Alternative Reference Rates Committee (ARRC)
Minutes for the February 22, 2017 Meeting

1) ISDA staff provided an update on work regarding robustness in swap agreements.

2) The ARRC received a summary of the Advisory Group's discussions at its meetings in January and February. The Advisory Group discussed the sequence of events contemplated under the ARRC's Paced Transition Plan, and the pros and cons of the ARRC's proposed alternative rates.

3) The ARRC discussed subgroup-related work since the last ARRC meeting. Of note, the ARRC agreed to hold a roundtable later this year with potential providers of financial infrastructure and technology systems needed to support the paced transition plan. The ARRC also discussed and were generally supportive of the work of a subgroup suggesting certain modifications of the Paced Transition Plan. The suggested modifications (shown in an attachment to these minutes) were designed to more closely link PAI and discounting in the clearing environments that would be offered by CCPs, and were thought likely to better meet end-user needs.

4) Federal Reserve staff provided an overview of a Liberty Street Economics blog post. The post discussed and provided data related to the three repo rates which were recently proposed by the Federal Reserve Bank of New York and the Office of Financial Research. Federal Reserve staff also presented some tables and charts on the segment of the overnight bilateral repo market collateralized by U.S. Treasury securities that is cleared by the Fixed Income Clearing Corporation (FICC).[1] Following the presentations, the ARRC discussed the merits of including various market segments in an overnight Treasury repo rate option. Most ARRC members agreed that it would be desirable to include bilateral repo trades cleared by FICC in the repo rate option if possible.

5) The ARRC discussed the relative merits of alternative rate options.

6) The Chair discussed steps ARRC members should take before the next ARRC meeting. Of note, ARRC members were asked to consider their preferred construction for the GC repo rate option, and to identify any additional information they need prior to the ARRC choosing its recommended rate.

Secretary's Note: The following information was released after the February 22, 2017 ARRC meeting:

- FEDS Note on The Cleared Bilateral Repo Market and Proposed Repo Benchmark Rates, by David Bowman, Joshua Louria, Matthew McCormick, and Mary-Frances Styczynski.

[1] These tables and charts were posted to the ARRC's public website in advance of the meeting, and are available at the following link: https://www.newyorkfed.org/medialibrary/microsites/arrc/files/2017/ARRC-presentation-Feb-22-2017.pdf

Attendance for the February 22, 2017 ARRC Meeting

ARRC Member Attendees

Bank of America	Paul Scurfield
Barclays	Brian Rozen
Barclays	James Regan
Barclays	Matthew Besgen
BNP	David Moore
Citigroup	Deirdre Dunn
Citigroup	Heraclio Rojas
CME	Agha Mirza
CME	Fred Sturm
Credit Suisse	Shane O' Cuinn*
Deutsche Bank	Kayam Rajaram
DTCC	Dan Thieke*
DTCC	James Hraska*
Goldman Sachs	Alexander Blanchard
Goldman Sachs	Scott Rofey*
HSBC	Pieter van Vredenburch
ISDA	Anne Battle*
JP Morgan	Alice Wang
JP Morgan	Thomas Hughes
JP Morgan	Sandra O' Connor
JP Morgan	Terry Belton
JP Morgan	Vickie Alvo*
LCH	Phillip Whitehurst*
Morgan Lewis	Jon Roellke*
Morgan Stanley	Maria Douvas
Morgan Stanley	Thomas Wipf
Nomura	Jennifer Schiffman *
Nomura	Steve Licini*
RBS	Mark Rose
Société Générale	Subadra Rajappa
UBS	Christian Rasmussen
Wells Fargo	Ben Bonner*

Ex Officio Member Attendees

U.S. Commodity Futures Trading Commission	Sayee Srinivasan*
Federal Reserve Board	David Bowman
Federal Reserve Board	Joshua Louria
Federal Reserve Board	Chris Clubb
Federal Reserve Bank of New York	Raymond Check
Federal Reserve Bank of New York	Alyssa Cambron
Federal Reserve Bank of New York	Brett Solimine
Federal Reserve Bank of New York	Joshua Frost
Federal Reserve Bank of New York	Katie Bayeux
Federal Reserve Bank of New York	William Riordan
Office of Financial Research	Jill Cetina
Office of Financial Research	Matthew McCormick
U.S. Treasury Department	Anya Boutov
U.S. Treasury Department	Brian Smith
U.S. Treasury Department	Jared Roscoe*

Attachment

Paced Transition Steps – Potential Revisions

1. ARRC consults with end users and finalizes implementation planning and chooses a new rate.
2. Infrastructure for futures and/or OIS trading in the new rate is put in place by ARRC members.
3. Trading begins in futures and/or bilateral, uncleared, OIS that reference the new rate.
4. Trading begins in cleared OIS that reference the new rate in the current (EFFR) PAI environment.
5. CCPs begin accepting new or modified swap contracts (swaps paying floating legs benchmarked to EFFR, LIBOR, and the new rate) that pay the new rate as PAI and are discounted with a new rate curve (the choice of PAI/discount rate would be made at execution). In this stage, market participants are allowed a choice between clearing contracts that calculate PAI and discounting using either EFFR or the new rate, with both types of contracts cleared within the same clearing guarantee fund. CCPs would gradually lengthen the maturity contracts accepted for clearing in the of new rate PAI/discounting environment to ensure that liquidity was adequate to support the new discount curve.
6. 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 the discount rate and new contracts using the new rate 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.
7. ~~Discounting within the CCPs is expected to eventually transition to the new rate. The timing of this choice will depend on each individual institution's framework, market demand, and on the establishment of sufficient liquidity in OIS and/or futures that reference the new rate.~~