

# LIBOR Transition: The ARRC Formally Recommends Term SOFR

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In our article from June 17, 2021 we discussed the Alternative Reference Rate Committee's (ARRC) published market indicators for the recommended use of a robust and stable forward-looking SOFR term benchmark replacement rate (Term SOFR) and the selection of the CME Group as the ARRC recommended Term SOFR administrator. The article also discussed the forthcoming announcement by the ARRC to recommend Term SOFR pending the adoption of a recommended change to USD linear swap trading conventions from USD LIBOR to SOFR on July 26, 2021. This change in trading conventions was recently adopted by market participants leading the ARRC to announce on July 29, 2021, that it is formally recommending the CME Group's Term SOFR rates. This marks a major step in the move away from USD LIBOR and concludes the ARRC's Paced Transition Plan announced in 2017. With the completion of this final step, Randal K. Quarles, Vice Chair for Supervision of the Federal Reserve Board and Chair of the Financial Stability Board stated that "market participants now have every tool they need to transition from LIBOR".

## The ARRC Recommends Best Practices for Transitioning Away from LIBOR

The most recent announcement follows the ARRC's July 21, 2021 announcement regarding its approval of CME Group's loan conventions and recommended best practices for the use of SOFR term rates for a successful transition away from USD LIBOR. Specifically, the ARRC highlighted that the Term SOFR rate will be particularly helpful for the business loans market, where there has been some difficulty moving from USD LIBOR to an overnight rate. The ARRC also recognized that the Term SOFR rate may be useful for certain securitizations with underlying assets that are tied to Term SOFR rates. To further assist with the use of Term SOFR loans, the ARRC published recommended conventions on how to use Term SOFR which closely resemble existing LIBOR conventions.

## OSFI Expects Financial Institutions to Discontinue use of LIBOR

On June 22, 2021, the Office of the Superintendent of Financial Institutions (OSFI) announced it expects federally regulated financial institutions (FRFIs) to stop using USD LIBOR as a reference rate as soon as possible and that FRFIs should not enter into transactions using USD LIBOR as a reference rate beyond December 31, 2021. OSFI expects FRFIs to have contingency plans in place to respond to any possible issues that may arise at USD LIBOR cessation.

## What's Next?

Following OSFI's announcement that it expects FRFIs to stop all new USD LIBOR loans by no later than December 31, 2021, the runway for implementing an alternative benchmark rate is quickly growing shorter. With Term SOFR officially being recommended by the ARRC, we should expect to see a move towards the implementation of Term SOFR as a benchmark rate for new transactions in the months ahead.

For more information or advice with respect to the LIBOR fallback language or the transition from LIBOR to SOFR, contact Jonathan Meyer.

*A special thank you to Jaspal Nagra (summer student) for his assistance with this article.*

*Please note that the information provided in this article does not constitute legal or professional advice or a legal opinion of any kind. If you require any assistance regarding specific legal issues with respect to the transition from LIBOR to SOFR or banking and finance law more generally, please contact Jonathan Meyer or another member of Dentons' Banking and Finance group or other legal counsel.*

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