

1) What is SOFR

SOFR stands for Secured Overnight Financing Rate. SOFR is a broad measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities in the repurchase agreement (repo) market. SOFR is a compounded overnight rate, whereas LIBOR is a term rate.

2) How is SOFR determined?

SOFR is published by the Federal Reserve Bank of New York and is a volume-weighted median overnight repo rate comprised of three different repo sectors: (i) tri-party repurchase agreements (repo), (ii) general collateral finance repo, and (iii) bilateral treasury repo transactions cleared through Fixed Income Clearing Corporation.

3) What was the March 5th FCA announcement on LIBOR?

On Friday March 5th, the FCA made an official statement on the end of LIBOR. The FCA has confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings

4) What are the key differences between LIBOR and SOFR?

LIBOR	SOFR
<ul style="list-style-type: none"> • Unsecured rate. • Interbank funding market participants (panel banks). • Consensus-based; depends on expert judgements. • May be prone to the risk of manipulation. • Forward-looking rate with a term structure. • Built-in credit component based on credit conditions amongst panel banks. • \$500 million underlying transactions. • Not durable during stressed market conditions. 	<ul style="list-style-type: none"> • Secured rate. • Broad array of market participants (multiple industries). • Fully transaction-based. • Not subject to same risks of manipulation. • Backward-looking overnight rate. • Historical credit adjustment relative to LIBOR needs to be added. • \$850 billion underlying daily transactions. • Historically durable during stressed market conditions.

5) Will SOFR be equivalent to LIBOR?

Industry groups have developed a spread adjustment, which would attempt to make LIBOR and SOFR more comparable. The adjustment is necessary to account for the bank credit risk premium in various IBORs, which is absent in the ARRs as they are generally risk-free or nearly risk-free rates. This would be a one-time adjustment; it is meant to apply primarily to legacy LIBOR-based loans that would need to transition to SOFR-based loans around the time of LIBOR discontinuance.

For derivatives, the ARRC and ISDA's recommended spread adjustment methodology will be based on a historical median over a 5-year lookback period, calculating the difference between USD LIBOR and SOFR.

For cash products, the ARRC's recommended 5-year historical median spread adjustments will be determined at the same time as the ISDA's spread adjustments, which will be at the time of any announcement that LIBOR will or has ceased or will or has become no longer representative.

6) Will Term SOFR be available?

The ARRC will not be in a position to recommend a forward-looking SOFR term rate by the intended mid-2021 timeframe, and encourages market participants to use the tools available now. The ARRC cannot guarantee that it will be in a position to recommend an administrator that can produce a robust forward-looking term rate by the end of 2021.

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