

## **Alternative Reference Rates Committee (ARRC)**

### **Minutes for the December 12, 2014 Organizational Meeting**

1. Brian Leach (Citigroup) announced that he had been elected by the members to chair the Alternative Reference Rates Committee with 14 members in favor and 1 member abstaining.
2. The group discussed whether they should invite any other institutions to join the ARRC at this time. After some discussion of the pros and cons, the members agreed to postpone any decision until they had further clarity on the alternative rates that they might propose as meeting best practice since that decision could influence the degree to which other institutions might be able to make substantive contributions to the group's work.
3. The chair clarified the breadth of skills needed from ARRC members. His suggested skill set included:
  - a. LIBOR submitters
  - b. Experts in bank funding
  - c. Experts in short-maturity rate trading (including repo and basis trading and trading in euro, sterling, and yen markets as well as US dollar markets)
  - d. Experts in Federal Reserve open market operations
  - e. Experts in repo market structure
  - f. Experts in derivatives trading
  - g. Experts in floating rate end-user financial products
  - h. Experts in tax, accounting, legal issues
4. Members discussed the roles of the Federal Reserve in the ARRC. In addition to making it clear that the Federal Reserve is sponsoring the ARRC and would serve as an *ex officio* member, the Federal Reserve staff offered to act as the Secretariat for the ARRC.
5. The group agreed to initial ARRC member leadership of two of workstreams:
  - 1) New Rate Selection
  - 2) Fixing Methodology

Some members suggested that some of the other workstreams should wait until after more work was done regarding the alternate rates thought by the group to be consistent with best practice. In that regard, it was agreed that the next meeting would be devoted to rate selection, with each bank bringing its own view and analysis as to the various rates.

There was an extended discussion of whether the group's analysis should also consider improvements to US dollar LIBOR because the two initiatives would be seen as closely linked and it would be desirable to provide continuity between any solutions for LIBOR and the alternative rate(s). It was observed that the ARRC had been charged specifically with identifying appropriate risk-free rates as alternatives to LIBOR, and that the LIBOR administrator was already engaged in a separate effort to evaluate and implement further improvements to that benchmark. It was agreed that the ARRC would be kept informed of the progress and direction of that effort so they could take it into consideration in their work on alternative rates.

6. There was a consensus that the full group should meet roughly 9 times next year. The Federal Reserve staff will determine and distribute a proposed meeting schedule for the ARRC.

**Alternative Reference Rates Committee (ARRC)**  
**Attendance for the December 12, 2014 Organizational Meeting**

\* indicates participation by phone

ARRC Member Attendees:

Paul Scurfield	Bank of America
Ian Montgomery	Barclays
*Brian Rozen	Barclays
Bob Hawley	BNP Paribas
Brian Leach	Citigroup
Heraclio Rojas	Citigroup
Guy Kearsley	Credit Suisse
*Adrian Munday	Deutsche Bank
Rich Herman	Deutsche Bank
Ashok Varadhan	Goldman Sachs
Scott Rofey	Goldman Sachs
Christophe Rivoire	HSBC
Gregory Pierce	HSBC
Matt Zames	JP Morgan Chase
Sandie O'Connor	JP Morgan Chase
Terry Belton	JP Morgan Chase
Tom Wipf	Morgan Stanley
Steve Licini	Nomura
Graham Broyd	RBS
David Wagner	RBS
Francois Barthelemy	Societe General
*Jeff Rosen	Societe General
Dan Park	UBS
*Kevin Arnold	UBS
Ben Bonner	Wells Fargo

Ex Officio Member Attendees:

David Bowman	Federal Reserve Board
Raymond Check	Federal Reserve Bank of New York
Chris Clubb	Federal Reserve Board
*John Schindler	Federal Reserve Board

## **Working Group on Alternative Reference Rates Terms of Reference**

### **Background and Objectives**

Major reference interest rates such as USD LIBOR are widely used in the global financial system as benchmarks for a large volume and broad range of financial products and contracts. The recent cases of attempted market manipulation and false reporting of reference interest rates around the world, together with the secular decline in liquidity in interbank unsecured funding markets, have lowered confidence in the reliability and robustness of existing benchmark interest rates such as LIBOR.

In response, the G20 asked the Financial Stability Board (FSB)<sup>1</sup> 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. The FSB outlined a “multi-rate approach” with two broad objectives:

- *Strengthen existing reference interest rates.* Strengthen existing reference rates such as USD LIBOR that are based on unsecured bank funding costs by underpinning them to the greatest extent possible with transaction data and enhanced governance.
- *Develop alternative, nearly risk-free reference rates.* Certain financial transactions, including many derivative transactions, are better suited to reference rates that are closer to risk-free and built on a stronger underlying market, and the industry should identify and develop alternative risk-free rates.

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. Greater reliance on alternative reference interest rates will make financial markets more robust and thus enhance the safety and soundness of individual institutions and support financial stability in the U.S.

In response to the FSOC’s recommendations and to meet the second objective of the FSB to develop alternative reference interest rates, the Federal Reserve has initiated this *Working Group on Alternative Reference Rates* (the “Working Group”). This effort will 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*.<sup>2</sup> The Working Group will also identify an adoption plan with means to facilitate the acceptance and use of these alternative reference rates. Finally, the Working Group will identify observable metrics for use in measuring progress toward

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<sup>1</sup> “Reforming Major Interest Rate Benchmarks, Financial Stability Board, July 22 2014. [http://www.financialstabilityboard.org/publications/r\\_140722.pdf](http://www.financialstabilityboard.org/publications/r_140722.pdf)

<sup>2</sup> “Principles for Financial Benchmarks,” IOSCO, July 2013. <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>

the common objectives of shifting certain new derivatives and other financial contracts to the alternative rates.

### **Working Group Deliverables**

To reach the objectives outlined by the FSB, the Federal Reserve has convened major USD swaps dealers to form this Working Group in order to lead and support this industry initiative. The Working Group is asked to provide the following:

- *Identify best practices for alternative reference rates.* The Working Group should consider the range of existing and potential reference interest rates and identify a risk-free rate or rates that in the consensus view of the Working Group would represent best practice for use in certain new derivatives and other contracts. Considerations should include, but are not limited to, the liquidity of the underlying market, the likely robustness of the market over time, market functioning issues, usefulness to all market participants, ability to produce and maintain the alternative rates, feasibility and viability of developing a robust market of financial instruments that references the alternative rates, accounting and tax issues that might facilitate or hinder adoption, and whether the identified alternative rates are consistent with the *Principles for Financial Benchmarks* outlined by IOSCO.
- *Identify best practices for contract robustness.* Market participants should 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 benchmark.
- *Develop an adoption plan.* The Working Group should identify the factors that would either facilitate or impede the adoption of the alternative rates identified as consistent with best practices or the adoption of best practices related to robust contract design. In both cases, the Working Group should identify the necessary steps that the official sector and market participants could take to make the adoption more successful. Considerations should include, but are not limited to, the creation of the necessary liquidity in contracts referencing the alternative rates, accounting or tax issues like the use for simplified hedge accounting, industry-wide protocols, complementary uses of the rates such as for the discounting of collateral cash flows, and back-office or record-keeping issues. The official sector and the Working Group will work jointly to implement these recommendations.
- *Create an implementation plan with metrics of success and a timeline.* The Working Group should identify 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 these best practices over time. This could include, for example, quantitative measures for the dollar value or share of new derivatives or other contracts that are linked to such alternative reference rates. The recommendations should also include an expected timeline and clear measures of success for the implementation.

### **Governance**

- The Chair of the Working Group will be a member of the private sector based on a consensus of the Working Group. The Chair will be responsible for calling meetings, coordinating the work of the Working Group, updating the official sector, and coordinating any public announcements regarding the Working Group.
- Members of the Working Group will represent their firms with the support of their firms.

- The Working Group will, with the Federal Reserve, consult with other interested market participants in order to achieve a broad-based perspective.
- Representatives of the Federal Reserve will serve as *ex officio* members of the Working Group.
- A Working Group Secretariat will be staffed by the Federal Reserve, with responsibilities that include:
  - Prepare meeting agendas and circulate to Working Group members prior to the meeting. Agendas will be published on a public website on or around the day of each meeting.
  - Record minutes of each meeting and publish final minutes on a public website before the next regularly-scheduled Working Group meeting.
- The Federal Reserve will publicly disclose these Terms of Reference and the institutional membership of the Working Group.

### **Confidentiality and Disclaimer**

Any information disclosed, opinions expressed, or statements made during Working Group meetings shall be treated as strictly confidential by members, unless the Working Group has authorized release.

Opinions expressed or statements made by Federal Reserve staff in the course of the Working Group's activities are solely those of the participant and do not necessarily reflect the views of the Federal Reserve. Federal Reserve staff members are prohibited from discussing confidential supervisory information or other non-public Federal Reserve information with members of the Working Group.

The Working Group's recommendations and publications represent the views of its private-sector members.

### **Timeline**

- November 2014: Initial meeting of the Working Group
- December 2014: Working Group determines organizational structure
- January 2015: Working Group delivers detailed work plan
- March 2015: Identification of alternative reference rates
- May 2015: Working group delivers plan to make contracts more robust
- June 2015: Adoption plan developed and begin steps to implement
- September 2015: Implementation begins