Meeting Readout: June 22, 2023

At the end of this week on June 30, USD LIBOR panels will make their final submission; following this, LIBOR will no longer be considered representative of unsecured wholesale bank funding costs. The end of the LIBOR panels will cap nearly a decade of global work across the public and private sector to shift the market toward use of more robust reference rates such as SOFR to help support financial stability.

In the lead up to June 30, ARRC members noted continued progress in the transition from LIBOR to SOFR. As shown in the charts below, data from cash and derivatives markets show continued momentum, with SOFR predominant across both cash and derivatives markets. Specifically:

- Figures 2 and 3 show that SOFR swaps reached a new high of interest rate risk traded in the outright linear swaps market and that volumes of SOFR swaps outstanding increased noticeably following recent CCP conversions.
- Across both OTC and ETD derivatives markets, LIBOR trading has declined to minimal levels ahead of June 30.

During the discussion on overall transition-related progress and issues observed in the market, staff from Loan Syndications and Trading Association (LSTA) noted an acceleration in the pace of remediation of leveraged loans, one of the key remaining market segments which was needed to transition away from LIBOR ahead of June 30, 2023. LSTA indicated that around 40 percent of institutional loans had already transitioned as of May, with that percentage likely increasing significantly once loans reach their next rate reset date around or following June 30. While the majority of LIBOR-linked Collateralized Loan Obligations (CLOs) have not yet reached the 50 percent threshold of underlying loans transitioning away from LIBOR, where the CLO itself would then also become eligible to transition away from LIBOR, most CLO notes have been prepared to transition on or around June 30, according to a major trustee. Other ARRC members shared similar assessments regarding the progress in leveraged loan remediation.
Meeting Readout: June 22, 2023

The Operations/Infrastructure Working Group provided an update on its work on the DTCC LIBOR Replacement Index Communication Tool aimed at facilitating effective and efficient communication of rate changes in LIBOR contracts following June 30, 2023. For U.S.-issued securities, the ARRC recommends that all determining persons, agents, and other parties responsible for disseminating information use this system for communicating rate/conforming changes. DTCC offers a centralized LIBOR transition site that houses documents on how to use the new tool, FAQ’s, and additional LIBOR transition background information.¹

- As of June 20, there have been more than 107k notifications received from a combination of issuers, calculation agents, and trustees.
- Market Data Providers are actively pulling information from the Communication Tool to update their pricing information.
- It was estimated that information on roughly 3/4 of outstanding LIBOR USD CUSIPs governed by U.S. law have been entered in the Communication Tool, but that a remaining 1/4 of CUSIPs still needed to have rate-change information entered. A majority of contracts are expected to have their next coupon rate resets occur in July so use of the tool throughout July will be important for communicating these rate changes.

The Regulatory Issues Working Group provided an update on their engagement with the Commodity Futures Trading Commission (CFTC) pre-trade mid-mark obligations for SOFR Swaps and regulatory transaction reporting required in relation to the cessation of the USD LIBOR panel on June 30, 2023. The ARRC submitted the no-action relief request letter to the CFTC on June 14.

In ARRC developments, ARRC members, in consultation with the Federal Reserve, unanimously approved the designation of Peter Phelan as the ARRC Chair, effective July 1, to oversee the conclusion of the ARRC’s nearly decade long LIBOR transition efforts. Peter Phelan is Chief Administrative Officer of the Institutional Clients Group in North America at Citigroup and will succeed Tom Wipf, Vice Chair at Morgan Stanley, who has deftly served as ARRC Chair since 2019 through a uniquely demanding transition period that will be capped this week with the end of the U.S. LIBOR panels on June 30.

¹ On 5/24, the ARRC hosted a webinar titled “Using the DTCC LIBOR Replacement Index Communication Tool to Support the Transition Away from USD LIBOR” to help encourage additional use of the tool. A recording of the webinar can be found here and presentation slides here.
**Alternative Reference Rates Committee**

**June 22 Meeting Readout: Figures**

**Linear Swaps**

*Figure 1: Daily Average Interdealer Outright Linear*

*Figure 2: Daily Average Total Outright Swaps*

**Cross-Currency Swaps**

*Figure 5: Cross-Currency Swaps*

**Non-Linear Derivatives**

*Figure 3: SOFR Linear Swaps Open Interest*

*Figure 4: Monthly SOFR OTC Derivatives Volumes*

*Figure 6: Swaption Volumes*
Alternative Reference Rates Committee
June 22 Meeting Readout: Figures

Exchange-Traded Derivatives

Figure 7: Average Daily Notional SOFR Futures Volumes

- CME 1M
- ICE 1M
- CME 3M
- ICE 3M

Source: Bloomberg

Figure 8: STIR Futures Average Daily Volumes

- Other
- Fed Funds
- Eurodollars
- SOFR

Source: Bloomberg

Cash Products

Figure 9: FRN Issuance by Reference Rate

- Fed Funds
- LIBOR
- SOFR
- SOFR as % of Total (RHS)

Source: Bloomberg

Figure 10: SOFR FRN Issuance by Issuer Type

- Non-Financial Corporates
- FHLBs, GSEs, and other SSAs
- Financial Institutions

Source: Bloomberg

Figure 11: Syndicated Lending

- SOFR
- LIBOR
- SOFR as % of Total (RHS)

Source: LCD Leveraged Commentary & Data, and Refinitiv LPC