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Dear all:

Thank you for your participation in the meeting held on September 22, 2020 to discuss observations from the Credit Sensitivity Group (CSG) workshops. We appreciate your institutions' engagement with those workshops, which have fostered a productive discourse on issues related to transitioning certain commercial loan products away from U.S. dollar LIBOR and the potential role of a credit-sensitive supplement to the Secured Overnight Financing Rate (SOFR).

The transition away from LIBOR is a significant and complex undertaking. Financial market participants should not delay their preparations for transitioning away from LIBOR and should replace LIBOR with suitable alternative reference rates, which include but are not limited to SOFR, the LIBOR alternative recommended by the Alternative Reference Rates Committee. The use of SOFR is voluntary and market participants should seek to transition away from LIBOR in the manner that is most appropriate given their specific circumstances. All institutions should have risk management processes in place to identify and mitigate their LIBOR transition risks that are commensurate with the size and complexity of their exposures,[1] but supervisors will not criticize firms solely for using a reference rate (or rates) other than SOFR.

The workshops suggested that banks may seek different characteristics when selecting an alternative reference rate that is fit for purpose based on their own profile and business needs. Moreover, the terms of a commercial loan, including the selection of a reference rate, are

[1] *See* Joint Statement on Managing the LIBOR Transition, FFEIC, July 1, 2020.

negotiated between the lending and borrowing parties to the transaction. As a result, the official sector is not well positioned to adjudicate the selection of a reference rate between banks and their commercial customers.

Consistent with these factors, the official sector does not plan to convene a group to recommend a specific credit-sensitive supplement or rate for use in commercial lending products, but we do plan to bring together workshop participants for two additional working sessions that can highlight the continued innovation in this space, including with regard to various specific credit sensitive rates, and explore solutions to implementation hurdles for commercial loans in the transition away from LIBOR.

We recognize that innovation is central to the development and evolution of financial markets, and the official sector supports the continued innovation in, and development of, suitable reference rates, including those that may have credit sensitive elements. The CSG workshops helped to highlight and advance innovation that is already underway, and we encourage private financial market participants to engage with producers and potential producers of alternative reference rates to help inform this innovation. Staff from the New York Fed will be in contact with you to follow up.

Sincerely,

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Secretary of the Treasury
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Jerome H. Powell
Chair
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