The Credit Roundtable
In association with the Fixed Income Forum

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Re: Feedback on Fallback Contract Language Consultations for Floating Rate Notes and Syndicated Business Loans

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Dear Sir or Madam:

The Credit Roundtable[1] appreciates the opportunity to provide feedback on the Alternative Reference Rate Committee's Contract Language Consultations for Floating Rate Notes and Syndicated Business Loans.

Question 1(a): *Should fallback language for FRNs include any of the pre-cessation triggers (triggers 3, 4 and 5)? If so, which ones?* Yes. All of the pre-cessation triggers should be included. The potential basis risk if underlying swaps are not triggered in tandem with the FRNs is outweighed by the systemic risk if FRNs either become fixed rate, cannot be priced, or use an unreliable benchmark.

Question 1(b): *Please indicate whether any concerns you have about these pre-cessation triggers relate to differences between these triggers and those for standard derivatives or relate specifically to the pre-cessation triggers themselves.* The main concern is the mismatch with the triggers for standard derivatives.

[1] Formed in 2007, The Credit Roundtable ("CRT"), organized in association with the Fixed Income Forum, is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for investing more than $3.8 trillion of assets. The Credit Roundtable advocates for creditor rights through education and outreach and works to improve fixed income corporate actions, ineffective covenants, and the underwriting and distribution of corporate debt. Its mission is to improve risk assessment and management through education and seeks to benefit all bond market participants through increasing transparency, market efficiency, and liquidity.

Question 1(c): *If pre-cessation triggers are not included, what options would be available to market participants to manage the potential risks involved in continuing to reference a Benchmark whose regulator has publicly determined that it is not representative of the underlying market or a Benchmark permanently or indefinitely based on a number of submissions that the Benchmark's administrator acknowledges to be insufficient to allow for production in a standard manner?* There do not appear to be any viable options for FRNs. Hopefully the regulators / administrators will take this into consideration and announce a cessation in circumstances where the third, fourth and fifth triggers apply. For example, the regulator / benchmark administrator should announce a cessation as soon as possible if LIBOR is not quoted for five business days. This would minimize the basis risk exposure in the market if most FRNs and other cash products include the third trigger but swaps do not.

Question 2: *If the ARRC has recommended a forward-looking term rate, should that rate be the primary fallback for floating rate notes referencing LIBOR even though derivatives are expected to reference overnight versions of SOFR?* Yes. Although cash products can be priced using an overnight rate, market acceptance of a new benchmark will be facilitated if the new benchmark is a forward-looking term rate that "mimics" LIBOR. The goal should not be to reproduce LIBOR, but to reduce the operational and other changes necessary to transition to a new benchmark and promote the new rate as a viable alternative to LIBOR.

Question 3(a): *Should Compounded SOFR be the second step in the waterfall?* Yes. *Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR?* No. Market acceptance of the new benchmark will be facilitated if the benchmark operates like or mimics LIBOR as much as possible. Market participants on both the buyside and sellside of floating rate cash products are used to term rates. If a forward-looking term rate known at the beginning of the term is not available, then the next best alternative would be a term rate that is known prior to the end of the term. Least desirable would be a term rate that is not known until the end of the term.

Question 3(b): *If you believe that Compounded SOFR should be included, which compounding period is preferable ("in arrears" or "in advance")? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR "in arrears" or "in advance"?* "In arrears." All of the SOFR FRNs issued to date use an average of overnight SOFR calculated in "in arrears."

Question 4(a): *Would an overnight rate that remains in effect for the entire interest period be an acceptable option for investors, issuers and agents**?*** Yes, but only if there are no other options. However, given that an averaging or compounding methodology is fairly simple mathematics, other options will likely be available.

Question 4(b): *Should the waterfall include Compounded SOFR (step 2) and spot SOFR (step 3) and/or a simple average of SOFR (not in the waterfall at this time)?* All of the SOFR FRNs issued to date use a simple average of overnight SOFR. Although market practice might evolve

away from using a simple average, it is probably prudent to include a simple average as an alternative to compound SOFR in step 2. We think a fallback to spot SOFR is unnecessary as step 3 given that compounded / average SOFR is derived from spot SOFR using simple mathematics.
If only one of these options is included, which is preferable? Compounded SOR quoted on a screen.
Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR? No.

Question 5: *In the future circumstance where there is no SOFR-based fallback rate, is the replacement rate determined by the Relevant Governmental Body the best alternative at this level of the waterfall?* Yes. While it is possible that other rates might be available in the circumstances where there is no SOFR-based rate, the rate recommended by the relevant government body would be the optimal fallback. Although there is no guarantee, the rate recommended by the relevant government body is more likely to be in compliance with IOSCO or other relevant guidelines (robust, etc.) and will presumably be subject to consultation with market participants.

Question 6(a): *In the future circumstance where there is no SOFR-based fallback rate and the Relevant Governmental Body has not recommended a replacement rate for FRNs, is the fallback for SOFR-linked derivatives set forth in the ISDA definitions the best alternative at this level of the waterfall?* Yes.

Question 6(b): *Should this step in the waterfall refer expressly to OBFR and then the FOMC Target Rate rather than refer to the fallback rate for SOFR-linked derivatives in the ISDA definitions (which could change in the future)?* It should refer to the fallback in the ISDA definitions. As a drafting matter, the reference can take note of the then current fallback in the ISDA definitions while acknowledging that it can change in the future.

Thank you for this opportunity to provide feedback on Fallback Contract Language Consultations for Floating Rate Notes and Syndicated Business Loans. We also welcome the opportunity to discuss our concerns, opinions and recommendations in greater detail. Please direct any questions to Cathy Scott.

Kind Regards,

Cathy Scott

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