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Fed's Williams: SOFR Rate System Has Performed Well During Coronavirus Crisis

The New York Fed president said banks should stop pricing new deals using Libor now

Federal Reserve Bank of New York President John Williams said Monday that a replacement for the scandal-plagued Libor interest-rate reference regime has fared well amid the stresses seen in the financial system during the coronavirus pandemic.

"If the pandemic has confirmed one thing about financial benchmarks, it's the resilience of robust reference rates," including new ones like the Secured Overnight Financing Rate, or SOFR, Mr. Williams said in the text of a speech to be delivered by video.

SOFR, which is published by the New York Fed, provides a reference rate system to replace Libor, which is based on banks' judgments and has been the source of manipulation in the past. Libor is scheduled to be phased out on Jan. 1, 2022, and regulators have been pushing financial firms to adopt SOFR to replace it.

Mr. Williams, who also serves as vice chairman of the rate setting Federal Open Market Committee, didn't discuss the economic outlook in his prepared remarks.

The official said amid the market tumult seen during the spring, which saw an unprecedented support effort by the Fed, "SOFR was a dog that didn't bark or bite." He added, his bank "publishes a number of overnight secured and unsecured funding rates, and during this tumultuous period, they all moved in concert, anchored by the rates set by the Federal Reserve."

Mr. Williams said progress is being made to move away from Libor. He added that it's time for firms to stop using Libor, saying "let's not make the existing hole we're trying to climb out of even deeper."

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By Michael S. Derby

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