Opening Remarks

CFTC Market Risk Advisory Committee – Preamble – December 4, 2018

Introduction

- Good morning everyone- it is an honor to be presenting again in front of the Market Risk Advisory Committee on behalf of the subcommittee on interest rate benchmark reform. For those I haven't met, my name is Tom Wipf, Vice Chairman of Institutional Securities at Morgan Stanley and I represent the Firm on the ARRC as well as the Board of ISDA.
- Before we begin, I would like to note that I will not be commenting on behalf of Morgan Stanley, the ARRC, or any other organizations today, and that any views I represent are strictly my own
- I want to take a moment to thank Commissioner Behnam, Alicia Lewis, the MRAC, and the rest of the CFTC for forming this subcommittee – the transition to alternative reference rates is a massive task ahead of us, and to achieve success it is paramount that we have close coordination between the public and private sectors
- I would also like to thank the other members of the subcommittee who were formally announced today – I look forward to working with them as we carry out the committee's mandate
- The subcommittee consists of the following members, each leaders in their respective fields and capable of providing important input from various parts of the market to help us achieve our goals:
    1. Kristen Walters, Global Chief Operating Officer of the Risk and Quantitative Analysis Group, BlackRock
    2. Sam Priyadarshi, Head of Portfolio Risk and Derivatives, Vanguard
    3. Dennis McLaughlin, Chief Risk Officer, LCH
    4. Agha Mirza, Managing Director and Global Head of Interest Rate Products, CME Group
    5. Annette Hunter, Senior Vice President and Director of Accounting Operations, FHLB Atlanta
    6. Jim Shanahan, Vice President –Financial Regulatory Compliance, CoBank
    7. Jennifer Earyes, Director of Treasury Risk, Navient
    8. Jason P. Manske, Chief Hedging Officer, Executive Vice President & Senior Managing Director, MetLife
    9. Tim Bowler, President, ICE Benchmark Administration
    10. Rob Mangrelli, Director, Global Real Estate Hedging and Capital Markets Team, Chatham
    11. Craig Messinger, Senior Advisor, Virtu Financial
    12. Marnie Rosenberg, Global Head of Clearing House Risk and Strategy, JP Morgan
    13. Biswarup Chatterjee, Global Head of Electronic Trading & New Business Development, Citi
    14. Simon Winn, Managing Director, Chief Operating Officer - U.S. Public Policy and Regulatory Affairs, BNP Paribas

15. Tyler Wellensiek, Managing Director and Head of Official and Financial Institutions Rates Sales, Barclays
16. Jason Granet, Managing Director, Program Lead for LIBOR Transition, Goldman Sachs
17. Eric S. Lashner, Senior Counsel, Derivatives and FX Section, Wells Fargo
18. Vikash Rughani, Business Manager, Nex Optimisation-TriOptima
19. Scott Zucker, Chief Administrative Officer, Tradeweb
20. Ann Battle, ISDA or Katherine Darras, ISDA

- I'd like to begin our discussion by recalling the July MRAC meeting that resulted in the creation of the subcommittee on interest rate benchmark reform

Background on Subcommittee

- On July 12th, I moderated a panel series in front of the MRAC that covered several different important areas regarding the transition to alternative benchmark rates in the US
  - During that panel series we discussed an overview of LIBOR reform, latest developments with LIBOR / SOFR / SOFR Derivatives, and the effect of LIBOR reform on the derivatives industry
  - We heard from industry experts who have been instrumental in raising awareness and moving the ball forward on LIBOR reform as it relates to their institutions, clients, and counterparties
  - At the conclusion of that committee meeting, the MRAC voted to form a subcommittee on interest rate benchmark reform to provide reports and recommendations to the MRAC on the effect of current LIBOR reform initiatives on the derivatives markets.
- Since that MRAC meeting, there have been several material updates to LIBOR reform around the globe:
  - In the US, market participants are working to create and implement fallback language that can be used in newly issued cash products
    - We are also working to actively use the new rates available for derivative contracts in the form of SOFR futures and swaps
  - In the UK, large banks and insurance companies are working to complete the "Dear CEO" letter ahead of this month's deadline
  - In Europe, a replacement benchmark rate has been selected and market participants are forming their transition plan ahead of deadline imposed by the EU Benchmark Regulation
  - Market participants globally are focused on the preliminary results of ISDA's market consultation on fallback calculation methodology for derivative contracts
    - Although USD LIBOR was not in scope for this particular consultation, the results of this consultation are still viewed as significant for US market participants as they may

provide an indication for how the eventual ISDA protocol for the USD LIBOR fallback methodology is calculated

- With the formalization of the subcommittee's membership this morning, we are now hard at work to identify areas of the LIBOR transition in which we can provide input and recommendations to the MRAC
- In charting out our intended contribution to the MRAC and broader CFTC, the subcommittee has defined our areas of focus and boundaries of our work

Principles and Boundaries

- The ultimate goal of this subcommittee on interest rate benchmark reform is to provide input and recommendations to the MRAC as it relates to potential policy changes that may impact the course of LIBOR reform
- Our key principles in this regard are the following:
  1. We aim to <u>remove hurdles</u> to the transition to SOFR
  2. We aim to <u>provide incentives</u> for market participants to transition to SOFR
  3. We aim to <u>avoid the inadvertent creation of a safe harbor</u> in policy changes that we recommend
- The deliverables that our subcommittee presents to the MRAC will be detailed, specific, and action-oriented in nature
  - Further, our intention is to submit these proposals and recommendations to the MRAC within a reasonable amount of time
  - In forming our recommendations, we are mindful that our duty is to the broader market, and not our individual institutions
- Apart from providing proposals to the MRAC, the subcommittee also recognizes it has a responsibility to continue to raise awareness of the reference rate transition among market participants
  - Given the collective expertise and reach of the members of the subcommittee, we strive to be a force for good as the broader market prepares for LIBOR reform
  - In selecting the members of the subcommittee, our intentions were to capture a large cross-section of the market, in order to maximize our ability to raise market-wide awareness about the transition and its progress
    - This subcommittee includes members from asset managers, clearinghouses, end-users, exchanges, intermediaries, market makers, service providers, SEFs, and trade associations
- However, in carrying out our mandate, we are mindful of the finite scope and boundaries of our work

  - Specifically, the subcommittee is limiting its focus to policies and recommendations involving the US Derivatives market
  - We will work within these boundaries in order to provide actionable and policy-driven input to the MRAC
  - This is consistent with the mission of the CFTC and the spirit in which the subcommittee was created

Next Steps

- In light of this focused approach and desire to provide input to the MRAC within a reasonable timeframe, the subcommittee has already charted out a plan of attack to accomplish its goals
- Last week we had an introductory phone call to discuss the overall mandate, principles, and remit of the subcommittee
- As a starting point, we are leveraging the work done by the ARRC in its letter to US Regulators dated July 12th, 2018
  - In this letter, the ARRC and its member firms requested specific inter-agency guidance regarding the treatment, under regulations promulgated pursuant to Title VII of the Dodd Frank Wall Street Reform and Consumer Protection Act, of existing derivatives contracts that are amended to include new fallbacks or otherwise reference alternative risk-free rate benchmarks and new derivatives contracts that reference RFR's
  - The proposals that we ultimately provide will be additive to this letter, and not repetitive
  - It is of top priority that the policy-based recommendations that we make to the MRAC will not inadvertently create loopholes or safe harbors that go against the MRAC's primary goals for the subcommittee
- By the end of this month, the subcommittee will gather and circulate internally thoughts on regulation in the US Derivatives markets that could potentially be refined in order to encourage the transition to SOFR
  - As a result of our initial subcommittee call last week, we are already hard at work in this regard
- We will meet in January, and on a monthly basis thereafter, to further discuss and collaborate in an effort to deliver meaningful and actionable results to the MRAC
- We aim to provide the MRAC with a substantial update on our progress at the meeting to occur in May 2019
  - We welcome any questions, input or requests at the May 2019 MRAC meeting or at any other time
- Our objective is to be helpful to the MRAC and broader CFTC as you further implement strategy to facilitate and encourage the transition to SOFR in the US Derivatives Market

- We applaud the MRAC and CFTC for prioritizing this important issue, and being front-footed with regards to executing the reference rate transition successfully
    - The creation of this subcommittee, as well as recent comments from Comm. Giancarlo, are evidence that the transition to alternative reference rates has been appropriately prioritized within the CFTC

Conclusion

- Once again, I would like to thank Comm. Behnam, Alicia Lewis, and the MRAC for this opportunity for public service
- The subcommittee is intently focused on creating actionable recommendations to further the market's progress as it relates to the transition to alternative risk free rates
- We strive to be additive to other sources of market progress, and remain focused on the scope of our mandate
- We welcome any feedback from the MRAC on our driving principles or boundaries that I have enumerated today
- With this, I will conclude my prepared remarks and let Alicia solicit questions from the room