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ARRC Chair Tom Wipf on LIBOR's Demise, Momentum Towards SOFR, and the Work That Still Remains

Tom Wipf, Chairman of the Alternative Reference Rates Committee (ARRC) and Vice Chairman of Institutional Securities at Morgan Stanley, authored a Barron's opinion-editorial titled "The World's Most Important Number Is Done. The Work To Replace It Continues," highlighting the significant, positive momentum in the transition away from U.S. dollar (USD) LIBOR to the Secured Overnight Financing Rate (SOFR) and the key priorities that remain in the coming year. U.S. regulatory bodies made clear in 2020 that entering into new contracts that use USD LIBOR as a reference rate after December 31, 2021, would create safety and soundness risk.

As Chairman Wipf notes in his piece, "Over the year-end deadline, we've seen further progress. Use of SOFR has continued to accelerate, particularly in the interest rate swap and futures markets. And the pipeline of new loan and securitizations activity appears to have shifted away from LIBOR toward SOFR. These are important signs of progress, and I am encouraged by the forward momentum toward SOFR. However, there is still a lot of work to do."

Now that the no new LIBOR deadline has passed, Wipf highlights the ARRC's key remaining area of focus for 2022: especially ensuring market participants manage the risk of outstanding contracts that reference LIBOR. To address this challenge, Wipf notes:

- Market participants must "renegotiate and amend existing contracts where possible to move away from LIBOR or to incorporate robust fallback language that contemplates a permanent end to LIBOR, such as the ARRC's recommended fallback language."
- For those legacy contracts that cannot be amended, legislation is critical in order to "significantly reduce operational and legal risks for many market participants and help them seamlessly transition to SOFR."

As Wipf notes, the ARRC will remain active throughout 2022 to help the industry solve any remaining challenges with the transition and encourage market participants to continue their adoption of SOFR.

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 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 it recommends 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 support the voluntary 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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