WELLS FARGO

Top 10 things you should know about SOFR

In June 2017, the ARRC recommended SOFR (the Secured Overnight Financing Rate) to replace USD LIBOR as the benchmark interest rate in derivative and other financial contracts. Below is a list of the top 10 things you should know about SOFR. For additional information, see *The User's Guide to SOFR,* published by the ARRC. The User's Guide to SOFR*, published by the ARCC.

1. SOFR is a secured rate

SOFR is a broad measure of the cost of borrowing cash overnight secured by Treasury securities in the repurchase agreement (repo) market. Because SOFR is a secured borrowing rate, it does not reflect the interbank unsecured credit component inherent in LIBOR.

2. SOFR is an overnight rate

As an overnight rate, SOFR does not have a term structure (e.g., 1-, 3-, or 6-month rates) like LIBOR. The ARRC's Paced Transition Plan, however, forecasts a term SOFR being available in late 2021.

3. SOFR complies with IOSCO's *Principles for Financial Benchmarks*

IOSCO's *Principles for Financial Benchmarks* is a set of guidelines and best practices for benchmarks used in financial markets. A key principle provides for benchmarks based on "overnight risk-free, or nearly risk-free rates (RFRs) that are sufficiently robust for such extensive use."

4. SOFR is derived from the U.S. Treasury repo market

SOFR is calculated using a broad spectrum of repo trades (repurchase agreements). The actual inputs for SOFR incorporate three data sets:

- Tri-party treasury repo data collected by BNY Mellon
- General Collateral Finance (GCF) repo data collected by The Depository Trust & Clearing Corporation (DTCC)
- Bilateral treasury repo data cleared through Fixed Income Clearing Corporation (FICC)

5. SOFR is published and administered by the New York Fed

As the administrator of SOFR, the New York Fed publishes daily rates and volumes on its website**.

The New York Fed first published SOFR on April 3, 2018 (for April 2, 2018), and made available historical data from August 2014 using the data set underpinning the rate.

6. SOFR is supported by more than a trillion dollars in daily transaction volumes

The market underlying SOFR has a daily trading volume in excess of $1 trillion and has demonstrated consistent volume for several years.

7. SOFR is on average lower than LIBOR

While SOFR was first published in April 2018, the New York Fed has provided SOFR simulations using the same repo data set dating back to August 2014. Since that time, SOFR has averaged 13 bps, 30 bps, and 45 bps less than 1-month LIBOR, 3-month LIBOR, and 6-month LIBOR, respectively.[1]

8. Average SOFR has been less volatile than LIBOR

Despite greater overnight variability, average daily SOFR has been less volatile than 3-month LIBOR. Although published SOFR rose sharply over a few days in mid-September 2019, the 3-month average of SOFR rose only two basis points. By comparison, the 3-month average of LIBOR rose four basis points over the same period. Financial products are generally expected to use an average of SOFR, not a single day's reading of the rate.

9. The New York Fed is publishing SOFR averages and a SOFR index

On March 2, 2020, the New York Fed, in cooperation with the Treasury Department's Office of Financial Research, began publishing 30-, 90-, and 180-day SOFR Averages and a SOFR Index, to support the transition away from U.S. dollar LIBOR.

10. SOFR is one of many options that Wells Fargo is referencing in financial products

Wells Fargo continues to offer its customers a suite of rates that they can select for their products, including SOFR, when available.

*Source: https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/users-guide-to-sofr2021-update.pdf
** Source: Federal Reserve Bank of New York: https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind
1 Bloomberg LP. Data as of May 6, 2020. Averages calculated August 22, 2014 – March 5, 2021

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