September 20, 2021

BSBY

Bloomberg Short-Term Bank Yield Index

The Bloomberg Short-Term Bank Yield Index measures the average yields at which systemically important banks access USD unsecured wholesale funding. It is a forward-looking term rate with credit sensitivity and reflects the marginal funding cost at O/N (overnight), 1M, 3M, 6M and 12M tenors. BSBY is aligned with the IOSCO Principles for Financial Benchmarks.

Key features

- BSBY was created to meet client needs primarily in the US lending markets, and complements the adoption of SOFR as the market moves away from LIBOR
- BSBY is a standalone rate that includes both a term structure and a dynamic credit-sensitive spread
- BSBY is calculated from consolidated anonymized transaction data and executable quotes from primary markets in Commercial Paper, Certificates of Deposit, Bank Deposits and Short-Term Corporate Bonds. The methodology is transparent, and is publicly available[1]
- Data is sourced from Bloomberg's electronic trading solutions, the Depository Trust & Clearing Corporation ("DTCC") and FINRA's reports via TRACE. The DTCC transaction settlement data was included in the BSBY rate calculations stating September 20th, 2021
- BSBY is reflected in ISDA's 2021 Floating Rate Option Definitions, and the Loan Syndications and Trading Association ("LSTA")'s "Credit-Sensitive Rate' Slot-in Rider for Fallback Language"
- CME Group announced[2] the launch of BSBY futures contracts in early Q3 and BSBY swap clearing for Q4 2021
- BSBY has already seen market activity, including the issuance of corporate bonds[3], Floating Rate Notes[4], syndicated loans[5] and Certificates of Deposit[6] [7], and several swap trades[8] referencing BSBY
- BSBY is administered by Bloomberg Index Services Limited ("BISL"), an authorized UK benchmark administrator, in alignment with the IOSCO Principles for Financial Benchmarks, per an external review[9]

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[1] www.bloomberg.com/bsby or directly at https://assets.bbhub.io/professional/sites/27/BSBY-Methodology-Document-May-2021.pdf
[2] CME Group launches BSBY Futures – https://www.cmegroup.com/trading/interest-rates/bsby-futures.html
[3] Bank of America Corp. $1.25bn, 3yr corp. bond. Bloomberg ticker BAC Float 05/28/24 <Corp><DES> – https://www.ifre.com/story/2886421/bank-of-america-adds-to-bsby-momentum-jxq0cdczwx
[4] Bank of America Corp. announces $1bn first issuance of FRN linked to BSBY – https://www.businesswire.com/news/home/20210421005569/en/
[5] $150mil revolver loan. Syndicate lead Bank of America Corp. Participants include KeyBank, BMO Harris Bank & US Bank. Bloomberg ticker BL362812 <Corp> <DES> – https://www.marketwatch.com/investing/stock/dlth/SecArticle?guid=14969921
[6] Bank of Montreal Chicago $1.25bn Certificate of Deposit. Bloomberg ticker BMO Float 12/01/21 <Corp><DES>
[7] Toronto Dominion Bank NY $1bn Certificate of Deposit. Bloomberg ticker TD FLOAT 12/09/21 <Corp><DES>
[8] $250 MM one-year basis swap between JPMorgan Chase & Co. and Bank of America Corp. – https://www.bloomberg.com/news/articles/2021-05-03/bofa-jpmorgan-enter-swaps-trade-tied-to-new-libor-replacement
[9] A copy of the IOSCO Adherence Assurance Report is available on request via the Resources section at www.bloomberg.com/bsby

- BSBY is available for use in the EU under the third country regime and is expected to be made available in the UK under the UK benchmark regulation

BSBY Methodology

- BSBY is based on consolidated anonymized transaction data and firm executable quotes of Commercial Paper (CP), Certificates of Deposits (CD) and Bank Deposits from Bloomberg electronic trading solutions, and the trades of senior unsecured bank Corporate Bonds as reported in TRACE. BSBY also includes transaction settlement data sourced from the DTCC
- BSBY is calculated using transaction-related data from 34 banks, which includes Global Systemically Important Banks (G-SIBs), and may include certain other systemically relevant banks (as determined by BISL), but excludes any state-owned banks
- BSBY is constructed based on a rolling window of trading data that is based on the three prior business days, and uses a localized, trimmed curve-fitting methodology for the calculation of each tenor's rate
- BSBY rates are based on instrument volumes that have averaged more than $165 billion in transactions, and exceeds $200 billion when firm executable offers are included in the calculation
- In the event that the minimum volume threshold for a tenor is not met, the BSBY construction algorithm uses a fallback process with a four or five day lookback window. For the past three years of data, the five-day window was not required for O/N, 1M and 3M tenors and was only required on 0.2% of occasions for 6M and 12M tenors. In the unlikely event that a five-day window is insufficient, the prior business day's rate is used
- Across each tenor, where executable quotes are used, the available volume is scaled down by a factor of 0.125 to recognize actual transactions as the primary determinant of the BSBY rate
- Any single bank's issuance-related data (CP, CD, Bonds and Deposits) to be included in the calculated rate for a single tenor is capped at 20%, and individual transactions and executable quotes are capped at $500 million
- Trades are bucketed within maturity ranges per tenor (e.g., the 3M tenor takes trades and executable quotes in a 46 to 125 calendar day maturity range) and a regression process fits them to the single tenor maturity point (e.g., the 3M tenor has a 90 calendar day evaluation point)
- The resulting BSBY rate, to five decimal places, is published for all tenors each US Government Securities business day, in accordance with the SIFMA U.S. calendar, at 08:00 AM ET for 'value' on the day of publication

For further information on the construction of BSBY, including details of eligibility criteria for each traded instrument or executable quote, minimum volume requirements per tenor, outlier trimming, rounding convention, a list of eligible banks, a list of eligible countries for deposit transactions, and fallback procedures, please see the BSBY Index Methodology and Research Paper at www.bloomberg.com/bsby

BSBY Performance

BSBY has proven robust to a range of historical back-tests. Each tenor demonstrates strong historical correlation with the corresponding US LIBOR rate, supporting the role of BSBY as an appropriate representation of the US wholesale-unsecured funding market. BSBY is highly correlated to LIBOR. For the three years from January 2018, BSBY and USD LIBOR correlate to 99.6% at the 1 month tenor and 99.8% at the 3 month tenor[10]. However, while the USD LIBOR calculation is based on input data and expert judgment from a panel of 16 contributor banks, BSBY incorporates data from instruments issued by systemically important banks (G-SIBs and D-SIBs), excluding all state-owned banks. The resulting dataset incorporates transaction-related data from 34 banks.

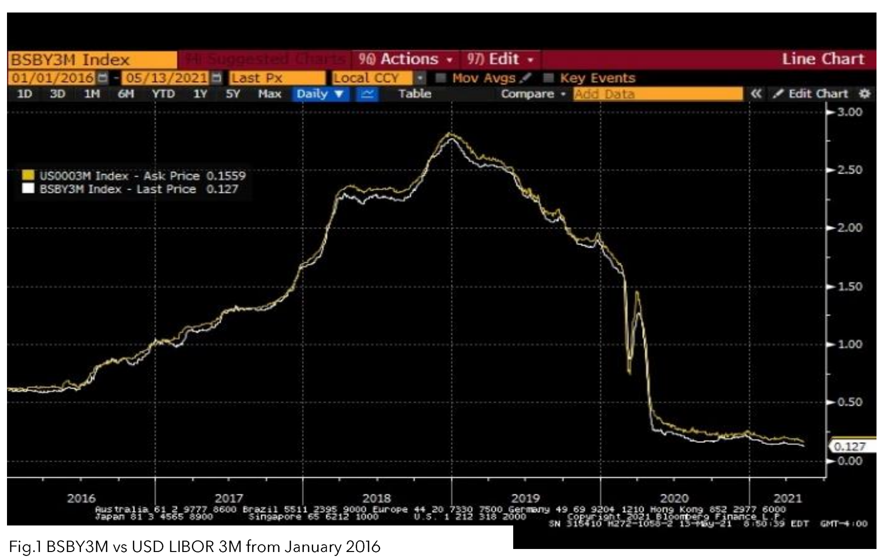

Fig.1 BSBY3M vs USD LIBOR 3M from January 2016

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[10] Bloomberg Quantitative Research, "Introducing the Bloomberg Short-Term Bank Yield Index", 18th December 2020

Data Availability

- BSBY rates are updated daily at 08:00 AM ET on the Bloomberg Terminal, and are available through Bloomberg Data License. The data is available on Bloomberg B-PIPE, and through authorized third-party re-distributors. The data is also published on www.bloomberg.com/bsby and includes historic values
- On the Bloomberg Terminal, BSBY rates can be accessed via Bloomberg Index Tickers: BSBYON, BSBY1M, BSBY3M, BSBY6M, BSBY12M
- Bloomberg 'curves' and Bloomberg Generic Price (BGN) sourced from data contributors for the most active 1M and 3M BSBY tenors are available on the Bloomberg Terminal at, respectively, ICVS 548 and ICVS 528 <GO>

BSBY Ecosystem and Market Use

BSBY is supported by Bloomberg's leading data, analytics and trading services. This, and examples of broader market adoption, include the following:

- ISDA has created documentation that governs the trading in BSBY swaps. ISDA included BSBY, with defined fallbacks, in its Floating Rate Option Definition
- The Loan Syndications and Trading Association ("LSTA") has issued a market advisory providing lenders and borrowers with language to be used as part of the larger suite of potential LIBOR replacements, which includes BSBY as an eligible rate
- BSBY has been designed for use in both fair value hedge accounting and cash flow hedge accounting
- CME Group announced[11] the launch of BSBY futures contracts, which commenced trading August 20th, 2021 (see ticker BSBA <Comdty> <GO>), and BSBY swap clearing for Q4 2021
- Bloomberg Terminal functions, including the swap pricing manager, SWPM, and yield analysis function, YASN, will support derivatives and cash product pricing and analytics
- Bloomberg trading services will soon support BSBY swap trading on BSEF and BMTF
- BSBY swap tickers are available using the following <Curncy> example ticker conventions
  - BSBY 30/360 semi-annual IRS – USBYSMx (vs BSBY1M) and USBYSQx (vs BSBY3M)
  - SOFR vs BSBY basis – USVBMx (vs BSBY1M) and USSVBQx (vs BSBY3M)
  - BSBY single currency basis – USBBYAx (BSBY3M vs BSBY1M) and USBBYCx (BSBY3M vs BSBY6M)
  - Act/360 annual IRS – USBYAMx (vs BBSY1M) and USBYAMx (vs BSB3M)
  - Swap spread vs US Treasury – USSPVB02 and further tenors to USSPVB50

Commercial Terms & Licensing

The use of BSBY in Financial Instruments (such as loans, notes and swaps) is governed by use terms accessible via www.bloomberg.com/bsby.

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- The lead arranger and other syndicate members of a BSBY syndicated loan
- All parties to a BSBY swap
- A broker, or inter-dealer broker (IDB) who provides pricing in BSBY-linked swaps, derivatives and other instruments

[11] CME Group launches BSBY Futures – https://www.cmegroup.com/trading/interest-rates/bsby-futures.html

- Parties engaging in benchmarking, performance measurement and similar activities

Separate licenses are required for specialist cases such as BSBY data re-distribution, using BSBY for index and derived benchmark creation, and the creation/issuance of exchange-traded derivatives and clearing of OTC swaps. Further details are available in the Usage Terms and the associated FAQs.

BSBY data is available on the Bloomberg Terminal at no additional cost and can also be accessed via www.bloomberg.com/bsby

Additional Reference Materials

The following additional materials are available in the Resources section at www.bloomberg.com/bsby

- BSBY Methodology
- Bloomberg BSBY Report (July 1, 2021)
- BSBY Research Paper – "Introducing the Bloomberg Short-Term Bank Yield Index"
- IOSCO Assurance Report
- BSBY Historical Data
- BSBY Usage Terms and Product Disclaimer
- BSBY Technical Notices

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New York
+1-212-318-2000

London
+44-20-7330-7500

Singapore
+65-6212-1000

Hong Kong
+852-2977-6000

Tokyo
+81-3-3201-8900

Sydney
+61-2-9777-8600

indexhelp@bloomberg.net

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