

July 22, 2020

## ARRC Releases Conventions Related to Using SOFR in Arrears for Syndicated Loans

The Alternative Reference Rates Committee (ARRC) today released [conventions](#) related to using the Secured Overnight Financing Rate (SOFR) in arrears, both daily simple SOFR and daily SOFR compounded in arrears, in syndicated loans. The conventions follow the ARRC's [2020 Objectives](#), which identified the publication of recommended conventions and supporting materials for syndicated loans as a priority milestone for the year, as well as the ARRC's [revised Hardwired Fallbacks for Syndicated Loans](#), which were published on June 30, 2020.

“The publication of SOFR Loan Conventions marks another important milestone in helping the industry prepare for a world without LIBOR,” said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. “We encourage market participants to begin using these conventions for new and existing loans as they transition to SOFR, the ARRC’s preferred replacement rate for LIBOR.”

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 Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Office of Financial Research, the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission, the 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 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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