Consultation on Standardized OTC Swap Conventions Referencing AXI and FXI

Summary of Feedback Received

August 2025

1. Background

In June 2025, SOFR Academy published a public consultation[1] on standardized conventions for OTC derivatives referencing the US-dollar **Across-the-Curve Credit Spread Index (AXI)** and the **Financial Conditions Credit Spread Index (FXI)**. These benchmarks are designed as transparent, **IOSCO-compliant** supplements to SOFR, enabling a credit-sensitive layer working alongside the Secured Overnight Financing Rate (SOFR) in U.S. derivatives markets post-LIBOR. The consultation period closed on **July 31, 2025**.

2. Who Responded

We received **more than 20 responses** and held numerous bilateral discussions with participants across the U.S. financial ecosystem, including:

- banks and global dealers
- hedge funds and multi-manager asset firms
- academic contributors
- major market infrastructure providers
- legal, trading and technology experts

Responses were candid, constructive, and generally supportive of market adoption.

3. What We Heard: Key Themes

3.1 Broad Support for OIS-Based Conventions

Respondents overwhelmingly supported aligning AXI and FXI swaps with **standard Overnight Index Swap (OIS) conventions**—specifically, swaps with annual fixed-rate payments and a floating leg based on daily compounded rates. This convention, already used for SOFR-based swaps, was viewed as legally robust, operationally efficient, and familiar to both dealers and end users.

[1] https://sofracademy.com/wp-content/uploads/2025/06/Consultation-on-Conventions-for-Standard-OTC-Swaps-referencing-AXI-and-FXI_Published.pdf.

Several participants noted that maintaining consistency with existing SOFR OIS infrastructure would significantly reduce implementation complexity, as post-trade, collateral, and risk systems are already configured to support these mechanics. Compatibility with International Swaps and Derivatives Association's (ISDA) established documentation and calculation frameworks was also cited as a major benefit, allowing for seamless onboarding across buy- and sell-side desks. One major infrastructure provider explicitly confirmed that these conventions are fully supported within their existing platforms, including trade compression and lifecycle event processing.

3.2 Simplicity of Structure is Critical

Market participants repeatedly emphasized the importance of **structural simplicity**, particularly in early adoption phases. Many respondents encouraged the use of **core, unscaled AXI and FXI values** in swap contracts to reduce the need for transformation or interpolation logic. Several noted that while the scaled term settings remain useful for lending applications, the swap market prefers direct, transparent benchmarks.

3.3 Payoff Mechanics Should Mirror Futures Where Possible

An academic contributor proposed using a "set-in-advance, pay-in-arrears" model that calculates the floating leg based on **simple interest: AXI(0) × T/360**. This was noted to be straightforward, compatible with futures, and aligned with how most market participants understand index-linked derivatives. Although a few variations involving compounding were discussed, most agreed that the incremental complexity was not justified given the minimal economic difference at prevailing rate levels.

3.4 Controlled Pilot Program is Viewed as a Prudent First Step

The proposed Controlled Pilot Program received support as a **coordinated mechanism** to overcome first-mover hesitation. A number of respondents said they would be willing to participate if other credible counterparties were involved. Several highlighted that this type of structured pilot could help establish pricing anchors and build market confidence, paving the way for broader liquidity.

Several respondents expressed interest in broader market adoption of AXI and FXI-linked derivatives, while noting that visibility into the engagement of other credible participants would help accelerate their own readiness and commitment. This reflects a common dynamic in the adoption of new market infrastructure, where firms are more inclined to move forward once there is clear momentum and peer participation. Respondents welcomed the prospect of greater public dialogue on this topic and viewed initiatives like the Controlled Pilot Program as valuable mechanisms for fostering confidence, coordination, and early liquidity.

3.5 Infrastructure Compatibility is Not a Barrier

Feedback from a major market infrastructure provider confirmed that **standard OIS-style AXI and FXI swaps** are expected to be fully compatible with existing straight-through processing (STP) systems. This includes support for clearing, risk analytics, and lifecycle events such as

unwinds, novations, and compression. Respondents noted that implementation would not require material system changes, as these workflows are already configured to handle instruments using the same conventions. This was seen as a positive indicator that technical integration would be straightforward once market activity begins.

3.6 Jurisdictional and Regulatory Constraints Require Monitoring

Some respondents flagged **jurisdictional nuances**, particularly the application of third-country benchmark rules. For example, a London-based portfolio manager noted that unless the relevant authorities issue interpretive relief or expand the scope of recognized benchmarks, booking constraints may apply. While these are not blockers for U.S. adoption, they were cited as important considerations for global scalability.

3.7 Strong Endorsement of Risk Transfer Use Case

Respondents broadly affirmed that AXI and FXI address a critical market need: the ability to **hedge unsecured funding spreads** in a way that complements SOFR. Several emphasized that these indices would be especially valuable during periods of market stress, offering a way to transfer credit risk without distorting base rate exposure. Some described AXI/FXI-linked swaps as a natural successor to legacy LIBOR-based hedges.

3.8 Importance of ISDA FROs for Operational Readiness

Feedback from financial market infrastructure providers emphasized the importance of incorporating standardized Floating Rate Options (FROs) referencing the core AXI and FXI benchmarks into the 2021 ISDA Definitions. The availability of such FROs was viewed as essential for minimizing implementation complexity and enabling efficient integration across trading, clearing, and post-trade infrastructures. Respondents noted that the FROs should be broadly aligned with the standardized conventions discussed in this consultation—specifically, an Overnight Index Swap (OIS) structure referencing the core, unscaled AXI and FXI indices. This alignment would ensure legal certainty, facilitate operational consistency, and support seamless adoption within existing SOFR-based infrastructure, including documentation, collateral management, and lifecycle event processing systems.

3.9 Preference for Credit-Add-On Structure

Two participants strongly endorsed structuring AXI and FXI swaps as standalone instruments—rather than as bundled SOFR-plus-credit composites (known as “SOFRx” and “SOFRy” respectively). This approach was viewed as more consistent with the original intent of AXI and FXI: to function as modular credit add-ons that preserve transparency and avoid diverting liquidity from core SOFR markets. Structuring swaps in this manner was also seen as a cleaner solution that supports operational simplicity and market depth.

Importantly, respondents noted that market participants who wish to replicate a composite exposure can do so by executing the interest rate (SOFR) and credit spread (AXI or FXI) legs simultaneously as a package transaction. This preserves optionality, avoids structural complexity,

and supports more precise risk management by allowing each leg to be hedged, cleared, or valued independently. Maintaining this modularity was widely seen as beneficial for both liquidity formation and market transparency.

3.10 Restoration of USD LIBOR-Like Signaling and Hedging Functionality

Several respondents, including academic voices, noted that AXI and FXI-based swaps could reintroduce key market signals that were lost in the transition away from LIBOR. Specifically, these instruments would allow market participants to infer forward-looking expectations of unsecured funding conditions—something that SOFR alone does not capture. This would restore an important hedging mechanism for credit risk management, helping both dealers and end-users to navigate changes in financing conditions, particularly in times of stress.

4. Term Settings for Cash Market Use

4.1 While this consultation focused on OTC swap conventions referencing the core AXI and FXI benchmarks, several respondents asked whether fixed-tenor (e.g., 1M, 3M) versions of AXI and FXI would be available for cash market use. These questions reflected the need for alignment between cash and derivatives markets.

4.2 ISDA has already published FROs in its 2021 Definitions to support derivatives referencing term settings for both AXI and FXI. While these provide an initial framework for cash-market derivatives use, a focused consultation on fixed-tenor settings could help refine their design and improve alignment between loan, securitization, and derivatives markets. Feedback from that process may also inform any updates to ISDA documentation, ensuring the FROs evolve in line with market needs.

4.3 Term settings for AXI and FXI are under development for use in lending, securitization, and other cash market applications. These settings are derived from the core indices using a transparent and rules-based historical scaling methodology. A separate consultation will be launched to seek public feedback on contract conventions referencing term AXI and FXI settings and well as refinements on the methodology of these term settings.

4.4 The publication of AXI and FXI at standard money market tenors—such as 1-month and 3-month—does not imply that transactions at only those specific maturities are being collected to compute the benchmarks. Rather, the core AXI and FXI indices are constructed using all available transaction data across the maturity spectrum from overnight to five years, as detailed in the publicly available AXI and FXI methodology documents.

4.5 Each benchmark is calculated as a single unscaled index, which can then be transformed into fixed-tenor settings using a historical ratio-based scaling process[2]. This structure gives market participants flexibility in how they reference AXI and FXI. For example:

- In loan contracts, a lender may elect to apply a self-determined scaling factor to the core index to align it with a particular tenor. For instance, a lender could define the base rate as SOFR + (0.5 × AXI) to approximate a 3-month equivalent—where the 0.5 is a purely illustrative example of a manually applied scaling factor.
- Alternatively, lenders and borrowers seeking standardization may reference the pre-scaled term settings (e.g., 1M, 3M, 6M, 12M), which are published each business day using a transparent, rules-based methodology.

4.6 This approach enables consistency across cash and derivatives markets while supporting operational flexibility and a range of use cases.

4.7 This refinement mirrors the deliberate and structured approach taken by the Alternative Reference Rates Committee (ARRC) when they sought to operationalize Term SOFR for cash market use. That process culminated in a public consultation and the identification of CME Group as the vendor of Term SOFR settings—separate from the core SOFR benchmark published by the NY Fed itself.

4.8 The rationale then, as now, was to support the cash markets with fixed-tenor benchmarks derived from robust, observable data while preserving the integrity of the core benchmark for use in derivatives. AXI and FXI follow a similar model: the core indices are intended for use in institutional derivatives markets, while the refined term settings are designed to serve the needs of borrowers, lenders, and issuers in the cash markets.

5. SOFR Academy Response & Next Steps

Informed by the constructive and thoughtful feedback received through this consultation, SOFR Academy will take the following steps to support the responsible implementation and market readiness of AXI and FXI:

- **Finalize swap term sheet templates**, incorporating respondent feedback on payoff mechanics, Floating Rate Option (FRO) design, compatibility with standard SOFR swap conventions, and the importance of simplicity and transparency.
- **Engage with ISDA** to initiate the process of incorporating Floating Rate Options under the 2021 ISDA Definitions which reference the core AXI and FXI credit spread benchmarks, in coordination with major market participants.

[2] We thank Alex Roever, CFA, for his contributions to refinement of the Term AXI and Term FXI methodology.

- **Prepare to Initiate the Controlled Pilot Program** with a select group of institutions to test standard conventions, facilitate initial test trades, and build market confidence through real-world engagement and operational validation.
- **Coordinate with clearinghouses and exchanges**, such as CME Group and others, to evaluate futures products that reference the unscaled core AXI and FXI indices, supporting a broader financial ecosystem of tradable instruments.
- **Coordinate with post-trade infrastructure providers,** such as OSTTRA, to ensure support for operational workflows including clearing, compression, and lifecycle event processing.
- **Maintain ongoing dialogue with U.S. authorities** to ensure full transparency around the development and implementation of AXI and FXI. This includes providing timely information, fostering open lines of communication, and ensuring that the design and use of these benchmarks align with supervisory expectations, global benchmark principles, and financial stability objectives.
- **Maintain communication with relevant industry and trade associations** to encourage alignment and foster market education across financial institutions.
- **Publish updated documentation and educational materials**—including refined swap term sheets, user guides, and technical notes—tailored to specific audiences later in 2025.
- **Launch a public consultation on the use of Term AXI and Term FXI in cash market products**—including loans, securitizations, and structured notes—to gather feedback on contract conventions, operational considerations, and potential refinements to the methodology for generating fixed-tenor term settings.

6. Acknowledgments

We sincerely thank all participants for their thoughtful engagement and constructive feedback. The insights shared throughout this consultation will directly shape the evolution of a market-ready framework for credit-spread tools—bridging SOFR-based rate infrastructure with robust, transaction-based mechanisms for managing unsecured funding risk.

This initiative is rooted in the broader goal of promoting the efficiency, transparency, and stability of U.S. financial markets.[3] By contributing to the development and thoughtful implementation of supplements to SOFR—such as AXI and FXI—participants are not only supporting market innovation but also reinforcing systemic resilience and policy-aligned infrastructure. Appreciation is extended to all participants, with continued progress to be pursued thoughtfully and in support of these important public interest objectives.

For further inquiries or to express interest participating in the controlled pilot program, please contact: **info@sofr.org**.

[3] "Bank Funding Risk, Reference Rates, and Credit Supply," Cooperman, Duffie, Luck, Wang, and Yang, *Journal of Finance*, Volume 80 (2025), pp. 5-56.