

Alternative Reference Rates Committee (ARRC) Minutes for the February 19, 2015 Meeting

1. ARRC members approved the minutes from the January 22, 2015 ARRC meeting.
2. In introductory remarks, Governor Powell discussed the Federal Reserve's views on alternative reference rates. Governor Powell discussed risks that a reference rate that is also a policy target rate could potentially constrain monetary policy. While robust contracts with well specified fallbacks would be helpful, risks could remain. The group noted that LIBOR and the federal funds effective rate are both relatively widely used reference rates, and some questioned the feasibility of introducing a third major USD reference rate.
3. Federal Reserve staff provided an update on reference rates that covered three topics: LIBOR reform; a Round Table Discussion on Reference Rate Reform convened by the Federal Reserve; and the Overnight Bank Funding Rate.
 - a. On LIBOR reform, ICE Benchmark Administration (IBA) is soliciting feedback from market participants on its proposed enhancements to LIBOR as laid out in its position paper.¹ After collecting the views through a series of roundtables, IBA plans to publish its findings and then move towards refining its proposal.
 - b. On February 19, 2015, a Round Table was convened by the Federal Reserve to bring together reference rate end users to discuss proposed LIBOR enhancements and alternative reference rates. Attendees included representatives from a range of market participants and associations. IBA provided an overview of its position paper on LIBOR reform and solicited comments from round table participants. Participants were generally favorable towards the approach outlined by IBA. Federal Reserve staff also presented an overview of the work agenda for the ARRC. Though not all participants expressed a view about alternative reference rates, several favored a General Collateral Repo Rate.
 - c. On February 2, 2015, the Federal Reserve Bank of New York published a statement announcing the planned publication of an Overnight Bank Funding Rate (OBFR).² OBFR will be calculated based on federal funds and Eurodollar transactions-level data collected from U.S.-managed banking offices by the Federal Reserve (the FR 2420 data collection). OBFR will be published after revisions to FR 2420 are complete, which is expected within approximately a year. The nature of the revisions will be published in the *Federal Register*.
4. ARRC members discussed OBFR's potential attractiveness as a reference rate. Given that OBFR is a new rate and ARRC members are not yet familiar with it, the Chair requested that Federal Reserve staff provide additional information in order to help educate ARRC members about OBFR. Federal Reserve staff noted that because the OBFR is a new construct, the availability of data to model how it would have performed historically under various conditions will be limited.

¹ "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

² "Statement Regarding Planned Changes to the Calculation of the Federal Funds Effective Rate and the Publication of an Overnight Bank Funding Rate" published on February 2, 2015. Available on the Federal Reserve Bank of New York website: http://www.newyorkfed.org/markets/opolicy/operating_policy_150202.html

5. The Chair noted that there was a Working Group on Sterling Risk-Free Reference Rates being set up in the UK and asked ARRC members to let him know if any of them were participating in Working Group; several members indicated that they or others in their firms are participating.
6. The New Rate Selection workstream of the ARRC shared an updated survey template. Rather than continuing to refine the survey the ARRC members decided to move forward evaluating two rates—a risk-free rate (such as general collateral repo) and a rate with some credit risk (such as the Federal Funds Effective Rate or OBFR). ARRC members agreed to form work groups studying Index Calculation (fixing, administration, fallback provisions) and Index Implementation (accounting/hedging treatment, model approval, legal issues around contract frustration) for both a Risk-free and Credit rate. ARRC members concluded that they lacked sufficient information to further narrow their choice of rates without knowing how the candidate rates would be calculated and implemented. It was agreed that work groups on other areas such as Technology, Market Outreach, and Governance could be organized later and possibly for only one rate.
7. The Chair outlined the following next steps:
 - a. ARRC members will send their preferences for participating in the Risk-free or Credit workstreams to the Secretariat. ARRC members will also indicate if they would like to work in an Index Calculation or Index Implementation group.
 - b. At the next meeting on April 2, 2015, the four (Risk-free Index Calculation, Risk-free Implementation, Credit Index Calculation, Credit Implementation) groups will present detailed work plans and collect feedback. For the May 7, 2015 meeting, the groups will present the results of their work, at which time ARRC members would assess whether to continue evaluating both rates.

**Alternative Reference Rates Committee (ARRC)
Attendance for the February 19, 2015 Meeting**

ARRC Member Attendees:

Bank of America	Paul Scurfield
Barclays	Ian Montgomery
Barclays	Brian Rozen
BNP Paribas	David Brunner
BNP Paribas	Eric Duclos
Citigroup	Brian Leach
Citigroup	Steve Compton*
Citigroup	Heraclio Rojas
Credit Suisse	Shane O’Cuinn
Deutsche Bank	Rich Herman
Goldman Sachs	Scott Rofey
HSBC	Gregory Pierce
HSBC	Pieter van Vredenburg
JP Morgan Chase	Sandie O’Connor
JP Morgan Chase	Terry Belton
Morgan Stanley	Tom Wipf
Nomura	Joseph Lando
Nomura	Steve Licini
RBS	Graham Broyd
Societe General	Francois Barthelemy
Societe General	Sylvain Cartier
UBS	Dan Park
UBS	Kevin Arnold
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	Seth Carpenter

* indicates participation by phone