October 30, 2017

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW,
Washington, DC 20551

Re: **Docket Number OP-1573,**
Request for Information Relating to Production of Rates

Dear Ms. Misback:

The Securities Industry and Financial Markets Association [1] and the Financial Services Roundtable[2] (collectively referred hereinafter as "We") appreciate the opportunity to comment on the Board of Governors for the Federal Reserve System's (the "Federal Reserve's") Request for Information Relating to Production of Rates (the "RFI"). The RFI solicits stakeholder feedback on three rates based on overnight repurchase agreement ("repo") transactions on U.S. Treasury securities ("Treasury repo") which the Federal Reserve Bank of New York ("FRBNY"), in cooperation with the U.S. Office of Financial Research ("OFR"), are considering publishing. The RFI states that the publication of these proposed rates, targeted to commence by mid-2018, is intended to improve transparency into the repo market by increasing the amount and quality of information available about the market for overnight Treasury repo activity.

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[1] SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $18.5 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

[2] The Financial Services Roundtable represents the largest integrated financial services companies providing banking, insurance, payment and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. FSR member companies provide fuel for America's economic engine, accounting for $54 trillion in managed assets, $1.1 trillion in revenue, and 2.1 million jobs. Learn more at FSRoundtable.org.

We support the Federal Reserve's proposal to publish the following three rates:

1. The **Tri-party General Collateral Rate ("TGCR")** would measure the rate of return available on overnight repo transactions against Treasury securities in the tri-party repo market, excluding General Collateral Financing ("GCF") Repo and transactions in which the Federal Reserve is a counterparty.
2. The **Broad General Collateral Rate ("BGCR")** would provide a broader measure of rates on overnight Treasury GC repo transactions by using the same transaction-level tri-party data as in the TGCR plus General Collateral Financing ("GCF") Repo data.
3. The **Secured Overnight Financing Rate ("SOFR")** would provide the broadest measure of rates on overnight Treasury financing transactions by the same transaction-level data as BGCR but also include bilateral Treasury repo transactions cleared through the Fixed Income Clearing Corporation's ("FICC's") Delivery-versus-Payment ("DVP") service, filtered to remove some (but not all) transactions considered "specials."

<u>Usefulness of the Proposed Rates</u>

We believe that the proposed rates would be useful to market participants, researchers and other interested parties and will provide greater transparency into the repo market. The three rates would increase both the amount and quality of information available about a market which is critically important for the U.S. financial system and for the implementation of monetary policy.

We acknowledge that the Federal Reserve Bank's Alternative Reference Rates Committee ("ARRC") selected SOFR as the rate that, in its consensus view, represents best practice for use in certain new U.S. dollar derivatives and other financial contracts. Given the prospect for broad use of these rates, and in particular the prospective use of SOFR as an alternative reference rate, we believe that the Federal Reserve should publish governance documentation covering the administration of these rates as further discussed below. Market adoption of these new rates will be aided by transparent policies and practices that are aligned closely with the IOSCO Principles for Financial Benchmarks.[3] We support efforts to consider transaction-based alternative reference rates consistent with IOSCO Principles.

Underlying Data and Calculation Methodology

We agree that the data to be collected will make the proposed rates useful to the public. This data includes:

- Transaction-level tri-party repo data collected from Bank of New York Mellon (BNYM).
- GCF Repo transaction data collected from DTCC Solutions LLC (DTCC Solutions), an affiliate of the Depository Trust & Clearing Corporation (DTCC).
- Bilateral treasury repo transaction data cleared through FICC's DVP service, filtered to remove some (but not all) transactions considered "specials", collected from DTCC Solutions.

Access to Data

The RFI states that FRBNY has entered into an agreement with DTCC Solutions to obtain data regarding GCF Repo transactions, in contrast to the use of the Board of Governor's supervisory authority to collect data from BNYM. Continuity of these rates and access to the data is essential to encouraging broader adoption and utilization of the proposed rates in contracts and financial products. Thus, it is important for market participants to understand clearly what risks may exist as a result of loss of access to data collected pursuant to a contractual agreement. As a result, we recommend that the FRBNY provide additional transparency into the nature of its agreement with DTCC Solutions to provide market participants comfort that the proposed rates and underlying data will be indefinitely available to both the FRBNY and the market, without limitations or licensing concerns.

[3] IOSCO Principles for Financial Benchmarks, available at: http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf

Additional Sources of Repo Market Data

As a general matter, we recommend that there be a transparent process, subject to public comment and with objective standards, for reviewing new types of Treasury repo activity to determine if they should be included in the rate calculation of SOFR, TGCR, and BGCR, as applicable. There should be a clear mechanism, which provides sufficient lead time, if such additions are made. While the proposed data represents a broad and deep segment of the market, SIFMA and the FSR believe that the FRBNY should also consider incorporating transaction data from FICC's Centrally Cleared Institutional Tri-Party (CCIT) Service as well as FICC's Sponsored DVP Repo (Sponsored Access) as these services grow.[4] Although transaction volumes in FICC's CCIT and Sponsored Access Services represent only a small proportion of overall repo transaction activity currently, these markets may continue to develop. Accordingly, this data may need to be incorporated into the data set for these new rates so that they remain truly representative of the repo markets.

We believe that objective criteria should be developed to trigger the potential incorporation of these data sets and any other changes that may need to occur. We expect that any proposed changes to the data underlying the rates, or any other changes to the methodology for producing these rates, should be subject to a transparent and robust governance process, including a public comment period.

Unavailability of Data

The RFI states that if standard data sources for the rates are unavailable, the rates would be calculated based upon a back-up repo market survey collected each morning from FRBNY's primary dealer counterparties. The reliability of the data collected from the back-up survey may be limited however if it only represents a subset of the transaction data that would be collected in the production of the proposed rates. To address this concern, we recommend that the FRBNY provide market participants with information regarding the envisioned process for collecting the back-up repo market data. Transparency regarding how the survey is undertaken and how that data set compares to the data collected from BNYM and DTCC Solutions historically will permit market participants to fully evaluate the process.

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[4] DTCC Repo Clearing Services Gain Regulatory Approval, available at: http://www.dtcc.com/news/2017/may/02/dtcc-repo-clearing-services-gain-regulatory-approval

Open Trades and Specials

To encourage industry understanding of the data and to improve the usefulness of each of the rates, SIFMA and the FSR believe that the FRBNY should provide additional clarity on two particular aspects of the Proposal. With respect to open trades, the FRBNY should specify the treatment and inclusion criteria for "open" trades.

In addition, the FRBNY should clearly indicate the methodology for filtering "specials" from the bilateral Treasury repo data. A June 2017, Liberty Street Economics Blog[5] analyzed two proposed methodologies to trim specials transactions which were (1) remove all transactions collateralized by on-the-run and first off-the-run securities, and (2) removing all transactions with a rate below a certain threshold. After analyzing both approaches the FRBNY concluded that it intended to remove all bilateral transactions with rates below the 25th volume-weighted percentile rate. However, the RFI suggests the aforementioned methodology for trimming specials transactions in the context of an example rather than providing an affirmative confirmation of the final methodology. We believe that the FRBNY should clearly articulate its intended methodology for trimming specials transactions well in advance of the initial publication of these rates. We encourage the FRBNY to publish a three to five-year history reflecting the application of the trimming methodology to the underlying transaction data in order for market participants to evaluate and validate the appropriateness of the methodology to the FRBNY.

Revisions

Finally, the RFI states that, "The repo rates would only be revised on a same-day basis, and only if the updated data would result in a shift in the volume-weighted median by more than one basis point." Given the prospect for broad use of these rates, we believe that the FRBNY should further consider whether the proposed error policy appropriately balances the goals of minimizing the risk of inaccuracies in the publication with the potential for any rate revisions to impact efficient market functioning. While the proposed 1 basis point materiality threshold substantially increases the sensitivity of the rates to

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[5] See Liberty Street Economics Blog Introducing the Revised Broad Treasuries Financing Rate, available at: http://libertystreeteconomics.newyorkfed.org/2017/06/introducing-the-revised-broad-treasuries-financing-rate.html

revisions as compared to the ICE LIBOR Error Policy[6] of 3 basis points, our members have not yet concluded what threshold level would be most appropriate. Some members have suggested that a dynamic threshold be considered which would vary with the overall level of interest rates to further calibrate the sensitivity. Given the potential for these rates to be used in a variety of financial contracts with payments calculated on a daily basis, rate revisions have the potential to create substantial operational burdens and risks. Further consideration need to be given to the construction of an error policy that balances these operational realities with the desire to minimize economic inequities from potential data errors. Since SIFMA and the FSR do not have the historical data required to produce a robust analysis of potential approaches to a materiality threshold for rate revisions, we are not in a position to suggest a specific quantitative threshold at this time. However, we encourage the FRBNY to further examine existing commercial precedents and any existing policies and practices it employs in the publications of other rates or statistics to assist in making a final determination on the appropriate threshold for rate revisions. Regardless of the materiality threshold for rate revisions that's ultimately chosen, we encourage the FRBNY to clearly articulate its underlying policy rationale and the related analysis underlying the choice of any threshold. We also recommend that historical data sets for these rates should include both the original hypothetical rates and any hypothetical revision, as well as all historical immaterial corrections.

Initial Publication and Timing of Daily Publications

As the 2014 FSB report[7] on reforming major interest rate benchmarks correctly states, "The major interest reference rates (such as LIBOR, EURIBOR, and TIBOR) are widely used in the global financial system as benchmarks for a large volume and broad range of financial products and contracts." Unlike LIBOR which is based on data gathered the same day as publication, the data underlying the proposed SOFR will be from transactions executed the prior day with daily publication occurring at 8:30 AM ET. Given the potential for SOFR to become a widely used global reference rate, SIFMA and the FSR recommends that FRBNY consider whether it is operationally possible to publish the rates earlier than 8:30 AM ET to facilitate trading of contracts and financial instruments

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[6] ICE LIBOR Error Policy, available at: https://www.theice.com/publicdocs/ICE_LIBOR_Error_Policy.pdf

[7] The FSB Publishes Reforming Major Interest Rate Benchmarks, available at: http://www.fsb.org/wp-content/uploads/r_140722.pdf

referencing the rates in other jurisdictions. Ideally, the rates would be available at the open of European markets to facilitate a deep liquid global market and avoid operational issues for the application of the rates to financial contracts. In any event, we note that many market moving economic statistics are published at 8:30 AM EST and accordingly suggest that the publication time be moved so as to not align with those releases.

The RFI notes that FRBNY proposes to begin publication of these rates in mid-2018. To facilitate a greater understanding of the new rates, market participants will want to analyze how the economics of the new rates compare to other reference rates historically. As a result, SIFMA and the FSR encourages the FRBNY to begin publishing the new rates as soon as possible and to provide market participants with a historical data set for as long a period as possible, ideally at least for 5-years. Furthermore, we encourage the FRBNY to publish historical data from a stress event year (i.e. 2008 data), to the extent that the underlying data is available and with any appropriate qualifications on data quality the FRBNY may deem necessary. Such data will allow market participants to analyze and understand the potential impact that the use of these rates may have on Uncleared Margin Regulation (UMR), the International Swaps and Derivatives Association's Standard Initial Margin Model (SIMM) for non-cleared derivatives, and capital calculations.

The RFI does not state specifically where the rates will be published. We encourage the FRBNY to clarify the intended location but also, and perhaps more importantly, to proactively seek ways for the rates to be published by global media sources. The ease of accessibility of the data will promote the use and adoption of the rates and assist in creating a robust market in support of such rates.

Hedge Accounting Standards

The Federal Reserve should also consider outreach to the Financial Accounting Standards Board (FASB) regarding the inclusion of the new rates in the hedge accounting standards under U.S. Generally Accepted Accounting Principles (GAAP) following their initial publication. The current standards were updated in August 2017 to include the SIFMA Municipal Swap Rate, the U.S. Treasury Rate, the LIBOR Swap Rate, and the Fed Funds Effective Swap Rate as eligible benchmark interest rates in the U.S. under current

U.S. GAAP.[8] Inclusion of any of the proposed rates in the FASB hedge accounting standards would further the use and adoption of these rates by market participants.

Historical Support for Benchmark Reforms

In recent years, global regulators have emphasized the need for transparency and robust governance in the administration of benchmarks. SIFMA, as the U.S. regional member of the Global Financial Markets Association ("GFMA")[9], was an early proponent of global reform efforts with the November 2012 publication of its Principles for Financial Benchmarks (the "GFMA Principles")[10] and both SIFMA and the FSR are engaged with and supportive of efforts by global regulatory bodies related to market standards and principles for benchmarks.

Global regulators have also recognized that the secular decline in wholesale unsecured short-term funding by banks poses serious structural risks for unsecured benchmarks. Market participants have been working to review and analyze the transition issues associated with a move to alternative reference rates. In particular, a July 2014 report by the FSB's Official Sectors Steering Group ("OSSG")[11] highlighted the importance of encouraging market participants to have more robust fallback provisions in contracts or financial instruments that reference a benchmark in the event of cessation of the referenced benchmark. In response, the International Swaps and Derivatives Association was an early leader in establishing industry working groups to identify and analyze potential fallback rates and/or other fallback mechanisms that would apply if an applicable IBOR is

[8] Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, available at: http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176169282347&acceptedDisclaimer=true

[9] The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit http://www.gfma.org.

[10] GFMA's Best Practices for Financial Benchmarks, available at: GFMA Provides its Updated Principles for Financial Benchmarks to the Global Regulatory Community | Correspondence | GFMA

[11] The FSB Publishes Reforming Major Interest Rate Benchmarks, available at: http://www.fsb.org/wp-content/uploads/r_140722.pdf

permanently discontinued and to develop a proposed plan to amend legacy contracts referencing the applicable IBORs. Additionally, the Federal Reserve's ARRC recently established several product specific sub-working groups for relevant stakeholders to identify and analyze transitional issues associated with a shift away from U.S. dollar LIBOR. We remain committed to working in close cooperation with global regulators and with other global and regional trade associations to promote discussion on these important transition issues, address any uncertainties, and support the successful implementation of any forthcoming reference rate changes. We encourage regulators to continue to engage with market participants on transitional issues and we encourage ongoing global coordination to mitigate frictions between regional approaches.

SIFMA and the FSR appreciate the opportunity to comment on the Board of Governors' RFI and would be pleased to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned.

Respectfully submitted,

Sean Davy
Managing Director
Capital Markets Division
SIFMA
(212) 313-1118
sdavy@sifma.org

Robert Toomey
Managing Director and Associate General Counsel
Business Policies and Practices
SIFMA
(212) 313-1124
rtoomey@sifma.org

Rich Foster

Richard Foster
Senior Vice President & Senior Counsel for Regulatory and Legal Affairs
Financial Services Roundtable
202-589-2429
Richard.Foster@FSRoundtable.org

cc: **Board of Governors of the Federal Reserve System**
David Bowman, Associate Director, Special Adviser to the Board
Christopher W. Clubb, Special Counsel
Evan Winerman, Counsel, Legal Division