

May 27, 2020

## **ARRC Announces Best Practices for Completing Transition From LIBOR *Provides Date-Based Guidance, Including When No New LIBOR Activity Should Be Conducted***

The Alternative Reference Rates Committee (ARRC) today [published](#) recommended [best practices](#) to assist market participants as they prepare for the cessation of U.S. dollar (USD) LIBOR. Particularly in the current context of market uncertainty, the ARRC's recommended best practices are intended to clarify the timelines and interim milestones that the ARRC believes are appropriate for transitioning away from USD LIBOR in a way that will minimize market disruption and support a smooth transition through the broad voluntary adoption of the Secured Overnight Financing Rate (SOFR), the ARRC's recommended alternative reference rate. In conjunction with this, the ARRC also updated its [graphical timeline](#) of key transition dates.

With 19 months remaining until LIBOR could become unusable, the ARRC's best practices outline date-based guidance on near-term transition steps that market participants should aim to take across floating rate notes, business loans, consumer loans, securitizations, and derivatives. These best practices include dates after which no new LIBOR activity should be conducted.

These milestones, as well as the internal planning recommendations that the ARRC suggests for all relevant organizations, are grounded in the ARRC's core guidance for preparing for the transition:

1. To the extent not already utilized, new USD LIBOR cash products should include ARRC-recommended, or substantially similar, fallback language as soon as possible.
2. As [previously announced](#), third-party technology and operations vendors relevant to the transition should complete all necessary enhancements to support SOFR by the end of this year.
3. New use of USD LIBOR should stop, with timing depending on specific circumstances in each cash product market.
4. For contracts specifying that a party will select a replacement rate at their discretion following a LIBOR transition event, the determining party should disclose their planned selection to relevant parties at least six months prior to the date that a replacement rate would become effective.

"As evidenced by this set of best practices and recommended transition milestones, it is critical that market participants continue to make progress on executing a complete transition away from LIBOR by the end of 2021, which remains the target date that all participants should aim to meet," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "These best practices build on the ARRC's 2020 objectives and are designed to support all market participants in meaningful and practical ways as they prepare for this fundamental change in the global market infrastructure."

"I commend the ARRC for crafting best practices that focus attention on the issues of highest priority in the transition away from LIBOR," said Randal K. Quarles, Federal Reserve Vice Chair for Supervision.

"The ARRC's best practices provide a powerful catalyst for the next stage in the transition away from LIBOR. These tangible steps aim to foster strong controls, promote market integrity, and safeguard the financial system," added John C. Williams, President and CEO of the Federal Reserve Bank of New York, and Co-Chair of the Official Sector Steering Group. "These recommended milestones encourage thoughtful and timely action as we continue the move to robust reference rates."

The ARRC's complete best practices are available [here](#), along with an accompanying factsheet [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 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 the 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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