

November 4, 2019

## **ARRC Welcomes Release of Proposed Publication of SOFR Averages and a SOFR Index *Public Comment on the Proposal is due by December 4, 2019***

The Alternative Reference Rates Committee (ARRC) welcomed a [consultation about the publication of Secured Overnight Financing Rate \(SOFR\) averages and a SOFR index](#), which was issued this morning by the Federal Reserve Bank of New York, in cooperation with the Treasury Department's Office of Financial Research. SOFR is published by the New York Fed and it is the ARRC's recommended alternative to U.S. dollar (USD) LIBOR.

The New York Fed is requesting public comment on the consultation by December 4, 2019, and it [plans to initiate publication](#) of the averages in the first half of 2020.

"Today's proposal marks an important step in encouraging widespread adoption of SOFR, by moving us closer to having accessible, consistent published SOFR averages and an index to be used in financial contracts," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "All market participants with U.S. dollar LIBOR exposure should provide feedback on this, in order to support a smooth transition."

As the ARRC has stated in its [Frequently Asked Questions](#), "while it clearly is the case that SOFR and other overnight repo rates are inherently more volatile than term rates on a day-to-day basis, it is important to remember that contracts referencing SOFR have been based on averages of these daily rates... These averages of SOFR have been quite smooth and can be easily referenced in financial contracts."

In April 2019, the ARRC published a [white paper](#) to help explain how market participants can use an average of SOFR in cash products. This paper notes that "those who are able to use SOFR should not wait for forward-looking term rates in order to transition" and it describes the differences between simple and compounded averages of the rate.

Today's consultation proposes the daily publication of three backward-looking, compounded averages of SOFR with tenors of 30-, 90-, and 180-calendar days. It also proposes a SOFR index, to help calculate term rates over custom time periods. The consultation outlines a calculation methodology, publication details, and specific questions for market participants on the proposed parameters.

For details on the questions posed and submitting responses by December 4, see the consultation [here](#).

### **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 the Secured Overnight Financing Rate 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.

Sign up [here](#) to receive email updates about the ARRC.

**Contact for ARRC Chair Tom Wipf**

[Mark Lake](#) and [Paige Mandy](#)

Morgan Stanley

**Contact for the Board of Governors**

[Darren Gersh](#)

**Contact for the ARRC's Outreach/Communications Working Group**

[Andrew S. Gray](#)

JPMorgan Chase

**Contact for the Federal Reserve Bank of New York**

[Suzanne Elio](#)