

Alternative Reference Rates Committee (ARRC)

Minutes for the September 29, 2017 Meeting

1. The ARRC discussed reference rate developments in the euro area, including an [announcement](#) that the European Central Bank will publish a new unsecured overnight interest rate before 2020, and the [formation of a new working group](#) on a risk-free reference rate for the euro area.
2. Participants from several ARRC subgroups that had convened since the last ARRC meeting provided overviews of their initial organizational meetings. The ARRC's subgroups include the Market Structures subgroup, which will examine key issues for a number of derivatives products that are expected to reference SOFR, including futures, forward rate agreements, overnight index swaps, basis swaps, cross-currency swaps, and options; the Regulatory Issues subgroup, which will identify any potential hurdles to implementation posed by the current regulatory structure, such as concerns that signing an ISDA fallback rate protocol creating more robust fallback language for LIBOR could trigger requirements to post margin on legacy trades; the Term Rate subgroup, which will investigate the feasibility of eventually creating a term reference rate; several product subgroups, which will address unique issues related to floating rate notes, business loans, securitizations, mortgages, and other consumer loans; and a Legal subgroup, which will stand ready to answer questions generated by the other subgroups related to legacy contracts and other issues (participants of these working groups are shown in an attachment to these minutes). The ARRC discussed the need to coordinate its work with similar working groups in other currency areas, and the Chair undertook to provide updates to these working groups on the ARRC's work and to report back to the ARRC on the work of the other groups.
3. The ARRC continued its discussion from the previous meeting on how uncertainty about LIBOR's future after 2021 would affect the ARRC's transition plans. The ARRC noted that ISDA is working to develop a fallback rate protocol to convert legacy swaps that reference LIBOR to instead reference the alternative rates recommended by currency working groups and to incorporate a spread adjustment. The ARRC discussed the need to identify a spread calculation methodology that was robust and straightforward, but also minimized the impact on contract valuations covered by the fallback rate protocol.
4. The ARRC discussed the importance of and challenges to developing a term reference rate. Participants noted that there was insufficient activity to develop either a risk-free or a credit-based term rate that was calculated from cash market transactions. Instead, the ARRC discussed that any potential term reference rate would need to be based on derivative transactions that reference the SOFR overnight rate. Once derivatives markets referencing SOFR are sufficiently liquid and robust, which may take several years, an IOSCO compliant term reference rate could potentially be calculated using a variety of methodologies. Participants noted that the bulk of

derivatives activity would need to reference SOFR directly, since SOFR is underpinned by the highly liquid overnight repo market and is the only rate capable of supporting a large derivatives market, but the term reference rate could in principle be used for some cash market transactions by end users that found it difficult to transfer their systems to handle averages of an overnight rate. The ARRC agreed to add the formulation of a term rate as an additional step in the paced transition plan.

5. Federal Reserve staff summarized the results of an implementation timeline survey that ARRC members completed prior to the meeting. The survey asked ARRC firms to provide estimates for the dates by which they could feasibly implement each step of the paced transition plan.
6. The ARRC discussed its plans for the next several months, including continued subgroup work, its roundtable on November 2, and its final report.

Attachment

The following ARRC firms, ARRC Advisory Group firms, and key Industry Associations are participating in the ARRC's subgroups

- Bank of America
- Barclays
- BNP Paribas
- BNY Mellon
- Citi
- Chicago Mercantile Exchange
- Credit Suisse
- Deutsche Bank
- Fannie Mae
- Freddie Mac
- GE Capital
- Goldman Sachs
- HSBC
- International Swaps and Derivatives Association
- JP Morgan
- LCH Group
- The Loan Syndications and Trading Association
- Morgan Stanley
- Nomura
- Pacific Investment Management Company
- Quicken
- RBS
- Securities Industry and Financial Markets Association
- Société Générale
- UBS
- Wells Fargo

Attendance for the September 29, 2017 Meeting

ARRC Member Attendees

Bank of America	Alex Van Vorhees
Bank of America	Paul Scurfield
Barclays	Matthew Besgen
Barclays	Patrick Corrigan*
Barclays	Sunil Chala*
BNP	Simon Winn
Citigroup	Heraclio Rojas
CME	Agha Mirza
CME	Fred Sturm
Credit Suisse	Praveen Korapaty
Credit Suisse	Shane O' Cuinn
Deutsche Bank	Vishal Mahadkar
DTCC	Dan Thieke*
Goldman Sachs	Alexander Blanchard
Goldman Sachs	Scott Rofey*
HSBC	Pieter van Vredenburg
HSBC	Shirley Hapangama
ISDA	Mark New
JP Morgan	Alice Wang
JP Morgan	Sandra O' Connor
JP Morgan	Terry Belton
JP Morgan	Vickie Alvo
JP Morgan	Emilio Jimenez*
LCH	Phillip Whitehurst*
Morgan Lewis	Jon Roellke
Morgan Stanley	Maria Douvas
Morgan Stanley	Thomas Wipf
Nomura	Jennifer Schiffman*
RBS	David Wagner
UBS	Christian Rasmussen
UBS	Karin Mueller
Wells Fargo	Ben Bonner*
Wells Fargo	Cronin McTigue*

Ex Officio Member Attendees

Federal Reserve Bank of New York	Raymond Check
Federal Reserve Bank of New York	Brett Solimine
Federal Reserve Bank of New York	Joshua Frost
Federal Reserve Bank of New York	Katie Bayeux
Federal Reserve Bank of New York	Holger Neuhaus
Federal Reserve Bank of New York	William Riordan
Federal Reserve Board	Jerome Powell*
Federal Reserve Board	David Bowman
Federal Reserve Board	Joshua Louria
Federal Reserve Board	Chris Clubb*
CFTC	Sayee Srinivasan
Office of Financial Research	Matthew McCormick
U.S. Department of the Treasury	Chloe Cabot*
U.S. Department of the Treasury	Brian Smith*