

Interest Rates Watch: Alternative Reference Rates Committee Recommends Proactive Steps by Market Participants to Slow Use of US Dollar LIBOR

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Welcome back to our *Interest Rates Watch* series, developed to provide timely updates and practical advice on developments related to interest rates and benchmarks on a regular basis. As always, we are here to help.

With the end of US dollar (USD) LIBOR quickly approaching,¹ the Alternative Reference Rates Committee (the ARRC), the working group backed by the United States Federal Reserve and tasked with recommending a replacement for USD LIBOR, is calling on market participants to slow their use of USD LIBOR to promote a smooth end to new USD LIBOR contracts. The ARRC is encouraging market participants to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and, in any event, by December 31, 2021. This is in line with supervisory guidance from the Board of Governors of the United States Federal Reserve System which has been endorsed broadly. As noted in our previous article, the ARRC has recommended the adoption of the Secured Overnight Financing Rate (SOFR) as the successor to USD LIBOR.

The ARRC believes that slowing new use of USD LIBOR over the final six weeks of the year, as opposed to at a defined end point (under which prevailing market conditions could have an outsized impact), will assist in ensuring smooth market functioning.

Implications

Creditors should consider implementing measures to assist in the transition away from USD LIBOR, which may include setting targets for reductions in new USD LIBOR contracts, limiting the range of USD LIBOR offerings and implementing internal processes to escalate exceptions for new USD LIBOR contracts in exceptional cases. Debtors should anticipate that creditors will be looking to make a shift away from USD LIBOR in the near future. Both debtors and creditors should familiarize themselves with the various alternatives to USD LIBOR (including whether a spread adjustment might be appropriate) and monitor the market as new SOFR-based contracts and contracts based on other alternative reference rates emerge. For an analysis of USD LIBOR-SOFR spreads, please see our previous article on this topic.

Cassels

We will be issuing further articles relating to interest rates. Find other articles in our Interest Rates Watch Series here.

¹ The ICE Benchmark Administration (the IBA), the administrator of LIBOR, will permanently cease publishing all tenors and currencies of LIBOR on the following schedule: (a) immediately following December 31, 2021, the IBA will cease publishing 1-week and 2-month USD LIBOR and all GBP, EUR, CHF and JPY LIBOR and (b) immediately following June 30, 2023, the IBA will cease publishing all the overnight and 1-month, 3-month, 6-month and 12-month USD LIBOR.

This publication is a general summary of the law. It does not replace legal advice tailored to your specific circumstances.