

ARRC Floating Rate Notes Working Group

July 2018 Update

Current Contract Language

A survey of recent FRN contract language shows a fairly wide range:

- A portion do not have any fallbacks beyond the standard poll of banks
- Almost half continue to have language that would fallback to the last published value of LIBOR if banks do not respond to the standard poll
- Some new issuances allow the successor rate and spread adjustment to be chosen by the Calculation Agent based on industry-accepted standards
- Others specify that the Calculation Agent determine a successor rate in a fair and reasonable manner
- Some new issuances refer to a rate recommended by a central bank or committee thereof

A Hardwired Fallback Waterfall for FRNs:

The FRNs working group has developed a draft waterfall of fallback rates:

1. The [X] month SOFR rate (“**[X] Month SOFR**”) that shall have been selected, endorsed or recommended as the replacement for [X] month LIBOR by the Relevant Governmental Sponsor plus a Replacement Floating-Rate Spread.
2. Interpolated SOFR (an interpolation of futures prices to create a term rate) for a [X] month tenor (“**[X] Month Interpolated SOFR**”) determined by the Calculation Agent, plus a Replacement Floating-Rate Spread.
3. SOFR plus a Replacement Floating-Rate Spread.
4. Such other alternate, substitute or successor rate as shall have been selected, endorsed or recommended by the Relevant Governmental Sponsor as the replacement for SOFR, plus the applicable Replacement Floating-Rate Spread, if any, or if a replacement rate cannot be determined then the replacement rate shall be OBFR plus the applicable Replacement Floating-Rate spread.

Draft Waterfall for the Spread Adjustment:

“Replacement Floating-Rate Spread” means, in respect of any interest reset date:

1. the base rate modifier that shall have been selected, endorsed or recommended by the Relevant Governmental Sponsor, as the spread, or method for calculating or determining the spread, which is necessary to be added to or subtracted from the applicable replacement rate to make it comparable to [X] Month LIBOR, as of [*time*] on the Determination Date for such interest reset date, provided that:
2. if the base rate modifier cannot be determined in accordance with clause (1), then the base rate modifier that shall have been selected, endorsed or recommended by ISDA as the spread, or method for calculating or determining the spread, which is necessary to be added to or subtracted from the applicable replacement rate to make it comparable to [X] Month LIBOR, as of [*time*] on the Determination Date for such interest reset date, provided, further, that:
3. if the base rate modifier cannot be determined in accordance with clause (1) or (2), then the base rate modifier shall be the LIBOR-OIS Spread.