

## **Alternative Reference Rates Committee (ARRC) Minutes for the May 26, 2015 Meeting**

1. Sandie O'Connor (JP Morgan) was introduced as the new chair to the Alternative Reference Rates Committee with the 15 member firms in favor of her appointment.
2. ARRC members approved the minutes from the April 2, 2015 ARRC meeting.
3. Federal Reserve staff provided an update on LIBOR reform. ICE Benchmark Administration (IBA) published a summary of feedback from market participants on its proposed enhancements and it is anticipated that it will produce a more detailed set of proposals and consultations this summer.<sup>1</sup>
4. An ARRC member provided an update on the Working Group on Sterling Risk-Free Reference Rates.<sup>2</sup> That group has formed workstreams to study a secured index, unsecured index, and hybrid index that includes government bonds.
5. Risk-free Calculation, Credit Calculation, and Implementation workstreams gave detailed presentations of their findings.
  - a. Calculation: Members discussed the data source, fixing, fallbacks and administrator for a new overnight rate and the extension to term tenors.
    - The Risk-free workstream recommended that the new risk-free rate (RFR) be a volume-weighted average calculated from overnight, Treasury GCF and tri-party repo transactions including trades with the Federal Reserve, with no adjustment made for haircuts. If there was an insufficient amount of Treasury repo activity to calculate a rate, the index's definition would broaden to include other types of collateral.
    - The Credit Calculation workstream recommended that the new rate be a version of the overnight bank funding rate (OBFR) and presented several potential calculation methods for such a rate.<sup>3</sup>
    - The group discussed the challenges associated with also creating potential term reference rates, including developing the underlying derivative markets for either RFR or OBFR and defining the fixing as the markets do not presently exist, as well as the potential benefits of such an approach in allowing for forward-looking term rates to be used in loan contracts.
  - b. Implementation: The workstream felt that successful adoption of the new overnight rate would require the timely creation of liquidity and usage across a wide range of products. The initial proposal was to first focus on moving financial products currently referencing the fed funds effective rate to the new rate via an industry protocol that would only apply to professional market participants. Adoption of the new rate would apply both to future transactions and existing contracts covered by the protocol, and there would likely need to be a longer timeline for existing contracts given the additional complexity. ARRC members

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<sup>1</sup> "Position Paper on the Evolution of ICE LIBOR" published on October 20, 2014. Available on the ICE website: [https://www.theice.com/publicdocs/ICE\\_LIBOR\\_Position\\_Paper.pdf](https://www.theice.com/publicdocs/ICE_LIBOR_Position_Paper.pdf)

<sup>2</sup> On March 18, 2015, the Bank of England convened major sterling swap dealers at the inaugural Working Group meeting to discuss alternative references rates to LIBOR. The Working Group's website is: <http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/rfr/rfr.aspx>

<sup>3</sup> The Federal Reserve Bank of New York (FRBNY) will be publishing an Overnight Bank Funding Rate that will utilize the expanded set of federal funds and Eurodollar transaction data reported under FR 2420. The announcement is available on the FRBNY website: [http://www.newyorkfed.org/markets/opolicy/operating\\_policy\\_150202.html](http://www.newyorkfed.org/markets/opolicy/operating_policy_150202.html). A description of the proposed FR 2420 data collection is in the April 7, 2015 Federal Register.

raised concerns about how widely the new rate would be used by professional market participants if their clients were not also using the new rate. The Chair suggested that the workstream develop a more detailed description of the proposed protocol and consider widening the scope to include interest rate swaps.

6. ARRC members discussed whether they should extend ARRC membership to other market segments or individual institutions and/or whether consultations with additional market segments or institutions should inform the ARRC's recommendation. Members agreed to address the topic again at the next meeting.
7. The Chair outlined the following next steps:
  - a. The Implementation Workstream will develop a more detailed proposal for a protocol that would lead to broad adoption of the new overnight rate.
  - b. The Credit Workstream will perform a back-testing analysis of the various calculation methods they had considered.
  - c. At the next meeting, Members will come prepared to discuss their firm's preliminary views on the Risk-free and Credit alternative rate options, at which time Members will assess whether to continue to evaluate both rates.
  - d. At the next meeting, Members will come prepared to discuss their recommendations for which market segments and individual institutions ARRC membership should be extended to, as well as the timing of when they would be invited and at what point in the decision-making process they would join. At that time, Members will assess whether to continue the discussion of including additional institutions in the ARRC.

**Alternative Reference Rates Committee (ARRC)  
Attendance for the May 26, 2015 Meeting**

ARRC Member Attendees:

Bank of America	Paul Scurfield
Barclays	Ian Montgomery
Barclays	Matt Besgen
Barclays	Brian Rozen
BNP Paribas	Adrian Averre*
Citigroup	Steve Compton*
Citigroup	Heraclio Rojas
Credit Suisse	Shane O’Cuinn
Credit Suisse	Will Marshall
Goldman Sachs	Scott Rofey
HSBC	Gregory Pierce
HSBC	Pieter van Vredenburg
JP Morgan Chase	Sandie O’Connor
JP Morgan Chase	Terry Belton
JP Morgan Chase	Alice Wang
Morgan Stanley	Tom Wipf
Nomura	Steve Licini*
RBS	Graham Broyd
RBS	David Wagner
Societe General	Francois Barthelemy
UBS	Dan Park
UBS	Kevin Arnold
Wells Fargo	Ben Bonner*

Ex Officio Member Attendees:

Federal Reserve Board	David Bowman
Federal Reserve Board	Chris Clubb
Federal Reserve Board	Jerome Powell
Federal Reserve Bank of New York	Raymond Check
Federal Reserve Bank of New York	Kevin Stiroh
Federal Reserve Bank of New York	Will Riordan
Federal Reserve Bank of New York	Jacqueline Yen
U.S. Treasury Department	Seth Carpenter

\* indicates participation by phone