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ARRC Welcomes Ford Motor Company Use of Recommended Fallback Provisions in Securitization for Auto Loans

ARRC Encourages Use of Fallback Language in New Contracts, Which Aims to Minimize Market Disruptions if LIBOR is No Longer Usable

The Alternative Reference Rates Committee (ARRC) today welcomed Ford Motor Company's leadership in adopting more resilient fallback language into its asset backed securitization program. Ford, through its captive finance subsidiary, Ford Motor Credit Company LLC, today completed the sale of its first notes incorporating fallback language modeled on the ARRC's recommendations to reduce the risk of serious market disruption in the event that LIBOR is no longer usable.

"Ford Credit was pleased to adopt ARRC's recommended LIBOR fallback language, and we believe it can be used for transactions going to market today to support a transition from LIBOR. We appreciate the thoughtful, detailed approach by ARRC to establish a way forward for the industry," said Jason Behnke, Ford Motor Company assistant treasurer.

The ARRC fallback language for securitizations was developed through extensive stakeholder consultation. The provisions are for market participants' voluntary use in new contracts that reference LIBOR and will ensure financial contracts remain valid and the financial system is not disrupted if LIBOR becomes unavailable.

"It is encouraging to see the fallback language that ARRC recommends being adopted in the marketplace," said Tom Wipf, chair of the ARRC and Vice Chairman of Institutional Securities at Morgan Stanley. "With leaders like this showing the way, I am confident more market participants will recognize they need to adopt robust fallback language to protect both issuers and investors from the risks posed by LIBOR."

As described in the ARRC's [guiding principles for fallback language](#), there are substantial benefits to aligning fallback provisions across different products so that they would operate similarly in the event that LIBOR is no longer usable. The ARRC's recommended fallback language seeks general consistency in defining key terms, including:

- ***Benchmark Transition Events***: the trigger events that start the transition away from LIBOR;
- ***Benchmark Replacement***: the successor adjusted rate that would replace references to LIBOR throughout the contract following a Benchmark Transition Event; and

- **Benchmark Replacement Adjustment:** the spread adjustment component of the Benchmark Replacement that is applied to the successor rate to make it more comparable to LIBOR.

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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