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ARRC Publishes White Paper on Suggested Fallback Formula for the USD LIBOR ICE Swap Rate

The Alternative Reference Rates Committee (ARRC) today published a white paper that describes a formula to calculate a fallback from the U.S. dollar (USD) LIBOR ICE Swap Rate to a spread-adjusted Secured Overnight Financing Rate (SOFR) Swap Rate. Contracts that are indirectly linked to USD LIBOR through reference to USD ICE Swap Rates are not covered by existing fallback provisions. The paper is intended to facilitate conversations within industry bodies and between counterparties on incorporating robust fallbacks in both legacy and new contracts referencing the USD LIBOR ICE Swap Rate.

The formula presented in the paper was developed by the ARRC's Market Structure and Paced Transition Working Group and aims to complement a similar approach taken by the Working Group on Sterling Risk-Free Rates in designing a fallback for the British Pound Sterling (GBP) LIBOR ICE Swap Rate. This white paper follows announcements by LIBOR's regulator and its administrator that the publication of LIBOR on a representative basis will cease for the three-month USD LIBOR settings after June 30, 2023. The paper and the formula it derives represent the consensus view of the Market Structure and Paced Transition Working Group.

"The ARRC has repeatedly stressed the importance of adequate fallbacks in LIBOR-linked contracts," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "This paper aims to aid market participants as they consider how to address the impact that the end of representative USD LIBOR will have for contracts referencing the USD LIBOR ICE Swap Rates."

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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