

March 5, 2018

ARRC Releases Second Report on Transition from LIBOR

The Alternative Reference Rates Committee (ARRC) today issued a new report summarizing the choice of the Secured Overnight Financing Rate (SOFR) as its recommended alternative to U.S. dollar LIBOR and enhancing the ARRC's Paced Transition Plan seeking to promote the use of SOFR on a voluntary basis.

SOFR is a fully transactions based rate that will have the widest coverage of any Treasury repo rate available and it will be published on a daily basis by the Federal Reserve Bank of New York beginning April 3, 2018. Because of its range of coverage, SOFR is a good representation of the general funding conditions of the overnight Treasury repo market. As such it will reflect an economic cost of lending and borrowing relevant to a wide array of market participants active in these markets, including broker dealers, money market funds, asset managers, insurance companies, securities lenders and pension funds.

The report estimates the size of activity that currently references U.S. dollar LIBOR at \$200 trillion dollars, 25 percent higher than previous estimates. While nearly 95 percent of this activity is in derivatives contracts, the report also shows that U.S. dollar LIBOR is used in cash products including loans, floating rate debt, and securitizations. The vast scale and broad scope of this activity underscores the necessity of promoting robust alternatives to LIBOR.

Recently the United Kingdom's Financial Conduct Authority and other public sector officials have cautioned that LIBOR may not be available after 2021. This knowledge makes it an imperative for market participants to actively prepare for this possibility in order to mitigate their risks. In order to aid those considering potential transitions away from LIBOR, the ARRC is updating its transition plan to include the creation of a forward looking term rate based on SOFR derivatives markets. Additionally, the ARRC report also includes an initial examination of the contractual language commonly used in products referencing LIBOR, with a particular focus on fallback language. ARRC working groups note that contracts are beginning to be written with provisions that would allow for a choice of economically appropriate fallbacks should LIBOR cease publication. These preparations are crucial for financial stability, and require a clear, coordinated, and thoughtful process engaging with all market participants and involving the support of regulators.

Following the publication of this report, the ARRC will expand its membership and working groups to a broader set of market participants to further enhance coordination between users of corporate loans, floating rate notes, and other financial instruments to identify appropriate forward looking solutions for new activity and a framework to address legacy issues if LIBOR is unavailable. The ARRC's progress in identifying and launching a new rate, coupled with the deliberate framework to gather additional data and information through the paced transition, has laid an important foundation and provides a clear path forward for market participants to consider and begin uptake.

About the Alternative Reference Rates Committee (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 U.S. Department of the Treasury, the U.S. Commodity Futures Trading Commission, and the Office of Financial Research, to identify a set of alternative reference interest rates that are more firmly based on transactions from a robust underlying market and that comply with emerging standards such as the IOSCO *Principles for Financial Benchmarks*, and to identify an adoption plan with means to facilitate the acceptance and use of these alternative reference rates. The ARRC was also asked to consider the best practices related to robust contract design that ensure contracts are resilient to the possible cessation or material alteration of existing or new benchmarks. More information is available at: <https://www.newyorkfed.org/arrc/index.html>

Contact for Federal Reserve Board:

Darren Gersh
(202) 452-2977
Darren.gersh@frb.gov

Contact for Sandra O'Connor (ARRC Chair):

Andrew S. Gray
JP Morgan Chase & Co
(212) 270-5651
andrew.s.gray@jpmchase.com