March 25, 2021

ARRC Releases Supplemental Recommendation of Hardwired Fallback Language for Business Loans

Supplements Fallback Language in Light of the Definitive Endgame Announcements from LIBOR's Regulator and its Administrator

The Alternative Reference Rates Committee (ARRC) today released supplemental versions of its recommendation of hardwired fallback language for U.S. dollar (USD) LIBOR denominated syndicated and bilateral business loans. The supplemental recommendation for business loans sets out abridged versions of the 2020 fallback language for syndicated business loans and bilateral business loans incorporating the certainty on fallback timing and economics afforded by the March 5th announcements. These simplified versions of the ARRC's hardwired business loans fallback reflect the ARRC's continued efforts to support a seamless transition away from USD LIBOR and encourage the broad voluntary adoption of the ARRC's recommended alternative reference rate, the Secured Overnight Financing Rate (SOFR).

This language supplements the recommended fallback language for syndicated business loans from June 30, 2020 and recommended fallback language for bilateral business loans from August 27, 2020, offering simplified versions of the more elaborate fallback language offered in the 2020 recommendations. These simplified versions follow on the March 5th announcements by LIBOR's regulator and its administrator outlining precisely when LIBOR panels will end. Market participants may now use either the original 2020 or simplified 2021 language as they see fit and can be confident in the fact both versions lead to the same outcome at transition.

"With clarity on when representative USD LIBOR will no longer be available, market participants must redouble efforts to adopt SOFR," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "This abridged fallback language for business loans is a critical additional resource for accelerating market participants' preparedness for USD LIBOR's inevitable end."

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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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
Betsy Bourassa