HUNTON ANDREWS KURTH

Client Alert

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ARRC Announces Best Practices for LIBOR Transition

Post COVID-19, the UK Financial Conduct Authority reaffirmed that "firms cannot rely on LIBOR being published after the end of 2021" and that "[t]he transition from LIBOR remains an essential task that will strengthen the global financial system." On May 27, 2020, while urging market participants to accelerate their transition preparations, the Alternative Reference Rates Committee (**ARRC**) published a set of recommended best practices to help market participants prepare for the end of US dollar-denominated (**USD)** LIBOR. Only 19 months remain and many market participants still need to make adequate preparations. Last week's publication highlights ARRC's best practices and outlines key recommended transition milestones for each category of affected instruments (floating rate notes, business loans, consumer loans, securitizations and derivatives). The publication also reemphasizes ARRC's core guidance for preparing for the transition:

- New USD LIBOR cash products should include ARRC-recommended or similar fallback language as soon as possible.
- Third-party technology and operations vendors should complete all necessary enhancements to support SOFR by the end of 2020.
- New use of USD LIBOR should stop after specified dates depending on product type.
- For contracts specifying that a party will select a replacement rate at their discretion following a LIBOR transition event, the determining party should disclose its planned selection to relevant parties at least six months before the replacement rate would become effective.

In conjunction with its publication, ARRC updated its graphical timeline of key transition dates. The timeline depicts ARRC's 2020 Objectives and Paced Transition Plan, as well as ARRC's Key Transition Developments and ARRC's Best Practice Recommendations in a user-friendly timeline format. ARRC recognizes that certain contingencies must be satisfied for market participants to meet particular timelines. ARRC issued its 2020 Objectives to ensure satisfaction of these contingencies and support the transition away from LIBOR. ARRC publishes monthly newsletters to highlight key developments. Newsletters are available here. You may also sign up here to receive email updates about ARRC.

Taking the implications of COVID-19 into consideration, ARRC updated its Frequently Asked Questions. This update clarifies ARRC's views on the impact of the COVID-19 pandemic on the termination of LIBOR by the end of 2021. ARRC notes, "*…near-term, interim steps may be delayed given the current economic environment with the global pandemic, but given the latest announcements from the official sector…it remains clear that the financial system should continue to move to transition by the end of 2021."*

Market participants should act on the presumption that LIBOR will end as of December 31, 2021, and begin implementing ARRC's recommended best practices if they have not already done so. In other developments last week, Fannie Mae and Freddie Mac made historic announcements regarding their own LIBOR transition plans, as we reported here. Hunton Andrews Kurth LLP has attorneys across a broad spectrum of practice areas focused on counseling clients as they grapple with LIBOR transition. Please check our website for future discussions as the LIBOR transition unfolds or contact the attorneys listed below for further information.

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London Inter-bank Offered Rate ("LIBOR") is used as the reference rate for more than $200 trillion financial contracts and related securities, but perhaps not for much longer. As the United Kingdom Financial Conduct Authority has announced, a panel of banks have voluntarily agreed to continue to submit the rates used to publish LIBOR through the end of 2021. After 2021, the submission of these rates and the publication of LIBOR is expected to cease and, consequently, LIBOR is likely to be phased out as a widely-used benchmark interest rate in future and legacy transactions.