READOUT: Discussion of United States Financial Stability in Stress Scenarios and IOSCO-aligned Supplements for SOFR

The following is a summary of a discussion convened by Sofr Academy, Inc. on April 7, 2025, regarding U.S. Financial Stability in Stress Scenarios and IOSCO-aligned Supplements for the Secured Overnight Financing Rate. Representatives from the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Commission, and the Financial Stability Oversight Council attended in an observational capacity. Leading academics also participated. The discussion was informational in nature and intended to contribute to broader industry dialogue on credit risk management tools. Participation does not imply regulatory endorsement or approval of any financial benchmark, product, or service.

Release Date:	April 9, 2025
Meeting Date:	April 7, 2025
Meeting Time:	10:00am ET – 10:45am ET
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Mr. Burnett commenced the meeting by highlighting the timeliness of the *Discussion of U.S. Financial Stability in Stress Scenarios and IOSCO-aligned Supplements for SOFR* (the “Discussion”), noting the current turbulence in financial markets.

He emphasized the importance to U.S. market participants of having access to appropriate tools to manage credit risk alongside the Secured Overnight Financing Rate (“SOFR”), particularly during periods of financial stress. While acknowledging the successful completion of the transition to SOFR, Mr. Burnett noted that certain gaps persist, particularly within U.S. commercial lending markets, where reliable credit-sensitive supplements could serve a vital role.

He discussed how SOFR’s risk-free nature, while highly robust, leaves U.S. market participants without adequate tools to manage funding risk prudently. Mr. Burnett explained that in response to a public request from a group of Regional banks, the USD Across-the-Curve Credit Spread Index (“AXI”) and the Financial Conditions Credit Spread Index (“FXI”) were developed to address these gaps by offering IOSCO-aligned, fully transaction-based benchmark supplements that are designed to operate in conjunction with SOFR. The differentiated construction design of AXI and FXI leverages underlying transaction input data from overnight to five years.

The discontinuation of prior credit-sensitive benchmark attempts, including one notable example, was recognized as a factor contributing to increased caution among banks—particularly regional and mid-sized institutions. Participants discussed that this has created hesitancy among institutions to adopt new credit risk mangement tools in the absence of regulatory clarity.

It was further noted that other major jurisdictions—including Europe and China—continue to maintain credit-sensitive benchmarks (such as EURIBOR and SHIBOR). During a global market stress event, U.S. banks may face challenges relative to their international peers if comparable tools are not available domestically.

Information was shared regarding revolving lines of credit, which represent the dominant form of bank lending in the United States, totaling approximately $3.6 trillion in commitments, of which $2.3 trillion remained undrawn as of year-end 2024. It was noted that, during a financial downturn, SOFR would likely decline while bank funding costs rise sharply, potentially constraining the availability of credit precisely when it is most critically needed.

Independent academic research, *Bank Funding Risk, Reference Rates, and Credit Supply* (Cooperman, Duffie, Luck, Wang, and Yang, *Journal of Finance*) was discussed, noting that mid-sized and regional banks could be disproportionately exposed to funding risks associated with SOFR-only lines of credit, relative to the largest banks.

Mr. Roever offered commentary and observations on current market conditions and recent developments, underscoring the usefulness of credit risk management tools for market participants. He emphasized that many institutions are closely monitoring evolving credit conditions and highlighted that AXI and FXI would complement existing risk management frameworks.

Participants referenced existing public regulatory guidance indicating that banks retain flexibility in the choice of reference rates, provided that such choices are appropriate for their funding models and customer needs.

Mr. Burnett thanked all participants for their time and contributions, noting that this dialogue constitutes an important discussion on risk management tools available to market participants during periods of financial stress. He expressed appreciation for the attendance and engagement of all participants and formally concluded the meeting.

Meeting Materials:

1. *Cooperman, Duffie, Luck, Wang, and Yang* (2025) – Academic Research Paper
2. *Letter from Banks to Regulators* (2019) – Requesting development of a credit spread supplement for SOFR
3. *Letter from Regulators to Banks* (2020) – Responding to credit spread benchmark needs
4. *AXI & FXI Industry Discussion Meeting Minutes* (2025) – Hosted by H. Rodgin Cohen (Sullivan & Cromwell LLP)

Additional information regarding AXI and FXI is available at https://sofr.org/

Please note: Meeting materials were shared for informational purposes only and do not imply regulatory review, endorsement, or approval.

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