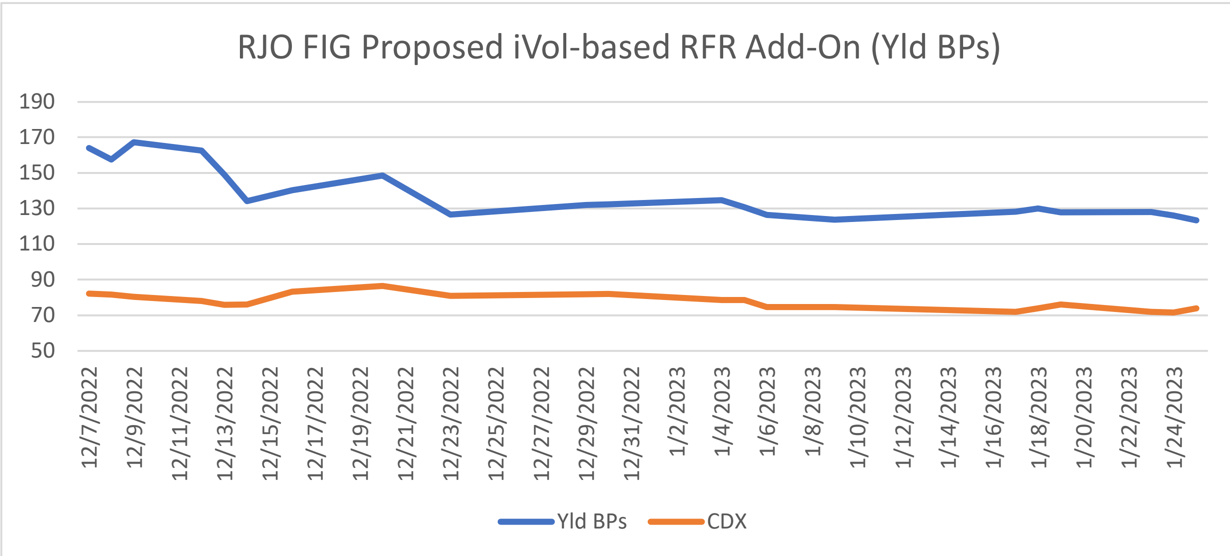
Fixed Income Group A Division of RJ O'Brien

Adding Risk to Risk-Free Benchmarks



Adding a risk-sensitivity to the new RFRs is absolutely do-able today—quantifiable, executable and hedge-able in virtually any size, today. Part of the confusion is the 'ask': "We need credit sensitivity!". The term *'credit'* is imprecise and excessively inclusive. 'Credit' has become synonymous with 'sensitivity to liquidity', 'sensitivity to all non-interest rate risk' and/or 'sensitivity to generic market stress levels'.

So, seeking to alter the new RFRs to reflect stress in the system is not really about 'credit' per se. The RFR add-on is really about capturing events that cause bank stress—increases in bank VaR levels, elevated market ***volatility.***

The yield equivalent to implied volatility of options on Treasury Futures fulfills the main objectives to be the 'risk add-on' to new RFR benchmarks: near infinite liquidity, no data cost, accessible to virtually all institutions via exchange-traded futures market, can fit into existing LIBOR+x systems, works when bank stress is elevated.

Contact The Fixed Income Group at RJO with questions on calculations, or to receive a copy of an Excel spreadsheet to download the data in its entirety: fig@rjobrien.com