



June 2020

Follow @Paul\_Hastings



## *ARRC Recommends Best Practices for Completing LIBOR Transition*

By [Joyce Sophia Xu](#), [Michael Spafford](#), [Diona Park](#), [Daren Stanaway](#) & [Matthew Smith](#)

On May 27, 2020, the Alternative Reference Rates Committee (“ARRC”) published its recommended best practices with respect to the transition from U.S. dollar (“USD”) LIBOR to the ARRC’s recommended alternative risk-free rate, the Secured Overnight Financing Rate (“SOFR”).<sup>1</sup> The ARRC’s recommendations, which are intended to assist market participants in accelerating their efforts in preparing for USD LIBOR’s expected cessation by the end of 2021,<sup>2</sup> include date-based guidance and detailed specifications of interim milestones that the ARRC believes are necessary to minimize market disruption and support a smooth transition away from USD LIBOR. Simultaneously, the ARRC published its updated graphical timeline of key transition dates reflecting the recommended best practices.<sup>3</sup>

The ARRC’s recommended key best practices are as follows:

1. To the extent not already utilized, new USD LIBOR cash products should include ARRC-recommended, or substantially similar, fallback language as soon as possible, but in no event later than the deadlines specified by the ARRC for each product.
2. Relevant third-party technology and operations vendors should complete all necessary enhancements to support SOFR by the end of 2020.
3. New use of USD LIBOR should stop by the following deadlines for products with maturities after December 31, 2021:
  - a. for floating-rate notes (excluding securitizations) – December 31, 2020;
  - b. for business loans (including renewals and refinancings) – June 30, 2021;
  - c. for closed-end residential mortgages – September 30, 2020;
  - d. for securitizations (other than collateralized loan obligations) – June 30, 2021, and for collateralized loan obligations (both corporate and commercial real estate) – September 30, 2021; and
  - e. for derivatives that increase LIBOR risk (unless such trades are for risk or default management of legacy LIBOR positions) – June 30, 2021.



4. For contracts specifying that one or more parties will select a replacement rate at their discretion following a LIBOR transition event (e.g., an announcement that LIBOR is no longer representative or the permanent cessation of LIBOR), the determining party (or parties) should disclose their planned selection at least six months prior to the date that the replacement rate would become effective.

With only 19 months left until LIBOR becomes unusable and with current outstanding contracts referencing USD LIBOR, including floating-rate notes, adjustable-rate mortgages, bilateral and syndicated corporate loans, securitized products, and derivatives products, totaling an estimated \$200 trillion,<sup>4</sup> market participants are strongly encouraged to assess their LIBOR exposure, including LIBOR-referencing contracts across all of their relevant activities, and establish clear internal programs to prepare for the transition.<sup>5</sup> Moreover, market participants should be aware of additional ARRC recommendations and, if they have not already begun doing so, amend their legacy contracts for cash products that reference LIBOR as soon as possible.



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

#### **New York**

Joyce Sophia Xu  
1.212.318.6080  
[joycexu@paulhastings.com](mailto:joycexu@paulhastings.com)

Matthew S. Smith  
1.212.318.6781  
[matthewsmith@paulhastings.com](mailto:matthewsmith@paulhastings.com)

#### **Washington, D.C.**

Michael L. Spafford  
1.202.551.1988  
[michaelspafford@paulhastings.com](mailto:michaelspafford@paulhastings.com)

Diona N. Park  
1.212.318.6089  
[dionapark@paulhastings.com](mailto:dionapark@paulhastings.com)

Daren F. Stanaway  
1.202.551.1992  
[darenstanaway@paulhastings.com](mailto:darenstanaway@paulhastings.com)

---

<sup>1</sup> "ARRC Recommended Best Practices for Completing the Transition from LIBOR," available [here](#) [hereinafter "ARRC Best Practices"]. The related factsheet that ARRC published for "Best Practices for Completing Transaction from LIBOR" is available [here](#).

<sup>2</sup> The ARRC noted that, in the absence of any statement from the U.K.'s Financial Conduct Authority before June 30, 2021 that LIBOR will continue past 2021, market participants should assume that LIBOR will end as of December 31, 2021. ARRC Best Practices at 3.

<sup>3</sup> See "Transition from U.S. Dollar LIBOR – Timeline," available [here](#).

<sup>4</sup> See ARRC Best Practices at 1.

<sup>5</sup> For more information on the ARRC's recommendations for establishing internal programs, please see our recent publication, "ARRC Releases Practical Implementation Checklist for SOFR Adoption," available [here](#).

#### Paul Hastings LLP

Stay Current is published solely for the interests of friends and clients of Paul Hastings LLP and should in no way be relied upon or construed as legal advice. The views expressed in this publication reflect those of the authors and not necessarily the views of Paul Hastings. For specific information on recent developments or particular factual situations, the opinion of legal counsel should be sought. These materials may be considered ATTORNEY ADVERTISING in some jurisdictions. Paul Hastings is a limited liability partnership. Copyright © 2020 Paul Hastings LLP.