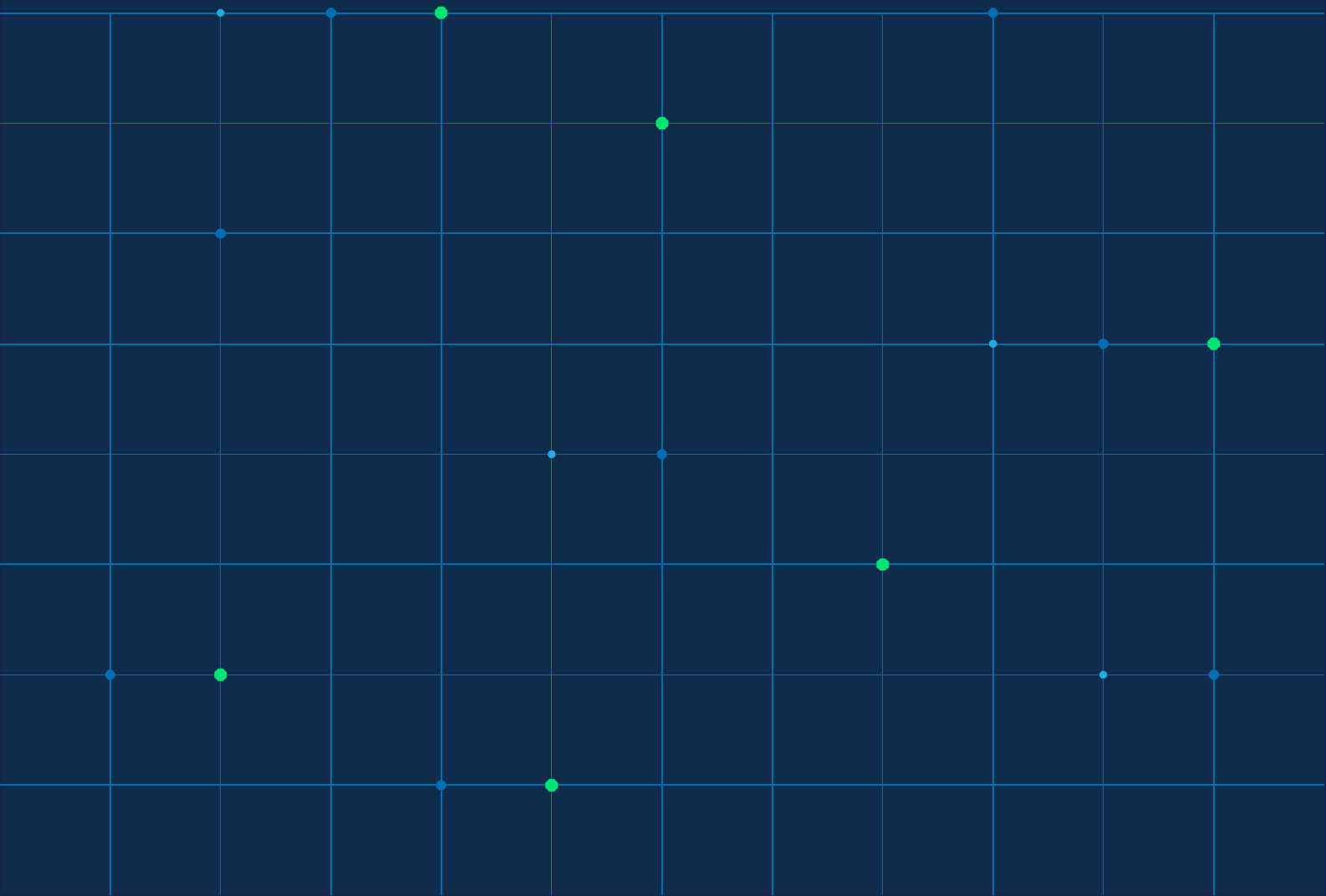


Term SOFR Oversight Committee

Oversight Committee meeting minutes

CME Group Benchmark Administration Limited

May 6th, 2022



Attendees

Members

Name	Status
Agha Mirza (AM)	Present
Meredith Coffey (MC)	Present
Owain Johnson (Chair) (OJ)	Present
Robert Merton (RM)	Present
Sunil Cutinho (SC)	Present
Harriet Hunnable (HH)	Not present
Karl Abdelnour	Not Present

Observers and Guests

Name	Status
Gavin Lee (GL)	Observer
Vincenzo Albano (VA)	Observer
Mark Rogerson (MR)	Observer
Joe Dervish (JD)	Observer
Rosalinda Palermo (RP)	Observer

Agenda

- Introduction (OJ)
- Conflict of Interest declaration (OJ)
- Prior meeting minutes approval (OJ)
- Benchmark Administrator Update (GL)
 - Benchmarks Performance
 - Term SOFR Audit
 - Methodology Review
- Interest Rate Markets Update (AM)
- Licensing & Distribution update (GL)
- Legal & Compliance update (TvdG, LP & JD)
- Items for discussion at next Oversight Committee (OJ)

Introduction

The Chair welcomed the attendees and reminded them of the goal of the Committee: to review the integrity of Term SOFR which is administered by CBA (CME Benchmark Administration).

The Chair confirmed the meeting was quorate and highlighted that any decisions or voting will be according to a simple majority.

The Chair noted that minutes will be circulated after this meeting and asked attendees not to circulate any information to third parties without the consent of the Administrator.

Conflicts of Interest Declaration

The Chair asked whether Committee members had Conflict of Interest not already disclosed to the Administrator. None were declared.

Benchmark Administrator Update

The Administrator presented slides illustrating recent trends of Term SOFR benchmarks:

- CME Term SOFR Benchmark Published Rates
- CME Exchange Volumes - SOFR Futures
- CME SOFR Futures Open Interest
- Interval Analysis – Active Intervals
- SOFR Futures Price monitoring
- CME Group Term SOFR - Reliability Checks – December 2021 to February 2022
- Items to Report (December 2021 - February 2022)
- SOFR OIS Volume Analysis
- Term SOFR Audit
- CME Term SOFR Benchmark Methodology – Validation Checks
- Term SOFR Methodology – annual review

Average Daily Volumes of SOFR SR1 and SR3 contracts are satisfactory and growing. Also SOFR Futures Open Interest climbed to their highest levels.

The Interval analysis is trending well, showing that most calculation intervals are active and that there is good coverage across the curve.

The Administrator performs regular monitoring of Futures prices to identify any pricing anomalies. A few anomalies were in fact reported to CME Market Surveillance for their assessment. No concerns were raised.

The daily validation checks triggered on February 9th for the 3-month Term SOFR rate, due to a shortened day count. The Committee asked about CBA's framework for dealing with such breaches and for more information on the breach.

The Administrator replied that CBA has the correct framework for dealing with breaches and that a combination of factors caused the breach. The rates environment was steepening in the assumption of the FOMC rate decisions. The day-count leaned in favour of distant estimated SOFR rates, higher at the long end. As a result the far end of the period had 4 extra days at higher predicted rates, causing a sudden increase of the calculated Term SOFR rate. The Administrator further explained that republication was not required as rates were calculated correctly.

The Administrator discussed OIS volumes in comparison to the SOFR Futures volumes. The exponential growth of SOFR Futures volumes, has not been matched so far by OIS for tenors less than 1 year. Regardless, the Administrator is working towards the inclusion of OIS in the Term SOFR calculation. The Committee asked about the timing of the inclusion of OIS. The Administrator provided an overarching timeline for submitting a recommendation to the Committee.

The Administrator reported on the completed Term SOFR audit conducted by EY, the aim of the audit was to provide limited assurance that Term SOFR complies with BMR. The Administrator is proud to report that the audit report was “unqualified”, which in audit terms indicate a report with nothing worthy of comment. The full audit report is available on the CBA website. The Chair stated that this is remarkable, an “unqualified” report is very rare.

The Administrator moved to update the Committee on the Term SOFR validation checks. Following the recommendation of a committee member, the historical look back period has been reviewed and the Administrator has concluded that the current 70 business days (broadly 3 calendar months) is still valid as it covers a typical money market term and incorporates FOMC meetings, which might cause some volatility.

As required by regulation, the Administrator has also completed the annual review of the Term SOFR Methodology, in conjunction with Legal and Compliance. No changes are requested, just a few minor improvements were made to the language and the Early Close calendar for 2023 was added.

That concluded the Administrator update.

Interest Rates Market Update

The Chair moved to the next item on the agenda, asking for an update on rates' market. An update was provided to the committee, with particular reference to the expected FOMC outlook.

Licensing & Distribution Update

The Administrator reported that, as of 7th March, 744 firms were licenced for the use of Term SOFR. As of May those numbers have grown up to 950 firms and 4,500 individual licences. Licences are executed at group level, therefore those could be used globally, however there is a natural skew towards North American entities.

A Committee Member stated that the US market is largely using Term SOFR as opposed to BSBY.

The Committee also asked how the licencing process is progressing and whether there is any backlog in the process. The Administrator provided an overview of the accelerated licensing process.

Legal & Compliance Update

There were no updates to report.

Items for discussion at next Oversight Committee

The Chair asked if there were items to be scheduled for the next meeting. None were mentioned.

Lastly, the Chair asked for approval of the previous meeting minutes, which were approved unanimously.

The Chair reminded members that the next OC is planned for 20th June, thanked all participants and drew the meeting to a close.

