

# Alternative Reference Rates Committee (ARRC)

## Minutes for the December 5, 2018 Meeting

1. The meeting started with several updates. The ARRC representative from the International Swaps and Derivatives Association (ISDA) noted that ISDA had issued a [statement](#) summarizing the preliminary results of its consultation on fallbacks for several interbank offered rates including sterling and Swiss franc LIBOR. The responses showed a clear preference for falling back to compound overnight rates in arrears and use of ISDA's historical mean/median approach for spread adjustments. The ARRC Chair noted that it was positive to see a consensus emerge and looked forward to ISDA's consultation on fallbacks for U.S. dollar LIBOR.

The ARRC Chair updated the Committee on the recent Official Sector Steering Group (OSSG) meeting. Federal Reserve staff noted that the meeting included extensive discussion on the need to educate market participants about how overnight reference rates could be used in cash products and the need to seek international coordination on accounting, tax, and regulatory issues.

Finally, the group recognized and welcomed the newly formed Interest Rate Benchmark Reform Subcommittee of the Commodity Futures Trading Commission's (CFTC) Market Risk Advisory Committee (MRAC), which is expected to help the CFTC in finding regulatory solutions to help ensure a smooth transition from LIBOR.

2. The Chairs of the Floating Rate Notes and Business Loans working groups summarized the feedback received on the consultations on fallback contract language for [floating rate notes](#) and [syndicated business loans](#). The Chairs reported that while respondents acknowledged the importance of cohesion between fallbacks in cash products and derivatives, a large majority believed that the inclusion of pre-cessation triggers (triggers designed to control for a degradation in LIBOR's quality rather than a permanent cessation) was warranted even if ISDA did not adopt them. Of those advocating for inclusion, most believed that all the triggers suggested by the ARRC should be included, with some particular preference for including a trigger in the event that the regulator of LIBOR judged the rate to be non-representative. In response to specific questions included in the syndicated business loans consultation, a large majority of respondents also expressed a preference for an early "opt-in" trigger that would allow LIBOR loans to be voluntarily converted to SOFR if borrowers and lenders agreed.

With respect to the rate waterfall, a large majority of respondents believed that a forward-looking SOFR term rate should be the primary fallback if the ARRC endorses such a rate, and that a compounded overnight SOFR rate should be the secondary fallback (with most preferring a compound average in arrears); however, some respondents preferred a compound average of SOFR as the primary fallback. There was only limited support for including spot SOFR in the rate waterfall. A large majority of respondents preferred that the ARRC recommend a spread adjustment and that the ISDA spread adjustment would be appropriate as the second step. A large majority of respondents also noted that the ARRC should publish a spread adjustment.

Respondents to the syndicated business loans consultation were roughly evenly split on their support for either an amendment or hardwired approach to fallbacks, with slightly more preferring the hardwired approach.

The Chairs noted that the Floating Rate Notes and Business Loans working groups would work to incorporate the feedback so that the ARRC can approve recommended contract language for floating rate notes and syndicated business loans soon. ARRC members directed the working groups to seek language that could accommodate those who preferred to fallback to a compound average of SOFR in addition to the majority who preferred to fallback to a forward-looking SOFR term rate.

3. The Committee discussed the final versions of public consultations for bilateral business loans and securitizations that were prepared by the Business Loans and Securitizations working groups, respectively. The Committee approved the consultations for public release, and the consultations were subsequently [released](#) on the ARRC's website for public feedback through February 5, 2019. The Committee noted its intention to incorporate feedback and approve recommended fallback language for voluntary adoption thereafter.
4. ARRC members agreed that the Legal working group should look further into the Committee's options for seeking legislative relief in order to mitigate risks related to legacy contracts for certain cash products in the event of a LIBOR cessation.

## Attendance at the December 5, 2018 Meeting

### ARRC Members

AXA	Julien Zusslin
Bank of America	Alex van Voorhees
Bank of America	Paul Scurfield*
BlackRock	Jack Hattem*
Citigroup	Jeannine Hyman*
Citigroup	Dina Faenson
CME	Agha Mirza
CME	Fred Sturm
Deutsche Bank	Adam Eames
Deutsche Bank	Vishal Mahadkar
Fannie Mae	Nadine Bates*
Fannie Mae	Wells Engledow*
Freddie Mac	Ameez Nanjee*
Goldman Sachs	Alexander Blanchard*
Goldman Sachs	Amy Hong
Goldman Sachs	Jason Granet
Government Finance Officers Association	Emily Brock*
HSBC	Shirley Hapangama
Intercontinental Exchange	Harvey Flax
International Swaps and Derivatives Association	Ann Battle
JP Morgan	Sandie O'Connor
JP Morgan	Terry Belton
JP Morgan	Alice Wang
JP Morgan	Keith Stephan
JP Morgan	Perry Elbadrawi
JP Morgan	Andrew Gray
JP Morgan	Vickie Alvo*
JP Morgan	Emilio Jimenez*
LCH	Phil Whitehurst*
Met Life	Jason Manske
Met Life	Kevin Budd*
Met Life	Alex Strickler*
Morgan Stanley	Tom Wipf
Morgan Stanley	Maria Douvas-Orme
National Association of Corporate Treasurers	Tom Deas
Pacific Investment Management Company	Aaron Kim
Pacific Investment Management Company	Scott Goodman
TD Bank	Greg Moore*
TD Bank	Priya Misra
The Federal Home Loan Banks, through FHLBNY	Vikram Dongre
The Independent Community Bankers of America	Chris Cole*
The Independent Community Bankers of America	James Kendrick*
The Loan Syndications and Trading Association	Meredith Coffey

The Loan Syndications and Trading Association	Tess Virmani*
The Securities Industry and Financial Markets Association	Randy Snook
The Securities Industry and Financial Markets Association	Chris Killian*
Wells Fargo	Alexis Pederson
Wells Fargo	Brian Grabenstein
World Bank Group	Don Sinclair*

**Ex-Officio ARRC Members**

Bureau of Consumer Financial Protection	Abhishek Agarwal
Commodity Futures Trading Commission	Sayee Srinivasan*
Federal Housing Finance Agency	Dan Coates
Federal Reserve Bank of New York	Matt Lieber
Federal Reserve Bank of New York	Nathaniel Wuerffel
Federal Reserve Bank of New York	Ray Check
Federal Reserve Bank of New York	William Riordan
Federal Reserve Bank of New York	Caren Cox
Federal Reserve Bank of New York	Justine Hansen
Federal Reserve Bank of New York	Adhiraj Dutt
Federal Reserve Board of Governors	Evan Winerman*
Federal Reserve Board of Governors	David Bowman
Federal Reserve Board of Governors	Chiara Scotti
Federal Reserve Board of Governors	Erik Heitfield*
Federal Reserve Board of Governors	Laura Macedo*
Office of Financial Research	Matt McCormick*
Office of the Comptroller of the Currency	Kevin Walsh
U.S. Securities and Exchange Commission	David Metzman
U.S. Securities and Exchange Commission	Michelle Danis*
U.S. Treasury	Peter Phelan
U.S. Treasury	Brian Smith*
U.S. Treasury	Chloe Cabot

**Observers**

American Bankers Association	Hu Benton
Bank of Canada	Sheryl King*
BNP Paribas	Simon Winn
Cadwalader	Lary Stromfeld
CRE Finance Council	Raj Aidasani
CRE Finance Council	Lisa Pendergast
Morgan Lewis	Jon Roellke
Structured Finance Industry Group	Sairah Burki
Venerable	Charles Schwartz

\*Indicates participation by telephone