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ARRC Releases Conventions for SOFR-Based Intercompany Loans to Support Non-financial Corporations Through the LIBOR Transition

The Alternative Reference Rates Committee (ARRC) today released recommendations for intercompany loans based on the Secured Overnight Financing Rate (SOFR), the ARRC's preferred alternative reference rate to U.S. dollar (USD) LIBOR.

As outlined in the document, the ARRC recommends that new SOFR-based intercompany loans use the 30- or 90-day Average SOFR set in advance, with a monthly, quarterly, semi-annual, annual, or other reset period as is determined appropriate by the firm. 30- and 90-day Average SOFR incorporate several beneficial attributes that make these rates preferable to USD LIBOR, as they:

- Are highly robust and produced by the public sector in a way that is easily communicated and accessed by global authorities and private sector participants alike;
- Can be used within the current systems for intercompany loans and do not necessitate significant changes to implement; and
- Represent sound, fit-for-purpose rates for intercompany loans that can be used immediately, not only for USD-based loans but also for loans denominated in a range of other currencies.

"These conventions for intercompany loans supply non-financial corporations with another tool to smoothly transition away from LIBOR," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "With important deadlines in the transition to SOFR rapidly approaching, the ARRC remains fully committed to listening carefully to corporate borrowers and supporting them through this transition."

These recommendations were developed by members of the ARRC's Non-financial Corporate Working Group (NCWG), which focuses on supporting non-financial corporations throughout the transition. The NCWG represents over 80 non-financial corporations across a wide set of sectors and coordinates actively with institutions on issues relevant to non-financial corporations, such as intercompany loans, back-office systems and the readiness of software vendors to accommodate needed changes, along with structures and conventions for borrowings by non-financial corporates, including syndicated and bilateral loans as well as special-purpose facilities to finance their working capital needs and capital equipment purchases.

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 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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