



## SOFR Takes The Spotlight As LIBOR's Days Are Numbered

📌 **lending** **SOFR**

**Summary:** The LIBOR transition is underway. We outline ARRC's three qualities for a new benchmark and some key dates to keep you on track.

Words added to the dictionary this year include a couple stemming from the pandemic: social distance and hodophobia (the fear of traveling). 2020 sure has been a rough and long year. As we reach the end of it, the end of LIBOR as a standard interest-rate benchmark is getting closer.

With LIBOR's days being numbered, financial institutions have the option of choosing their own new interest-rate benchmarks, including fed funds. Yet, the Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as the best option. Any widely used interest-rate benchmark should have three key qualities, according to ARRC.

1. A benchmark needs a reliable administrator with robust, durable production and oversight.
2. The financial world needs to understand what market the rate represents and how it measures that market.
3. Any benchmark must be based on a market that has enough transaction volume and diversity to survive times of stress. It needs to show resiliency over time and prove difficult to manipulate.

SOFR checks off all three of these.

**Strong backing.** Changing a widely used interest-rate benchmark is a challenge for everyone involved, and not an experience that anyone, from regulators to traders, is eager to repeat. It makes sense to choose a strong benchmark. SOFR broadly measures the cost of overnight cash loans across three parts of the US Treasury repo market. US Treasury securities back the loans.

**Robust market.** The US Treasury repo market sees about \$1T in daily transactions made by banks, pension funds, corporations, asset managers, insurance companies, and every other contender on a list of thousands of eligible borrowers. It's in a good spot to stay liquid, even as markets evolve.

**Diverse participants.** It also attracts a diverse set of participants. One-third of SOFR involves trades that are cleared through the Fixed Income Clearing Corporation; about 2K entities are eligible to trade there. Around 120 firms lend money and another 40 to 50 borrow in the tri-party segment of the repo market. This is a diverse group much likelier than LIBOR to weather shocks and changes.

Regardless of the benchmark you choose, the transition away from LIBOR is imminent. While you work out the details, here is a list of important dates. If you need any assistance, feel free to contact us.

- By January 25, 2021, ISDA's IBOR Fallbacks Protocol to update legacy contracts will go into effect for adhering participants.
- June 30, 2021 is the ARRC's recommended date to stop issuance of new LIBOR indexed business loans.
- December 31, 2021 is currently slated as the last publication date for LIBOR and final stoppage date for all new LIBOR indexed transactions.

- June 2023 is the publication extension (excluding 1-week and 2-month LIBOR) currently proposed by the ICE Benchmark Administration.

## READY FOR SOFR?

Financial institutions need to be prepared for the transition from LIBOR to SOFR. We make it easy by supporting LIBOR, SOFR, and fed funds. Learn more about the SOFR transition in our [white paper](#).

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