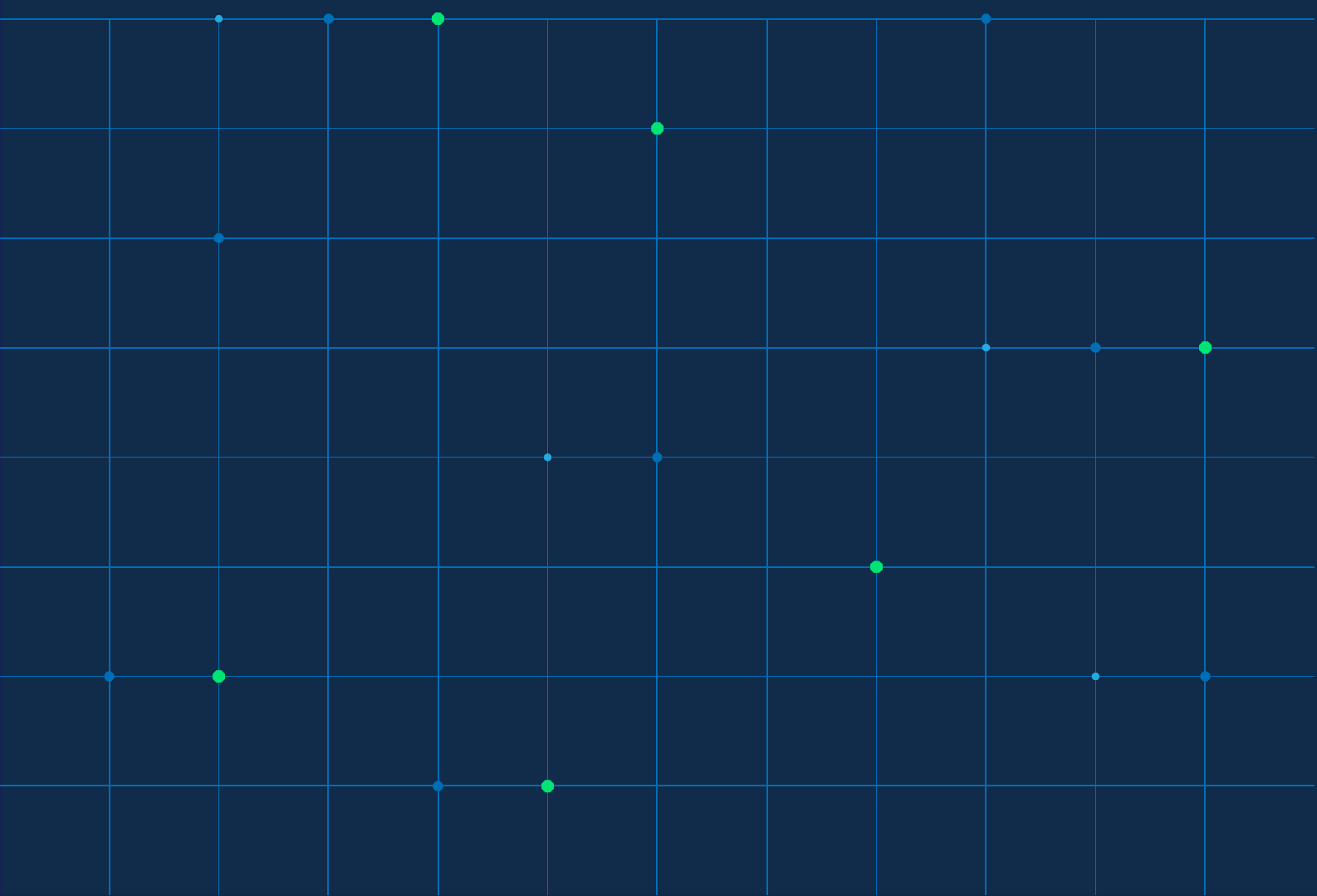


CME Group Overnight Repo-Backed Benchmarks

Oversight Committee Meeting Minutes

CME Group Benchmark Administration Limited

April 20, 2021



Attendees:

Voting Committee Members:

- John Edwards (JE) – Chair
- Oliver Clark (OC)
- Kiyomi Saito (KS)
- Alex McDonald (AM)

Non-Voting Committee Members:

- Vincenzo Albano (VA)

Observers:

- Graham Stride (GS)
- Michelle Hallett (MH) (*first half of committee*)

Agenda

- Introduction to the Oversight Committee
- Disclosure of any actual or perceived Conflict of Interest
- Approval of previous Oversight Committee minutes
- Administrator's report:
 - RFR Euro Benchmarks
 - RFR Sterling
 - JBOND
 - Overview of Incidents and Events / Validation Checks
- Overview of RFR USD and proposal to add to CME Overnight Repo Backed Benchmark Family
- CME RFR pre publication validation checks
- Discussion and approval of the CME Overnight Repo Backed Benchmark Methodology v1.1
- Review of the CME Overnight Repo Backed Benchmark IOSCO Statement v1.0
- Legal and Compliance Update
- Schedule for next Oversight Committee

Minutes:

Introduction to the Oversight Committee & Disclosure of any actual or perceived Conflict of Interest

The Chair opened the oversight committee and explained the aims, purpose and expectations of attendees. The Chair asked that any attendee who has a potential conflict should state it at the start of the meeting. No members noted any conflicts.

Approval of previous Oversight Committee minutes

The Chair asked for approval of the previous Oversight Committee minutes. The minutes were approved by all voting members.

Administrator's report

The Chair asked the Benchmark Administrator to present the administrators report to the committee.

It was explained that the Administrator's report contains a number of charts and tables to demonstrate the performance of the benchmarks since the previous committee:

- The first set of charts compares RFR Euro to €STR, JBOND to TONAR and RFR Sterling to SONIA. RFR rates have generally being aligned with their respective official Overnight rates, except for some key dates. In the case of RFR EUR and RFR Sterling, year end has caused a visible drop of RFR rates, while financial institutions have managed their balance sheets. To a lesser extent, the same trend has appeared at the end of Q1 2021. RFR JBOND has experienced the same drop at the end of Q1 2021, traditionally the end of the fiscal tax year in Japan.
- The second chart plots RFR Italy, RFR Spain, RFR Portugal and RFR Euro over the period 01 December to 31 March. VA noted that the overall trends of RFR rates has remained

consistent. However, the aforementioned year-end and quarter-end drops reveal a slight anomaly with Portugal, whose year-end RFR rate resulted the lowest among the countries charted and even lower than the entire Euro area itself. CBA will investigate the performance of individual countries prior to the next committee meeting.

The Chair shared some observations on the first two sets of charts. The Chair mentioned that the RFR methodology was designed to remove the tail of specials and in certain circumstances, the tail may not fully be removed. The Chair stated that he welcomed further investigation into the performance of individual countries and analysis would have to demonstrate that any proposed change would strengthen the robustness and reliability of the benchmark.

It was stated that CBA would take his comments into account when performing the analysis.

- A correlation table for the RFR Euro countries and RFR Euro benchmark was presented, covering the period from 03 November 2020 to 31 March 2021. It was noted that all countries were very correlated (>90%), however difference could be observed. There were slight credit sensitive differences between the countries that can be seen across the table.
- The second table presented showed the average daily volumes for each month in the period each RFR benchmark by month over the period. It was noted that there has been an increase in underlying volumes across all benchmarks since December 2020.

It was stated that a smaller competitor in the Japanese Repos has ceased business, hence JBOND is now a dominant player the Japanese repo market, being able to capture 100% of the trades.

The Administrator ran through the incidents and events during the period. It was noted that the republication of some RFR Euro rates on January 18th, as a result of a large batch of trades missing during the BrokerTec migration scheduled during the weekend; in March there was an occurrence of a large trade missing from the RFR Sterling dataset; a recalculation was performed but a republication was not required.

It was asked whether there were validation checks in place that would be able to identify these incidents in the future.

The Administrator responded that in February 2021, CBA implemented further validation checks over the volume of input data going into each of the RFR benchmarks. The validation check looks to identify any cases where the volume is greater than 20% outside the range from the previous 70 business days. Since the implementation of the check, it has not triggered.

It was asked whether negative rates would cause any issues for the RFR benchmarks, noting that RFR Euro had been negative for a while, so he wouldn't expect any issues. It was stated that this was something the UK regulators were looking at closely at the moment.

The Administrator noted that RFR EUR, RFR JBOND and RFR Sterling had all historically fixed at negative rates and there has been no issues identified in being able to handle negative rates in these benchmarks.

Overview of RFR USD and proposal to add to CME Overnight Repo Backed Benchmark Family

The Administrator presented an overview of the proposal to add the RFR USD benchmark to the CME Overnight Repo Backed Benchmark Family.

- The RFR USD Benchmark follows a similar methodology that the Federal Reserve Bank of New York use to calculate SOFR.
- RFR USD rates are calculated twice daily;
 - 10:00am ET for trades executed between 7:00am ET and 10:00am ET
 - 03:00pm ET for trades executed between 7:00am ET and 03:00pm ET
- RFR USD uses overnight US Treasuries Repo trades, with same day settlement, executed on BrokerTec Americas.
- Specific Collateral Trades with rates below the 25th volume-weighted percentile rates are removed from the calculation.
- Both the 10:00am and 3:00pm calculations follows the same process calculating a volume-weighted median of eligible transactions, aggregating the General Collateral Trades and post-filtering Special Trades.

The Administrator noted that 90% of the volume occurred by 10:00am and the majority of transactions were specific collateral trades. The average daily volume of transactions going into the benchmark exceed \$200bn. The expected launch date of the benchmark is scheduled to be May 2021, pending approval from the committee.

The Administrator explained that CBA were manually calculating the rate on a daily basis for testing purposes and walked through the chart comparing the 10:00am and 03:00pm RFR USD, and SOFR. The Administrator noted that the 10:00am and 03:00pm RFR USD typically fixed at the same level. There was however some divergence from SOFR in late March due to activity in the Specials market.

The Chair provided more context on RFR USD and the behaviour in late March. The Chair noted that BrokerTec submits trades into the official SOFR publication and makes up about $\frac{1}{4}$ of the overall volume. The Chair explained that in late March, there was significant triparty activity with GCF collateral. As RFR USD only utilises BrokerTec trades, this activity was not captured and led to the divergence in the two rates.

It was asked for more information about the difference between the two rates, in particular the instances where RFR USD exceeded SOFR.

The Administrator explained that because the methodology uses a volume weighted median rather than a volume weighted average rate, differences of a couple of basis points can occur depending upon the distribution of trades in each population.

It was noted that the changes were small and the graph exaggerates the changes when market rates are consistently low.

It was asked that it was made clear in the documentation that there were slight differences between RFR USD and the other RFR rates.

The Administrator noted that the differences were stated in the methodology and that slight differences between the benchmarks shouldn't preclude them from being part of the same family as they are aiming to measure similar economic realities.

The Administrator stated that testing on the RFR USD process had progressed well so far and that CBA were on track for a May launch. It was noted that this would be an excellent addition to the benchmark family.

A member agreed and stated that it would be a great addition to the family, complementing the other RFR benchmarks.

It was noted that the ISDA process to amend their definitions was about to close and asked whether CBA has looked to get the benchmark included in the Annex and whether a compounded rate would be created.

The Administrator stated that CBA would look into these points and would consider a compounded index if clients showed demand for it.

The Chair asked the committee to approve the addition of RFR USD into the benchmark family. The committee approved the addition.

Discussion and approval of the CME Overnight Repo Backed Benchmark Methodology & IOSCO Compliance Statement

The Administrator walked the committee through the changes to the Methodology, which included the addition of RFR USD, addition of the new pre-publication checks, renaming of JBOND to RFR JBOND and minor fixes and grammatical updates.

The Chair asked for the committee to approve the new methodology, which was done unanimously.

The Administrator finally noted that CBA would be publishing an IOSCO compliance statement for the CME Overnight Repo Backed Benchmarks. This is consistent with other benchmarks produced by CBA.

The Administrator noted that users outside the EU are more familiar with IOSCO and would be more likely to look for IOSCO compliance in choosing a benchmark to reference.

Legal and Compliance Update

The Chair asked whether there were any updates from Legal and Compliance.

The Compliance representative had apologised for not being able to attend the full meeting, however, there were no Compliance updates to share.

Schedule for next Oversight Committee

The Administrator suggested that the next oversight committee would be scheduled for later in June / Early July

The Chair asked whether there were any further comments before concluding the meeting.

It was noted that it was worth keeping an eye on how the RFR rates tracked against the unsecured rates as there may be a decoupling over the next quarter.

The Chair thanked everyone for their comments and attendance and closed the meeting.

