

May 6, 2020

ARRC Issues Supplemental Consultation on Spread Adjustment Methodology

Consultation Is Open for Feedback Through June 8

The Alternative Reference Rates Committee (ARRC) today issued a [supplemental consultation](#) seeking further views on certain technical issues related to spread adjustment methodologies for cash products referencing U.S. dollar (USD) LIBOR. The consultation announced today builds on the feedback the ARRC has received on its [original consultation](#) on potential spread adjustment methodologies issued in January 2020 and includes a summary of feedback received to date on the initial consultation.

As noted in the [announcement](#) of the initial consultation, the spread adjustments are intended for use in USD LIBOR contracts that have incorporated the ARRC's recommended fallback language or for legacy USD LIBOR contracts where a spread-adjusted Secured Overnight Financing Rate (SOFR) can be selected as a fallback. Following its April 7, 2020 meeting, the ARRC [announced](#) that its recommended spread adjustment methodology will be based on a historical median over a five-year lookback period, calculating the difference between USD LIBOR and SOFR. This methodology aligns with the International Swaps and Derivatives Association's (ISDA) recommended methodology for derivatives and would make the ARRC's recommended spread-adjusted version of SOFR comparable to USD LIBOR.

In reviewing the feedback, the ARRC determined that it could be useful to consider another potential option for calculating the five-year median spread that had not been included in the initial consultation. Today's supplemental consultation invites participants to consider the option to use the same spread adjustment values that will be used by ISDA across all of the different fallback rates, rather than using the same adjustment methodology to calculate a different spread adjustment for each potential fallback rate. The supplemental consultation also seeks views on a second issue: recognizing that ISDA will now include a pre-cessation trigger, the supplemental consultation seeks views on whether the timing of the calculation of the ARRC's spread adjustment should match ISDA's timing if a pre-cessation event is operative.

Submitting Feedback About This Consultation

The ARRC welcomes responses to the supplemental consultation from the widest possible range of stakeholders. The release of the consultation marks the start of a public comment period during which the ARRC intends to work closely with stakeholders to solicit and incorporate their input. Following this comment period, the ARRC will release a more detailed final recommendation of the spread adjustment methodology for cash products.

Market participants may submit responses to the consultation questions by email to the ARRC Secretariat (arrc@ny.frb.org) no later than June 8, 2020. Please provide only one response per institution, and please attach your responses in a PDF document with "Supplemental Consultation Response" clearly indicated in the subject line of your email. Comments will be posted on the ARRC's website as they are received without alternation, except when necessary for technical reasons, and with attribution, unless respondents request anonymity. If your institution is requesting anonymity, please clearly indicate this in the body of your email and please ensure that the PDF document you submit is anonymized.

ALTERNATIVE REFERENCE RATES COMMITTEE

Questions regarding the consultation should be sent to the ARRC Secretariat (arcc@ny.frb.org) and will not be posted for attribution.

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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