

Re: ARRC FRN Vendor Workshop Follow-up Message

The ARRC FRN Working Group appreciates your participation in the vendor workshop held on June 1, 2020. We found your input helpful and plan to schedule periodic recurring follow-up meetings with the group going forward. Please identify any others who should be included in such meetings.

Below is a list of questions discussed at the workshop that may require clarification and our responses.

Question: *Where can vendors find links to the ARRC FRN Working Group publications referenced at the workshop?*

Response: To help market participants as they consider issuing or investing in SOFR-based FRNs, the ARRC FRN Working Group published a matrix on August 1, 2019 that identifies considerations relevant to using SOFR in FRNs. This matrix is available at the following link:

https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC_SOFR_FRN_Conventions_Matrix.pdf.

On November 21, 2019, the ARRC FRN Working Group published an appendix to the conventions matrix that includes sample SOFR FRN term sheets, including fallback language. These term sheets are available at the following link:

https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC_SOFR_FRN_Matrix_Appendix.pdf.

On May 6, 2020, the ARRC FRN Working Group released a statement to provide market participants with information about how the FRBNY's published SOFR Index may be referenced in FRNs that includes structuring considerations and a term sheet referencing the SOFR Index.¹ This note is available at the following link:

https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/Statement_on_SOFR_Index.pdf

Question: *Have any FRNs had been issued referencing the FRBNY's daily published SOFR Index that allows for calculating compounded averages over custom time periods?*

Response: Yes, issuances by EIB, EBRD and BMO using the SOFR Index to calculate compounded averages of SOFR "in arrears" are publically available.

Question: *Is an FRN referencing the SOFR Index exactly equivalent to an FRN using compounded SOFR that does not reference the SOFR Index?*

Response: Because of rounding, use of the SOFR Index can produce a very slightly different number than the SOFR-based averages. Depending on rounding and how exactly the calculations are made, there may on some occasions be minor differences between any two individuals (or vendor's) calculations of the

¹ The FRBNY's SOFR Index is available at <https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>.

compound average rate without using the SOFR Index for the same reason. This is one potential benefit of the SOFR Index, as it would reduce discrepancies between parties related to differences in compounding formulas and rounding conventions.

Question: *The ARRC did not mention the SOFR Index in its recent “best practices” for technology and operations vendors. When should systems be prepared for the SOFR Index?*

Response: The ARRC’s recommended best practices for technology and operations vendors concern the general ability to support SOFR in the FRN market. The timelines did not refer explicitly to the ability to support the SOFR Index primarily because the SOFR Index is a relatively new development (it was first published on March 2, 2020).

Question: *There have been issuances in the market using compounded SOFR with a payment delay because parties need to calculate accrued interest for secondary market trades. Has there been a recommendation from FRN working group in terms of the convention used to calculate accrued interest on trade date for these trades, for example, by holding the last known SOFR rate constant through settlement date?*

Response: There is no ARRC recommendation at this time, but as the working group noted in the conventions matrix published in August of 2019, “Because there is no lookback in this structure, accrued interest for secondary market trades cannot be determined prior to settlement; This could be addressed by implementing a convention (e.g., a lockout), however, this would mean that there is a different approach for accrued interest when trading compared to actual accrued interest earned by holding the notes.”

The ARRC FRN Working Group appreciates your participating in this workshop and consideration of the steps needed to increase use of SOFR in FRNs. We welcome the opportunity to discuss further at future ARRC related workshops and meetings.

Very truly yours,

ARRC FRN Working Group