July 21, 2021

ARRC Endorses MRAC Recommendations for September 21 "RFR First" Move of Interdealer Cross-Currency Swap Market Trading Conventions

The Alternative Reference Rates Committee (ARRC) has endorsed the Commodity Futures Trading Commission Market Risk Advisory Committee (MRAC) recommendation that interdealer trading conventions for cross-currency basis swaps between U.S. dollar, Japanese yen, sterling, and Swiss franc LIBOR move to each currency's risk-free rate (RFR) as of September 21, 2021. This move in cross-currency basis swap trading conventions is the second phase in the MRAC's recommended SOFR First initiative.

The ARRC's endorsement of the start date of September 21, 2021 has received support from the Cross-Industry Committee on Japanese Yen Interest Rate. The MRAC recommendation has also separately received support from the Bank of England, the U.K. Financial Conduct Authority, and the National Working Group on Swiss Franc Reference Rates.[1]

"The MRAC's SOFR First recommendations will play a key role in ensuring a smooth transition away from LIBOR. The September move of cross-currency basis swap conventions is important in recognizing that many jurisdictions will be moving from LIBOR to risk-free rates, and that creating a consistent global transition matters to many market participants," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley.

The ARRC has previously recommended conventions for RFR-based cross-currency basis swaps, in consultation with other national working groups, and there have already been a number of such swaps using those conventions. Following the September 21 move, it is expected that all interdealer trading cross-currency basis swaps between U.S. dollar, Japanese Yen, sterling, and Swiss franc will be based on these conventions and will reference the Secured Overnight Financing Rate (SOFR), the Tokyo Overnight Average rate (TONA) the Sterling Overnight Index Average rate (SONIA), and the Swiss Average Rate Overnight (SARON) rather than LIBOR. Cross-currency basis swaps between U.S. dollar LIBOR and other currencies are expected to move to SOFR by the end of this year given supervisory guidance encouraging new use of USD LIBOR to cease by the end of the year.

About the ARRC

The ARRC is a group of private-market participants convened by the Federal Reserve Board and Federal Reserve Bank of New York in cooperation with the Commodity Futures Trading Commission, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Association of Insurance Commissioners, the New York Department of Financial Services, the Office of Financial Research, the Office of the Comptroller of the Currency, the U.S. Department of Housing and Urban Development, the U.S. Securities and Exchange Commission,

[1] The Swiss National Working Group formally endorsed the move at its July 1 meeting, see www.snb.ch/n/mmr/reference/minutes_20210701/source/minutes_20210701.n.pdf

and the U.S. Treasury Department. It was initially convened in 2014 to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption. The ARRC accomplished its first set of objectives and identified the SOFR as the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published its Paced Transition Plan, with specific steps and timelines designed to encourage adoption of the SOFR. The ARRC was reconstituted in 2018 with an expanded membership to help to ensure the successful implementation of the Paced Transition Plan, address the increased risk that LIBOR may not exist beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

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