As we quickly approach the end of the USD LIBOR panel after June 30, 2023, the ARRC would like to remind market participants of key recommendations to facilitate a smooth transition at this stage of the transition:

1. Take action now to remediate legacy contracts ahead of June 30, 2023.

2. Communicate planned rate changes and use the DTCC’s enhanced LENS system as soon as available to effectively disseminate information on rate changes for securities.

3. Use the Secured Overnight Financing Rate (SOFR) as the replacement rate for USD LIBOR and as the basis of the transition in cash and derivatives markets.
   • The ARRC and official sector recommend that use of Term SOFR remain limited to support financial stability.
Act Now on Legacy Contracts: Market Participants should act now to remEDIATE legacy contracts.

Official Sector Remarks Have Highlighted the Importance of Acting Now to RemEDIATE Contracts:

➢ The official sector has encouraged remEDIation ahead of June 2023 to avoid a pile up risk on numerous occasions. See remarks from the Federal Reserve Board, Federal Reserve Bank of New York, Commodity Futures Trading Commission.

➢ At the FSOC Principals meeting on December 16, 2022, Vice Chair Barr made it clear that:

> “the sheer size of remaining legacy dollar LIBOR contracts means that waiting until June 30 next year [to transition legacy contracts] comes with significant operational risk. Supervisors have long emphasized the expectation that market participants progress towards an orderly transition away from LIBOR. Supervisory expectations for LIBOR transition remain unchanged. Neither the slowdown in refinancing activity, nor the plans of the U.K. FCA to require temporary publication of synthetic USD LIBOR rates alters supervisory guidance. Firms should be working now with their customers to move contracts away from LIBOR well ahead of June [2023].”

➢ In addition, the FSOC 2022 Annual Report includes the following recommendation:

> “the Council advises firms to take advantage of any existing contractual terms or opportunities for renegotiation to transition their remaining legacy LIBOR contracts before June 30, 2023.”
The ARRC recommends that parties remediate their contracts to move from LIBOR to SOFR now to reduce unnecessary uncertainty, avoid unintended adverse outcomes, and to mitigate associated operational risk:

- Remediating contracts by moving off LIBOR can allow counterparties to set the terms of the LIBOR transition that best suit them, rather than needing to rely on fallback language or the LIBOR Act to set those terms.
- Even in cases where the contract is deemed to have a workable fallback, counterparties still need to assess whether they are in a position to operationally handle the potentially large number of contracts that may be changing after June 30, 2023. Remediating contracts by moving them out of LIBOR before this date will help to lessen those operational challenges.

**Key Resources:**

- The ARRC’s [Legacy Playbook](#) contains a range of information and materials helpful in contract assessment and recommendations for contact remediation.
- Also see the [Federal LIBOR Act](#) (starts on page 777) and the [FRB’s Final Rule](#), as well as the [UK Financial Conduct Authority’s](#) consultation on synthetic USD LIBOR.
- In addition to LIBOR contracts, market participants should remediate contracts referencing the [USD LIBOR ICE Swap Rates](#).
Communicate Changes: Market Participants should ensure the timely communication of LIBOR-transition related changes to contracts.

- The ARRC has consistently emphasized that responsible parties should communicate their planned rate changes ahead of June 30, 2023.

- For U.S.-issued securities, the ARRC recommends that all determining persons, agents, and other parties responsible for disseminating information use the DTCC’s enhanced LENS system once it is available for communicating rate/conforming changes.

- See the ARRC’s Legacy Playbook, DTCC info hub and Refinitiv’s fallback page.

Official Sector Remarks Have Highlighted the Importance of Communicating Changes and Use of the DTCC’s Enhanced LENS System:

“The Council advises responsible parties to communicate any outstanding decisions regarding the rates to which outstanding legacy LIBOR contracts will transition and any necessary conforming changes well in advance of June 2023....The Council also encourages securities issuers and trustees to use the enhanced LENS system to ensure they have effectively communicated rates and conforming changes where applicable.”
Use SOFR: The ARRC recommends SOFR as the basis for the transition in cash and derivatives markets.

1. The ARRC’s selection of SOFR followed extensive input from a wide range of market participants and reflects the depth of SOFR’s underlying market and its likely robustness over time; the rate’s usefulness to market participants; and SOFR’s construction, governance, and accountability being compliant with the IOSCO Principles for Financial Benchmarks.

- The ARRC’s [Second Report](#) contains more information about the ARRC’s objectives and work undertaken to deliver these objectives.
- The ARRC has produced a [user’s guide](#) to SOFR, which includes information on the ways in which cash market participants can calculate SOFR averages and factors to consider when determining which SOFR average to use.
- The ARRC has also published a [guide](#) to SOFR averages, which outlines how the Federal Reserve Bank of New York calculates various SOFR averages and details where they are published.
- The ARRC has also published information on conventions for SOFR [floating rate notes](#), [syndicated business loans](#), [bilateral business loans](#), [intercompany loans](#), [consumer mortgages](#), and [student loans](#).
2. In order to support a robust, sustainable transition and help ensure financial stability, the ARRC recommends a limited scope of use for Term SOFR.

➢ The ARRC only recommends use of Term SOFR in certain circumstances, as set out in the ARRC’s best practice recommendations on the scope of use of Term SOFR. For new contracts, the ARRC recommends:
  • The use of Term SOFR, in addition to other forms of SOFR, for business loan activity —particularly multi-lender facilities, middle market loans, and trade finance loans—where transitioning from LIBOR to an overnight rate has been difficult and where use of term SOFR could help address such difficulties.
  • The use of Term SOFR for certain securitizations that hold underlying business loans or other assets that reference Term SOFR and where those assets cannot easily reference other forms of SOFR.
  • Any use of SOFR Term Rate derivatives be limited to end-user facing derivatives intended to hedge cash products that reference the Term SOFR.

➢ This limited scope of use is critical to ensure that the vulnerabilities that prompted the LIBOR transition are not reintroduced; for example, having use of Term SOFR that becomes disproportionate relative to the volume of transactions underlying Term SOFR.

Use SOFR: The ARRC recommends a limited scope of use for Term SOFR.
Official Sector Remarks Have Highlighted the Importance that Any Use of Term SOFR be Limited and be Consistent with the ARRC’s Recommended Scope of Use:

On December 16, 2022, at the FSOC Principals meeting, Vice Chair Barr made it clear that:

“Overnight SOFR needs to remain the primary tool for derivatives and capital markets. This approach is crucial to the success of LIBOR transition.

A world in which Term SOFR is used across all or most cash products is not a plausible one. Such a world would not be consistent with sustaining a robust market for overnight SOFR derivatives, the foundation for Term SOFR rates. Therefore, the use of Term SOFR must remain limited in line with the recommendations of the FSOC and Financial Stability Board.”

The FSOC 2022 Annual Report also included the following recommendation:

“While the Council recognizes the usefulness of Term SOFR in certain business lending transactions, it endorses the ARRC’s recommendations to limit the use of Term SOFR in other markets and strongly encourages market participants to limit the usage of Term SOFR in derivatives and most other cash markets.”

In addition, the FSB has encouraged all administrators of Term SOFR to strongly consider matching their licensed scope of use to the recommendations of the ARRC.