June 8, 2021

ARRC Welcomes MRAC Subcommittee's Recommended Dates for Transitioning Interdealer Swap Market Trading Conventions to SOFR

ARRC Encourages Widespread Support for the Recommendations

The Alternative Reference Rates Committee (ARRC) applauds the Interest Rate Benchmark Reform Subcommittee (Subcommittee) of the Commodity Futures Trading Commission's (CFTC) Market Risk Advisory Committee (MRAC) for its work accelerating progress in the transition away from LIBOR. The recommendations developed by the Subcommittee help advance the goal of replacing U.S. dollar (USD) LIBOR with use of the Secured Overnight Financing Rate (SOFR) in widely used USD swaps. Once the convention switch is in place, the ARRC expects that its market indicators for a SOFR term rate will have been met, allowing the ARRC to formally recommend the CME SOFR term rates very shortly thereafter.

Specifically, the Subcommittee announced today that it recommends, as a market best practice, that interdealer brokers change USD linear swap trading conventions from USD LIBOR to SOFR on July 26, 2021. The Subcommittee also recommends keeping interdealer broker LIBOR linear swap screens available only for informational purposes after that date and turning the screens off altogether after October 22, 2021.

"The recommendations set out by the MRAC Subcommittee provide market participants with important guidance that will help accelerate the interest rate swap market's shift away from LIBOR," said **Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley.** "On behalf of the ARRC, I encourage market participants to support these recommended dates. Such support would not only promote a smooth transition overall, but it would also demonstrate definitive progress on the ARRC's indicators to support its formal recommendation of the CME SOFR term rates."

"This important step will increase the volume of transactions quoted in SOFR, and thus fulfill the final market indicator for the implementation of a term rate for SOFR. As a result, term SOFR will be available upon implementation of the change in quoting conventions, removing the last obstacle to using SOFR as a replacement reference rate. There is now no excuse to delay transition as the path that leads beyond LIBOR could not be clearer," said **Randal K. Quarles, Vice Chair for Supervision at the Federal Reserve Board and Chair of the Financial Stability Board.**

"If you are active in derivatives markets, circle July 26th on your calendar. That's the date when we expect trading conventions among dealers to move from LIBOR to SOFR, a robust rate based on deep and resilient markets," said **John C. Williams, President of the Federal Reserve Bank of New York and Co-Chair of the Financial Stability Board's Official Sector Steering Group.** "I have encouraged this move and urge everyone to take action now and prepare for this change, so that we can build this transition on a rock-solid SOFR foundation."

"The MRAC's Interest Rate Benchmark Reform Subcommittee has focused on finding ways to complement and support the work of the ARRC. Today's announcement is the Subcommittee's most recent contribution to the transition away from LIBOR of USD derivatives and related contracts.

Following the recent statements by the Financial Stability Board on multiple facets of the transition, the International Organization of Securities Commissions' recent statement, and the November 2020 interagency guidance from U.S. banking regulators that banks cease new LIBOR activities, the MRAC Subcommittee's recommended best practice of changing trading conventions for USD linear interest rate swaps from USD LIBOR to SOFR on July 26, 2021 is an important step to increase overall SOFR swap volumes and facilitate a smooth transition of liquidity towards SOFR. I commend the Subcommittee on its work and look forward to continuing our collaborative relationship with the ARRC," said **Acting CFTC Chairman Rostin Behnam, Sponsor of the CFTC's MRAC.**

The ARRC 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". Moving interdealer trading conventions on July 26 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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