

ARRC

Alternative Reference Rates Committee | Newsletter

January 2019

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 risk-free rates transition in the U.S. and global markets.

ARRC Developments

- The ARRC added a new question to its set of [frequently asked questions](#). This new question addresses concerns about the volatility of SOFR. The new question notes that the financial contracts referencing SOFR—including SOFR-linked exchange-traded futures, over-the-counter overnight index swaps, and SOFR floating rate notes—have been based on averages of daily values of SOFR that are quite smooth even over year- or quarter- ends.
- The ARRC hosted [webinars](#) providing background on the consultations on U.S. dollar (USD) LIBOR fallback contract language for bilateral business loans and securitizations. These were created to help market participants understand and respond to the request for feedback during the comment period.
 - **ARRC Fallback Consultation Webinar: Bilateral Business Loans**, Featuring Hu Benton of the American Bankers Association, chair of the ARRC's Business Loans Working Group [[Video](#), [PDF](#)]
 - **ARRC Fallback Consultation Webinar: Securitizations**, Featuring Sairah Burki of Structured Finance Industry Group, Inc. and Lisa Pendergast of CRE Finance Council, co-chairs of the ARRC's Securitizations Working Group [[Video](#), [PDF](#)]
- Public feedback on the ARRC's USD LIBOR fallback contract language consultations for [bilateral business loans](#) and [securitizations](#) are due by February 5, 2019.
- In the next few months, the ARRC expects to complete its review of public feedback on its set of consultations on fallback contract language and release final recommended language for voluntary use in floating rate notes, syndicated and bilateral business loans, and securitization documentation.

International Highlights

- The Working Group on Euro Risk-Free Rates issued several reports for industry feedback and review. Industry comments on documents must be submitted by February 1, 2019.
 - Second [public consultation](#) on determining an ESTER-based term structure methodology as a fallback in EURIBOR-linked contracts
 - Report on [available transition paths](#) from EONIA to ESTER
 - Guiding [principles](#) for fallback provisions in new contracts for euro-denominated cash products
- The UK Working Group on Sterling Risk-Free Reference Rates:

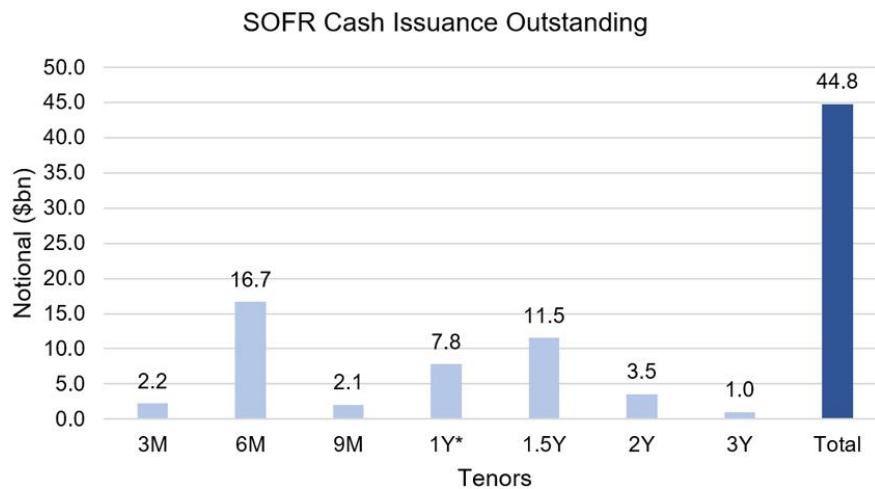
Market Developments

- In a recent [speech](#), Securities and Exchange Commission Chairman Jay Clayton acknowledged that significant progress has been made to facilitate the transition from USD LIBOR to SOFR but emphasized the importance of continued planning and action by market participants.
- Commodity Futures Trading Commission announced members of the [Interest Rate Benchmark Reform Subcommittee](#) of its Market Risk Advisory Committee.
- The International Swaps and Derivatives Association published the [results](#) of the consultation on technical issues related to new benchmark fallbacks for derivatives contracts that reference certain IBORs.

- Published a [paper](#) on issues for new and legacy loan transactions referencing Sterling LIBOR
- Issued a [Preliminary Priority List](#) for the Infrastructure and Systems Work Stream
- Is hosting an [Infrastructure Forum](#) on January 31, 2019, to gain insight from infrastructure and systems providers on outstanding issues relating to the development of SONIA and other risk-free rate linked products
- Is [inviting interested benchmark administrators](#) to consider the [summary of responses](#) to the [consultation](#) on forward-looking Term Sonia Reference Rates and share any views on the development of such benchmarks by February 15, 2019
- The UK government published a draft [Statutory Instrument \(SI\)](#) summarizing plans to amend the UK's retained version of the EU Benchmark Regulation if the UK leaves the EU without agreement on an implementation period. The SI outlines the approach to migrate LIBOR to the UK register and thus be available for use by UK supervised entities post-Brexit.
- The chairs of Bank of Japan's Sub-Groups on Loans, Bonds and Term Reference Rates met to provide an [update](#) to the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks on the approach for fallbacks and issues surrounding contracts as well as hedge accounting.
- Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA, delivered a [speech](#) at the International Swaps and Derivatives Association (ISDA) Annual Legal Forum on LIBOR transition and contractual fallbacks.
- LCH [published](#) its position on ISDA's recommended Benchmark Fallback Approaches.

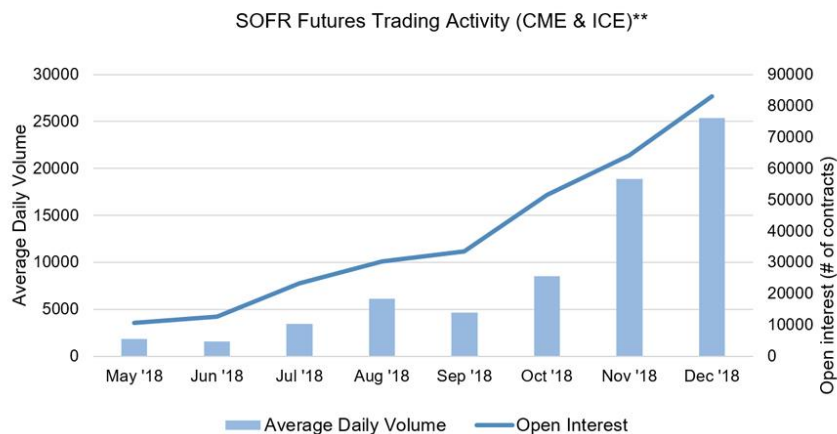
SOFR Market Liquidity

- SOFR cash issuance has reached \$44.8B outstanding.



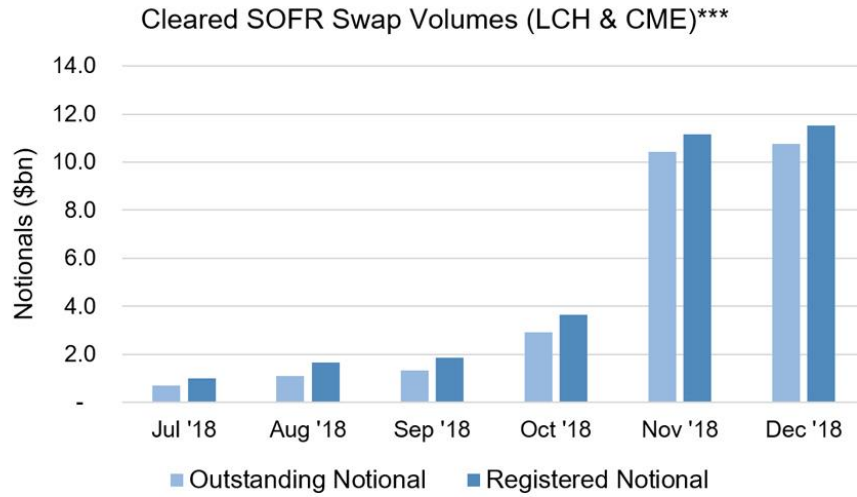
(As of January 30, 2019; Source: [CME Group](#))

- Average daily volume and open interest for CME and ICE Futures contracts has continued to increase since trading began on each exchange.



(As of January 30, 2019; Source: [CME Group](#), [ICE](#))

- Outstanding cumulative notionals in cleared SOFR swaps has shown a steady increase over the first few months with a large spike in activity in November 2018



(As of January 30, 2019; Source: [LCH](#), [CME](#))

*Includes the \$107.3M Triborough Bridge & Tunnel Authority Notes remarketed with a 1-year mandatory tender date and 13.5 year final maturity
 **ICE SOFR futures trading began on October 22, 2018. The data in the table reflects number of contracts, which has been adjusted to replicate CME contract units.
 ***CME began clearing SOFR swaps on October 1, 2018