

March 8, 2021

## ARRC FAQs Regarding the Occurrence of a Benchmark Transition Event

*These Frequently Asked Questions were prepared by the ARRC for use by market participants and are current as of the version date noted above. However, this document may evolve over time as new developments take place and new questions are raised. If you have a question to which you are seeking an answer, general ARRC inquiries can be directed to the ARRC Secretariat at [ARRC@ny.frb.org](mailto:ARRC@ny.frb.org). Please also visit the ARRC's [website](#) or [sign up](#) to receive alerts from the ARRC. Thank you.*

### 1. What were the March 5, 2021 announcements about LIBOR?

On March 5, 2021, ICE Benchmark Administration (IBA) stated that as a result of its not having access to input data necessary to calculate LIBOR settings on a representative basis beyond the intended cessation dates as set forth below, it would have to cease publication of all 35 LIBOR settings immediately after such dates:

- 12/31/2021
  - All GBP, EUR, CHF and JPY LIBOR settings
  - 1-week and 2-mo USD LIBOR settings
- 6/30/2023
  - Overnight and 1-, 3-, 6- and 12-mo USD LIBOR settings

IBA did not identify any successor administrator in its announcement. IBA did note that the U.K. Financial Conduct Authority (FCA) could, at a later date, use proposed new powers to require IBA to publish LIBOR settings on a synthetic basis.

The FCA also issued a separate announcement confirming that IBA had notified the FCA of its intent to cease providing all LIBOR settings. While FCA stated that, subject to the establishment of the new proposed powers, it would consult on the issue of requiring IBA to produce certain LIBOR tenors on a synthetic basis, it confirmed that all 35 LIBOR settings will either cease to be provided by any administrator or will no longer be representative as of the dates set out above.

### 2. Do the announcements constitute a “Benchmark Transition Event” under ARRC-recommended fallback language<sup>1</sup>?

Yes. The announcements constitute a “Benchmark Transition Event” with respect to all USD LIBOR settings under ARRC-recommended fallback language.

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<sup>1</sup> As used in this FAQ, “ARRC-recommended fallback language” refers to the ARRC recommendations regarding more robust fallback language for new issuances or originations of LIBOR floating rate notes, securitizations, syndicated loans, and bilateral business loans available at [this link](#) to the extent not materially modified from the recommended language. This FAQ does not

### **3. Would a later statement from FCA that it would require IBA to produce certain LIBOR settings on a synthetic basis also constitute a “Benchmark Transition Event” under ARRC-recommended fallback language<sup>2</sup>?**

The FCA has indicated that it is considering whether, at a later date, it can and will use its powers to compel the administrator of LIBOR to publish 1-month, 3-month and/or 6-month USD LIBOR settings on a synthetic basis for a period of time after June 30, 2023. However, the FCA has made clear that, if it were to take this action, those USD LIBOR settings would not be representative after June 30, 2023. For purposes of clarity, a statement by the FCA immediately after June 30, 2023 that any remaining USD LIBOR settings are no longer representative would also result in a “Benchmark Transition Event” under ARRC-recommended fallback language. However, it would have no impact on the spread adjustments that had already been set based on the March 5, 2021 announcements.

### **4. What happens to my interest rate under ARRC-recommended fallback language upon the occurrence of a “Benchmark Transition Event”?**

The occurrence of a Benchmark Transition Event does not require an immediate transition under ARRC-recommended fallback language. Actual transition under ARRC-recommended fallback language is based upon the “Benchmark Replacement Date,” which is expected to be on or immediately after the following dates for USD LIBOR settings pursuant to the announcements: (i) December 31, 2021 for 1-week and 2-month USD LIBOR, and (ii) June 30, 2023 for Overnight, 1-month, 3-month, 6-month, and 12-month USD LIBOR.<sup>3</sup>

Note that certain sets of ARRC-recommended fallback language include provisions that allow one or more parties to transition in advance of the dates set forth above where specified conditions are met.

### **5. What do the announcements mean for spread adjustments?**

ISDA has [stated](#) that the FCA’s announcement constitutes an “Index Cessation Event” under the IBOR Fallbacks Supplement (Supplement Number 70 to the 2006 ISDA Definitions) and the ISDA 2020 IBOR Fallbacks Protocol. As a result, the ISDA fallback spread adjustments published by Bloomberg have been fixed as of the date of that announcement for all LIBOR benchmark settings.

The ARRC has previously [stated](#) that it will implement its recommended spread adjustments for cash products with ARRC-recommended fallback as follows:

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apply to the ARRC-recommended fallback language for closed-end residential adjustable rate mortgages or variable rate private student loans.

<sup>2</sup> As used in this FAQ, “ARRC-recommended fallback language” refers to the ARRC recommendations regarding more robust fallback language for new issuances or originations of LIBOR floating rate notes, securitizations, syndicated loans, and bilateral business loans available [at this link](#) to the extent not materially modified from the recommended language. This FAQ does not apply to the ARRC-recommended fallback language for closed-end residential adjustable rate mortgages or variable rate private student loans.

<sup>3</sup> ARRC-recommended fallbacks for floating rate notes and securitizations require interpolating on a linear basis for 1-week and 2-month USD LIBOR based on USD LIBOR tenors that continue to be published.

- For cash products other than loans to consumer borrowers, the ARRC's recommended spread adjustment will match the value of ISDA's spread adjustments to U.S. dollar LIBOR. Given the special considerations due to consumer products and that the ARRC will include a 1-year transition period as part of its recommended spread adjustments for consumer products, the ARRC will further consider the most appropriate approach to the issue of methodology versus value for these specific products.

Therefore, when the fallback rates apply, fallbacks for derivatives under ISDA documentation and fallbacks for non-consumer cash products that incorporate the ARRC-recommended fallback language will apply the same (now fixed) spread adjustment values to the recommended fallback rates.<sup>4</sup>

### **6. Do the announcements mean that financial market participants may use the USD LIBOR tenors that will be published until June 30, 2023 in new contracts after December 31, 2021?**

On November 30, 2020, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation [stated](#) they believe entering into new contracts that use USD LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks. The agencies encouraged banks 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 and stated that they will examine bank practices accordingly. The agencies recognized that there may be limited circumstances in which it would be appropriate for a bank to enter into new USD LIBOR contracts after December 31, 2021 as set forth in their November 30, 2020 statement.

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<sup>4</sup> Under ARRC-recommended fallback language, the sum of the spread adjustment (the "Benchmark Replacement Adjustment") and the fallback rate ("Unadjusted Benchmark Replacement") is the "Benchmark Replacement."