

May 20, 2016

ARRC Releases Interim Report and Consultation

The Alternative Reference Rates Committee (ARRC) has released an [Interim Report and Consultation](#) summarizing its progress in narrowing the set of potential rates that might be chosen as an alternative to U.S. dollar LIBOR and in considering potential plans for transition to the chosen rate.

The Financial Stability Board (FSB) and the Financial Stability Oversight Council (FSOC) have both recognized that the secular decline in wholesale unsecured short-term funding by banks poses serious structural risks for unsecured benchmarks such as LIBOR, Euribor, and TIBOR. In response to the FSOC's recommendations and the objectives of the FSB, the Federal Reserve convened the ARRC to identify a set of alternative U.S. dollar reference interest rates that are more firmly based on transactions from a robust underlying market that comply with emerging benchmark standards, and to identify an adoption plan to facilitate the acceptance and use of these alternative reference rates. After extensive discussion, the ARRC has preliminarily narrowed the list of potential replacement rates to two that it considers to be the leading alternatives, the **Overnight Bank Funding Rate (OBFR)** and an **overnight Treasury general collateral repo rate**. Both rates represent underlying markets with robust and sizable daily transaction volumes.

Additionally, the ARRC proposes an initial strategy (the "paced transition"), that could potentially provide a threshold level of liquidity that would be needed for end users to consider adoption of an alternative rate. If adopted, a paced transition would represent a first step in creating a liquid market for the alternative rate, but further work will be required – following consultation and close involvement with end users – both in developing the details of an initial transition strategy and in planning for a full transition strategy that would move a more significant portion of the derivatives markets away from LIBOR to the new rate.

Following the publication of this interim report, the ARRC intends to consult widely and closely with end users and consider comments received during the public comment period. As an integral part of that process, the Report concludes with a set of consultation questions. Comments can be delivered to arrc@ny.frb.org and questions can also be sent to the same address. Comments should be received no later than July 15, 2016 and will be posted on the [ARRC's website](#). In addition, the ARRC will host a roundtable on this Interim Report and the questions for consultation at the Federal Reserve Bank of New York on June 21, 2016 from 9:30-11:30am. Parties interested in attending a roundtable should indicate their interest by email to arrc@ny.frb.org. The ARRC will host other roundtables in coming months if space does not allow for all interested parties to attend the June 21 roundtable.

About the Alternative Reference Rates Committee (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 U.S. Department of the Treasury, the U.S. Commodity Futures Trading Commission, and the Office of Financial Research, to identify a set of alternative reference interest rates that are more firmly based on transactions from a robust underlying market and that comply with emerging standards such as the IOSCO *Principles for Financial Benchmarks* and to identify an adoption plan with means to facilitate the acceptance and use of these alternative reference rates. The ARRC was also asked to consider the best practices related to robust contract design that ensure that contracts are resilient to the possible cessation or material alteration of an existing or new benchmarks. More information is available at: <https://www.newyorkfed.org/arrc/index.html>

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