September 2, 2020

ARRC Releases Request for Proposals for the Administration of Recommended Spread Adjustments and Spread-Adjusted SOFR Rates to Facilitate Contractual Fallbacks

The Alternative Reference Rates Committee (ARRC) today released a Request for Proposals (RFP) seeking one or more firms to publish daily indicative spreads and, after a trigger event has occurred, static spreads and spread-adjusted fallback rates for cash products that transition away from U.S. dollar (USD) LIBOR. These spread-adjusted fallback rates will be based on the Secured Overnight Financing Rate (SOFR). They are designed for use in legacy contracts with the ARRC's recommended hardwired fallback language, and other instances where spread-adjusted replacement rates are needed.

The ARRC conducted two market-wide consultations this year (issued in January and May) regarding the appropriate methodology for its recommended spread adjustments. Following feedback to the initial consultation, the ARRC recommended a spread adjustment methodology based on the historical median difference between LIBOR and SOFR over a five-year lookback period prior to a trigger event. For commercial (non-consumer) cash products, these spread adjustment values align with the spread adjustment values that the International Swaps and Derivatives Association plans to implement in its standard definitions for derivatives. For consumer products, the ARRC's spread adjustment values will also incorporate a one-year transition period.

"This request for proposal is another necessary step in the transition and will ensure that the ARRC's recommended hardwired fallback language can be effectively implemented," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley.

The ARRC will use responses to the RFP to identify an administrator or administrators who will be responsible for calculating and publishing the spreads and the resulting interest rates based on the ARRC's recommended fallback adjustment methodology. The administrator(s) will make the spreads and rates readily accessible on a daily basis to the general public without cost, and may make data available on a more frequent basis for commercial uses.

Specifically, the administrator(s) will:

- Use the ARRC's recommended methodology to calculate daily spreads for each corresponding LIBOR tenor currently published.
- Apply the calculated spreads to the corresponding rates (e.g. compounded in arrears and in advance SOFRs, term SOFR if available, and simple SOFR).
- Publish the calculated spreads, and the resulting rates on a readily accessible website without cost to the general public and in a format that meets the needs of U.S. regulatory agencies.
- Make the published data available to other vendors and publishers at reasonable cost.

Submitting Responses to the RFP

Questions and responses to the RFP should be sent to the ARRC Secretariat at arrc@ny.frb.org by October 16, 2020. Please provide only one response per institution, and please attach your responses in a PDF document with “Spread Adjustment RFP Response” clearly indicated in the subject line of your email.

The ARRC will evaluate responses and will require selected firms to present their proposals. Following an ARRC selection, the ARRC will publish the name(s) of the chosen administrator(s).

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.

Sign up here to receive email updates about the ARRC.

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