

Alternative Reference Rates Committee

January 19 Meeting Readout



This document contains highlights from the [Alternative Reference Rates Committee \(ARRC\) meeting on January 19, 2023](#). The complete meeting agenda can be found [here](#). Full minutes for this meeting will be [posted](#) in the coming weeks.

Topics discussed included an update on momentum towards the Secured Overnight Financing Rate (SOFR), results from the latest sentiment survey of ARRC members, legacy loan contracts, publication of the Board's final rule under the LIBOR Act, and ARRC working group updates.

Sign up [here](#) to receive email updates about the ARRC.

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ARRC members noted continued progress in the transition from LIBOR to SOFR. As shown in the charts below, data from cash and derivatives markets show continued momentum in the transition. SOFR is predominant across cash and derivatives markets. Specifically:

- Figure 2 shows that SOFR swaps have consistently accounted for more than 85 percent of daily average risk traded in the outright linear swaps market since June 2022, while LIBOR swaps accounted for less than 10 percent of the overall volume over the same period.
- Figure 8 shows that average daily SOFR futures volumes steadily increased throughout 2022 and remain well above average daily Eurodollar futures volumes. Conversely, average daily Eurodollar volumes have diminished considerably throughout 2022.

As noted in [CME Group's January 2023 Rates Recap](#), SOFR futures and options experienced tremendous growth during 2022. Average daily volumes and peak open interest for SOFR futures increased by several multiples compared to 2021 while average daily values and peak open interest for SOFR options increased by well-over several thousand multiples year-over-year. This year has also started strongly, with a single-day record of almost 7.6 million SOFR futures and options traded and record open interest of approximately 35.7 million contracts on January 12.

As the LIBOR transition enters its final months, the ARRC refreshed its sentiment survey to focus on any remaining obstacles and areas of focus. In the most recent sentiment survey of ARRC members, respondents continued to characterize the LIBOR transition overall as progressing smoothly or generally smoothly into 2023. Several respondents noted slower progress in remediation of syndicated loans. The ARRC discussed how the preparation of legacy loan contracts is progressing across the bilateral and syndicated loan markets and how to encourage further transition progress, particularly in syndicated loans.

The ARRC noted the Federal Reserve Board's publication of its [final rule](#) under the LIBOR Act, which is substantially similar to the Board's original proposal. The ARRC voted to adjust its recommendations to conform with the Federal Reserve Board's benchmark selections for FHFA-regulated-entity contracts and Federal Family Education Loan Program (FFELP) asset-backed securitizations.

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The Operations/Infrastructure Working Group provided an update on its work on the [DTCC's enhanced LENS system](#) aimed at facilitating effective and efficient communication of rate changes in LIBOR contracts following June 30, 2023. For U.S.-issued securities, the ARRC recommends that all determining persons, agents, and other parties responsible for disseminating information use this system as soon as available for communicating rate/conforming changes:

- Testing on the front-end data screens began in November and ended this week, with good participation across the market.
- The next step is to test the downstream process to market data providers with a target to release the overall Enhanced LENS System by end of February / beginning of March.
- The group also continues to collaborate with DTCC to create a centralized LIBOR transition site to house documents on how to use the new tool, FAQ's, and additional LIBOR transition background information.

The Term Rate Task Force provided an update on its discussions around its [existing ARRC best practice recommendations on the scope of use of Term SOFR](#), which were guided by the [principles](#) set out by the ARRC and are in line with [guidance](#) issued by the Financial Stability Board. The ARRC discussed the risks associated with any widespread usage of Term SOFR outside of the limited and targeted recommendations suggested by the ARRC as best practice, which have been carefully calibrated to ensure the robustness and sustainability of the rate itself and to avoid risks to financial stability. These risks have also been discussed by the official sector both at the December 16, 2022 [FSOC Principals meeting](#) and in the FSOC 2022 [Annual Report](#). The latter noted that “[w]hile the Council recognizes the usefulness of Term SOFR in certain business lending transactions, it endorses the ARRC’s recommendations to limit the use of Term SOFR in other markets and strongly encourages market participants to limit the usage of Term SOFR in derivatives and most other cash markets.”

- In addition, the Financial Stability Board published its [2022 Progress Report](#) on LIBOR transition, which encouraged all administrators of Term RFRs to strongly consider matching their licensed scope of use to the recommendations made by the official sector and national working groups. The ARRC discussed the strong and consistent messaging across the official sector and reiterated its existing best practice recommendations. The ARRC plans to continue to assess the use of Term SOFR in relation to its recommended scope of use and guiding principles.

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The ARRC also reviewed and finalized a document titled [Summary of Key ARRC Recommendations](#), which summarizes the ARRC's key recommendations for the LIBOR transition and provides associated resources as the LIBOR transition enters its final stages. The document highlights the 3 main messages below:

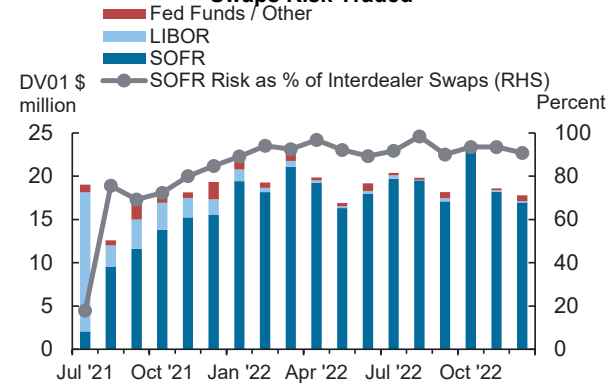
- Take action *now* to remediate legacy contracts ahead of June 30, 2023.
- Communicate planned rate changes and use the DTCC's enhanced LENS system as soon as available to effectively disseminate information on rate changes for securities.
- Use the Secured Overnight Financing Rate (SOFR) as the replacement rate for USD LIBOR and as the basis of the transition in cash and derivatives markets.
 - The ARRC and official sector recommend that use of Term SOFR remain limited to support financial stability.

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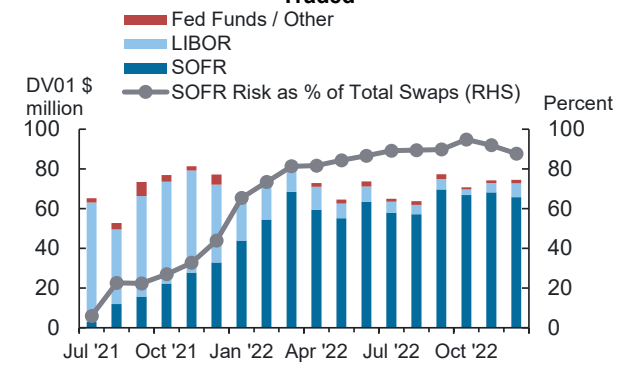
Linear Swaps

Figure 1: Daily Average Interdealer Outright Linear Swaps Risk Traded



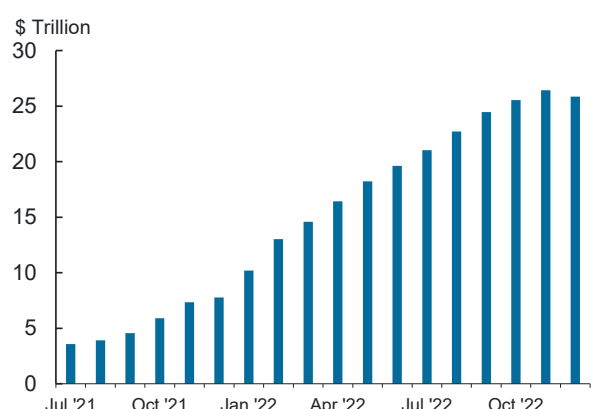
Source: Clarus Financial Technology (Swap Execution Facility)

Figure 2: Daily Average Total Outright Swaps Risk Traded



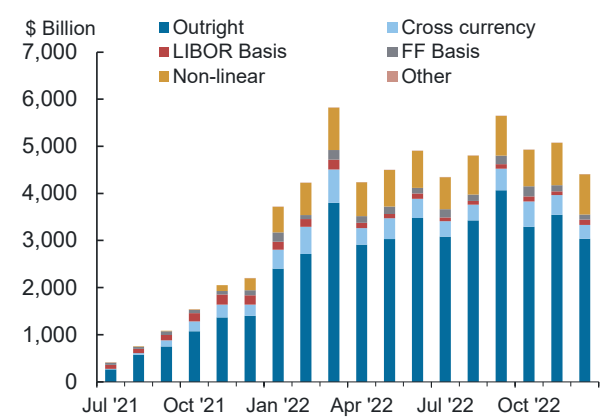
Source: Clarus Financial Technology (Swap Execution Facility)
Note: Excludes swaptions

Figure 3: SOFR Linear Swaps Open Interest



Source: Clarus Financial Technology (Central Counterparty data)

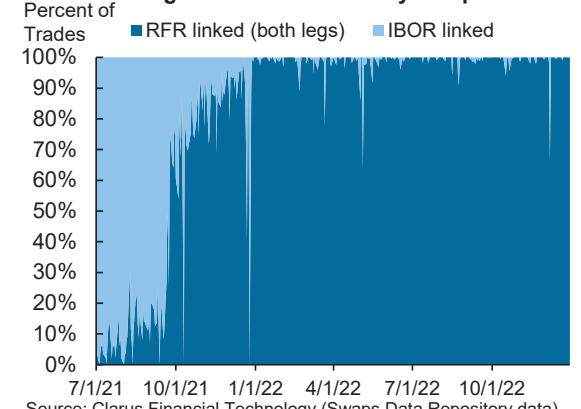
Figure 4: Monthly SOFR OTC Derivatives Volumes



Source: Bloomberg (Swap Data Repository data)

Cross-Currency Swaps

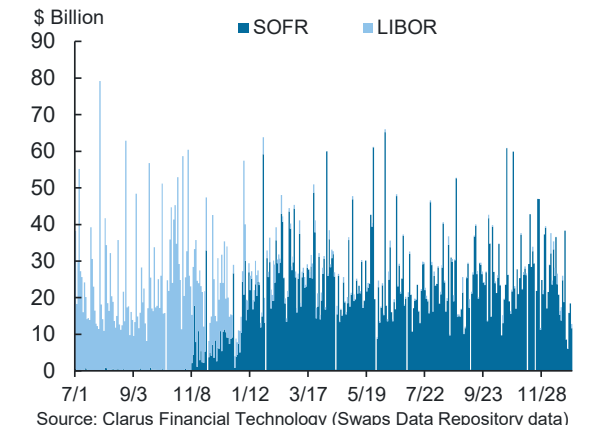
Figure 5: Cross-Currency Swaps



Source: Clarus Financial Technology (Swaps Data Repository data)
Note: Includes EUR/USD, GBP/USD, CHF/USD, and JPY/USD.

Non-Linear Derivatives

Figure 6: Swaption Volumes



Source: Clarus Financial Technology (Swaps Data Repository data)

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Exchange-Traded Derivatives

Figure 7: Average Daily Notional SOFR Futures Volumes

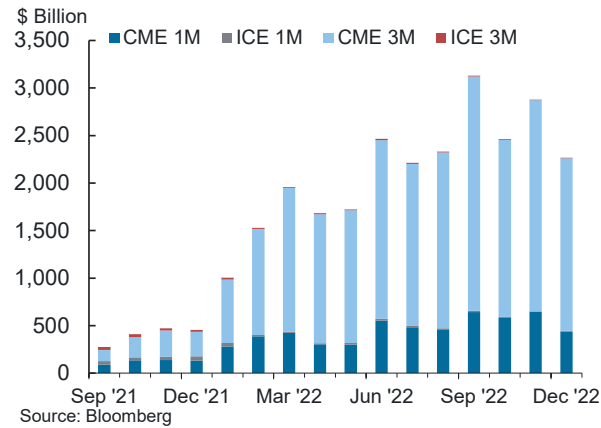
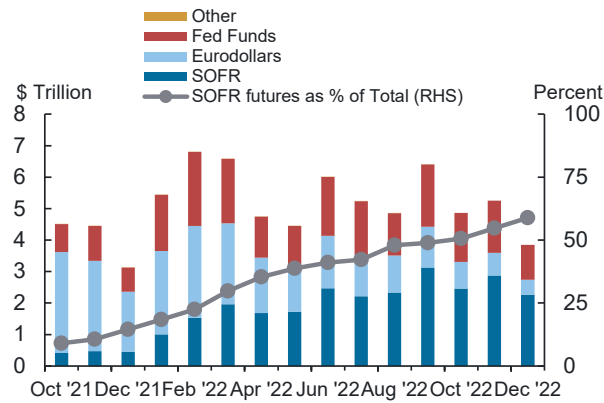


Figure 8: STIR Futures Average Daily Volumes



Cash Products

Figure 9: FRN Issuance by Reference Rate

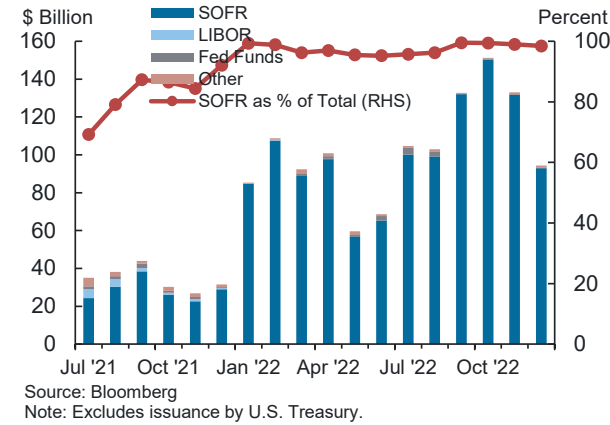


Figure 10: SOFR FRN Issuance by Issuer Type

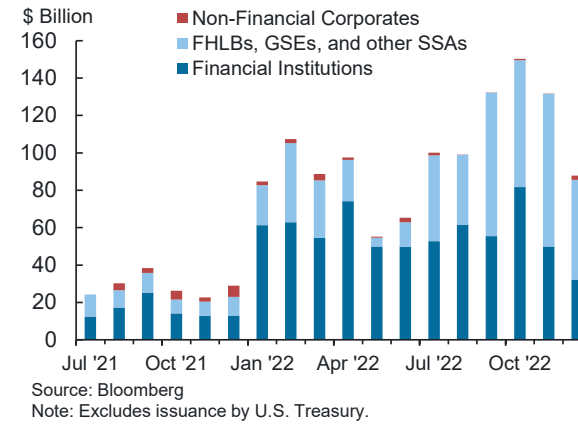


Figure 11: Syndicated Lending

