Remarks at the Financial Stability Board Roundtable

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Chair Quarles and Chairman Giancarlo,

I'm Tom Deas, Chairman of the National Association of Corporate Treasurers, its representative on the ARRC, and also serve as the Immediate Past-Chairman and current Board Member of the International Group of Treasury Associations, representing the corporate treasury organizations of some thirty countries. I've been a chief financial officer and treasurer of large publicly-listed, multinational manufacturing companies for over thirty-five years.

I began the effort at reforming benchmark interest rates in this very building following the financial crisis, with former CFTC Chairman Gary Gensler as he undertook a review that identified significant issues in rate setting for U.S. dollar LIBOR. At his request in 2013, I joined the Market Participants' Group that you formed under the Official Sector Steering Group. In our report to you the following year, we included highlights from our survey of corporate treasurers that began to identify the extent to which inter-bank offer rates are spread through non-financial corporations' day-to-day activities. This wide-ranging usage remains a challenge today as we manage the transition to the new reference

rates. It's well understood that we have IBOR exposures through our participation in the debt markets and as counterparties in the derivatives markets for such instruments as:

- Committed Domestic Credit Agreements
- Multi-currency Credit Agreements
- Term Loans, Floating-Rate Notes, Asset Securitizations, and
- Associated Interest Rate Swaps,

but we also manage liquidity through daily advances under agreements among affiliates and with customers, suppliers, and even employees that use IBORs to adjust for timing differences, such as in:

- Inter-affiliate and Intra-group Loans,
- Asset Purchase and Sale Agreements,
- Long-term Supply Agreements,
- Strategic Capital Goods Purchases, and a variety of
- Employee Benefit Payment Obligations.

I confess to you that most of my colleagues are only now starting to identify their corporate-wide exposures and develop a plan to amend their long list of agreements through negotiation with contract counterparties.

Consider the start-up of the euro as a cash currency and the withdrawal of national currencies. During a long parallel period, the calculation mechanism was agreed in advance, and the equivalent number of euros were substituted in transitioning contracts well ahead of the cutover date. However today, since there is no agreed mechanism to convert from term LIBOR plus a credit spread to SOFR plus a different spread, parties must negotiate a mutually acceptable substitution, all while not knowing the required transition date. The ARRC's fallback language should help, but there are still many market uncertainties.

At the ARRC we've modeled, over historical periods, what term SOFR rates would have been, and compared them to the equivalent-term US dollar LIBOR rates. In examining a two-and-a-half-month period last year we found a change in LIBOR-SOFR basis of 25 basis points. A corporate treasurer who agreed to amend his credit agreement from LIBOR + 100 basis points to SOFR + 140 as the data then

indicated at the beginning of that period, would have regretted to learn that two-and-a-half months later the basis had contracted 25 basis points and the end-of-period pricing should have been SOFR + 115 basis points.

The solution to all this is developing the cash and derivatives markets so that through actual transaction arbitrage, these differences narrow, especially for forward-looking term rates. The FSB, OSSG, and each of our countries' official sectors can work to reduce uncertainty in timing, regulations, tax and accounting treatments to speed the required transition and thereby build liquidity.