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October 30, 2017

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Request for Information Relating to Production of Rates

By Electronic Submission

Dear Mr. Frierson:

The American Council of Life Insurers (ACLI) is a national trade association with 290 members that represent 95 percent of industry assets, 93 percent of life insurance premiums, and 98 percent of annuity considerations in the United States. Our members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance that 75 million American families rely on for financial and retirement security. We greatly appreciate the opportunity to offer input on a request for information relating to the production of rates from the Board of Governors of the Federal Reserve System.¹

Life Insurers have actively participated in the dialogue surrounding the regulation of domestic and international financial markets, and have provided constructive input on a myriad of proposed rulemakings.² Life Insurers are significant end-users in the derivatives markets, utilizing large volumes

¹ Request for Information Relating to Production of Rates, 82 Fed. Reg. 167 (Aug. 30, 2017) at 41259, <https://www.gpo.gov/fdsys/pkg/FR-2017-08-30/pdf/2017-18402.pdf>

² For example, ACLI submitted detailed comments on the following related and parallel regulatory proposals developed by the U.S. Prudential Regulators, the U.S. Commodity Futures Trading Commission ("CFTC"), and the U.S. Securities and Exchange Commission ("SEC") governing margin and capital requirements:

- Supplemental Request for Comments on Proposed Margin and Capital Requirements for Covered Swap Entities; [http://www.fhfa.gov/webfiles/24691/95_American%20Council%20of%20Life%20Insurers%20ACLI.pdf] [Prudential Regulators];
- Supplemental Request for Comments on Proposed Margin Requirements Governing Uncleared Swap Transactions for Swap Dealers and Major Swap Participants [<http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=58806&SearchText=wilkerson>] [CFTC];
- CFTC Proposal on Protection of Cleared Swaps Customer Contracts and Collateral [<http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=48045&SearchText=wilkerson>] [CFTC];
- SEC proposal on margin, capital and segregation for security-based swap dealers and major security-based swap participants [<http://www.sec.gov/comments/s7-08-12/s70812-25.pdf>]; and,
- Request for Comments on Reproposed Rule for Margin and Capital Requirements for Covered Swap Entities [http://www.federalreserve.gov/SECERS/2015/January/20150127/R-1415/R-1415_112414_129786_278794149594_1.pdf].

of interest rate swaps to hedge commercial risk. We have a strong interest in the selection of, and orderly transition to, a successful alternative reference rate.³ Life insurers use many different derivatives instruments to hedge their liabilities. Regarding instruments referencing LIBOR, we support SOFR as an eventual alternative reference rate. We greatly appreciate the opportunity to share our views on the Federal Reserve Board's above-captioned Request for Comment.

Life insurers have direct interest in the selection of an alternative reference rate. This includes, among other things, life insurers':

- Ownership of floating rate securities referencing LIBOR;
- Issuance of private placement securities with floating rates referencing LIBOR; and,
- Real estate lending with floating rate loans referencing LIBOR.

Responses to Request for Comment

1. Would the proposed rates be useful to market participants, researchers or others?

The proposed rates would be useful to market participants, such as the end-user life insurance companies that make up the membership of the ACLI. The proposed rates represent a much better proxy for a risk-free rate, and are produced from a market that is reflective of the size and scale of the usage of that rate. Reference rates should be produced based on clear rules, representative of a well-defined market segment, and have sufficiently high frequency of publication to allow the pricing and verification of contracts referencing the new rates on an ongoing basis.

2. Are one or more of the proposed rates more likely to be useful than the others? For what purpose?

The Secured Overnight Financing Rate (SOFR) would be the most useful rate for the marketplace. SOFR represents the most robust and broadest of the three proposed rates, with the inclusion of bilateral Treasury repo, tri-party repo, as well as GCF repo. The tri-party repo

ACLI also submitted comments on the initial BCBS-IOSCO Consultative Document for Non-Centrally Cleared Derivatives, published by the Basel Committee on Bank Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) (May 2012) ("BCBS-IOSCO Consultative Paper") [<http://www.bis.org/publ/bcbs226/acoli.pdf>] [BCBS-IOSCO], and the BCBS-IOSCO Second Consultative Document on Margin Requirements for Non-Centrally Cleared Derivatives (Feb. 2013) ("Second BCBS-IOSCO Consultative Paper") [<http://www.bis.org/publ/bcbs242.pdf>]. On August 4, 2015, ACLI filed [comments](#) on the Prudential Regulators' net stable funding ratio proposal, finalized by the Basel Committee on Banking Supervision as part of Basel III, as Regulatory Agencies were considering a similar proposal for entities under their authority.

On July 5, 2016, ACLI filed [comments](#) on the BCBS Revised Basel III Leverage Ratio Framework-Consultative Document published April 25, 2016. The submission explained that life insurers are among the financial end users affected by the leverage ratios under consideration in the Consultative Document. ACLI previously filed a [submission](#) dated September 20, 2013, with the Basel Committee on Banking Supervision (BCBS) on its initial consultative document that proposed a revised Basel III leverage ratio framework through a supplementary measure of the Risk Based Capital ("RBC") requirements for Banks.

³ At present, only conceptual approaches have been considered. Life insurers would, of course, need to carefully review the specific details of any proposed alternative reference rate before fully supporting such a change.

market offers a strong rate on its own (the Tri-Party General Collateral Rate) and also serves as an excellent foundation for SOFR, due to its sheer size, and because it is a market for the **funding** of general collateral inventory. We feel that bilateral transactions are appropriately included in SOFR, due to the recent expansion of and structural changes in the bilateral market. The direct repo portion of the bilateral market has grown, with an increased number of transactions between two buy-side participants, introducing a more 'direct' relationship between the investor and collateral owner, and reducing the "specialness" of the bilateral repo market. The suggested partial removal of special transactions from the bilateral market data will add further standardization and stability to the SOFR. The lack of size and volume of the FICC's GCF repo and 'interdealer anonymous' basis would render the Broad General Collateral Rate the least useful rate.

3. Are there changes to one or more of the rates that would make them more useful? For what purpose?

We have no suggestions at this time.

4. Are there particular sources of data or data sets that should be incorporated in the calculation of the rates that would make the rates more useful to the public?

In addition to the live, actual transactions published by the Federal Reserve Bank of New York in co-ordination with the Office of Financial Research, we would suggest that inclusion of industry data sourced by vendors such as Datalend, IHS, FIS would be beneficial to ensure substantially all of the bilateral repo market is captured.

We would suggest that the Federal Reserve Bank, utilizing its supervisory authority, ensure proper business continuity and other risk contingency planning in its examination of the sole clearing bank's policies and procedures in its execution of tri-party repo transactions and production of data, given its central importance to the calculation of the suggested rates.

5. Are there changes that should be made to the proposed manner of calculating and publishing the three rates?

We feel that the filter suggested in footnote 4 by the FRBNY is a viable treatment of "specials" in the bilateral market. However, we would request further information from the FRBNY as to the nature of those "specials" that will be excluded from the SOFR rate, and transparency around that aspect of the SOFR methodology.

Additionally, we suggest the incorporation of other potential 'outlier' techniques when calculating rates to minimize the impact of transactions not reflective of the true underlying clearing rates. The treatment of rate differences in "open" vs. "overnight" term and trades collateralized by specific CUSIPS or "specials" would benefit from outlier techniques. Examples of outlier techniques could include:

(i) Baseline - The use of the sample of eligible trades after all of those designated as outliers are excluded.

- (ii) General Collateral – The use of the full sample of eligible trades after only those designated as “specials” are fully excluded.
- (iii) Trimmed – The use of the full sample of eligible trades, but identifying the median rates of the sample and removing data with trades at 25% of the median rates (on both ends).

6. Is the proposed time of publication early enough to facilitate the use of the rates for various purposes?

No, the rate should be published overnight or as early in the day as possible, to accommodate U.S. dollar activity originating in London markets.

7. Is the use of the volume-weighted median appropriate? Is there a different measure of the central tendency of the distribution of individual transacted rates that would be better suited?

One potential drawback of volume weighted median methodology is the impact of a drop in balances at quarter-ends and year-ends. We would suggest the use of some “smoothing” mechanics to minimize volatility observed in the repo markets due to quarter and year end reactions in the marketplace. A “trimmed” rate, as described above, may best address these issues.

8. Are the proposed summary statistics useful to the market?

Yes. The summary statistics would be used by market participants to gauge the threshold level (both depth and breadth) of liquidity.

Other Input

ACLI respectfully request the FRBNY’s careful consideration of the transition issues that will be raised by the introduction of SOFR as a LIBOR replacement, as well as the very serious impact of the discontinuation of LIBOR on legacy instruments. With respect to derivatives markets, we recommend that the FRBNY coordinate regulatory relief in minimizing any impact that necessary amendments to extant derivatives contracts would have to their grandfathered treatment under Title VII of Dodd-Frank Act, both for purposes of the clearing and margin rules. Such regulatory relief should give market participants maximum flexibility in their approach to handling the transition, encompassing both changes to existing trades, as well as any new trades and other reactive trading activity undertaken purely in response to the introduction of a new rate.

With respect to the securities markets, we would welcome regulatory insight and assistance in assessing how existing bonds that reference LIBOR, which require 100% bond holder consent for any change in payment terms, would be treated in a post-LIBOR world. Amendments to these instruments may be difficult to achieve, and may result in high costs to issuers trying to redeem securities or amend documents, with potentially serious impacts to the secondary market trading activity in these instruments, and with great risk to investors holding these instruments.

We urge the FRBNY to join the ACLI and other market participants in advocating for the continued quotation of certain more liquid segments of the LIBOR market to ease the sunset of existing products and instruments. It will be important to minimize the potential economic impact from the introduction

of alternative rates. LIBOR should not be abruptly terminated. Rather, there should be a meaningful, deliberative transition to alternative rates to allow reasonable marketplace adjustments.

In addition, we recommend that appropriate communication with FASB and other accounting bodies be taken into consideration in the introduction of this rate and its impact on hedge accounting.

Conclusion

Thank you for your attention to our views. If any questions develop, please let me know.

Sincerely,

Carl B. Wilkerson

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