2020: The Time is Now

ISDA/SIFMA AMG Benchmark Strategies Forum 2020
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Moderator: Scott O’Malia, Chief Executive Officer, ISDA
Harri Vikstedt, Senior Director, Financial Markets Department, Bank of Canada
Tom Wipf, ISDA Board Member, Vice Chairman of Institutional Securities, Morgan Stanley & Chair, Alternative Reference Rates Committee
Nate Wuerffel, Head of Domestic Markets, Markets Group, Federal Reserve Bank of New York
Tools for Transition from U.S. Dollar LIBOR

- ARRC’s Selection of SOFR as Recommended Alternative to USD LIBOR:
  - ARRC Interim Report and Consultation
  - ARRC Second Report

- ARRC Paced Transition Plan (see timeline on next slide)

- FRBNY/OFR Publication of New Reference Rates:
  - Publication of SOFR and Other Treasury Repo Reference Rates
  - Proposed Publication of SOFR Averages and a SOFR Index
  - Publication of SOFR Averages and a SOFR Index

- ARRC Recommended Fallback Contract Language:
  - Summary of ARRC’s LIBOR Fallback Language
  - Adjustable Rate Mortgages
  - Bilateral Business Loans
  - Floating Rate Notes
  - Securitizations
  - Syndicated Loans

- Other ARRC Publications:
  - Buy-Side Checklist for SOFR Adoption
  - Recommendations for Interdealer Cross-Currency Swap Market Conventions
  - SOFR Floating Rate Notes Conventions Matrix, Appendix, and Comparison Chart
  - Practical Implementation Checklist for SOFR Adoption
  - Frequently Asked Questions
  - White Paper on Using an Average of SOFR to Build an Adjustable-Rate Mortgage Product for Consumers
  - A User’s Guide to SOFR

- Recent ARRC Consultations:
  - Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR
  - Swaptions Impacted by the CCP Discounting Transition to SOFR

For more information, see:
https://www.newyorkfed.org/arrc/fallbacks-contract-language
https://www.newyorkfed.org/arrc/publications
Transition from U.S. Dollar LIBOR – Timeline

The Alternative Reference Rates Committee (ARRC) was originally convened in November 2014. Significant progress has been made to date.

Key ARRC and Other Developments

May – ARRC’s Interim Report and Consultation published
Jun. – ARRC selected SOFR as its recommended alternative to USD LIBOR

May – CME launched SOFR futures
Apr. – New York Fed/OFR began publishing SOFR
Oct. – ARRC Paced Transition Plan adopted

Mar. – ARRC’s second report published
ARRC reconstituted with expanded membership

Mar. – New York Fed/OFR begin publishing SOFR Averages and SOFR Index
Mar. – New York Fed/OFR begin publishing SOFR PAI/discounting on new and legacy swaps

Apr. – ARRC issues consultation on swaptions impacted by CCPs discounting transition to SOFR

May – ARRC releases recommended fallback language for FRNs and syndicated loans
ARRC releases a User’s Guide to SOFR

Sep. – ARRC releases practical implementation checklist for SOFR adoption

Nov. – ARRC releases recommended fallback language for residential ARMs
New York Fed launches consultation on SOFR averages and index

EOY – Create a forward-looking SOFR term reference rate

Key

As of 2/12/20

 Complete
○ Anticipated Completion
☑ Completed ahead of schedule
SOFR Averages and Index

• Beginning on March 2, 2020, the New York Fed, in cooperation with Treasury’s Office of Financial Research (OFR), will begin publishing 30-day, 90-day and 180-day SOFR Averages, as well as a SOFR Index

• The SOFR Averages and Index will employ daily compounding, in line with the ISDA methodology for use of overnight rates in swap contracts

• The SOFR Index will measure the cumulative impact of compounding the SOFR on a unit of investment over time and can be used to calculate custom period averages between any two business dates

• Publication of accessible and reliable SOFR Averages and a SOFR Index, for reference in financial contracts, is an important step in encouraging widespread adoption of SOFR and supporting the LIBOR transition

• The averages and index could be referenced in a variety of products, such as consumer loans and floating rate notes (FRNs)