Alternative Reference Rates Committee (ARRC)

Minutes for the November 9, 2022 Meeting

The ARRC Chair welcomed participants to the hybrid meeting and introduced Michael Barr, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, who delivered remarks regarding progress in the transition away from USD LIBOR. Similar to his remarks at the December meeting of the Financial Stability Oversight Council, Vice Chair Barr highlighted the importance of proactively remediating legacy LIBOR contracts ahead of June 2023 in order to avoid the potential pile-up of LIBOR contracts to be addressed after June 2023 and the need to limit Term SOFR usage outside of the business loan market in line with the ARRC's best practices recommendations in order to avoid risks to financial stability. Vice Chair Barr thanked ARRC members for their efforts throughout the decade long LIBOR transition process and emphasized the importance of not recreating the issues that afflicted LIBOR going forward.

Federal Reserve staff then provided an overview of the USD LIBOR transition, using the charts provided in the November 9 Meeting Readout. Staff noted that the transition away from LIBOR to SOFR continues to progress strongly in 2022, with SOFR as the predominant rate across both cash and derivatives markets. In particular, SOFR swaps have accounted for more than 90 percent of daily volumes on average of interest rate risk traded in the outright linear swaps market over the last two months while LIBOR swaps have further declined to less than 4 percent of the overall volume in October. In exchange-traded markets, average daily SOFR futures volumes have been nearly three times that of average daily Eurodollar futures volumes since July. Within cash products, almost all new debt, mortgage, and syndicated lending have also been based on SOFR.

Staff then provided an overview of the results of the most recent sentiment survey of ARRC members (see Appendix A for summary slides), where respondents continued to characterize the LIBOR transition overall as progressing "smoothly" or "generally smoothly".

Next, Federal Reserve staff highlighted the public release of a summary of the results of its Loan Remediation Survey. Overall, the results reflected encouraging transition planning and progress in the business loans space but reinforced the need for timely action. It was noted that while most respondents expressed plans to actively transition their LIBOR loans to SOFR, rather than rely on legacy fallbacks at cessation, over half of lenders noted that most of their LIBOR loans may not be ready to transition until the end of Q2 2023 or later, with almost 15 percent expecting their loans to transition post LIBOR cessation. Additionally, in contrast to borrowers who reported a high level of engagement with lenders, most syndicated lenders indicated that either they had not been contacted by an agent or they had received no or few amendments. The ARRC discussed conducting another loan remediation survey in early Q1 2023, which will seek to gauge progress made on remediation plans.

While discussing the results, ARRC members echoed the findings from the survey, noting the need for a strong pick-up in the pace of LIBOR loan remediation activity in order to avoid the risk of a pile up in June 2023. In particular, some members pointed out that the market may be underestimating the declining liquidity in LIBOR as well as the consequent operational challenges from trying to execute numerous amendments in a compressed time frame which could impede timely contract settlements.

The Operations/Infrastructure Working Group provided an update on its work on a solution that can facilitate effective and efficient communication of rate changes in LIBOR contracts following June 30, 2023. Working with DTCC, requirements have been gathered to expand the existing LENS system so that agents, trustees and issuers can upload transition related changes via a standard term sheet. Testing will begin in November, with a target to deploy changes in Q1 2023. The group is also collaborating with DTCC to create a centralized LIBOR transition site to house documents on how the use the new tool, FAQ's and additional LIBOR transition background information.

Next, the ARRC agreed that following the publication of the Board of Governor's final rules under the LIBOR Act, the ARRC should consider whether any conforming changes should be made to ARRC recommendations.

The Term Rate Task Force then provided an update on its discussions around its existing ARRC best practice recommendations on the scope of use of Term SOFR, which were guided by the principles set out by the ARRC and are in line with guidance issued by the Financial Stability Board. Some members of the ARRC expressed concern about some recent trends, such as securitizations using Term SOFR when they did not have underlying Term SOFR assets, that were outside the scope of the ARRC's best practice recommendations. The ARRC discussed the risks associated with widespread use of Term SOFR outside of the limited and targeted recommendations suggested by the ARRC as best practice, which have been carefully calibrated to ensure the robustness and sustainability of the rate itself over time and to avoid the same vulnerabilities inherent in LIBOR in an effort to mitigate risks to financial stability. The ARRC reiterated its existing best practice recommendations and plans to continue to discuss and follow the use of Term SOFR as part of its ongoing work related to Term SOFR's recommended scope of use.

The ARRC Chair ended the meeting by directing members to review and finalize the November 9 Meeting Readout. The ARRC Chair then thanked the members and noted that the next ARRC meeting will be held in early 2023.

Attendance at the November 9, 2022 Meeting*

ARRC Members

American Bankers Association	Hu Benton*
American Bankers Association	Sayee Srinivasan*
Association for Financial Professionals	Tom Hunt*
Bank of America	Janet Choi*
Bank of America	Sonali Theisen*
Bank of New York Mellon	Oliver Bader
Bank of New York Mellon	Jason Granet
Bank of New York Mellon	Jeanne Naughton-Carr
BlackRock	Jack Hattem
Citigroup	Peter Phelan
Citigroup	Luis Asturizaga
Citigroup	Rodrigo Fernandez*
CME Group	Agha Mirza
Comerica	Stasie Kostova*
CRE Finance Council	Lisa Pendergast*
CRE Finance Council	Raj Aidasani*
Equitable Life	Julien Zusslin*
Fannie Mae	Robert Ives*
Fannie Mae	Wells Engledow*
Federal Home Loan Bank of New York	Rei Shinozuka
Federal Home Loan Bank of New York	Kyle Lynch*
Ford	Jason Behnke*
Freddie Mac	Ameez Nanjee*
Freddie Mac	Guim Barbour*
Freddie Mac	Allan Krinsman*
Freddie Mac	Karen Pilewski*
Goldman Sachs	Richard Chambers*
Goldman Sachs	Guillaume Helie
Goldman Sachs	Tejal Wadhwani*
Government Finance Officers Association	Emily Brock*
Government Finance Officers Association	Cindy Harris*
HSBC	Shirley Hapangama
Huntington National Bank	Larry Heath*
Independent Community Bankers of America	Christopher Cole*
Intercontinental Exchange	Harvey Flax
Intercontinental Exchange	Tim Bowler
International Swaps and Derivatives Association	Ann Battle
JP Morgan Chase & Co.	Alice Wang
JP Morgan Chase & Co.	Emilio Jimenez*

KKR	Tal Reback*
London Clearing House	Phil Whitehurst*
Loan Syndications and Trading Association	Ellen Hefferan*
MetLife	Joseph Demetrick*
MetLife	William Ding*
MetLife	Alex Strickler*
Morgan Stanley	Tom Wipf
Morgan Stanley	Maria Douvas-Orme*
Morgan Stanley	Matt Ochs
National Association of Corporate Treasurers	Tom Deas*
PIMCO	Andrei Wagner*
PNC	Alexander Spiro*
PNC	Andrew Wilson*
Prudential Financial	Chris McAlister
Securities Industry and Financial Markets Association	Chris Killian*
TD Bank	Priya Misra
U.S. Chamber of Commerce	Kristen Malinconico*
Wells Fargo	Alexis Pederson
World Bank	Don 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 Housing Finance Agency	Muna Sisay*
Federal Reserve Bank of New York	Pooja Gupta
Federal Reserve Bank of New York	Sophie Legrand-Green
Federal Reserve Bank of New York	Jamie Pfeifer
Federal Reserve Bank of New York	Nathaniel Wuerffel
Federal Reserve Bank of New York	Justine Hansen*
Federal Reserve Bank of New York	Jason Friedman*
Federal Reserve Bank of New York	Mari Baca*
Federal Reserve Bank of New York	Scott Sherman*
Federal Reserve Board of Governors	Michael Barr*
Federal Reserve Board of Governors	Jeffrey Huther*
Federal Reserve Board of Governors	David Bowman
Federal Reserve Board of Governors	Darren Gersh*
Ginnie Mae	Carol Vilsack*
Ginnie Mae	Diego Leguizamon*
Office of the Comptroller of the Currency	Kevin Walsh*

Office of the Comptroller of the Currency	Ang Middleton*
U.S. Department of Housing and Urban Development	Maria Chelo De Venecia*
U.S. Securities and Exchange Commission	Michelle Danis*
U.S. Securities and Exchange Commission	Jason Leung*
U.S. Securities and Exchange Commission	Robert Errett*
U.S. Treasury	Sally Au Yeung*
U.S. Treasury	Dini Ajmani*
U.S. Treasury	Fatima Madhany*
U.S. Treasury	Daniel Harty*

Observers

Bank of Canada	Sheryl King
BlackRock	Alexander Krol*
BNP Paribas	Simon Winn
Cadwalader	Lary Stromfeld
Deloitte	Alexey Surkov*
Morgan Lewis	Jon Roellke*
State Street	Scott Longo*

*Indicates virtual participation.

Appendix A

For discussion purposes only

ARRC Sentiment Survey - Responses Overview

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

Responses	November 2022 (9 responses)
a:	33.3%
b:	63.7%
c:	0.0%

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

Responses	November 2022 (9 responses)
a:	44.4%
b:	55.6%
c:	0.0%

ARRC Sentiment Survey - Responses Overview

For discussion purposes only

Business Loans:
The LIBOR Transition is progressing:
a) Smooth
b) Generally smooth, working through some obstacles
c) Significant obstacles

Responses	November 2022 (7 responses)
a:	14.3%
b:	85.7%
c:	0.0%

Consumer Loans:
The LIBOR Transition is progressing:
a) Smooth
b) Generally smooth, working through some obstacles
c) Significant obstacles

Responses	November 2022 (5 responses)
a:	40.0%
b:	60.0%
c:	0.0%

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	November 2022 (6 responses)
a:	0.0%
b:	100.0%
c:	0.0%

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

Responses	November 2022 (6 responses)
a:	16.7%
b:	83.3%
c:	0.0%

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.
  - 2 respondents downgraded their ratings for FRNs citing complexity of remediation and current market conditions causing a slowdown in remediation activity outside the US.
  - The majority of respondents kept their assessments little changed from prior survey responses.

Areas Highlighted by Respondents:

- Remain similar to areas highlighted in the September 2022 survey results. Areas of focus include:
  - Federal Reserve rule-making process and determination of replacement benchmark rate per the federal LIBOR legislation
  - Monitoring FCA's Consultation on synthetic LIBOR.
  - Remediation of legacy cash products: relatively slow noting current rate environment.
  - Transition efforts in respect of USD LIBOR ICE Swap Rate.
  - Usage of Term SOFR in derivatives market.