Classification: Public

Benchmark Factsheet

LLOYDS BANK

CME Term SOFR

Please read this document alongside the respective *Product Summary*

What is CME Term SOFR?

CME Term SOFR is an interest rate benchmark – also known as a reference rate or a benchmark rate. The Chicago Mercantile Exchange (CME) Group publish and administer this benchmark rate. CME Term SOFR is a daily set of forward-looking interest rates calculated and published for 1-month, 3-month, 6-month and 12-month tenors.

The ARRC (the U.S. Alternative Reference Rates Committee) endorsed Term SOFR for use on July 26, 2021, as a part of the strategy to move away from use of USD LIBOR.

Publication occurs on each day that is not a Securities Industry and Financial Markets Association U.S. Holiday at 5:00 am U.S. Central Standard Time. The publication of CME Term SOFR takes place on day T based on the data sampling on T-1. The start date of the reference period for the CME Term SOFR rates is T+2.

Differences between CME Term SOFR and LIBOR

1. CME Term SOFR, unlike LIBOR, which was a bank-to-bank lending rate, does not include material bank credit risk.

2. CME Term SOFR is a term rate based on SOFR futures prices. In contrast LIBOR was an indication of the average rates at which banks could get wholesale, unsecured funding.

3. CME Term SOFR is based on actual transactions unlike LIBOR, which was based on bank submissions and expert judgement.

Differences between CME Term SOFR and SOFR

1. CME Term SOFR is a forward-looking rate, unlike SOFR, which is a daily rate, compounded in arrears over an interest period.

2. CME Term SOFR is known at the start of the period, but SOFR is calculated on a compounded basis at the end of the interest period.

How is CME Term SOFR calculated?

CME Term SOFR rates are calculated from CME SOFR futures transaction prices. To make sure full coverage for all tenors, the calculation tool uses the following Future Contract months:

- One-month SOFR Futures: Transaction data from 13 consecutive contracts and
- Three-month SOFR Futures: Transaction data from five consecutive quarterly futures contracts (March, June, September and December).

The CME use this data in a projection model to determine CME Term SOFR Reference Rates.

Features to consider for OTC derivatives

The ARRC does not recommend the use of CME Term SOFR for most derivatives markets. It recommends that any use of Term SOFR derivatives be limited to end-users hedging cash products that reference Term SOFR. We follow this recommendation.

It is important for all parties to a transaction to understand:

- **When the floating interest rate for a given period will be known.**
- **Further information on the calculation method that will be used to determine the rate of interest is available at the links below.**

Further Information and references

- https://www.cmegroup.com/articles/faqs/cme-term-sofr-reference-rates.html
- https://www.newyorkfed.org/arrc
- https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/ARRC_Press_Release_Term_SOFR.pdf
- https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2023/ARRC-Press-Release-Best-Practice-Recommendations.pdf

Issue date: Lloyds Banking Group 12/07/2023