SOFR: A Year in Review

In the year since the New York Fed, in collaboration with the Office of Financial Research, began daily publication of the Secured Overnight Financing Rate (SOFR), significant progress has been made in building liquidity in SOFR-linked markets and preparing for the transition from U.S. dollar (USD) LIBOR. In 2017, SOFR was selected by the Alternative Reference Rates Committee (ARRC) as its preferred alternative to USD LIBOR following extensive analysis and public consultation.

About SOFR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities in the repurchase agreement (repo) market. The volumes underlying SOFR are far larger than the transactions in any other U.S. money market. Since its inception in April 2018, there has been an average daily volume of over $800 billion in overnight Treasury repo transactions underlying it. This rate was developed in alignment with international best practices and it is not at risk of cessation being based on a deep, liquid market. To help explain how market participants can use SOFR in cash products, the ARRC released A User’s Guide to SOFR. This addresses a range of topics, including differences between using simple or compound averages of SOFR and differences between calculating payments using in arrears or in advance conventions.

SOFR-Linked Products by the Numbers

<table>
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<tr>
<th>Futures</th>
<th>Swaps</th>
<th>Cash Issuances</th>
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<tbody>
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<td>130+ Number of Participants</td>
<td>CME and ICE futures contracts have continued to increase since trading began on each exchange with a sharp increase in activity during February</td>
<td>SOFR cash issuance has reached more than $79bn outstanding with market participation across corporates, financial institutions and government sponsored agencies</td>
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<td>Over $97bn &amp; $468bn Average Daily Notional and Total Outstanding Open Interest</td>
<td>Over $49bn Outstanding Notional</td>
<td>Over $79bn Outstanding</td>
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<td>Since its launch in May 2018, futures participants have steadily increased across dealers and buy side. Block trades have been executed (outright and in spread)</td>
<td>Cleared SOFR swaps have shown a steady increase, with more than $49 billion outstanding</td>
<td>SOFR cash issuance has reached more than $79bn outstanding with</td>
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SOFR-Linked Outstanding and Total Notionals

- Outstanding SOFR-linked notional steadily grew throughout 2018, with a large spike in activity occurring between January and February 2019, indicating increased interest and involvement from market participants
- In the short period since inception of SOFR in April 2018, total notional has reached more than $7tn in the market

1 Sources: CME Group (cash issuances, futures and cleared swaps), ICE (futures) and LCH (cleared swaps). Historical data provided as of March month-end.
2 SOFR cleared swaps are based on consolidated outstanding notionals provided by LCH and CME
About ARRC. The ARRC is a group of private-market participants working to help ensure a successful transition from USD LIBOR to a more robust reference rate, its recommended alternative, SOFR. It is comprised of a diverse set of private-sector entities, each with an important presence in markets affected by USD LIBOR, and a wide array of official-sector entities, including banking and financial sector regulators, as ex-officio members. It was initially convened in 2014, to identify risk-free alternative reference rates to USD LIBOR, identify best practices for contract robustness, and create an implementation plan for an orderly adoption. It accomplished that initial set of objectives, and today, the ARRC is working to help ensure the successful implementation of the Paced Transition Plan, address the increased risk that LIBOR may no longer be usable beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

For more details, see the ARRC’s website: [https://www.newyorkfed.org/arrc](https://www.newyorkfed.org/arrc).

The ARRC’s work complements parallel efforts in each of the other LIBOR currency jurisdictions. For more details on international efforts for reference rate reform, see the working groups in the [U.K.](https://www.newyorkfed.org/arrc), [Switzerland](https://www.newyorkfed.org/arrc), [Japan](https://www.newyorkfed.org/arrc), the [euro area](https://www.newyorkfed.org/arrc), and the Financial Stability Board’s [Official Sector Steering Group](https://www.newyorkfed.org/arrc). To the extent possible, the ARRC seeks to coordinate its plans with these groups.