

# SOFR ACADEMY, INC., MARCUS BURNETT

## Proposal and Comment Information

**Title:** Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations with Significant Trading Activity, and Optional Adoption for Other Banking Organizations, R-1887

**Comment ID:** FR-2026-0007-01-C71

## Submitter Information

**Organization Name:** SOFR Academy, Inc.

**Organization Type:** Company

**Name:** Marcus Burnett

**Submitted Date:** 06/18/2026

Dear Sir or Madam:

SOFR Academy, Inc. respectfully submits the attached comment letter in response to the regulatory capital modernization proposals.

The attached submission addresses the interaction among regulatory capital, balance-sheet commitments, credit-line draw incentives, bank funding conditions, and reference-rate design in a SOFR-centered benchmark framework. In particular, it explains why robust, transparent, transaction-based credit-spread supplements to SOFR may support financial stability and credit supply by improving the alignment between committed-credit-line economics and bank funding conditions during periods of stress.

SOFR Academy is not requesting that the Board or the other banking agencies endorse, approve, mandate, or provide preferential capital treatment for any specific benchmark. Rather, we respectfully request that the Agencies consider, in the final rule and accompanying economic analysis, whether principles-based supervisory clarity regarding robust SOFR credit-spread supplements would help market participants distinguish well-designed, IOSCO-aligned, transaction-based supplements from prior credit-sensitive-rate approaches that raised official-sector concerns.

We appreciate the opportunity to provide these comments and would be pleased to provide any additional technical information that may be helpful to the Agencies.

Respectfully submitted,

Marcus A. Burnett  
CEO  
SOFR Academy, Inc

SOFR Academy, Inc.  
525 Broome Street, Level 2  
New York, NY 10013  
United States of America

June 18, 2026

*Via Electronic Submission*

Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, D.C. 20551  
Attention: Benjamin W. McDonough, Secretary of the Board

Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, D.C. 20429  
Attention: Jennifer M. Jones, Deputy Executive Secretary

Office of the Comptroller of the Currency  
400 7th Street, SW, Suite 3E-218  
Washington, D.C. 20219  
Attention: Jonathan V. Gould, Comptroller of the Currency

**Re: Docket No. R-1887; RIN 7100-AH20 — Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations**

**Docket No. R-1888; RIN 7100-AH21 — Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets**

**Docket No. R-1889; RIN 7100-AH22 — Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)**

Ladies and Gentlemen:

SOFR Academy<sup>1</sup> appreciates the opportunity to submit this comment letter in response to the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the “Agencies”) related proposals concerning the U.S. regulatory capital framework, the standardized approach for risk-weighted assets, and the GSIB surcharge framework.

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<sup>1</sup> SOFR Academy, Inc. is an American financial market infrastructure company focused on developing benchmark credit-spread infrastructure designed to complement risk-free reference rates in global capital markets. The Firm’s advisors include leading academics and senior market practitioners with deep experience in financial regulation, public policy, derivatives markets, and benchmark design. SOFR Academy’s mission is to enhance the efficiency, transparency, and stability of financial markets. For more information, visit [www.sofr.org](http://www.sofr.org).

SOFR Academy supports the agencies' objective of modernizing the capital framework in a manner that improves risk sensitivity, supports safety and soundness, promotes U.S. financial stability, and preserves the ability of banking organizations to provide credit to households and businesses through a range of economic conditions. We respectfully submit that these objectives are closely related to the question of how corporate credit-line economics function in a SOFR-centered benchmark framework.

In particular, we urge the Board and the other banking agencies, in any final rule or accompanying economic analysis, to recognize that well-designed, transparent, transaction-based SOFR credit-spread supplements can help support financial stability and promote credit supply by improving the alignment between bank loan economics and bank funding conditions during periods of stress.

This comment letter proceeds in four parts: first, it explains the relevance of reference-rate design to committed-credit-line economics; second, it describes the role of robust SOFR credit-spread supplements in supporting credit supply and financial stability; third, it provides an illustrative application to bank commitments to private-credit funds and other non-depository financial institutions; and fourth, it offers principles-based recommendations for supervisory clarity without requesting that the Agencies endorse any specific benchmark.

## **I. Executive Summary**

The attached proposals appropriately focus on risk sensitivity, lending capacity, balance-sheet exposures, short-term wholesale funding, and systemic-risk measurement. These are central issues for the resilience of the U.S. banking system. They are also directly connected to the economics of committed corporate credit lines, which is the dominant form of bank lending in the United States.

Corporate revolvers and other committed facilities are especially important because they are contingent in nature. They may remain undrawn in normal conditions but can be drawn heavily during periods of stress, precisely when bank funding spreads widen, deposits may become less stable, and market liquidity may deteriorate. A capital framework that seeks to support lending through the cycle should therefore consider not only the quantity of capital required against commitments, but also the contractual and benchmark design features that affect borrower draw incentives and bank funding-risk transmission during stress.

Recent academic research by Harry Cooperman, Darrell Duffie, Stephan Luck, Zachry Wang, and Yilin Yang (2024), published in the *Journal of Finance*, provides an important analytical foundation.<sup>2</sup> The authors show that corporate credit lines are drawn more heavily when funding markets are stressed, that this elevates expected bank funding costs, and that the transition from

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<sup>2</sup> Cooperman, Harry, Darrell Duffie, Stephan Luck, Zachry Wang, and Yilin (David) Yang. 2025. "Bank Funding Risk, Reference Rates, and Credit Supply." *Journal of Finance* 80, no. 1: 5–56. <https://doi.org/10.1111/jofi.13411>. In 2013-2014, Darrell Duffie (Stanford GSB) Chaired the [Market Participants Group](#), charged by the Financial Stability Board with recommending reforms to Libor, Euribor, and other interest-rate benchmarks. Duffie has no affiliation with SOFR Academy, Inc.

credit-sensitive reference rates to risk-free reference rates may exacerbate a debt-overhang friction that dampens credit supply.

These findings are directly relevant to the Agencies' analysis of credit conversion factors, lending capacity, liquidity risk, and systemic-risk measurement because they show that the economics of committed credit lines depend not only on capital requirements, but also on borrower draw incentives, deposit-retention assumptions, bank funding conditions, and reference-rate design.

The policy implication is not that the market should return to LIBOR. LIBOR was rightly replaced. Rather, the lesson is that a SOFR-centered benchmark framework can be strengthened if market participants have access to robust, transaction-based credit-spread supplements that measure the funding and credit conditions that SOFR, by design, does not capture.

SOFR Academy therefore recommends that the Board and the other banking agencies:

1. Recognize in the final rule's economic analysis that the credit-supply impact of capital requirements for corporate commitments depends partly on the interaction between capital, liquidity, drawdown behavior, and reference-rate design.
2. Clarify that the use of robust, transparent, transaction-based credit-spread supplements to SOFR is not disfavored per se, provided that SOFR remains the primary risk-free-rate foundation and the supplement is used consistently with safe-and-sound banking practices, appropriate customer disclosures, robust fallback provisions, and benchmark-governance expectations.
3. Consider, in evaluating credit conversion factors for commitments, whether reference-rate design and stress-state borrower draw incentives should be among the factors assessed by banks and supervisors, particularly for corporate credit lines that may be drawn during periods of elevated bank funding spreads.
4. Consider whether supervisory analysis, stress testing, FR Y-15 reporting, or staff market-monitoring data sources should better capture the interaction among corporate commitments, short-term wholesale funding reliance, deposit migration, benchmark-linked draw incentives, and transaction-based measures of credit-spread conditions.
5. Avoid endorsing any single proprietary index in regulation, while providing principles-based clarity that robust SOFR supplements may serve a useful risk-management function within the post-LIBOR framework.

SOFR Academy recognizes that existing interagency guidance provides that banks may select suitable reference rates for lending products based on their funding models, customer needs, risk profiles, and operational capabilities, and that the Agencies will not endorse any specific benchmark.<sup>3</sup> The practical reality, however, is that the cessation of earlier credit-sensitive

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<sup>3</sup> Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation, Interagency Statement on Reference Rates for Loans, November 6, 2020, attached to Federal

reference rates that did not work with SOFR and the official-sector concerns associated with them have created category-level regulatory uncertainty.

As a result, banks are treating SOFR as the only practically available reference-rate foundation unless there is additional regulatory clarity that robust, transaction-based SOFR supplements are not disfavored when used as additive spreads to SOFR and supported by appropriate governance, fallback language, customer disclosures, and due diligence.

## **II. Relationship to the Capital Proposals**

The Agencies' proposals are directed to capital and systemic-risk measurement, not benchmark reform. Nevertheless, the proposals raise several issues that are directly connected to benchmark design.

First, the proposals seek to improve risk sensitivity. Risk sensitivity is not only a function of the risk weight assigned to an exposure. It also depends on whether the exposure's contractual economics respond appropriately to the conditions under which risk materializes. For corporate revolvers, the relevant stress event is often not only borrower default; it is the borrower's decision to draw committed liquidity during a period when the lender's own funding cost is rising.

Second, the standardized approach proposal and the expanded risk-based proposal both address off-balance-sheet commitments and credit conversion factors. For commitments that are not unconditionally cancelable, the proposals would replace maturity-based credit conversion factors with a single 40 percent credit conversion factor. The agencies ask what additional factors should be considered in determining applicable credit conversion factors for commitments. SOFR Academy respectfully submits that stress-state draw incentives, funding-spread sensitivity, and reference-rate design are relevant factors for this analysis.

Third, the proposals seek to support bank lending. The standardized approach proposal estimates that reductions in corporate lending risk-weighted assets could create meaningful additional lending capacity. That benefit can be strengthened if the banking system also has tools to manage the funding-risk channel that affects the willingness of banks to provide committed credit lines ex ante.

Fourth, the GSIB surcharge proposal appropriately focuses on systemic-risk measurement, including short-term wholesale funding. The interaction between corporate credit-line drawdowns, deposit migration, and short-term wholesale funding is central to financial stability. In a stress scenario, a regional or mid-sized bank may experience draws on committed lines on the asset side of the balance sheet at the same time that deposits migrate toward larger institutions on the liability side. A well-designed credit-spread supplement to SOFR can help mitigate this mismatch by improving the alignment between loan reference-rate economics and bank funding conditions.

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Reserve SR 20-25, Interagency Statement – Reference Rates for Loans.  
<https://www.federalreserve.gov/supervisionreg/srletters/SR2025.htm>.

### III. The Credit-Line Channel: Why Reference-Rate Design Matters

SOFR is a robust and transparent risk-free reference rate grounded in deep overnight secured funding markets. That is its strength. However, SOFR is intentionally near risk-free and does not directly measure unsecured bank funding costs or broader credit conditions.

This distinction matters most during periods of stress. In such periods, risk-free rates may fall as monetary policy eases and investors seek safety, while unsecured bank funding costs and corporate credit spreads rise. Figure 1, Panel B illustrates this point during the COVID-19 recession: SOFR remained close to the risk-free overnight funding rate, while unsecured bank funding proxies such as 3-month LIBOR and all-in FHLB funding costs rose sharply. A loan indexed only to a risk-free rate may therefore become cheaper for the borrower precisely when the lender's marginal funding cost is rising. For committed credit lines, this can increase borrower incentives to draw liquidity at the same time that the bank's funding position is under pressure.

The *Journal of Finance* paper by Cooperman, et al. (2024) explains this mechanism. When banks are required to fund line draws by issuing new debt, bank shareholders bear a disproportionate share of the marginal funding expense, creating a debt-overhang cost. Banks price that expected cost into newly originated commitments. The result may be higher pricing, lower total commitments, and lower expected drawn credit.

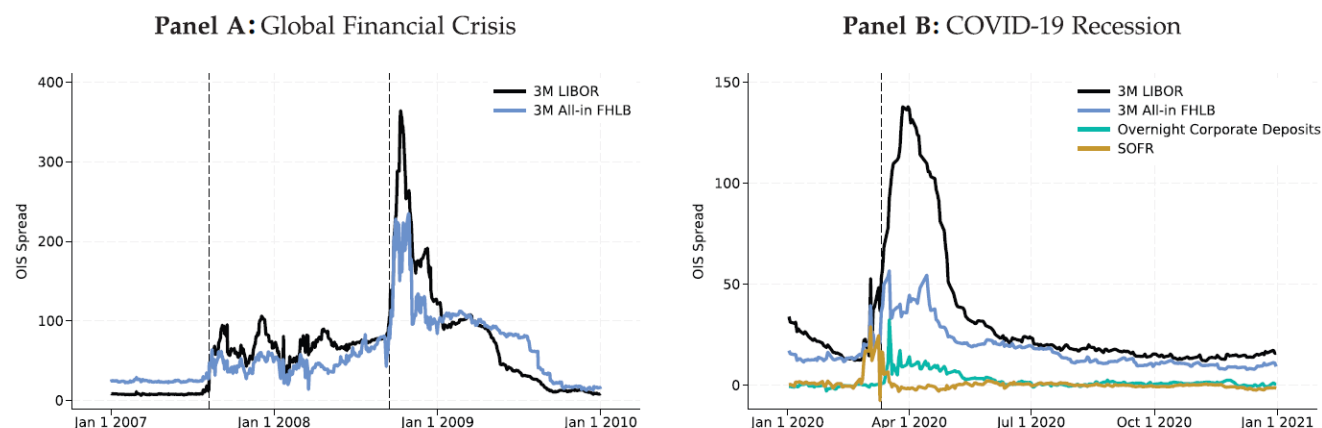


Figure 1. Bank funding rates during financial distress.  
Source: Cooperman et al. (2024), *Journal of Finance*

The authors' empirical and calibrated results are highly relevant to the Agencies' economic analysis of commitments and credit supply. For the 20 largest U.S. bank holding companies in 2019, nonfinancial firms borrowed more from large banks through credit lines than through conventional term loans and other C&I lending: approximately \$544 billion of credit-line borrowing compared with approximately \$444 billion of term-loan and other C&I borrowing. The same 20 bank holding companies had approximately \$1.3 trillion of undrawn credit-line commitments, exceeding their total utilized credit from term lending and revolving credit combined. These commitments could be drawn during stressed market conditions when wholesale bank funding spreads are elevated.

The calibrated results also show why reference-rate design matters. In a scenario in which wholesale bank funding spreads reach Global Financial Crisis levels, the authors estimate that draws on SOFR-linked credit lines would be roughly 60 percent higher than draws on LIBOR-linked credit lines. For a calibrated representative bank, the transition from LIBOR to SOFR is estimated to increase the expected cost of drawn credit by approximately 15 basis points, reduce total line commitments by approximately 6 percent, and reduce expected drawn credit by approximately 3 percent. The corresponding welfare loss is estimated at approximately 3 percent.

These effects depend importantly on deposit-retention assumptions. During the COVID recession, the authors estimate that, on average, approximately 94 cents of every dollar drawn was placed into low-interest-rate corporate deposit accounts at the same banks, which mitigated the shareholder-borne funding cost of drawdowns for many large banks.

During the Global Financial Crisis, by contrast, a larger share of drawn cash left the banking sector, requiring banks to fund drawdowns with more expensive sources of funding. This distinction reinforces the importance of supervisory analysis that differentiates between precautionary draws that remain on deposit and liquidity draws that must be funded externally.

This is particularly relevant for regional and mid-sized banks. In a systemic or confidence-driven stress event, borrowers may draw committed lines from a regional bank while simultaneously moving deposits to a larger institution perceived as safer. The lending bank may therefore face asset-side expansion and liability-side pressure at the same time. That dynamic can reinforce deposit concentration, reduce regional-bank lending capacity, and exacerbate the polarization of the U.S. banking system.

#### **IV. The Role of Well-Designed SOFR Supplements**

A well-designed SOFR supplement can help address the funding-risk mismatch associated with committed credit lines without undermining SOFR.

The objective is not to recreate LIBOR or introduce a standalone credit-sensitive reference rate that competes with SOFR. The objective is to preserve SOFR as the primary risk-free-rate foundation while allowing a separate, transparent credit-spread component to be used where bank funding or broader credit conditions are economically relevant.

From a financial stability perspective, the benefit is twofold. First, a SOFR supplement can reduce the incentive for borrowers to draw committed lines solely because the risk-free reference rate has fallen during stress while bank funding spreads have risen. That can reduce procyclical liquidity demand on the banking system.

Second, a SOFR supplement can improve banks' willingness to provide committed credit ex ante. If banks can better manage the risk that committed lines will be drawn during periods of elevated funding costs, they may be more willing to maintain or expand credit-line capacity for real-economy borrowers.

This is consistent with the Agencies' objective of promoting lending and financial intermediation through a range of economic conditions. Capital modernization may increase balance-sheet

capacity, while robust benchmark tools that better align loan economics with funding conditions may help convert that capacity into more resilient credit supply.<sup>4</sup>

## **V. Examples of IOSCO-Aligned, Transaction-Based SOFR Supplements**

Two examples of such benchmarks are the U.S.-dollar-denominated Across-the-Curve Credit Spread Index (AXI) and its companion benchmark, the Financial Conditions Credit Spread Index (FXI), which draw on the across-the-curve credit-spread methodology developed by Berndt, Duffie, and Zhu.<sup>5</sup> These benchmarks are designed to operate as additive spreads to SOFR, not as replacements for SOFR. AXI is designed to measure bank funding conditions across unsecured wholesale funding instruments using observable transaction data spanning maturities from overnight to five years. FXI applies the same across-the-curve framework to broader financial and corporate funding conditions. In this respect, the AXI and FXI family of indices is intended to preserve SOFR as the primary risk-free-rate foundation while providing an additional credit-spread component where bank funding or broader credit conditions are economically relevant.

This distinction is important. AXI and FXI are not designed to replace SOFR or to encourage a transition away from SOFR-based markets. They are designed to operate as additive credit-spread supplements to SOFR. This structure preserves SOFR as the primary risk-free-rate foundation while allowing a separate credit-spread component to be used in limited circumstances where bank funding conditions or broader credit conditions are economically relevant. In this respect, robust SOFR supplements differ from standalone credit-sensitive reference rates that may raise concerns if they compete with SOFR, rely on narrow underlying transaction markets, or are used at volumes disproportionate to the depth of their underlying data.

The indices are constructed using transaction-level data reported through mandatory post-trade transparency regimes, including the Financial Industry Regulatory Authority's Trade Reporting and Compliance Engine (FINRA TRACE) and transaction data reported through the Depository Trust & Clearing Corporation (DTCC). By aggregating these data across multiple segments of the credit market, the methodology produces a daily measure of prevailing credit spreads across the yield curve.

FXI follows the same methodology as AXI but broadens its coverage to include non-bank financial institutions and U.S. corporate debt. Both benchmarks are calculated and published daily by an authorized, independent benchmark administrator and are available globally through Bloomberg and LSEG Data & Analytics. Because AXI and FXI operate as credit spreads to SOFR, they enable more accurate loan and derivative pricing without disrupting the liquidity or integrity of SOFR-based markets. These indices were developed based on the academic architects' deep expertise in credit markets and their understanding of the evolving funding

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<sup>4</sup> Alex Roeber, *Credit Spreads, Financial Stability, and the Next Stage of Benchmark Reform*, The Bretton Woods Committee, May 27, 2026, available at: <https://brettonwoods.org/credit-spreads-financial-stability-and-the-next-stage-of-benchmark-reform/>

<sup>5</sup> Antje Berndt, Darrell Duffie & Yichao Zhu, *Across-the-Curve Credit Spread Indices*, 32 *Financial Markets, Institutions & Instruments* 115–130 (2023), <https://doi.org/10.1111/fmii.12172>. For market-reference purposes, current Bloomberg ticker codes for the U.S. dollar AXI and FXI benchmarks are AXIXUNS and FXIXUNS, respectively.

dynamics of large financial institutions. Importantly, the design of AXI and FXI avoids the regulatory concerns that contributed to skepticism around earlier credit-sensitive proposals.

A further practical advantage is that SOFR credit-spread supplements can be implemented incrementally within existing SOFR infrastructure. Because AXI and FXI are designed as additive spreads to SOFR, market participants can preserve existing SOFR conventions, documentation, valuation models, fallback architecture, treasury systems, asset-liability-management processes, and risk-management infrastructure.

The benchmarks can be used alongside overnight SOFR compounded in arrears in OIS-style structures and alongside Term SOFR settings in cash-market products such as loans and floating-rate notes. This reduces operational complexity and helps ensure that any principles-based supervisory clarity would not require market participants to abandon SOFR, rebuild the U.S. benchmark framework, or introduce a competing replacement rate.

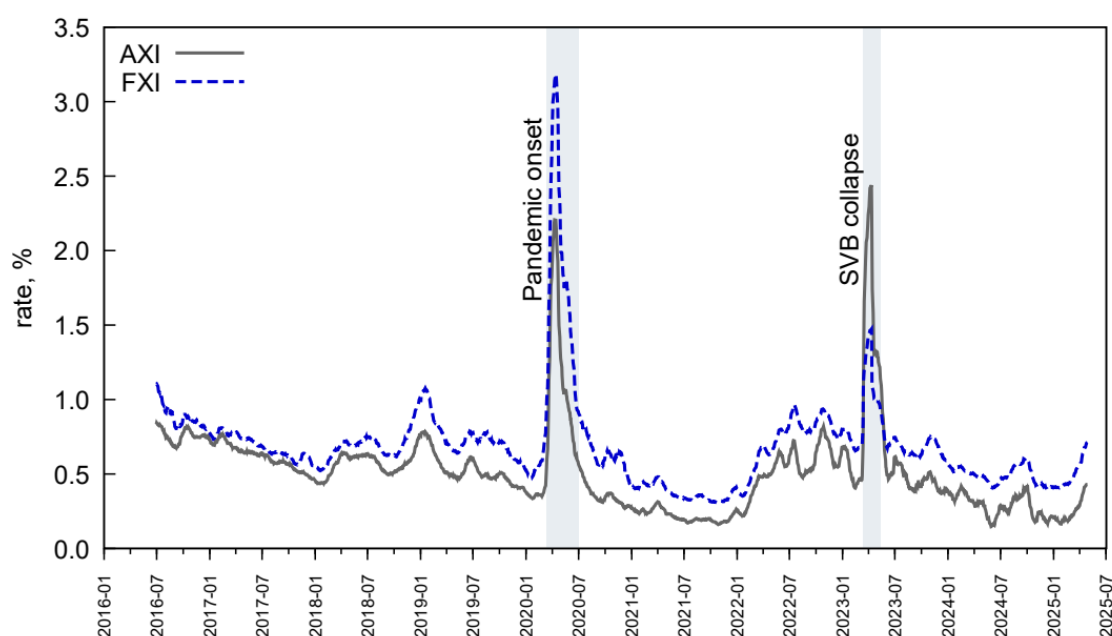


Figure 2. US dollar AXI and FXI. Source: STOXX Ltd

These benchmark credit spreads were initially introduced during the Credit Sensitivity Group Workshops (the “Workshops”) hosted by the Federal Reserve Bank of New York.<sup>6</sup> These Workshops “explored methodologies to develop a robust lending framework that considers a credit sensitive rate/spread that could be added to SOFR.” While the Workshops fostered valuable discussion, they did not result in a consensus solution or formal implementation of a SOFR supplement.

Following these Workshops, regulators publicly encouraged private market participants to engage with potential producers of alternative rates to support continued innovation in this

<sup>6</sup> <https://www.newyorkfed.org/newsevents/events/markets/2020/0225-2020>

space.<sup>7</sup> In alignment with that guidance, in January 2025, H. Rodgin Cohen, Senior Chair of Sullivan & Cromwell LLP, hosted an industry discussion regarding implementation of IOSCO-aligned credit spread benchmarks designed for use alongside SOFR.<sup>8</sup>

As part of the benchmark development process, the US dollar AXI and FXI benchmarks were subject to an independent limited-assurance review conducted by Promontory Financial Group (IBM Promontory), a global financial regulatory consulting firm. The review assessed the implementation of relevant IOSCO Principles for Financial Benchmarks<sup>9</sup> and examined key aspects of the benchmark framework, including benchmark design, data sufficiency, and the transparency of benchmark determinations. It also considered the robustness of the methodologies across a range of market conditions, including periods of financial stress. The review concluded that the relevant IOSCO principles had been fully implemented. A summary of the review findings is presented below.<sup>10</sup>

| Principle                                       | AXI Determination                                                                                   | FXI Determination                                                                                     |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| <b>Benchmark Design</b>                         | Fully Implemented  | Fully Implemented  |
| <b>Data Sufficiency</b>                         | Fully Implemented  | Fully Implemented  |
| <b>Transparency of Benchmark Determinations</b> | Fully Implemented  | Fully Implemented  |

Table 1. Summary of Independent Limited-Assurance IOSCO Review of US Dollar AXI and FXI Benchmarks (Source: IBM Promontory, 2024)

The IOSCO Principles for Financial Benchmarks emphasize that benchmark methodologies should be anchored in credible underlying markets and remain reliable during periods of market stress. In this context, the design of transaction-based credit-spread benchmarks derived from broad segments of wholesale funding markets—spanning multiple instruments, issuers, and maturities—enhance robustness by drawing on a diversified set of observable transactions rather than relying on a narrow set of market inputs at a specific maturity point. Such design features can support benchmark resilience and integrity across a range of market conditions.

<sup>7</sup> [https://www.newyorkfed.org/medialibrary/Microsites/arcc/files/2020/20201022\\_CSG\\_Letter.pdf](https://www.newyorkfed.org/medialibrary/Microsites/arcc/files/2020/20201022_CSG_Letter.pdf)

<sup>8</sup> H. Rodgin Cohen, Senior Chair of Sullivan & Cromwell LLP, *Industry discussion regarding IOSCO-aligned credit-spread reference benchmarks for SOFR* (2025) [[Agenda](#) and [Meetings Minutes](#)].

<sup>9</sup> International Organization of Securities Commissions (IOSCO). 2013. *Principles for Financial Benchmarks: Final Report*. IOSCO Report IOSCPD409. Madrid: IOSCO. Available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCPD409.pdf>

<sup>10</sup> Promontory Financial Group, a Business Unit of IBM Consulting, *AXI and FXI Limited Assurance Review: Principles 6, 7, and 9 of the IOSCO Principles for Financial Benchmarks and AXI/FXI Limited Assurance Follow-up Review: Implementation of Recommendations*, April 2024 and June 2024, available at: <https://stoxx.com/wp-content/uploads/2026/05/AXI-FXI-Limited-Assurance-Review-Report-and-Follow-up-Review-Memo-June-2024-1.pdf>

## Case Study: Bank Credit Lines to Private-Credit Funds and Stress Transmission from Private Markets

A useful application of these principles is the growing use of committed bank credit facilities by private-credit funds and other private-market nonbank financial intermediaries. Private credit can provide important financing to U.S. businesses, particularly privately held and middle-market companies that may have less direct access to public capital markets. Bank-provided credit facilities to private-credit funds can therefore support credit intermediation, market efficiency, and the availability of financing to real-economy borrowers.

The Board's May 2026 Financial Stability Report identifies private credit as an increasingly salient financial stability topic. In the report's Spring 2026 survey of salient risks, private credit was cited by a meaningfully larger share of market contacts than in the prior survey. The report also notes that certain nontraded business development companies experienced increased redemption requests driven by concerns about underlying assets, and that some exercised limits on those redemptions. These developments are directly relevant to committed bank credit facilities because liquidity pressure inside semi-liquid private-credit vehicles may increase the likelihood that funds draw on bank-provided facilities during stress.<sup>11</sup>

The same report notes that private credit was viewed by survey respondents as facing increasing pressure from investor redemptions, worsening sentiment, and credit-quality concerns among some borrowers. These are precisely the conditions under which contingent liquidity facilities may become more valuable to borrowers and more costly for banks to fund. This reinforces the importance of evaluating not only the nominal amount of bank commitments to private-credit funds and other non-depository financial institutions, but also the contractual economics governing the cost of drawn liquidity during stress.

Recent Federal Reserve staff research reinforces this point. A July 2025 FEDS Note on bank funding of nonbank financial institutions documents that, even as on-balance-sheet bank funding to NBFIs declined from approximately \$2.4 trillion to \$1.7 trillion since 2012, bank credit lines to NBFIs more than doubled and now account for approximately 3 percent of GDP. The authors note that these credit lines are contingent liabilities that remain off balance sheet until drawn, and that simultaneous drawdowns during periods of financial stress could amplify liquidity shortages across the financial system.<sup>12</sup>

These credit facilities create a potential stress-transmission channel that is directly relevant to commitment-risk analysis. The Board's June 2026 Supervision and Regulation Report notes that loans to non-depository financial institutions have continued to expand as banks partner with nonbank financial entities, including private equity funds and mortgage, commercial, and

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<sup>11</sup> Board of Governors of the Federal Reserve System, Financial Stability Report, May 2026, Overview and Box 4.1, pp. 3, 44, available at: <https://www.federalreserve.gov/publications/files/financial-stability-report-20260508.pdf>.

<sup>12</sup> Ricardo Duque Gabriel & Julianna Sterling, *Shifting Dynamics in Bank Funding of NBFIs: The Rise of Credit Lines*, FEDS Notes, Board of Governors of the Federal Reserve System (July 14, 2025). See <https://www.federalreserve.gov/econres/notes/feds-notes/shifting-dynamics-in-bank-funding-of-nbis-the-rise-of-credit-lines-20250714.html>

consumer credit intermediaries, as well as through warehouse lending facilities and lines of credit.

The Report also notes that the Federal Reserve closely monitors bank exposures to non-depository financial institutions and that several high-profile defaults have contributed to concern regarding the private credit sector. Supervisory work also indicates that some banks are revisiting collateral-management practices for these exposures.

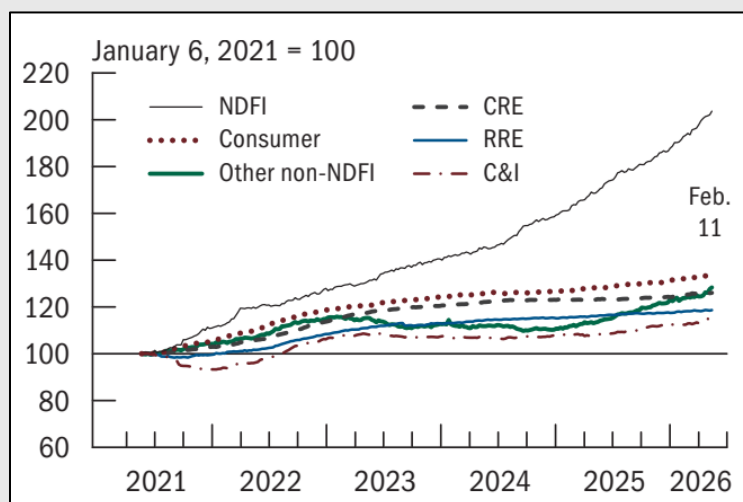


Figure 3. Loan growth by type. Source: Board of Governors of the Federal Reserve System, Supervision and Regulation Report.<sup>13</sup>

These observations provide a concrete case study for the interaction among capital, liquidity, off-balance-sheet commitments, and reference-rate design. Banks may provide private-credit funds with warehouse funding lines, loan repo facilities, subscription credit lines, NAV loans, and other committed financing arrangements. In normal conditions, these facilities may remain undrawn or only partially drawn. In stress conditions, however, private-credit funds and related nonbank lenders may seek to draw on committed bank facilities at the same time that private-asset valuations are becoming more uncertain, secondary-market liquidity is becoming more limited, collateral values may be more difficult to assess, and bank funding costs are rising.

This case study illustrates why reference-rate design is relevant to the Agencies' analysis of commitments. If a committed facility to a private-credit fund is priced solely over SOFR, the benchmark rate is likely to decline during a stress event even as bank funding spreads and broader credit-risk premia increase. This may weaken the alignment between the pricing of contingent liquidity and the cost to the bank of providing that liquidity. In that environment, the borrower may have an increased incentive to draw the facility, while the bank may face higher marginal funding costs, greater liquidity needs, and increased balance-sheet pressure.

A robust, transaction-based SOFR credit-spread supplement may help mitigate this mismatch without displacing SOFR. Used as an additive spread to SOFR, such a supplement can allow the

<sup>13</sup> Board of Governors of the Federal Reserve System, *Supervision and Regulation Report* (June 2026), available at: <https://www.federalreserve.gov/publications/files/202606-supervision-and-regulation-report.pdf>

cost of drawn contingent liquidity to adjust more transparently with observable funding-cost and credit-spread conditions. In the context of private-credit-related and other non-depository financial institution commitments, this may improve pricing discipline, reduce the risk that committed bank liquidity is underpriced during stress, and support more resilient bank balance-sheet management.

This application is directly relevant to credit conversion factors, stress testing, liquidity planning, and systemic-risk monitoring. It does not imply that facilities referencing SOFR plus a credit-spread supplement should receive automatic or preferential capital treatment. Rather, it demonstrates that reference-rate design can affect stress-period draw incentives, funding-risk transmission, and the resilience of committed credit supply. The Agencies should therefore consider reference-rate design as one relevant factor when evaluating the risk characteristics of committed facilities to private-credit funds, other non-depository financial institutions, and private-market borrowers more generally.

More broadly, this use case highlights the public-policy benefit of robust SOFR supplements. By improving the alignment between contingent-liquidity pricing and bank funding conditions, SOFR credit-spread supplements may help reduce the risk that stress originating in less transparent private markets is transmitted through committed bank facilities back to bank balance sheets, public funding markets, and the broader credit system.

## **VI. Responses to Selected Questions**

SOFR Academy's comments are directed principally to the Agencies' questions concerning credit conversion factors for commitments, lending effects, competitiveness, and systemic-risk measurement

### *A. Credit Conversion Factors for Commitments*

A committed credit line is not riskless merely because it is undrawn. The CCF framework appropriately recognizes that undrawn commitments can become funded exposures during periods of stress. However, the probability, timing, and economic impact of those drawdowns may depend in part on contractual design, including the reference rate used to price drawn credit. In some stress conditions, a SOFR-only structure may increase borrower incentives to draw when risk-free rates fall even as bank funding spreads rise, while a robust SOFR credit-spread supplement may help align loan economics more closely with bank funding conditions. The Agencies should therefore consider reference-rate design as one relevant factor in analyzing commitment risk, stress-period draw behavior, and funding-risk transmission. This does not imply that commitments referencing SOFR plus a credit-spread supplement should receive mechanical or preferential capital treatment; rather, it supports the inclusion of reference-rate design among the factors considered in supervisory and economic analysis of committed-credit-line risk.

In response to the agencies' questions regarding additional factors that should be considered in determining credit conversion factors for commitments, SOFR Academy recommends that the agencies consider the following additional factors:

1. **Stress-state borrower draw incentives.** Credit conversion factors should consider not only historical average utilization but also the likelihood that borrowers draw committed lines during periods when bank funding spreads are elevated.
2. **Reference-rate design.** The contractual reference rate may affect draw behavior. A purely risk-free reference rate may fall during stress, increasing borrower incentives to draw, while a robust credit-spread supplement may reduce that incentive by allowing loan economics to reflect changes in bank funding or broader credit conditions.
3. **Deposit-retention assumptions.** The economic effect of drawdowns depends on whether drawn funds remain on deposit at the lending bank or leave the bank. Supervisory analysis should distinguish between precautionary draws that remain on deposit and liquidity draws that must be funded externally.
4. **Bank heterogeneity.** Larger banks with more diversified deposit bases may experience deposit inflows during stress, while regional and mid-sized banks may face deposit outflows and higher marginal funding costs. Credit-line risk and funding-risk transmission are therefore not uniform across institutions.<sup>14</sup>
5. **Product design and borrower type.** Corporate revolvers, backstop liquidity lines, private-credit-related facilities, and commitments to nonbank financial intermediaries may have different draw behavior and funding implications from consumer or retail commitments.

SOFR Academy does not recommend that the agencies mechanically reduce credit conversion factors for commitments that reference SOFR plus a credit-spread supplement. That would be premature and could create unintended incentives. Rather, the agencies should recognize that benchmark design is one relevant factor in assessing draw behavior, funding-risk transmission, and credit-line resilience.

### *B. Effects on Lending and Credit Supply*

The agencies' economic analysis appropriately considers the effect of capital requirements on lending. SOFR Academy recommends that the final rule also consider the interaction between capital requirements and reference-rate design.

Capital requirements affect the supply of credit by determining the amount of equity capital that must support lending exposures. Reference-rate design affects the supply of committed credit by influencing the expected funding-risk cost embedded in credit-line pricing. These channels are

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<sup>14</sup> The March 2023 regional-bank stress provides a useful illustration of this dynamic. Following the failure of Silicon Valley Bank and Signature Bank, confidence pressures spread to First Republic Bank, which experienced significant deposit outflows. A consortium of 11 large U.S. banks subsequently placed \$30 billion of uninsured deposits into First Republic in an effort to stabilize the institution and support confidence in the broader banking system. See Joint Statement by the Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, March 16, 2023, noting that 11 banks announced \$30 billion in deposits into First Republic Bank; FDIC Office of Inspector General, Material Loss Review of First Republic Bank, EVAL-24-03, Dec. 2023, describing the contagion effects from SVB and Signature Bank, First Republic's deposit outflows, the \$30 billion consortium deposit, and First Republic's eventual failure. See <https://www.fdic.gov/news/press-releases/2023/pr23020.html>

complementary. A more risk-sensitive capital framework may increase balance-sheet capacity, while a robust SOFR supplement may reduce the funding-risk wedge that otherwise discourages banks from offering committed credit lines.

The agencies should therefore consider adding to the final rule's economic analysis a discussion of how SOFR-only lending conventions may affect the supply of corporate credit lines, especially during stress, and how robust SOFR supplements may mitigate that effect.

### *C. Competitiveness and Regional Bank Resilience*

The expanded risk-based proposal asks how the agencies should assess the proposal's effect on competitiveness. SOFR Academy recommends that the agencies consider competitiveness not only between U.S. GSIBs and foreign banks, but also between the largest U.S. banks and regional or mid-sized U.S. banks.

There is also an international competitiveness dimension. In some major jurisdictions, banks continue to operate in benchmark environments where widely used reference rates incorporate unsecured bank-funding conditions more directly than SOFR. A SOFR-only U.S. framework may therefore leave U.S. banks with fewer standardized tools for reflecting funding-cost pressures in lending products, particularly during stress. Principles-based clarity regarding robust, transaction-based SOFR supplements would help preserve SOFR's central role while allowing U.S. banks to manage funding-spread risk using transparent tools comparable in economic function to those available in other major markets.

In a SOFR-only environment, banks with more stable deposit franchises and lower marginal funding costs may be better able to absorb the funding-risk mismatch associated with committed credit lines. Regional and mid-sized banks may be more exposed to the combination of credit-line drawdowns and deposit migration during stress. This could reduce their willingness to provide committed credit, increase the cost of credit to their borrowers, and contribute to further concentration of deposits and lending capacity among the largest institutions.

This regional-bank channel is supported by the cross-sectional evidence in Cooperman et al. The authors' FR 2052a and FR Y-14 sample shows that, as of December 31, 2019, committed C&I exposure represented a materially higher share of assets at several regional banks than at the largest universal banks. For example, committed C&I/assets exceeded one-third at U.S. Bancorp, Truist, PNC, Fifth Third, Citizens, KeyCorp, Regions, and Huntington, compared with materially lower ratios at several of the largest universal banks. This reinforces that the interaction among committed credit lines, deposit migration, marginal funding costs, and reference-rate design may have important distributional effects across the U.S. banking system, not only aggregate credit-supply effects.

| Bank Name               | Bank Type | Assets  | % Committed | FR 2052a   |         | Y-14  |
|-------------------------|-----------|---------|-------------|------------|---------|-------|
|                         |           |         |             | C&I/Assets | Monthly | Daily |
| JPMORGAN CHASE & CO     | Universal | 2,687.8 | 0.16        | Yes        | Yes     | Yes   |
| BANK OF AMER CORP       | Universal | 2,434.1 | 0.25        | Yes        | Yes     | Yes   |
| CITIGROUP               | Universal | 1,951.2 | 0.19        | Yes        | Yes     | Yes   |
| WELLS FARGO & CO        | Universal | 1,927.6 | 0.20        | Yes        | Yes     | Yes   |
| GOLDMAN SACHS GROUP THE | IB        | 993.0   | 0.14        | Yes        | Yes     | Yes   |
| MORGAN STANLEY          | IB        | 895.4   | 0.11        | Yes        | Yes     | Yes   |
| U S BC                  | Regionals | 495.4   | 0.35        | Yes        | No      | Yes   |
| TRUIST FC               | Regionals | 473.1   | 0.34        | Yes        | No      | Yes   |
| PNC FNCL SVC GROUP      | Regionals | 410.4   | 0.43        | Yes        | No      | Yes   |
| TD GRP US HOLDS LLC     | Other     | 408.6   | 0.16        | No         | No      | Yes   |
| CAPITAL ONE FC          | Cards     | 390.4   | 0.14        | Yes        | No      | Yes   |
| BANK OF NY MELLON CORP  | Trust     | 381.5   | 0.03        | Yes        | Yes     | Yes   |
| CHARLES SCHWAB CORP     | Trust     | 294.0   | 0.01        | Yes        | No      | Yes   |
| HSBC N AMER HOLDS       | Other     | 249.1   | 0.37        | No         | No      | Yes   |
| STATE STREET CORP       | Trust     | 245.6   | 0.02        | Yes        | Yes     | Yes   |
| AMERICAN EXPRESS CO     | Cards     | 198.3   | 0.26        | Yes        | No      | No    |
| ALLY FNCL               | Regionals | 180.6   | 0.32        | Yes        | No      | Yes   |
| BMO FNCL CORP           | Other     | 172.9   | 0.40        | No         | No      | Yes   |
| MUFG AMERS HOLDS CORP   | Other     | 170.8   | 0.22        | No         | No      | Yes   |
| FIFTH THIRD BC          | Regionals | 169.4   | 0.50        | Yes        | No      | Yes   |
| CITIZENS FNCL GRP       | Regionals | 166.1   | 0.42        | Yes        | No      | Yes   |
| SANTANDER HOLDS USA     | Other     | 149.5   | 0.19        | No         | No      | Yes   |
| KEYCORP                 | Regionals | 145.6   | 0.49        | Yes        | No      | Yes   |
| RBC US GRP HOLDS LLC    | Other     | 139.7   | 0.09        | No         | No      | Yes   |
| NORTHERN TR CORP        | Trust     | 136.8   | 0.13        | Yes        | No      | Yes   |
| REGIONS FC              | Regionals | 126.6   | 0.37        | Yes        | No      | Yes   |
| BNP PARIBAS USA         | Other     | 125.3   | 0.21        | No         | No      | Yes   |
| M&T BK CORP             | Regionals | 119.9   | 0.24        | Yes        | No      | Yes   |
| DISCOVER FS             | Cards     | 114.0   | 0.00        | Yes        | No      | No    |
| DB USA CORP             | Other     | 109.4   | 0.03        | No         | No      | Yes   |
| HUNTINGTON BSHRS        | Regionals | 109.0   | 0.36        | Yes        | No      | Yes   |
| SYNCHRONY FNCL          | Cards     | 104.8   | 0.01        | Yes        | No      | No    |
| BBVA USA BSHRS          | Other     | 93.6    | 0.33        | No         | No      | Yes   |

Table 2. Committed C&I Exposure Is Material for Regional Banks. Committed C&I/assets calculated as C&I loans plus unfunded C&I commitments divided by assets, as of December 31, 2019. Source: Cooperman et al. (2024),

A robust SOFR supplement could help reduce this competitive imbalance by allowing regional and mid-sized banks to manage funding-spread risk in a transparent and standardized way. This would support a more resilient and competitive banking system while preserving SOFR as the primary reference-rate foundation.

#### *D. GSIB Surcharge, FR Y-15, and Systemic-Risk Measurement*

The GSIB surcharge proposal focuses on more accurate measurement of systemic risk, including short-term wholesale funding and off-balance-sheet exposures. SOFR Academy recommends that the Board consider whether FR Y-15 reporting or supervisory monitoring should better capture the interaction among:

1. undrawn corporate credit-line commitments;
2. stress-period drawdown behavior;
3. deposit retention or migration;
4. short-term wholesale funding reliance; and
5. reference-rate design.

This would help the Board assess whether certain lending structures increase or reduce systemic liquidity demand during stress. Such analysis need not result in immediate reporting changes. However, it would be useful for the Board to recognize that the systemic-risk profile of committed credit lines depends not only on the nominal amount of commitments, but also on the economic incentives governing when those commitments are drawn and how those draws are funded.

The Board may also wish to consider whether robust, transaction-based SOFR credit-spread supplements could be evaluated as additional input data sources for staff market-monitoring and financial-stability analysis. USD AXI and USD FXI are not proposed as policy targets, official reference rates, or Federal Reserve-endorsed benchmarks. Rather, because they are designed as transaction-based measures of unsecured funding-cost and broader credit-spread conditions, they may provide an additional market-based lens on contemporaneous funding pressures, credit conditions, and contingent-liquidity dynamics that SOFR, by design, does not capture.<sup>15</sup>

## **VII. Suggested Principles for Supervisory Clarity**

SOFR Academy respectfully recommends that the Agencies provide principles-based clarity that market participants may use robust credit-spread supplements to SOFR, provided that such supplements meet appropriate standards. Such clarity should not endorse any specific index. Instead, it could identify characteristics that distinguish well-designed SOFR supplements from prior credit-sensitive-rate approaches that attracted official-sector concerns during the LIBOR transition.

Additional clarity would not supersede existing interagency guidance and would not require the Agencies to approve, mandate, or endorse any specific benchmark. Rather, it would address a practical market gap that has emerged after the LIBOR transition. While banks may formally select suitable reference rates, many institutions remain cautious about adopting any credit-spread reference component because the broader category of credit-sensitive rates has been affected by prior benchmark cessations, concerns about perceived similarities to LIBOR, and uncertainty regarding supervisory expectations.

A principles-based statement would help market participants distinguish robust SOFR supplements from prior approaches that raised regulatory concerns by focusing on objective characteristics: use as an additive spread to SOFR, rather than as a replacement for SOFR; grounding in observable transaction data; alignment with IOSCO Principles for Financial

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<sup>15</sup> See Harriet Torry, *Warsh to Set Up Task Forces, Fed “Clear-Eyed About Its Mission”*, Wall Street Journal live coverage, June 17, 2026. Recent reporting indicates that the Federal Reserve is establishing task forces to review topics including communications, the balance sheet, data sources, productivity, jobs, and inflation. See <https://www.wsj.com/livecoverage/fed-meeting-warsh-interest-rate-06-17-2026/card/warsh-to-set-up-task-forces-fed-clear-eyed-about-its-mission--7sObvzdEb2fBYahR6Mpu>

Benchmarks, sufficient underlying market depth; resilience during stress; transparent governance; robust fallback arrangements; and appropriate user due diligence.

Recent independent market commentary, though at times imprecisely framing SOFR plus a credit-spread supplement as analogous to LIBOR 2.0, has nonetheless observed that broader use of AXI and FXI may face meaningful adoption hurdles without additional official-sector clarity. This market reaction underscores why principles-based supervisory clarity would be useful: it would help market participants evaluate robust, transaction-based SOFR supplements using objective criteria, without requiring the Agencies to endorse, approve, or mandate any specific benchmark.<sup>16</sup>

Relevant characteristics could include:

1. SOFR remains the primary risk-free-rate foundation.
2. The credit-spread supplement is used as an additive spread to SOFR, not as a replacement for SOFR.
3. The supplement is grounded in transaction data rather than expert judgment.
4. The methodology is transparent and subject to robust governance.
5. The underlying data pool is sufficiently broad and resilient, including transactions across a maturity spectrum relevant to bank funding and credit conditions.
6. The benchmark administrator maintains appropriate oversight, controls, and conflict-management procedures.
7. Users have appropriate fallback language, disclosure, and internal governance for benchmark use.
8. Use of the supplement is voluntary and based on the economics of the product and the needs of the counterparties.

These principles would support safe and sound market development without requiring the agencies to approve, mandate, or endorse any specific benchmark.

## **VIII. Conclusion**

The Agencies' capital proposals seek to strengthen the U.S. banking system by improving risk sensitivity, supporting lending, reducing unnecessary complexity, and better aligning capital requirements with actual risk. SOFR Academy supports those objectives.

The post-LIBOR transition to SOFR has materially strengthened the integrity of U.S. reference rates. But SOFR, by design, does not measure bank funding costs or broader credit-spread conditions. For committed corporate credit lines, this creates a residual financial-stability issue: borrowers may draw more heavily when risk-free rates fall during stress, even as bank funding costs rise.

A well-designed SOFR credit-spread supplement can help address this issue. Used alongside SOFR, such a supplement can improve the alignment between loan economics and bank funding

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<sup>16</sup> Robin Wigglesworth, *Libor 2.0?*, FT Alphaville, Financial Times, June 11, 2026, available at: <https://www.ft.com/content/1b210243-3b3a-4edc-a547-13fbf60ae115>

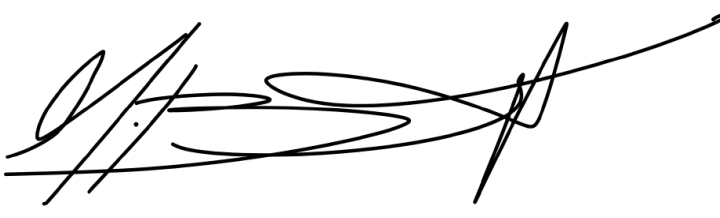
conditions, reduce procyclical draw incentives, support banks' willingness to provide committed credit, and strengthen the resilience of credit supply during stress.

These considerations are also relevant to the competitiveness and resilience of regional and mid-sized banks. The diversity and breadth of the U.S. banking system is a distinctive strength of the American economy and should be preserved. Principles-based clarity regarding robust SOFR credit-spread supplements can help ensure that banks of different sizes and funding profiles have transparent tools to manage funding-spread risk, support committed lending, and continue serving households, businesses, and communities through a range of economic conditions.

SOFR Academy recognizes that existing interagency guidance, including SR 20-25, provides that banks may select reference rates that are appropriate for their funding models, customer needs, risk profiles, and operational capabilities. In practice, however, the withdrawal or cessation of other credit-sensitive-rate approaches, together with prior official-sector concerns regarding those approaches, has created uncertainty around the broader category. Additional principles-based clarity would help market participants distinguish robust, IOSCO-aligned, transaction-based credit-spread supplements to SOFR, such as USD AXI and USD FXI, from prior approaches that did not operate as additive spreads to SOFR or did not satisfy comparable standards of benchmark robustness.

Accordingly, SOFR Academy respectfully submits that market participants and the U.S. markets would benefit from principles-based supervisory clarity recognizing these considerations in the final rule and accompanying economic analysis, particularly in relation to lending effects, competitiveness, financial stability, and systemic-risk measurement. The relevant issue is not endorsement of any particular firm or proprietary benchmark, but rather whether banks and borrowers may safely and transparently use robust, transaction-based SOFR credit-spread supplements where they support sound risk management and resilient credit supply.

With sincere regards,



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