ARRC Welcomes CME Group’s SOFR First for Options Announcement

ARRC Encourages Widespread Support for the Initiative

The Alternative Reference Rates Committee (ARRC) applauds CME Group’s announcement regarding the launch of SOFR First for Options, an initiative aimed at accelerating the growth of Secured Overnight Financing Rate (SOFR) options trading. This significant initiative is consistent with supervisory guidance and the ARRC’s recommendation to cease entering into new LIBOR contracts immediately, as well as the Commodity Futures Trading Commission Market Risk Advisory Committee’s SOFR First recommendation. In particular, SOFR First for Options will help propel successful transition of the exchange-traded options market, one of the last key remaining markets that still needs to shift away from U.S. dollar (USD) LIBOR ahead of its cessation in mid-2023.

Specifically, CME Group announced today that under its SOFR First for Options initiative set for June and July of this year, it will be taking additional steps to build on the impressive growth already seen in SOFR futures to help significantly increase SOFR options trading based on a deep and liquid marketplace. These steps include providing a market-wide fee waiver for SOFR options in June and July, accompanied by introducing additional market making incentives during this period to help enhance liquidity in all venues. CME Group will also sunset the listing of long-dated quarterly Mid Curve and Eurodollar options which, upon expiration, will be replaced by SOFR options.

“Moving exchange-traded options to robust reference rates like SOFR is essential to accomplishing a successful transition away from U.S. dollar LIBOR,” 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. “This initiative will play an important role in accelerating growth in SOFR options trading, so that we can use the final 12 months until LIBOR ends to focus on addressing legacy contracts.”

“The transition of exchange-traded options to SOFR is another important milestone and step forward in the shift away from U.S. dollar LIBOR,” said Rostin Behnam, Chairman of the U.S. Commodity Futures Trading Commission. “Increasing SOFR options trading will further develop overall SOFR derivatives liquidity and bolster the transition effort as we focus our collective efforts on the last 12 months of LIBOR.”

“CME Group’s SOFR First initiative is a critical tool for increasing SOFR options liquidity now,” said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley. “This strategy builds upon the notable progress we have already seen in SOFR futures, so move now to make sure that you are prepared.”

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 SOFR as the rate that it recommends 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 support the voluntary adoption of 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.

Sign up here to receive email updates about the ARRC.

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

Contacts for the Federal Reserve Bank of New York
Betsy Bourassa