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ARRC Releases Matrix and Comparison Chart on SOFR Floating Rate Notes Conventions

Matrix Identifies Considerations for Use in SOFR-Linked Floating Rate Note Issuances; Chart Outlines Conventions Used in Current SOFR Notes

The Alternative Reference Rates Committee (ARRC) today released the Secured Overnight Financing Rate (SOFR) Floating Rate Notes (FRNs) Conventions Matrix. The Matrix identifies considerations relevant to using SOFR – the ARRC's recommended alternative to U.S. dollar LIBOR – in new floating rate notes and supplements the ARRC's spring paper, "A User's Guide to SOFR." The Matrix is accompanied by the SOFR FRNs Comparison Chart, which outlines conventions already being used in the market. Both documents were developed to help market participants as they consider issuing or investing in a SOFR-based FRN and may be updated or supplemented periodically.

"Significant work remains to buttress against the financial stability risks associated with LIBOR potentially becoming unusable in less than two and a half years," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "As SOFR FRN issuance continues to increase, tools like the Matrix and Comparison Chart aid those seeking alternatives to LIBOR by illustrating how conventions are evolving."

Among other topics, key issues for SOFR-based FRNs that are covered in the Matrix include:

- Using a compounded average of SOFR, as opposed to a simple average;
- Employing an *in arrears* framework using SOFR rates over the applicable interest period, and noting that this necessitates a lockout, lookback, or payment delay – or a combination of these conventions; and
- Adding margin at the end of the compounding period ("margin exclusive compounding").

Additionally, the Matrix notes that a definitive published compounded SOFR index or compounded SOFR calculator would be helpful to market participants.

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 SOFR 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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