November 30, 2020

ARRC Applauds Major Milestone in Transition from U.S. Dollar LIBOR

Proposed Path Outlines a Clear End Date for USD LIBOR; Would End New Issuances by End-2021, and Subject to Consultation Outcomes, Legacy Contracts Could Mature by Mid-2023

The Alternative Reference Rates Committee (ARRC) today applauded concurrent announcements by LIBOR's administrator, its regulator, and U.S. regulators, regarding the proposed path forward for the transition away from U.S. Dollar (USD) LIBOR. The announcements include supervisory guidance encouraging banks to stop new USD LIBOR issuances by the end of 2021. They also cite plans to consult on specific timing for ceasing the publication of USD LIBOR, with proposed end dates immediately following the December 31, 2021 publication for the one week and two month USD LIBOR settings, and the June 30, 2023 publication for other USD LIBOR tenors. Together, this would support a smooth transition for legacy contracts by allowing time for most to mature before USD LIBOR is proposed to cease, subject to consultation outcomes.

The compilation of developments is summarized in a Federal Reserve Board press release. They include announcements from LIBOR's administrator, the ICE Benchmark Administration; LIBOR's regulator, the UK's Financial Conduct Authority; U.S. regulators; and the International Swaps and Derivatives Association.

These developments align with the ARRC's transition efforts, and will accelerate market participants' use of the Secured Overnight Financing Rate (SOFR), the ARRC's preferred alternative to USD LIBOR.

"Today's developments mark exciting headway in moving off of USD LIBOR. They also fully align with the ARRC's efforts, propose a clear path for ending USD LIBOR, and reinforce the importance of the transition to robust reference rates like SOFR," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "It has long been recognized that LIBOR is fundamentally flawed, and the ARRC has produced many tools to support the move away from LIBOR. These announcements underscore the importance of our work by shedding more light on how USD LIBOR could conclude."

Leadership from the Federal Reserve Board and the New York Fed -- co-conveners of the ARRC -- indicated strong support for today's announcements.

"Today's plan ensures that the transition away from LIBOR will be orderly and fair for everyone – market participants, businesses, and consumers," said Randal K. Quarles, Vice Chair for Supervision and Chair of the Financial Stability Board.

"These announcements represent critical steps in the effort to facilitate an orderly wind-down of USD LIBOR," said John C. Williams, President of the Federal Reserve Bank of New York, in his capacity as Co-Chair of the Financial Stability Board's Official Sector Steering Group. "They propose a clear picture of the future, to help support transition planning over the next year and beyond."

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 Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Association of Insurance Commissioners, the New York Department of Financial Services, the Office of Financial Research, the Office of the Comptroller of the Currency, the U.S. Department of Housing and Urban Development, the U.S. 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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