July 31 Meeting Readout

ARRC
ALTERNATIVE REFERENCE RATES COMMITTEE

This document contains highlights from the Alternative Reference Rates Committee (ARRC) meeting on July 31, 2023. The complete meeting agenda can be found here. Full minutes for this meeting will be posted in the coming weeks.

Topics discussed included the passage of the June 30, 2023 LIBOR transition milestone and residual steps to be taken.

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ARRC members characterized the passage of the June 30, 2023 LIBOR transition milestone as smooth and uneventful.

- The Loan Syndications and Trading Association (LSTA) noted the significant uptick in loan fallback amendments (i.e. change in reference rates occurring via fallback) in June. LSTA also highlighted that most leveraged loans and collateralized loan obligations (CLOs) have transitioned to SOFR going forward but will continue to pay LIBOR until their next rate reset date (which will generally be one or three months after LIBOR cessation).

- The implementation of fallbacks and LIBOR replacements under the LIBOR Act also occurred without issue. Members indicated that aside from a few transaction-specific inquiries, there were no broader concerns. International Swaps and Derivatives Association (ISDA) also noted smooth implementation of the ISDA 2020 IBOR Fallbacks Protocol.
  - A few members pointed out that longer-dated LIBOR-based swaptions exercised post-June 2025 may need to be cash-settled because after that date, the Central Clearing Counterparties (CCPs) will no longer accept swaps resulting from physically-settled LIBOR swaptions for clearing via their conversion process.

The Operations/Infrastructure Working Group provided an update on usage of the DTCC LIBOR Replacement Index Communication Tool aimed at facilitating effective and efficient communication of rate changes in LIBOR contracts following June 30, 2023. For U.S.-issued securities, the ARRC recommended that all determining persons, agents, and other parties responsible for disseminating information use this system for communicating rate/conforming changes.[1]

- As of the end of July, there have been more than 120k notifications received from a combination of issuers, calculation agents, and trustees. There have been an additional 3.4k submissions since the cessation of the USD LIBOR panels and it is expected that some more will come in over the coming weeks.
- A majority of securities have their next coupon date resets occur in August and September and the working group requests member firms to check their market data files for submissions ahead of these resets.
- Usage of the tool across issuers, agents, trustees, and market data providers has reportedly been smooth, including following the cessation of representative USD LIBOR on June 30.

[1] On 5/24, the ARRC hosted a webinar titled "Using the DTCC LIBOR Replacement Index Communication Tool to Support the Transition Away from USD LIBOR" to help encourage additional use of the tool. A recording of the webinar can be found here and presentation slides here.

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The Regulatory Issues Working Group provided an update on their engagement with the CFTC regarding the request for Pre-Trade Mid Mark relief currently afforded to certain swaps referencing USD LIBOR to be extended to the swap market's predominant reference rate, SOFR OIS. The ARRC plans to formally file the relief request letter with the CFTC in due course.

The ARRC also discussed recent official sector remarks regarding the LIBOR transition:

- At the July 28 Financial Stability Oversight Council (FSOC) meeting, FSOC Principals discussed the LIBOR transition and emphasized that going forward, market participants should ensure that they include robust fallback language in their contracts and use appropriately robust reference rates, avoiding the problems created with LIBOR.
- The Financial Stability Board (FSB) issued a statement on July 28 with its final reflections on the LIBOR transition. The statement's key messages also included the importance of choosing reference rates that are robust, suitable, sustainable and compatible and using robust contractual fallbacks.
- IOSCO published its Statement on Alternatives to LIBOR on July 3. In the statement, IOSCO highlighted that:
  - Use of Term SOFR rates in derivatives markets should remain limited so that these rates can remain sustainably available for more limited appropriate use cases. This is consistent with the ARRC's recommended best practices for use of Term SOFR.
  - Certain credit sensitive rates (CSRs) currently in use exhibit the same inherent "inverted pyramid" weaknesses as LIBOR and that absent modification, their use may threaten market integrity and financial stability. IOSCO has also called upon administrators of the credit sensitive rates reviewed to refrain from any representation that these rates are "IOSCO-compliant".

The ARRC indicated that it continues to believe that SOFR is the most appropriate reference rate for widespread and long-term adoption because, among other factors, it is based on transactions in the Treasury repo market, a market which features both extensive depth and breadth.

The ARRC also noted that it would look to wind down its work in due course. It emphasized, however, that its best practice recommendations remain in place/are permanent to help support a robust reference rate environment going forward and promote financial stability.