

Alternative Reference Rates Committee (ARRC)

Minutes for the June 18, 2018 Meeting

1. Federal Reserve staff summarized discussions of the Paced Transition working group around different approaches to calculating price alignment interest (PAI) and discounting for cleared SOFR products. Federal Reserve staff noted that while working group participants expressed varying demand for using SOFR PAI and discounting on cleared SOFR products, either approach would be workable within the parameters set by the Paced Transition Plan and that central counterparties would appropriately make their own business decisions about which approach best meets the demands of their customers. LCH and CME discussed feedback they had received from their respective market outreach efforts on this topic and their operational capability to accommodate the approaches they were considering. LCH noted that it would soon begin clearing SOFR-linked products in the prevailing federal funds PAI and discounting environment. Subsequent to the meeting, CME announced that it would offer clearing of SOFR products using SOFR PAI and discounting. The ARRC Chair noted that the ARRC was already ahead of the timeline laid out in the Paced Transition Plan and that the ARRC should continue to seek ways to move more quickly than envisioned in the Plan, provided that such steps did not introduce operational risks.
2. ARRC members discussed a draft of a letter to regulators in the U.S. that was drafted by the Regulatory Issues working group in order to highlight issues related to Title VII of the Dodd Frank Act that could arise when existing derivative contracts are amended to include new fallback rates or references to alternative benchmark rates. The co-Chairs of the Regulatory Issues working group summarized the main topics of the letter and requested that ARRC members provide feedback before the letter is sent to regulators. The ARRC Chair noted that the purpose of the letter is to make policymakers aware of regulations that require guidance or clarification to support adoption of alternative reference rates. The [regulatory letter](#) was released subsequent to the meeting.
3. The co-Chairs of the Outreach and Communications working group highlighted the need to more effectively inform the public about the ARRC's work and noted that the working group was drafting a press release to accompany the publication of the guiding principles for the development of fallback language for new financial contracts for cash products. The [press release and guiding principles](#) were subsequently released.
4. ARRC members discussed potential changes to contract language that could account for "zombie" USD LIBOR, a scenario in which LIBOR continues to be published but with fewer submitters. A number of ARRC and working group members expressed concern that in this scenario, they might be forced to continue to reference USD LIBOR in legacy contracts even if its quality was degraded and there was a widespread consensus that USD LIBOR was no longer appropriate for use. The ARRC Chair suggested that the ARRC should aim to recommend workable language that could be voluntarily adopted into financial contracts to address such a

scenario in a comprehensive way. Several members noted the importance of consistency across cash product types, both in considering the events that would trigger a move from USD LIBOR in contract language and in the selection of a successor rate. Chairs of the various cash products working groups briefly summarized discussions that took place within their working groups about potential contract language, discussing the benefits and drawbacks of “hardwired” fallbacks versus more flexible or hybrid approaches to fallback language. It was agreed that more work needed to be done on the various approaches to fallback language.

5. The Chair requested that ARRC members provide feedback on whether the Committee should recommend a term rate. The ARRC agreed that it would recommend specific term rates if those rates meet ARRC defined guidelines and are also consistent with IOSCO benchmark principles.
6. Federal Reserve staff reminded the ARRC that a [public roundtable](#) is scheduled to take place on July 19, 2018.
7. The next ARRC meeting is scheduled to take place on July 24, 2018, from 3:00-5:00 PM.

Attendance at the June 18, 2018 Meeting

ARRC Members

AXA	Charles Schwartz
Bank of America	Alex van Voorhees
Bank of America	Paul Scurfield
BlackRock	Jack Hattem*
Citigroup	Dina Faenson
CME	Agha Mirza
CME	Fred Sturm
Deutsche Bank	Adam Eames
Deutsche Bank	Vishal Mahadkar
Fannie Mae	Nadine Bates
Freddie Mac	Ameez Nanjee
Goldman Sachs	Alexander Blanchard*
Goldman Sachs	Scott Rofey*
Government Finance Officers Association	Pat McCoy
Government Finance Officers Association	Emily Brock
HSBC	Shirley Hapangama
Intercontinental Exchange	Chris Edmonds
International Swaps and Derivatives Association	Ann Battle
JP Morgan	Sandie O'Connor
JP Morgan	Alice Wang
JP Morgan	Perry Elbadrawi
JP Morgan	Andrew Gray
JP Morgan	Emilio Jimenez
JP Morgan	Terry Belton*
JP Morgan	David Beck*
LCH	Phil Whitehurst*
Met Life	Jason Manske
Met Life	Kevin Budd*
Met Life	Alex Strickler*
Morgan Stanley	Priya Bindra
Morgan Stanley	Maria Douvas-Orme
National Association of Corporate Treasurers	Tom Deas
Pacific Investment Management Company	Courtney Garcia*
TD Bank	Paul Beltrame
The Federal Home Loan Banks, through FHLBNY	Phil Scott
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 Securities Industry and Financial Markets Association	Randy Snook
The Securities Industry and Financial Markets Association	Chris Killian*
Wells Fargo	Brian Grabenstein
World Bank Group	Dolores Lopez-Larroy*

Attendance at the June 18, 2018 Meeting

Ex-Officio ARRC Members

Commodity Futures Trading Commission	Sayee Srinivasan*
Consumer Financial Protection Bureau	Abhishek Agarwal
Federal Deposit Insurance Corporation	Irina Leonova*
Federal Housing Finance Agency	Dan Coates
Federal Reserve Bank of New York	Matt Lieber
Federal Reserve Bank of New York	Josh Frost
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	David Bowman
Federal Reserve Board of Governors	Chiara Scotti
Federal Reserve Board of Governors	Joshua Louria
Federal Reserve Board of Governors	Laura Macedo*
Federal Reserve Board of Governors	Evan Winerman*
Office of Financial Research	Matt McCormick
Office of the Comptroller of the Currency	Michael Killick*
U.S. Securities and Exchange Commission	David Metzman
U.S. Treasury	Chloe Cabot
U.S. Treasury	Brian Smith*

Observers

American Bankers Association	Barry Mills
Bank of Canada	Sheryl King
BNP Paribas	Simon Winn
CRE Finance Council	Lisa Pendergast
Morgan Lewis	Jon Roellke*
Structured Finance Industry Group	Richard Johns*

*Indicates participation by telephone