

ARRC

Alternative Reference Rates Committee | Newsletter

This periodic newsletter provides an update for those with an interest in the work of the Alternative Reference Rates Committee (ARRC), keeping you well informed on key news relating to risk-free rates transition in the U.S. and global markets.

February - March 2019

ARRC Developments

- **COMING UP: On April 3, 2019, the ARRC's recommended alternative to U.S. dollar (USD) LIBOR turns one-year old. The Secured Overnight Financing Rate (SOFR) has published each business day since April 3, 2018, and since its inception, there has been an average daily volume of over \$800 billion in overnight Treasury repurchase agreement transactions underlying it. Look out for more details to come on this milestone.**
- ARRC launched an enhanced version of its [website](#) in the interest of providing comprehensive information about, and facilitating the public's understanding of the ARRC and its work in supporting a successful transition away from USD LIBOR to a more robust reference rate, its recommended alternative, the SOFR.
- ARRC [announced](#) that David Bowman, Senior Advisor at Federal Reserve Board, will host weekly open office hours to address questions from market participants on key transition issues from the perspective of Federal Reserve Board staff. These office hours are intended for market participants and are not for the press, who should instead reach out to the press contacts listed on the [ARRC's website](#).
 - The office hours are being held on Fridays from 2:00 - 3:00 PM EDT and the dial-in is as follows:
 - Dial-In: 1-855-377-2663 (U.S. callers); +1 972-885-3168 (international callers)
 - Participant Code: 09823427
- The ARRC published over 50 responses received on its consultations on fallback language for [bilateral business loans](#) and [securitizations](#), which were issued in December.

U.S. Developments

- Federal Reserve Board economists published a [staff working paper](#), which details a potential methodology for calculating indicative forward-looking SOFR term rates.
- In a speech on the transition from LIBOR, the New York Fed General Counsel Michael Held [described](#) LIBOR's weaknesses, the threats posed by the fact that it could soon disappear, and work to transition to alternative reference rates, including SOFR.
- The [minutes](#) from the Federal Open Market Committee's January meeting noted that New York Fed staff have started work on publishing a series of backward-looking averages of SOFR, with plans to solicit public feedback on this effort later this year and initiate publication of these averages by the first half of 2020.

International Developments

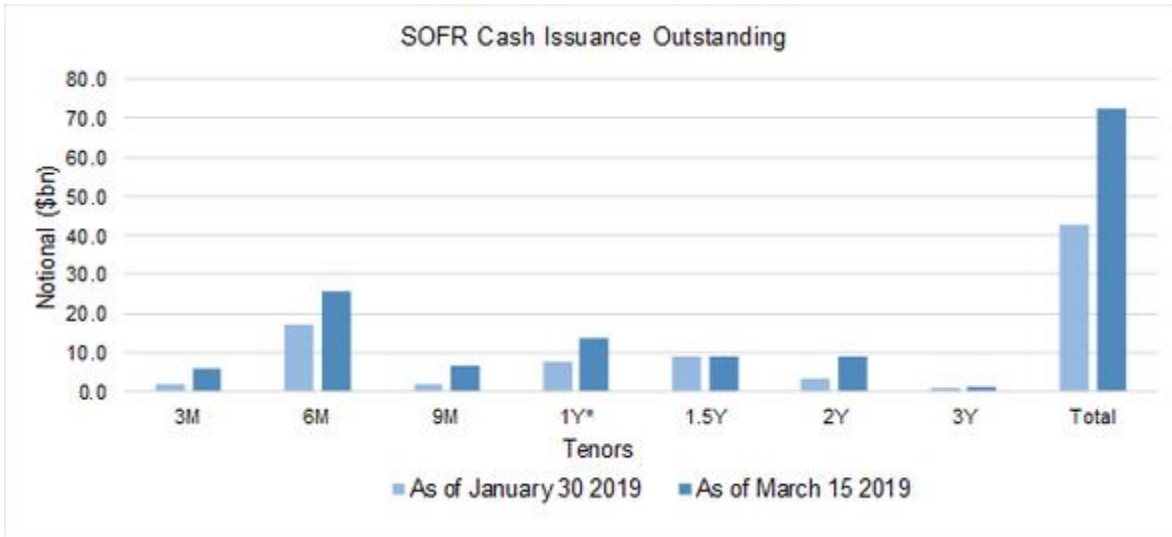
- **For more details on international efforts for reference rate reform, see the working groups in the [UK](#), [Switzerland](#), [Japan](#), the [euro area](#), and the [Official Sector Steering Group](#).**
 - The UK Working Group on Sterling Risk-Free Reference Rates published a [paper](#), for market consideration, which outlined provisional specifications for a calculator to support the adoption of SONIA based instruments. The group also agreed to [set up three priority task forces](#) on SONIA, focused on the development of term rates, accounting treatment and regulatory dependencies.
 - In a [presentation](#), Megan Butler of the UK Financial Conduct Authority emphasized that firms need to end their reliance on LIBOR by end-2021 and provided an overview of firms' transition progress to date.
 - [Minutes](#) from a meeting of the National Working Group on Swiss Franc Reference Rates noted that SIX Swiss Exchange will provide daily publication of compounded SARON in H2 2019.
 - The European Central Bank in February published [responses](#) obtained from market participants on its second consultation for determining an ESTER-based term structure methodology and on the [transition from EONIA to ESTER](#). Then in March, the ECB's private sector working group [endorsed recommendations](#) to market participants regarding that transition.
 - The Financial Stability Board issued a [letter](#) to the International Swaps and Derivative Association (ISDA) regarding derivative contract robustness to risks of interest rate benchmark discontinuation and discussed i) the addition of other trigger events, ii) the timing for an ISDA consultation on USD LIBOR and certain other IBORs, and iii) the governance and transparency necessary as ISDA makes its final decisions.

Market Developments

- LCH launched a [webpage](#) that provides a regular update of SOFR and SARON registration volumes and notional amounts outstanding that are cleared through LCH by month, segmented by tenor buckets.
- ISDA published [an updated timeline](#) for the implementation of IBOR fallbacks.
- The International Accounting Standards Board published a [paper](#) on International Financial Reporting Standards related to IBOR reform and the effects on financial reporting, including proposed amendments to provide relief from the effects of IBOR reform uncertainties on the highly probable requirement and prospective assessments.
- The Basel Committee on Banking Supervision and International Organization of Securities Commissions issued a [statement](#) providing guidance under their framework for margin requirements for non-centrally cleared derivatives. The statement provides that legacy derivatives contracts amended solely to address IBOR benchmark reform do not require application of the framework's margin requirements, but notes that the position may be different under relevant implementing laws.

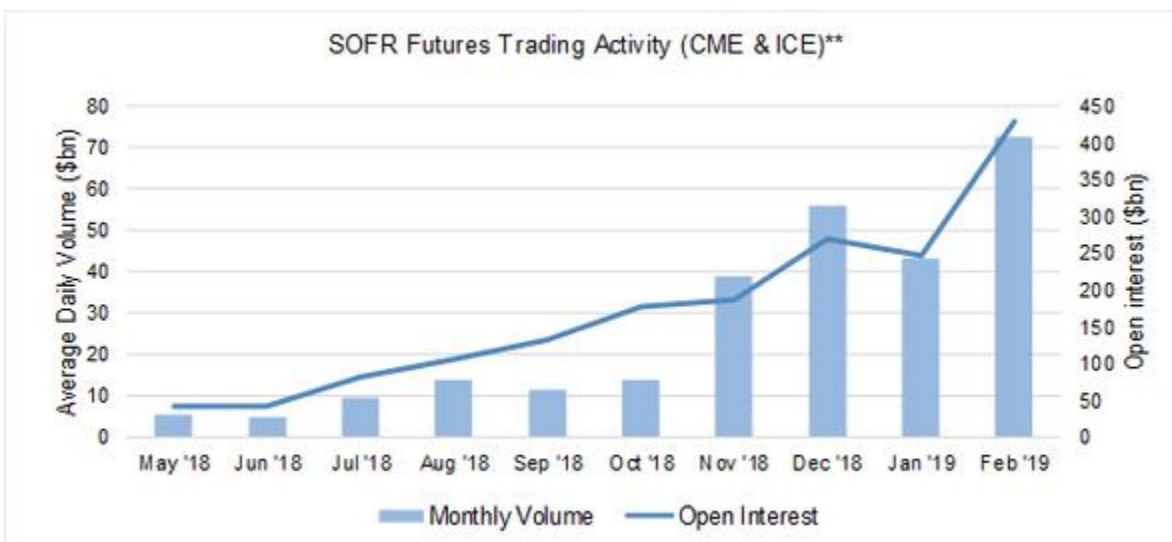
SOFR Market Liquidity

- SOFR cash issuance has reached \$72.2B outstanding.



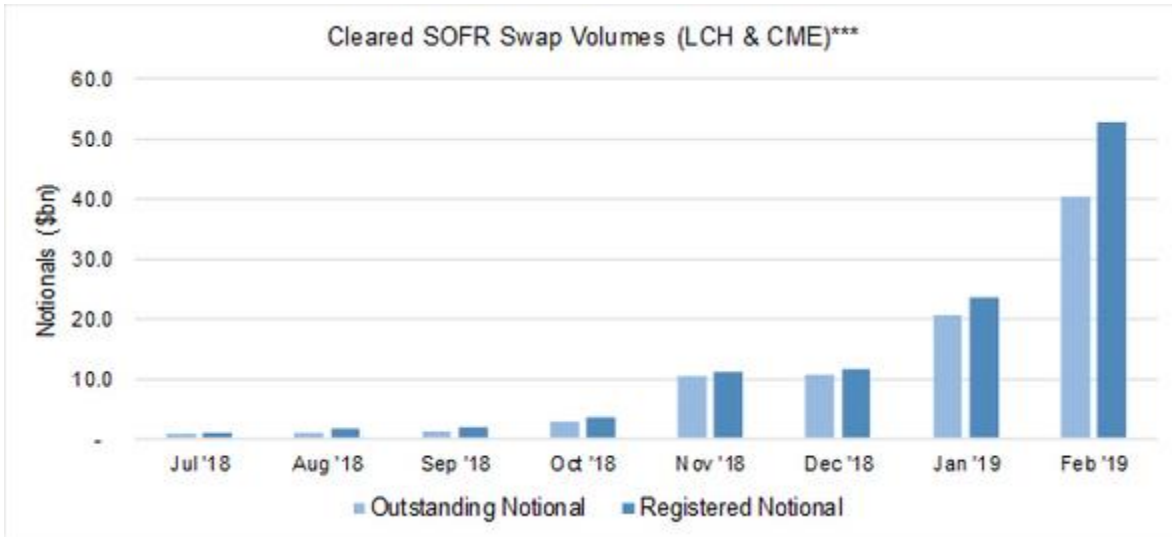
(As of March 15, 2019; Source: [CME Group](#))

- Average daily volume in SOFR futures trading has almost doubled from January to February reaching \$72.3B. As a result, open interest continues to increase reaching \$428.3B.



(Source: [CME Group](#), [ICE](#))

- SOFR cleared swaps have reached \$40.3B outstanding.



(Source: [LCH](#), [CME](#))

*Includes the \$107.3M Triborough Bridge & Tunnel Authority Notes remarketed with a 1-year mandatory tender date and 13.5 year final maturity

**ICE SOFR futures trading began on October 22, 2018. The data in the table reflects number of contracts, which has been adjusted to replicate CME contract units.

***CME began clearing SOFR swaps on October 1, 2018

This newsletter is compiled by the ARRC's Outreach and Communications Working Group. If you have any questions please email the ARRC Secretariat at arcc@ny.frb.org.

<https://www.newyorkfed.org/arcc>