October 22, 2020

ARRC Supports Forthcoming ISDA IBOR Fallbacks Protocol and Encourages Adherence (Updated on October 22, 2020)*

ARRC Urges Timely and Widespread Adherence to the Protocol

This release was initially issued on October 9, 2020 and has been updated since to include a description of a letter from the Federal Housing Finance Agency on ISDA's Protocol.

The Alternative Reference Rates Committee (ARRC) commends the International Swaps and Derivatives Association's (ISDA) announcement today of the upcoming launch of its IBOR (interbank offered rates) Fallbacks Protocol (the Protocol) and IBOR Fallbacks Supplement (the Supplement), which focus on strengthening existing and new derivatives contracts with durable fallback language. In line with its Recommended Best Practices, the ARRC encourages market participants to adhere to the Protocol before it takes effect, and for those dealers and market participants with significant derivatives exposures to do so during the two-week escrow period ahead of the official launch date on October 23, 2020, in order to promote adoption on as timely a basis as possible. The Protocol will take effect on January 25, 2021, at which point existing derivatives contracts will incorporate the new fallbacks if both counterparties have adhered to the Protocol or otherwise bilaterally agreed to include the new fallbacks in their contracts. The Supplement will also take effect on January 25, 2021, at which point new derivatives contracts that incorporate the 2006 ISDA Definitions and reference a relevant IBOR will also incorporate the new fallbacks.

The Protocol and Supplement are part of ISDA's efforts to address the risk that one or more IBORs – including U.S. dollar (USD) LIBOR – is discontinued or, in the case of LIBOR, is deemed to be non-representative while market participants continue to have exposure to that rate. The release of the Protocol and Supplement mark a key step in the transition away from LIBOR and towards more robust reference rates.

The ARRC encourages broad market uptake of the Protocol, which implements derivatives fallbacks that are based on feedback from market participants through a series of public consultations conducted by ISDA over the past two years, resulting in broad market consensus.

"It is essential that market participants be prepared to adhere to the Protocol to help address both individual firm risks and systemic risks associated with the discontinuation of LIBOR. Adoption of the ISDA Protocol is a vital step in the transition to more robust rates, such as SOFR," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley, who also wrote a letter in August in support of the Protocol.

Official sector institutions worldwide have also voiced strong support for the Protocol. In a statement the Financial Stability Board (FSB) noted:

> *"The FSB strongly encourages widespread and early adherence to the Protocol – by all affected financial and non-financial firms… Widespread adoption of the Protocol will be necessary to ensure it is effective in mitigating risks at a system-wide level."*

That statement quoted John C. Williams, President and CEO of the Federal Reserve Bank of New York, and Co-Chair of the FSB's Official Sector Steering Group, who said:

> *"ISDA's Protocol is another important milestone in the movement off of LIBOR. It's vitally important that firms quickly sign onto the Protocol to ensure that existing derivatives contracts are equipped with strong fallbacks."*

The Federal Reserve issued Supervision and Regulation Letter (SR Letter) 20-22 encouraging adherence to the Protocol. The SR Letter applies to all Federal Reserve-supervised institutions.

On October 21, the Federal Housing Finance Agency sent a letter to Federal Home Loan Bank Presidents noting that:

> *"[P]rudent risk management mandates signing the ISDA protocol within the escrow period"* and *"If your FHLBank does not adhere to the Protocol by the close of the escrow period, it must do so by no later than December 31, 2020."*

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 Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Association of Insurance Commissioners, the New York Department of Financial Services, the Office of Financial Research, the Office of the Comptroller of the Currency, the U.S. Department of Housing and Urban Development, the U.S. 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