

## **Alternative Reference Rates Committee (ARRC) Minutes for the April 2, 2015 Meeting**

1. ARRC members approved the minutes from the February 19, 2015 ARRC meeting.
2. The Chair revisited inviting other institutions to join ARRC and recommended that ahead of the next ARRC meeting, the workstreams identify institutions to potentially include and the best time to add them.
3. Federal Reserve staff provided an update on the Working Group on Sterling Risk-Free Reference Rates.<sup>1</sup> ARRC members suggested harmonizing U.S. and U.K. alternative reference rates in order to minimize basis risks. The Chair suggested that the ARRC continue to stay updated on the Working Group's progress.
4. Federal Reserve staff provided an update on LIBOR reform. ICE Benchmark Administration (IBA) was completing its collection of feedback from market participants on its proposed enhancements to LIBOR. It is anticipated that IBA will produce a summary of the findings and a more detailed set of proposals and consultations.<sup>2</sup>
5. The Risk-free Calculation, Risk-free Implementation, Credit Calculation, and Credit Implementation subgroups each presented key issues they had identified and the group provided feedback for the subgroups to incorporate into their workplans.
  - a. Calculation: The Risk-free Calculation subgroup discussed focusing on a hybrid overnight repo rate that was defined broadly enough to encompass a wide set of transactions and market participants in order to make the rate more durable to future changes in the market, and which was flexible enough to evolve as the market evolved. The Credit Calculation subgroup recommended focusing on an overnight bank funding rate that could exclude less creditworthy borrowers, emphasizing that the credit censoring and overnight tenor would result in a rate that was closer to risk free and less likely to display pro-cyclic effects. Both subgroups also noted that they were focusing on benchmarks that would be overnight rates, and that it will be important to address how term rates would be constructed. ARRC members then discussed the trade-offs between including a wider set of transactions which would make the rate more robust to evolving market structures versus a narrower set that would make the rate closer to risk-free.
  - b. Implementation: The Implementation subgroups identified accounting, contract, and market demand factors that would affect implementation; both Implementation subgroups noted that one of the hurdles for broad adoption of the reference rate in new contracts was the additional complexity that would accompany a migration of old contracts to the new reference rate. Both Implementation subgroups also believe that adoption of the new rate by swaps clearing facilities will be a key to its broader adoption. The Credit Implementation subgroup felt that the derivatives markets could probably not support a third reference rate and that OBFR's success could require replacing the federal funds effective rate as the dominant rate referenced in U.S. dollar OIS contracts. The Chair suggested that both

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<sup>1</sup> On March 18, 2015, the Bank of England convened major sterling swap dealers at the inaugural Working Group meeting to discuss alternative references rates to LIBOR. The Working Group's website is: <http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/rfr/rfr.aspx>

<sup>2</sup> "Position Paper on the Evolution of ICE LIBOR" published on October 20, 2014. Available on the ICE website: [https://www.theice.com/publicdocs/ICE\\_LIBOR\\_Position\\_Paper.pdf](https://www.theice.com/publicdocs/ICE_LIBOR_Position_Paper.pdf)

implementation groups get additional information on technology resources and timelines. Given the overlap in key questions and parties to consult, the Chair recommended that the Risk-free and Credit Implementation Groups merge into a single Implementation subgroup and agree on a list of key issues to address and coordinate outreach to subject matter experts about implementation issues.

6. The Chair outlined the following next steps:

- a. The Risk-free and Credit Calculation subgroups will take the next steps outlined in their workplans.
- b. The Risk-free and Credit Implementation subgroups will merge into one Implementation subgroup and will coordinate on the list of issues to address and on outreach to clients and other interested parties.
- c. At the next meeting, the Risk-free Index Calculation, Credit Calculation, and Implementation subgroups will present the results of their analysis, at which time ARRC members will assess whether to continue to evaluate both rates.

## Alternative Reference Rates Committee (ARRC) Attendance for the April 2, 2015 Meeting

### ARRC Member Attendees:

Bank of America	Paul Scurfield
Barclays	Matt Besgen
Barclays	Brian Rozen
BNP Paribas	Adrian Averre
BNP Paribas	Bob Hawley
Citigroup	Brian Leach
Citigroup	Steve Compton*
Citigroup	Heraclio Rojas*
Credit Suisse	Shane O’Cuinn
Deutsche Bank	Rich Herman
Goldman Sachs	Scott Rofey
HSBC	Pieter van Vredenburg
JP Morgan Chase	Sandie O’Connor
Morgan Stanley	Tom Wipf
Nomura	Joseph Lando*
Nomura	Steve Licini*
RBS	Graham Broyd
RBS	David Wagner*
Societe General	Francois Barthelemy*
Societe General	Jeff Rosen*
UBS	Dan Park
Wells Fargo	Ben Bronner*

### Ex Officio Member Attendees:

Federal Reserve Board	David Bowman
Federal Reserve Board	Chris Clubb
Federal Reserve Board	Jerome Powell
Federal Reserve Board	John Schindler*
Federal Reserve Bank of New York	Raymond Check
Federal Reserve Bank of New York	Kevin Stiroh
Federal Reserve Bank of New York	Will Riordan
Federal Reserve Bank of New York	Jacqueline Yen
U.S. Treasury Department	Anna Boutov

\* indicates participation by phone