Timothy Bowler
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Re: ICE Benchmark Administration – U.S. Dollar ICE Bank Yield Index

The Structured Finance Industry Group ("SFIG")[1] appreciates the opportunity to respond to the U.S. Dollar ICE Bank Yield Index ("BYI") preliminary methodology (the "Consultation") released by the ICE Benchmark Administration ("IBA") in January 2019.

Introduction

SFIG's core charge is to support a robust and liquid securitization market, recognizing that securitization is an essential source of funding for the real economy.

SFIG's LIBOR Task Force was formed to identify potential membership actions that could be taken in response to the anticipated phase-out of LIBOR. The Task Force is developing an industry-recommended best practice to help ensure that a transition away from the LIBOR benchmark to successor benchmarks is as straightforward as possible.

In addition to the work SFIG membership is undertaking within the LIBOR Task Force, SFIG is involved in the Alternative Reference Rates Committee (the "ARRC") that was convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York. SFIG is a co-chair of the ARRC's Securitizations Working Group (the "SWG"), and in that capacity has been working with the SWG and across the ARRC working groups to align, where possible, the recommendations of the SWG with those of other industry participants. SFIG views the work of the ARRC as integral to the overall process of transitioning globally to new benchmarks representing market-based risk-free rates ("RFRs"), particularly through the ARRC's goal of developing a forward-looking term rate based on the Secured Overnight Financing Rate ("SOFR") as the permanent replacement for US Dollar LIBOR in the event of a transition away from LIBOR.

[1] SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, to drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market, including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

However, SFIG values IBA's contribution to the broader discussion regarding the transition away from the LIBOR benchmark, particularly in reference to the development of a forward-looking term curve and we welcome the opportunity to provide feedback on the proposals contained in the Consultation.

Forward-Looking Term Benchmark

SFIG currently supports the creation of a forward-looking term rate SOFR, modified to reflect the difference between the SOFR risk-free rate and the credit and liquidity components included in LIBOR, in the event of a transition away from LIBOR (such rate, a "Modified Forward-Looking Term RFR"). LIBOR, as produced today, has several attractive attributes, including: (i) an indication of market participants' expectations about anticipated funding costs over a future accrual period; (ii) a rate that is known at the beginning of the accrual period; and (iii) a rate that is produced using a substantially similar methodology across the various regions that produce IBORs. We believe that the RFR which replaces US Dollar LIBOR should have each of these features to the extent possible.

One positive aspect of the proposed BYI is that the IBA appears to appreciate the strong preference among participants in the cash markets for a forward-looking term benchmark. The BYI may be able to replicate at least the first two attractive attributes of LIBOR: (i) the BYI would use data from actual transactions as an indication of expectations about anticipated funding costs over a future accrual period; and (ii) the BYI would be known at the beginning of the accrual period. Although SFIG expresses no opinion on whether the methodology proposed by the IBA in the Consultation would produce a benchmark rate that is adequately representative of its intended market, we appreciate that the IBA has proposed a benchmark with a forward-looking term structure.

Perspectives on IBA's Proposed Approach

Given that the ARRC has recommended, and a general consensus has formed around, the use of a SOFR-based benchmark (and in the securitization markets, consensus appears to have formed around the need for a Modified Forward-Looking Term RFR) to replace US Dollar LIBOR, SFIG's overall view is that the most viable future role for the BYI may be as a future alternative to a Modified Forward-Looking Term RFR. Before the BYI could serve in that role, the IBA should specify how the BYI would address the fundamental issues affecting any replacement benchmark.

<u>Avoiding LIBOR's Problems.</u> SFIG believes that any replacement benchmark must be structured to avoid the problems that arose with LIBOR, including the need for protections to prevent potential rate manipulation. Such a rate should also be based on a robust and consistent market with a sufficient number of daily transactions. The IBA could address these concerns by providing full access to the underlying data and calculations used to create the BYI, both during the test period and on an ongoing basis. This may also address any concern that the BYI may be based on too few arms-length transactions and that the target numbers of transactions the IBA set in the Consultation may be too low to be considered representative of market activity. Further, market participants are interested in understanding how the BYI would perform in times of financial stress under a variety of scenarios; consequently, SFIG requests that the IBA share modeling of the rate's performance during times of financial stress.

Any replacement benchmark would need to be viewed as able to be reliably produced for the foreseeable future. While the IBA has said it has obtained commitments from the BYI's data sources to allow production of the BYI through the middle of the next decade, we expect that market participants would want longer commitments.

<u>Presence of Expert Judgment.</u> The Consultation describes a number of determinations to be made with respect to the BYI based on the expert judgment of the benchmark administrator. These include:

- weighting and adjustments;
- the contingency policy;
- the coupon range;
- the additional selection criteria for internationally active banks;
- the eligible input data-funding transactions eligibility criteria;
- the input data window; and
- the index itself in exceptional market circumstances.

SFIG believes that additional details or parameters required for the exercise of such discretion must be furnished by the IBA. We also note that these details would need to be enumerated for any IOSCO-compliant2 benchmark.

<u>IOSCO Compliance.</u> A replacement benchmark that is not IOSCO-compliant may face challenges in the future. The information presented in the Consultation does not directly address this important topic. One concern is that lawmakers or regulators may prohibit regulated entities from using a benchmark rate which is not IOSCO-compliant. It will be important to address these issues to provide comfort to the market.

Development of Derivatives Market. Finally, SFIG believes that any functional replacement benchmark must have a robust derivatives market. The ARRC's Paced Transition Plan allows for more than three years for SOFR to develop a derivatives market liquid and deep enough to support a Modified Forward-Looking Term RFR. Some market participants may not adopt the BYI before a similarly liquid and deep derivatives market exists for the BYI, which may take substantial time. Ideally, the BYI would be available in the near future to allow such a market to begin to develop.

Conclusion

SFIG welcomes the IBA's Consultation and we are eager to see how the issues described above will be addressed as the BYI develops. The IBA should explain how the BYI would avoid LIBOR's problems, specify how the BYI's administrator would exercise its discretion in the production of the BYI and demonstrate how the BYI would be IOSCO-compliant. Finally, we hope that the BYI will be available in the near future to allow for time for a robust derivatives market related to the BYI to develop.

SFIG appreciates your consideration of these comments and welcomes the opportunity to discuss further. If you have any questions about this matter, please contact Sairah Burki, Head of ABS Policy, at (202) 524-6302 or sairah.burki@sfindustry.org.

Very truly yours,
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[2] IOSCO-compliant refers to a benchmark rate which complies with the requirements set forth in the Principles for Financial Benchmarks by the board of the International Organization of Securities Commissions ("IOSCO").