Alternative Reference Rates Committee (ARRC)

Minutes for the February 16, 2022 Meeting

The ARRC Chair welcomed participants to the virtual meeting which began with the annual review of the ARRC's Antitrust Guidelines and Terms of Reference. The ARRC's antitrust counsel reminded members that they are required to observe the ARRC's Antitrust Guidelines, and summarized the core principles that guide the work of the ARRC and its various working groups. Federal Reserve Bank of New York staff then reminded members of their obligations under the ARRC's Terms of Reference, and reviewed a new revision being made to the Terms of Reference to clarify members' responsibilities with respect to materials that will be published on the ARRC's website. ARRC members reaffirmed adherence to the Antitrust Guidelines and ratified the revised Terms of Reference.

Next, representatives from the Financial Conduct Authority (FCA) and Bank of England (BoE) provided an update on the work of the UK's Working Group on Sterling Risk-Free Reference Rates. The FCA and BoE indicated that the transition in sterling markets went smoothly, with the market having confidence in the conversion from sterling LIBOR to SONIA. They noted that the market's de-risking activity, via re-negotiation and compression of LIBOR swaps ahead of year-end, was an important step in the sterling market conversions occurring successfully. Beyond year-end, they noted a further pick-up in SONIA derivatives and that high levels of conversions/fallbacks had resulted in limited use of synthetic GBP LIBOR to less than 2 percent of legacy contracts. They also noted that term SONIA rates continued to be little used outside of its role as a fallback for these legacy contracts products.

Federal Reserve staff then provided an overview of the USD LIBOR transition using the charts provided in the February 16 Meeting Readout, noting that the data suggest that most markets have made a significant shift in their activity away from USD LIBOR to SOFR. In particular, SOFR over-the-counter (OTC) derivative volumes sharply accelerated in 2022 to date, with SOFR swap risk representing more risk traded than LIBOR. In exchange-traded derivatives, although SOFR futures volumes and open interest have also increased notably since December 2021, less progress was seen overall in shifting activity from Eurodollar options to SOFR options. Within cash products, the data illustrated a clear shift from LIBOR to SOFR, with the majority of syndicated loans issued in January referencing SOFR. In addition to the data, anecdotal feedback also suggests significant progress in the shift from LIBOR to SOFR. Staff provided an overview of the results of the most recent sentiment survey of ARRC members (see Appendix A for summary slides). Survey respondents characterized the LIBOR transition overall as progressing smoothly or generally smoothly, with none reporting significant obstacles, and with an upgrade in views on progress in business loans relative to the December 2021 survey.

The Operations/Infrastructure Working Group then provided an update on its ongoing work. They outlined progress related to use of corporate action notifications to communicate rate changes from LIBOR to SOFR. The group has worked with issuers, agents, and vendors in identifying a range of data elements that should be included in potential notifications conveying the shift of those securities from LIBOR to SOFR. Separately, the working group co-chairs noted that they were conducting a survey of its members to continue identifying key areas of focus from an operational perspective.

The ARRC Chair then facilitated a group discussion on the ARRC's 2022 objectives, which reflect the ARRC's efforts to continue supporting the transition away from LIBOR by preparing markets for its 2023 cessation and encouraging the voluntary use of SOFR as a more robust and resilient alternative. To that end, ARRC members discussed areas of work addressing both new and legacy contracts which they view as most critical this year, and finalized ARRC's objectives for 2022.

Next, the Legal Working Group provided an update on the status of proposed federal legislation. It was noted that the bill H.R. 4616, the Adjustable Interest Rate (LIBOR) Act passed by the House of Representatives in December 2021, and that similar legislation was currently with the Senate Committee on Banking, Housing, and Urban Affairs. The working group indicated that the Senate committee members continue to be actively engaged in reviewing the bill. The discussion on federal legislation was followed by an update on state legislation. An increasing number of states are in varying stages of considering a LIBOR legislation similar to the legislation passed by New York and Alabama in 2021.

Brunswick then provided a review of their work over the prior year and outlined their proposed scope of work and fee structure for the coming year. Brunswick then exited the meeting and the ARRC Chair followed up with a discussion of Brunswick's proposal.

The ARRC Chair ended the meeting by directing members to review and finalize the February 16 Meeting Readout which is a new, timely product to report on the ARRC's work at a high-level and highlight transition data. The ARRC Chair then thanked everyone and reminded everyone of the next ARRC meeting to be held March 23rd via Webex.

Attendance at the February 16, 2022 Meeting*

ARRC Members	
American Bankers Association	Hu Benton
American Bankers Association	Andy Guggenheim
Association for Financial Professionals	Thomas Hunt
Bank of America	Janet Choi
Bank of America	Sonali Theisen
Bank of New York Mellon	Jason Granet
Bank of New York Mellon	Oliver Bader
Bank of New York Mellon	Jeanne Naughton-Carr
BlackRock	Jack Hattem
Citigroup	Josie Evans
Citigroup	Peter Phelan
Citigroup	Jeannine Hyman
CME Group	Agha Mirza
Comerica Bank	Dave Shipka
CRE Finance Council	Raj Aidasani
CRE Finance Council	Sairah Burki
Deutsche Bank	Adam Eames
Deutsche Bank	Kayam Rajaram
Equitable	Julien Zusslin
Fannie Mae	Wells Engledow
Fannie Mae	Bob Ives
Federal Home Loan Bank Office of Finance	Kyle Lynch
Federal Home Loan Bank of New York	Philip Scott
Federal Home Loan Bank of New York	Rei Shinozuka
Ford Motor Company	Jason Behnke
Freddie Mac	Ameez Nanjee
Freddie Mac	Guim Barbour
Freddie Mac	Allan Krinsman
Freddie Mac	Karen Pilewski
GE Capital	Fred Robustelli
GE Capital	Michael Taets
Goldman Sachs	Guillaume Helie
Government Finance Officers Association	Patrick McCoy
Government Finance Officers Association	Emily Brock
HSBC	Shirley Hapangama
HSBC	Blair Selber
Huntington National Bank	Larry Heath
Independent Community Bankers of America	Christopher Cole
Independent Community Bankers of America	James Kendrick
Intercontinental Exchange	Harvey Flax
International Swaps and Derivatives Association	Ann Battle

JP Morgan Chase & Co.	Alice Wang
JP Morgan Chase & Co.	Emilio Jimenez
JP Morgan Chase & Co.	John Van Etten
JP Morgan Chase & Co.	Andrew Gray
KKR	Tal Reback
LCH	Phil Whitehurst
Loan Syndications and Trading Association	Meredith Coffey
MetLife	Alex Strickler
MetLife	Joseph Demetrick
MetLife	William Ding
Morgan Stanley	Maria Douvas-Orme
Morgan Stanley	Matt Ochs
Morgan Stanley	Tom Wipf
Morgan Stanley	Paige Mandy
National Association of Corporate Treasurers	Tom Deas
Pacific Investment Management Company	Jerry Woytash
PNC	Alexander Spiro
PNC	Andrew Wilson
Prudential Financial	Chris Mcalister
Prudential Financial	Gary Horbacz
Securities Industry and Financial Markets Association	Chris Killian
Structured Finance Association	Jennifer Earyes
TD Bank	Priya Misra
TD Bank	Greg Moore
U.S. Chamber of Commerce	Kristen Malinconico
Wells Fargo	Brian Grabenstein
Wells Fargo	Alexis Pederson
World Bank	Donald Sinclair

Ex-Officio ARRC Members

Commodity Futures Trading Commission	Alicia Lewis
Consumer Financial Protection Bureau	Abhishek Agarwal
Federal Deposit Insurance Corporation	Irina Leonova
Federal Housing Finance Agency	Daniel Coates
Federal Reserve Bank of New York	Betsy Bourassa
Federal Reserve Bank of New York	Fatima Madhany
Federal Reserve Bank of New York	Pooja Gupta
Federal Reserve Bank of New York	Jamie Pfeifer
Federal Reserve Bank of New York	Nathaniel Wuerffel
Federal Reserve Bank of New York	Raymond Check
Federal Reserve Bank of New York	Will Riordan
Federal Reserve Bank of New York	Mari Baca
Federal Reserve Bank of New York	Cam Fuller
Federal Reserve Bank of New York	Carolyn Windover

Federal Reserve Bank of New York	Sanika Shastri
Federal Reserve Bank of New York	Bradley Groarke
Federal Reserve Bank of New York	Scott Sherman
Federal Reserve Board of Governors	Darren Gersh
Federal Reserve Board of Governors	David Bowman
Federal Reserve Board of Governors	Evan Winerman
Federal Reserve Board of Governors	Jeffrey Huther
Ginnie Mae	Michael Nardacci
New York State Department of Financial Services	Steven Kluger
Office of Financial Research	Jay Kahn
Office of the Comptroller of the Currency	Ang Middleton
Office of the Comptroller of the Currency	Kevin Walsh
U.S. Department of Housing and Urban Development	Maria Chelo De Venecia
U.S. Securities and Exchange Commission	Jason Leung
U.S. Securities and Exchange Commission	Michelle Danis
U.S. Treasury	Daniel Harty
U.S. Treasury	Dini Ajmani
U.S. Treasury	Sally Au Yeung
U.S. Treasury	Joshua Frost

Observers

BNP Paribas	Simon Winn
BNP Paribas	Colin Laskowski
Bank of Canada	Sheryl King
Bank of England	Alastair Hughes
Brunswick	Jeanmarie McFadden
Brunswick	Patrick Rutherford
Cadwalader	Lary Stromfeld
Citigroup	Luis Asturizaga
Citigroup	Rodrigo Fernandez
Financial Conduct Authority	Toby Williams
Financial Conduct Authority	Sophie Legrand-Green
Morgan Lewis	Jon Roellke
State Street	Scott Longo
Venerable	Charles Schwartz

*This meeting was held via WebEx; asterisk indicates participation by dial-in.

Appendix A
ARRC Sentiment Survey - Responses Overview

For discussion purposes only

Overall:
The LIBOR Transition is progressing:
a. Smooth
b. Generally smooth, working through some obstacles
c. Significant obstacles

Responses	Jan 2022 (19 responses)
a:	36.8%
b:	63.2%
c:	0.0%

Derivatives:
The LIBOR Transition is progressing:
a. Smooth
b. Generally smooth, working through some obstacles
c. Significant obstacles

Responses	Jan 2022 (18 responses)
a:	55.6%
b:	38.9%
c:	5.6%

ARRC Sentiment Survey - Responses Overview

For discussion purposes only

<u>Business Loans:</u>
The LIBOR Transition is progressing:
a. Smooth
b. Generally smooth, working through some obstacles
c. Significant obstacles

Responses	Jan 2022 (17 responses)
a:	29.4%
b:	70.6%
c:	0.0%

<u>Consumer Loans:</u>
The LIBOR Transition is progressing:
a. Smooth
b. Generally smooth, working through some obstacles
c. Significant obstacles

Responses	Jan 2022 (14 responses)
a:	64.3%
b:	28.6%
c:	7.1%

ARRC Sentiment Survey - Responses Overview

For discussion purposes only

Floating Rates Notes:
The LIBOR Transition is progressing:
a. Smooth
b. Generally smooth, working through some obstacles
c. Significant obstacles

Responses	Jan 2022 (15 responses)
a:	66.7%
b:	33.0%
c:	0.0%

Securitizations:
The LIBOR Transition is progressing:
a. Smooth
b. Generally smooth, working through some obstacles
c. Significant obstacles

Responses	Jan 2022 (15 responses)
a:	20.0%
b:	73.3%
c:	6.7%

ARRC Sentiment Survey - Responses Overview

For discussion purposes only

Key Messages:

- Overall, continued positive momentum - 100% of respondents indicated the transition overall is progressing smoothly or generally smoothly into 2022.
  - No meaningful change in sentiment regarding most asset classes. One exception is business loans which registered an upgrade in views (no respondents indicated significant obstacles).

Areas Highlighted by Respondents:

- Liquidity for exchange-traded SOFR derivative products (such as SOFR options) progressing more slowly relative to over-the counter SOFR derivative liquidity.
- Working through market-neutral economics of new SOFR loans.
  - Questions on whether to use CSA, CSA curve, or no adjustment.
- Difficulty pricing fixed rate contracts without a clear forward curve and inconsistent use of pricing benchmarks.
- Gauging interest or expressing concern about the level of interest in remediating legacy contracts.
- Securitizations continuing to move slowly but areas of progress include CLOs.
- Concerns around LIBOR usage and the need to educate counterparties in non-US/EU/UK jurisdictions.
- Some concern about non-bank entities continuing to provide LIBOR loans (but with the view this will likely decline over the coming months).
- Concerns about implementation of ISDA 2-day observation shift for clients with hedges, compatibility with accounting systems, potential differences in fixed/floating leg settlement dates, and the need for longer lookbacks for some.
- Questions about the types of LIBOR loans that are permissible, such as fungible accordions and uncommitted loans.
- Awaiting guidance on CCP approaches for the transition.