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ARRC Identifies Market Indicators to Support a Recommendation of a Forward-Looking SOFR Term Rate

The Alternative Reference Rates Committee (ARRC) today published a set of market indicators that it will consider in recommending a forward-looking Secured Overnight Financing Rate (SOFR) term rate. The ARRC has long recognized that a forward-looking term SOFR rate will be a useful tool to support the transition away from LIBOR. The publication of the indicators builds on the ARRC's March 23 update, ongoing ARRC discussions, and term rate principles, and provides clear guidance that would allow the ARRC to recommend a SOFR-based term rate relatively soon. The indicators are designed to measure progress in establishing deep and liquid SOFR derivatives and cash markets—which are essential to a robust and stable term rate.

"The market indicators outlined today are clear and achievable. Given recent market progress, I am optimistic that they can realistically be met soon as market participants continue to accelerate their move away from LIBOR to SOFR derivatives," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley.

The market indicators the ARRC will consider in order to recommend a term rate are:

1. Continued growth in overnight SOFR-linked derivatives volumes
2. Visible progress to deepen SOFR derivatives liquidity, consistent with ARRC best practices:
    a. Offering electronic market-making and execution in SOFR swaps and swap spreads
    b. Changing the market convention for quoting USD derivative contracts from LIBOR to SOFR
    c. Making markets in SOFR-linked interest rate volatility products (including swaptions, caps, and floors)
3. Visible growth in offerings of cash products, including loans, linked to averages of SOFR, either in advance or in arrears.

These outlined steps should help further establish SOFR derivatives markets, and provide borrowers a range of choices based on SOFR.

The ARRC has not yet recommended any forward-looking SOFR term rate or administrator, and will continue to consider the proposals submitted to its RFP in order to do so. Given U.S. supervisory guidance, the ARRC continues to encourage market participants not to wait for a term rate and to make use of current SOFR conventions available now.

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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