June 30, 2020

ARRC Releases Updated Recommended Hardwired Fallback Language for Syndicated Loans

Updates Fallback Language for Syndicated Loans that was Originally Released in April 2019

The Alternative Reference Rates Committee (ARRC) today released updated recommended contractual fallback language for U.S. dollar (USD) LIBOR denominated syndicated loans.

The hardwired fallback language has been updated to recommend the use of simple daily SOFR in arrears in the second step of the waterfall and include a more permissive early opt-in trigger, which allows parties involved in the loan to switch over to an alternative rate like SOFR before LIBOR is officially discontinued or determined to be unrepresentative.

The ARRC initially released recommended fallback language for syndicated loans in April 2019. Today's updates amend the "Hardwired Approach" section of that original recommended language. These updates follow the release of the ARRC's 2020 Objectives, which sought to publish revisions to the syndicated loans' hardwired fallback language by June 30, 2020. They also support the ARRC's Best Practice Recommendation that syndicated loans begin using hardwired fallback language no later than September 30, 2020.

"Refreshing this language has been a near-term priority for the ARRC in 2020, and we are pleased to share these updates, which will help reduce the risk of disruption when LIBOR is no longer available," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "We encourage market participants to incorporate this language into new contracts, and when possible, to begin writing contracts using SOFR instead of USD LIBOR."

Today's document also updates the "User's Guide" section of the original document to explain the rationales and mechanics of all components of the fallback language.

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 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 the 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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