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June 1, 2021

**Via electronic mail**

Mr. Thomas Hunt  
Director of Treasury Services  
Association for Financial Professionals  
4520 East-West Highway, Suite 800  
Bethesda, MD 20814, USA

Mr. Thomas C. Deas, Jr.  
Chairman  
National Association of Corporate Treasurers  
2961-A Hunter Mill Road, Suite 658  
Oakton, VA 22124 USA

Mr. Tom Quaadman  
Executive Vice President  
Center for Capital Markets Competitiveness  
Chamber of Commerce of the United States of America  
1615 H Street, NW  
Washington, DC 20062-2000 USA

**RE: Transition to the Secured Overnight Financing Rate**

Dear Messrs. Hunt, Deas and Quaadman,

I am writing on behalf of SOFR Academy, an education technology firm and data provider. Our panel of advisors include academics from Harvard University, the MIT Sloan School of Management, the University of California Berkeley and New York University as well as experienced financial services professionals. We provide financial education services to Nonfinancial Corporates (NFC's), financial institutions, governments and individuals. The Firm is a member of the Chamber of Commerce of the United States of America, the American Economic Association and the Loan Syndications and Trading Association.

SOFR Academy supports the Secured Overnight Financing Rate (SOFR). In the longer run, we also support a menu of credit sensitive add-ons such as the Across-the-Curve Credit Index (AXI). Conceived in an academic paper<sup>1</sup> jointly by Professors Antje Berndt, Professor Darrell Duffie and Dr Yichao Zhu, the AXI is a measure of the recent cost of wholesale unsecured debt funding for publicly listed U.S. bank holding companies and their commercial banking subsidiaries. The index is a weighted average of credit spreads for unsecured debt instruments with maturities ranging from overnight to five years, with weights that reflect both transactions volumes and issuance volumes.

AXI is scaled down to create standard term structure tenors, for example, 1 month, 3 months, 6 months etc. and is added to a variation of SOFR, for example CME Term SOFR<sup>2</sup> or Simple daily SOFR, to create a credit sensitive index that will represent an important option for market participants. AXI was one of the indexes discussed during the Federal Reserve Bank of New York hosted Credit Sensitivity Workshops<sup>3</sup>, which explored ways to support the transition of loan products away from LIBOR.

Importantly, AXI was not developed to replicate USD LIBOR. AXI reflects broader credit conditions based on a deeper pool of transactions and is generally less volatile than a LIBOR. AXI represents a more measured compromise between a lender and borrower. Criteria considered when developing AXI included:

- (1) **Hedging effectiveness:** The index should be highly correlated with U.S. bank cost of funds, as determined by recent market credit spreads for wholesale unsecured issues of U.S. banks and bank holding companies.
- (2) **Robustness:** Computed from a large enough pool of market transactions that the index can underly actively traded derivatives instruments used by banks and their borrowing customers to hedge their floating-rate exposures, without significant risk of statistical corruption or manipulation.
- (3) **Adaptable to changes in issuance patterns:** The index should, within reason, maintain the first two properties even as banks change the maturity and instrument composition of their issuances in response to changes in regulation and market conditions.

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<sup>1</sup> Across-the-Curve Credit Spread Indices, By Antje Berndt, Darrell Duffie, Yichao Zhu.  
<https://www.gsb.stanford.edu/faculty-research/working-papers/across-curve-credit-spread-indices>

<sup>2</sup> CME Term SOFR Reference Rates  
<https://www.cmegroup.com/market-data/cme-group-benchmark-administration/term-sofr.html>

<sup>3</sup> CSG Innovation Forum Presentations  
<https://www.newyorkfed.org/medialibrary/media/newsevents/events/markets/2020/csg-workingsession1-presentations-11182020.pdf>

In your letter<sup>4</sup> to the U.S Official sector dated April 27<sup>th</sup>, 2021, you had noted in relation to LIBOR and other credit sensitive rates that during times of financial market stress, transaction volumes shrink while rates spike up causing a spiral of increasing unreliability for those rates as we saw in 2008 and again most recently in March 2020. Under SOFR + AXI, banks would not charge NFC's LIBOR-like rates because AXI is not limited to short-term unsecured funding.

We would very much appreciate the opportunity to have a virtual meeting with you and representatives from interested member organizations to discuss AXI and to address any potential questions. If it is agreeable to you, we would also include in the discussion representatives from our academic advisory board.

We have made available some educational resources on AXI including a user-friendly infographic<sup>5</sup>, a set of Frequently Asked Questions<sup>6</sup> an opinion piece<sup>7</sup> and other materials available at [SOFR.org/AXI](https://sofr.org/AXI).

We hope NFC's will consider SOFR + AXI in their LIBOR transition preparations. We thank you for considering our comments.

Respectfully,  
Marcus.



Marcus A. Burnett

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<sup>4</sup> <http://www.centerforcapitalmarkets.com/wp-content/uploads/2021/04/ARRC-NFC-WG-Ltr-to-Regulators-2021-04-27.pdf>?

<sup>5</sup> See SOFR Academy's AXI User Friendly Infographic: <https://sofracademy.com/wp-content/uploads/2021/05/Infographic-The-Across-the-Curve-Credit-Spread-Index-AXI-.pdf>

<sup>6</sup> See SOFR Academy's website – AXI Frequently Asked Questions <https://sofracademy.com/axi/axi-faq/>

<sup>7</sup> The Case for an Across-the-Curve Credit Spread: Transitioning from LIBOR Sustainably <https://sofracademy.com/the-case-for-an-across-the-curve-credit-spread-transitioning-from-libor-sustainably/>