ARRC

ALTERNATIVE REFERENCE RATES COMMITTEE

ARRC Formally Recommends

A Forward-Looking SOFR Term Rate

The ARRC formally recommended the CME Group's forward-looking SOFR Term Rates, providing all the tools necessary to transition.

The ARRC recently announced that it:

- Supports the use of SOFR Term Rates for business loan activity, where adapting to an overnight rate could be more difficult;
- Does not support the use of SOFR Term Rates for derivatives markets, except for end users to hedge cash products using the SOFR Term Rates; and
- Continues to recommend using forms of overnight and averages of SOFR where possible.

Steps making this recommendation possible

- Publication of RFP for an ARRC-recommended administrator
- Publication of principles for the ARRC's recommendation
- Publication of market indicators for the ARRC's recommendation
- Identification of the leading RFP proposal
- Publication of conventions and best practice recommendations for using Term Rates
- Meeting market indicators allows the ARRC to formally recommend CME SOFR term rates

Status and What's Next

July 21, 2021: ARRC recommends **conventions and best practice** for scope of use.

July 26, 2021: A major convention switch recommends inter-dealer brokers **change USD linear swap trading from LIBOR to SOFR**.

July 29, 2021: Market indicators **allow the ARRC to formally recommend the CME Group's SOFR term rates**.

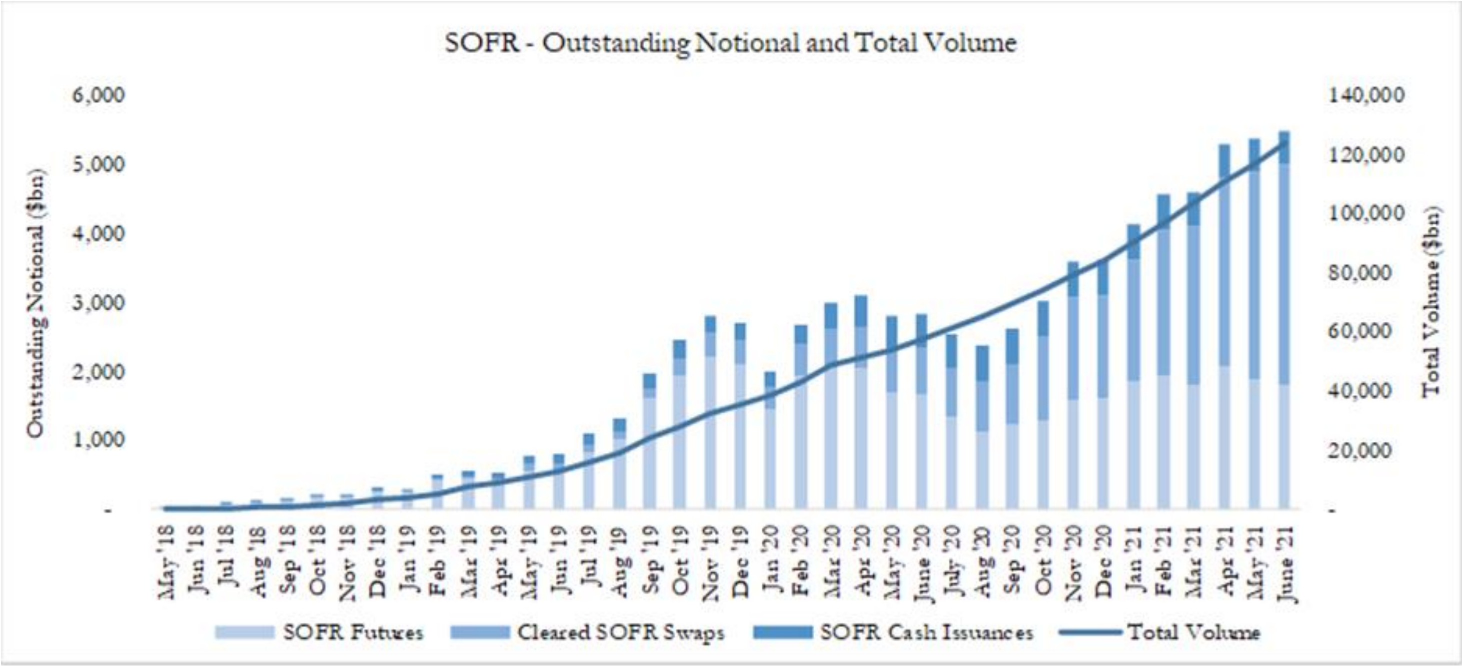
U.S. supervisory guidance **encourages stopping new USD LIBOR issuances** by end-2021.

December 31, 2021: LIBOR's administrator **ceases publication of all GBP, EUR, CHF, JPY LIBOR settings, and two little used USD LIBOR settings**, immediately following the December 31 print.

The ARRC believes SOFR is *the best replacement* for USD LIBOR because it is:

1. Deep, broad, and diverse enough that it does not dry up in times of market stress
2. Resilient even as markets evolve over time
3. Entirely transaction-based, so it cannot easily be manipulated

SOFR is gaining significant momentum…



For more information:
https://www.newyorkfed.org/arrc