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ARRC Publishes Approach to Using SOFR in New Issuances of a Variety of Securitized Products

The Alternative Reference Rates Committee (ARRC) today published a white paper that outlines a model for using the Secured Overnight Financing Rate (SOFR), the ARRC's preferred alternative to U.S. dollar (USD) LIBOR, in asset-backed securities (ABS) products. For the purposes of this paper, it refers to ABS products as collectively representing non-CLO ABS, mortgage-backed securities, and commercial mortgage-backed securities products[1].

The paper describes how new issuance of ABS products could use 30-day Average SOFR, with a monthly reset, set in advance of the interest accrual period. This methodology uses the actual SOFR rates from the 30-day period before the applicable reset date, which the ARRC determined to be preferable to the alternatives for operational ease.

"The ARRC has adamantly stressed that now is the time for market participants to stop issuing new LIBOR-based products, including securitized products," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "We've seen strong investor demand for the SOFR issuances that have occurred so far. This paper aims to help institutions make that important transition smoother by providing clear insight and a methodology for issuing new SOFR-based securitized products."

This model for issuing new SOFR-based securitized products was designed and recommended by the ARRC's Securitization Working Group (SWG). SWG members – including representatives of issuers, underwriters, arrangers, trustees, services, calculation agents, note administrators, trust administrators and investors – participated in a months-long process of sharing insights and perspectives on current ABS market operations, market participant preferences and market trends before reaching a consensus view on this option for the use of SOFR in securitized products.

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

[1] Including Single-Asset Single-Borrower (SASB) transactions and Commercial Real Estate (CRE) CLOs.

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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