

# TERM SOFR OVERSIGHT COMMITTEE

Oversight Committee Webex meeting minutes

CME Group Benchmark Administration Limited

December 4<sup>th</sup>, 2020

## Attendees Present for part of meeting:

### Members:

Harriet Hunnable	Independent	Present
Robert Merton	Independent	Present
Karl Abdelnour	Citigroup	Present for part of meeting
Meredith Coffey	LSTA	Present
Sunil Cutinho	CME Group – CME Clearing	Present
Agha Mirza	CME Group – Interest Rate Products	Present
Owain Johnson (Chair)	CME Group – Research & Product Development	Present

### Observers & Guests:

Gavin Lee	CME Benchmark Administration	Observer
Vincenzo Albano	CME Benchmark Administration	Observer
Michelle Hallett	CME Group – Compliance	Observer

## Agenda

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|-----------------------------------|-----------------------|
| 1. Introduction                   |                       |
| 2. Prior Meeting Minutes          | <i>For approval</i>   |
| 3. Benchmark Methodology          | <i>For approval</i>   |
| 4. IOSCO Statement                | <i>For acceptance</i> |
| 5. Benchmark Administrator Update | <i>For discussion</i> |
| 6. Compliance Update              | <i>For discussion</i> |
| 7. ARRC RFP Update                | <i>For discussion</i> |
| 8. IR/SOFR Market Update          | <i>For discussion</i> |
| 9. AOB                            | <i>For discussion</i> |
| 10. Next Meeting                  |                       |

## 1. Introduction

The meeting opened and the Chair reminded the members of the goal of the committee.

The Chair also reminded the members that the meeting is in accordance with best practices.

The Chair added that by joining the committee the members acknowledge the importance of the SOFR Benchmark and that members' actions are to be in the best interest of the benchmark and not of their employer.

The Chair asked attendees not to discuss sensitive/confidential information and to check with their own legal counsel in case of any uncertainty.

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

The Chair added that the Gavin Lee would be stepping down as a committee member due to his responsibilities within the Administrator. There were no objections from the committee.

## 2. Prior Meeting Minutes

The Committee approved the Prior Meeting Minutes with the expectation that the typos will be fixed.

## 3. Benchmark Methodology

It was explained that very small changes were made to the methodology. These were non-material changes, just a couple of sections were moved so that it reads slightly better and improvements made to describe the pre-publication validations.

The Committee approved the changes to the methodology.

## 4. IOSCO Statement

It was explained that the IOSCO Statement is a statement of adherence to IOSCO Principles and is there as information. The administrator has taken each of the 19 Principles and described how, as an administrator, they adhere to each. The document is made available to the public through the administrator's website.

The Committee accepted the IOSCO Statement.

## 5. Benchmark Administrator Update

The administrator took the committee through a series of graphs and statistics to demonstrate the performance of the rate since its launch.

It was pointed out that the Volumes Analysis shows healthy activity along the curve.

A discussion ensued on the volume of Open Interest and how that may have changed given the Transition announcement by the Fed. Open Interest has now reached a record 700k contracts, with the increase being most prevalent in the 3-month SOFR Futures contract. In addition, a relative comparison was given based on Eurodollar Futures.

### Interval Analysis

It was explained that during the period 14<sup>th</sup> September to 30<sup>th</sup> October, the SR1-7 contract in Interval 1 was active only 9% of the time, the other 91% of the time it was not active and there were no transactions during that interval.

It was also explained that on an aggregate, across all of the contracts there were at least one transaction 100% of the time.

This is based on active transactions for the contract within each interval.

It was mentioned that the administrator intends to report on and provide this analysis to the Committee on a monthly basis.

It was highlighted that transactions are needed in at least one interval throughout the entire day for the volume weighted average aggregation across intervals.

### Reliability Checks

The Reliability Checks were discussed, in particular the Standard Deviation Tolerance over a five-day observation period. It was explained that the Standard Deviation is observed over a rolling five-day period. This observation period will be reviewed once more history becomes available. By the next Oversight Committee enough data will be available to be able to determine what the optimum number of days is.

Clarification was given on how the tests stepped. First a SD test then a tolerance check.

A discussion was had on the tolerance check and the likelihood of a failure. It was agreed to discuss further with more historical data.

The Administrator suggested that once more data is available a recommendation may be put to the committee to refine these tests.

It was also agreed for summarised information to be provided to the committee.

## 6. Compliance Update

Compliance stated that CME Group Benchmark Administration is regulated as an administrator with the UK FCA and CME Group Benchmark Administration has not applied to the FCA for this to be UK or BMR regulated. The intention is to apply once the RFP is concluded.

It was also added that regarding to Brexit, a review has been carried out the onshoring of the BMR.

It was suggested that it would be helpful for the committee to be provided details of responses to FCA consultations when/if they are in the public domain.

The timing of when details of responses can be made available to the committee will be checked.

## 7. ARRC RFP Update

It was highlighted that after the first committee convened by the Federal Reserve Board, the New York Fed asked for potential vendors to submit responses to the RFP so they could endorse one to be the preferred vendor of Term SOFR. CME responded by providing a detailed review of the methodology. It was added that one of CME's strongest points was its large infrastructure: cybersecurity, 24-hour operational support model, data distribution, data management.

It was also noted that CME has global and extensive client connectivity, CME has a track record of administering a number of indices and CME has provided thought leadership in many SOFR derivatives related initiatives and has been working with clients on a solution in Term SOFR over two years.

## 8. IR/SOFR Market Update

As updates had been provided in earlier points it was agreed to move on without discussion.

## 9. AOB

There were no further items to be addressed and the meeting was closed,

