ARRC
Alternative Reference Rates Committee | Newsletter

This periodic newsletter provides an update for those with an interest in the work of the Alternative Reference Rates Committee (ARRC), keeping you well informed on key news relating to the alternative reference rates transition in the U.S. and global markets.

April - May 2019

ARRC Developments

- **COMING UP:**
  - **On June 3, the ARRC and the NYU Stern School of Business and its Salomon Center for the Study of Financial Institutions will co-host a half-day forum to provide an opportunity for the ARRC to report on its overall progress toward developing its recommended fallback contract language, to explain how market participants can use the Secured Overnight Financing Rate (SOFR) in cash products, and to outline the steps market participants should be taking to prepare for the end of LIBOR.**
    - The forum is open to the public and press to attend in-person or watch via webcast. Additional information regarding the panel topics and how to register is available here.
  - **On June 28, the ARRC will host a vendor workshop that will provide a forum for the ARRC's Operations/Infrastructure Working Group to collaborate with key vendors of software and technology that are critical to operationalizing the transition away from LIBOR.**
    - Vendors that are interested in participating in the workshop and learning more about the transition should email arrc@ny.frb.org to register.
- The ARRC designated Tom Wipf, Vice Chairman of Institutional Securities at Morgan Stanley, as the ARRC's new chair. Wipf has been Morgan Stanley's representative on the ARRC since 2014 and has served as co-chair of the ARRC's Market Structure and Paced Transition Plan Working Group since 2018.
- The ARRC published A User's Guide to SOFR to help explain how market participants can use SOFR in cash products. The paper also explains the interaction between SOFR and the type of forward-looking term rates that the ARRC has set a goal of seeing produced once SOFR derivative markets develop sufficient depth.
- The ARRC released recommended fallback language for U.S. dollar (USD) LIBOR denominated floating note rates and syndicated loans. This language was developed for market participants' voluntary use in new contracts that reference LIBOR, to reduce the risk of serious market disruption in the event that LIBOR is no longer usable. The final recommended language was prepared after consideration of over 60 comments received on the fallback language consultations for floating note rates and for syndicated loans.
- The ARRC issued a letter to the U.S. Department of Treasury and Internal Revenue Service requesting timely guidance on tax issues arising from the market transition of interbank offered rates (IBORs) to alternative reference rates. According to the letter, the most "critical guidance needed" for an orderly transition is to clarify that a contractual modification that switches a financial instrument from referencing an IBOR to an alternative reference rate should not be considered a taxable event.
- The ARRC issued a document to commemorate the one-year anniversary of SOFR. The document highlights the significant progress made in building liquidity in SOFR-linked

markets and preparing for the transition from USD LIBOR since the Federal Reserve Bank of New York, in collaboration with the Office of Financial Research, began publishing SOFR daily last year.

U.S. Developments

- Federal Reserve Board staff members published a FEDS note that includes data on indicative compound averages of SOFR and, based on a methodology they have proposed, estimated forward-looking term rates. The data will be updated periodically.
- The Fixed Income Market Structure Advisory Committee of the U.S. Securities and Exchange Commission discussed the implications of LIBOR transition for the Corporate Bond and Municipal Securities Markets.

International Developments

For more details on international efforts for reference rate reform, see the working groups in the UK, Switzerland, Japan, the euro area, and the Official Sector Steering Group.

- The Financial Stability Board (FSB) held a roundtable titled "Reforming Major Interest Rate Benchmarks." At the roundtable, Federal Reserve Vice Chair for Supervision and FSB Chair Randal K. Quarles delivered remarks urging the U.S. financial industry to accelerate efforts to move away from USD LIBOR. U.S. Commodity Futures Trading Commission Chairman Christopher Giancarlo also gave remarks on the topic. In other remarks at the roundtable, Counselor to U.S. Treasury Secretary, Craig Phillips, discussed Treasury's ongoing work to evaluate the possibility of issuing SOFR-linked floating rate notes.
- The European Commission published a draft equivalence decision under the EU Benchmarks Regulation (BMR) for Singapore and Australia, considering their respective frameworks as equivalent to the International Organization of Securities Commissions' Principles for Financial Benchmarks and the BMR. The decisions were open for public consultation until April 16.
- The Australian Securities and Investment Commission (ASIC) issued a letter to the CEOs of major Australian financial institutions regarding their preparations for the transition from LIBOR to alternative reference rates. The purpose of this letter is to gain an understanding of financial institutions' preparedness for the LIBOR transition. ASIC is seeking assurance that the senior management of financial institutions understand the impact and risks of this transition and is taking appropriate action to manage these risks.
- The European Money Markets Institute has started transitioning panel banks from the current EURIBOR methodology to a new hybrid methodology and has issued a statement noting that it had applied for authorization from the Belgian Financial Services and Markets Authority (FSMA) under EU Benchmarks Regulation as the administrator of EURIBOR.

Market Developments

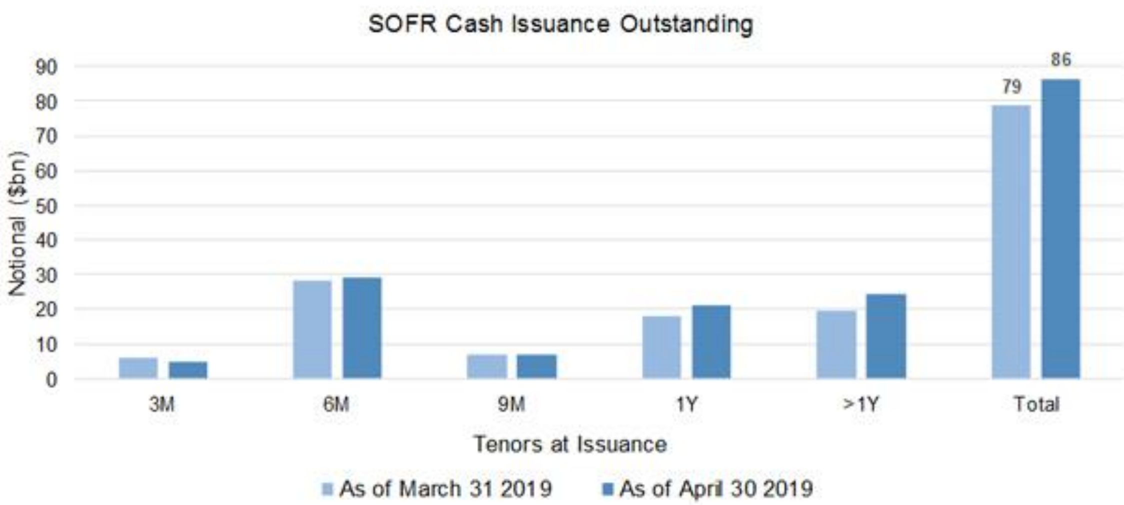
- The International Swaps and Derivatives Association (ISDA) launched two new consultations on benchmark fallbacks – one covering adjustments that would apply to fallback rates in the event certain IBORs are permanently discontinued, and another relating to pre-cessation issues for LIBOR and certain other IBORs.
  - The first consultation sets out options for adjustments that will apply to the relevant alternative reference rates if fallbacks are triggered for derivatives referencing USD LIBOR, Hong Kong's HIBOR, and Canada's CDOR.
  - The other consultation relates to pre-cessation issues, and seeks comment on how derivatives contracts should address a regulatory announcement that LIBOR or

certain other IBORs categorized as critical benchmarks under the EU Benchmarks Regulation are no longer representative of an underlying market.

- ISDA also published a first quarter benchmark review that analyzes trading volumes of interest rate derivatives referencing SOFR and other alternative reference rates. Trading volumes of interest rate derivatives (IRDs) referencing SOFR (the first of which were executed in the third quarter of 2018) increased in the first quarter of 2019. However, IRD traded notional referencing IBORs still represented 67% of total IRD traded notional.
- CME Group issued a note, which wrote that, "SOFR futures' first year ranks among the most successful in CME Group's 171-year history."
- CME Group also released a discussion document on SOFR discounting and price alignment.
- The Government National Mortgage Association (Ginnie Mae) announced the settlement of the first Real Estate Mortgage Investment Conduit tranche indexed to SOFR. The transaction, which is the result of a joint effort between Ginnie Mae and Amherst Pierpont, represents a major step towards implementing alternatives to LIBOR in the mortgage market.
- The International Accounting Standards Board proposed to amend International Financial Reporting Standards to provide relief from specific hedge accounting requirements that could have resulted in the discontinuation of hedge accounting solely due to the uncertainty arising from interest rate benchmark reform.

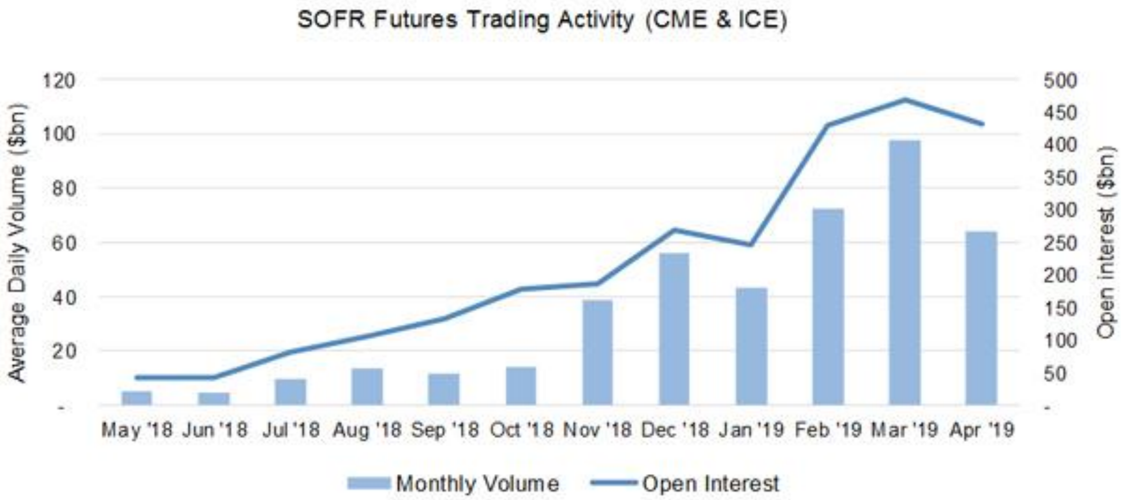
SOFR Market Liquidity

- SOFR cash issuance has reached over $86B outstanding.



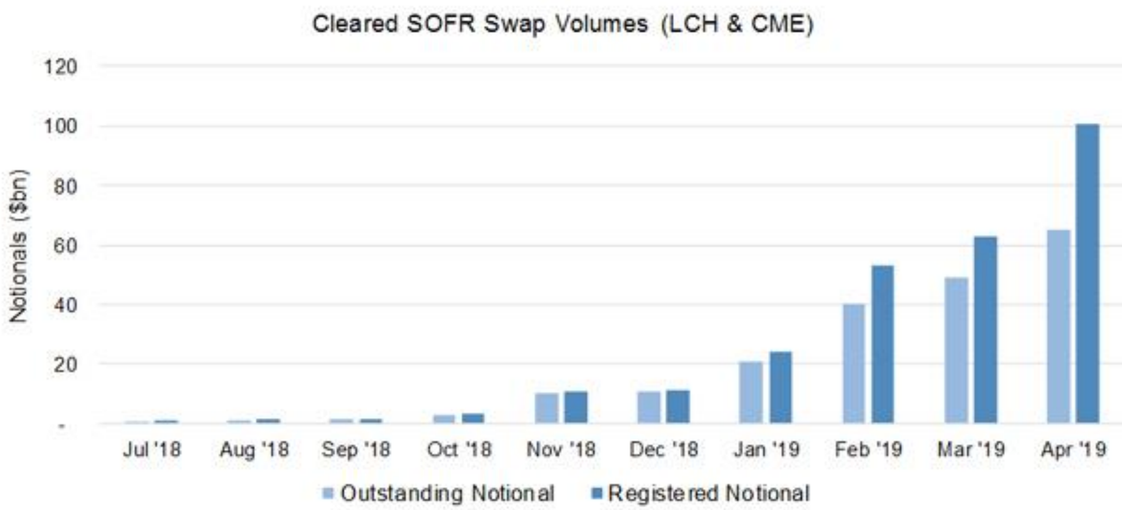
(As of April 30, 2019; Source: CME Group)

- Average daily notional volume and total outstanding open interest in SOFR futures was over $64B and $431B, respectively, as of April month end.



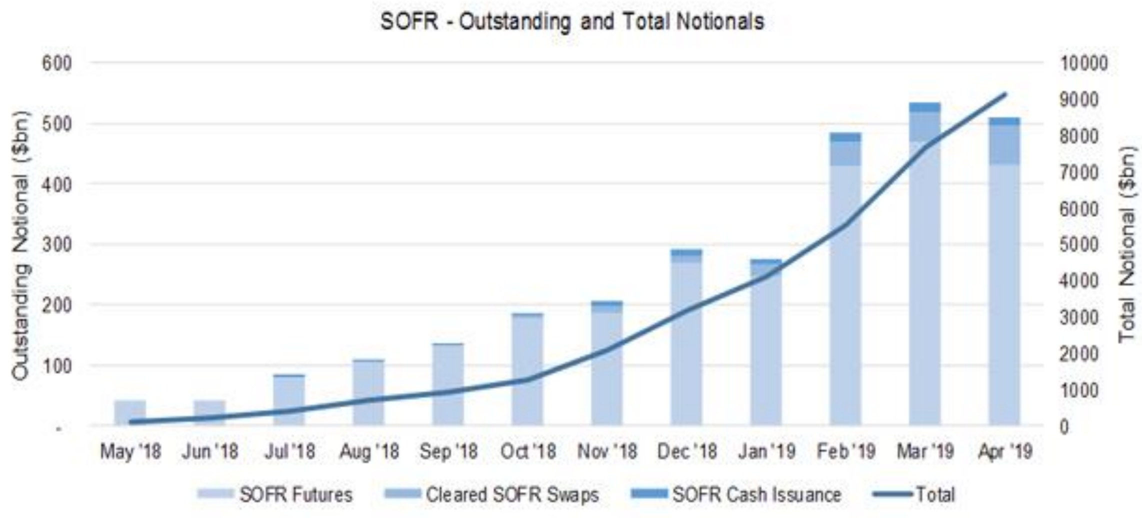
(Source: [CME Group](), [ICE]())

- SOFR cleared swaps have reached over $64B outstanding. LCH experienced their busiest month to date for SOFR swaps activity; combined registered notional volumes across LCH and CME exceeded $100B for the first time since inception.
  - In this case, outstanding notional represents the stock. It is the prevailing notional amount of all outstanding swap contracts live at LCH and CME. Meanwhile, registered notional represents the turnover. It is the aggregate notional amount of all new swap contracts submitted to and cleared through LCH and CME.



(Source: [LCH](), [CME Group]())

- In the short period since inception of SOFR in April 2018, total notional has reached more than $9tn in the market.
  - Total notional refers to the cumulative value of all open and expired SOFR transactions issued to date.



(Source: LCH, CME Group, ICE)