

MEMO# 33709

July 30, 2021

LIBOR Update: ARRC Recommends Term SOFR

[33709]

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TO: ICI Members
Derivatives Markets Advisory Committee
LIBOR Transition Working Group
SUBJECTS: Compliance
Derivatives
Fixed Income Securities
Operations RE: LIBOR Update: ARRC Recommends Term SOFR

On July 29, the ARRC issued a formal recommendation for the use of forward-looking term SOFR rates as part of market transition from USD LIBOR. Most tenors of USD LIBOR will cease on June 30, 2023.

The ARRC's recommended forward-looking term SOFR rates are administered by the CME Group.[\[1\]](#) The rates are available in 1-month, 3-month, and 6-month tenors, and CME has issued a statement that the rates are compliant with IOSCO Principles for Financial Benchmarks.[\[2\]](#)

The ARRC also provided conventions and use cases for term SOFR.[\[3\]](#) The ARRC notes that certain contracts and instruments that already have adopted its recommended fallback language, which contains a waterfall of replacement rates for LIBOR, will fall back to term SOFR as the first step in the waterfall.

For new contracts and instruments, the ARRC recommends that market participants consider using term SOFR in addition to other forms of SOFR for business loans but does not recommend the widespread use of term SOFR in the derivatives market. Specifically, the ARRC recommends limiting the use of the rate to derivatives that hedge cash products linked to term SOFR. The ARRC cautions broader use in the derivatives market would undermine the depth of transactions that are essential to constructing the term rate.

Bridget Farrell
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endnotes

[1] See CME Term SOFR Reference Rates at <https://www.cmegroup.com/market-data/cme-group-benchmark-administration/term-sofr.html#>. See also ARRC Releases Update on its RFP Process for Selecting a Forward-Looking SOFR Term Rate Administrator (May 21, 2021), available at <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/20210521-ARRC-Press-Release-Term-Rate-RFP.pdf>.

[2] See CME Term SOFR Reference Rate Benchmarks, available at <https://www.cmegroup.com/market-data/files/cme-term-sofr-reference-rates-benchmarks.pdf>.

[3] See Forward Looking Term SOFR and SOFR Averages (Applied in Advance) Conventions for Syndicated and Bilateral Business Loans, available at https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/Term_SOFR_Avgs_Conventions.pdf; see also ARRC Best Practice Recommendations Related to Scope of Use of the Term Rate, available at https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/ARRC_Scope_of_Use.pdf.

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