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Alternative Reference Rates Committee
Federal Reserve Bank of New York

Re: Consultation Response - FRNs

The Government Finance Officers Association ("GFOA") appreciates the opportunity to comment on the Alternative Reference Rates Committee's ("ARRC") proposal for recommended fallback language for market participants to consider. The GFOA represents nearly 20,000 governmental issuer members across the United States. On behalf of our members, the GFOA is very interested in helping to ensure the issuer community is prepared to address the risk that LIBOR may not exist beyond 2021. Members of GFOA's Committee on Governmental Debt Management, a geographically and organizationally diverse group of 25 municipal securities issuers, were consulted in preparing this comment letter.

The GFOA has a long history of creating and maintaining industry best practices. Accordingly, the GFOA supports efforts to ensure that robust fallback provisions are in place and are accessible to all issuers participating in the cash markets. Our evaluation of the proposed LIBOR based Float Rate Notes ("FRN") fallback provisions are based on the premise that the market will prefer as much *clarity at the time of issuance* of any new LIBOR based FRN as possible. The GFOA strongly urges the ARRC to bear in mind the fundamental necessity of clarity and process for both the issuer and investor.

We support the ARRC's comprehensive approach, though we note in our response that the proposal in parts appears overly prescriptive. Communication with our members will emphasize that the purpose of this exercise is to ensure that issuers have some comprehensive guidance as protocol as they are presented with choices in the process. Said simply, this exercise is a benefit to issuers by providing them with more information than less. This exercise is especially important in the public markets where we promote transparency to ensure that investors have appropriate material information about municipal securities. Governmental entities consistently aim to reduce risks by reducing the unknowns. Answers to specific questions proposed in the consultation are outlined below.

Pre-Cessation Triggers

The potential risks associated with a market disruption to issuers are especially acute at the time a permanent cessation of LIBOR occurs. Governmental issuers in particular must reduce unexpected events that could result in future costs that negatively impact tax or rate payers. In the absence of clear definitive alternative rates language, the cost associated with any future potential disruption could be incurred prior to such event at the time of pricing any new LIBOR based FRN. Therefore, prior to issuing any new LIBOR based FRN, municipal issuers will want to prepare for any possible cessation. GFOA believes a clear documented process for determining an operative alternative rate at the time of issuance is necessary to minimize the multiple risks associated with such an event. GFOA agrees that the primary points of clarification relate to effectively defining both when a cessation event has occurred and what the alternative rate will be. ***GFOA agrees that fallback language for FRNs should include all of the pre-cessation triggers.***

GFOA acknowledges that both ISDA and the ARRC anticipate the use of the first two triggers. It is important for the issuers represented by GFOA to provide for any event that would result in LIBOR "no longer being representative of the underlying market or economic reality" GFOA agrees that the three "Pre-cessation" triggers be recommended. While some issuers may want to focus solely on a permanent cessation (events 1 and 2) along with events that will result in a long-term/indefinite period of unavailability (events 4 and 5) GFOA believes it is prudent and will recommend to its members that any disruption of LIBOR be specifically addressed and documented. Therefore, all of the proposed pre-cessation triggers should be addressed in the fallback language.

FRN Replacement Benchmark Waterfall

Issuers are especially aware that a central issue of the proposed waterfall protocol is a primary objective of marketability. Issuers are most interested in ensuring that investors have a determinate, orderly and calculable process in place when determining the price at which they are willing to purchase any new LIBOR based FRN. GFOA believes the proposed waterfall provides a reasonable place to begin negotiations with investors.

Step 1: Forward-Looking Term SOFR

The GFOA strongly supports the publication of forward-looking term SOFR rates. Many governmental issuers' FRN are structured with a term underlying index (such as 1-month or 3-month LIBOR). It is appropriate that the first recommended fallback for LIBOR based FRN is a term SOFR. It is also appropriate that the issuer would have the ability to ensure that it is the same term referenced as LIBOR and, to the extent that there is a proposed spread (as discussed below), issuers should integrate the concept of a spread.

Step 2: Compounded SOFR

With regard to step 2 in the waterfall, GFOA believes if no term SOFR exists, the primary goal of the next step should be to match the intent of the original underlying index as much as possible. To that end, it seems, with some market discovery at the time of the LIBOR based FRN issuance, that an average rate representative of the underlying term LIBOR being replaced be chosen. Whether this alternative be the ISDA defined "USD-SOFR-COMPOUND" or a simple interest average of overnight SOFR, either of these calculations are appropriate for step 2, however we believe neither should take precedence for step 2. We believe the choice can be made at the time of issuance given the full benefit of knowing market conditions and trading tendencies of LIBOR vs SOFR at that point in time and recommending one over the other is overly prescriptive. We would also note affirmatively that ISDA recommendations will likely influence the fallbacks referencing compounded SOFR or overnight SOFR.

Similarly, regarding calculating the compounding period "in arrears" or "in advance" GFOA will not comment on which approach is preferable as we believe this recommendation is also overly prescriptive – it should be up to the issuer to decide what will work for them.

Step 3: SOFR Overnight Rate

As stated, GFOA concurs that issuers first should designate a matching term SOFR rate and then an appropriately determined compounded or simple average SOFR rate as the first two alternatives in the waterfall. It is far less likely that governmental issuers would be interested in using SOFR with a one-time reset. While GFOA believes ISDA is in a unique position to recommend a fallback rate it maintains a strong preference not to include and will recommend to its members not using a one-time periodic reset based on overnight SOFR as proposed in step 3. While term LIBOR is often set once at the beginning of the period GFOA believes the nature of the rate is more representative of a period capturing rate and is best replaced by an average of daily rates. Further, we believe the investment community would likely prefer a rate that represents current market conditions akin to a daily reset as long as there is an effective way to hedge that exposure. As mentioned previously, at this point in the waterfall GFOA believes market informed alternatives, at the time of pricing, and a slightly less prescriptive approach be adopted.

Step 4: ARRC Replacement Rate

In the possible future circumstance where no SOFR-based fallback rate is available, the replacement rate should be determined by the Relevant Governmental Body as defined in this consultation as the best alternative at this level of the waterfall. It is believed at this point in the waterfall any such recommended rate would attempt to encompass the characteristics of SOFR and any such rate that would diverge from such goals would be overridden with OBFR and then the FOMC Target Rate.

Step 5: ISDA Fallback for SOFR

We believe that this is the correct place in the waterfall to **specifically state** OBFR and then the FOMC Target Rate without referring to any ISDA recommendation. From a practical point of view, the issuer and the investor would want to know with as much specificity as possible what the alternative rates will be at any place in the waterfall at the time of the sale of the LIBOR based FRN. This consideration is a paramount concern to the issuer community.

GFOA cautions that using an ISDA recommended replacement that allows for future modifications is overly prescriptive and introduces an unnecessary level of “unknowns”.

Step 6: Issuer Determined Rate

An issuer’s primary concern is to have certainty at the time of initial pricing. If steps 1 through 4 are unavailable, as mentioned above, step 5 should specifically identify OBFR and ultimately the FOMC Target Rate. If, however, such fallback is neither OBFR nor the FOMC Target Rate then the issuer should have the option to choose an alternative industry-accepted successor rate. GFOA would like to be clear that these comments are specifically related to LIBOR based FRN alternatives. In this context, we are likely talking about a FRN security (LIBOR based) whose expected use is limited both in time and scope by the municipal industry. Alternatives specific to the tax-exempt market as well as the SOFR based FRN market exist as alternatives to new LIBOR based FRN, however notwithstanding these alternatives some issuers may feel the need to continue to tap the LIBOR based FRN market, determining a degree of certainty with regard to ultimate rate exposure is paramount to this commentary, limiting the unknown possibilities as we move down the waterfall, specifically with regard to the calculation (compounding, averaging , spot, etc.) of the alternative rate is necessary as both issuers and investors will require an orderly and understandable waterfall to avoid pricing inefficiencies of any new LIBOR based FRNs.

REPLACEMENT BENCHMARK SPREAD

GFOA agrees that market participants should be aware that there are distinguishing properties between term LIBOR and SOFR. We acknowledge that any new issue of LIBOR based FRN will require accounting for a spread to compensate for these differences in the event of a Benchmark Discontinuance Event. In addition to the fallback index, the spread itself will be an important part of pricing and ultimate acceptance of any new LIBOR based FRN. Consistent with the above commentary GFOA again believes that certainty is paramount. Governmental issuers have experience with regard to setting a spread for alternative rates as most municipal LIBOR based FRN contain provisions, albeit varying, for such. The primary investor feedback has been to be as specific as possible with regard to alternative rate and spread. It is with this in mind that we have the following comments.

Step 1: ARRC Spread Adjustment
Step 2: ISDA Spread Adjustment
Step 3: Issuer (or its designee) Determined Spread

GFOA would caution the ARRC from making recommendations in this consultation of a spread that would apply to cash products.

The consultation is unclear as to whether Step 1 anticipates applying a spread determined by the Relevant Governmental Body based upon conditions at the time of a Benchmark Discontinuance Event or if such a spread will be calculated periodically prior to such event to which market participants can consider when determining a fixed spread adjustment for a new issuance of LIBOR based FRN. GFOA believes a fixed spread determined at the time of pricing is preferable, particularly for FRN with a maturity that does not go far beyond the current anticipated cessation time-period. Large FRN issuance has been successfully priced in the municipal market with pre-determined fixed spread adjustments associated with alternative rates. Once such a spread is determined an investor can adjust the “credit” spread required to purchase the FRN to account for their view of all the terms of the transaction including the all-in alternative rate, again paramount to all efficient pricing is locking down the unknowns.

A market determined fixed spread adjustment established at pricing will allow issuers and investors to dynamically assess and react to the changing market relationships between indices as the upcoming cessation event approaches thus providing the ability to adjust pricing while providing empirical indications of the market’s reaction to this monumental event. This information can further inform the Relevant Governmental Body or ISDA when/if determining a spread adjustment or methodology to recommend if necessary.

GFOA would not recommend pricing any new LIBOR based FRN without including a fixed spread adjustment at the time of pricing.

Responsibility for calculations

GFOA believes that it is reasonable that the proposal provides some flexibility to exercise discretion to make determination with respect to the Replacement Benchmark, the Replacement Benchmark Spread and determine whether the triggers have occurred. We believe a calculation agent should participate as described in Question 11. Again, for the purposes of marketing these securities, clarity is a paramount concern to the issuer community.

The GFOA appreciates the opportunity to comment on the ARRC Consultation Regarding More Robust LIBOR Fallback Contract Language for New Issuances of LIBOR Based Floating Rate Notes. As we suggested throughout, the GFOA believes that the issuer would prefer recommended language that highlights a clearly defined, orderly process with limited “unknowns”. Doing so would help both the issuer and investor efficiently price new LIBOR based FRN and effectively manage the transition from LIBOR to SOFR. This can be accomplished through clear communication and distinct procedures that are easy to follow at the time of issuance. This consultation provides a practical solution to show that the ARRC’s priorities are the same.

As the ARRC reviews comments on the consultation, and looks at ways to finalize robust LIBOR fallback contract language to issuers in the US, we welcome the opportunity to discuss these issues with you.

Sincerely,

Emily S. Brock

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