October 14, 2021

**ARRC Recommends Acting Now to Slow USD LIBOR Use over the Next Six Weeks to be Well-Positioned to Meet Supervisory Guidance by Year-End**

The ARRC recommends that all market participants act now to slow their use of U.S. dollar (USD) LIBOR and leverage the next six weeks as a key window to reduce such activity to promote a smooth end to new LIBOR contracts by the end of the year. Under supervisory guidance that has been endorsed by a wide array of jurisdictions worldwide, market participants have been encouraged to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. As a result, USD LIBOR's liquidity and usefulness will likely diminish as new use comes to an end. To facilitate that transition, the ARRC continues to recommend adoption of its selected alternative, the Secured Overnight Financing Rate (SOFR).

This recommendation is consistent with the steps that the ARRC understands a number of firms are already taking to significantly slow new USD LIBOR activity ahead of year-end in order to ensure that they will be in a position to meet the supervisory guidance. Examples of this may include setting targets for reductions in new LIBOR activity, limiting the range of LIBOR offerings, and implementing internal escalation exceptions processes around new LIBOR contracts for narrow cases in line with supervisory guidance.

Proactively slowing new use of LIBOR will support firms' efforts to safely meet the supervisory guidance as they enter the final months of the year, during which resource limitations and potential constraints on systems changes and testing may exist due to year-end deadlines. The ARRC believes that taking a proactive approach over a period of time—rather than at a defined end point under which prevailing liquidity conditions could have an outsized impact—is in the interest of market participants seeking to end new use of USD LIBOR and to support smooth market functioning.

"I see this 'time to move' recommendation as a reminder that everyone should be proactively slowing USD LIBOR use well ahead of December. The supervisory guidance directed at banks will impact all market participants transacting with them, so everyone should feel the same sense of urgency." said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "You wouldn't wait until the moving van arrives to pack up the china; you would carefully package and label everything beforehand. That's what this recommendation is about. So safeguard your move by using SOFR now and slowing new USD LIBOR usage."

The ARRC believes that proactive reductions in new USD LIBOR contracts should apply across markets and across the full range of derivatives and cash products, including but not limited to syndicated and bilateral loans. The ARRC recognizes that firms may be at different stages in their transition plans, but all market participants should be ready for the year-end U.S. supervisory guidance deadline. The ARRC applauds the leadership demonstrated by firms who have such plans already underway and encourages those without such plans to immediately commence efforts to significantly slow their new USD LIBOR activity.

## 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 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.

**Sign up here to receive email updates about the ARRC.**

**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

**Contact for the Federal Reserve Bank of New York**
Betsy Bourassa