February 26, 2020

<u>*Via Electronic Mail*</u>

The Honorable Randal K. Quarles
Vice Chairman of Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC, 20551

The Honorable Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

The Honorable Jelena McWilliams
Chair
Federal Deposit Insurance Corporation 550
17th Street, NW
Washington, D.C. 20552

Dear Vice Chairman Quarles, Comptroller Otting, and Chair McWilliams:

We are mid-size banks with assets between approximately $8 and $60 billion doing business in the U.S. Mid-sized banks like us serve customers and communities in all 50 states, the District of Columbia, and U.S. territories. Mid-size banks most often are the largest local bank serving their communities. Some of our banks are both headquartered in and are the largest bank in their communities.

Mid-size banks are an integral component of our nation's economy. We are a disproportionate engine of job creation in America. Our institutions remain focused on providing relationship banking services to their communities, including many rural areas. Mid-size banks meet the needs of their clients with a full range of financial products, cutting-edge technology and tailored solutions. Given the range of customers we serve (from farmers to municipalities; from corporations to mid-sized business), we believe that choice in product offering is an important component of doing business. We strongly feel that choice should also be a consideration as we make the transition to a new interest rate benchmark.

We applaud the efforts of the Federal Reserve Bank of the United States and the Alternative Reference Rates Committee to facilitate an orderly transition away from the London Interbank Offered Rate (LIBOR). We firmly believe that our financial sector will be better served by a rate that is transaction-based and not subject to manipulation.

We object, however, to the use of SOFR as "the one alternative" index. A one-size fits all approach may not be the most appropriate. The first issue is that SOFR is a secured rate so borrowers will be posting collateral such as U.S. Treasuries. Most of our banks do not have large holdings of government securities and therefore can only borrow on an unsecured basis. That presents an immediate asset-liability imbalance and potentially creates distortions in times of financial stress. During a financial crisis, overnight liquidity becomes a priority and the value of collateral would rise, leading to increased borrowing costs for banks irrespective of their asset size and affecting credit availability.

We believe SOFR is an appropriate benchmark for larger financial institutions that have access to collateral and the ability to broadly operate on secured markets. But we also strongly believe that markets must have choice to be efficient, with multiple new reference rates paving the way for a smooth transition away from LIBOR. Institutions in some lines of business, like repurchase agreements, would benefit from a secured rate like SOFR, while others would do better with rates tailored more closely to the risk in their markets.

The undersigned banks are members of the American Financial Exchange (AFX), which is a self-regulated exchange operating since 2015 that provides a transparent, centralized and rules-based electronic marketplace for overnight unsecured borrowings (i.e., the traditional Fed Fund market). AFX has partnered with Cboe Global Markets which hosts the electronic trading platform and performs market surveillance and compliance services as a self-regulatory organization. AFX has over 175 members with a presence in all U.S. states and serves an additional 1,300 participant banks through its correspondent market, representing a quarter of the U.S. banking sector. Assets of AFX banks are \$2.2 trillion, representing 12% of the U.S. banking sector. Average daily volumes on AFX average \$2 billion, involving a distinct and diverse set of participants.

The AFX facilitates the determination of AMERIBOR®, a transaction-based interest rate benchmark via its electronic trading platform. The rate is calculated as a weighted average of the transactions on the AFX electronic platform. It is widely distributed and available on such vendors as BLOOMBERG. Based on a third-party audit performed by a leading accounting firm, AMERIBOR is in alignment with all 19 principles of financial benchmarks as established by the International Organization of Securities Commissions (IOSCO). In a nutshell, AMERIBOR is a transaction-based proven unsecured rate between banks which is what LIBOR was intended to be.

We utilize the AFX platform not only as a source of overnight funding but some of us are already starting to price loans using the AMERIBOR benchmark. We find it not only representative of our asset structure and risk profile, but it also is a credible and robust rate which is easy to explain to customers, regulators and other market participants. Given its unsecured nature, AMERIBOR is gaining greater traction and we encourage other banks to take note.

We support the transition away from LIBOR, but as mid-sized institutions, we caution against a single benchmark. Choice and competition are essential to well-functioning and efficient capital markets. If banks have choices, they could select among multiple benchmarks, and would be able to borrow in a way better suited to their unique circumstances. All market participants would benefit from the increased transparency of benchmarks that reflect financial activity in real time.

Thank you for your consideration of AMERIBOR®.

Sincerely,

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