March 23, 2021

ARRC Provides Update on Forward-Looking SOFR Term Rate

Market Participants Encouraged to Transition without Reliance on SOFR Term Rate

The Alternative Reference Rates Committee (ARRC) will not be in a position to recommend a forward-looking Secured Overnight Financing Rate (SOFR) term rate by mid-2021, and it encourages market participants to continue to transition from LIBOR using the tools available now. This decision reflects ongoing ARRC discussions (here), reports (here and here), and objectives, as well as the ARRC's first SOFR Symposium which covered options for using SOFR today.

In line with its 2020 Key Objectives, the ARRC established a Term Rate Request for Proposals (RFP) process to select an administrator of an ARRC-recommended forward-looking SOFR term rate to be published in the first half of 2021 if liquidity in SOFR derivatives markets developed sufficiently. Although submissions are being reviewed, the ARRC's recommendation of an administrator was always contingent upon certain conditions being met — including the development of sufficient liquidity in SOFR derivatives markets, and developing recommendations for an appropriately limited scope of use for the term rate.

While trading activity in SOFR derivatives is growing, at this time, the ARRC believes that it is not yet in a position to recommend a term rate with confidence based on the current level of liquidity in SOFR derivatives markets. In addition, the ARRC is still evaluating the limited set of cases in which it believes a term rate could be used. Robust underlying activity and a limited scope of use over time are important conditions to help ensure that a recommended term rate does not reintroduce the vulnerabilities that first prompted the transition away from LIBOR.

U.S. supervisory guidance encourages banks to cease entering into new contracts that use U.S. dollar (USD) LIBOR as soon as practicable and in any event by December 31, 2021. The ARRC cannot guarantee that it will be in a position to recommend an administrator that can produce a robust forward-looking term rate by the end of 2021. Accordingly, the ARRC urges market participants not to wait for a forward-looking term rate for new contracts, but to instead be prepared to use the tools available now, such as SOFR averages and index data that can be applied in advance or in arrears, as described in the User's Guide to SOFR.

The ARRC has established a task force to drive the strategy for its term rate work. This will include work to identify liquidity and other criteria consistent with a recommendation for a limited scope of use, and next steps for the RFP process. In parallel, the ARRC plans to engage the public in the process, including holding a series of workshops convening banks and borrowers to review how to use existing forms of SOFR for business loans to support an effective transition.

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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