

TYPES NOT MAPPED YET August 05, 2021 | TTR not mapped yet | Ruthanne C. Hammett

Update - SOFR and LIBOR Replacement

In an “important milestone” (as stated by Sean Tully, Group Global Head of Financial and OTC Products of the CME Group), on the way to implementing a replacement to the London Inter-bank Offered Rate (LIBOR) ([The current status of LIBOR replacement and what financial institutions and their customers need to know now](#) and [IBA confirms cessation of LIBOR tenors](#)), the Alternative Reference Rates Committee (ARRC) announced on July 29, 2021 that it expects to officially recommend adoption of the Term Secured Overnight Financing Rate (Term SOFR) as part of its LIBOR replacement transition plan.

Term SOFR was developed and established by the CME Group (formerly known as the Chicago Mercantile Exchange and the world’s largest derivatives exchange), which ARRC selected as the administrator for Term SOFR. Term SOFR is forward-looking and will include reference rates for 1, 3 and 6 month tenors. Please note that in legacy credit agreements, ARRC recommends a spread adjustment and rate floor (similar to LIBOR). As the Term SOFR market develops, ARRC expects to formally adopt Term SOFR in the near future.

The ARRC-recommended LIBOR replacement definitions and provisions are now common in existing syndicated credit agreements by the so-called “hardwired” approach, which sets forth a fallback waterfall of alternative rates. The first alternative rate in the fallback waterfall is Term SOFR and once ARRC formally adopts Term SOFR, the fallback waterfall in such existing credit agreements will automatically fall back to Term SOFR. It is expected that new credit agreements will use, in addition to Term SOFR, other SOFR-related rates (such as 30-day Average SOFR, 90-day Average SOFR, the 180-day Average SOFR and the SOFR Index).

Financial institutions who waited for many months about the details and adoption of a forward-looking term rate replacement to LIBOR breathed a sigh of relief upon ARRC’s announcement on July 29, 2021 and should feel more confident that the transition to SOFR in existing credit agreements will be smooth and less problematic.

For assistance with any issues relating to LIBOR replacement, please reach out to the authors below or your regular Thompson Coburn contact. We will continue to periodically provide our clients with information and updates as LIBOR cessation approaches.

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