Term SOFR Oversight Committee

Oversight Committee Meeting Minutes

CME Group Benchmark Administration Limited
June 22, 2021
Agenda

1. Introduction
2. Conflict of Interest declaration
3. Prior Meeting Minutes
4. Updated Terms of Reference for Oversight Committees  
5. Benchmark Administrator Update  
   a. Administrator Management Information Analysis  
   b. 12 Month Tenor Update  
6. ARRC RFP Update – CME Term SOFR launch  
7. Legal & Compliance update  
8. Items for discussion at next Oversight Committee
1. **Introduction**

The meeting opened and the Chair reminded the members of the goal of the committee: to review the integrity of Term SOFR.

2. **Conflict of Interest declaration**

The Chair reminded the members of their obligations and that that the meeting is in accordance with best practices.

3. **Prior Meeting Minutes**

The committee approved the Prior Meeting Minutes.

4. **Updated Terms of Reference for Oversight Committees**

As per the notification sent to Committee members, the administrator presented a few minor changes introduced to the Terms of Reference.

There were no questions or comments from the Committee on the Terms of Reference.

5. **Benchmark Administrator Update**

The Administrator took the Committee through Term SOFR published rates over the last three months and also the volumes of the one month contract and the three month contract that form part of the calculation of Term SOFR.

The Administrator explained that the overall total daily volume is the total volume that goes through Globex. The calculation process looks at executed transactions across a seven hour period, and also doesn’t include any of the spread trades, any of the risk reversals or block transactions.

The Administrator reported that average volumes have been fairly stable, with some cycles through the month.

The Administrator explained that there is sustainable volume in the futures contract and also growth. It was added that in the interest rate markets there are macro drivers as well as calendar period seasonality driven trends.

The Administrator moved to intervals analysis, reporting that there are active observations across all the interval periods.

The Administrator reported the surveillance checks and controls conducted to ensure the integrity of the futures data.

The Administrator mentioned that as a result of the last Oversight Committee discussion and approval, the standard deviation look back period was changed to a longer period and the actual differences are relatively small and there is no reason for concern.

The Administrator added that OIS trading volumes are still being monitored and there was an increase in OIS activity for April but it seems to have reversed back to lower volumes.

At this point in time, there are not sufficient OIS volumes to support their inclusion, but CBA will continue to monitor.

It was also noted that the Administrator and the CME Team are moving as fast as possible to licence all the sources of data and prepare the infrastructure work to incorporate OIS.
The Administrator added that as part of the RFP responses and representations to the ARRC, the Administrator indicated a path to include a 12m tenor. The calculation process per se will be the same as the 1m, 3m and 6m tenors. The Administrator will come back to the Committee with their analysis and recommendations before it is included.

6. ARRC RFP Update – CME Term SOFR launch

It was informed that on May 21st the ARCC announced that it had selected CME Benchmark Administration as the provider for Term SOFR rates to be used as the recommended fallback for cash markets. For the Term rate to be endorsed by ARCC, the three conditions announced by the ARRC, on May 6th, will need to be met. The SOFR First Initiative would go a very long way in expediting the meeting of those three conditions. It was also added that once the Term SOFR is endorsed, it is named at the top of the waterfall of at least three to five/six types of cash market fallbacks.

CBA continue to outreach in terms of Loans and started to sign up subscribers; the feedback received is that users would like to be able to match cash flows and therefore hedge accordingly. Clearly that is something that need guidance and approval from ARRC and that is something that the market and participants to the Loans market are all keen to hear on ARRC’s direction. It was mentioned that CBA have limited scope of use for Term SOFR to cash and loan market the use of Term SOFR for derivatives is currently excluded in support of the ARRC recommendations.

7. Legal & Compliance update

CME Government Relations provided an update on some of the changes in the regulations and how they apply.

It was given an update on the overarching regulatory framework that applies to the benchmark administration business, some of the changes to that framework have recently taken place in the context of LIBOR reform.

In the UK BMR framework, the Chancellor announced that there will be a considerable extension to the third-countries regime.

In the EU, the European Commission has introduced legislative changes that also give the European Commission the power to deal with the cessation of critical benchmarks.

Over the course of the future Oversight Committee updates will be provided as and when they occur.

8. Items for discussion at next Oversight Committee

It was suggested that providing some information on the uptake of the rates might be useful.

The Administrator added that the RFP process is concluded and the associated restrictions on Committee members have been lifted and CBA plans to add some new members to the Committee.