ARRC Releases Updated Recommended Hardwired Fallback Language for Bilateral Business Loans

**ARRC Also Releases Technical Reference Document for Syndicated Loan Conventions**

The Alternative Reference Rates Committee (ARRC) today released updated recommended contractual fallback language for new originations of U.S. dollar (USD) LIBOR denominated bilateral business loans. The ARRC also released its technical reference document intended to support the previously released syndicated loans conventions. Both documents have been issued as part of the ARRC’s work to support a seamless transition away from LIBOR and encourage the broad voluntary adoption of the ARRC’s recommended alternative reference rate, the Secured Overnight Financing Rate (SOFR).

“The updated fallback language for bilateral business loans and the technical reference document for syndicated loans conventions are critical resources to have on hand for the adoption of SOFR,” said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. “With fewer than 500 days left until LIBOR’s expected expiration date, the time is ripe for market participants to utilize both tools to ensure a consistent, transparent, and resilient approach to the transition away from LIBOR.”

The updated bilateral business loan fallback language adjusts the “Hardwired Approach” and the “Hedged Loan Approach” of the final recommended language that was released in May 2019. The updates are similar to the recent revisions made to the ARRC’s recommended fallback language for new originations of syndicated loans. The hardwired approach has been updated to recommend the use of Daily Simple SOFR in the second step of the waterfall. The hedged loan approach has been updated to include a benchmark rate floor. Today’s published revisions support the ARRC’s Best Practice recommendations that business loans adopt the use of hardwired fallback language. In order to provide more time for bilateral loans to incorporate these refreshed fallbacks, the ARRC has adjusted its Best Practice recommendations to state that new bilateral loans should incorporate hardwired or hedged fallback language by October 31, 2020. The ARRC continues to recommend that syndicated loans incorporate hardwired fallbacks by September 30, 2020.

The technical reference document for syndicated loans conventions includes discussion of the different lookback and other potential methodologies that the ARRC had considered, including the recommended lookback without observation shift, calculations for Daily Simple SOFR and Daily Compounded SOFR (for both the “Compound the Rate” and “Compound the Balance” methodologies) for loans, and implementing daily floors for a legacy LIBOR loan falling back to SOFR. Notably, accompanying spreadsheets are included demonstrating the calculation of daily cash flows and interest accruals for various examples discussed in the document.

**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.

**Contact for ARRC Chair Tom Wipf**  
Paige Mandy  
Morgan Stanley

**Contact for the ARRC's Outreach/Communications Working Group**  
Andrew S. Gray  
JPMorgan Chase

**Contact for the Federal Reserve Board**  
Darren Gersh

**Contacts for the Federal Reserve Bank of New York**  
Suzanne Elio and Betsy Bourassa