March 15, 2023

ARRC Issues Statement on Recommended Fallbacks for Implementation of its Hardwired Fallback Language

Pertains to Selections and Recommendations of the ARRC as the "Relevant Governmental Body" Under its Recommended Fallback Language for Overnight, 1-month, 3-month, 6-month, and 12-month USD LIBOR Tenors

The Alternative Reference Rates Committee (ARRC) released a paper today formally stating its selections and recommendations as the "relevant governmental body" as they apply to the contractual provisions included in the ARRC's recommended hardwired fallback language. In particular, the hardwired language requires verification by the ARRC acting as a "relevant governmental body" of certain recommendations made under it, including: 1) the ARRC's selection or recommendation of a forward-looking SOFR term rate as a replacement for LIBOR for a given cash product; 2) the ARRC's recommendations of spread adjustments; and 3) the ARRC's recommendations of replacement indexes for use in consumer LIBOR products. The ARRC notes that its recommendations match the Board-selected benchmark replacements specified in the Federal Reserve Board's rule implementing the Adjustable Interest Rate (LIBOR) Act. Summary tables of the ARRC's selections and recommendations for hardwired USD LIBOR fallbacks by product type can be found in Appendix B of the ARRC's statement.

The document lays out the ARRC's selections and recommendations to be applied in the determination of the Benchmark Replacement, the Benchmark Replacement Adjustment, and the Recommended Replacement Index as these terms are used in the ARRC's recommended fallback language for closed-end residential adjustable-rate mortgages, floating rate notes, variable-rate private student loans, bilateral business loans, syndicated business loans, and securitizations as well as subsequent supplemental versions of fallback language for bilateral business loans, syndicated business loans, and securitizations. The ARRC has emphasized that the selections and recommendations set out in this statement are intended only for use in these legacy LIBOR contracts that fall back to SOFR and are not intended to apply to new contracts.

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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Contact for ARRC Chair Tom Wipf
Mark Lake
Morgan Stanley

Contact for the ARRC's Outreach/Communications Working Group
Andrew S. Gray
JPMorgan Chase

Contact for the Federal Reserve Board
Darren Gersh

Contacts for the Federal Reserve Bank of New York
Suzanne Elio