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ARRC Welcomes Passage of Federal LIBOR Transition Legislation in Omnibus Spending Package
Legislation Will Provide Certainty, Reduce Risk and Disruption for Diverse Array of Market Participants

The Alternative Reference Rates Committee (ARRC) welcomed news that President Joe Biden today signed into law the Consolidated Appropriations Act, 2022, which contains critical legislation related to the transition away from U.S. dollar (USD) LIBOR. The legislation will minimize legal and operational risks and adverse economic impacts associated with the transition—providing greater certainty to a diverse array of corporate borrowers and lenders, as well as to retail bondholders and consumers, whose student loans, mortgages, and investment accounts it will protect from disruption.

The legislation provides a targeted solution for financial contracts that mature after the cessation of LIBOR in mid-2023 and have no effective means to replace LIBOR upon its cessation. It also provides a safe harbor to lenders if they choose SOFR in contracts where a party has the discretion to select a successor rate.

This new federal LIBOR law takes an approach similar to the legislation that was initially proposed by the ARRC in 2020 and has since been passed by New York and several other states. The federal legislation applies to all U.S. law contracts and will make further state-by-state action unnecessary.

"President Biden and lawmakers have taken a vital step to protect investors, businesses, and consumers from LIBOR-related risks. By providing a solution for legacy contracts that have no workable fallbacks and a safe harbor for lenders who choose SOFR in relevant contracts, this legislation significantly reduces risks for market participants worldwide," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "The passage of this legislation builds on the considerable momentum we've seen so far in 2022, as financial markets continue to transition to SOFR. We urge all market participants to remain focused on this vital work in this final stage of the 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 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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