July 13, 2021

ARRC Commends the CFTC Market Risk Advisory Committee's Formal Adoption of a Recommendation on Transitioning Interdealer Derivatives Market Trading Conventions to SOFR

The Alternative Reference Rates Committee (ARRC) commends the Market Risk Advisory Committee (MRAC) of the Commodity Futures Trading Commission (CFTC) for its formal adoption of a recommendation of a Secured Overnight Financing Rate (SOFR) First convention switch during its meeting today. Today's unanimous vote of the MRAC further supports a market best practice that prioritizes derivatives trading in SOFR, replacing U.S. dollar (USD) LIBOR.

In June, the Interest Rate Benchmark Reform Subcommittee (Subcommittee) of the MRAC announced its recommendation that interdealer brokers change USD linear swap trading conventions from USD LIBOR to SOFR on July 26, 2021. Interdealer brokers' LIBOR screens will remain available for informational purposes only after that date. The LIBOR screens are recommended to turn off altogether on October 22, 2021. Today's MRAC vote affirms the Subcommittee's recommendation to adopt SOFR First and marks a key step toward the transition away from USD LIBOR.

Today's MRAC recommendations also include similar SOFR First trading convention switches for additional LIBOR products prior to the end of 2021, including for cross-currency swaps which is expected to take place on September 21, non-linear derivatives, and exchange traded products.

"The MRAC's formal recognition of SOFR First is a milestone moment in the transition away from LIBOR," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. "Today's vote demonstrates that derivatives are moving to SOFR, which will make a formal ARRC Term SOFR recommendation possible. On behalf of the ARRC, I urge market participants to refrain from using fragile rates and instead use SOFR as the cornerstone of their reference rate transitions."

As highlighted in a recent press release on the MRAC Subcommittee's recommended dates for transitioning swap market quoting conventions to SOFR, the ARRC has recently outlined the set of indicators it would consider in formally recommending the CME's forward-looking SOFR term rates. These indicators are designed to measure progress in establishing deep and liquid SOFR derivatives and cash markets, which are essential to a robust and stable term rate. One of the indicators highlighted was "visible progress to deepen SOFR-linked derivatives liquidity," which includes "changing the market convention for quoting USD derivatives contracts from LIBOR to SOFR." Completion of the MRAC Subcommittee's proposed change in interdealer trading conventions, scheduled for July 26 as adopted by the MRAC, would satisfy this market indicator for a formal term SOFR recommendation.

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, 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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Contact for ARRC Chair Tom Wipf
Paige Mandy
Morgan Stanley

Contact for the ARRC's Outreach/Communications Working Group
Andrew S. Gray
JPMorgan Chase

Contact for the Federal Reserve Board
Darren Gersh

Contact for the Federal Reserve Bank of New York
Betsy Bourassa