Under SFA and Market Participant Leadership, ARRC Securitization Working Group Publishes Options for Using SOFR in New ABS, MBS, and CMBS Products

Written by:

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The Alternative Reference Rates Committee (ARRC) is a group of private-market participants convened to help ensure a successful transition from USD LIBOR to the Secured Overnight Financing Rate (SOFR), a more robust reference rate and the ARRC's recommended alternative. As co-chair of the ARRC's Securitizations Working Group (SWG), which is tasked with developing recommendations to help the ARRC facilitate discussion and make informed decisions, SFA has an instrumental role in helping to enable a smooth transition. Most recently, the ARRC asked the SWG to identify the key considerations relevant to developing new issuance of securitized products based on SOFR.

SWG members include representatives of issuers, underwriters, arrangers, trustees, servicers, calculation agents, note administrators, trust administrators, and investors. These members participated in a months-long process sharing insights and perspectives on current market operations, investor preferences, and market trends in reaching a consensus view on one option for the use of SOFR in ABS, MBS, and CMBS products. The preferred approach for most transactions includes the below attributes:

Attributes	Preferrable Approach
Index	**Average SOFR -** As published by the FRBNY Reset on a single day
Day Span for Averaging, *if applicable*	**30-day** *with flexibility to select* *90-day and 180-day**
Index Determination	**In Advance**
Rate Reset Determination Date	**1 - 2 Business Days Prior to Accrual Period***
Payment Date	**Issuer Choice***

**Issuers should continue to independently decide whether variations are warranted and use their discretion when structuring transactions.*

Throughout the process of developing these conventions, as explained in the Options for Using SOFR in New ABS, MBS, and CMBS Products, careful consideration was given in order to align the preferred approach with existing, thoroughly vetted market practices. By doing so, the SWG sought to both maintain consistency within the market and minimize any potential confusion and/or complexity.

The model described in the Options for Using SOFR in New ABS, MBS, and CMBS Products is a consensus-based example of how a successful SOFR-based securitization product could be created using Average SOFR, with interest rates determined prior to the commencement of the interest accrual period. A consensus-based product will help to stabilize the market during the LIBOR cessation and reduce systemic risk.

If you are interested in learning more about SFA's LIBOR efforts, please reach out to Alyssa.Acevedo@structuredfinance.org.