

# Benchmark Factsheet



## Secured Overnight Financing Rate - (SOFR)

**This document must be read in conjunction with the respective *Product Summary***

### What is SOFR?

SOFR is an interest rate benchmark – also known as a reference rate or a benchmark rate. SOFR is a broad measure of the cost of borrowing cash overnight collateralised by US Treasury securities and represents the near risk-free rate (RFR). SOFR measures the cost to a bank of borrowing cash overnight, and so represents the amount of interest that a bank will have to repay to the lender the following day.

SOFR was first published in April 2018 and is administered by the Federal Reserve Bank of New York. The rate for a given business day is published at 8am Eastern Time on the following business day. SOFR is the Alternative Reference Rates Committee's (ARRC) preferred benchmark for transition to US dollar risk-free rates from USD LIBOR.

### Differences between SOFR and LIBOR

1. SOFR is described as a risk-free, or near risk-free, rate as unlike LIBOR it does not contain material term risk or bank credit risk.
2. SOFR is an overnight rate which is published in arrears. In contrast LIBOR is a term rate which is published at the start of the relevant period. This means that for products referencing SOFR, unless adjustments are made to the methodology, the actual amount of interest payable is not known until the end of the agreed interest period.
3. SOFR is based on repo transactions which are secured. In contrast LIBOR is an indication of the average rates at which banks could obtain wholesale, unsecured funding.

### How is SOFR calculated?

SOFR is calculated as a volume weighted median of the transactions that are involved in borrowing cash overnight collateralised by US Treasury securities - also known as repo transactions.

### Features to consider

Interest for SOFR products may be payable for periods longer than overnight (e.g. monthly, quarterly), so the daily SOFR rate will be aggregated in order to determine the effective interest rate that will apply for the relevant interest period.

As RFRs are overnight rates, the interest due for the respective period will not be known until the end of the interest period i.e. on the actual payment date. Lloyds Bank has adopted a number of possible conventions to address this uncertainty. These are discussed below.

**Please note: The effective interest rate for a period will not be known at the start of that period.**

### Conventions for interest calculation

Where Lloyds Bank uses SOFR the rate of interest is calculated on a compounded basis (that is, interest is calculated daily on both the notional and any interest already accrued).

As the interest rate for a period is calculated in arrears, the last piece of data for the calculation will only be available at the end of the interest period. This may present operational difficulties in making timely payments, as amounts due will not be known until the actual payment date.

Lloyds Bank provides a range of different conventions and calculation methods, for example observation lag, sometimes called lookback, or payment delay (such as 2 days or 5 days). Interest rate quoting conventions continue to evolve as the market develops and consequently there may not be an exact match for certain structure or derivative types. However the expectation is that, in most circumstances, the difference in floating rate calculated between these various conventions is likely to be minimal.

Lloyds Bank is able to structure derivatives to accommodate the different conventions. SOFR loans provided by Lloyds Bank on a bilateral basis have the floating interest rate calculated by compounding SOFR on a daily basis with a 5 New York business day 'lookback'. This is consistent with conventions established in bond markets and used in early RFR loan products. Using this convention, you will receive a communication of the interest payable 4 business days before the payment date.

You should ensure that you understand the requirements of the convention applicable to your transaction. More information about the calculation conventions referenced in this factsheet is available in our [RFR Floating Rate Conventions Factsheet](#). If you have any questions please contact your Lloyds Bank representative, or for further information refer to the below links.

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

- **The calculation method that will be used to determine the aggregate rate of interest**
- **When the floating interest rate for a given period will be known**

## Further Information

- <https://www.newyorkfed.org/markets/treasury-repo-reference-rates-information>
- <https://www.newyorkfed.org/arrc>

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