March 5, 2021

ARRC Commends Decisions Outlining the Definitive Endgame for LIBOR

LIBOR's Regulator and its Administrator Confirm when LIBOR Panels will Cease; ISDA Announces Setting of Spread Adjustments

The Alternative Reference Rates Committee (ARRC) today commended announcements by LIBOR's regulator and its administrator regarding precisely when LIBOR panels will end. These announcements serve to fix the spread adjustments in the IBOR Protocol offered by the International Swaps and Derivatives Association (ISDA) and, in conjunction with previous U.S. supervisory guidance about stopping new U.S. dollar (USD) LIBOR issuances this year, should accelerate market participants' move away from USD LIBOR.

"The end of this long transition road is clear. We now know when a representative USD LIBOR will end and what its associated spread adjustments will be in no uncertain terms," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "As the ARRC continues driving the transition to SOFR forward, we have a straightforward plan for how this will work: with no new USD LIBOR contracts by the end of this year and further time for many legacy contracts to wind-down."

Today, the ICE Benchmark Administration (IBA) stated that feedback on its December 2020 consultation confirmed its proposed dates to stop publishing USD LIBOR on a representative basis. Specifically, the UK Financial Conduct Authority announced that the publication of LIBOR on a representative basis will cease for the one-week and two-month USD LIBOR settings immediately after December 31, 2021, and the remaining USD LIBOR settings immediately after June 30, 2023.

ISDA subsequently announced that these statements constitute an "Index Cessation Event" under the IBOR Fallbacks Supplement (Supplement Number 70 to the 2006 ISDA Definitions) and the ISDA 2020 IBOR Fallbacks Protocol, which in turn triggers a "Spread Adjustment Fixing Date" under the Bloomberg IBOR Fallback Rate Adjustments Rule Book. When the panels for all USD LIBOR tenors cease after the end of June 2023 and the fallback rates apply, fallbacks for derivatives under ISDA's documentation would shift to forms of the Secured Overnight Financing Rate (SOFR) plus the spread adjustment that has now been fixed. The ARRC has stated its recommended spread adjustments for fallback language in non-consumer cash products will be the same as the spread adjustments applicable to fallbacks in ISDA's documentation for USD LIBOR.

Leadership from the Federal Reserve Board and the New York Fed – co-conveners of the ARRC – and the Commodity Futures Trading Commission also applauded today's developments.

"Together with the actions taken at the end of last year, these announcements provide a clear end-date for USD LIBOR and a clear path for the change to alternative reference rates. As promised, the official sector has worked closely with all parties to ensure this transition is fair, transparent, and predictable. In the months ahead, supervisors will focus on ensuring that firms are managing the remaining transition risks," said Randal K. Quarles, Vice Chair for Supervision at the Federal Reserve Board and Chair of the Financial Stability Board.

"LIBOR's flaws were exposed over a decade ago and the intervening years revealed just how challenging it is to move away from an unsound rate. With LIBOR's endgame now clear and knowing we want to avoid going through such a transition again, market participants need to swiftly move to robust reference rates," said John C. Williams, President of the Federal Reserve Bank of New York and Co-Chair of the Financial Stability Board's Official Sector Steering Group.

"I applaud the statements by the FCA and IBA regarding the endgame for USD LIBOR. The market now has the clarity that it was seeking," said CFTC Acting Chairman Rostin Behnam. "The CFTC has played a leading role in providing appropriate regulatory relief to facilitate the transition away from LIBOR. Given the supervisory guidance from relevant U.S. authorities regarding no new USD LIBOR exposures post 2021, plus the best practices of the ARRC to achieve this outcome, we expect liquidity to shift away from USD LIBOR in the coming months. It is time for firms of all sizes, intermediaries, and end-users to start executing their plans to transition to SOFR and other robust alternative reference rates."

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 that represents best practice 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 encourage 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