

July 6, 2020

Mr. Fred Pietrangeli, Director
Office of Debt Management
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Re: Development and Potential Issuance of Treasury Floating Rate Notes Indexed to the Secured Overnight Financing Rate (TREAS-DO-2020-0007)

Dear Mr. Pietrangeli:

The Investment Company Institute¹ appreciates the Treasury Department's request for comment regarding the potential issuance of floating rate notes linked to the Secured Overnight Financing Rate (SOFR).² ICI understands "it remains the central assumption that firms cannot rely on LIBOR being published after the end of 2021."³ We believe Treasury-issued SOFR floating rate notes have the

¹ The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US\$24.8 trillion in the United States, serving more than 100 million US shareholders, and US\$6.5 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC.

² See Development and Potential Issuance of Treasury Floating Rate Notes Indexed to the Secured Overnight Financing Rate, 85 Fed. Reg. 31282 (May 22, 2020), available at <https://www.govinfo.gov/content/pkg/FR-2020-05-22/pdf/2020-11160.pdf>.

³ See Working Group on Sterling Risk-Free Rates (UK), Further statement from the Risk-Free Rates Working Group on the impact of Coronavirus on the timeline for firms' LIBOR transition plans (April 2020), available at <https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/rfrwg-further-statement-on-the-impact-of-coronavirus-on-timeline-for-firms-libor-transition-plans.pdf>.

potential to advance the pace of LIBOR transition throughout the market and encourage helpful convergence in SOFR rate conventions.

Regulated funds⁴—who are among potential purchasers of SOFR floating rate notes—are actively preparing for LIBOR discontinuation and implementing programs to transition to alternative reference rates, including SOFR. Funds are identifying affected stakeholders, updating systems, and assessing the impact of LIBOR transition on investors, holdings, operations, communications, disclosures, and regulatory compliance. As the fund industry moves forward on transition, individual funds may be at different stages of progress based on fund size, current exposure to LIBOR, operational complexity, or other factors.

Even as their regulated funds' transition programs are underway, readiness is a layered dependency. Regulated funds' ability to purchase SOFR products depends on issuers supplying those products in the marketplace. Funds' operational readiness also depends on the readiness of their vendors, including those that provide order management systems, risk management systems, and accounting platforms.⁵ While vendors are progressing on their own LIBOR transition programs, funds and vendors may implement interim solutions to enable the purchase of SOFR products.

The operational ease by which regulated funds can purchase SOFR products and by which their vendors can support those purchases would be improved by issuers using standard rate conventions (including terms, tenors, and calculation methodologies) for products within asset classes. Particularly, establishing standard rate conventions may accelerate the pace of finalizing updates to vendor systems and technology. Treasury-issued SOFR floating rate notes may provide the opportunity to crystallize rate conventions, but we note that they would not do so in a vacuum. Given the potential benefits of standard rate conventions, we recommend that the Treasury Department keep in mind the SOFR rate conventions used by current SOFR floating rate note issuers as well those that the ARRC has discussed.⁶

⁴ Regulated funds include registered investment companies, including mutual funds, ETFs, and other funds that are regulated under the Investment Company Act of 1940 ("registered funds") and non-US regulated funds (together with registered funds, "regulated funds").

⁵ We note that the Alternative Reference Rates Committee (ARRC) recently recommended a timeframe for certain technology and operations vendors to be ready to support SOFR in floating rate notes by June 30, 2020. *See* ARRC Recommended Best Practices for Vendors on Completing the Transition from LIBOR (May 2020), *available at* <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC-Vendor-Recommended-Best-Practices.pdf>.

⁶ *See, e.g.*, ARRC Floating Rate Notes Working Group Statement on the Use of the SOFR Index (May 2020), *available at* https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/Statement_on_SOFR_Index.pdf. We also recommend that the Treasury keep in mind whether certain rate conventions would increase the risk of basis mismatch between floating rate notes and the underlying SOFR market.

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We recognize the leadership role the Treasury Department has in setting SOFR rate conventions and moving the market forward in preparing for the end of LIBOR. We appreciate your careful consideration of the impact of your decisions on regulated funds and other purchasers.

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If you have any questions with respect to this comment letter, please contact me at (202) 326-5813, Ahmed Elghazaly at (202) 216-2923, or Bridget Farrell at (202) 672-4098.

Sincerely,

/s/ Susan Olson

Susan Olson
General Counsel