

MEMO# 32485

May 27, 2020

LIBOR Update: ARRC Best Practices and US Treasury Department Request for Comment on SOFR-Indexed Floating Rate Notes

[32485]

May 27, 2020 TO: Accounting/Treasurers Committee

LIBOR Transition Working Group

SEC Rules Committee

Security Valuation Operations Committee RE: LIBOR Update: ARRC Best Practices and US Treasury Department Request for Comment on SOFR-Indexed Floating Rate Notes

We wanted to provide an update on recent developments on LIBOR transition from the Alternative Reference Rates Committee (ARRC) and the US Treasury Department.

ARRC Recommended Best Practices for Completing the Transition from LIBOR

On May 27, the ARRC issued its recommended best practices for market participants in completing the transition from LIBOR.[\[1\]](#) In general, the ARRC recommends that new LIBOR cash products should include ARRC-recommended fallback language as soon as possible and that vendors should complete all necessary enhancements to support SOFR by the end of the year

The ARRC also recommends specific milestones for issuers and vendors to complete transition tasks for certain products.[\[2\]](#)

- For floating rate notes, vendors should be ready by June 30, 2020 and LIBOR should not be used in new issues by December 31, 2020.
- For business loans, vendors should be ready by September 30, 2020 and LIBOR should not be used in new issues by June 30, 2021.
- For securitizations, vendors should be ready by December 31, 2020 and LIBOR should not be used in new issues by June 30, 2021 (September 30, 2021 for CLOs).
- For derivatives, dealers should take steps to provide liquid SOFR derivatives markets to clients. LIBOR should not be used in new issues by June 30, 2021.

Overall, the ARRC also recommends that all market participants take the steps that it has recommended in its Practical Implementation Checklist for SOFR Adoption to prepare for LIBOR transition.^[3] Further, market participants should be aware of ARRC's recommendations regarding potential SOFR conventions for various products.

U.S. Treasury Department Request for Comment on SOFR-Indexed Floating Rate Notes

The US Treasury Department recently published a request for comment on whether to issue floating rate notes (FRNs) indexed to SOFR.^[4] The Treasury is considering such FRNs as part of its mandate to finance the U.S. government at the lowest cost over time and its commitment to promoting the transition away from LIBOR.

The request for comment asks for feedback regarding the potential market demand for SOFR-linked FRNs, the pricing and liquidity for such FRNs, including secondary markets, the potential product structure, and possible effects on existing T-Bill-linked FRNs.

Notably, the request for comment also asks whether likely investors are currently operationally ready to purchase SOFR-indexed FRNs and whether issuing such FRNs would advance the overall market transition away from LIBOR. Specifically:

- For those investors that are not ready, what are the main impediments?
- How much lead time and investment would be required for additional investors to become operationally ready to purchase Treasury SOFR-indexed FRNs?
- How would different market segments (e.g., FRNs, derivatives, business loans, consumer products) be affected by Treasury's decision to issue SOFR-indexed FRNs?
- What effect would Treasury's issuance of SOFR-indexed FRNs have on the overall market transition away from LIBOR beyond that caused by current issuance of SOFR-indexed FRNs by other issuers?

Responses to the request for comment are due by July 6 and may be sent by email to govsecreg@fiscal.treasury.gov.

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endnotes

^[1] See ARRC Recommended Best Practices for Completing the Transition from LIBOR (May 27, 2020), *available at* <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC-Best-Practices.pdf>. The ARRC also provided an overview of its recommendations, *available at* <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC-factsheet.pdf>.

^[2] The ARRC also makes recommendations regarding consumer loans (mortgages and student loans).

^[3] Specifically, the ARRC refers to its Practical Implementation Checklist for SOFR Adoption

(Sept. 2019), *available*

at <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC-SOFR-Checklist-20190919.pdf>. The ARRC has also issued a checklist for buy-side market participants. See Buy-Side/Asset Owner Checklist (Jan. 2020), *available at* https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Buy_Side_Checklist.pdf.

[4] See Development and Potential Issuance of Treasury Floating Rate Notes Indexed to the Secured Overnight Financing Rate, 85 Fed. Reg. 31,282 (May 22, 2020), *available at* https://www.treasurydirect.gov/instit/statreg/auctreg/Treasury_RFI_SOFR_FRN3.pdf.

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