benchmark transition.

Our primary view, consistent throughout this response, is the desire for consistency; as much as possible and where practicable. There is interconnectivity throughout the marketplace, notably between assets and their associated hedges. For this reason we believe that using ISDA's methodology of a 5-year median is both appropriate and the best choice for floating rate notes, securitizations, syndicated loans and bilateral business loans. Consistency is the main principle driving these recommendations.

Question one --> Yes to all. We are supportive of consistency between spread adjustment methodologies. There is greater risk of market disruption if an asset, or different assets, and their associated hedges behave differently under a LIBOR cessation scenario.

Question three --> If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, our preference is to use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate. This, again, is a preference that favors consistency with ISDA's methodology due to the interconnectivity between assets and their associated hedges.

Question four --> We do not believe that a 1-year transition period should be included.

Question five --> These indices are not commonly used so we do not believe the ARRC needs to recommend spread adjustments.

Question six --> We do not believe recommendations based on LIBOR and simple average SOFR are necessary. Multiple spread adjustments may create confusion in the marketplace.

Question seven --> We believe that consistency is important between products and currencies, where practicable.

Question eight --> Same as question one, we agree that using the ISDA methodology of a 5-year median of the historical different between LIBOR and the SOFR fallback rate is acceptable and the best choice for consumer products.

Question nine --> We do not believe a transition period is necessary. With a product like ARMs, there is already a cap structure in place to ensure a single rate change is not excessive (1% every 6 months with SOFR).

Question ten --> If a 1-year of 6-month rate has not been recommended by the ARRC, our preference is that a consumer ARM references the next longest tenor recommended by the ARRC.

Question eleven --> Same as question three; our preference is to use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears.

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ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR
Due March 25th 2020

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☑	*5-year median is preferred*	*Other method is preferred*
Securitizations	☑	*5-year median is preferred*	*Other method is preferred*
Syndicated Loans	☑	*5-year median is preferred*	*Other method is preferred*
Bilateral Business Loans	☑	*5-year median is preferred*	*Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Response: Not Applicable

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*

c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Response: We prefer Option B.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response: No. We do not believe a 1 year transition period should be included for any of these cash products. We believe a transition period would be confusing and make the fallback more difficult to implement. We also believe that maintaining consistency across markets on this aspect of fallback language will contribute to a more orderly transition.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response: This is Not Applicable to us.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response: We do not believe the ARRC should recommend different spread adjustments for simple averages of SOFR and compounded averages of SOFR due to the small historical differences between such rates .
We would also like to see the indicative analysis that further proves that either:

i. Yes the differences are not significant
ii. No, the differences are significant.
iii. Other.

Question 7. Would it be problematic to use different approaches to calculate the *spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response: Yes, we believe it would be problematic and thus our preference would be to use the same approach to calculate the spread adjustments across products and currencies.

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Response: We agree that the 5-year median of historical differences is an acceptable choice for consumer products.

> ***Question 9.*** *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Response: No. We do not believe a 1 year transition period should be included for any of these cash products. We believe a transition period would be confusing and make the fallback more difficult to implement. We also believe that maintaining consistency across markets on this aspect of fallback language will contribute to a more orderly transition.

> ***Question 10.*** *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*
>
> *a. the next longest tenor of term rate recommended by the ARRC*
> *b. a compound average of SOFR in advance*
>
> *(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).*

Response: We prefer Option B.

> ***Question 11.*** *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
>
> - *Use the longest span of indicative term rate data available*
> - *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
> - *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Response: We prefer Option B.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Response: Nothing additional to add.

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	Response to ARRC Spread Adjustment Consultation			
#	**Question**		**Answer**	**Comment**
Questions 1-7 refer to Floating Rate Notes, Securitizations and Business Loans				
1	Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?	***Floating Rate Notes***	5-year median is preferred	We agree with consistency with the ISDA approach.
		Securitizations	5-year median is preferred	
		Syndicated Loans	5-year median is preferred	
		Bilateral Business Loans	5-year median is preferred	
2	If "Other Method" was specified for any product, please provide additional feedback on your institution s preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method	***Floating Rate Notes***	n/a	
		Securitizations	n/a	
		Syndicated Loans	n/a	
		Bilateral Business Loans	n/a	
3	If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate. c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR		a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate - presume this is for non business loans	We feel using the longest span of indicative term rate data available is the best approach for business loans. For other products, we have a slight preference for Option B over Option C, due to the fact that it is SOFR based, and it aligns with the fallback waterfall for FRNs. Note however, that as SOFR forward rates are developed and implemented more widely the use of spreads on forward rates may be warranted.
4	Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (***If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why***)		No, as the downsides outweigh the benefits.	While a 1 year transition period may provide benefit from an economic perspective (only if market conditions change so that spot rate is not close to historical average), a 1 year transition period will create a lot of additional complexity. Additionally, having no transition period would allow the convention to align with ISDA, which is preferable from a consistency standpoint.
5	Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?		Yes	While these rates are not as prevalent in the market, we recommend that spread adjustments are calculated for these rates, for the benefit of all market participants.
6	Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?		For completeness, yes, ARRC should recommend spread adjustments be calculated between LIBOR and Simple Average SOFR. However, we see the market moving entirely to the use of SOFR compounded average (in lieu of simple average), so do not see a major benefit to the spread adjustment to SOFR simple average.	
7	Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.		We strongly value consistency to the fullest extent possible. We cannot point to any specific implications if calculation methodologies are inconsistent – as there are not a lot of data points available – however we do believe different approaches would create undue complexity, so consistency is the correct approach.	

Questions 8-11 refer to Consumer Products			
8	Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (***If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method***)	Yes	
9	Do you believe that a 1-year transition period should be included for consumer products? (***If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why***)	Yes	There is a strong consensus within the ARRC Consumer Working Group that a consumer rate should not be subject to volatility upon transition, subsequently a transition period is required despite the fact that this is not in alignment with the ISDA approach. The ARRC Consumer Working Group is aware of this
10	If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1 year or 6-month LIBOR fallback to a spread adjusted rate based on: a. the next longest tenor of term rate recommended by the ARRC b. a compound average of SOFR in advance ***(Note that in these instances, the rate would still reset annually or semi-annually and spreads would be calculated relative to 1-yeaar or 6-month LIBOR)***	a. the next longest tenor of term rate recommended by the ARRC	
11	If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR	a. Use the longest span of indicative term rate data available	One could suggest a hybrid solution mixing a and c, where one would use longest span of term rate data available and supplement with LIBOR/EFFR OIS rate differences to fill out a 5yr history. Given that EFFROIS has been used as a proxy for SOFR in various analyses, this maintains a 5yr history.
Question 12 applies to all products			
12	Please provide any additional feedback on any aspect of the proposals	Spread adjustment method should be maximally aligned with **new ARM product proposals** such as averaging period for SOFR resets (30d/90d).	Forward SOFR rate standardization and implementation are critical for certain Business Loans, (i.e. Trade Loans which facilitate Commercial Flows).

Anonymous 29

Date: March 6, 2020

Submitted Electronically to: arrc@ny.frb.org

Alternate Reference Rates Committee
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Re: Consultation Response -- Spread Adjustment Methodologies for Fallbacks in Cash Products

Below please find responses provided by [REDACTED] and its affiliates (collectively, "**[REDACTED]**") regarding the Alternate Reference Rate Committee's ("**ARRC**") Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR published on January 21, 2020 (the "**ARRC Consultation**"). Capitalized terms used and not defined herein shall have the meanings set forth in the ARRC Consultation.

[REDACTED] requests that ARRC, and any parties acting on behalf of ARRC in connection with the ARRC Consultation, anonymize [REDACTED]'s response such that no attribution to [REDACTED] may be made by any party other than ARRC and its legal advisors for purposes of the ARRC Consultation. [REDACTED]'s response may include details regarding the business plans and internal business processes of [REDACTED]. This information has not been made available to the public. Disclosure or use of this information in any manner that is not authorized in writing by [REDACTED] may result in substantial competitive harm to [REDACTED].

[REDACTED]'s response to Questions 1 through 7 and Question 12 in the ARRC Consultation are as follows:

Question 1.

Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

We agree that the ISDA spread adjustment methodology is the best choice for floating rate notes, securitizations, syndicated loans and bilateral business loans. We base our opinion on the importance of consistency in the fallback rate and the related spread adjustment methodology across all products in the cash and derivative markets. Such consistency would minimize basis risk and reduce complexity particularly with respect to potential operational, tax, accounting and even legal issues between cash products and related hedging vehicles. The historical median over a five-year lookback period is adequately representative of the market conditions as of the rate transition time.

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method.

Not applicable.

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Ideally, the spread adjustment methodology associated with one version of SOFR rate would be based on the actual historical five-year movements of such version of SOFR. We recognize this cannot be achieved for a forward-looking term SOFR since the data only became available in June 2018. While both options a. and b. above produce reasonable results as shown in Table 7 and Table 8 of the ARRC Consultation, we have a slight preference for option b. The longest possible span of indicative term SOFR would be 3.5 years at the end of 2021, but the cash market participants urgently need clarity on the spread adjustment methodologies applicable to all versions of SOFR in order to adopt the hardwire approach or initiate an early transition to a SOFR-based rate. The sample period therefore would be less than 3.5 years to accommodate the publishing of the spread adjustment for a forward-looking term SOFR in conjunction with the publishing of the spread adjustments for other versions of SOFR. We also took comfort in the statement on page 12 of the ARRC Consultation which reads: "In practice, in the results below, we find that the same parameter choices appear to work well across the different versions of SOFR. This is perhaps not surprising, since the difference versions are all closely linked." It is also worth noting that we find option c. problematic in that it adds another layer of complexity to the spread adjustment methodologies which may further delay the overall cash market participants' transition away from LIBOR.

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

We do not believe a transition period should be used for floating rate notes, securitizations, syndicated loans or bilateral business loans. The transition process will require implementation of new infrastructures across all systems supporting these cash products. The complicated nature of the transition period also calls for rigorous monitoring and oversight procedures for each transaction throughout the transition period. The tremendous costs associated with a transition period do not outweigh the benefit of equalizing the spread adjustment to the long-run median of SOFR/LIBOR. Further, a deviation from ISDA's spread adjustment methodology creates a basis risk between the cash products and related hedging vehicles. A static, one-time spread adjustment is the best approach to avoid confusion and disruption in the overall financial market.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

We believe there is benefit for ARRC to recommend spread adjustments for all six LIBOR tenors that are currently published. While 1-month and 3-month LIBOR are the most frequently used tenors for floating rate notes, securitizations, syndicated loans and bilateral business loans, there are still existing cash products referencing to overnight, 1-week, 6-month or 12-month LIBOR. Some syndicated and bilateral business loans also allow borrowers to choose different LIBOR tenors during the term of the loan. Making spread adjustments available for

all LIBOR tenors will remove the difficulty of transaction-by-transaction negotiation for legacy cash products that reference to less frequently used LIBOR tenors or provide LIBOR tenor options.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR and simple averages of SOFR in addition to compound averages?

ARRC should also recommend spread adjustments based on the difference between LIBOR and simple averages of SOFR. Simple averages of SOFR can be operationalized by cash market participants immediately. It has become evident that the challenges surrounding the operationalization of compounded SOFR in arrears are the main reason that the loan market participants have not been able to adopt the hardwire approach. Simple averages of SOFR have emerged as a viable option which are more easily employed before the loan market participants can operationalize compounded SOFR in arrears. ARRC's recommendation of a spread adjustment to simple averages of SOFR will further the interest of the loan market participants who wish to hardwire to or adopt this version of SOFR.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

We believe it would be problematic to use different spread adjustment methodologies across products and currencies. There is existing fragmentation between products and jurisdictions which continue to pose tremendous challenges for an orderly transition for the global financial market as a whole. With that in mind, the importance for the cash market to have a consistent spread adjustment methodology for all fallback rates applicable to all currencies is paramount. If a particular transaction requires specific considerations, it can be dealt with on a more granular level among the interested parties. In principle, the same spread adjustment methodology should apply across cash and derivative products, currencies and jurisdictions.

Question 12. Please provide any additional feedback on any aspect of the proposals.

We have no additional feedback on the proposals.

* * * * *

Thank you for considering [REDACTED]'s response to the ARRC Consultation. We welcome any feedback and/or questions regarding the substance or format of our submission. Please direct any questions regarding this submission to [REDACTED].

Best regards,

[REDACTED]

Phone: [REDACTED]
Email: [REDACTED]

[REDACTED] and its affiliates ("[REDACTED]") request confidential treatment for this material ("Confidential Information") which contains confidential information concerning the business plans and internal business processes of [REDACTED] and confidential supervisory information. This information is not available to the public and is exempt from

disclosure under the Freedom of Information Act (5 U.S.C.§552(b)(4),(8)), and related regulations promulgated by the Board of Governors of the Federal Reserve System under 12 C.F.R. Part 261. Disclosure of this information would result in substantial competitive harm to [REDACTED]. [REDACTED] requests that if the Federal Reserve should determine to make available to the public any of the Confidential Information, it will inform [REDACTED] prior to doing so and provide it with an opportunity to make an appropriate submission as to why such information should be preserved in confidence.

Anonymous 30

Q1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?
Yes, we agree with the ISDA methodology to be used for all cash products for which the ARRC has recommended fallback language (FRNs, Securitizations, Syndicated Loans, Bilateral Business Loans).

Q2. N/A given our answer above.

Q3: If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:
Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

Q4: Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)
No, we advocate for a complete alignment of derivatives and cash products in terms of spread adjustment calculation, to avoid all un-necessary basis risk (that might increase the cost of hedging). However, we acknowledge that for some cash product holders that do not hedge their exposure, a transition period might be relevant, especially during a period of credit spreads widening.

Q5: Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?
No, not necessarily.

Q6: Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?
No, not necessarily.

Q7: Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.
Yes, a different approach would be problematic for 2 main reasons: hedging mismatches with derivatives and operational complexity to implement and maintain.

Questions 8- 11 refer to Consumer Products: ***we don't have any relevant input to provide about retail consumer products.***

Question 12. Please provide any additional feedback on any aspect of the proposals.
We would like to emphasize the importance of having a homogenous approach not only between derivatives and cash instruments, but also among currencies (e.g. for multi-currency loans).

Anonymous 31

Response to ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR (dated January 21, 2020)

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Response:

a. FRN - 5-year median is preferred
b. Securitizations - 5-year median is preferred
c. Syndicated Loans - 5-year median is preferred
d. Bilateral Loans - 5-year median is preferred

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*
a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

Response: NA

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Response: *a. Use the longest span of indicative term rate data available*

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response: *NO*

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response: If the ARRC is recommending any spread adjustments, it should not be tenor-dependent and should treat each tenor in the same way.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response: No, ARRC should support market in moving toward compound averages and a consistent set of conventions

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response: Yes, different methodologies (and therefore different spread adjustments) would be hard to justify to customers holding multiple products, or for customers with multi-currency facilities

AXA Equitable

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☐ *5-year median is preferred*	☐ *Other method is preferred*
Securitizations	☐ *5-year median is preferred*	☐ *Other method is preferred*
Syndicated Loans	☐ *5-year median is preferred*	☐ *Other method is preferred*
Bilateral Business Loans	☐ *5-year median is preferred*	☐ *Other method is preferred*

Our preferred approach is to keep methodologies simple and consistent across all cash products and derivatives.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

As mentioned above, our preference goes for the simplest method, despite the moderate loss of precision. We believe that a) might not be accurate if the span of indicative term rate data is too short.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period*

should be included, but that it should be longer or shorter than 1 year, please note this and explain why.).

No - we acknowledge the risk of a cliff effect but would rather avoid adding complexity to the determination of the spread and keeping methodology consistent with ISDA's.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Yes – we believe that it will help increase transparency and consistency.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

No.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Yes – using different approaches across products would make is more complex to hedge exposure to the spread. The underlying rates being fundamentally different, having different methodologies across currencies does not seem as problematic.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5- year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Yes – it is acceptable and we recommend it.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

No – our view is the same as for the other products, we acknowledge the risk of a cliff effect but would rather avoid adding complexity to the determination of the spread and keeping methodology consistent with ISDA's.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Similar response as for *Floating Rate Notes, Securitizations, and Business Loans*, our preference goes for the simplest method, despite the moderate loss of precision. We believe that a) might not be accurate if the span of indicative term rate data is not long enough.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Part VI. Response Procedures / Next Steps

Market participants may submit responses to the consultation questions by email to the ARRC Secretariat (arrc@ny.frb.org) no later than March 6, 2020. Please coordinate internally and provide only one response per institution. Please attach your responses in a PDF document and clearly indicate "Consultation Response" in the subject line of your email. Comments will be posted on the ARRC's website as they are received without alteration except when necessary for technical reasons. Comments will be posted with attribution unless respondents request anonymity. If your institution is requesting anonymity, please clearly indicate this in the body of your email and please ensure that the PDF document you submit is anonymized. Questions regarding the consultations should be sent to the ARRC Secretariat (arrc@ny.frb.org) and will not be posted for attribution.

Following this market-wide consultation, the ARRC plans to recommend spread adjustments that would apply to its fallback recommendations.

Bank of Montreal

March 24, 2020

Alternative Reference Rates Committee ("**ARRC**")

Via email submission to: arrc@ny.frb.org

Re: Consultation Response – ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Bank of Montreal ("BMO") welcomes the opportunity to respond to the ARRC consultation on potential spread adjustment methodologies. Our responses are as follows:

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

- ***FRNS, yes or other method?***
- ***Securitizations, yes or other method?***
- ***Syndicated Loans, yes or other method?***
- ***Bilateral Loans, yes or other method?***

Response: BMO agrees with using the 5-year median for all listed cash products.

Question 2: If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:
a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

Response: N/A

Question 3: If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Response: BMO prefers option C as it ensures the time period length will align with the intended length. Option C also provides certainty of availability.

Question 4: Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

Response: While seeing the possibility of a cliff effect, BMO is against the utilization of a 1-year transition period. This is consistent with other derivatives products and simplifies the number of moving parts to clients. BMO also think there will be operational challenges if a transition period of any length were to be used. Not having a transition period would also serve to simplify messaging to customers.

Question 5: Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Response: Yes, there are those in the industry that use this rate and the same approach should be taken for consistency.

Question 6: Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Response: BMO would discourage distinguishing separate spread adjustment values between values of SOFR. BMO thinks that one spread per term should apply. Having additional spread values could introduce further confusion to the marketplace.

Question 7: Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Response: BMO encourages standardization amongst product usage. However, due to jurisdictional differences, there will be some variation amongst ARRs. The goal should be to minimize these differences as much as possible going forward.

Questions 8- 11 refer to Consumer Products

Question 8: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Response: Yes, BMO agrees that using a 5-year median is appropriate for consumer products.

Question 9: Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

Response: While seeing the possibility of a cliff effect, BMO is against the utilization of a 1-year transition period. This is consistent with other derivatives products and simplifies the number of moving parts to clients. BMO also think there will be operational challenges if a transition period of any length were to be used. Not having a transition period would also serve to simplify messaging to customers.

Question 10: If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:
a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Response: BMO does not have a distinct preference to either approach and would like to remain consistent with the views and guidance of GSEs and agencies.

Question 11: If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Response: BMO prefers option C as it ensures the time period length will align with the intended length. Option C also provides certainty of availability.

Question 12 applies to all products

Question 12: Please provide any additional feedback on any aspect of the proposals.
Response: N/A

Bank of Nova Scotia

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Bank of Nova Scotia Response

QUESTIONS 1- 7 IN RESPECT OF FLOATING RATE NOTES, SECURITIZATIONS, FLOATING RATE NOTES, SECURITATIONS, AND BUSINESS LOANS

Question 1. Do you agree that using the ISDA methodology of a **5-year median** of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes	☒5- year median preferred	☐Other method is preferred
Securitizations	☒5- year median preferred	☐Other method is preferred
Syndicated Loans	☒5- year median preferred	☐Other method is preferred
Bilateral Business Loans	☒5- year median preferred	☐Other method is preferred

Answer:
We agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and SOFR fallback rate is the best choice for Floating Rate Notes, Securitizations, Syndicated Loans and Bilateral Business Loans.

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

Answer:
N/A

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the different between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? if yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

Answer:
We do not believe that any transition period should be included for any of these cash products.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Answer:
Yes, we think it would be helpful for the ARRC to recommend spread adjustments for 1-week and overnight LIBOR.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR and simple averages of SOFR in addition to compound averages?

Answer:
Yes, the ARRC should recommend spread adjustments based on differences between LIBOR and simple averages of SOFR as well as compound averages of SOFR.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Answer:
Discrepancies in spread adjustments across product types (derivatives and loans, derivatives and FRNs) may lead to basis risk. Our view, therefore, is that there should be, to the greatest extent possible, symmetry in the underlying methodologies for calculating spread adjustments.

QUESTIONS 8-11 IN RESPECT OF CONSUMER PRODUCTS
*****We are not providing answers to questions 8-11 pertaining to consumer products*****

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12. Please provide any additional feedback on any aspect of the proposals.

Answer:
None

Chatham Financial

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

25 March 2020

25 March 2020

Chatham Financial Corporation (Chatham) appreciates the efforts of the Alternative Reference Rates Committee (ARRC) to provide fallback methodologies and recommendations for USD LIBOR upon its permanent discontinuation. Chatham is committed to guiding our clients through a transition to market transaction-based rates, as appropriate; and in the interim, we recognize the need to adopt refined fallback definitions to prudently manage the period during which continued utilization of legacy rates will remain unavoidable for many of our clients. Chatham thanks the ARRC for the opportunity to comment on this consultation on "Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR."

Chatham Financial is the largest independent financial risk management advisory and technology firm. A leader in debt and derivative solutions, Chatham provides clients with access to in-depth knowledge, innovative tools, and an incomparable team of nearly 700 employees to help mitigate risks associated with interest rate, foreign currency, and commodity exposures. Founded in 1991, Chatham serves more than 3,000 companies across a wide range of industries — handling over $750 billion in transaction volume annually and helping businesses maximize their value in the capital markets, every day.

For more than two decades, Chatham has invested in creating proprietary models and independently gathering data to value debt and derivatives. Our best-in-class valuation models have been tested and reviewed by auditors from leading accounting firms, providing a thorough calculation of nonperformance risk for clients needing ASC 820 or IFRS 13 fair values. Chatham incorporates industry-leading modern CVA-DVA-FVA and OIS discounting techniques into valuation methodologies.

Chatham offers the following comments in response to the questions in the consultation. Our comments reflect our inherent orientation toward the interests and concerns of derivatives end users, the core constituency of our client base.

Responses to Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

If the ARRC does provide recommended spread adjustments, Chatham agrees that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best method.

The historic mean/median approach aims to capture the cyclical nature of markets and, over time, revert to the mean. Therefore, it is important to understand the relevant time scales for the market to complete a cycle. After the recent financial crisis, it took more than 5 years for markets to stabilize. Even today, many markets remain in an unusual position of low interest rates. While a 10-year lookback would be attractive due to its inclusivity of different market regimes, Chatham believes that it is difficult to properly test a 10-year lookback due to the presence of the Financial Crisis and lack of longer-term data. Testing with the data currently available would give too much weight to the crisis relative to the rest of the 10-year lookback period. If more historical data were available, it is likely the lookback would result in a more stable and accurate credit spread. Given the limitations of the historic data, however, Chatham recommends the use of the 5-year lookback period to better capture the weight of events and exclude the 2008 Financial Crisis in the historic lookback period.

Chatham recommends using the historic median. In our historic scenario analysis, which is detailed in Section 2.2.2 of our response to ISDA's July 2018 Consultation, the median historic credit spread resulted in fallback rates that were more similar to the replaced IBORs across currencies and different historic averaging lengths.

Question 2: If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5-year average
i. Other (please specify)

Chatham did not select another method other than the 5-year median approach in Question 1.

<u>Question 3:</u> If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

If there are fewer than 5 years of available data in calculating a spread adjustment for a forward-looking term rate, then Chatham's preference is to (a) use the longest span of indicative term rate data available. Our second preference is for method (c). We do not believe method (b) is viable given the ARRC's waterfall for a fallback rate.

Method (a) directly calculates the LIBOR to SOFR forward term rate spread given the available data. There is currently almost 2 years' worth of indicative daily forward-looking term data, and we expect to have about 3.5 years of daily forward-looking term data to calculate the spread.

ISDA chose to use 5 years of data in calculating the historic spread, because it performed best in minimizing the error between LIBOR and the fallback rate. Although 3.5 years of data performed slightly worse, it did not perform significantly worse. Due to limited data available, no direct calculation is possible to find the optimal spread adjustment associated with a forward-looking SOFR term rate. Given that there is no direct way to measure if 5 years of data is the best length of time, and 3.5 years worked reasonably well for the historic spread, we believe that 3.5 years will be a reasonable amount of data to use in this case.

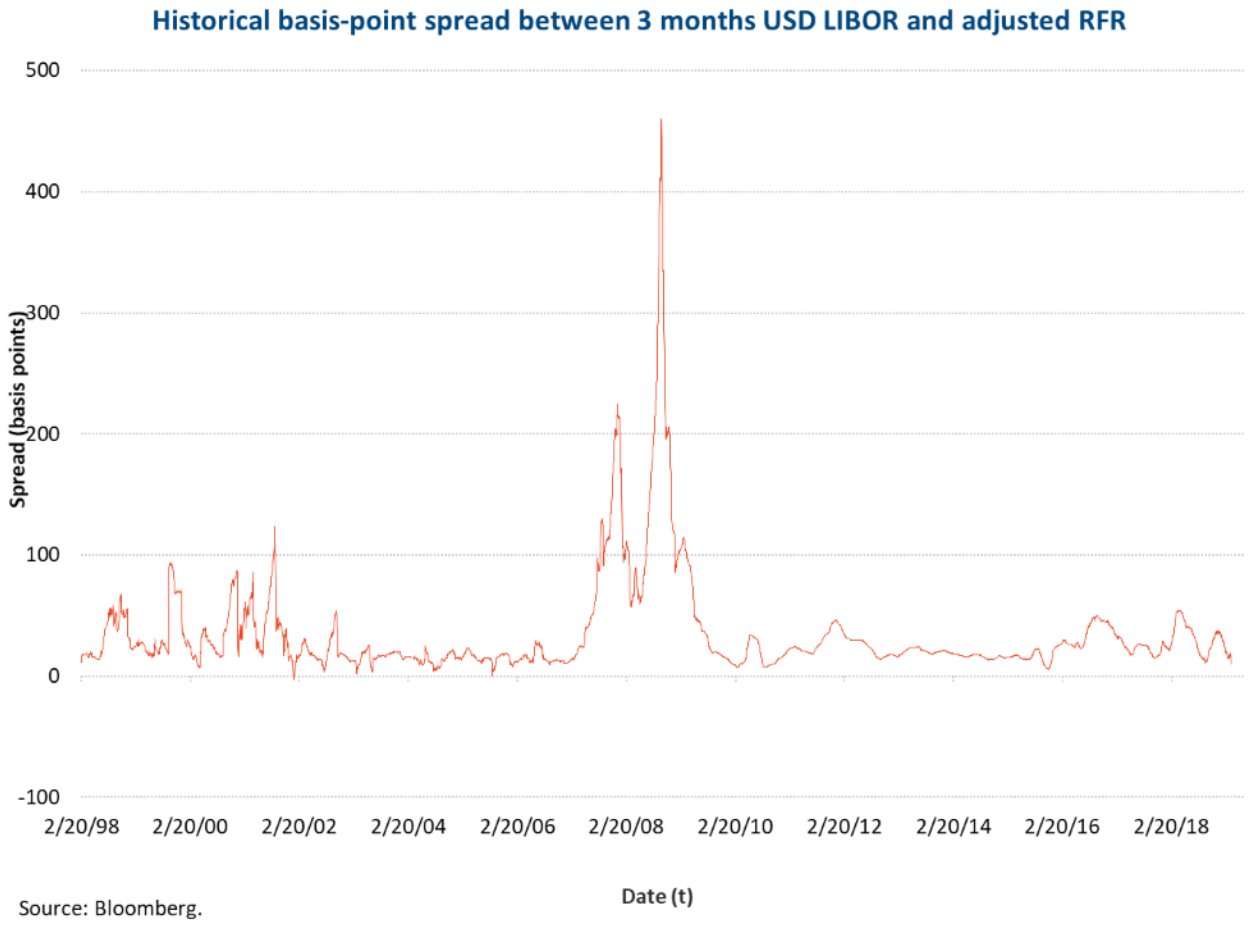
The forward term rate and the forward spread data is also calculated from a relatively robust futures market. The SOFR futures market is much smaller than the Eurodollar futures market. However, the $100B of SOFR futures notional traded on average every day appears robust enough for use in USD cash product fallbacks.

Although not our primary choice, method (c) is also a reasonable alternative. It is well known that the EFFR is a fair proxy for SOFR, so an adjusted mean accounting for the average difference between EFFR and SOFR would be an even better proxy. Since it is a proxy and not actually measuring SOFR, however, we rank method (c)below method (a) which actually uses forward SOFR. Additionally, given its additional complexity, method (c) would likely be a more challenging method for the market to adopt. The benefit of method (c) is that we have more data available than in method (a), albeit proxy data. As stated above, however, we do not see this as a significant reason to use method (c) over method (a).

Finally, it is our view that method (b) should be eliminated from consideration as a method in calculating the spread adjustment associated with a forward-looking term rate. Method (b) does involve a reasonable proxy of the SOFR forward rate, however, when viewed in the context of the ARRC's waterfall for fallbacks, method (b) fails to keep the steps in the waterfall for fallback rates distinct. Method (b) would effectively set the forward rate step in the waterfall equal to the historic rate step in the waterfall. In our view method (b) should not be considered as a possible method in calculating the forward rate spread unless the ARRC is considering removing the forward rate method as a distinct option.

<u>Question 4:</u> Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

A transitional period should not be included. A transitional period is a mechanism that allows the LIBOR fallback rate to transition from the LIBOR rate on the date of the discontinuation to a historic average after one year. Chatham believes this transitional period is too long, does not reflect actual LIBOR movements and that there are other potential transition mechanisms. Looking at the history of LIBOR spreads, the spread returns to its average over a period of a few months. As an example, see the historic spread between 3M USD LIBOR and term adjusted SOFR.



Source: Bloomberg.

Movements in the spread typically take a few months to return to a more long-term value. The spike that occurred during the 2008 Financial Crisis would not be accounted for by a transitional period because it took more than two years to return to its long-term value.

Chatham also believes that the transitional period allows for market speculation around the proposed discontinuation date. Given the discontinuation date is approximately known, speculators may try to manipulate the spot spread around the discontinuation date. In this case, a speculative spread would be locked in and effect payments for the following year.

Not including a transitional period means that, on the discontinuation date, there may be a jump from the LIBOR rate to the LIBOR fallback rate. Because LIBOR is already a model-driven rate, it is also possible that the LIBOR submissions will drift to the LIBOR fallback rates in the period before the discontinuation. By not including a transitional period, the LIBOR submission process may naturally provide a smooth transition on the transition date.

Question 5: Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Although these tenors may not be as widely used as the longer-dated tenors, they are used in the market and will require fallback terms. Therefore, if the ARRC provides recommended spread adjustments for other tenors, it should also recommend them for 1-week and overnight LIBOR. Chatham recognizes that the spread adjustments for these tenors will likely be small, but it is important to be consistent across all tenors.

Question 6: Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Chatham believes the ARRC should not recommend spread adjustments based on simple averages in addition to compound averages. Compounding reflects the time value of money, and this notion should be the standard. While the differences between simple and compound rates have not been large, and simple interest rate averages have been used in the past, it would be better to use rates that accurately reflect how prices work.

Question 7: Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

There are potential problems with using different fallback methods across different products and currencies, specifically the operational challenge of tracking multiple different spread adjustment methodologies. All things considered, however, minimizing value transfer in order to preserve the economics of the original agreement is a higher priority than the operational challenge of managing inconsistencies across fallback methods.

Chatham does not advise our clients on consumer products; therefore, questions 8-11 have intentionally been omitted.

Question 12: Please provide any additional feedback on any aspect of the proposals.

First, the decision to follow the ARRC's recommended spread adjustment or to negotiate a spread adjustment should be mutually agreed upon between the issuer and borrower given the uncertainties about how spread adjustments will work for all products and in all market conditions.

Secondly, Chatham believes that the ARRC should provide further clarification and recommendation on where the spread adjustment should be applied within loan documentation. As an example, to demonstrate how this could impact value, consider a loan that pays interest based on USD-LIBOR with an embedded 1% floor plus a borrowing spread. Consider the two potential alternatives for how the fallback language could incorporate the recommended spread adjustment to apply to the new index: (1) include the spread adjustment as part of replacement index or (2) apply the spread adjustment to the loan spread directly.

If at the date of the fallback, USD-LIBOR was 1.00% and SOFR was 0.90%, with an ARRC recommended spread adjustment of 8 basis points, the borrower could pay the following depending on which is the selected method:

(1) 1.00% plus the original borrowing spread
(2) 1.00% plus 8 basis points plus the original borrowing spread

As demonstrated, there are situations in which this makes an economic difference in the value of the cash product. Chatham favors the use of method (1) where the spread adjustment is included as part of the replacement index. For end users hedging their cash instruments, it is necessary for the fallbacks for cash instruments to align with fallbacks for derivatives. It is essential for both the ARRC and ISDA to be clear in the recommended method of inclusion for the spread adjustment, and it is important for those recommendations to be aligned.

CME Group

6 March 2020

Alternative Reference Rates Committee
Via electronic submission to: arrc@ny.frb.org

Re: ARRC Consultation on Potential Spread Adjustment Methodologies

To whom it may concern:

CME Group Inc. ("CMEG")[1] is grateful for the opportunity to provide comments to the Alternative Reference Rates Committee ("ARRC") "Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR"[2] ("Consultation"), published 21 January 2020.

CMEG has been an active member of the ARRC since September 2015 and appreciates the collaborative forum provided by the ARRC to address important topics facing the industry such as those covered in the Consultation. Establishing an industry consensus for spread adjustments for fallbacks in cash products will help provide market participants with clarity of approach in the event such fallbacks prove necessary.

CMEG would like to make the following general comments regarding the topics contained in the Consultation. CMEG does not provide direct services for the cash products referenced in the ARRC consultation, however we provide risk management products which are frequently used to help manage the full life cycle of these cash products. CMEG believes that, whenever possible, harmonization between our risk management products with adjacent markets is preferred because it often helps reduce basis risk between financial instruments and it helps provide the broader marketplace with operational efficiencies.

CMEG strongly advocates that fostering harmonization in spread adjustment methodologies across cash and derivative financial instruments is desirable in order to provide market participants with a minimally disruptive experience in the event of a qualifying fallback trigger event. One alternative included in the

[1] CME Group offers futures and options on futures for trading, through the CME Globex electronic trading platform, on four separate designated contract markets: Chicago Mercantile Exchange Inc. ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX"), and the Commodity Exchange, Inc. ("COMEX") (collectively, "the CME Group Exchanges"). The CME Group Exchanges offer the widest range of global benchmark products across all major asset classes based on interest rates, equity indexes, foreign exchange, energy, agricultural products and metals. Each of the CME Group Exchanges is subject to regulation by the US Commodity Futures Trading Commission ("CFTC"). All of the CME Group Exchanges are subject to the rules and regulations of the local jurisdictions in which they conduct business, including the European Securities and Markets Authority ("ESMA") and the UK Financial Conduct Authority ("FCA"). CME Group also offers fixed income trading via BrokerTec and foreign exchange trading on the EBS platform.

Among the operating divisions of CME is CME Clearing, one of the largest central counterparty clearing houses in the world, which provides clearing and settlement services for exchange-traded contracts and for over-the-counter derivatives transactions. CME Clearing is a derivatives clearing organisation subject to regulation by the CFTC. With a range of pre- and post-trade products and services underpinning the entire lifecycle of a trade, CME Group also offers optimization and reconciliation services through TriOptima and trade-processing services through Traiana.

[2] ARRC, Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR, January 21, 2020, available at: https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Spread_Adjustment_Consultation.pdf

Consultation as a proposed methodology is to align the approach with the International Swaps and Derivatives Association ("ISDA") methodology for fallback spread adjustments in derivatives. CMEG supports this alternative. Any alternative to this harmonized approach should be thoroughly evaluated for the potential of introducing additional basis risks and operational complexity. CMEG has stated that we intend to align with ISDA to include revised fallback language in our rules at a time which is concurrent with amendments or new definitions being adopted across the Over-The-Counter ("OTC") derivatives marketplace.[3] Harmonization with the ISDA methodology for fallback spread adjustments would simplify the infrastructure development needed by market participants to ensure their systems are adequately prepared for a potential fallback trigger event.

In addition, following a potential fallback trigger event, the ultimate result of both the ISDA methodology and the proposed methodology in the Consultation is that the fallback spread adjustment under both approaches would eventually reach a static state. Therefore, the spread adjustment calculation process can be rightly described as a single period exercise. In order to minimize the implementation complexity associated with this effort, the benefits of a harmonized approach across both cash products and derivatives outweighs any potential benefits a more intricately tailored set of spread adjustments by financial instruments could provide.

CMEG greatly appreciates the efforts by the ARRC in conducting this Consultation. If you have further comments or questions, we would be happy to discuss this matter with you. Please contact me at +1 212 299 2340 or Sean.Tully@cmegroup.com.

Sincerely,

Sean Tully
Senior Managing Director and
Global Head of Financial & OTC Products

[3] CMEG Statement available at: https://www.cmegroup.com/education/articles-and-reports/cme-group-supports-isda-s-libor-fallback-provisions.html

Cobank

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March 25, 2020

Federal Reserve Board
Alternative Reference Rate Committee
Submitted via Email

Dear ARRC Secretariat:

CoBank, ACB, on behalf of the Farm Credit Banks (FC Banks), appreciates the opportunity to comment on the Alternative Reference Rate Committee's (ARRC) Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

The FC Banks are part of the Farm Credit System (FCS), which is a government-sponsored enterprise of the United States that provides loans, leases, and financial services to rural American farmers, ranchers, and agricultural, aquatic and infrastructure cooperatives and providers, across all fifty states and the Commonwealth of Puerto Rico.[1] The FC Banks are: (1) AgFirst Farm Credit Bank; (2) AgriBank, FCB; (3); CoBank, ACB and (4) Farm Credit Bank of Texas. Together, the FC Banks are among the leading lenders to rural America; they provide credit for rural housing, agricultural processing and marketing activities, utilities providers, and certain farm-related businesses.

Congress created the FCS, to provide a permanent, stable source of credit and related services to support rural America and improve the lives of its residents. Specifically, the FCS institutions were created "to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations"[2]. Since its creation, CoBank was granted authorities to provide credit to rural infrastructure providers, who are vital to creating successful businesses and healthy rural communities. The FC Banks and their associations hold gross loans of $287 billion, as of December 31, 2019, and provide approximately 41% of all U.S. agricultural financing according to the U.S. Department of Agriculture.

[1] See generally 2018 Annual Report on the Farm Credit System by the Farm Credit Administration.
[2] 12 U.S.C. § 2001(a)

Before addressing the questions in the ARRC's USD LIBOR Spread Adjustment Methodologies Consultation, the FC Banks would like to provide several general comments related to the transition from USD LIBOR to an alternative reference rate.

The FC Banks compliment the ARRC on its fallback language recommendations from the Business Loans, Floating Rate Notes and Securitization Work Groups in developing a reasonably coordinated approach to the fallbacks language across cash products. The Banks have also asked the International Swap and Derivative Association (ISDA) in our response to the ISDA consultations to work to align key aspects of the fallback language for USD LIBOR bilateral derivatives with the ARRC cash product's recommendations. In the view of the Banks, a lack of coordination among the fallback language could create substantial basis risks to all financial institutions if, for example, triggers for different types of instruments are invoked at varying times or alternative reference rates (including spread adjustments) are inconsistent. The FC Banks would encourage the ARRC to take a leadership role in encouraging greater coordination with other working groups on these issues, such as the ISDA and central counterparty clearing exchanges.

The FC Banks also encourage all regulators to increase engagement with regulated financial institutions to fully appreciate the complexity, expense and legal ramifications related to the transition to alternative reference rate indexes. It would be regrettable if global and domestic financial markets encounter a major systemic event related to a quick implementation of the alternative reference rate indexes based on regulatory pressure.

Finally, the FC Banks would like to express their concern related to the ARRC's white paper on "Using an Average of SOFR to Build an Adjustable-Rate Mortgage Product for Consumers" and the Federal Reserve Bank of New York's (FRBNY) publishing of SOFR Averages and SOFR Indexes. The paper discussed the possibility of utilizing SOFR averages "in advance" as a possible fallback index. The FC Banks are concerned that applying this possible alternative reference rate on one class of loans could create significant volatility in earnings during periods of monetary policy activity. Additionally, the effect of the lagging index could also lead to ineffectiveness of hedges and create issues with hedge accounting. The FC Banks think that the FRBNY and the ARRC's efforts would be better served in working to accelerate the implementation of forward looking term SOFR indexes, as a much more appropriate alternative reference rate solution. As stated

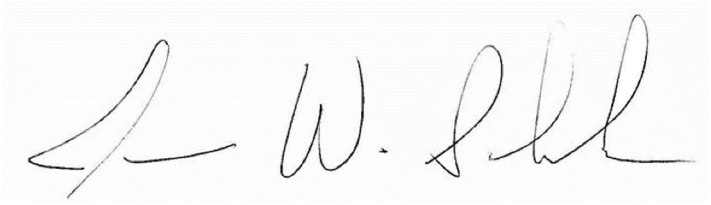
previously, the FC Banks strongly advocate for coordinated fallback language across derivative and all cash market products.

Attached are the FC Banks' current responses to the specific questions put forth in the ARRC's USD LIBOR Spread Adjustment Methodology Consultation. The responses have been developed jointly by the FC Banks. This feedback represents our current thoughts and might be subject to changes as we see developments in the markets and regulatory environment.

The FC Banks welcome the opportunity to discuss our comments with you. Please contact the following staff with any comments or questions:

Bank	Contact	Email
AgFirst, FCB	Josh Goethe	JGoethe@AgFirst.com
AgriBank, FCB	Luis Sahmkow	Luis.Sahmkow@agribank.com
CoBank, ACB	James Shanahan	jshanahan@cobank.com
Farm Credit Bank of Texas	Matthew Windsor	matthew.windsor@farmcreditbank.com

Sincerely,



James W. Shanahan, CFA
Vice President – Financial Regulatory Compliance
CoBank, ACB

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

The ARRC Consultation on Spread Adjustment Methodologies requests the following feedback from market participants:

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes	[X] 5-year median is preferred	[ ] Other method is preferred
Securitizations	[X] 5-year median is preferred	[ ] Other method is preferred
Syndicated Loans	[X] 5-year median is preferred	[ ] Other method is preferred
Bilateral Business	[X] 5-year median is preferred	[ ] Other method is preferred

FC Banks Response: ***The FC Banks would like to strongly encourage the ARRC to recommend SOFR spread adjustment methodologies for cash products which would be as consistent with the ISDA's recommended methodology for SOFR spread adjustments for bilateral derivatives, to the greatest extent possible. The Banks think that inconsistencies between the two adjustments would lead to increased complexity in the LIBOR transition process, create increased ineffectiveness of hedges and increase litigation risk.***

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

FC Banks Response: ***Not applicable.***

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FC Banks Response: ***The FC Banks would recommend that the following method be applied "a. Use the longest span of indicative term rate data available." Again, the Banks would like to encourage the ARRC to make their recommended spread adjustment methodology be as consistent as possible with the ISDA's recommended methodology.***

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

FC Banks Response: ***The FC Banks would recommend that the ARRC's recommendation not include the 1 year transition period. The primary reason for the Banks' recommendation that the transition period not be included is we feel it is important to be consistent with the ISDA's recommendation methodology. The second reason is that the inclusion of the transition period would increase the complexity of applying the spread adjustments within the LIBOR transition process.***

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

FC Banks Response: ***The FC Banks would prefer that the ARRC recommendation include the overnight and 1-week spread adjustments which are included in the current USD LIBOR tenors for cash products.***

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

FC Banks Response: ***The FC Banks would recommend that the ARRC not include different spread adjustments for simple average SOFR. The primary reason is that consistency and simplicity of the spread adjustments, along with consistency with the ISDA spread recommendation, should be the primary objectives of the ARRC spread adjustment recommendations. These two goals will assist in the LIBOR transition of cash products.***

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

FC Banks Response: ***The FC Banks would again like to encourage the ARRC to adopt a recommendation for spread adjustments methodologies which is as simple and consistent as possible with the ISDA's methodology. The FC Banks mostly transact in US Dollars and would confine our responses to that currency.***

Questions 8- 11 refer to Consumer Products

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

FC Banks Response: ***The FC Banks believe that the ISDA's methodology (5-year median) would be an acceptable choice for consumer products. Further, the adoption of consistent calculation methodologies will assist in the LIBOR transition by reducing the complexity of applying spread adjustments.***

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

FC Banks Response: ***The FC Banks do not believe that the ARRC recommendations should include a 1-year transition period. Again, simplicity and consistency across products should be the objectives of the ARRC recommendation.***

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semi-annually and spreads would be calculated relative to 1-year or 6-month LIBOR).

FC Banks Response: ***The FC Banks would recommend "a. the next longest tenor of term rate recommended by the ARRC", if the ARRC does not recommend the 1-year or 6-month term rates.***

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FC Banks Response: ***The FC Banks would recommend that the following method be applied "a. Use the longest span of indicative term rate data available".***

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

FC Banks Response: ***The FC Banks do not have any additional feedback at this time.***

Comerica

March 25, 2020

RE: Comerica Bank's Response to "ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR"

Dear Sir or Madam:

On January 21, 2020, the Alternative Reference Rates Committee ("ARRC") published a consultation paper titled "ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR" (the "Paper") and requested feedback to questionnaire attached thereto. This correspondence shall serve as Comerica Bank's response to Question 4 as set forth on Page 28 of the Paper.

FEEDBACK

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

Comerica Bank responds as follows:

It is Comerica's opinion that a 1-year transition period should not be included for the cash products referenced in the Paper. Comerica believes it is best to avoid a prolonged transition period and instead supports a transition period of less than a year and prefers an immediate transition upon a single date. In lieu of a transition period, Comerica proposes the immediate adoption of the ARRC calculated, market accepted long-term credit spread (the "Credit Spread Adjustment" or "CSA") upon fallback activation. Immediate adoption has several advantages including the following: (i) it is easier to implement and operationalize (e.g., one date, one CSA vs. a phased in approach), (ii) it will avoid confusion and ongoing education, explanations and conversations with investors/borrowers and (iii) it is anticipated that immediate adoption will be consistent across cash and derivatives products (e.g., ISDA has announced that it will be adopting an immediate transition) which is of particular importance for legacy cash transactions that have been hedged in the derivatives markets.

Comerica also believes there is merit in the determination of a final credit spread no later than December 31, 2020. Doing so will substantially reduce the likelihood of value transfer in the initial implementation of SOFR only loans in early 2021. A borrower's applicable margin or borrower credit spread is typically one of the most heavily negotiated terms in a loan contract. It is viewed by a borrower as the measure of their credit worthiness. Upon the initial shift to SOFR only loans, it will be more difficult to educate borrowers to accept a higher margin than it would be to frame the change as an "Index Adjustment Spread," and build it into the definition of SOFR. Labelling it an Index Adjustment Spread, which is what it really is, will be far easier for borrowers to accept, than trying to characterize it up as a credit spread adjustment. In addition, assuming no change in the credit profile of a borrower, they would not expect to see a change in their "Credit Spread." Borrowers know the underlying index is changing. To include the 5-year average difference between LIBOR and SOFR, at whatever date is selected, in the actual definition of SOFR in the documents will align with their understanding of the two components of their borrowing cost (i.e., the Index and the Credit Spread).

Without the determination of a final Index Adjustment Spread prior to December 31, 2020, it may prove difficult for lenders to educate borrowers as to why their credit spread is increasing as a result of the implementation of a "replacement" interest rate. If, however, there is an ARRC calculated and market accepted Index Adjustment Spread ("IAS") in a stated amount as of December 31, 2020, lenders would be able to consistently apply/add the IAS to the SOFR index in the definition. This would then allow borrowers to maintain the same credit spread and view any changes as entirely related to the changing of the pricing index, which is again, in fact what it is. This would be far more likely to effectively achieve one of the primary goals of the ARRC, minimizing value transfer in either direction. Comerica believes that if the IAS is added to the borrower's applicable margin or borrower credit spread, there is a significantly greater likelihood of it being negotiated away and lenders will be negatively and disproportionately impacted by the change from LIBOR to SOFR.

Comerica Bank appreciates the opportunity to provide ARRC feedback and recommendations in connection with the Paper. If you have any questions or comments regarding our feedback, please feel free to reach out to me.

Sincerely,

Comerica Bank

Covenant Review and The Credit Roundtable

The Credit Roundtable

March 6, 2020

Ref: Consultation Response submitted by email to the ARRC Secretariat (arrc@ny.frb.org)

Dear Sir or Madam:

Covenant Review and The Credit Roundtable's[1] LIBOR Alternative Working Group appreciates the opportunity to submit responses to the questions related to the Alternative Reference Rates Committee (ARRC) consultation on potential spread adjustment methodologies for cash products referencing U.S. dollar (USD) LIBOR.

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☒ *5-year median is preferred*	☐ *Other method is preferred*
Securitizations	☒ *5-year median is preferred*	☐ *Other method is preferred*
Syndicated Loans	☒ *5-year median is preferred*	☐ *Other method is preferred*
Bilateral Business Loans	☒ *5-year median is preferred*	☐ *Other method is preferred*

The difference in the MAE using a median instead of the more accurate trimmed mean as well as a five-year historical period versus a 10-yearhistorical period is miniscule in comparison to the complexity and basis resulting from using a different methodology from ISDA.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why*

[1] Formed in 2007, The Credit Roundtable ("CRT"), is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for close to $4 trillion of assets. The Credit Roundtable advocates for creditor rights through education and outreach and works to improve fixed income corporate actions, ineffective covenants, and the underwriting and distribution of corporate debt. Its mission is to improve risk assessment and management through education and seeks to benefit all bond market participants through increasing transparency, market efficiency, and liquidity.

you prefer the alternative method:

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

~~a. Use the longest span of indicative term rate data available~~

b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*

~~c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR~~

Given the linkage of the rates, (b) seems like the more organic choice. Choice (c) introduces an additional layer of complexity and assumptions about a rate that does not yet exist.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

No. The complexities and the added basis with derivatives outweigh the benefits. In addition, it appears that the absolute value of the variation between the "spot" spread" and the median five-year historical spread has not been significant at any point during the past 10 years. However, we think a transition period might be useful if implemented on a contingent basis. For example, it would implemented only if the absolute value of the difference between the "spot spread" at LIBOR cessation and the historical spread chosen by the ARRC exceeds a specified minimum threshold.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Yes. Although not common, these tenors exist and market participants using these tenors might be disadvantaged if they use a spread adjustment intended for a different tenor.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Yes. Although there is likely very little basis relative to compounded averages of SOFR, market participants using simple averages of SOFR are likely to prefer spread adjustments that reflect the historical difference between LIBOR and simple averages of SOFR.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Yes. Consistency across products is a key value for a smooth transition from LIBOR to RFRs. It is important to minimize the number of variables relative to different cash products in order to

minimize the operational risk of the transition. Consistency across currencies is important as well, but this will be trumped by the need to be consistent with derivatives. For example, if ISDA decides to use different methodologies across different currencies, it will be more important to be consistent with ISDA's methodology for such currencies.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. *the next longest tenor of term rate recommended by the ARRC*
b. *a compound average of SOFR in advance*

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

~~a. Use the longest span of indicative term rate data available~~
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
~~c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR~~

The above responses are submitted by Ian Walker and David Knutson on behalf of Covenant Review and The Credit Roundtable, respectively. We welcome the opportunity to discuss our concerns, opinions and recommendations in greater detail. Please direct any questions to Kelly Byrne Skarupa of The Credit Roundtable at kbyrne@taminc.com or (914) 332-0042.

Kind Regards,

Kelly Byrne Skarupa

Kelly Byrne Skarupa | The Credit Roundtable
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email: kbyrne@taminc.com | website: www.thecreditroundtable.org

CRE Finance Council

February 28, 2020

Alternative Reference Rates Committee
Via email: arrc@ny.frb.org

Re: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Dear Sir or Madam:

The CRE Finance Council (CREFC) – in its role as co-chair of the ARRC's Securitizations Working Group (SWG) – is pleased to respond to the Alternative Reference Rates Committee's (ARRC) *Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR* (the "Consultation"). The ARRC is consulting on specific methodologies to address important differences between LIBOR and its selected replacement, the Secured Overnight Financing Rate (SOFR). These differences include a term premium as LIBOR is published for several tenors whereas SOFR is an overnight rate and a risk premium as LIBOR is an unsecured rate while SOFR is a secured, nearly risk-free rate.

CREFC members represent U.S. commercial and multifamily real estate investors, lenders, and service providers – a market with an estimated $4.5 trillion of commercial real estate (CRE) debt outstanding.[1] A significant portion[2] of this debt is structured as floating-rate that is indexed to U.S. dollar (USD) LIBOR. Floating-rate CRE loans and commercial mortgage-backed securities (CMBS) typically have maturities of two to five years, meaning that CRE sector debt instruments are medium- to long-dated making the outcome of this Consultation important for our industry as many newly issued loans and securities are likely to still be outstanding after December 31, 2021.

A meaningful point of reference for CREFC and its members is ISDA's recommendation on the spread adjustment for the derivatives market. Derivatives, which represent 95% of all LIBOR exposures, are widely used across the CRE finance industry by lenders, borrowers, and investors. Thus, a lack of consistency with the derivatives market may increase the possibility of value transfer in a transition from LIBOR to SOFR, a key area of concern for our members. Another key area of concern for our members is that the transition be conducted in an orderly manner that minimizes volatility and provides the market with sufficient information that is both objective and readily

[1] Federal Reserve, Flow of Funds. https://www.federalreserve.gov/releases/z1/current/default.htm as of September 30, 2019.
[2] Based on data from J.P. Morgan and the Federal Reserve, the current outstanding balance of CRE loans indexed to LIBOR is approximately $1.3 trillion.

available. Accordingly our responses to the seven questions posed in the Consultation attempt to balance these considerations.

We appreciate this opportunity to comment, and we look forward to working constructively with the ARRC on this important matter.

Sincerely,

Lisa Pendergast
Executive Director
CRE Finance Council

Consultation Questions ***(Securitizations)***

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

ISDA has selected the median of the historical difference between the relevant LIBOR and the corresponding SOFR over the last five years. In addition, Bloomberg will begin publishing averages of SOFR using the ISDA protocols in the first half of 2020 and will include, for each relevant term: the compounded in arrears rate, spread adjustment, and the all-in rate (combination of compounded rate plus spread adjustment).

Responses to ISDA's consultations on the spread adjustment, conducted during 2018 and 2019, indicated priorities for minimizing value transfer and reducing operational complexity – **priorities that correspond with those of CREFC and its members**. It is worth mentioning that many responses to previously issued ARRC consultations on fallback language also indicated a preference for consistency between cash products and derivatives. As a result, **it is CREFC's view that alignment with the derivatives marketplace would be the optimal outcome for Securitizations and fully support the 5-year median of the historical difference between LIBOR and the SOFR fallback rate.**

CREFC's rationale for aligning with ISDA is based on the goal of reducing basis risk between the cash and derivatives markets wherever possible, as well as:

- Reducing operational, legal, tax, and accounting issues between loans, securitizations, notes, and any related derivatives;
- Acknowledging that cash products will likely differ from derivatives in compounding convention (i.e., ISDA has chosen compounded "in arrears" and cash products may choose compounded "in advance" – e.g., Freddie Mac's recent floating-rate multifamily securitizations). Adding another variance would add both confusion and complexity;
- Given that the spread adjustment applies only to loans that are indexed to LIBOR at the time of the transition, the spread adjustment will no longer be needed once new loans are originated using SOFR; and,
- Lastly, and as noted previously, Bloomberg will be publishing SOFR rates using the ISDA conventions and, if a different spread adjustment methodology is chosen, users may have to navigate and utilize multiple sources.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

Not applicable. CREFC agrees with using the ISDA methodology.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

The production of a forward-looking rate relies heavily on the success of the SOFR futures market and there are no guarantees that this rate will be produced before 2021 (i.e., the time of transition). In addition, it is our understanding that the ARRC intends to endorse forward-looking term SOFR rates only if consensus among its members can be reached that a robust, IOSCO-compliant term benchmark that meets appropriate criteria set by the ARRC can be produced.

As a result, by the end of 2021, there will not be enough term rate data to match ISDA's five-year historical lookback period to create a spread adjustment for a forward-looking term SOFR (for if and when it is produced). Of the choices provided in Question 3: option (a) will not adequately represent a sufficient lookback period and option (c) assumes the general correlation between SOFR "indicative" term rates and EFFR OIS rates will hold based on less than two years of data.

Therefore, of the options provided, **CREFC believes (b) to be the preferred choice**. This view is further supported by data in the Consultation that show that the average difference between a compounded average of SOFR "in arrears" and indicative term SOFR rates has been less than one basis point. The Consultation also provides data for EFFR as a comparison given the longer period of historical data available (compared to SOFR) and shows that the difference between an EFFR term rate and EFFR compound average has averaged less than a basis point both before and since the financial crisis.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

While a transitional period may avoid a potential "cliff effect" at the time of transition from LIBOR to SOFR, **it is CREFC's view that the costs and operational complexity of implementing such a period would far outweigh the benefits of insulating against any potential value transfer**.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

The vast majority of CRE finance floating-rate loans and securities are structured with one- or three-month payment dates. As a result, **CREFC does not feel spread adjustments for 1-week or overnight LIBOR are necessary**.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

While the CRE finance industry has yet to coalesce around a convention for averaging SOFR, the two leading considerations are compounded SOFR "in advance" and compounded SOFR "in arrears." A convention using simple average is not being considered and, as a result, **CREFC does not think the ARRC should recommend a spread adjustment for simple averages**.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

As noted in our response to Question 1, CREFC and its members strongly feel consistency with the derivatives market is the optimal outcome. This consistency should also extend beyond derivatives to other cash products as well as currencies. Consistency will lessen complexity and reduce operational risk, making for an easier transition process. In addition, as CREFC represents members that operate and/or invest across the globe, consistency will be critical for both loans and securities as well as any corresponding cross-currency derivatives. Therefore, **CREFC feels it would be problematic if different approaches are used across products and currencies**.

Federal Home Loan Bank of Boston

To: ARRC Secretariat

From: Federal Home Loan Bank of Boston

Date: March 5, 2020

Subject: Response to ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

The Federal Home Loan Bank of Boston (FHLBank Boston) submits the attached response to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

Consultation Questions and Responses

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	**X**	*5-year median is preferred*		*Other method is preferred*
Securitizations	**X**	*5-year median is preferred*		*Other method is preferred*
Syndicated Loans	**X**	*5-year median is preferred*		*Other method is preferred*
Bilateral Business Loans	**X**	*5-year median is preferred*		*Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. 5-year trimmed mean

b. 5-year average

c. 10-year median

d. 10-year trimmed mean

e. 10-year average

f. 3.5-year median

g. 3.5-year trimmed mean

h. 3.5 year average

i. Other (please specify)

FHLBank Boston does not prefer a method other than the 5-year median for any cash product. FHLBank Boston's primary focus is on consistency of rules. Inconsistent methodologies will almost certainly introduce risks that would make it extremely difficult to measure or manage.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FHLBank Boston prefers Option B to calculate the associated spread adjustment because we believe it is the most consistent representation of the five-year median approach.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

FHLBank Boston's preference is to align to ISDA's preference for not including transitional period.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

N/A

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Yes. It is still unclear whether the cash markets will adopt compounding. To date, the standard in the cash market is no compounding. If the US Treasury issues floating securities with compounding, then it is likely cash markets will adapt. However, the Treasury's strategy is unclear, and the timeline for adoption could be long given that issuers have been issuing no compounding bonds.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Alignment with ISDA preferred.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Yes. Again, FHLBank Boston's primary focus is on consistency of rules. Inconsistent methodologies will almost certainly introduce risks that would make it extremely difficult to measure or manage.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Yes, with caution. Generally, FHLBank Boston agrees with the logic of a transition period and that one year is appropriate. The one-year transition period will lessen the potential sudden impact of "payment shock" on consumer borrowers. However, we only support a transition period for cash products if it matches exactly with a transition period for

derivatives to ensure hedges remain effective during the transition. This may be less of an issue for consumer products than for securities specifically. To the extent that these consumer products provide collateral for securities, we think it is important for them to be treated in a consistent manner.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

FHLBank Boston would prefer Option B because we think this methodology will ultimately be required to support a highly liquid market for trading securities and derivatives based on SOFR.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FHLBank Boston prefers Option B to calculate the associated spread adjustment because we believe it is the most consistent representation of the five-year median approach.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

None.

FHLB Atlanta

FHLBank ATLANTA
A FEDERAL HOME LOAN BANK

Memorandum

To: ARRC

From: Federal Home Loan Bank of Atlanta

Date: March 18, 2020

Subject: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

The Federal Home Loan Bank of Atlanta (FHLBank Atlanta) welcomes the opportunity to provide its views on the appropriate spread adjustment methodology the ARRC should recommend as part of its fallback provision recommendations for cash products referencing LIBOR. FHLBank Atlanta is a U.S. government-sponsored entity and one of 11 district banks in the Federal Home Loan Bank System.

The comments below reflect FHLBank Atlanta's strong preference that there be alignment to the extent possible with the spread adjustment methodology being implemented by ISDA to minimize the risks of unbalance between our cash products and the derivatives that we use to hedge them.

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	**X**	*5-year median is preferred*		*Other method is preferred*
Securitizations	**X**	*5-year median is preferred*		*Other method is preferred*
Syndicated Loans	**X**	*5-year median is preferred*		*Other method is preferred*
Bilateral Business Loans	**X**	*5-year median is preferred*		*Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

FHLBank Atlanta does not prefer a method other than the 5-year median for any cash product. FHLBank Atlanta's primary focus is on consistency of rules. Inconsistent methodologies will almost certainly introduce risks that would make it extremely difficult to measure or manage.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

FHLBank Atlanta prefers option C to calculate the associated spread adjustment because we believe it is the most consistent representation of the five year median approach.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Yes, with caution. Generally, FHLBank Atlanta agrees with the logic of a transition period and agree one year is appropriate. However, we only support a transition period for cash products if it matches exactly with a transition period for derivatives to ensure hedges remain effective during the transition. If the ISDA does not implement a transition period, then we do not support a transition period for cash products. Another potential concern is to ensure that participant systems can accommodate variable rate spreads and the associated accounting rules.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

FHLBank Atlanta does not believe these markets are large enough to warrant the calculation of transition spreads. We do not participate in these markets and think this decision should be left up to those that do.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Yes. It is still unclear whether or not the cash markets will adopt compounding. To date, the standard in the cash market is no compounding. If the US Treasury issues floating securities with compounding then it is likely cash markets will adapt. However, the Treasury's strategy is unclear and the timeline for adoption could be long given that issuers have been issuing no compounding bonds.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

If using different approaches is absolutely necessary because of the nature of a transaction category, then it would not be problematic. That said, our strong preference is for consistent approaches across product types. Inconsistent approaches will introduce risks that are difficult to measure and hedge onto participant balance sheets.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Yes. Again, FHLBank Atlanta's primary focus is on consistency of rules. Inconsistent methodologies will almost certainly introduce risks that would make it extremely difficult to measure or manage.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Yes, with caution. Generally, FHLBank Atlanta agrees with the logic of a transition period and agree one year is appropriate. However, we only support a transition period for cash products if it matches exactly with a transition period for derivatives to ensure hedges remain effective during the transition. This may be less of an issue for consumer products than for securities specifically. To the extent that these consumer products provide the collateral for securities, we think it is important for them treated in a consistent manner.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

FHLBank Atlanta would prefer option B because we think this methodology will ultimately be required to support a highly liquid market for trading securities and derivatives based on SOFR.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FHLBank Atlanta prefers option C to calculate the associated spread adjustment because we believe it is the most consistent representation of the five year median approach.

FHLB Cincinnati

March 6, 2020

ARRC Consultation on Spread Adjustment

FHLB CINCINNATI

Submitted by the Federal Home Loan Bank of Cincinnati
Contact: Tami L. Hendrickson
Senior Vice President, Treasurer
513-852-7581
hendricksontl@fhlbcin.com

Consultation Questions with Answers

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes: **5-year median is preferred**
Securitizations: **5-year median is preferred**
Syndicate Loans: **5-year median is preferred**
Bilateral Business Loans: **5-year median is preferred**

FHLB Cincinnati believes that consistency between products will allow for the free-flow of capital between products and allows for these products to be funded and hedged with minimal complication.

Question 2. N/A

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FHLB Cincinnati believes that this is most consistent with the 5-year median approach.

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

FHLB Cincinnati believes that there should be no transition period. Any type of transition period allows market manipulation during the transition period to the detriment of one of the parties to the transaction. Having no transition period would align with ISDA's preference for not including a transition period.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

No, 1-week and overnight LIBOR are not widely used and the spread adjustment if any would be minimal.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Yes, if the U.S. markets were to adopt compounding in addition to simple average SOFR or if these two methodologies were adopted for different products. Currently, the U.S. market has not broadly adopted compound SOFR and many investors IT systems cannot utilize compound SOFR. If the U.S. Treasury begins issuing securities utilizing compound SOFR with broad investor participation it may be necessary to recommend spread adjustments for both compound and simple average SOFR with market participants deciding which adjustments are appropriate.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any difference in the recommended spread adjustment methodologies.

Yes it would be problematic to use different approaches to calculate the spread adjustment across products and currencies. FHLB Cincinnati believes that as much consistency as possible is preferred. This may be within products or currencies. Simplicity in application of the spread adjustment methodologies will lead to clearer interpretation of their application, minimize litigation risk and lead to more universal hedging strategies which could provide more liquidity in those instruments.

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and shy you prefer the alternative method).

Yes, as in question 7 FHLB Cincinnati believes that consistency is preferred. Simplicity in application of the spread adjustment methodologies will lead to clearer interpretation of the application and minimize litigation risk.

Questions 9. Do you believe a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

No, as in previous answers FHLB Cincinnati believes a transition period is unnecessary and may lead to manipulation.

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to spread adjusted rate based on:

a. The next longest tenor of term rate recommended by the ARRC
b. A compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

FHLB Cincinnati would prefer b. A compound average of SOFR in advance. This methodology is closer to the derivatives market and would be more appropriate to the securitization of these mortgages making the overall cost of financing housing lower to the consumer.

Question 11. It there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FHLB Cincinnati prefers option C. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR. FHLB Cincinnati believes this is most consistent with the 5-year median approach.

Question 12. Please provide any additional feedback on any aspect of the proposals.

FHLB Des Moines

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☒ *5-year median is preferred*	☐ *Other method is preferred*
Securitizations	☒ *5-year median is preferred*	☐ *Other method is preferred*
Syndicated Loans	☒ *5-year median is preferred*	☐ *Other method is preferred*
Bilateral Business Loans	☒ *5-year median is preferred*	☐ *Other method is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

N.A.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
(b.) *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

NO

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Yes

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

NO

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

NO. It is better to have consistency accross products

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).* Yes

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

NO

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC

(b) *a compound average of SOFR in advance*

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available

(b.) *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

FHLB Indianapolis

To: ARRC

From: Federal Home Loan Bank of Indianapolis

Date: March 6, 2020

Subject: Consultation Response on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Dear ARRC Secretariat,

The Federal Home Loan Bank of Indianapolis (FHLBI) is a US government-sponsored entity and one of 11 district banks in the Federal Home Loan Bank System.

Please find FHLBI's response to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR below. FHLBI believes that there should be a strong alignment to the extent possible with the spread adjustment methodology being implemented by ISDA.

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	**X**	*5-year median is preferred*	*Other method is preferred*
Securitizations	**X**	*5-year median is preferred*	*Other method is preferred*
Syndicated Loans	**X**	*5-year median is preferred*	*Other method is preferred*
Bilateral Business Loans	**X**	*5-year median is preferred*	*Other method is preferred*

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

To maintain consistency of rules with ISDA, FHLBI prefers 5 year median for cash products.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

FHLBI prefers option C.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

FHLBI prefers to align with ISDA's methodologies, therefore no transition period.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Not applicable.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Yes. There is not enough clarity on whether or not the cash markets will adopt compounding.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Yes. Different approaches to calculate the spread across product types create risks that are difficult to hedge.

Questions 8- 11 refer to Consumer Products

No response to questions 8-11 because they do not apply to us. We believe this decision should be left up to those that participate in the Consumer Products market.

FHLB New York

March 6, 2020

Via Electronic Mail

ARRC Secretariat
Alternative Reference Rates Committee
arrc@ny.frb.org

Dear ARRC Secretariat,

The Federal Home Loan Bank of New York's response to the *ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR* is attached.

Sincerely,

Benchmark Index Transition Office
Federal Home Loan Bank of New York
101 Park Ave
New York, NY 10178

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	**X**	*5-year median is preferred*		*Other method is preferred*
Securitizations	**X**	*5-year median is preferred*		*Other method is preferred*
Syndicated Loans	**X**	*5-year median is preferred*		*Other method is preferred*
Bilateral Business Loans	**X**	*5-year median is preferred*		*Other method is preferred*

Response: We agree that the best choice for the above indicated cash products is the ISDA methodology of the 5-year historical median spread. Using the same ISDA methodology will align the treatment of cash products and derivatives and minimize basis risk.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Response: Not applicable, as we recommended the 5-year median in deference to the ISDA approach.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Response: Option B: We advocate using the same spread adjustment whether the replacement rate is a compound average of daily SOFR in arrears, simple average of daily SOFR in arrears or a potential forward-looking SOFR term rate. Multiple spread adjustments for different SOFR applications may create unnecessary market confusion. The average difference between a) forward-looking term rate (OIS swap) and b) compounded average in arrears is negligible.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response: We do not believe that a 1-year transition period should be included for any of these cash products. We seek to align cash products with ISDA's proposed fallback approach which will not incorporate a transition period.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response: Not applicable.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response: No, the ARRC should not make such a recommendation. As stated in Question 3, we believe a single spread adjustment for SOFR applications (simple average, compounding, forward term) will suffice.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response: We do not recommend different approaches to calculate the spread adjustment across products. We recommend a single approach for all products, in alignment with ISDA methods. We offer no recommendation pertaining to multiple currencies.

Questions 8- 11 refer to Consumer Products

Response: We omit questions 8 – 11 as we do not originate consumer loans.

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. *the next longest tenor of term rate recommended by the ARRC*
b. *a compound average of SOFR in advance*

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Fidelity Investments

March 5, 2020

ARRC Secretariat – Alternative Reference Rate Committee ("ARRC")

Submitted by electronic mail to: arrc@ny.frb.org

Re: Consultation Response -- ARRC Consultation on Spread Adjustments Methodologies for Fallbacks in Cash Products referencing USD LIBOR – January 21, 2020 (the "Spread Adjustments Methodology Consultation")

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to provide some feedback on some of the questions posed by the ARRC in the Spread Adjustments Methodology Consultation.

Responses to Consultation Questions relating to Floating Rate Notes, Securitizations, and Business Loans:

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	*5-year median is preferred*	*Other method is preferred*
Securitizations	*5-year median is preferred*	*Other method is preferred*
Syndicated Loans	*5-year median is preferred*	*Other method is preferred*
Bilateral Business Loans	*5-year median is preferred*	*Other method is preferred*

Fidelity Response:

The ISDA methodology of a 5-year median is our preferred approach across all cash products (including consumer products). A 5-year median method consistently adopted across all asset classes will lead to less confusion for all market participants including consumers.

The 5-year historical lookback period is sufficient and replicates the exposure of the original LIBOR instruments over a range of market conditions, striking a balance between a time horizon that spans several market cycles and the availability of accurate data.

[1] Fidelity is one of the world's largest providers of financial services, including investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 30 million individuals and institutions, as well as through 13,500 financial intermediary firms. Fidelity submits this letter on behalf of its investment advisers that manage LIBOR-indexed investments.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. ***Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.***
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Fidelity Response:

We would prefer the method referenced in clause b. above for the reasons stated above in our response to Question 1. Consistency and simplicity of approach across all asset classes is important to the market, along with accuracy of the data. We also believe that Compounded SOFR is a better proxy for term SOFR that EFFR, as it too is a rate based on secured transactions.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Fidelity Response:

No. We disagree with including a 1-year transition period. The full spread adjustment should be implemented at the next interest reset date following the transition trigger event. While a 1-year transition period offers some potential benefits, including the avoidance of immediate changes to coupons and, accordingly, the trading prices of floating-rate securities, we believe these benefits are outweighed by the complexity and potential operational costs associated with a phased transition. The industry is already in the process of adapting to heavy operational complexities and costs associated with changes to compounding methodologies and other accounting and trading elements that need to be addressed. In addition, we believe that investors in the cash products covered by this consultation place a high value on consistency with the derivatives market, which favors an immediate transition.

In regards to the potential impact on coupons, since an immediate one-time approach would always be implemented at the next interest reset period, the fact that the coupon is changing as result of the spread adjustment does not materially change the nature of the instrument, as coupons reset each period by definition.

While securities prices could be impacted if the historical Libor/SOFR spread differed from the spot/forward relationship at the time of Libor cessation, a few mitigants exist. First, the difference between historical and spot tends to be modest, and the floating rate universe has, in general, a relatively short spread duration, limiting the impact on security prices. Second, the spread adjustment methodology would presumably be well-communicated to the market by the ARRC ahead of time, allowing the market to begin to price in the impact of the immediate adjustment prior to implementation.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Fidelity Response:

Yes, it would be useful to have published spread adjustment values for both of these tenors. There are securities that are actively traded in the market that reference these benchmarks.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Fidelity Response:

Yes, it would be useful to have published spread adjustment values for simple averages of SOFR. The ARRC recommended fallback language contemplates that some market participants may prefer to use simple averages of SOFR for some asset classes. There are securities currently being issued and actively traded that reference simple averages of SOFR.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Fidelity Response:

We believe it would be problematic to use different approaches to calculate the spread adjustment across products and currencies. These mismatches would create potential funding problems. Different approaches for spread calculation may exacerbate an already existing risk of the underlying loan assets in Collateralized Loan Obligations (CLOs) and the CLOs' cost of debt having mismatching interest rates. While the CLO market has already begun to adopt ARRC concepts in some deals, the loan market has been much slower to include such language. It would be ideal if the ARRC could recommend a methodology accepted by as many asset classes as possible.

Responses to Consultation Questions relating to Consumer Products:

Fidelity Response:

Fidelity manages investments in certain asset backed securities where payment streams from certain consumer loan products (such as student loans or adjustable rate consumer mortgages) may serve as the underlying economic basis for such asset backed securities. We believe the methodology applied to the spread adjustment calculation for such consumer loans should match the methodology applied to any floating rate securities issued by the relevant securitization trusts. Accordingly, the feedback that we provided above would equally apply to such consumer loans. Implementing a different approach would materially impact the economics and likely the availability of such loans for consumers.

* * *

Fidelity wishes to thank the ARRC for the opportunity to provide feedback on the Spread Adjustments Methodology Consultation. We would be pleased to provide further information or respond to questions the ARRC may have about our comments. Please contact Helen Lloyd-Davies at helen.lloyd-davies@fmr.com .

Thank you,

Fidelity Investments

(on behalf of its investment advisers that manage LIBOR-indexed investments)

First Horizon Bank

FIRST HORIZON SM

March 6, 2020

Alternative Reference Rates Committee ("ARRC")

Via email submission to: arrc@ny.frb.org

Re: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

First Horizon Bank ("Bank") submits this response for the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR published on January 21, 2020. The Bank appreciates the ARRC's engagement with industry participants and the opportunity to provide feedback on key elements of the LIBOR transition.

Responses to select consultation questions below:

Question 1: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Response: Floating Rate Notes: 5-year median is preferred
Securitizations: 5-year median is preferred
Syndicated Loans: 5-year median is preferred
Bilateral Business Loans: 5-year median is preferred

Question 2: If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

Response: N/A, as indicated in question 1, 5-year median is preferred

Question 3: If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

Response: Use the longest span of indicative term rate data available

First Horizon Bank
165 Madison Ave.
Memphis, TN 38101
Phone: (901) 523-4444
www.FirstHori[illegible]n

Question 4: Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

Response: No, a transition period should not be included for any of the cash products listed above since it would not align with the ISDA methodology.

Question 5: Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Response: Yes, it would be beneficial to have a consistent methodology and ARRC recommendation across all LIBOR tenors.

Question 6: Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Response: If simple averages end up becoming an industry standard, even for a segment of the market, an ARRC recommended spread adjustment to the simple averages of SOFR would be beneficial.

Question 7: Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Response: Aligning the spread adjustment methodology across all products and with the ISDA methodology will aid in simplifying the transition including system updates, operational implementation, and customer communications.

Question 12: Please provide any additional feedback on any aspect of the proposals.

Response: Similar to the responses to questions 1 -7, the Bank prefers to align the methodology for Floating Rate Notes, Securitizations, Syndicated Loans, and Bilateral Business Loans with the ISDA methodology in order to simplify the transition and ensure alignment between derivatives and the respective underlying assets.

Thank you,

Dane Smith
SVP, Corporate Treasurer

First Horizon Bank
165 Madison Ave.
Memphis, TN 38101
Phone: (901) 523-4444
www.FirstHorizon.com

Government Finance Officers Association

March 4, 2020

Alternative Reference Rates Committee
Federal Reserve Bank of New York

Re: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

The Government Finance Officers Association ("GFOA") appreciates the opportunity to comment on the Alternative Reference Rates Committee's ("ARRC") proposal for spread adjustment methodologies for fallbacks in cash products referencing USD LIBOR. The GFOA represents over 21,000 government-issuer members across the United States. On behalf of our members, GFOA seeks to ensure the issuer community is prepared to address the risk that LIBOR may not exist beyond 2021. Members of GFOA's Committee on Governmental Debt Management, a geographically and organizationally diverse group of 25 municipal securities issuers, were consulted in preparing this comment letter.

The GFOA has a long history of creating and maintaining industry best practices. Accordingly, GFOA supports efforts to ensure that robust fallback provisions are in place and are accessible to all issuers participating in cash markets. Our evaluation of this consultation is based on the premise that the market prefers as much *clarity at the time of issuance* as possible. GFOA strongly urges the ARRC to bear in mind the fundamental necessity of clarity and process for both the issuer and investor. GFOA emphasized this key point in previous consultations with the ARRC on FRN fallbacks and considers it worth emphasizing again.

We fully support the ARRC's hardwired approach to spread adjustment. As such, the GFOA supports a static spread adjustment that would be fixed at a specified time at LIBOR's cessation. Additionally, GFOA supports ARRC's recommendation to make the spread-adjusted rate comparable to LIBOR by minimizing the expected change in the value arising from the move to a replacement benchmark based on SOFR.

We recommend that ARRC's fallback recommendations align with ISDA final fallback language as closely as possible, including indications of triggers, whether this occurs pre-cessation or at cessation of LIBOR. As noted in the consultation, GFOA agrees that

alignment with ISDA protocols minimizes potential operational, legal and tax risks that may arise, as governmental entities aim to reduce risks by reducing the unknowns.

We would emphasize that the purpose of this exercise should be to ensure that issuers have some comprehensive guidance alongside ISDA protocol as they are presented with choices in the process. This exercise is especially important in the public markets where GFOA promotes transparency to ensure that investors have appropriate material information about municipal securities. Answers to specific questions proposed in the consultation are outlined below.

Part II: Parameter Choices

Should the same methodology and parameter choices be used to calculate spread adjustments? The same methodology should be used across all parameter choices.

How should the long-run level of the difference between LIBOR and SOFR be measured? We do not have a preference but would encourage the ARRC to mirror the ISDA recommendations, a compound average of SOFR in arrears. Again, we ask for consistency in measurement in order to decrease potential risk for the governmental issuer.

How quickly should the spread adjustment move to the long-run historical level? As a potential break from ISDA recommendations, GFOA would not recommend that the ARRC consider a 1-year transition period in which the recommended spread adjustment would move linearly to the long-run spread. Our consultation with governmental issuers indicates that such an incremental ramp up has the potential to provide more complication in calculating monies due. This potential complication outweighs the risk of a latent jump in rates.

Part V: Consultation Questions

Question 1: *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?* Yes, we agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and SOFR fallback rate is the best choice for cash products.

Question 3: If there are fewer than five-years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment? A. Use the longest span of indicative term rate data available (consistent with ISDA).

Question 4: Do you believe that a 1-year transition period should be included for any of these cash products? For the reasons stated above, we believe there should not be a 1-year transition period included in any cash products.

Question 5: Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR? We defer as governmental entities would rarely enter into these terms.

Question 6: Should the ARRC recommend spread adjustments based on the differences between LIBOR and simple averages of SOFR in addition to compound averages? Our paramount concern in this process is to ensure that both choice and simplicity in the transaction upon the cessation of LIBOR.

The GFOA appreciates the opportunity to comment on the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

As we have suggested throughout, GFOA believes the issuer prefers recommended language that highlights a clearly defined, orderly process with limited unknowns and in alignment with ISDA protocols. Doing so will help both the issuer and investor efficiently understand the choice of spread and effectively manage the transition from LIBOR to SOFR. This can be accomplished through clear communication and distinct procedures that are easy to follow at the time of issuance. This consultation provides a practical solution to show that the ARRC's priorities are the same.

As the ARRC reviews comments on the consultation, and looks at ways to finalize robust spread adjustment methodologies to issuers in the US, we welcome the opportunity to further discuss these issues with you.

Sincerely,

Emily S. Brock

Emily S. Brock
Director, Federal Liaison Center

Intesa Sanpaolo

To: *ARRC Secretariat* *March 5, 2020*
From: *Intesa Sanpaolo SpA*

Re: ARRC Consultation on Spread Adjustment Methodologies for Fallback in Cash Products Referencing USD Libor

Please, see below Intesa Sanpaolo responses to the Consultation questions.

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Answer: Yes, we consider very important to maintain a consistent approach across all products (cash and derivatives)

Floating Rate Notes ***5-year median*** *is preferred*
Securitizations ***5-year median*** *is preferred*
Syndicated Loans ***5-year median*** *is preferred*
Bilateral Business Loans ***5-year median*** *is preferred*

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median*
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average

Answer: n.a.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Answer: Between option a) and option c) we have a slight preference for the latter. Since historically we have seen a strong correlation between EFFR and SOFR, option c) would ensure a more reliable spread adjustment for a forward-looking term rate by extending the historical database to match the 5-year ISDA lookback period and considering the mean difference between compound averages of EFFR and SOFR (hedging of this specific basis risk is largely available in the market).

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Answer: We consider a transition period particularly appropriate especially to mitigate the possibility that the fallback event could occur during very volatile market conditions. The 1-year transition in this case would protect all market participants by smoothing the transition to the long term spread adjustment.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Answer: We don't have a strong view on this issue. Based on our business, indexation to overnight Libor is very rare while the use of 1week Libor is sporadically used. We suggest that spread adjustment for 1-week LIBOR be considered only if there is a relevant product/market need expressed by other participants.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Answer: No. The difference between simple and compound average is strictly dependent on the absolute level of interest rates, therefore the publication of both compound and simple average adjustments could lead to significant inconsistencies in a future environment with much higher rates.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Answer: As already mentioned, we prefer a homogeneous approach across all products and currencies to avoid distortions on hedging strategies and simplify the implementation of the new reference rates.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Answer: Yes, see Question 1

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Answer: Yes, see Question 4

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Answer: We prefer a); if the longest tenor recommended by the ARCC would be 3months it should be quite simple to adjust existing contract from 1yr/6m Libor to 3mth Libor using historical 5yrs average of Libor basis spreads.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Answer: Option c), see Question 3

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Loan Market Association

Thank you for the opportunity to comment on the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

The LMA is the trade body for the EMEA syndicated loan market and was founded in December 1996 by banks operating in that market. Its aim is to encourage liquidity in both the primary and secondary loan markets by promoting efficiency and transparency, as well as by developing standards of documentation and codes of market practice, which are widely used and adopted. Membership of the LMA currency stands at over 730 organisations across 67 jurisdictions and consists of banks, non-bank investors, law firms, rating agencies and service providers. The LMA is recognised across the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. Its overall mission is to act as the authoritative voice of the EMEA loan market vis à vis lenders, borrower, regulators and other interested parties.

Our comments are specifically in the context of the loan market and, rather than respond directly on Questions 1-7, we would like to raise two general points that we believe are inter-connected and relevant to the Consultation:

- We believe there is strong merit in seeking consistency of methodology on spread adjustments across products and across currencies, wherever feasible
- In connection with the point above, we have concerns that the challenges associated with a Transition period are likely to outweigh significantly any benefit

We look forward to the outcome of the Consultation.

M&T Bank

M&T Bank Response to the ARRC Spread Adjustment Consultation

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes	x	5-year median is preferred		Other method is preferred
Securitizations	x	5-year median is preferred		Other method is preferred
Syndicated Loans	x	5-year median is preferred		Other method is preferred
Bilateral Business Loans	x	5-year median is preferred		Other method is preferred

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

No, this is inconsistent with what ISDA is going to do

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Yes, for both

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Yes

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Yes, for swaps and cash products. Consistency between ARRC and ISDA approach is important

Questions 8- 11 refer to Consumer Products

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Yes, consistent with ISDA methodology

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

No, this is inconsistent with what ISDA is going to do

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

M&T Plans to follow the direction provided by the GSEs for the fall back

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

It is important to M&T to ensure ARRC and ISDA Consistency on the approach

MetLife

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

MetLife Response: MetLife believes that the ARRC should maintain consistency with the derivatives market and utilize the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate across each of Floating Rate Notes, Securitizations, Syndicated Loans and Bilateral Business Loans.

Floating Rate Notes 5-year median is preferred Other method is preferred

Securitizations 5-year median is preferred Other method is preferred

Syndicated Loans 5-year median is preferred Other method is preferred

Bilateral Business Loans 5-year median is preferred Other method is preferred

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median*

b. 5-year average g. 3.5-year trimmed mean

c. 10-year median h. 3.5 year average

d. 10-year trimmed mean i. Other (please specify)

e. 10-year average

MetLife Response: Not Applicable, See response to Question 1.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

MetLife Response: MetLife believes that Option B above is the best approach for calculating the spread adjustment for a forward-looking term rate if there are fewer than 5 years of available data.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

MetLife Response: MetLife believes that the ARRC should maintain consistency with the derivatives market and not include any transition period when applying the spread adjustment for cash market products.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

MetLife does not believe that it is necessary for the ARRC to provide spread adjustments for 1-week or overnight LIBOR. Most weekly or overnight rate resets occur in the bank loan market and primarily utilize Prime as the reference rate. Accordingly, insignificant market volume in weekly and overnight LIBOR resets do not necessitate calculation of spread adjustments for these tenors.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

MetLife Response: MetLife believes that it is not necessary for the ARRC to recommend spread adjustments based on the differences between LIBOR and simple averages of SOFR because only compound SOFR is an available fallback in the ARRC hardwired fallback approach. Consequently, spread adjustments for simple averages of SOFR are not necessary.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

MetLife Response: MetLife believes that the ARRC should maintain consistency with the derivatives market and utilize the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate across each of Floating Rate Notes, Securitizations, Syndicated Loans and Bilateral Business Loans. Utilizing different methodologies across cash market products could create operational and IT processing system challenges as well as causing confusion in the cash markets.

Morgan Stanley

Morgan Stanley

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Morgan Stanley is pleased to respond to the Alternative Reference Rates Committee's Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR (the "**Consultation**"). Please find below our answers to each of the questions posed by the Consultation.

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

- *Floating Rate Notes*
  - *5-year median is preferred*
  - *Other method is preferred*

- *Securitizations*
  - *5-year median is preferred*
  - *Other method is preferred*

- *Syndicated Loans*
  - *5-year median is preferred*
  - *Other method is preferred*

- *Bilateral Business Loans*
  - *5-year median is preferred*
  - *Other method is preferred*

Morgan Stanley agrees that the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for each of the specified cash products. We believe that this methodology is the correct approach to provide the credit spread in fallback rates for contracts referencing LIBOR, and believe that aligning methodologies between the cash and derivatives markets will further facilitate the transition.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*

f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5 year average*
i. *Other (please specify)*

Not applicable.

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Morgan Stanley prefers option (a): to use the longest span of indicative term rate data available.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Morgan Stanley does not believe that a 1-year transition should be included for any of these cash products, as such an approach would be inconsistent with the market preference noted by ISDA in the derivatives market in its consultation on final parameters for the spread and term adjustment, and it is Morgan Stanley's view that it is important to align the approach and associated timing utilized by both the cash and derivatives markets.

As detailed below, Morgan Stanley is supportive of a 1-year transition in the context of consumer products. However, we note that this will give rise to challenges in a securitization context that the ARRC should also consider addressing, as there will now be a mismatch between the underlying consumer loans used in a securitization and the notes issued.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Morgan Stanley supports the ARRC recommending a spread adjustment for overnight LIBOR. For example, that spread, if any, may be utilized in delayed compensation calculations for loan transactions that have not settled.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Morgan Stanley expects to use LIBOR compound averages of SOFR in cash markets from an issuance perspective; however, if there is demand for spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages from other market participants, such

as end-users, Morgan Stanley supports the ARRC recommending such spread adjustments and stands ready to serve clients regardless of their preference.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Morgan Stanley believes that a consistent approach to calculate the spread adjustment across products and currencies is preferable as different approaches would cause confusion in the market, introduce additional hedging challenges and potentially result in unintended basis risk in the cross-currency market.

Questions 8- 11 refer to Consumer Products

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Morgan Stanley agrees that the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for each of the specified cash products. We believe that this methodology is the correct approach to provide the credit spread in fallback rates for contracts referencing LIBOR.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

Morgan Stanley supports the inclusion of a 1-year transition period for consumer products.

Across all the consumer lending products offered by Morgan Stanley, a 1-year transition period will serve as a mitigation against the spread between LIBOR and SOFR at time of cessation / declaration of non-representativeness being materially different to the 5-year median. We expect this to ensure a smoother transition for both the borrower and lender.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. *the next longest tenor of term rate recommended by the ARRC*
b. *a compound average of SOFR in advance*

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

In that event, Morgan Stanley prefers option (a): that the next longest tenor of term rate recommended by the ARRC be used, provided that "next longest tenor" is 3 months. Note that Morgan Stanley is not

supportive of a fall back to a 2 week or 4 week term rate; if a 3 month tenor is not available, Morgan Stanley would prefer that option (b) be utilized.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR*

Morgan Stanley prefers option (a): to use the longest span of indicative term rate data available.

Question 12 applies to all products

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

Not applicable.

MUFG

MUFG Union Bank, N.A.
Treasury Division
350 California Street
San Francisco, CA 94104
Attention: John Trohan
Email: John.Trohan@unionbank.com

March 6, 2020

VIA EMAIL

ARRC Secretariat
Email Address: arrc@ny.frb.org

Re: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR[1]

Dear Secretariat Members:

This submission is made on behalf of the MUFG Bank, Ltd.,[2] a banking corporation formed under the laws of Japan having its headquarters in Tokyo, Japan, and MUFG Union Bank, N.A.[3] MUBK is a wholly owned subsidiary of the Mitsubishi UFG Financial Group, Inc.,[4] the world's 5th largest financial group with total assets of approximately $2.8 trillion. MUBK is one of the most active foreign banking organizations in terms of U.S. dollar-denominated commercial lending in the United States. The U.S. operations of MUFG have total assets of $341.4 billion as of December 31, 2019 and, as part of that total, MUFG Americas Holdings Corporation, a financial holding company, bank holding company and intermediate holding company, has total assets of $170.8 billion as of December 31, 2019.

MUB, a wholly owned subsidiary of MUAH, is a national bank having its main banking office in San Francisco, California and corporate headquarters in New York City and is the twenty-second largest domestic United States bank by asset size[5] and a wholly-owned indirect subsidiary of MUFG.

MUBK conducts a predominantly USD-denominated wholesale, commercial banking business in the U.S. through a network of branches and agencies. MUBK engages in no U.S. retail banking activity.

MUB is commonly referred to as a "regional banking organization" with a primary focus on providing traditional retail and commercial banking products and services, almost exclusively in USD. Collectively with other similarly situated U.S. banks, MUB is a significant provider of loans to Main Street and the real economy. Its traditional retail and commercial bank business models focus on the banking and financial services needs of American consumers, small and mid-size businesses, and state and municipal governments.

[1] Dated January 21, 2020 and hereafter the "Cash Product Consultation."
[2] Hereafter "MUBK."
[3] Hereafter "MUB."
[4] Hereafter "MUFG."
[5] See https://www.usbanklocations.com/bank-rank/total-assets.html .

Both MUBK and MUB conduct significant lending businesses and intend to continue to provide their full support to the efforts of the official sector and the Alternative Reference Rates Committee[6] to facilitate a timely, orderly and appropriate transition away from the London Interbank Offered Rate[7] to a successor benchmark based on the Secured Overnight Financing Rate.[8] We believe SOFR can and should be the liquid reference rate for the significant majority of derivatives and debt financial instruments that currently reference LIBOR. It is in furtherance of our support for the success of the ARRC's work that we provide this response to the Cash Product Consultation.

We believe that SOFR, alone, is not well suited as a successor benchmark for every "cash" product and have continuing concerns that a transition from LIBOR to a SOFR-only successor benchmark could have a substantial adverse effect on post-transition credit availability. The vast majority of lending market borrowers are already familiar with loans tied to credit sensitive benchmarks like LIBOR, the prime rate and the cost of funds index.[9] In addition to those rates, multiple other rates including the constant maturity treasury rate[10] and monthly treasury average[11] are used in lending markets. We submit that rate types in lending markets are somewhat diverse, with each serving the parties' preference for freedom of contract. Accordingly, those market participants do not expect there should be only one, monolithic SOFR-only benchmark and environment resulting from the transition away from LIBOR.

MUB and MUBK are very much encouraged by the recent progress being made to accommodate the concerns that we and other U.S. regional banks expressed through November of last year. We continue to strongly support that separate but related effort and the ARRC's Cash Product Consultation. While we appreciate that the two processes are separate and distinct, we are convinced that the success of both is imperative for a successful transition to an appropriate transition away from LIBOR to a SOFR-based USD benchmark that is free of unintended value transfer risk to the greatest degree possible.

We note that any preferences indicated below are qualified by our preference that the recent and ongoing progress being made to accommodate the aforementioned U.S. regional bank concerns be successful and thereby allow market participants to more quickly determine their preferred SOFR-based LIBOR successor benchmark, expedite their transition to the new benchmark and thereby contribute to making the U.S. banking system and economy more resilient during times of economic stress.

[6] Hereafter the "ARRC."
[7] Hereafter "LIBOR."
[8] Hereafter "SOFR."
[9] Hereafter "COFI."
[10] Hereafter the "CMT."
[11] Hereafter the "MTA."

Cash Product Consultation Specific Responses

As part of our continuing interest and support of the ARRC's work, we offer the following responses to the Cash product Consultation.

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes

[X] 5-year median is preferred
[ ] Other method is preferred

Securitizations

[X] 5-year median is preferred
[ ] Other method is preferred

Syndicated Loans

[X] 5-year median is preferred
[ ] Other method is preferred

Bilateral Business Loans

[X] 5-year median is preferred
[ ] Other method is preferred

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. [ ] 5-year trimmed mean
b. [ ] 5-year average
c. [ ] 10-year median
d. [ ] 10-year trimmed mean
e. [ ] 10-year average
f. [ ] 3.5-year median
g. [ ] 3.5-year trimmed mean
h. [ ] 3.5 year average
i. [ ] Other (please specify)

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: ***(see additional Question 3 content in Question 12 response)***

a. [ ] Use the longest span of indicative term rate data available
b. [X] Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. [X] Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.) ***See additional Question 4 content in Question 12 response.***

a. [ ] Yes.
b. [ ] No.
c. [X] Other.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

a. [X] Yes.
b. [ ] No.
c. [ ] Other.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

a. [X] Yes.
b. [ ] No.
c. [ ] Other.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies. ***See additional Question 7 content in Question 12 response.***

a. [ ] Yes.
b. [ ] No.
c. [X] Other.

Questions 8- 11 refer to Consumer Products

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method). ***See additional Question 8 content in Question 12 response.***

a. [ ] Yes.
b. [X] No.
c. [ ] Other.

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

a. [X] Yes.
b. [ ] No.
c. [ ] Other.

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on: ***(see additional Question 10 content in Question 12 response)***

a. [ ] the next longest tenor of term rate recommended by the ARRC
b. [X] a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: ***(see additional Question 11 content in Question 12 response)***

a. [ ] Use the longest span of indicative term rate data available
b. [ ] Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. [ ] Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

As to Question 3: Client-facing transactional lines of business and treasury professionals preferred choice b. ("Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.") while risk modelling professionals preferred choice c. ("Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR."). The former group believed that, if having to choose among the choices presented, choice b. will be a more accurate indicator of a LIBOR-comparable forward rate transition solution. The latter group preferred choice c. because it was believed to have more reliable historical reliability based upon past experience in using that method.

As to Question 4: Client-facing transactional lines of business, treasury and risk professionals preferred a 1- to 2-year transition to allow for accommodation of the (un)known challenges presented by the LIBOR transition when considering the cash products context as well as the varied levels of counterparty understanding of, and preparedness for, the transition. However, professionals more focused on non-cash hedging activities associated with cash product creation noted any transition period would be problematic. They suggested that the inclusion of a 1-year transition period where a spread is linearly interpolated between the spread around the time the fallback applies and the long term historical mean/median spread could impair the efficacy of hedging between cash transactions and hedge instruments from a hedge accounting perspective because the International Swaps and Derivatives Association[12] will not be including any transition period in its fallback methodologies. If avoidance of a sudden change in rates upon occurrence of a transition trigger event for certain cash products is thought desirable, they suggested it be introduced in the relevant financial contracts through agreements by the parties thereto and not within an ARRC recommended fallback rate, itself.

As to Question 7: We believe that choice a. (Yes) is warranted in the ordinary course. However, we also expect that the benefits of consistency in the fallback processes elected by financial services providers across various products and currencies will have to be juxtaposed to the preferences of end-user market participants for modifying hedging derivative fallback methods to once again integrate into that method a dynamic credit spread supplement rather than reflexively elect a fixed credit spread. Said differently, we do not wish to preclude the possibility that a dynamic credit spread SOFR supplement could be employed in the context of derivatives created to complement loan transactions with which they are closely associated.

As to Question 8: Various respondent professionals preferred that the ARRC recommend alternative methodologies in addition to the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate or consumer products. We believe additional ARRC work is needed and should continue to provide recommendations

[12] The "ISDA."

with respect to a reasonable array of choices from which market participants might select those most suitable in the context of a specific consumer context.

As to Question 10: Client-facing transactional lines of business and treasury professionals preferred choice b. ("A compound average of SOFR in advance.") while risk modelling professionals preferred choice a. ("The next longest tenor of term rate recommended by the ARRC."). The former group believed that, if having to select among the choices presented, choice b.'s "in advance" characteristic was most important in choosing a satisfactory, feasible transition solution in a consumer product context. The latter group preferred choice c. because it expects choice a. will likely not be available at the time transition is expected to occur.

As to Question 11: Client-facing transactional lines of business and treasury professionals preferred choice b. ("Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.") while risk modelling professionals preferred choice c. ("Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR."). The former group believed that, if having to choose among the choices presented, choice b. will be a more accurate indicator of a LIBOR-comparable forward rate transition solution. The latter group preferred choice c. because it was believed to have more reliable historical reliability based upon past experience in using that method.

Generally: As we understand it, the ARRC's goals are to (1) help market participants expeditiously and prudently transition from LIBOR to another benchmark prior to LIBOR's cessation, which is likely to occur on or before December 31, 2021 and (2) recommend, but not compel, market participants to choose SOFR as the LIBOR successor benchmark, whether or not enhanced with a credit spread of some sort. Based on this understanding, we are prepared to consider a transition from LIBOR to SOFR augmented by a static, fixed credit spread consistent with the method currently proposed by the ISDA for a short term as we are in agreement with the ARRC leadership's position and the consensus of market participants that efforts to transition should not be unduly delayed. At the same time, if the opportunity materializes for the development of a dynamic credit sensitive SOFR supplement that has a reasonable likelihood of IOSCO compliance and substantial market participant preference and/or acceptance, we believe it would be prudent to provide sufficient latitude for market participants to accommodate such an eventuality.

Finally, we would be remiss in failing to express our earnest support for efforts promoting both federal and state legislation that will provide appropriate solutions and protections for market participants and their counterparties navigating this transition in good faith, regardless of the successor benchmark that both parties elect to adopt.

Respectfully submitted,

MUFG Bank, Ltd.
MUFG Union Bank, N.A.

National Association of Corporate Treasurers

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes: 5-year median is preferred

Securitizations: 5-year median is preferred

Syndicated Loans: 5-year median is preferred

Bilateral Business Loans: 5-year median is preferred

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: N/A

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.) No, in the interest of simplicity.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR? Yes

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages? Yes

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies. In the interest of simplicity, a common approach should be sought. Corporate multicurrency syndicated credit agreements typically have the same credit spread for borrowings in U.S. dollars, the euro, and pounds sterling. Each will require a spread adjustment to the new risk-free rates. A common approach will undoubtedly minimize discontinuities and potentially disruptive arbitrage trading across currencies during a transition period when markets will be under great stress.

Questions 8- 11 refer to Consumer Products

Note: the NACT is comprised largely of non-financial corporations not active in mortgage finance or other longer-term floating rate consumer loans. We therefore are not offering responses to this section.

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on: a. the next longest tenor of term rate recommended by the ARRC b. a compound average of SOFR in advance.

(Note that in these instances, the rate would still reset annually or semiannually, and spreads would be calculated relative to 1-year or 6-month LIBOR).

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

The LIBOR borrowing option on almost all corporate syndicated loans provides for the borrower to give the agent two business days' notice (other than for swingline loans) and to specify a term of 1,2,3,6, or, with the consent of the agent, 12 months. Interest on borrowing tranches is due at the end of each specified term. Almost all corporate syndicated loans provide for same-day availability for base-rate loans, usually priced in relation to the loan agent's Prime Rate. Interest on base-rate loans accrues as simple interest in arrears and is typically paid on the first business day of the quarter following when the base-rate loans were outstanding. The NACT recommends that an alternative to LIBOR that could be implemented now with present corporate treasury management systems and bank loan operations systems would be to identify a new loan definition and provision for base-rate loans priced off SOFR with simple interest

accruing in arrears and payable as for prime-based loans on the first business day of the quarter following when the loans were outstanding. This would seem to solve the problem of needing to adapt treasury management systems geared for forward-looking LIBOR tracking designated fixed terms between one and twelve months to a daily SOFR rate; does not need a term-SOFR rate, that does not yet exist, to substitute for the term-LIBOR rates specified as the first step in fallback provisions; and can be implemented by borrowers and their lenders now. This SOFR base-rate alternative is a short-term measure that would be supplanted by corporate borrowers' preference for term SOFR when it becomes available but might substitute for prime base-rate loans since prime is not IOSCO compliant. **This would require the ARRC to determine an appropriate spread adjustment between the average of banks' prime rates and SOFR.**

National Australian Bank & Bank of New Zealand

ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

The following constitutes formal response from National Australia Bank and Bank of New Zealand -

Question 1.

Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

NAB & BNZ answers -

Floating Rate Notes	Y	5-year median is preferred		Other method is preferred
Securitizations	Y	5-year median is preferred		Other method is preferred
Syndicated Loans	Y	5-year median is preferred		Other method is preferred
Bilateral Business Loans	Y	5-year median is preferred		Other method is preferred

Question 2.

If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

Not applicable given our response in Question 1.

Question 3.

If there are fewer than 5 years of available data in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

NAB & BNZ prefer option c - use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 4.

Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

No

NAB & BNZ believes inclusion of a 'transition-period' presupposes that the spread between LIBOR and SOFR has remained valid on the day before cessations, which may or may not be the case.

We believe the absence of a transition period will aid overall transition by encouraging market pricing towards alignment across the forward curve prior to cessation, which in turn aids discussions with customers in transition and will accelerate the transition.

Question 5.

Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

NAB & BNZ have no recommendation here (the absence or availability would not overly aid or impede markets either way).

Question 6.

Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

No

NAB & BNZ's preference is that regulators maintain simple messages and processes to avoid confusing customers. Inclusion of simple average unnecessarily complicates the message.

Question 7.

Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

Yes

NAB & BNZ have an expressed preference to maintaining consistency across products, currencies and curves - expressed in our responses to all prior industry consultations of this nature.

We note that questions 8- 11 refer to US Consumer Products – where NAB-Group has limited capability and/or expertise. We have therefore elected not to respond to these.

Question 8.

Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

N/A

Question 9.

Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

N/A

Question 10.

If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on: a. the next longest tenor of term rate recommended by the ARRC b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

N/A

Question 11.

If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

N/A

Question 12.

Please provide any additional feedback on any aspect of the proposals. Refer over -

Recognising this is a survey for credit spread adjustments in transition, NAB & BNZ note the publication of SOFR Index and Period Rates. We believe it is worth relaying that both NAB and BNZ are actively considering the use of such indices (possibly exclusively) across all relevant products.

Further, NAB & BNZ believe use of a robust index covers all possible uses and reduces any additional complexity that comes with the development of a period average. For example, there are period average challenges particularly related to performing interest accrual calculations prior to the reference period starting; and, an inability to replicate the period average rate using the published index when the start date falls on a weekend.

END

PGIM

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Yes, we prefer an approach for all products that is consistent with ISDA.

Floating Rate Notes 5-year median is preferred Other method is preferred
Securitizations 5-year median is preferred Other method is preferred
Syndicated Loans 5-year median is preferred Other method is preferred
Bilateral Business Loans 5-year median is preferred Other method is preferred

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median*
b. 5-year average g. 3.5-year trimmed mean
c. 10-year median h. 3.5 year average
d. 10-year trimmed mean i. Other (please specify)
e. 10-year average

N/A

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

No. The introduction of a spread adjustment creates unnecessary complexity that could potentially confuse market participants and may impact liquidity in these cash product sectors.

Question 5. *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Yes.

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

No. The limited benefit of the ARRC publishing two sets of spread adjustments (LIBOR vs compounded and simple average SOFR) is far outweighed by the complexity of providing the market with multiple choices. We prefer to be consistent with ISDA and generate a single set of spread adjustments.

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

We think a simple and consistent methodology applied across all products to compute spread adjustments will help minimize potential disruption to the markets during the transition to an alternative reference rate. Bespoke solutions could potentially confuse market participants and may impact liquidity in these cash product sectors.

Questions 8- 11 refer to Consumer Products
Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

Yes, we prefer to be consistent with ISDA (5-year median of historical differences).

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

No. We prefer a simple and consistent methodology between consumer loans and cash products in order to minimize/eliminate potential basis risk.

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

We prefer the simplicity of using term rates but if those rates are unavailable, then compounding SOFR in advance is acceptable.

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Question 12 applies to all products
Question 12. *Please provide any additional feedback on any aspect of the proposals.*

We believe that the spread adjustment should be established at the time of the first trigger event and should not be recalculated given a subsequent trigger. For example, if the supervisor deems LIBOR as not

representative, the spread adjustment should be computed and remain fixed. A subsequent spread adjustment should not be recalculated when/if the administrator ceases to publish LIBOR.

SOFR Academy

March 25, 2020

SOFR Academy LLC
525 Broome Street, Level 2
New York, NY 10013
United States of America

Via electronic email

Mr. Thomas G. Wipf
Chair – Alternative Reference Rates Committee
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
arrc@ny.frb.org

Dear Chairman Wipf,

SOFR Academy is an American education technology firm founded by a team of experienced Financial Services professionals. We utilize learning management software to deliver high-quality and low-cost online training courses dedicated to helping people transition away from the USD London Interbank Offered Rate (LIBOR). We believe that education is critical in order to achieve an orderly and broad-based transition to Alternative Reference Rates (ARR). We also believe that the Secured Overnight Financing Rate (SOFR) can and should be the primary ARR for the significant majority of financial products that currently reference USD LIBOR in the United States of America and abroad.

SOFR Academy is pleased to provide feedback in response to the Alternative Reference Rate Committee's (ARRC) important consultation on potential spread adjustment methodologies to account for the differences between SOFR and USD LIBOR. SOFR Academy informally discussed preferences and responses with selected organizations, infrastructure providers and end users in forming our views on this consultation. Please find feedback in response to each specific question in the consultation below.

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

SOFR Academy supports the use of the 5-year median of the historical difference between LIBOR and the SOFR fallback rate for Floating Rate Notes, Securitizations, Syndicated Loans and Bilateral Business Loans.

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method.

The five-year median is preferred for Floating Rate Notes, Securitizations, Syndicated Loans and Bilateral Business Loans

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment.

SOFR Academy advocates for the use of the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate if there are fewer than five years of available data to use in calculating a spread adjustment for a forward-looking term rate.

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

SOFR Academy notes the importance of the ARRC in receiving broad based feedback from a relatively large and diverse number of respondents as being imperative in order to arrive at a balanced and informed view on this question. Despite our best efforts we were unable to obtain a clear consensus on this question however we wanted to offer some related thoughts:

- Based on informal conversations with IBOR transition program leaders at selected organizations (including Treasurers, Chief Risk Officers and IBOR Program Management Office leads), two of the most common concerns for the transition away from LIBOR are (1) the minimization of potential interest basis risk and (2) the minimization of potential litigation risk. We believe that a one-year transition period could create additional operational complexity for market participants by increasingly the likelihood of transitional interest rate basis risk but at the same time could reduce potential litigation risk. Conversely, if a transition period was not allowed for and a legislative solution was not in place then we view the likelihood of potential litigation and class actions as being higher.

- SOFR Academy notes that the general characteristics of market participants in cash products that currently reference USD LIBOR can differ across floating rates Notes (~$1.8 Trillion), business Loans (~$3.4 Trillion) and securitized products (~$1.5 Trillion). Larger and more sophisticated Financial Institutions are generally better equipped than smaller firms to manage potential resultant interest rate basis risk for any potential transition period where a multi-rate environment was required.

- SOFR Academy acknowledges and supports the ARRC's Guiding Principle "to minimize expected value transfer based on observable, objective rules determined in advance"[1] however we believe the likelihood of achieving a zero-value transfer (net-present value neutral) in operational reality is probably low. SOFR Academy also notes the potential for unintended macroeconomic and credit implications, particularly in the United States, resulting from an all in

[1] Guiding Principles and Scope of Work for the ARRC Consumer Products Working Group, Alternative Reference Rates Comm. https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC_Consumer_Products_Guiding_Principles.pdf

SOFR, adjusted for term and credit premium(s), being higher or lower than existing LIBOR based rates at the time that contract fallback language took effect.

— SOFR Academy also notes that a number of market participants that transact in cash products have recently had to divert their attention and resources to addressing business continuity related issues in connection with the coronavirus (COVID-19) pandemic. Further, there is uncertainty on how long this disruption will persist which supports the need for additional time to adequately prepare to transition away from LIBOR.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Although we do not see a large number of market participants referencing LIBOR in these shorter tenors, we cannot rule out a need for spread adjustments in these tenors nor can we see a valid reason why spread adjustments for these terms should not be recommended and made available using methodologies consistent with responses from previous LIBOR transition related industry consultations.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

Although SOFR Academy views the recent publication of SOFR Averages by the Federal Reserve Bank of New York as a positive step and generally supportive of the overall transition away from LIBOR, at this time our client conversations indicate that the practical applications of SOFR Averages remain limited.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

SOFR Academy supports consistency in approaches and methodologies across products and currencies where possible.

SOFR Academy believes that there continues to be an opportunity to strengthen cross-jurisdictional dialogue and inter-National Risk-Free Rate working group communication and co-ordination. In terms of an example, SOFR Academy believes that the likelihood of potential legislation to address 'Tough Legacy'[2] contracts has increased in both the United Kingdom and at the New York State level[3] – consistency and co-ordination where possible in terms of the content of the potential legislation would probably make sense, especially as it impacts multinational financial institutions.

Questions 8 - 11 refer to Consumer Products

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please

[2] See FCA Andrew Bailey speech *LIBOR: preparing for the end*
https://www.fca.org.uk/news/speeches/libor-preparing-end
[3] ARRC Releases a Proposal for New York State Legislation for U.S. Dollar LIBOR Contracts
https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Press_Release_Proposed_Legislative_Solution.pdf

specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

SOFR Academy is supportive of using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate for consumer products. We generally are supportive of most outcomes that help to minimize interest rate basis risk.

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

SOFR Academy echoes recent calls from certain industry associations[4] to support a transition period of at least 1 year for consumer products. We also wanted to offer some related thoughts:

— SOFR Academy notes that research from the Official sector indicates that the consumer product segment of the United States economy is disproportionately sensitive to adverse interest rate shocks meaning that even relatively small increases in interest rates can cause significant financial hardship for this sector. SOFR Academy acknowledges the importance of the ARRC in forming views and making decisions on LIBOR transition for the consumer segment in close partnership and cooperation with the relevant domestic consumer advocacy groups.

— As previously noted in response to Question 4, uncertainty relating to the national emergency caused by the coronavirus (COVID-19) pandemic is creating meaningful uncertainty in the consumer products segment from both the lender and the borrower's perspective. It is currently unknown how long this uncertainty will persist which supports the need for an additional transitional period.

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment.

SOFR Academy supports the use of the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

Question 12 applies to all products

Question 12. Please provide any additional feedback on any aspect of the proposals.

SOFR Academy supports recent calls from certain market participants to bring forward the timing of the publication of forward-looking term version of the SOFR[5]. We understand that there are barriers that exist to being able to achieve this however we would like to add our support to intensify industry efforts in this regard as we believe this would be a significant enabler for the market transition.

LIBOR transition is one of the most significant and complex changes impacting financial services and the global financial market over the next few years. SOFR Academy acknowledges and applauds the significant amount of work that the ARRC and its sub-working groups have accomplished thus far.

[4] Letter from The Student Borrower Protection Center, Americans for Financial Reform Education Fund, the National Community Reinvestment Coalition, and the National Consumer Law Center to the ARRC
https://protectborrowers.org/wp-content/uploads/2020/03/LIBOR-Spread-Adjustments-Coalition-Letter.pdf
[5] See Risk.Net article *Fast-track SOFR term rate, says JP Morgan's Pluta*
https://www.risk.net/derivatives/7425721/fast-track-sofr-term-rate-says-jp-morgans-pluta

Further, it is a fact that the US Dollar is still the world's most important reserve currency which underscores the significance of the work of the ARRC. SOFR Academy is committed to supporting the objectives of the ARRC in order to achieve an orderly and broad-based transition for both Wall Street and Main Street market participants.

Thank you for your consideration of these comments.

Yours sincerely,

Members of the Management Board.

SOFR Academy
info@SOFRacademy.com
www.SOFRacademy.com

Standard Chartered

6 March 2020

Dear Sir/Madam,

Standard Chartered Bank's Response to the Consultation by the Alternative Reference Rate Committee on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

Standard Chartered Bank ("SC") welcomes the consultation by the Alternative Reference Rate Committee (ARRC) on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR. We support the ARRC's work in helping to facilitate the market's transition from LIBOR to RFRs and appreciate the challenges in doing so.

We have the following feedback to the questions raised in the consultation:

Q1: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

- **Floating Rate Notes: 5-year median is preferred OR Other method is preferred**
- **Securitizations: 5-year median is preferred OR Other method is preferred**
- **Syndicated Loans: 5-year median is preferred OR Other method is preferred**
- **Bilateral Business Loans: 5-year median is preferred OR Other method is preferred**

SC Response: We agree that using the ISDA methodology of a 5-year median of the historical difference between USD LIBOR and SOFR fallback rate is the best choice across all four cash products. Inconsistency between these cash products with the ISDA methodology create complexity when clients are hedging such cash products with derivatives. It will also result in increased risks for clients, who need to understand and manage different methodologies across cash and derivatives products.

Q2: If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

a) **5-year trimmed mean**
b) **5-year average**
c) **10-year median**
d) **10-year trimmed mean**
e) **10-year average**
f) **3.5-year median**
g) **3.5-year trimmed mean**
h) **h. 3.5 year average**
i) **Other (please specify)**

SC Response: Not applicable.

Q3: If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. **Use the longest span of indicative term rate data available**
b. **Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.**
c. **Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR**

SC Response: We have a preference over Method A to calculate a spread adjustment for a forward-looking term rate, as there is a reasonable period that should provide for sufficient data. However, this is predicated on a robust methodology for the forward looking term rate, and industry consensus around appropriateness of using indicative term rate data for the computation.

Q4 Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

SC Response: We are of the view that a 1-year transition period should not be included. While we note the discussion that the spread adjustment revert to long-run levels within a year, this is not certain to happen with the permanent cessation of LIBOR. Having a one-year transition will also increase complexity, lead to inconsistency with derivatives and other related transactions, and potential biases on period of transition decided.

Q5 Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

SC Response: We are neutral to this. While 1-week or overnight LIBOR is not commonly used in cash products, it is likely to be useful for the same methodology to be adopted, if such spread adjustments are to be recommended.

Q6 Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

SC Response: We are of the view that spread adjustments on compound averages will be sufficient, and do not see a compelling need for spread adjustments based on the differences between LIBOR simple averages of SOFR. Having such adjustments may also create confusion, and complicate convergence towards a new market convention.

Q7 Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

SC Response: Consistency across products and currencies has clear value and advantages in terms of systems, client understanding/“Plain English” conversations, hedging, and not further compounding operational and legal complexity of the transition. Differences also create additional confusion and debate on why one approach is preferred over others, especially if there are multiple permutations.

Questions 8- 11 refer to Consumer Products

Q8 Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

SC Response: With consistency as the primary consideration, the 5-year ISDA median is preferred.

Q9 Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

SC Response: Similar to our response to Q4, we are of the view that a transition period should not be included.

Q10 If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semi-annually and spreads would be calculated relative to 1-year or 6-month LIBOR).

SC Response: We have a preference for Option A, as such a term rate may be more similar economically (as both are term rates) and be a better proxy. However, firms can only make better informed decisions once such forward term rates are developed.

Q11 If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

SC Response: Please see our response to Question 3.

Question 12 applies to all products

Q12 Please provide any additional feedback on any aspect of the proposals.

SC Response: Elaborating on our response to Question 4, while the 1-year transition period has conceptual appeal (e.g. in mitigating an adjustment shock), on balance, we are not in favour for the following considerations:

- The long run level is unlikely to be the appropriate representation for a spread adjustment which is intended to reflect prevailing market conditions. The reversion of the spread to the long run levels may also not happen with the permanent cessation of USD LIBOR.
- The spread adjustment is no longer a relatively clear and simple long term measure. Given that clients in cash products are diverse with varying degrees of sophistication, the client discussions become much more complex, especially if clients have related transactions in derivatives (where there is no transition period).
- It significantly complicates the operational undertaking, as there are different systems and operation processes across different products that will need to be amended and updated to support this for both banks and clients.

Yours sincerely,

Standard Chartered Bank

Structured Finance Association

March 25, 2020

Via email to the ARRC Secretariat at: arrc@ny.frb.org

Alternative Reference Rates Committee, convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York

Re: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

The Structured Finance Association ("**SFA**") appreciates the opportunity to respond to the Consultation ("**Consultation**") of the Alternative Reference Rates Committee ("**ARRC**") regarding Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

SFA is a member-based trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFA's core charge is to support a robust and liquid securitization market, recognizing that securitization is an essential source of funding for the real economy. While the comments expressed in this letter represent the consensus views of our broad membership, this letter does not necessarily represent the perspectives of all SFA members. None of the recommendations expressed herein are binding on, or should be attributed to, any individual SFA member, each of which will decide for itself whether and to what extent to submit individual comments in response to the Consultation.

SFA views the Consultation as an important step in the overall process of transitioning globally from LIBOR to new benchmarks representing market-based risk-free rates. The Consultation seeks commentary on the appropriate spread adjustment methodology the ARRC should recommend as part of its fallback provision recommendations for cash products referencing LIBOR and asks specific questions relating to such methodologies ("Questions"). The Consultation seeks commentary from all market participants.

As you know, SFA is a member of ARRC and we also serve as co-chair of the ARRC Securitization Working Group. In an independent effort, we convened our LIBOR Task Force in early 2018 to identify potential best practices that SFA members in particular believed would help ensure an as-seamless-as-possible transition away from LIBOR to successor benchmarks. The SFA LIBOR Task Force includes a broad cross-section of SFA members from all of our constituency groups, including, among others, banks, issuers, investors, trustees, rating agencies, and servicers.

Submitted below, are SFA's responses ("Responses") to each of the Questions. For your convenience, the Responses have been placed in the order in which the Questions were presented, and the text of each Question is presented in italics before the associated Response. Please note that since Questions 8 through 11 relate to consumer products, we have declined to answer such questions. Capitalized terms that are used in this letter, unless otherwise defined, have the meanings set forth in the Consultation.

Question 1: *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	☐	*5-year median is preferred*	☐	*Other method is preferred*
Securitizations	☐	*5-year median is preferred*	☐	*Other method is preferred*
Syndicated Loans	☐	*5-year median is preferred*	☐	*Other method is preferred*
Bilateral Business Loans	☐	*5-year median is preferred*	☐	*Other method is preferred*

Response to Question 1:

Given the composition of SFA's membership, our response to Question 1 is limited to securitizations only. Generally, we believe that consistency across different products and asset classes would be extremely beneficial to the industry as a whole. In SFA's February 2019 response to the ARRC's Consultation on New Issuance of LIBOR Securitizations, SFA indicated that we supported using the longest possible lookback period in calculating a spread adjustment.[1] At that time, we also indicated that a lookback period of at least ten years would be ideal. However, members believe that there is significant value in the securitization industry aligning with the spread adjustment methodologies used by other key market participants, including ISDA. As such, we currently support the use of the 5-year median methodology in calculating the LIBOR-SOFR spread adjustment. To the extent ISDA or the industry coalesces around a different methodology (e.g., the use of a longer lookback period, or if the market participants supported the use of a dynamic spread adjustment as opposed to a static adjustment), SFA would reevaluate its support for the 5-year median method.

[1] Available at https://structuredfinance.org/wp-content/uploads/2019/05/SFIG_Response_to_ARRC_Consultation_New_Issuances_of_LIBOR_Securitizations_2.5.19.pdf

Question 2: *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. *5-year trimmed mean*
b. *5-year average*
c. *10-year median*
d. *10-year trimmed mean*
e. *10-year average*
f. *3.5-year median*
g. *3.5-year trimmed mean*
h. *3.5-year average*
i. *Other (please specify)*

Response to Question 2:
Not applicable.

Question 3: *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. *Use the longest span of indicative term rate data available*
b. *Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate*
c. *Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR.*

Response to Question 3:
As indicated in our response to Question 1 above, we believe there is significant value in aligning various methodologies across products and asset classes. As a result, we currently support option (b) above as the data source for the period of time prior to when indicative term rate data is available, given that we understand ISDA has indicated it will use a similar approach in calculating the applicable spread adjustments. As noted in the response to Question 1, our support for such an approach may need to be reevaluated to the extent the industry moves towards a different methodology, such as a dynamic spread adjustment.

Question 4: *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

Response to Question 4:
We believe that the implementation of a 1-year transition period may add unnecessary complexity to the LIBOR-SOFR transition. Additionally, we understand that ISDA does not currently support such a transition period. As such, we do not support the use of a 1-year transition period for cash products.

Question 5: *Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

Response to Question 5:
SFA membership has indicated that neither 1-week LIBOR nor overnight LIBOR are frequently utilized as a reference rate in securitizations. Most securitizations tie the LIBOR tenor to be used to the length of time between payments made on the securities. As such, SFA membership indicated that the shortest commonly-used tenor in securitizations is 1-month LIBOR. Accordingly, we do not recommend that ARRC produce spread adjustments for 1-week LIBOR or overnight LIBOR, from the perspective of the securitization market.

Question 6: *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

Response to Question 6:
SFA membership has indicated that there have been a number of new-issue transactions that have used a simple average of SOFR as the reference rate. Additionally, it is not yet clear whether future new issue securitizations that use SOFR will use the simple average or compounded average convention. As you know, while ISDA leans towards compounded SOFR, the ARRC-recommended securitization fallback language indicates market participants may elect to use simple average SOFR. To the extent there is a marked difference between the spread adjustment calculated using a simple average SOFR and a compound average SOFR, parties may prefer that for transactions that rely on simple average SOFR there is a separate adjustment calculation based on the difference between LIBOR and simple average SOFR. On the other hand, certain SFA members have questioned whether the added complexity of publishing two sets of spread adjustments outweighs the possible mismatch a transaction might face using a spread adjustment based on compounded average SOFR, if the reference rate for the transaction was based on a simple average SOFR. Furthermore, there remain questions with respect to whether participants in legacy transactions that transition to SOFR will choose to use the simple average or compound average convention. Such decision may be driven by the transaction party making such decision, contractual constraints within the securitization documentation, as well as the composition of the underlying collateral.

Question 7: *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

Response to Question 7:
As previously indicated, we think there is a substantial benefit to having alignment between products and asset classes as to how spread adjustment methodologies are calculated. With respect to securitizations, one concern voiced by SFA membership has been that for cash products that include a derivative, or that are hedged with a derivative, misalignments between the cash product and derivative fallback provisions (including the applicable spread adjustments) may have unanticipated economic consequences. Alignment across various products, asset classes and currencies should decrease the risk of any value transfer.

Question 12: *Please provide any additional feedback on any aspect of the proposals.*

Response to Question 12: As we have indicated in our above responses, we strongly support consistency across various products and asset classes in the transition from LIBOR to successor reference rates, wherever possible. As such, as a general matter we feel that alignment with ISDA on LIBOR-succession issues would be extremely beneficial to the securitization market. That said, securitizations backed by floating rate assets present specific challenges that are not encountered with derivatives.

One of the key factors that will ultimately determine which LIBOR-succession provisions will be adopted in both new and legacy securitization transactions is how the underlying collateral (if floating rate) will address LIBOR succession. Such decisions will also be illustrative in determining which spread adjustments may be necessary. Ideally, the transition from LIBOR to an alternative reference rate would not change the value of outstanding securities. This goal would be best served by alignment between the LIBOR-succession provisions in the pool of collateral and the securitization – both with respect to the selection of the successor reference rate (along with the related conventions) and the time when such provisions went into effect. Because different underlying assets could adopt different conventions, it is uncertain how a securitization could best match the provisions of the underlying pool in its definition of the interest rate on the securities, so as to minimize any transfer of value between different classes of securities in the securitization transaction. In light of this uncertainty, it may be necessary in the future to consider different conventions for deriving a SOFR-based reference rate, which may give rise to a need for different types of spread adjustments.

SFA appreciates your consideration of these comments and welcomes the opportunity to discuss further. If you have any questions about this matter, please contact Kristi Leo, President, at (917) 415-8999 or Kristi.Leo@structuredfinance.org.

Very truly yours,

Kristi Leo
President
Structured Finance Association

The Bankers Association for Finance and Trade

March 25, 2020

ARRC Secretariat
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
Via email: arrc@ny.frb.org

RE: ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

ARRC Secretariat:

BAFT (The Bankers Association for Finance and Trade) appreciates the opportunity to comment on the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

BAFT is an international financial services industry association whose membership includes a broad range of financial institutions throughout the global community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT's nearly 300 members provide leadership to build consensus in preserving the safe and efficient conduct of the financial system worldwide. BAFT closely monitors the impact that new policy initiatives could have on the provision of trade financing and payment services that support the real economy. To that end, BAFT's comments are primarily focused on issues for these particular sectors of the banking industry.

Global trade relies upon accessible financing for trade transactions. Trade financing assists customers with their import and export requirements, by providing import/export financing and trade risk mitigation. Trade finance exposures[1] are diverse in nature, smaller in value, shorter in tenor, self-liquidating and exhibit different behavior and payment patterns from other corporate banking products.

[1]See Appendix A for a summary trade finance definitions.

Since 2000, global trade flows have swelled from USD 6.2 trillion to a new peak of USD 18.5 trillion in 2018.[2] Bank-intermediated transactions now represent more than a third of world trade. LIBOR, in the various currencies, has long been the default benchmark interest rate for trade finance. Trade finance references LIBOR because it has historically used forward looking term rates that manufacturers/traders/importers and exporters utilize to price their product margins against. In discussions with BAFT members across different geographies, it became clear that the transition from LIBOR to SOFR would have a deep impact across a variety of products.

Table 1 below lists trade finance products that have historically used forward looking term rates, either through discounted interest taken at date of financing or interest in arrears, but set at loan inception.

Table 1: Trade finance products that have historically used forward looking term rates

Discounted Trade Finance Products:	
Products include: • Deferred Payments under LCs Drafts under LCs • Avalized Drafts • Promissory Notes • Supply Chain Finance Products (Invoice Financing, Receivables Discounting and Payables Finance, etc.)	*Characteristics:* • Principle amount payable on a fixed maturity date; no stated interest component • Interest is deducted in advance, i.e. Net Proceeds payable on financing date = Principle Amount minus Discount Calculation (can be Straight Discount basis or Discount to Yield basis) • Discount calculation has to be done at the outset based on a forward-looking rate
Loan-type Trade Finance Products:	
Products include: • Trade Loans • Bankers Acceptances • Import Loans • Asset- or Receivables-backed Loans	*Characteristics:* • Principle and interest payable on stated dates; interest component is clearly stated • Interest is payable in arrears (can be either at maturity or also at predetermined refix dates) • Interest can be calculated on a backward-looking basis, but removes certainty for borrowers at the outset of the financing regarding how much interest they will be paying

The ARRC's April 2019 publication of a User's Guide helped explain how market participants can use SOFR in cash products, urging participants not to wait for forward-looking term rates in order to transition. The following key observations have been derived by the industry:

1. SOFR averages will smooth out day-to-day fluctuations and accurately reflect interest rates over any given period of time.
2. Choices can be made between simple or compound averages – simplicity versus accuracy.

[2] ICC 2018 Trade Register Report

3. Choices need to be made between in advance or in arrears averages, with the latter reflecting what actually happens over the current period.
4. SOFR in arrears provides very little notice before payment is due, but can be overlaid with delays, look-backs or lockouts.

We understand that while it is the intention of the ARRC to derive a forward-looking term reference rate, it is not guaranteed before the end of 2021. The lack of a forward looking term reference rate presents operational challenges for this business line, as the exact cash flow due to be paid is only known one business day before the payment date. In comparison, three month LIBOR is set 3 months in advance and so cash flows under loans referencing three month LIBOR are known three months before the payment is due. Table 2 below summarizes the expected impact on transaction banking products.

Table 2: Assessment of impact to transaction banking products

Product	Sub-Product	Impact	Scope
Traditional Trade	Documentary LC, Collections, Bonds, SBLC	Not expected	N / A
	Guarantees	Potential impact	IBOR referenced in payment clauses
	Discounted products (e.g. deferred payment under LC, Promissory Notes, Avalized Drafts, etc.)	Likely impact	IBOR used to determine rate
Open Account	Supplier / Receivables Finance		
Trade Lending	ECA / Structured Export Finance, Trade Loans		
Secondary market for trade finance	All funded trade finance products	Likely impact	IBOR used to determine rate
Cash Management / Payments	Cash / Payments / Deposits / Overdrafts	Light impact	IBOR used in overdraft rate

We have a particular concern with trade finance transactions that are offered on a discount (interest deducted upfront) basis e.g. supply chain finance, where the lender "buys" the receivable, less the interest cost. These businesses do not have access to market curves and clients are typically price sensitive and thus less suited to the compound in advance approach. As called out by a recent paper from the Working Group on Sterling Risk Free Rates[3], for the lenders to be able to continue to offer this funding solution widely relied on by many corporates globally, forward looking term rates are essential (interest cannot be deducted upfront if it is not known at the time of funding and fixed through to the maturity).

[3] Sterling Use Cases of Benchmark Rates, Compound in Arrears, Term Rates and further alternatives. January 2020. https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/use-cases-of-benchmark-rates-compounded-in-arrears-term-rate-and-further-alternatives.pdf?la=en&hash=22BA20A8728D9844E5A036C837874CA3E70FEAE1.

In addition, there is an active secondary market for trade finance assets which mostly replicates the methodology of the underlying asset that is being sold. Therefore, if the underlying transaction is discounted, the sale between the existing financing party and the new party will also be discounted. In order for the secondary market to continue to function efficiently, the two parties (often both financial institutions) need to be able to determine a mutually agreeable third party rate to apply to the discount.

BAFT looks forward to the publication of a term rate ahead of the 2022 deadline and, in the meantime, would encourage the ARRC to develop a working group focused on trade finance to address issues specific to this subset of the industry.

We appreciate you taking into account our responses to the consultation. Should further information regarding or discussion of any of these matters be desired, please do not hesitate to contact Diana Rodriguez, Senior Director, International Policy at drodriguez@baft.org or 202-663-5514.

Very truly yours,

Tod R. Burwell
President and Chief Executive Officer

Consultation Responses

Question 1. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?*

Floating Rate Notes	✓ *5-year median is preferred*	□ *Other method is preferred*
Securitizations	✓ *5-year median is preferred*	□ *Other method is preferred*
Syndicated Loans	✓ *5-year median is preferred*	□ *Other method is preferred*
Bilateral Business Loans	✓ *5-year median is preferred*	□ *Other method is preferred*

BAFT and its members generally support consistency between asset classes in alignment with ISDA's methodologies. While we find that this consistency will minimize any basis in hedges, reduce operational challenges, and minimize customer confusion, our preference is for a dynamic credit spread in association with a term rate once one has been established.

Given the short-term nature of our products (less than 1 year), 5-year median of the historical difference may work better for longer term products given any larger errors are most likely to "average out". However, we may be more prone to being exposed to short term volatilities in the market which does not allow us enough time to "average out" the peaks and troughs.

Question 2. *If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:*

a. 5-year trimmed mean
b. 5-year average
c. 10-year median
d. 10-year trimmed mean
e. 10-year average
f. 3.5-year median
g. 3.5-year trimmed mean
h. 3.5 year average
i. Other (please specify)

N/A

Question 3. *If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

Given the short-term nature of products common in our industry, we support the use of the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

Question 4. *Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)*

We support a 1-year transition period for trade finance products.

Question 5*. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?*

N/A

Question 6. *Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?*

N/A

Question 7. *Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.*

As noted in question 1, BAFT supports a consistent spread across products and currencies. Given the multi-currency nature of trade finance products, consistency in the spread adjustment calculation would facilitate the transition to SOFR.

Question 8. *Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).*

As noted in question 1, we support the ISDA methodology of a 5-year median of the historical difference between LIBOR and SOFR fallback rate.

Question 9. *Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).*

We understand that a 1-year transition period refers to the window of time for legal documentation to transition and repapering to take place, which BAFT is supportive of. We do not support a 1-year transition period for the application of the fall back methodology to determine the credit spread fixing (conversion spread from LIBOR to RFR).

Question 10. *If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:*

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

N/A

Question 11. *If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:*
a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

N/A

Question 12. *Please provide any additional feedback on any aspect of the proposals.*

As an industry engaged in trade finance, our preference is for a dynamic credit spread in association with a term rate. The reason for this preference are described in the letter that precedes the response to the questionnaire. Over the ensuing weeks and months the working group the BAFT has assembled will follow on in greater detail.

Appendix A: Definitions of trade finance products

Trade Finance Products	Definition
Documentary Letters of Credit(L/Cs)	An irrevocable undertaking issued by a Bank at the request of the Applicant (Buyer), to make payment to the Beneficiary (Seller) upon presentation of specified documents that comply with all terms and conditions that are stipulated in the L/C.
Trade Finance Loans (TFLs)	An advance that enables both buyers and sellers to benefit by financing their genuine trade commitments on a transactional basis. Trade Finance Loans must only be used to finance genuine trade transactions, evidenced by appropriate transaction documentation /information.
Supply Chain Finance - Payables Finance	A financing structure which allows a Buyer (the lenders Customer) to arrange early payment (less the interest) to their Suppliers against invoices "approved for payment" by the Buyer and "elected for early payment" by the Supplier.
Supply Chain Finance – Receivables Finance	The Seller (the lenders customer) sells to the lender the trade receivable due from its Buyer, with interest deducted upfront. The lender has the right to receive payment from the Buyer and in the event of non-payment the lender should have the ability to enforce this right against the Buyer.

The Student Borrower Protection Center, Americans for Financial Reform Education Fund, the National Community Reinvestment Coalition, and the National Consumer Law Center

March 6, 2020

Mr. Thomas G. Wipf
Chair
Alternative Reference Rates Committee
1585 Broadway
New York, NY 10036-8293

Dear Chairman Wipf,

The Student Borrower Protection Center, Americans for Financial Reform Education Fund, the National Community Reinvestment Coalition, and the National Consumer Law Center offer the following comments in response to the Alternative Reference Rate Committee's (ARRC) recent Consultation on Spread Adjustments ("Consultation").[1] The Consultation noted that approximately $80 billion in variable rate private student loans reference LIBOR, and additional research indicates that as many as 3.3 million private student loan borrowers will be impacted by the transition from LIBOR.[2] As the Committee finalizes its methodology on spread adjustments, we urge it to consider the unique risks inherent to the private student loan market and to prioritize the protection of student loan borrowers.

The student loan market is an extremely precarious area of consumer credit where even small consumer-facing rate shocks can cause widespread borrower harm. For example, in the fourth quarter of 2019, the Federal Reserve Bank of New York reported that 11.1 percent of outstanding student loan debt was 90 or more days delinquent. FRBNY further noted that, when limited to student loans in repayment, delinquency rates were "roughly twice as high."[3] Previous research has also estimated that an interest rate increase of as little as 0.5 percent could be associated with private student loan default rates more than doubling in certain borrower segments.[4] Available data show that student loan defaults are disproportionately concentrated

[1] *See* Fed. Res. Bank of NY, *ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR* (Jan. 21, 2020), https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Spread_Adjustment_Consultation.pdf.
[2] *See* Jason Richardson & Karen Keli, *By 2021, Big Changes For Interest Rates Could Spell Trouble For Borrowers*, Nat'l Comm. Reinvestment Coalition (Apr. 25, 2019), https://ncrc.org/by-2021-big-changes-for-interest-rates-could-spell-trouble-for-borrowers/.
[3] Fed. Res. Bank of N.Y., *Quarterly Report on Household Debt and Credit 2019:Q4*, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/hhdc_2019q4.pdf ("[D]elinquency rates for student loans are likely to understate effective delinquency rates because about half of these loans are currently in deferment, in grace periods or in forbearance and therefore temporarily not in the repayment cycle. This implies that among loans in the repayment cycle delinquency rates are roughly twice as high.").
[4] *See* Felicia Ionescu & Nicole Simpson, *Default Risk and Private Student Loans: Implications for Higher Education Policies*, Fin. and Econ. Discussion Series (2015), https://bit.ly/2SyxqHj (Table 7).

among borrowers of color, borrowers from low-income backgrounds, and attendees of for-profit institutions.[5]

However, default rates capture only a fraction of those struggling under the weight of student loan debt. Every month, millions of additional borrowers across the country forgo meals,[6] medical expenses,[7] and basic life milestones as they grapple with their student loan bill.[8] We urge the ARRC to protect these vulnerable borrowers from rate increases as it finalizes its methodology on spread adjustments.

Additionally, as it continues its deliberations, the ARRC should consider how limited the avenues are for borrower recourse in the event of harm resulting from the LIBOR transition. This is of particular concern in the context of the Consultation's discussion of spread adjustment methodologies and associated margin adjustments.

In reviewing a sample of a dozen LIBOR-based private student loan contracts, we found that almost every one gave the lender nearly unilateral authority to select a replacement index when LIBOR becomes unavailable, and that many also gave the lender similarly broad authority to readjust the margin that is added to the index. These contracts sometimes require that a chosen replacement index be "comparable" to LIBOR, or that the overall interest rate the borrower eventually faces be "comparable" to their existing rate, but the term "comparable" is generally left undefined.

Industry and consumer advocates alike have observed that the Consumer Financial Protection Bureau (CFPB)—the agency tasked with overseeing consumer financial protection laws—has remained notably silent on the definition of index comparability.[9] The CFPB has also failed to provide appropriate guidance to industry on refinancing disclosures required under the Truth in Lending Act, except to indicate in a public meeting that it did not expect that note holders would need to redisclose if their selected replacement index were "comparable" to LIBOR, a further

[5] *See, e.g.*, Ben Miller, *Who Are Student Loan Defaulters?*, Ctr. for Am. Progress (Dec. 14, 2017), https://cdn.americanprogress.org/content/uploads/2017/12/11044919/StudentLoanDefault-brief1.pdf.
[6] *See Lessons Learned*, SWNS Media Group (Nov. 1, 2019), https://bit.ly/2HVVBdI.
[7] *See, e.g.,* Mathieu Despard et al., *The Burden of Student Debt: Findings from a Survey of Low- and Moderate-Income Households,* CSD Res. Briefs (2016), https://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1611&context=csd_research (finding that student loan borrowers were six percentage-points (16 percent) more likely than nonborrowers to report having "[s]kipped medical care.").
[8] *See, e.g.*, *Student Debt Across Three Generations: Infographic*, AARP and the Assoc. of Young Am. (Sep. 13, 2018), https://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2018/three-generations-student-debt-infographic.doi.10.26419-2Fres.00249.002.pdf.
[9] Allison Bisbey, *Will CFPB weigh in on an appropriate Libor replacement?*, Asset Securitization Rep. (Feb. 26, 2018), https://asreport.americanbanker.com/news/will-cfpb-weigh-in-on-an-appropriate-libor-replacement ("So far, efforts to find a suitable replacement for the London interbank offered rate have largely considered the impact on investors, lenders and other financial market counterparties. But one voice has been conspicuously missing: consumers. . . . 'We're not hearing from consumer groups, we're not hearing from the CFPB,' said [an industry participant]. . . . [Industry is] wary of making any decisions about replacing the benchmark on outstanding loans until the Consumer Financial Protection Bureau weighs in.").

reference to this undefined term.[10] These facts combine with the language of existing private student loan contracts to give note holders extremely broad discretion in determining the rates that borrowers will pay after transitioning.

For example, a recent private student loan contract from Discover states:

> *If the 3-month LIBOR Index is no longer available, we will substitute an index that is comparable, in our sole opinion, and we may adjust the Margin so that the resulting variable interest rate is consistent with the variable interest rate described in this paragraph. If at any time the fixed or variable interest rate as provided in this paragraph is not permitted by applicable law, interest will accrue at the highest rate allowed by applicable law.*[11]

Similar language is present in several other LIBOR-based contracts we reviewed. Such provisions effectively eliminate any chance for input consumers might hope to have in determinations of their future interest rate.

However, the potential for consumer harm stemming from the LIBOR transition extends beyond fallback language. In 2015, the CFPB found that as many as 86 percent of private student loan contracts contained mandatory arbitration clauses.[12] These clauses require that borrowers' disputes with note holders be "resolved by privately appointed individuals (arbitrators)" instead of by judges, allowing companies to "sidestep the court system, avoid big refunds, and continue harmful practices."[13] Many private student loan contracts also contain class-action waivers, which prevent borrowers from joining with their peers to seek justice through the courts, blocking their access to a pathway that could lead to "millions of dollars in redress" for consumer harm.[14]

Further, borrowers are unlikely to succeed in securing a modification to their repayment plan if they find that their loans become unaffordable after the transition. Regulators and law enforcement officials alike have documented inconsistencies in how lenders and servicers offer alternative repayment plans to private student loan borrowers.[15]

[10] *See* 12 C.F.R. Part 1026.20; ARRC Consumer Products Working Group Meeting, Fed. Res., 2001 Constitution Ave NW, Washington, DC 20551 (December 5, 2019).
[11] Promissory Note, Discover Bank, https://www.discover.com/content/dam/dfs/student-loans/pdf/PCL_Prom_Note.pdf.
[12] *See* CFPB, *Arbitration Study* (Mar. 2015), https://files.consumerfinance.gov/f/201503_cfpb_arbitration-study-report-to-congress-2015.pdf.
[13] CFPB, *CFPB Issues Rule to Ban Companies From Using Arbitration Clauses to Deny Groups of People Their Day in Court* (Jul. 10, 2017), https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-rule-ban-companies-using-arbitration-clauses-deny-groups-people-their-day-court/.
[14] *Arbitration Study, supra* n. 12.
[15] *See, e.g.,* CFPB, *CFPB Concerned About Widespread Servicing Failures Reported by Student Loan Borrowers* (Sep. 29, 2015), https://www.consumerfinance.gov/about-us/newsroom/cfpb-concerned-about-widespread-servicing-failures-reported-by-student-loan-borrowers/ ("Many federal and private loan borrowers report experiencing serious problems accessing affordable repayment options or other repayment alternatives to avoid default."); CFPB, *CFPB Report Finds Distressed Private Student*

Finally, borrowers with private student loans are denied access to bankruptcy discharge through the normal bankruptcy process,[16] making the burden of student loan debt frequently inescapable even for those who have already been declared insolvent.[17]

Should the ARRC's recommended spread adjustment methodology result in rate shock or long-run rate increases for borrowers, these underlying loan terms and limited protections will cause or exacerbate financial harm for millions of consumers. The fact that LIBOR's publication will eventually cease will make any long-term rate increases hard to detect, and borrowers are inherently less equipped than note holders to determine in advance whether the ARRC's recommended spread adjustment will increase their future loan costs. But any value transfer related to the spread adjustment could lead to thousands of dollars in additional costs for borrowers, widespread increases in delinquencies and defaults, and long-term damage to borrowers' financial lives.

Accordingly, as it finalizes its spread adjustment methodology and in response to Question 12 of its Consultation, we urge the ARRC to:

- **Ensure that borrowers will not face higher rates due to the transition from LIBOR.** The events and behaviors that necessitated the cessation of LIBOR were the work of financial institutions. Borrowers should not be penalized for industry efforts to manipulate benchmark interest rates, nor for large scale changes to patterns of interbank lending. However, if the nature of ongoing resistance to SOFR adoption (discussed further below) is any indication, there is ample reason to doubt that note holders have borrowers' best interests in mind as they prepare for this transition. Accordingly, the ARRC should:

    - Insist, per the guiding principles of the Consumer Products Working Group, that note holders involved in LIBOR transition execute the adoption of new index rates and make associated technical changes in a way that seeks "to minimize expected value transfer based on observable, objective rules determined in advance."[18]

Loan Borrowers Driven Into Default (Oct. 16, 2014), https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-finds-distressed-private-student-loan-borrowers-driven-into-default/ ("Distressed borrowers report that they receive very little information or help when they get in trouble, that there are no affordable loan modification options available, and that the alternatives to default are temporary at best."); State of Illinois v. Navient, 17-CH-761 (Cir. Ct. Cook Cnty Ill. Ch. Div., filed Jan 18, 2017).

[16] *See* 11 U.S.C. § 523.

[17] *See, e.g.*, *Quicksand: Borrowers of Color & the Student Debt Crisis*, UNIDOS US, et al. (Sep. 2019), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-quicksand-student-debt-crisis-jul2019.pdf.

[18] *Guiding Principles and Scope of Work for the ARRC Consumer Products Working Group*, Alternative Reference Rates Comm. (2019), https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC_Consumer_Products_Guiding_Principles.pdf.

- Recommend that a transition period of at least one year be applied to the introduction of a spread adjustment to SOFR (in response to Question 9 of the Consultation, and for the reasons discussed above). We applaud the ARRC's acknowledgment in its Consultation that a transition period will be necessary for consumer products in the move to spread-adjusted SOFR.[19]

- **Insist on more transparency from industry.** Basic questions about the transition from LIBOR remain unanswered, including whether note holders will adopt the ARRC's recommended replacement rate and spread adjustment, when they will make a determination about replacement rates, how their transition will be executed, and how borrowers will be made aware of changes to their rate. To gain clarity on each of these critical points, the ARRC should:

    - Insist that note holders provide details to the ARRC and borrowers regarding when they will indicate whether they will accept the ARRC's recommendations and when they will transition to a new benchmark rate.

    - Insist that lenders provide clarity regarding when and how they will communicate with borrowers regarding any changes to the rates borrowers face, including offering specificity around any potential changes in borrowers' monthly payment obligations.

    - Insist that lenders provide an explanation for how they intend to determine whether a given replacement index is "comparable" to LIBOR if legacy contracts require that a replacement rate be "comparable," detail on how they will choose their desired method for determining compatibility, and transparency surrounding calculations eventually made in execution of that methodology.

- **Stand by its commitment to the adoption of a fair, transparent replacement index rate.** The ARRC was formed to find a replacement rate to LIBOR that is "firmly based on transactions from a robust underlying market."[20] However, industry continues to push against this goal, and to recommend the adoption of replacement rates not based on deep

[19] *ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR, supra* n. 1, ("Respondents to ISDA's recent consultation generally did not support a transition period with some citing the costs of the additional complexity outweighing the benefits. ISDA respondents, however, may be better positioned to absorb interest rate shocks than retail borrowers.").
[20] ARRC, *Frequently Asked Questions* (Jan. 31, 2019), https://www.sec.gov/spotlight/fixed-income-advisory-committee/arrc-faqs-041519.pdf ("The ARRC was charged with finding a rate that was more firmly based on transactions from a robust underlying market and that would comply with certain standards, including the IOSCO Principles for Financial Benchmarks.").

markets[21] or actual transaction data.[22] In defense of the need for replacement rates that do not suffer from the same structural flaws as LIBOR, the ARRC should:

  - Reiterate that a dynamic credit spread is inappropriate for use as an adjustment to SOFR, as any dynamic spread would "need to be based on the same wholesale unsecured funding markets that underpin LIBOR and that have now grown to be so thin."[23]

  - Reiterate that index rates that are not based on actual transaction data are inappropriate as benchmark interest rates to replace LIBOR.[24]

- **Debunk flawed arguments against SOFR adoption.** Discussion of spread adjustment methodology is meaningful only as a step on the path toward SOFR adoption. However, reports indicate that industry has recently pushed for regulators to rubber-stamp the use of additional alternative reference rates.[25] In particular, these reports indicate that note holders and lenders are searching for a rate they hope to be "more closely tied to their funding costs," especially as it relates to SOFR's performance in a stress scenario.[26] In those reports and elsewhere, some regulators have expressed receptiveness to such concerns, undermining the likelihood of SOFR's widespread use.[27] However, these

[21] *See, e.g.,* Scott Shay, *The Fed's Libor Replacement Would Shackle Small Banks*, Wall St. J. (Dec. 18, 2019), https://www.wsj.com/articles/the-feds-libor-replacement-would-shackle-small-banks-11576715153?ns=prod/accounts-wsj ("Ameribor more accurately reflects the actual borrowing costs of thousands of banks and financial institutions across America."). Note that Ameribor reflects a market with only $2 billion in daily trading volume. *See* Andrew Deichler, *Beyond Libor: It's Time to Think About Alternative Rates,* AFP Online (Feb. 18, 2020), https://www.afponline.org/ideas-inspiration/topics/articles/Details/beyond-libor-it-is-time-to-think-about-alternative-rates ("Ameribor is a daily rate. It's IOSCO compliant, like SOFR. It's not really a competitor; it's more complimentary. . . . And it's about $2 billion a day of volume and growing."). Meanwhile, SOFR reflects a market "[a]veraging over $1 trillion of daily trading." *ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR, supra* n. 1.

[22] *See, e.g.*, Letter from Regional Banks to Regulators (Sep. 23, 2019), https://www.politico.com/f/?id=0000016d-d15d-d0d8-af6d-f77d6c5f0001 ("We also note that in addition to those rates, multiple other rates (e.g., CMT (constant maturity treasury rate) . . . are used in lending markets . . . ."). Note that CMT is based on "indicative" rate quotations and not on actual transaction data. *See* U.S. Dep't of the Treasury, *Daily Treasury Yield Curve Rates* (last accessed Feb. 26, 2020), https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield.).

[23] *See ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR, supra* n. 1.

[24] *See Frequently Asked Questions, supra* n. 20 ("The ARRC was charged with finding a rate that was more firmly based on *transactions* from a robust underlying market and that would comply with certain standards, including the IOSCO Principles for Financial Benchmarks. . . . The ARRC believes that SOFR is the most appropriate reference rate for wide-spread and long-term adoption as market participants seek to transition from LIBOR because, among other reasons, it: . . . *is fully transaction-based* . . . ." (emphasis added)).

[25] *See* Victoria Guida, *Otting: Agencies will launch dialogue on Libor alternative for loans,* Politico (Jan 22, 2020), https://subscriber.politicopro.com/financial-services/whiteboard/2020/01/otting-agencies-will-launch-dialogue-on-libor-alternative-for-loans-3975896 ("Some banks have warned that tying their loans to the Secured Overnight Financing Rate, the official alternative to dollar-based Libor, could squeeze their bottom line when the U.S. economy inevitably enters a downturn. They've expressed a desire for another option for products like business loans, commercial real estate loans and adjustable-rate mortgages that is more closely tied to their funding costs.").

[26] *See id.*

[27] *See id* ("SOFR 'would not appear to be a logical solution' for loans because the rate might drop in a crisis, even as banks' cost of funds increases, Otting said."); *see also* Hannah Lang, *Fed's Powell open to more than one Libor alternative*, Am. Banker (Feb. 12, 2020), https://www.americanbanker.com/news/feds-powell-open-to-more-than-one-libor-alternative ("Powell

arguments from industry ignore realities of contemporary funding markets and are beside the point with regard to the need for borrower protection. To defend the possibility of SOFR's broad adoption, the ARRC should:

- Underscore that fears related to SOFR's behavior in a stress scenario are unfounded. LIBOR cessation became necessary in part because institutions were no longer funding themselves in the wholesale unsecured market. This implies that, regardless of the relative performance of SOFR and LIBOR during the Financial Crisis, SOFR adoption could not meaningfully expose note holders to additional interest rate risk, as such risk cannot be present if an institution is not borrowing in LIBOR in the first place.

- Note that, even if SOFR adoption were to expose note holders to interest rate risk in a stress scenario, the alternative would be to pass that interest rate risk to borrowers through rate shock in moments of economic and financial crisis. There is no reason to think that an individual consumer would be better equipped than a financial institution to hedge against interest rate risk, nor is there a reason why consumers should be expected to become so.

Finally, in response to Questions 8 and 11 of the Consultation, we offer the following:[28]

- Question 8: We consider using the ISDA methodology of a five-year median of the historical difference between LIBOR and the selected SOFR fallback rate to be an acceptable choice for consumer products.

- Question 11: We would prefer to use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears if there is less than five years of available data when calculating a spread adjustment for a forward-looking term rate.

In closing, we reiterate that the transition from LIBOR to SOFR is one that borrowers of consumer financial products neither caused nor requested. These borrowers do not engage in wholesale unsecured interbank term lending in London.[29] They do not currently have teams analyzing whether SOFR may expose them to basis risk.[30] And most importantly, they did not

acknowledged that a number of banks have publicly said that they would prefer using a different rate than SOFR, and that the Fed is supportive of the possibility of creating a different rate. 'A number of banks have come forward and said that they want to work on a separate rate, which would not replace SOFR, but would be credit sensitive, and so they're doing that now and ... we're working with them to support that process,' he said.").

[28] Note that we have chosen not to respond to Question 10, which concerns adjustable-rate mortgages.

[29] *But see* David House and David Skeie, *LIBOR: Origins, Economics, Crisis, Scandal, and Reform*, Fed. Res. Bank of N.Y. Staff Rep. (2014), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr667.pdf.

[30] *But see* Victoria Guida, *Otting: Agencies will launch dialogue on Libor alternative for loans, supra* n. 25.

manipulate LIBOR to boost profits on derivatives trades.[31] Yet, it is exactly these borrowers who may be punished because some of the largest financial institutions in the world did.

Thank you for your consideration of these comments, and for your continued work in the ongoing transition away from LIBOR.

Sincerely,

Student Borrower Protection Center
Americans for Financial Reform Education Fund
National Community Reinvestment Coalition
National Consumer Law Center

CC:
Honorable Joseph Otting, Comptroller of the Currency, U.S. Department of the Treasury
Honorable Kathleen Kraninger, Director, Consumer Financial Protection Bureau
Honorable Jelena McWilliams, Chairwoman, Federal Deposit Insurance Corporation
Honorable Jerome Powell, Chairman, Board of Governors of the Federal Reserve System
Honorable Randal Quarles, Vice Chair for Supervision, Board of Governors of the Federal Reserve System
Honorable John Williams, President and Chief Executive Officer, Federal Reserve Bank of New York
Representative Maxine Waters, Chairwoman, House Financial Services Committee
Representative Patrick McHenry, Ranking Member, House Financial Services Committee
Senator Michael Crapo, Chairman, Senate Committee on Banking, Housing, and Urban Affairs
Senator Sherrod Brown, Ranking Member, Senate Committee on Banking, Housing, and Urban Affairs

[31] *But see* Republican Staff of the Joint Econ. Comm., *The LIBOR Scandal: What We Know, What We Don't, and What to Expect* (Aug. 2, 2010), https://www.jec.senate.gov/public/_cache/files/5906a359-6ecd-4aba-ba23-ae71706575a6/libor-scandal-final.pdf ("From mid-2005 through 2007, and from time-to-time thereafter through 2009, several of Barclays' swaps traders requested that certain Barclays LIBOR submitters intentionally submit misleading information to Thomson Reuters in order to manipulate the published LIBOR rate for the benefit of specific derivatives trades." (citations omitted)).

Toronto Dominion

6 March 2020

ATTN: ARRC Secretariat via email submission to:
arrc@ny.frb.org

RE: Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR

TD welcomes the opportunity to respond and invites the U.S. Alternative Reference Rates Committee to consider the following submission:

Question 1: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

TD supports the ISDA historical median approach as the preferred credit adjustment spread methodology for the stated cash products. In addition, we are generally supportive of a longer lookback period, where relevant data is sufficiently available.

Question 2: If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

N/A.

Question 3: If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment?

Of the stated methods, TD would prefer the use of the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

Question 4: Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products.

TD does not believe that a 1-year transition period should be included for any of the stated cash products.

Question 5: Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

TD would not be opposed to the ARRC's recommendation of spread adjustments for these tenors. However, the benefit of such a recommendation may be marginal, given their limited application.

Question 6: Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

TD supports a holistic approach which prioritizes a convergence on conventions that are universally agreeable across market participants and which enable a broad set of users. The additional recommendation of spread adjustments based on simple averages should be assessed in the full context

of its perceived impact to market uptake across all recommended fallback approaches and of the requirement for benchmark rates to reflect an accurate time value of money.

Question 7: Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

TD supports the universal application of a specified approach across products and currencies. We believe that consistency in methodology across regional interest rate markets would help to maintain ease of access for most users. The wholesale extension of these approaches would also limit additional, unnecessary complexity in cross-currency products.

Question 8: Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method?

TD agrees that the ISDA historical median approach to a credit adjustment spread methodology would be an acceptable choice for consumer products. The other methods to which the consultation alludes may introduce a number of variables and further limit the ability for market participants to understand the rate.

Question 9: Do you believe that a 1-year transition period should be included for consumer products?

TD perceives that the inclusion of a 1-year transition period may be offered to satisfy potential appeals from consumer advocacy groups and regulators, though this length may be conservative and greater than what is necessary. It should be kept in mind that the application of a transition period would likely impart additional costs on the industry relating to maintenance, monitoring, and reporting during the period.

Question 10: If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on: (a) the next longest tenor of term rate recommended by the ARRC or (b) a compound average of SOFR in advance?

Of the two options provided, TD would prefer a spread adjusted rate based on the next longest tenor of a term rate recommended by the ARRC. The introduction of a compound average of SOFR in advance may institute more complexity and variability than intended.

Question 11: If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment?

As with institutional cash products, TD would prefer the use of the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate. We would discourage use of the spread between LIBOR and EFFR OIS rates in this context.

Question 12: Please provide any additional feedback on any aspect of the proposals.

N/A.

Wells Fargo

March 2, 2020

To: Alternative Reference Rates Committee

via email submission to: arrc@ny.frb.org

Re: ARRC Consultation on Potential Spread Adjustment Methodologies

The following sets forth Wells Fargo & Co.'s response to the Consultation on Potential Spread Adjustment Methodologies published by the Alternative Reference Rates Committee on January 21, 2020.[1]

Part V: Consultation Questions

Questions 1- 7 refer to Floating Rate Notes, Securitizations, and Business Loans

Question 1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

Floating Rate Notes	5-year median is preferred
Securitizations	5-year median is preferred
Syndicated Loans	5-year median is preferred
Bilateral Business Loans	5-year median is preferred

Consistency across cash products with the ISDA spread methodology is a high priority for us.

Question 2. If "Other Method" was specified for any product, please provide additional feedback on your institution's preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method: a. 5-year trimmed mean f. 3.5-year median b. 5-year average g. 3.5-year trimmed mean c. 10-year median h. 3.5 year average d. 10-year trimmed mean i. Other (please specify) e. 10-year average

Not applicable

Question 3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

[1] These responses reflect Wells Fargo's current views of the approaches identified in the proposal and not any determinations by Wells Fargo with respect to its own business operations. In that regard, the responses are provided for informational purposes only, are not intended to be comprehensive, and Wells Fargo makes no representation regarding their accuracy or applicability to any particular circumstance, product, or categories of or individual transactions.

a. Use the longest span of indicative term rate data available

b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.

c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

We would prefer option (a) above as the most appropriate method of calculating the spread adjustment for a forward-looking term SOFR rate.

Question 4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

No, a 1-year transition period should not be included for these cash products. Our primary concern is that a transition period would result in additional basis risk between cash products and derivatives (which will not have a transition period). In addition, the transition period (i) may have a relatively low impact on commercial products that reference 1-month LIBOR and 3-month LIBOR, (ii) will be relatively complex, as the spread will be unknown on the trigger date and (iii) is heavily weighted by the last available LIBOR rate (or average of rates) published.

Question 5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

Yes, the ARRC should recommend spread adjustments for all LIBOR tenors.

Question 6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

We value consistency in approach for calculation of the spread adjustment across products and currencies and so if it is possible, it would be preferable for the ARRC to recommend the same fallback rates and spread adjustments for all products. However, if multiple rates and rate adjustments do exist, the same spread adjustment would be preferable.

Question 7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

We value consistency in approach for calculation of the spread adjustment across products and currencies. Different approaches would increase operational complexity and could result in mismatches between derivatives hedges and cash products that use compounded in arrears averages.

Questions 8- 11 refer to Consumer Products

Question 8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

Yes, the ISDA methodology of a 5-year median of the historical difference between LIBOR and

the SOFR fallback rate is an acceptable choice for consumer products.

Question 9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

Yes, a 1-year transition period should be included for consumer products to mitigate against an abrupt change in payments associated with the benchmark replacement for consumer borrowers.

Question 10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC

b. a compound average of SOFR in advance

(Note that in these instances, the rate would still reset annually or semiannually and spreads would be calculated relative to 1-year or 6-month LIBOR).

We would prefer option (a) above, that a consumer ARM referencing 1-year or 6-month LIBOR fall back to the longest tenor of term rate recommended by the ARRC that does exist and spread-adjusted rates be endorsed for use as an appropriate replacement for 6-month and/or 1-year LIBOR.

Question 11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment: a. Use the longest span of indicative term rate data available b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

We would prefer option (a) above as the most appropriate method of calculating the spread adjustment for a forward-looking term SOFR rate.

Question 12. Please provide any additional feedback on any aspect of the proposals.

Not Applicable

Wells Fargo wishes to thank the ARRC for the opportunity to provide responses to the Consultation on Potential Spread Adjustment Methodologies. We are happy to discuss our responses further or provide any additional information that may be helpful.

Thank you,

Wells Fargo

Westpac Banking

Westpac Banking Corporation
Level 3, Westpac Place
275 Kent Street
Sydney NSW 2000

www.westpac.com.au

6th February 2020

ARRC Secretariat

Dear Secretariat,

Please see responses below on behalf of Westpac Banking Corporation to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR.

Justin Tingle
IBOR Program Director
Westpac Banking Corporation

1. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is the best choice for the following cash products, or would you prefer an alternative method?

   Floating Rate Notes - 5-year median is preferred/Other method is preferred
   Securitizations - 5-year median is preferred/Other method is preferred
   Syndicated Loans - 5-year median is preferred/Other method is preferred
   Bilateral Business Loans - 5-year median is preferred/Other method is preferred

   Floating Rate Notes - Yes
   Securitizations - Yes
   Syndicated Loans - Yes
   Bilateral Business Loans – Yes

2. If “Other Method” was specified for any product, please provide additional feedback on your institution’s preferences, noting whether your alternative is strongly or mildly preferred and why you prefer the alternative method:

   a. 5-year trimmed mean f. 3.5-year median
   b. 5-year average g. 3.5-year trimmed mean
   c. 10-year median h. 3.5-year average
   d. 10-year trimmed mean i. Other (please specify)
   e. 10-year average

   N/A

3. If there are fewer than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

   a. Use the longest span of indicative term rate data available
   b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate.
   c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

   b.

4. Do you believe that a 1-year transition period should be included for any of these cash products? If yes, please specify which products. (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why.)

   For corporate and institutional client's Westpac does not believe a transition period is necessary as variations on the transition date will net over time and no transition period aligns with the ISDA approach to ensure continued effective hedging. It may be appropriate for retail or smaller business customers. Consideration should be given to amortising project finance and leasing facilities where declining principal balances may not net out Day 1 transition adjustments.

5. Should the ARRC recommend spread adjustments for 1-week or overnight LIBOR?

   Yes

6. Should the ARRC recommend spread adjustments based on the differences between LIBOR simple averages of SOFR in addition to compound averages?

   For simplicity Westpac would recommend a single methodology (compound average).

7. Would it be problematic to use different approaches to calculate the spread adjustment across products and currencies? Please comment specifically on the implications of any differences in the recommended spread adjustment methodologies.

   Westpac's preference is for consistency of approach across currencies, noting some differences exist as of today for things such as day count conventions. Potential implications for different methodologies may include additional complexity for borrowers with Multi-Currency Facilities, and their ability to effectively hedge basis risk across currency exposures.

   Questions 8- 11 refer to Consumer Products

8. Do you agree that using the ISDA methodology of a 5-year median of the historical difference between LIBOR and the SOFR fallback rate is an acceptable choice for consumer products, or would you prefer an alternative method? (If another method is preferred, please specify which and note whether your alternative is strongly or mildly preferred and why you prefer the alternative method).

   N/A

9. Do you believe that a 1-year transition period should be included for consumer products? (If you believe that a transition period should be included, but that it should be longer or shorter than 1 year, please note this and explain why).

N/A

10. If a 1-year or 6-month term rate has not been recommended by the ARRC, would you prefer that a consumer ARM referencing 1-year or 6-month LIBOR fall back to a spread adjusted rate based on:

a. the next longest tenor of term rate recommended by the ARRC
b. a compound average of SOFR in advance
(Note that in these instances, the rate would still reset annually or semi-annually and spreads would be calculated relative to 1-year or 6-month LIBOR).

N/A

11. If there is less than 5 years of available data to use in calculating a spread adjustment for a forward-looking term rate, which method would you prefer to calculate the associated spread adjustment:

a. Use the longest span of indicative term rate data available
b. Use the spread adjustment associated with the difference between LIBOR and a compound average of SOFR in arrears as an appropriate spread adjustment for the forward-looking term rate
c. Use the spread between LIBOR and EFFR OIS rates, adjusted for the mean difference between compound averages of EFFR and SOFR

N/A

12. Question 12 applies to all products

Please provide any additional feedback on any aspect of the proposals

None.