

Alternative Reference Rates Committee
Terms of Reference (Revised March 7, 2018)

The Alternative Reference Rates Committee (the “ARRC”), is a private-sector organization sponsored by the Board of Governors of the Federal Reserve System (“Board”) and the Federal Reserve Bank of New York (“FRBNY” and, together with the Board, the “Federal Reserve”). As discussed in the appendix to this document, the ARRC was originally convened by the Federal Reserve in 2014 and was reconstituted in February 2018 subject to these Terms of Reference.

Objectives

The reconstituted ARRC will help to ensure the successful implementation of the Paced Transition Plan previously adopted by the ARRC and will serve as a forum to coordinate and track planning across cash and derivatives products as market participants currently using U.S. Dollar (USD) LIBOR consider (a) transitioning to alternative reference rates where it is deemed appropriate and (b) addressing risks in legacy contracts language where the possibility that LIBOR might stop had not been fully considered and robust, economically appropriate fallbacks to LIBOR have not been incorporated. The ARRC’s coordinating roles are intended to help minimize any potential disruptions associated with either transitions from LIBOR or any potential end to LIBOR. To that end, the ARRC will endeavor to deliver recommendations for addressing risks in contract language, orderly transitions on a voluntary basis, and actions that would facilitate such transitions as the group deems appropriate in order to meet these objectives. The ARRC will consult with other interested market participants in order to achieve a broad-based perspective in making any recommendations.

Membership and Governance

The ARRC has been reconstituted solely to meet the above objectives and it is anticipated that it will be disbanded upon their completion. As the sponsor of the ARRC, the Federal Reserve will have the discretion to appoint ARRC Members and Ex Officio Members (as defined below). The membership term is one year and ARRC Members and Ex Officio Members may be renewed for additional terms.

ARRC Members (“Members”) will be private-sector entities with an important presence in markets affected by USD LIBOR or that represent the views of key segments of participants in those markets. Members will be drawn from a diverse range of institutions with deep knowledge and expertise and will be chosen so as to ensure that a range of views across a broad array of

financial transactions linked to LIBOR are represented. At the same time, the number of Members will be limited to a manageable size in order to permit the ARRC to meet its objectives in a timely and efficient manner. Accordingly, the ARRC will generally consist of no more than 25 Members.

The ARRC will also include *ex officio* participants (“Ex Officio Members”), which shall include the Federal Reserve and other government or official-sector agencies appointed by the Federal Reserve as it deems appropriate.¹ While Ex Officio Members may offer views and analysis in support of the ARRC’s objectives, the Ex Officio Members do not have the voting rights of Members and the ARRC’s recommendations and publications will represent the views of its private-sector Members. The ARRC will not use the names of Ex Officio Members in documents intended for public release without approval, as these agencies do not intend to endorse any third parties, services, or products by serving as Ex Officio Members.

The ARRC will designate the ARRC’s chair (“Chair”) in consultation with the Federal Reserve. The Chair will be selected from the Members for a term of one year, which may be extended. The Chair will be responsible for leading ARRC meetings and coordinating the work of the ARRC and its subgroups. The Chair will also coordinate public communications in consultation with the ARRC secretariat (as defined below). If the ARRC elects to designate co-Chairs, then the co-Chairs will determine individual and shared responsibilities.

The ARRC secretariat will be staffed by the Federal Reserve and will provide broad logistical and analytical support to the ARRC and its working groups. The ARRC secretariat will act as the repository of ARRC documents, including agendas, minutes, and public communications. Further specific duties of the ARRC secretariat are defined below.

The Chair may invite observers (“Observers”) to meetings of the ARRC in consultation with the Federal Reserve. Observers will be bound by this Terms of Reference and the ARRC’s Antitrust Guidelines and must acknowledge both in order to be granted access to any ARRC meeting that is not open to the general public.

The ARRC may engage outside counsel, accountants, or other professionals to accomplish its objectives. Ex Officio Members will not be obligated to bear the costs of such services or any other ARRC costs.

The ARRC will seek to make decisions by consensus; however for matters where consensus cannot be achieved and the Chair determines that it is appropriate to do so, the Chair may put such matters to a vote of the Members with motions requiring a majority vote for adoption.

The list of Members, Ex Officio Members, and these Terms of Reference will be published on the ARRC website.

¹ As used in these Terms of Reference, references to “Members” of the ARRC do not include Ex Officio Members unless otherwise specifically stated.

Member Responsibilities

The individuals selected by Members to serve as their representatives to the ARRC should be senior leaders with sufficient authority to engage the executive management of their respective organizations, marshal resources to support ARRC activities, and represent the organization's views of proposed actions, guidelines or recommendations. Members will consult with the Federal Reserve in order to ensure that the representatives they select meet these criteria.

Each ARRC Member shall:

- ensure that their representatives generally attend meetings in person if practicable;
- ensure that their representatives bring appropriate issues to the ARRC's attention and contribute to the ARRC's discussion and research;
- ensure that their representatives communicate major issues identified during ARRC discussions to executive management and colleagues at the Member organization;
- ensure that their representatives participate actively in the ARRC, work in support of the ARRC's objectives set forth in this document, and provide resources to support the ARRC's projects and general needs;
- adhere to these Terms of Reference and ARRC's Antitrust Guidelines; and
- ratify these Terms of Reference and reaffirm adherence to the ARRC's Antitrust Guidelines annually.

Meetings

The secretariat will prepare and circulate meeting agendas to Members and Ex Officio Members prior to each meeting. Agendas will be published on the ARRC website.

The secretariat will keep minutes of each meeting to include, at a minimum: (i) a list of the individuals who participated in the meeting and the organizations they represent; (ii) a brief description of the topics discussed; and (iii) a record of decisions reached. The secretariat will circulate draft minutes to Members and Ex Officio Members as soon as practicable following each meeting and Members and Ex Officio Members will be allowed to comment on the draft minutes. The ARRC will generally adopt final minutes at or prior to the next meeting, after addressing any comments received. The secretariat will publish final minutes on the ARRC website no later than 30 days after they have been ratified.

Working Groups

The ARRC may establish standing and/or *ad hoc* working groups in consultation with the Ex Officio Members for any area or issue in furtherance of its objectives. The working groups' sole intended purpose is to serve the ARRC by providing feedback and recommendations on the issues that have been designated by the ARRC.

The working groups may include representatives from Member organizations, non-Member organizations, Ex Officio Members, and other interested parties with appropriate expertise

(“Working Group Member”). Participation in working groups does not confer membership in the ARRC. For the avoidance of doubt, these Terms of Reference and the ARRC’s Antitrust Guidelines bind not only the ARRC Members and Ex Officio Members, but also the working groups and Working Group Members (whether or not they are also ARRC Members or Ex Officio Members).

The ARRC will have the discretion to select and remove Working Group Members in consultation with the Ex Officio Members. Working Group Members should be selected by the ARRC in order to provide broad coverage of applicable markets and required expertise and viewpoints, while maintaining efficiency in the operation of the ARRC and the working groups.

Each working group will have a chair designated by the ARRC in consultation with the Ex Officio Members. The working group chair will (i) schedule and preside over meetings; (ii) ensure that agendas are circulated to Working Group Members, the ARRC Chair, and secretariat in advance of each meeting; (iii) oversee the drafting and dissemination to the ARRC of minutes of each meeting prepared by the ARRC secretariat; and (iii) report their progress to the ARRC and seek direction from the ARRC.

Confidentiality and Disclaimer

Any information disclosed, opinions expressed, or statements made during ARRC meetings and working group meetings shall be treated as strictly confidential by, unless the Chair(s) of the ARRC has authorized release or disclosure is required by law. ARRC Members, Working Group Members, and Ex Officio Members are not authorized to speak on behalf of the ARRC without the consent of the Chair(s).

The ARRC’s recommendations and publications represent the views of its Members. Opinions expressed or statements made by staff of the Ex Officio Members in the course of the ARRC’s activities are solely those of the participant and do not necessarily reflect the views of their agency. Participation by staff of Ex Officio Members is subject to all applicable codes of conduct and external communications policies in place at their agencies. Staff of Ex Officio Members are prohibited from disclosing confidential supervisory information or other nonpublic information to Members of the ARRC.

For purposes of clarity, opinions expressed or statements made by Federal Reserve staff in the course of any duties performed as the ARRC secretariat or in the Federal Reserve’s role as sponsor of the ARRC are solely those of the participant and do not necessarily reflect the views of FRBNY or the Federal Reserve System. Participation by Federal Reserve staff is subject to all applicable Federal Reserve Board and Federal Reserve System codes of conduct and external communications policies. Federal Reserve staff are prohibited from disclosing confidential supervisory information or other nonpublic information to Members of the ARRC. Federal Reserve attorneys act as counsel to the Board or FRBNY (as the case may be), not to the ARRC, the working groups, or any other external participants.

Background

1. Major reference rates are widely used in the global financial system as benchmarks for a large volume and broad range of financial products and contracts. In response to concerns regarding the reliability and robustness of these reference rates, the G20 asked the Financial Stability Board (FSB) to review major interest rate benchmarks, including USD LIBOR, and develop plans to ensure that reference interest rates are robust and appropriately used by market participants.² The FSB's "multiple-rate approach" called for strengthening rates such as LIBOR to the fullest extent possible, but also recommended developing alternative reference rates in the belief that certain financial transactions, including many derivatives transactions, were better suited to reference rates that are closer to risk-free and built on a strong underlying market. The Financial Stability Oversight Council (FSOC) recommended in its 2014 Annual Report that U.S. regulators cooperate with foreign regulators, international bodies, and market participants to promptly identify alternative interest rate benchmarks anchored in observable transactions and supported by appropriate governance structures, and to develop a plan to accomplish a transition to new benchmarks while such alternative benchmarks were being identified.

2. In response to the FSOC's recommendations and to meet the objectives of the FSB to develop alternative reference interest rates, in November 2014, the Federal Reserve convened a working group of major USD swap dealers that formed the ARRC in cooperation with the U.S. Department of Treasury, Commodity Futures Trading Commission, and the Office of Financial Research. The ARRC was asked to provide the following four deliverables:
 - (a) *Identify best practices for alternative reference rates.* Identify a risk-free rate or rates that in the consensus view of the ARRC would represent best practice for use in certain new derivatives and other contracts.
 - (b) *Identify best practices for contract robustness.* Consider the best practices related to robust contract design that ensures that contracts are resilient to the possible cessation or material alteration of an existing or new benchmark rate.
 - (c) *Develop an adoption plan.* Develop an adoption plan for the alternative rates, taking into consideration factors including the creation of the necessary liquidity in contacts referencing the alternative rates, accounting or tax issues, industry-wide protocols, complementary uses of the rates, and back-office or record-keeping issues.
 - (d) *Create an implementation plan with metrics of success and a timeline.* Create an implementation plan with observable metrics that reflect the successful adoption of the best practices and the alternative reference rates that are consistent with those best practices, and how participating firms will work to achieve those best practices over time. The recommendations should also include an expected timeline and clear measures of success for the implementation.

² "Reforming Major Interest Rate Benchmarks, Financial Stability Board, July 22 2014.
http://www.financialstabilityboard.org/publications/r_140722.pdf

3. The ARRC has accomplished the tasks and deliverables requested by the official sector in November 2014. On June 22, 2017, the ARRC identified the Secured Overnight Financing Rate (SOFR), which the Federal Reserve Bank of New York has proposed publishing in cooperation with the Office of Financial Research, as the rate that, in its consensus view, represents best practices for use in certain new U.S. dollar derivatives and other financial contracts. The SOFR provides a broad measure of the general cost of financing Treasury securities overnight. The ARRC considered a variety of factors in selecting the SOFR, including the depth of the underlying market and its likely robustness over time; the rate's usefulness to market participants; and whether the rate's construction, governance, and accountability would be consistent with the IOSCO *Principles for Financial Benchmarks*. The ARRC also considered the input of a wide range of market participants in making its recommendation. ARRC Members have been actively engaged in work led by the International Swaps and Derivatives Association (ISDA, itself a Member of the ARRC) that has considered best practices, outlined a proposed process for making derivatives contracts resilient to the possible cessation of LIBOR, and is now focused on the specific implementation details of that process. The ARRC has also published its Paced Transition Plan, with specific steps and timelines designed to encourage the adoption of its recommended rate:

The Paced Transition Plan

Step	Anticipated Date of Completion
1. Infrastructure for futures and/or OIS trading in SOFR is put in place by ARRC members.	2018 H2
2. Trading begins in futures and/or bilateral, uncleared, OIS that reference SOFR.	End 2018
3. Trading begins in cleared OIS that reference SOFR in the current (EFFR) PAI environment.	2019 Q1
4. CCPs begin accepting new or modified swap contracts (swaps paying floating legs benchmarked to EFFR, LIBOR, or SOFR) that pay SOFR as PAI and are discounted with a SOFR curve. In this stage, market participants are allowed a choice at the time of execution of each trade between clearing contracts that calculate PAI and discounting using either EFFR or SOFR, with both types of contracts cleared within the same clearing guarantee fund. CCPs would gradually lengthen the maturity of contracts accepted for clearing in the new SOFR PAI/discounting environment to ensure that liquidity was adequate to support the new discount curve.	2020 Q1
5. CCPs no longer accept new swap contracts for clearing with EFFR as PAI and discounting except for the purpose of closing out or reducing outstanding risk in legacy contracts that use EFFR as PAI and discount rate. Existing contracts using EFFR as PAI and discount rate and new contracts using SOFR as PAI and discount rate continue to exist in the same pool. Existing contracts roll off over time as they mature or are closed out. Methods for accelerating this close out, and the potential to pre-announce the closure of the CCPs' EFFR-based PAI and discount rate capability, may play a part.	2021 Q2
6. Creation of a term reference rate based on SOFR derivatives	End 2021

4. On July 27, 2017, in a speech, Andrew Bailey, Chief Executive of the U.K. Financial Conduct Authority, stated that the sustainability of LIBOR beyond year-end 2021 cannot be guaranteed.³ He indicated that market participants must make plans for transitioning away from the use of LIBOR as a reference rate.
5. Given these developments, the ARRC was reconstituted to facilitate the various market transitions now anticipated to involve a much wider set of market participants and products. The institutions and expertise needed to accomplish these goals are, in some cases, different than those needed to identify an alternative rate. Accordingly, both the institutional membership of the ARRC and its terms of reference have been adjusted.

³ The U.K. Financial Conduct Authority's statement confirming the agreement of the LIBOR panel banks to continue their support for LIBOR until end 2021 can be found at <https://www.fca.org.uk/news/statements/fca-statement-libor-panels>.