Alternative Reference Rates Committee (ARRC)

Minutes for the January 19, 2023 Meeting

The ARRC Chair welcomed participants to the hybrid meeting which began with the annual review of the Antitrust Guidelines and the ARRC's Terms of Reference. The ARRC's antitrust counsel reminded members that they are required to observe the 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. ARRC members reaffirmed adherence to the Antitrust Guidelines and ratified the Terms of Reference.

Federal Reserve staff then provided an overview of the USD LIBOR transition, using the charts provided in the January 19 Meeting Readout. Staff noted that the transition away from LIBOR to SOFR continues to progress strongly into 2023, with SOFR as the predominant rate across both cash and derivatives markets. In particular, SOFR swaps have accounted for more than 85 percent of daily average interest rate risk traded in the outright linear swaps market since June 2022, while LIBOR swaps accounted for less than 10 percent of the overall volume over the same period. In exchange-traded markets, average daily SOFR futures volumes steadily increased throughout 2022 and remain well above average daily Eurodollar futures volumes. According to data from CME Group, this year has also started strongly, with a single-day record of almost 7.6 million SOFR futures and options traded and record open interest of approximately 35.7 million contracts on January 12. Within cash products, almost all new debt, mortgage, and syndicated lending continue to be based on SOFR.

Staff then provided an overview of the latest results of the updated 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". Several respondents, however, had noted slower progress in remediation of syndicated loans. More broadly, the ARRC discussed how the preparation of legacy loan contracts is progressing across the bilateral and syndicated loan markets and how to encourage further transition progress, particularly in the syndicated loans space.

Next, the ARRC discussed the Federal Reserve Board's publication of its final rule under the LIBOR Act, which is substantially similar to the Board's original proposal. The ARRC voted to adjust its recommendations to conform with the Federal Reserve Board's benchmark selections for FHFA-regulated-entity contracts and Federal Family Education Loan Program (FFELP) asset-backed securitizations. A document outlining the ARRC's conforming adjustments to its recommendations will be published in due course.
The Operations/Infrastructure Working Group provided an update on its work on the DTCC's enhanced LENS system aimed at facilitating effective and efficient communication of

rate changes in LIBOR contracts following June 30, 2023. For U.S.-issued securities, the ARRC recommends that all determining persons, agents, and other parties responsible for disseminating information use this system as soon as available for communicating rate/conforming changes. Testing on the front-end data screens began in November and ended this week, with good participation across the market. The Working Group co-chairs noted that the next step is to test the downstream process with market data providers, with a target to release the overall enhanced LENS system by end of February / beginning of March. The group also continues to collaborate with DTCC to create a centralized LIBOR transition site to house documents on how to use the new tool, FAQ's, and additional LIBOR transition background information.

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. The ARRC discussed the risks associated with any widespread usage 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 and to avoid risks to financial stability. These risks have also been discussed by the official sector both at the December 16, 2022 FSOC Principals meeting and in the FSOC 2022 Annual Report. The latter noted that "[w]hile the Council recognizes the usefulness of Term SOFR in certain business lending transactions, it endorses the ARRC's recommendations to limit the use of Term SOFR in other markets and strongly encourages market participants to limit the usage of Term SOFR in derivatives and most other cash markets." In addition, the Financial Stability Board published its 2022 Progress Report on LIBOR transition, which encouraged all administrators of Term risk-free rates to strongly consider matching their licensed scope of use to the recommendations made by the official sector and national working groups. The ARRC discussed the strong and consistent messaging across the official sector and reiterated its existing best practice recommendations. The ARRC plans to continue to assess the use of Term SOFR in relation to its recommended scope of use and guiding principles.

The ARRC Chair ended the meeting by requesting members to review and finalize the January 19 Meeting Readout and Summary of Key ARRC Recommendations documents. Staff presented a draft of the Summary of Key ARRC Recommendations, which highlights the ARRC's key recommendations for the LIBOR transition and provides associated resources as the LIBOR transition enters its final stages. The document features the following 3 main messages: 1) Take action *now* to remediate legacy contracts ahead of June 30, 2023; 2) Communicate planned rate changes and use the DTCC's enhanced LENS system as soon as available to effectively disseminate information on rate changes for securities; and 3) Use the Secured Overnight Financing Rate (SOFR) as the replacement rate for USD LIBOR and as the basis of the transition in cash and derivatives markets (with use of Term SOFR recommended to remain limited in order to support financial stability). Members discussed the document and provided feedback. The ARRC Chair then thanked the members and noted that the next ARRC meeting will be held virtually on February 9th.

Attendance at the January 19, 2023 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	Jeanne Naughton-Carr*
BlackRock	Jack Hattem
Citigroup	Peter Phelan
Citigroup	Luis Asturizaga
Citigroup	Rodrigo Fernandez*
CME Group	Agha Mirza
Comerica	Stasie Kostova*
Comerica	Mathew Cornish*
CRE Finance Council	Lisa Pendergast*
CRE Finance Council	Raj Aidasani*
Deutsche Bank	Kayam Rajaram*
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	Philip Scott
Federal Home Loan Bank of New York	Kyle Lynch*
Ford	Jason Behnke*
Freddie Mac	Ameez Nanjee*
Freddie Mac	Guim Barbour*
Freddie Mac	Allan Krinsman*
Goldman Sachs	Guillaume Helie*
Goldman Sachs	Tejal Wadhwani*
Government Finance Officers Association	Emily Brock*
Government Finance Officers Association	Cindy Harris
HSBC	Oresta Mehta*
HSBC	Neil Middleton
Huntington National Bank	Larry Heath*
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	Meredith Coffey*
Loan Syndications and Trading Association	Tess Virmani*
MetLife	Joseph Demetrick*
MetLife	Alex Strickler*
Morgan Stanley	Tom Wipf
Morgan Stanley	Maria Douvas-Orme
Morgan Stanley	Matt Ochs
National Association of Corporate Treasurers	Tom Deas*
PIMCO	Jerome Schneider
PIMCO	Jerry Woytash*
PNC	Alexander Spiro*
PNC	Andrew Wilson*
Prudential Financial	Chris McAlister
Prudential Financial	Gary Horbacz*
Securities Industry and Financial Markets Association	Chris Killian*
TD Bank	Priya Misra
U.S. Chamber of Commerce	Kristen Malinconico*
Wells Fargo	Alexis Pederson
Wells Fargo	Jessica Murphy
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	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 Board of Governors	Jeffrey Huther*
Federal Reserve Board of Governors	David Bowman
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*

Observers

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

*Indicates virtual participation.

Appendix A

ARRC Sentiment Survey - Refresh

For discussion purposes only

- As LIBOR transition enters its final stage, the ARRC sentiment survey has been refreshed and questions are centered on remaining areas of focus in the lead up to the June 2023 deadline.
- The survey now asks the following 4 questions:

1. Overall, the LIBOR Transition is progressing ____________ into 2023. Please note any key issues you are tracking.
   a. Smoothly;
   b. Generally smooth working through some obstacles; or
   c. Significant obstacles
2. Are there any particular market segments or classes of market participants where additional focus is needed?
3. Are you aware of any issues or obstacles to achieving a smooth transition by end June 2023?
4. Please provide common questions, if any, which you are receiving related to the LIBOR Transition from clients, association members, or questions that you may have as a client yourself.

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	January 2023 (15 responses)
a:	40.0%
b:	60.0%
c:	0.0%

Key Messages:

- Overall, continued positive momentum - 100% of respondents indicated the transition overall is progressing smoothly or generally smoothly.
- A majority of respondents raised loan remediation as a concern. Responses noted that remediation progress to date has been slow, with the current rate environment posing economic disincentives. Whilst respondents are prioritizing loan remediation over the next quarter, there was a call for further ARRC messaging and focus.

Areas Highlighted by Respondents:

- Additional areas of focus include:
  - The ARRC's work on the recommended scope of use of Term SOFR.
  - Monitoring FCA's Consultation on synthetic LIBOR.
  - Transition efforts in respect of USD LIBOR ICE Swap Rate.
  - Implementing system upgrades.