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ARRC Releases Recommendations for Interdealer Cross-Currency Swap Market Conventions

The Alternative Reference Rates Committee (ARRC) today released [final recommendations](#) for new interdealer cross-currency basis swaps that use the Secured Overnight Financing Rate (SOFR) and overnight risk-free rates (RFRs) recommended by National Working Groups (NWGs) in other jurisdictions. The conventions outlined in today's document are for market participants' voluntary use.

Today's [document](#) consists of three sections and it focuses on interdealer transactions. The first section covers conventions for RFR-RFR cross-currency swaps. The second section covers conventions for RFR-interbank offered rates (IBORs) cross-currency swaps. The third section covers potential fallbacks for cross-currency swaps currently referencing IBORs, focusing on the prospect of one or both counterparties in an IBOR-based swap transitioning from an IBOR to an RFR.

"Most existing conventions for cross-currency swap transactions focus on LIBOR or other IBORs—which is untenable considering LIBOR's fast-approaching expiration date. Today's document addresses this issue by providing essential structures for cross-currency swaps that use SOFR and other RFRs," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "By outlining conventions that support RFR-based cross-currency transactions, the ARRC is helping market participants avoid unnecessary operational complexities, allow for easier hedging, and limit transaction costs."

Today's recommendations were developed by the ARRC's [Market Structure and Paced Transition Working Group](#), which includes buy side, sell side, and intermediary market participants. Throughout 2019, the Group consulted with several other NWGs in developing recommendations. In May 2019, the Group produced a [summary document](#) of its initial work. The International Swaps and Derivatives Association and the Securities Industry and Financial Markets Association used this summary document to solicit input from a wider set of market participants. The Association for Financial Markets in Europe also circulated the summary document to its members for input. The Market Structure and Paced Transition Working Group incorporated feedback on the summary document in the [final recommendations](#) released today.

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 U.S. dollar (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 the 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 the SOFR. The ARRC was reconstituted in 2018 with an expanded membership to

ALTERNATIVE REFERENCE RATES COMMITTEE

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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