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ARRC Announces Further Details of Recommended Spread Adjustments for Cash Products

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On June 30, 2020, the Alternative Reference Rates Committee (“ARRC”) announced two further technical details related to its recommended spread adjustments for cash products referencing U.S. dollar (“USD”) LIBOR.¹ The ARRC’s recommended spread adjustment methodology is intended for USD LIBOR contracts that have incorporated the ARRC’s recommended hardwired fallback language or for legacy contracts where a spread-adjusted Secured Overnight Financing Rate (“SOFR”) can be selected as a fallback. The ARRC’s decision comes as a result of feedback it received from market participants to its supplemental consultation issued on May 6, 2020 (the “Supplemental Consultation”),² which sought further views on its January 2020 consultation on spread adjustments.³

The ARRC received 49 responses from a myriad of market participants to the Supplemental Consultation on questions regarding the preferred calculation and timing of the spread adjustment. Based on this feedback, the ARRC announced that it will implement its spread methodology recommendations as follows:

1. **Matching ISDA’s Spread Adjustment Value:** For cash products (other than consumer products), the ARRC’s recommended spread adjustment will match ISDA’s spread adjustment value applied to USD LIBOR. Consumer products will include a one-year transition period, and the ARRC will further consider the appropriate approach for these specific products.
2. **Matching ISDA’s Spread Adjustment Timing for Pre-Cessation Event:** For all cash products, in the event of a pre-cessation trigger, the ARRC’s recommended spread adjustments will be determined at the same time as ISDA’s spread adjustments (i.e., at the time of any announcement that LIBOR will or has ceased or will or has become no longer representative).

The ARRC’s announcement marks a positive milestone for the transition away from LIBOR; consistency between cash products and derivatives products is critical to minimizing market disruption when the publication of LIBOR ceases at the end of 2021. Tom Wipf, the ARRC’s Chair, stated that the ARRC’s announcement “demonstrates that the ARRC is committed to providing clarity, and the responses to our consultations again show the high value that market participants place on ensuring consistent outcomes across cash and derivatives products.”⁴



If you have any questions concerning these developing issues, please do not hesitate to contact the following Paul Hastings lawyers:

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- ¹ "ARRC Announces Further Details Regarding Its Recommendation of Spread Adjustments for Cash Products," available [here](#) [hereinafter "ARRC Announcement"].
 - ² For more information on the Supplemental Consultation, please see our recent publication, "ARRC Releases Supplemental Consultation on LIBOR-to-SOFR Spread Adjustment Methodology," available [here](#).
 - ³ For more information on the initial January 2020 consultation, please see our publication "ARRC Releases Consultation on LIBOR-to-SOFR Spread Adjustment Methodologies," available [here](#).
 - ⁴ See ARRC Announcement.

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