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ARRC Releases LIBOR Transition Progress Report and Welcomes MRAC User Guide on Exchange-Traded Derivatives

Progress Report Highlights Accelerating Momentum Towards SOFR; MRAC Subcommittee Outlines Best Practices on the Transition of LIBOR-Linked Exchange-Traded Derivatives

The Alternative Reference Rates Committee (ARRC) today released the "Year-End Progress Report: The Transition from U.S. Dollar LIBOR," a report highlighting progress in the transition away from U.S. dollar (USD) LIBOR. The report highlights the significant, positive momentum in the transition to the Secured Overnight Financing Rate (SOFR), the ARRC's preferred alternative to USD LIBOR, across cash and derivatives markets.

Also today, pursuant to the Commodity Futures Trading Commission's Market Risk Advisory Committee's (MRAC) approval of the SOFR First Initiative at its July 13, 2021 meeting, the MRAC Subcommittee on Interest Rate Benchmark Reform (Subcommittee) issued a User Guide for Exchange Traded Derivatives Transactions. Of note, the user guide states that, "all market participants are encouraged to ensure operational capability to transact in SOFR exchange-traded derivatives as soon as possible, and it would be a best practice for all market participants to replace use of LIBOR with SOFR for new contracts, including exchange-traded derivatives, after end-2021."

"Today's progress report shows the market participants are clearly moving to SOFR across asset classes. The no new LIBOR deadline is fast-approaching, and in line with the user guide, the ARRC similarly urges *all* market participants to replace use of LIBOR with SOFR for new contracts," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley.

The report highlights that progress to SOFR has accelerated across asset classes, with the SOFR First convention changes playing a key role in shifting behavior and trading activity in derivatives markets. It also notes that the ARRC's recommendation of SOFR Term Rates in July 2021 has facilitated a shift in momentum towards SOFR lending since October.

Additionally, the report includes insights from a survey of ARRC member firms, in which respondents indicated that the transition was progressing "smoothly" overall and in the derivatives, consumer loans, and floating rates markets in particular. Most respondents described the progress as "smooth" or "generally smooth" within the business loans and securitizations markets, noting increased momentum toward SOFR-based issuance as market participants coalesce around replacement rates and pricing in those markets as the transition accelerates.

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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