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ARRC Announces Key Principles for a Forward-Looking SOFR Term Rate

Building on a March Statement, Principles Signal Continued Progress and will Guide the ARRC as it Considers the Conditions it Believes are Necessary to Recommend a SOFR Term Rate

The Alternative Reference Rates Committee (ARRC) today announced key principles for an ARRC-recommended forward-looking Secured Overnight Financing Rate (SOFR) term rate in order to help guide the ARRC as it considers the conditions it believes are necessary to recommend a SOFR term rate. These principles build on the ARRC's March 23 update and ongoing ARRC discussions, and will inform the ARRC's continued consideration of a SOFR-based term rate. As announced in the March statement, the ARRC will continue to work quickly to communicate what it considers to be the necessary conditions to substantiate the recommendation of a SOFR term rate, including the development of sufficient liquidity in SOFR derivatives markets and recommendations for an appropriate scope of use for the term rate.

Given U.S. supervisory guidance, the ARRC encourages market participants not to wait for a term rate and to make use of current SOFR conventions available now. However, the ARRC has long recognized that a forward-looking SOFR term rate may be a supporting tool for certain uses in the transition, and has recommended a number of actions aimed at building liquidity in SOFR derivatives that would help to ensure the robustness of any recommended term rate. In working to set out what it considers to be necessary conditions and the recommended scope of use, the ARRC is seeking to provide greater clarity to allow market participants to judge the likelihood and potential timing of a recommended term rate for certain uses.

The key principles for an ARRC-recommended forward-looking SOFR term rate, are that this rate should:

1. ***Meet the ARRC's criteria for alternative reference rates*,** similar to SOFR itself;

2. ***Be rooted in a robust and sustainable base of derivatives transactions over time,*** to ensure that its use as a reference rate is consistent with best practices and the ARRC's own standards; and,

3. ***Have a limited scope of use,*** to avoid (i) use that is not in proportion to the depth and transactions in the underlying derivatives market or (ii) use that materially detracts from volumes in the underlying SOFR-linked derivatives transactions that are relied upon to construct a term rate, making the term rate itself unstable over time.

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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