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ARRC Welcomes the Release of Proposed Tax Relief Regarding the LIBOR Transition

The Alternative Reference Rates Committee (ARRC) today welcomed the United States Department of the Treasury and the Internal Revenue Service’s release of proposed regulations providing tax relief related to issues that may arise as a result of the modification of debt, derivative, and other financial contracts from LIBOR-based language to alternative reference rates.

“Today’s announcement from the Treasury Department marks another key step in the transition away from LIBOR,” said Tom Wipf, chair of the ARRC and Vice Chairman of Institutional Securities at Morgan Stanley. “The official sector is paving the way for the transition through actions such as these and its support of the ARRC’s transition plan. The Treasury action today provides much more clarity around the tax issues related to converting legacy trades. This clears the path forward, and I strongly encourage all market participants to take this opportunity to transition away from LIBOR and begin adopting the Secured Overnight Financing Rate.”

The ARRC sent a letter to the Treasury Department in April requesting guidance on potential tax issues associated with the move away from LIBOR and other Interbank Offered Rates (IBORs) to alternative reference rates, noting that timely guidance is critical to a successful transition. The letter stated that the ARRC believes early modifications of both contractual fallback provisions, and the rates referenced in debt and other contracts will help ensure an orderly market transition away from IBORs.

About the ARRC
The ARRC is a group of private-market participants convened by the Federal Reserve Board and Federal Reserve Bank of New York in cooperation with the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Office of Financial Research, the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission, the Securities and Exchange Commission and the U.S. Treasury Department. It was initially convened in 2014 to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption. The ARRC accomplished its first set of objectives and identified the Secured Overnight Financing Rate as the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published its Paced Transition Plan, with specific steps and timelines designed to encourage adoption of SOFR. The ARRC was reconstituted in 2018 with an expanded membership to help to ensure the successful implementation of the Paced Transition Plan.
address the increased risk that LIBOR may not exist beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

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