

# ARRC

## Alternative Reference Rates Committee | Newsletter

This periodic newsletter provides an update for those with an interest in the work of the Alternative Reference Rates Committee (ARRC), keeping you well informed on key news relating to alternative reference rates transition in the U.S. and global markets.

*June - July 2019*

### ARRC Developments

- The ARRC released a [white paper](#) detailing how an average of the Secured Overnight Financing Rate (SOFR) can be used in newly issued adjustable-rate mortgages (ARMs). In separate statements, [Fannie Mae](#), [Freddie Mac](#), and the [Federal Housing Finance Agency](#) indicated support. Fannie and Freddie indicated that they would create SOFR-based ARM products in line with the ARRC's recommendations.
- The ARRC released several documents related to [fallback language](#) for market participants' voluntary use in new contracts that reference LIBOR. The purpose of this language is to reduce the risk of serious market disruption in the event that LIBOR is no longer usable.
  - The ARRC issued [guiding principles](#) for the development of U.S. dollar (USD) LIBOR fallback contract language for consumer products and defined the scope of work for its Consumer Products Working Group. Related to this, the ARRC released a [consultation](#) on USD LIBOR fallback contract language for new closed-end residential ARMs for public feedback. Comments are due by September 10, 2019.
  - The ARRC also released recommended [fallback language](#) for USD LIBOR denominated [bilateral business loans](#) and [securitizations](#). The final recommended language was prepared after full consideration of over 50 comments received on the fallback language consultations for [bilateral business loans](#) and [securitizations](#).
- The ARRC published [incremental objectives](#) complementing its [Paced Transition Plan](#). The objectives outline key priorities and milestones in 2019 to support and prepare market participants for the transition away from LIBOR.
- The ARRC released a [report](#) detailing preliminary considerations and potential conventions for the use of risk-free rates in interdealer cross-currency swaps. The report was developed by the Cross-Currency Swaps Subgroup of the ARRC's Market Structures and Paced Transition Working Group. The Subgroup is working with several industry trade associations to receive feedback from market participants on the market conventions and other aspects described in the report.
- The ARRC submitted [documents](#) to the U.S. Department of the Treasury with proposals to further address some of the tax concerns highlighted in the [April letter](#) in which the ARRC requested guidance on tax issues that arise as a result of the market transition away from LIBOR and other Interbank Offered Rates.
- The ARRC hosted a [public roundtable](#) during which Federal Reserve Vice Chair for Supervision Randal K. Quarles [re-emphasized](#) the importance of taking concrete and proactive steps to move away from LIBOR as a measure of prudent and responsible risk management.
- The ARRC hosted a [vendor workshop](#), which provided a [forum](#) for members of the ARRC's Operations/Infrastructure Working Group to collaborate with key vendors of software and technology that are critical to operationalizing the transition to SOFR.

### U.S. Developments

- New York Fed President John Williams and Andrew Bailey, UK's Financial Conduct Authority (FCA) Chief Executive Officer, delivered remarks and participated in a moderated conversation at an [event](#) hosted by the Securities Industry and Financial Markets Association (SIFMA) on the transition away from LIBOR.
  - At the event, Williams [said](#), “I want to emphasize that the industry must not wait for a SOFR term rate to transition away from LIBOR... We need a mindset shift where firms realize that every new U.S. dollar LIBOR contract written digs a deeper hole that will be harder to climb out of.”
  - Bailey [noted](#), “We do expect panel bank departures from the LIBOR panels at end-2021. That is why we keep stressing that the base case assumption for firms’ planning should be no LIBOR publication after end-2021.” Bailey also noted that if LIBOR did survive past 2021, it was “quite plausible” that FCA would judge it to be no longer representative.
  - ARRC Chair Tom Wipf hosted a panel following their remarks, which focused on the ARRC’s recent and ongoing initiatives related to the transition of consumer products to alternative reference rates.
- The Federal Reserve Board published a [FEDS Note](#) on historical proxies for SOFR dating back to 1998.
- The Mortgage Bankers Association published a [disclosure template](#) for residential mortgage lenders to share with consumers seeking LIBOR-based ARMs. The template explains the circumstances impacting LIBOR and what it could mean if the monthly payments on their loans become linked to another index.
- Ford Motor Credit Company LLC completed the sale of its first notes incorporating fallback language modeled on the ARRC’s recommended fallback language for securitizations. The ARRC [welcomed](#) Ford Motor Company’s leadership in adopting more resilient fallback language into its asset backed securitization program.
- The Financial Accounting Standards Board (FASB) tentatively [decided](#) that, for contracts meeting certain criteria, a change in the reference interest rate would be accounted for as a continuation of that contract rather than the creation of a new contract. This decision would apply to loans, leases, or debt contracts.
  - FASB also [met](#) to discuss potential relief to address effects of reference rate reform on hedge accounting. It also discussed the relief period, transition, the cost-benefit analysis, the comment period, and whether to proceed to a draft of a proposed Accounting Standards Update for vote by written ballot.
- Securities and Exchange Commission (SEC) staff published a [statement](#) encouraging market participants to proactively manage their transition away from LIBOR. The statement encourages market participants to identify existing contracts that extend past 2021 to determine their exposure to LIBOR and to consider whether contracts entered into in the future should reference an alternative rate to LIBOR or include effective fallback language. The SEC encourages any company or affiliate that is regulated by the SEC as a public company, issuer of securities, Broker-Dealer, Registered Investment Advisor or otherwise, to review this statement.

## International Developments

*For more details on international efforts for reference rate reform, see the working groups in the [UK](#), [Switzerland](#), [Japan](#), [Hong Kong](#) the [euro area](#), and the [Official Sector Steering Group](#).*

- The Prudential Regulation Authority and FCA [published](#) key findings, themes, and good practices based on their review of the ‘Dear CEO’ submissions requested late last year.
- The European Central Bank (ECB) issued a [‘Dear CEO’ letter](#) requesting significant institutions in the European Union to submit a board approved summary of the institution’s assessment of key risks and detailed action plan relating to benchmark reform by July 31, 2019. In addition, the ECB is requesting firms to submit a questionnaire containing quantitative and qualitative fields to assess the significance of benchmark reform and transition by September 15, 2019.

- The Bank of England (BOE) published a [discussion paper](#) to seek initial feedback on its approach to the risk management of collateral referencing LIBOR for use in the Sterling Monetary Framework. Responses will be used to help frame the future risk management approach and are requested by September 27, 2019.
- The BOE, FCA, and the Working Group on Sterling Risk Free Reference Rates jointly held a conference, [Last Orders: Calling Time on LIBOR](#), to discuss the work underway to transition away from LIBOR and the progress made by the Sterling market.
- In a [speech](#), BOE Executive Director for Markets Andrew Hauser described the potential benefits of transitioning away from LIBOR. He encouraged market participants to think creatively about ways to take advantage of the new opportunities of a post-LIBOR world in order to innovate and serve their customers better.
- The European Money Markets Institute published a [summary](#) of the stakeholder consultation feedback on the recommendations for EONIA by the Working Group on Euro Risk-Free Rates. Based on the feedback received, EONIA will be calculated as the €STR plus a spread effective October 2, 2019.
- The Swiss National Bank (SNB) introduced the [SNB policy rate](#), which replaces the target range for the 3-month Swiss franc LIBOR previously used. The SNB will seek to keep the secured short-term Swiss franc money market rates close to the SNB policy rate.
- The Bank of Canada announced its intention to [become](#) the administrator of the Canadian Overnight Repo Rate Average (CORRA), a key interest rate benchmark for financial markets. The Bank will take over this role from the current administrator, Refinitiv, when enhancements to CORRA take effect next year.
- During the Bloomberg-ISDA Benchmark Conference on Benchmark Regulation and Migration, Howard Lee, Deputy Chief Executive of the Hong Kong Monetary Authority, provided [closing remarks](#) on LIBOR discontinuation, transition challenges, and progress in identifying an alternative reference rate for the Hong Kong Interbank Offered Rate.
- The Cross-Industry Committee on Japanese Yen (JPY) Interest Rate Benchmarks released a [public consultation](#) on interest rate benchmark reform. The consultation is intended to outline the outcome of past discussions in the Committee about interest rate benchmark reform, and solicit comments from a wide range of relevant parties on the future structure of JPY interest rate benchmarks. Comments are due by September 30, 2019.

## Market Developments

- SIFMA issued a [primer](#) that provides an overview of the transition away from LIBOR, with a focus on SOFR.
- The Financial Stability Board published a [user guide](#) on alternative reference rates. The guide provides an overview of the rates, details of how they are calculated, and options on how overnight rates can be used in cash products.
- The International Swaps and Derivatives Association's (ISDA) Chief Executive Officer, Scott O'Malia, offered [informal comments](#) on important over-the-counter derivatives issues. He highlighted ISDA's continued efforts to flesh out the parameters and mechanics of the term and spread adjustments for fallbacks. The findings will be released for comment later this year.

## SOFR Market Liquidity

- SOFR cash issuances have reached over \$123bn outstanding.



(As of June 30, 2019; Source: [CME Group](#))

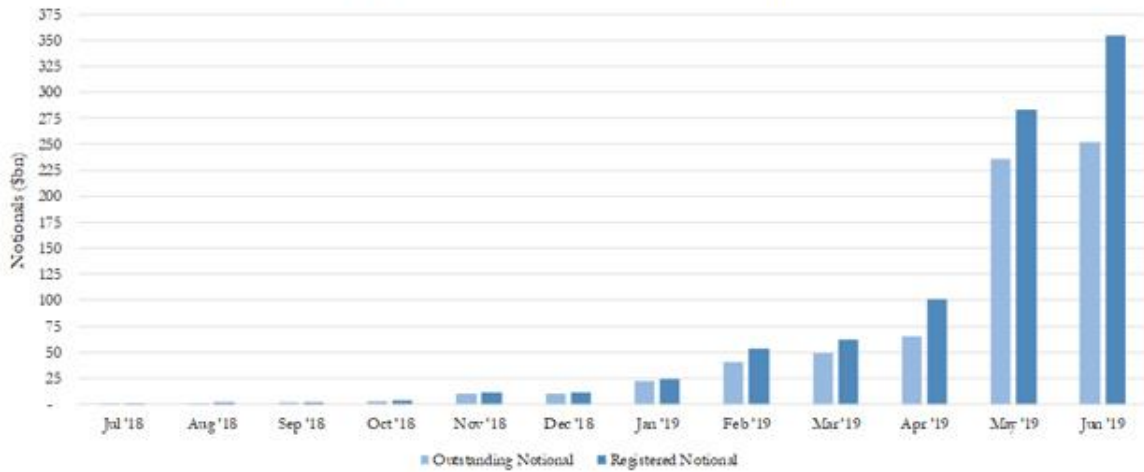
- Average daily notional volume and total outstanding open interest of SOFR futures was over \$91bn and \$558bn, respectively, as of June month end.



(Source: [CME Group](#), [ICE](#))

- SOFR cleared swaps have reached over \$252bn outstanding. Combined registered notional volumes across LCH and CME exceeded \$350bn.
  - In this case, outstanding notional represents the stock. It is the prevailing notional amount of all outstanding swap contracts live at LCH and CME. Meanwhile, registered notional represents the turnover. It is the aggregate notional amount of all new swap contracts submitted to and cleared through LCH and CME.

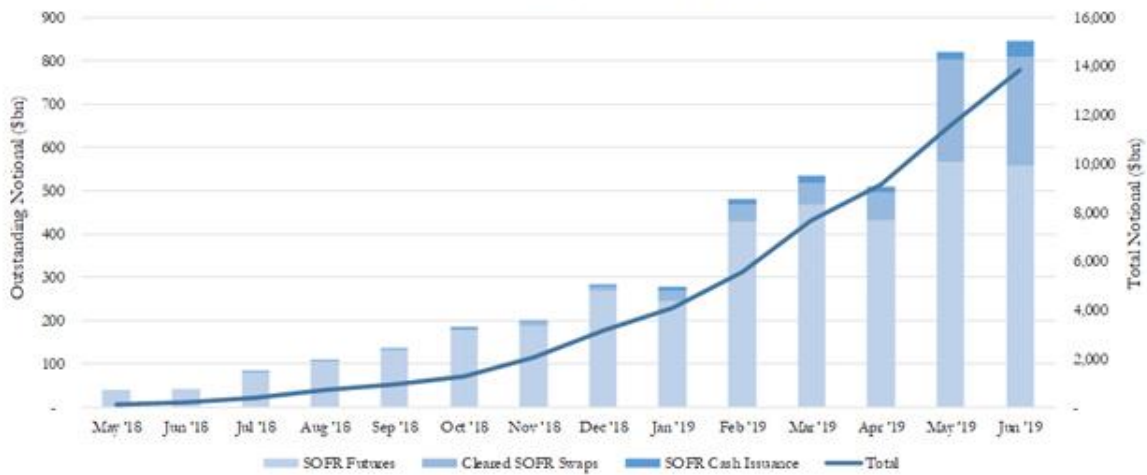
Cleared SOFR Swap Volumes (LCH & CME)



(Source: [LCH](#), [CME Group](#))

- Since the inception of SOFR in April 2018, total notional has reached more than \$13tn in the market.
  - Total notional refers to the cumulative value of all open and expired SOFR transactions issued to date.

SOFR - Outstanding and Total Notionals



(Source: [LCH](#), [CME Group](#), [ICE](#))

*This newsletter is compiled by the ARRC's Outreach and Communications Working Group. If you have any questions please email the ARRC Secretariat at [arcc@ny.frb.org](mailto:arcc@ny.frb.org).*

<https://www.newyorkfed.org/arcc>