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ARRC Welcomes FHFA Supervisory Letter on Transition Away from LIBOR

The Alternative Reference Rates Committee (ARRC) welcomes the supervisory letter published by the Federal Housing Finance Agency today to the Federal Home Loan Banks to support a smooth transition away from US Dollar LIBOR. The letter encourages the continued use of Secured Overnight Financing Rate (SOFR) and SOFR averages and warns against the adoption of rates that have similar shortcomings as those associated with LIBOR.

"The Federal Housing Finance Agency has been a consistent leader in the transition to SOFR, and today's supervisory letter is very much in line with the points that the ARRC has made," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "The letter reinforces SOFR as a highly robust rate that is well designed to replace LIBOR and underscores the importance of market participants conducting due diligence to 'know your rate' when they consider alternatives."

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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