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ARRC Updates Bilateral Loan Recommended Hardwired Fallback Language and Syndicated Loan Conventions

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On August 27, 2020, the Alternative Reference Rate Committee (“ARRC”) published an updated version of its recommended fallback language for new originations of USD LIBOR-denominated bilateral business loans.¹ The ARRC also released a technical reference document of appendices in support of its conventions for syndicated business loans, published earlier this year.² Both publications reflect the ARRC’s dedicated efforts to support the market’s seamless transition away from LIBOR, which is anticipated to be phased out by the end of 2021, and to encourage market participants’ adoption of the Secured Overnight Financing Rate (“SOFR”), the ARRC’s recommended alternative reference rate.

The ARRC’s new fallback language for bilateral business loans updates the ARRC’s final recommended language, originally published in May 2019, by:

1. adjusting the “Hardwired Approach” to recommend the use of Daily Simple SOFR in the second step of the fallback waterfall, and
2. updating the “Hedged Loan Approach” to include a benchmark rate floor.

These updates are similar to the revisions the ARRC recently announced to its recommended fallback language for new originations of syndicated business loans.³ Additionally, in conjunction with these updates, the ARRC has adjusted its recommended Best Practices timeline to afford market participants more time to incorporate the refreshed fallbacks into their bilateral loans. Under the updated Best Practices, market participants are encouraged to incorporate the ARRC’s hardwired or hedge fallback language by October 31, 2020.

The ARRC’s technical reference document supports the ARRC’s recommended syndicated loan conventions, including its recommended lookback without observation shift. The various appendices of the reference document include discussions regarding the other potential methodologies that the ARRC had considered, including simple versus compound interest, lookbacks and observation shifts, calculating compound interest using a compound balance versus a compound rate approach, and implementing daily floors for legacy LIBOR loans falling back to SOFR. The ARRC discusses various examples throughout the document and has included accompanying spreadsheets to demonstrate the calculation of daily cash flows and interest accruals.⁴

Market participants are encouraged to carefully review the updated hardwired fallback language and technical reference document for syndicated loan conventions. ARRC Chairman Tom Wipf noted that these documents “are critical resources to have on hand for adoption of SOFR,” and that “[w]ith fewer than 500 days until LIBOR’s expected expiration date, the time is ripe for market participants to utilize both tools to ensure a consistent, transparent, and resilient approach to the transition away from LIBOR.”⁵ Recently, a private multicurrency term loan and revolving facility for an industrial borrower led by a large financial institution used hardwired fallback language that largely tracks the revised ARRC recommended hardwired fallback language for syndicated loans.⁶ As the end-of-2021 deadline is fast approaching, we anticipate more market participants utilizing the hardwired approach in both syndicated and bilateral loan markets based on the ARRC’s revised language.



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

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- ¹ “ARRC Releases Updated Recommended Hardwired Fallback Language for Bilateral Business Loans,” available [here](#) [hereinafter, “Press Release”].
 - ² For more information on the ARRC’s syndicated loan conventions, please see our recent publication: “ARRC Releases SOFR “In Arrears” Conventions for Syndicated Business Loans,” available [here](#).
 - ³ See “ARRC Releases Updated Recommended Hardwired Fallback Language for Syndicated Loans,” available here. The ARRC’s updated hardwired fallback language for new originations of USD LIBOR-denominated syndicated loans is available [here](#).
 - ⁴ The ARRC’s technical reference document is available [here](#).
 - ⁵ Press Release.
 - ⁶ For more information, please see LSTA’s recent publication, “Huzzah! Hardwireds are Here!,” available [here](#).

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