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ARRC Releases Summary of its Spread-Adjusted Fallback Recommendations

The Alternative Reference Rates Committee (ARRC) today released a summary of its recommendations to date regarding spread-adjusted fallbacks for contracts referencing U.S. dollar (USD) LIBOR. This document is intended to provide a singular reference point for market participants to understand the ARRC's current recommendations in relation to its fallback language and to state legislation that references ARRC recommended fallbacks.

"Today's summary provides market participants with a central document that captures each of the ARRC's recommendations regarding spread-adjusted fallbacks," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "Market participants have all the tools they need to make the transition away from USD LIBOR to SOFR. As we enter the transition's homestretch, the ARRC recommends that market participants use SOFR in new contracts and implement the ARRC's fallback recommendations now where necessary, before it is too late."

The ARRC's recommended spread adjusted fallbacks are for market participants' voluntary use with USD LIBOR contracts that have incorporated the ARRC's recommended hardwired fallback language or for legacy USD LIBOR contracts where a spread-adjusted SOFR can be selected as a fallback; they would also apply for USD LIBOR contracts covered by state legislation referring to ARRC-recommended fallbacks.

The ARRC has committed to making sure that its recommended spread adjustments and the resulting spread-adjusted rates are published and made publicly available. The summary of the ARRC's fallback recommendations highlights and builds upon the progress the ARRC has made on spread adjustment methodology, including the selection of Refinitiv as the ARRC's preferred spread adjustment vendor and the numerous consultations with market participants on the topic, each of which is publicly available.

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 Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Association of Insurance Commissioners, the New York Department of Financial Services, the Office of Financial Research, the Office of the Comptroller of the Currency, the U.S. Department of Housing and Urban Development, the U.S. 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 it recommends 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 support the voluntary 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