Finance Alert
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ARRC Recommends Rate Administrator in Final Step Before Recommending SOFR

Ever since the U.K. Financial Conduct Authority announced in 2017 that it would no longer compel panel banks to participate in the London Interbank Offered Rate (LIBOR) submission process after the end of 2021, the banking industry, among others, has been eagerly waiting for the publication of a replacement for term LIBOR. In March 2021, the Alternative Reference Rates Committee (ARRC) sparked some concern when it published a statement that it would not be in a position to recommend a forward-looking Secured Overnight Financing Rate (SOFR) term rate by mid-2021.

However, in a statement last week, ARRC disclosed that it has endorsed CME Group to administer the SOFR term rate. This is the final step necessary before the ARRC can recommend a forward-looking SOFR term rate once market indicators for the term rate are met, which the ARRC recently identified as including: continued growth in overnight SOFR-linked derivatives volumes; visible progress to deepen SOFR derivatives liquidity (consistent with ARRC best practices); and visible growth in offerings of cash products, including loans, linked to averages of SOFR, either in advance or in arrears.

"Given that continued progress in developing SOFR derivatives market liquidity is readily achievable, a recommended term rate is now in clear sight," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley, in the ARRC's May 21 statement.

This necessary and definitive step toward the publication of a forward-looking SOFR term rate should provide comfort for those in the industry that a workable replacement for term LIBOR exists.

Loeb & Loeb's Finance practice will continue to monitor these developments to provide our clients with up-to-date guidance.

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