

Alternative Reference Rates Committee (ARRC)

Minutes for the February 28, 2019 Meeting

1. The meeting began with several updates. LCH discussed its recent announcement that, after consulting with its clearing members, it intends to update its approach to the ARRC's Paced Transition Plan by moving in one step to adopt SOFR PAI and discounting for both new and legacy trades. This is expected to take place by the end of 2020, sooner than currently embedded in the Paced Transition Plan, and LCH intends to offer a method for compensating for any valuation impacts associated with the move.

The Chair of the Consumer Products working group described the organization of the group's work over the next six months, noting that four subgroups had been formed to: (1) determine whether there are models of use of compounded SOFR that can satisfy the needs of consumers, lenders, and investors and that can be implemented by servicers; (2) consider fallback language for new consumer products and potential approaches to legacy products referencing U.S. dollar (USD) LIBOR, again carefully considering the needs of consumers; (3) identify any other smaller potential consumer exposures to USD LIBOR besides the larger exposures already identified in adjustable rate mortgages and some legacy student loans; and (4) plan for outreach and education to consumers.

The International Swaps and Derivatives Association (ISDA) noted it would soon release a supplemental consultation for public feedback on the term and spread adjustments in fallbacks for derivatives that reference U.S. dollar LIBOR and certain other IBORs. ISDA noted that it would also seek feedback on market attitudes toward additional "pre-cessation" triggers for derivatives fallbacks.

Federal Reserve staff noted that the Market Structure working group's Cross-Currency Swaps subgroup would soon provide the ARRC with a document detailing a potential approach to minimizing operational issues associated with the use of overnight risk-free rates in interdealer cross-currency swap transactions.

Federal Reserve staff highlighted that, as stated in the [January FOMC meeting minutes](#), the Federal Reserve Bank of New York plans on publishing averages of the SOFR rate and would seek public feedback on the methodology.

Separately, Federal Reserve staff noted that staff at the Board of Governors would soon publish a [paper](#) detailing a potential methodology for calculating indicative forward-looking SOFR term rates. Federal Reserve staff noted the data produced as part of this paper is not appropriate for use in reference rates, is not IOSCO-compliant, and only aims to demonstrate some of the basic properties as to how an eventual forward-looking SOFR term rate might behave. Accordingly market participants should not use this type of indicative data for trading purposes or in financial contracts.

ARRC members discussed the fundamental concern that if market participants delay their LIBOR transition efforts until production of a robust, IOSCO-compliant forward-looking SOFR term rate begins, sufficient liquidity may not develop in SOFR-linked derivatives markets to produce such a rate in the first place. The ARRC Chair noted that members should communicate to market participants the importance of proceeding with transition plans to overnight SOFR and the

drawbacks associated with delaying the former while waiting for a forward-looking SOFR term rate to develop that is IOSCO compliant given that this may not occur ahead of 2021. The ARRC Chair also noted that those who are able to utilize a compounded SOFR rate begin doing so to further build market liquidity.

In response to the ICE Benchmark Administration (IBA)'s public proposal for a U.S. Dollar ICE Bank Yield Index, David Bowman commented on certain aspects of the proposed index. IBA subsequently requested the opportunity to provide further comments to the ARRC and was invited to present at the ARRC's April meeting. Slides from both presentations will be released with the minutes of the April meeting.

2. The Co-Chairs of the Outreach and Communications working group noted that recent media coverage indicates growing interest in reference rate reform. The co-Chairs highlighted the launch of the [ARRC's new website](#), which would help to better educate market participants about the transition away from LIBOR. The co-Chairs also noted that podcasts and speaking engagements by ARRC members as well as the recent introduction of [office hours](#) could help inform the public about the work of the ARRC and other developments related to the transition away from LIBOR.
3. Federal Reserve staff discussed work that aims to educate the public about how an overnight reference rate can be used in cash products, presenting a draft slide deck to the group (Attachment 1). In particular, Federal Reserve staff noted that the presentation would help clarify the differences between simple and compounded averages of SOFR, differences between "in Arrears" and "in Advance" structures as well as possible hybrid models. Federal Reserve staff suggested that ARRC members should review the presentation and provide any feedback or comments that would be useful in helping the ARRC to educate market participants as to how they might use SOFR in cash products.
4. Working group chairs informed the ARRC about plans to submit fallback contract language for floating rate notes and syndicated loans to the Committee for its final review. Chairs also summarized public feedback received on the recently completed consultations on fallback contract language for bilateral business loans and securitizations. It was noted that for bilateral business loans, slightly more respondents preferred an amendment approach for fallback language although there was also substantial support for a hardwired approach; as a result, the co-Chair of the Business Loans working group noted that more work needs to be done on both approaches. For securitizations, it was noted that a majority of respondents favored fallback language that included all four pre-cessation triggers and a large majority expressed that if the ARRC recommends a forward-looking SOFR term rate, that rate should be the primary fallback.
5. The Co-Chairs of the Legal working group noted that Cadwalader developed a draft plan detailing the work necessary for exploring potential legislative relief for legacy securitizations and floating rate notes. The co-Chairs noted that the working group would review the draft plan.
6. The ARRC Chair provided an overview of the Committee's priorities for 2019. In particular, the ARRC Chair noted the importance of clearly identifying the use cases for compounded SOFR and the need to work closely with the official sector and consumer representatives to help consumers understand how such a rate could be used in consumer loans.
7. Federal Reserve staff provided an overview of the process for the Committee to select a new Chair at an upcoming meeting, per the ARRC's [Terms of Reference](#).

Attendance at the February 28, 2019 Meeting

ARRC Members

AXA	Rudolph Shally*
Bank of America	Alex van Voorhees
Bank of America	Paul Scurfield
BlackRock	Jack Hattem
Citigroup	Christoph Rode
CME	Agha Mirza
CME	Fred Sturm
Deutsche Bank	Vishal Mahadkar
Fannie Mae	Nadine Bates
Fannie Mae	Wells Engledow*
Freddie Mac	Ameez Nanjee*
GE Capital	Michael Taets*
Goldman Sachs	Jason Granet
Goldman Sachs	Gigi Chavez de Arnavat
Goldman Sachs	Scott Rofey*
Government Finance Officers Association	Emily Brock
HSBC	Shirley Hapangama
HSBC	Gregory Pierce
Intercontinental Exchange	Harvey Flax
International Swaps and Derivatives Association	Ann Battle
JP Morgan	Sandie O'Connor
JP Morgan	Alice Wang
JP Morgan	David Beck
JP Morgan	Perry Elbadrawi
JP Morgan	Andrew Gray
JP Morgan	Vickie Alvo
JP Morgan	Keith Stephan
JP Morgan	Katie Morgan*
JP Morgan	Emilio Jimenez
LCH	Phil Whitehurst*
LCH	David Horner*
MetLife	Jason Manske
MetLife	Kevin Budd*
Morgan Stanley	Tom Wipf
Morgan Stanley	Maria Douvas-Orme
National Association of Corporate Treasurers	Tom Deas
Pacific Investment Management Company	Aaron Kim
Pacific Investment Management Company	Scott Goodman*
Pacific Investment Management Company	Courtney Garcia*
TD Bank	Greg Moore*
The Federal Home Loan Banks, through FHLBNY	Phil Scott
The Independent Community Bankers of America	Chris Cole*
The Independent Community Bankers of America	James Kendrick*

The Loan Syndications and Trading Association	Meredith Coffey
The Loan Syndications and Trading Association	Ellen Hefferan*
The Loan Syndications and Trading Association	Tess Virmani*
The Securities Industry and Financial Markets Association	Chris Killian*
Wells Fargo	Alexis Pederson
Wells Fargo	Brian Grabenstein
World Bank Group	Don Sinclair*

Ex-Officio ARRC Members

Commodity Futures Trading Commission	Sayee Srinivasan*
Bureau of Consumer Financial Protection	Ron Borzekowski
Bureau of Consumer Financial Protection	Abhishek Agarwal
Federal Deposit Insurance Corporation	Irina Leonova
Federal Housing Finance Agency	Dan Coates
Federal Reserve Bank of New York	Matt Lieber
Federal Reserve Bank of New York	Nathaniel Wuerffel
Federal Reserve Bank of New York	Ray Check
Federal Reserve Bank of New York	William Riordan
Federal Reserve Bank of New York	Caren Cox
Federal Reserve Bank of New York	Justine Hansen
Federal Reserve Bank of New York	Adhiraj Dutt
Federal Reserve Bank of New York	Betsy Bourassa
Federal Reserve Board of Governors	Evan Winerman*
Federal Reserve Board of Governors	David Bowman
Federal Reserve Board of Governors	Erik Heitfield*
Federal Reserve Board of Governors	Laura Macedo*
Office of Financial Research	Sriram Rajan *
Office of Financial Research	Matt McCormick*
Office of the Comptroller of the Currency	Kevin Walsh*
U.S. Securities and Exchange Commission	David Metzman*
U.S. Securities and Exchange Commission	Michelle Danis*
U.S. Treasury	Peter Phelan
U.S. Treasury	Chloe Cabot

Observers

American Bankers Association	Hu Benton
Bank of Canada	Sheryl King
BNP Paribas	Simon Winn
Cadwalader	Jonathan Hoff
Cadwalader	Lary Stromfeld
CRE Finance Council	Raj Aidasani
CRE Finance Council	Lisa Pendergast
Morgan Lewis	Jon Roellke
Structured Finance Industry Group	Sairah Burki
Venerable	Charles Schwartz

*Indicates participation by telephone