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House Financial Services Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets

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Thank you to Chair Sherman and Ranking Member Huizenga for calling a hearing on this important issue. As Treasury's Deputy Assistant Secretary for Federal Finance, I oversee the Department's work on the LIBOR transition.

Though LIBOR is used in more than $200 trillion of outstanding financial contracts today, two tenors of USD LIBOR will cease being published at the end of 2021, and the remainder will cease by June 2023. LIBOR's widespread use in the financial system but short remaining lifespan underscores the urgency of a timely and effective transition.

In recent years, Treasury has played an active role in highlighting the risks associated with the continued use of LIBOR and encouraging a market participant-led transition. Since 2013, annual reports of the Financial Stability Oversight Council, which the Treasury Secretary chairs, have called attention to LIBOR-related financial stability risks, encouraged market participants to formulate and execute transition plans, and recommended that member agencies use their authorities to facilitate transition. Treasury has served as an ex officio member of the Alternative Reference Rates Committee (ARRC) since that group was convened in 2014 by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York. The ARRC is composed of a diverse set of private-market participants working towards a successful transition away from LIBOR. As an alternative to LIBOR, the ARRC has recommended the Secured Overnight Financing Rate (SOFR), which is a robust rate based on nearly $1 trillion in daily transactions. The ARRC has also recommended robust contract fallback language for various financial products and worked closely with regulators to identify and tackle potential roadblocks to transition. Treasury applauds the passage of LIBOR transition legislation in New York State, which will provide meaningful relief for the transition of legacy contracts written under New York law. In addition, Treasury has also taken initial steps to address the potential tax consequences of modifying contracts that reference LIBOR, although some of the relevant tax statutes lack a grant of regulatory authority, which limits the tax relief that Treasury can provide.

Despite this progress, challenges for the transition remain, and federal legislation is needed. As Secretary Yellen described in recent testimony before the House Financial Services Committee, legislation is necessary for so-called "tough legacy" contracts that do not specify a workable fallback rate and are not feasible for private-sector actors to modify on their own. Federal legislation could also ensure that Treasury has sufficient authority to address the tax consequences of the LIBOR transition and amend the Higher Education Act of 1965's reference to LIBOR for Special Allowance Payments under the legacy guaranteed federal student loan program.

With LIBOR's cessation dates approaching quickly, market participants must make progress on transitioning legacy contracts, where feasible, and new contracts should begin referencing alternative rates like SOFR. In addition, in the case of consumer loans, it is imperative that lenders engage with consumers about how this transition will affect them and provide them timely notice of any changes. Lenders need to act responsibly so that consumers are not caught by surprise.

With that, I will conclude my remarks. Chair Sherman and Ranking Member Huizenga, thank you again for your interest and engagement on this important issue. I look forward to your questions.