

USD LIBOR will no longer be available after December 31, 2021

Guidance from U.K. and U.S. regulatory agencies is consistent: USD LIBOR (the U.S. Dollar London Interbank Offered Rate) will no longer be available after December 31, 2021. With that in mind, the transition from USD LIBOR to a replacement benchmark is underway.

The Alternative Reference Rates Committee (ARRC), a group of private-market participants convened by U.S. regulators to help facilitate the LIBOR transition, has recommended the Secured Overnight Financing Rate (SOFR) as the replacement for USD LIBOR. Other groups are also evaluating alternatives – for example, the Credit Sensitivity Group is leading an effort to develop a replacement rate with a credit-sensitive component.

There are some key differences between LIBOR and SOFR which are important to understand:

LIBOR	SOFR
<ul style="list-style-type: none"> ➤ Unsecured rate ➤ Various maturities ➤ Built-in credit risk component ➤ Partially transaction based ➤ \$500 million underlying transactions 	<ul style="list-style-type: none"> ➤ Secured rate ➤ Overnight only, for now ➤ Essentially, a risk-free rate ➤ Wholly transaction based ➤ \$1 trillion underlying transactions

In a nutshell, SOFR is not LIBOR. While SOFR is new, it is a market rate based on collateralized transactions in the U.S. Treasury Overnight Repo market. In contrast, LIBOR is based on wholesale unsecured pricing (actual and estimated) for inter-bank lending transactions.

Although generally correlated, historical comparison of the two rates demonstrates that generally SOFR is lower than LIBOR. Both benchmark rates can be hedged using interest rate swaps.

There is much more to know about how SOFR is different from LIBOR, and there are many sources and publications that speak to these differences. For those interested in learning more, the following [ARRC presentation](#)¹ explains the differences between the rates in more detail.

I will be reaching out to you to schedule time to discuss the transition away from LIBOR. In the meantime, please call me if you have any questions.

M&T is here to guide and support you as we make this transition away from LIBOR.

