Arrc releases statutory fallback recommendations for 1-week and 2-month USD LIBOR contracts

Today, the Alternative Reference Rates Committee (ARRC), as “Relevant Recommending Body” under New York and Alabama State LIBOR Legislation (State LIBOR Legislation), released a statement selecting and recommending forms of the Secured Overnight Financing Rate (SOFR), along with associated spread adjustments and conforming changes, to replace references to 1-week and 2-month U.S. dollar (USD) LIBOR in certain contracts affected by the State LIBOR Legislation. Those LIBOR tenors will not be published after December 31, 2021. SOFR is the ARRC’s recommended alternative to USD LIBOR, and in turn, the recommended rate under the State LIBOR Legislation.

“The end is upon us, with just one month until no new LIBOR and the cessation of these two USD LIBOR tenors. LIBOR’s endgame has been clear for a long time, and today’s recommendations are important for the legacy contracts that rely on those tenors,” said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. “With all of the key tools laid out, it is critical that market participants act now to ensure a smooth transition.”

References to 1-week and 2-month USD LIBOR are uncommon, and these recommendations apply only to the narrow set of LIBOR-based contracts that are affected by the State LIBOR Legislation, generally contracts with no fallbacks or fallbacks that reference LIBOR. For contracts with fallbacks that give a party (such as the lender or noteholder) discretion to choose a replacement rate, the State LIBOR Legislation also provides a safe-harbor if that party chooses the SOFR-based rate and conforming changes recommended by the ARRC. The ARRC’s recommendation lays out an approach for a breadth of products, including asset-backed securities, business loans, consumer products, floating rate notes, and more.

More information on the New York State legislation which informed these recommendations can be found in the FAQs also released today.

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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