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VIA ELECTRONIC SUBMISSION

Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Secretariat to the Financial Stability Board
fsb@fsb.org

RE: Financial Stability Board Evaluation of "Too-Big-to-Fail" Reforms

SOFR Academy appreciates the opportunity to share our perspectives on "Too-Big-to-Fail" Reforms. SOFR Academy LLC[1] is a U.S.-based education technology firm backed by a team of financial services professionals and leading Academics. We provide high quality, low cost online education for the transition away from the London Interbank Offered Rate (LIBOR). SOFR Academy has previously submitted a comment letter to the FSB regarding the 9th July 2020 report on Supervisory issues associated with benchmark transition.[2]

We commend the excellent work by the Financial Stability Board (FSB) in publishing the 28th June 2020 consultation report (the report),"Evaluation the effects of the too-big-to-fail reforms."[3] We would like to bring to your attention the possibility of a potential increase in G-SIB (global systemically important bank) scores, an important component of "Too-Big-to-Fail" reforms, as a result of the industry's transition away from LIBOR.

[1] SOFR Academy's panel of advisors includes academics from Harvard University and the MIT Sloan School of Management. We have partnered with Amazon Web Services to provide online education intended to empower clients, businesses, and communities with the knowledge and skills to transition away from the Interbank Offered Rates (IBOR) with a particular focus on US dollar London Interbank Offered Rate (LIBOR) transition. We believe that education is a critical prerequisite for an orderly and broad-based transition to Alternative Reference Rates (ARR).

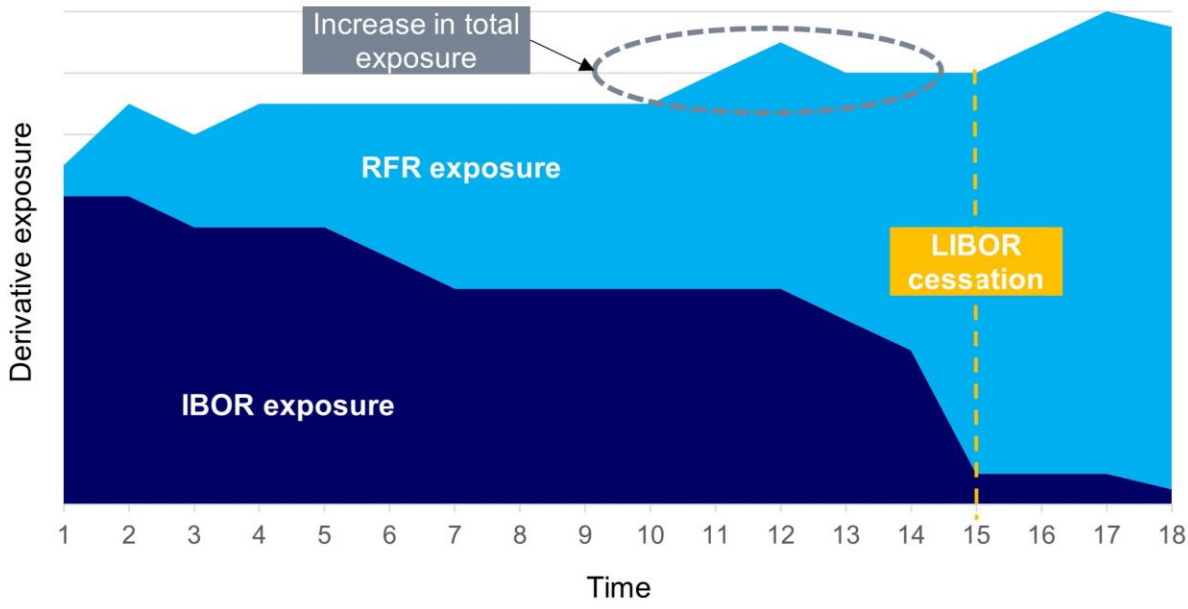
[2] https://sofracademy.com/wp-content/uploads/2020/07/SOFR-Academy-comment-letter-FSB-Benchmark-Transition-Report-to-the-G20.pdf

[3] Evaluation of the effects of too-big-to-fail reforms: consultation report https://www.fsb.org/wp-content/uploads/P280620-1.pdf

At a high level, the G-SIB methodology aims to capture the systemic importance of banks by quantitatively assessing their sizes, their interconnectedness, the lack of readily available substitutes or financial institution infrastructure for the services they provide, their global (cross-jurisdictional) activity, and their complexity.

During the transitional period over the next 15 months leading up to the expected cessation of LIBOR at the end of 2021, G-SIBs are likely to hold derivative positions in both IBOR-linked financial instruments and in new products that are linked to the new Risk-Free-Rates (RFR), like the Secured Overnight Financing Rate (SOFR). As shown in the following diagram, this could lead to a temporary increase in the notional derivatives exposures for G-SIBs, potentially resulting in unintended increases in capital requirements.

Representative diagram showing derivatives notional profile outstanding at a G-SIB



In addition to a potential increase in overall derivatives exposure, the lack of liquidity in RFR products, and eventually in IBOR products, could impact G-SIB scores. Liquidity in certain RFR products, for example, SOFR-linked swaps, is still at relatively modest levels. This means that bid-offer spreads may be wider for these newer markets compared with traditional IBOR markets. Further, only a limited price history for these products may be available.

Because a marginal increase in regulatory capital requirement can have a significant impact on G-SIBs, we believe that these observations may warrant some further consideration. In particular, the Official sector may consider providing time-bound temporary relief for certain RFR

positions while the transition away from LIBOR is in progress. In doing so, the FSB and the Official sector could help to foster a smoother transition for the financial system away from LIBOR and in turn reducing systemic risk for the market.

We would be happy to discuss further and we thank you for your consideration of these comments.

Yours sincerely,

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