

ARRC

Summer SOFR Series
Office Hours Live

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- July 13: Libor: Entering the Endgame
- July 15: SOFR Explained
- July 22: Preparing to move from LIBOR Derivatives
- July 29: Accounting/Tax/Regulation
- August 3: Approaching the Transition
- **August 7: Office Hours Live**

Summer SOFR Series – Office Hours Live

- **Priya Misra, Managing Director and Global Head of Rates Strategy at TD Securities**
- **David Bowman, Senior Associate Director, Federal Reserve Board**
- **Tom Wipf, Chair of the Alternative Reference Rates Committee and Vice Chairman of Institutional Securities at Morgan Stanley**
- **Nate Wuerffel, Senior Vice President, Federal Reserve Bank of New York**

Leading Off the First Question

- How do you think the SOFR Summer Series has gone? What lessons do you hope people take from it, or what lessons have you taken from it?

Questions: LIBOR Cessation/Early Pre-Announcement

1. In the “ARRC Recommended Best Practices for Completing the Transition from LIBOR” published on May 17, 2020, the following statement was made:

The ARRC also recognizes that the timing of any official-sector statements about the end of LIBOR is uncertain. In light of this uncertainty, the ARRC recommends that, in the absence of any statement before June 30, 2021 from the FCA that LIBOR will continue past 2021, market participants act on the assumption that LIBOR will end as of December 31, 2021.

Can you provide any guidance around the intention of this statement, and why it was stated if it is not time to deviate from the current messaging that LIBOR is, or is likely, to cease by the end of 2021?

2. How much notice will there be when LIBOR cessation is announced? Is it possible that an IBOR rate or any of its tenor cease/discontinue/be determined non-representative effectively as of a date before end of 2021? Should market participants prepare for that eventuality or not?
3. Could you elaborate on ARRC timing guidance for ceasing to issue loans indexed to LIBOR vs. remediating legacy contracts off LIBOR. How do you expect a pre-announcement of non-representitiveness affecting this process?

Questions: Legacy Contracts

1. What is the status of the ARRC's legislative proposal?
2. In the UK, the UK Government is planning to legislate to provide the FCA with increased powers to force UK banks to transition away from GBP LIBOR. Is something similar considered in the U.S.?

Questions: The ARRC's Recommended Spread Adjustment

1. How should value transfer be treated, assuming ISDA 5-year historic median average fallback spread adjustment was applied to cash products as well as derivatives as well as cash products, given the potentially non-representative behavior if LIBOR?
2. Assume changes to terms and conditions for a bond from US0003M Libor to SOFR index for floating rate definition on a specific date. So the credit adjustment proposed by the ARRC requires a spread between US0003M LIBOR and SOFR on an ongoing basis. Doesn't that mean that US0003M LIBOR has to continue to be quoted, otherwise that spread becomes static?
3. Why does Bond/Derivative Position Holder need on adjusted Rate (Fallback) (on ongoing basis) from the vendor like ICE / Bloomberg **After** the Specific Cusip or Derivative Position Transition?
4. In addition to ARRC's recommended spread adjustment methodology based on a historical median over a five-year lookback period calculating the difference between USD LIBOR and SOFR, for consumer products, the ARRC additionally recommended a 1-year transition period to this five-year median spread adjustment methodology.

What are the goals of the 1-year transition period? Please elaborate on what steps the ARRC would envision mortgage lenders taking during the 1-year transition period as part of the transition of legacy products from LIBOR indexing to SOFR indexing.
6. The indicative spreads as calculated by ISDA/Bloomberg are in arrears. Would it be proper for the ARRC to accept those spreads for use with consumer loans whose rate would be set in advance?

Questions: Term Rate

1. What probability do any of you assign to a forward looking term SOFR rate being produced before end 2021?
2. Will term rates based on derivatives be more volatile than the actual SOFR?
3. Has any decision been made with respect to tenors that will be offered in connection with a forward-looking term SOFR rate? Will they mirror the LIBOR tenors?

Questions: Other Rates/Dynamic Credit Spreads

1. Is or will the ARRC work on a dynamic credit spread? Could the ARRC decide to recommend some other rate besides SOFR?
2. Will there be a published SOFR index that includes the credit adjustment?
3. In the ARRC's opinion, will AMERIBOR become an accepted alternative index alongside SOFR? What I find attractive about AMERIBOR is it is supposed to represent unsecured lending amongst banks. In my opinion, an unsecured index reduces counterparty risk due to market credit dislocations. Also, term rates should be much easier to calculate.

Questions: International Coordination

1. Another question to analyze the similarities between the UK and U.S.: in the UK, Bank of England announced that From October 2020, UK banks should all be offering alternatives to LIBOR. Would there be a similar approach in the U.S.?
2. In relation to the bilateral and syndicated loan markets, my query is whether the Panel considers that there needs to be greater conformity on conventions for RFR methodologies across the key IBOR currencies (notably USD and GBP) in order to facilitate the efficient transition to RFRs across the international markets.

Questions: Product Conventions

1. I wanted to see whether there was industry discussion about how to handle unpaid interest. Does every compounding period begin with \$0 interest balance or will unpaid interest carry over into next period as part of compounded balance as well until paid? I am assuming it will be handled by banks as they see fit, but was wondering whether there is a general industry recommendation for compounding.
2. During the earlier calls, the point has been made that parties should not be relying on the availability of forward-looking term SOFR, at least in the near term. For products that use a discount rate to determine the purchase price of a financial asset (for example, certain Trade Finance products such as factoring and supply chain finance), what discount rate options should the parties be considering? I've heard a couple of people on previous calls mention in passing SOFR in Advance (in place of forward looking term SOFR). Could you please explain more about this option. I've heard on the calls, for example, that the Fed provides certain SOFR averages that could be used in advance, but I don't understand how that would actually work given that SOFR is an overnight rate and it would seem that averages could only be backward looking.
3. Will the ARRC be publishing hardwired language with some operational details? I.e. inclusive of lookback days and business day compounding standards.
4. What is the ARRC's recommendation on handling Interest Rate Swaps under SOFR? Is there a recommendation and – if yes – is it for the floating side to compound the interest rate at the end of the interest period over the interest period with a delayed payment of two business days?
5. Can forward looking swaps be valued at this point?

Questions: Live!

- What do you attribute the large increase in SOFR OTC swap trading volume in structures with maturities longer than 5 years?
- Why not Federal legislation in the U.S.? New York does not solve the LIBOR transition issue, and actually creates mismatches with non-New York law loans and contracts.
- E.g. Legacy FRN with no fallback language in prospectus; fixed rate swaps against it. Walk me through how this arrangement will be transitioned (i.e. revised prospectus/ ISDA fallback, cash impact, hedge effectiveness) - high level. Thanks!
- How are the smaller banks coping with the transition? have they changed their systems appropriately?
- Assuming no fallback language is in the loan documents, how will Lenders and Servicers be protected from liability if Borrowers dispute the choice of SOFR or the timing of the switch?
- What is the hold up with the refreshed “hardwired” fallback language for bilateral loans? The syndicated loan language came out over a month ago.

More Questions: Regular Office Hours every Friday afternoon, 2-3pm EST. [1-844-878-9932 \(U.S.\)](tel:1-844-878-9932)

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