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ARRC Releases Conventions for Using SOFR in Arrears in Bilateral Business Loans

The Alternative Reference Rates Committee (ARRC) today released conventions for using the Secured Overnight Financing Rate (SOFR) in arrears, both daily simple SOFR and daily compounded SOFR in arrears, in bilateral business loans. The ARRC also released FAQs for Business Loans Hardwired Fallback Language, which may be updated from time to time to reflect developments.

The conventions and FAQs align with the ARRC's 2020 Objectives, which include establishing recommended conventions and supporting materials for business loans as a key milestone for this year. The conventions recommended for bilateral business loans are similar to the ARRC's recommended conventions for using SOFR in arrears in *syndicated* business loans, which was published in July. They also follow the ARRC's revised Hardwired Fallbacks for Bilateral Business Loans, which were published this August. The ARRC's conventions are voluntary and may not be applicable to all segments of the business loan markets.

"LIBOR is fundamentally flawed and market participants should be working in earnest to prepare for when it inevitably becomes unusable," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "Today's conventions offer helpful tools for using SOFR in both new and existing bilateral business loans. I urge market participants to ready themselves for the transition away from LIBOR by making use of these conventions and other ARRC tools."

These conventions address both new loans that are originated using SOFR, and loans that "fall back" from LIBOR to SOFR upon LIBOR cessation or being deemed to be unrepresentative. Other forms of SOFR, including use of SOFR compounded in advance or, if available, a SOFR term rate, would tend to have conventions similar to current LIBOR conventions.

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 Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Association of Insurance Commissioners, the New York Department of Financial Services, the Office of Financial Research, the Office of the Comptroller of the Currency, the U.S. Department of Housing and Urban Development, the U.S. Securities and Exchange Commission, and the U.S. Treasury Department. It was initially convened in 2014 to identify risk-free alternative reference rates for U.S. dollar (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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