May 21, 2021

ARRC Releases Update on its RFP Process for Selecting a Forward-Looking SOFR Term Rate Administrator

The Alternative Reference Rates Committee (ARRC) announced it selected CME Group as the administrator that it plans to recommend for a forward-looking Secured Overnight Financing Rate (SOFR) term rate, **once market indicators for the term rate are met.**

"The identification of CME Group as the strongest proposal to administer SOFR term rates leaves one final step in this work, the ARRC's recommendation of a forward-looking SOFR term rate. Given that continued progress in developing SOFR derivatives market liquidity is readily achievable, a recommended term rate is now in clear sight," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "Today's announcement should allow market participants to plan ahead for the recommendation of CME Group as the term rate administrator soon."

The ARRC identified CME Group's submission as the strongest proposal after a thorough evaluation of the RFP responses. The ARRC evaluated proposals based on four specific criteria: technical criteria, firm criteria, public policy criteria, and calculation methodology criteria. The ARRC has conclusively identified CME Group's proposal as having most effectively met those criteria.

"We are pleased to be selected by the ARRC to play this important role in delivering robust and sustainable, forward-looking SOFR term rates to the industry based on our deep and liquid underlying CME SOFR futures market," said Sean Tully, CME Group Global Head of Financial and OTC Products. "We have long been aligned with the ARRC, and look forward to working with the ARRC and market participants to reach the market indicators the ARRC has set out for the recommendation of a SOFR term rate. We believe the ARRC's decision to select CME Group as the administrator of term SOFR reference rates will provide the market with the certainty it needs to further grow SOFR issuance and swap market activity."

Today's announcement builds on the ARRC's term rate principles and term rate market indicators—which together provide clear guidance that would allow the ARRC to recommend a SOFR-based term rate relatively soon. The ARRC recommended term rate is referenced directly in the ARRC fallback contract language and in the New York State Legislation. In conjunction with its work towards a final recommendation of a SOFR term rate, the ARRC also plans to recommend best practices for the use of the term rate, including for example as a fallback rate for legacy cash products referencing LIBOR and in new loans where the borrowers otherwise have difficulty in adapting to the new environment.

- [x] Publication of RFP for an ARRC-recommended administrator of a forward-looking SOFR term rate
  Completed: September 10, 2020
- [x] Publication of principles for the ARRC's recommendation of a forward-looking SOFR term rate
  Completed: April 20, 2021
- [x] Publication of market indicators for the ARRC's recommendation of a forward-looking SOFR term rate
  Completed: May 6, 2021
- [x] Identification of the leading RFP proposal
  Completed: May 20, 2021
- [ ] Market indicators allow the ARRC to formally recommend a SOFR term rate. ARRC recommends best practices for scope of use.

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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