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ARRC Releases Preliminary Report on Potential Interdealer Cross-Currency Swap Market Conventions

The Alternative Reference Rates Committee (ARRC) today released a report detailing preliminary considerations for the use of risk-free rates (RFRs) in interdealer cross-currency swaps. Cross-currency swaps are actively used by many buy side, sell side, and intermediary market participants. These swaps currently reference LIBOR and other interbank offered rates (IBORs), and it will be important to develop new structures that can be based on RFRs.

The report was developed by the Cross-Currency Swaps Subgroup of the ARRC's Market Structures and Paced Transition Working Group in cooperation with working groups from other currency jurisdictions (including representatives from national working groups in Canada, the euro area, Japan, Switzerland, and the United Kingdom), industry trade associations, clearing and settlement infrastructure providers, and other market participants.

The report summarizes the Subgroup's work and outlines potential conventions for interdealer trading of RFR-RFR and RFR-IBOR cross-currency swaps. The report also covers discussions with the International Swaps and Derivatives Association (ISDA) about some potential benefits of a template that would allow market participants to ensure that both legs of a legacy cross-currency swap referencing IBORs would concurrently move to successor rates.

The Subgroup is working with several industry trade associations, including the Association for Financial Markets in Europe, the Global Financial Markets Association, ISDA, and the Securities Industry and Financial Markets Association, to receive wider feedback from market participants on the market conventions and other aspects described in the report.

About the ARRC

The ARRC is a group of private-market participants convened by the Federal Reserve Board and Federal Reserve Bank of New York in cooperation with the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Office of Financial Research, the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission, the Securities and Exchange Commission and the U.S. Treasury Department. It was initially convened in 2014 to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption. The ARRC accomplished its first set of objectives and identified SOFR as the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published its Paced Transition Plan, with specific steps and timelines designed to encourage adoption of SOFR. The ARRC was reconstituted in 2018 with an expanded membership to help to ensure the successful implementation of the Paced Transition Plan, address the increased risk that LIBOR may not exist beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

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