



July 15, 2016

To The Alternative Reference Rates Committee

Thomson Reuters Corporation welcomes the opportunity to submit comments on the Alternative Reference Rates Committee's (ARRC) Interim Report and Consultation, published in May 2016. Thomson Reuters commends the ARRC's thoughtful work to consider the implications of providing an alternative to LIBOR.

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#### Alternative Rates

1) The ARRC has narrowed its focus to two potential alternative rates, the Overnight Bank Funding Rate (OBFR) and an overnight Treasury general collateral repo rate. Do you have a preference between these two rates? If so, why?

*The two suggested alternatives, OBFR & GCRR, are both robust alternatives worthy of building future liquidity around in the transition away from LIBOR.*

*Our position is neutral.*

*We believe that there are challenges with both rates in that there is a need for a term-structure for forwarding. Eurodollar Futures have been trading since 1981 so there is a well-established, mature market for the contracts which can be used for hedging.*

*The OBFR is already being published by the Federal Reserve and is a volume-weighted median of both overnight Fed Funds and Eurodollar transactions – while there are futures markets that cover both of these, the fact that OBFR is volume-weighted means that there will not be a consistent ratio for forwarding and/or hedging purposes. Moreover, the current Eurodollar Futures contracts are based on a 3mth tenor whereas the Eurodollar transactions considered in the OBFR are overnight.*

*Conversely, the General Collateral Repo Rate does not currently have one "standard" rate that could be used, so there is an immediate hurdle to identify a methodology, and the entity which will calculate and publish this rate. Following that, the issue of a term-*

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<sup>1</sup> For more information, please go to [www.thomsonreuters.com](http://www.thomsonreuters.com).



*structure would need to be addressed. There is a Term Repo market; however, it is not liquid as the tenor increases so may not prove of much value. Furthermore, even if these Term Repo rates were assumed to be appropriate, there is not currently a mechanism to hedge these future rates – ICE DTCC GCF Repo Index Futures (“GCF Futures”) were introduced in July 2012 but volumes and open interest remain low.*

2) Is there another potential rate that you believe should be considered by the ARRC?

*No. We believe the work of the ARRC in considering other rates was both thorough and measured.*

3) With respect to an overnight Treasury general collateral repo rate, the ARRC itself has expressed a preliminary preference for a rate that included both cleared and uncleared triparty and bilateral transactions. Recognizing that no entity has committed to producing such a rate, would you prefer a repo rate that includes only triparty transactions or both triparty and bilateral? Would the inclusion or exclusion of bilateral data materially influence your preference for a repo rate as a benchmark or cause you to prefer a repo rate to the OBFR?

*We believe that including both cleared and uncleared tri-party and bilateral transactions in the General Collateral Repo Rate would best represent the interests of a broader mix of industry participants. This in turn would potentially accelerate the transition to this new rate.*

*That said, the bilateral market does not have the transparency of the tri-party market which complicates the matter. Further, since GC Collateral rates carry spread differentials across the different classes such as Treasuries, TIPS and Strips, we recommend these spreads be accounted for in the overall calculation. In addition, the seasonality to GC funding levels at Quarter end and on other ‘hot’ dates throughout the year that impact supply/demand and the resulting GC levels need to be taken into consideration.*

4) What concerns, if any, do you have that the alternative reference rates identified by the ARRC might be subject to manipulation if they were adopted? Are there concerns that the underlying markets, at times, could be highly concentrated or not sufficiently deep to discourage collusion? How do any concerns compare to similar concerns regarding already existing USD reference interest rates?

*As previously mentioned, the two suggested alternatives, OBFR & GCRR, are both robust alternatives worthy of building future liquidity around in the transition away from LIBOR. However, we do believe the industry will have concerns about any alternative reference rate. Key barriers include the sizable transition cost given the magnitude of unwinding and changing the industry inertia that supports LIBOR. Both the private and public sectors would face an immediate need to ensure that the new reference rates are reliable and robust, and thus adequately governed and administered to appropriately guard against market abuse or systematic errors.*



Paced Transition from Effective Federal Funds Rate to the New Rate

5) Would the paced transition plan preliminarily outlined in the interim report lead you to seek to trade instruments and hedge risk linked to the new rate chosen by the ARRC?

N/A

6) Are there considerations, such as the existence of a basis market between the new rate ultimately chosen by the ARRC (new rate) and the effective fed funds rate (EFFR) that would aid in smoothing a paced transition for your firm? Are there potential disruptions that would concern you under such a plan? What are your biggest concerns relating to the paced approach outlined in this paper?

*Establishing a designated contract market to maintain hedge effectiveness should be a consideration. There needs to be a consistent ratio for forwarding and/or hedging purposes. We can envision basis manipulation challenges between GC and EFFR where Banks may choose to fund more assets via secured or unsecured depending on the Banks overall positioning.*

7) Under the paced transition plan, if markets referencing the new rate were sufficiently liquid would you:

a. Be willing and able to trade to convert legacy contracts referencing EFFR as the floating index in your swaps to reference the new rate, and receive/pay any transparent at-market price change, given a basis market?

b. Be willing to amend your CSA to reference the new rate as the interest rate for cash collateral and receive/pay any transparent at-market price change due to change in discount regime?

c. Be willing to migrate cleared positions that had PAI based on the EFFR to contracts that had PAI based on the new rate, assuming you would be compensated for price changes?

N/A

8) Could you transition only certain segments of your EFFR trading? If so, which segments would be easier to transition and what share of your trading do they comprise?

N/A

9) If you could not transition certain segments of your trading, what would need to change to allow you to do so (external factors, internal systems, etc.)?

N/A



Transition from LIBOR

10) Could you and would you be willing to transition some or all of your derivatives trading currently referencing LIBOR into OIS or futures referencing an alternative rate chosen by the ARRC if the OIS and futures market were sufficiently liquid?

*Today, Thomson Reuters supports a number of 'basis' and analytics across our Eikon and Elektron product suite to assist our clients that wish to model alternatives from one basis to another. Our analytics are well equipped to handle staging these transactions into and out of various fixed/floating leg indices. To that end and in support of the Alternative Reference Rates Committee decision we will accommodate the resulting recommendation in similar fashion.*

11) What criteria would you use to determine whether the OIS and futures markets referencing an alternative rate chosen by the ARRC were sufficiently liquid? (Bid/ask spread, price impact, trade size achievable, trade frequency, etc.?) Would you be willing to participate initially at wider bid/ask spreads and without a long history of swap volume in the new rate in order to support the transition of the market to a more robust benchmark? Are there other considerations besides liquidity that would influence your choice?

*Market liquidity is a multifaceted concept. Many of the various dimensions of market liquidity – tightness of spread, immediacy, depth, breadth can be covered by traditional liquidity measures such as 'bid-offer' spreads, 'turn-over' volume/ ratios etc. However, these indicators must also be seen in context with market specific factors (Macro/micro) to make the measures more complete, particularly during a financial crisis or event risk driven scenario.*

12) Could you transition only certain segments of your LIBOR trading and, if so, which segments would be easier to transition and what share of your trading do they comprise?

N/A

13) If you could not transition certain segments of your LIBOR trading, what would need to change to allow you to do so (external factors, internal systems, etc.)?

N/A

14) What concerns, if any, would you have to transitioning away from existing reset and payment conventions in OTC derivatives referencing LIBOR?

N/A



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15) Do you think the paced transition would have an adverse impact on the corporate bond market, consumer loans, or securitizations? What would be needed for these types of products to reference the new rate?

*Potentially, yes. Since corporate issuance is typically swapped from 'Fixed' coupon to 'Floating' rates any adverse impacts in the form of higher fees associated with hedging in the absence of a seasoned designated contract market would be passed on to corporate bond issuers.*

### Other Comments

16) Do you have any other comments, concerns or questions regarding the preliminary plans outlined in the interim report?

*As noted in the Interim Report, the "paced transition" is initially focused on creating a liquid market for the alternative rate, but further work will be required. It is worth noting that the requirement to update all counterparty documentation, including CSAs, would be a lengthy process (perhaps 9 – 15 months), and would need to occur in parallel with the creating a liquid market for the new rate.*

17) Are you interested in participating in a roundtable with the ARRC to further discuss the issues in this interim?

*Yes, Thomson Reuters is interested in engaging with the ARRC as it continues this Consultation.*

Thomson Reuters appreciates the opportunity to provide the ARRC with its perspective on the implications of introducing an alternative reference rate for the Interest Rate markets.

Respectfully submitted,

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