Meeting Readout: February 16, 2022

Members noted that the transition away from LIBOR to robust reference rates is progressing strongly into 2022. Use of SOFR has accelerated across cash and derivatives markets.

• In particular, the pipeline of new loans and securitizations reflects a shift away from LIBOR towards SOFR. The shift in derivative markets, notably in interest rate swaps and futures, also shows an acceleration in SOFR use this year.

• As shown in the charts following - Activity data from cash and derivatives markets point to continued positive momentum in the transition from LIBOR to SOFR. Specifically:
  • Figure 2 shows that SOFR swaps now account for the majority of interest rate risk traded in the outright linear swaps market.
  • Figure 8 shows that average daily SOFR futures volumes doubled in January relative to December 2021. SOFR futures volumes and open interest have increased relative to Eurodollar futures and the overall STIR futures market.

The group also covered the ARRC’s objectives for the year. The 2022 objectives reflect the ARRC’s efforts to continue supporting the transition away from LIBOR by preparing markets for June 2023 and encouraging the voluntary use of SOFR as a more robust and resilient alternative. Two key priority areas identified by the ARRC for 2022 are:

• New Contracts - Promoting continued growth in use of SOFR in new activity across markets. This includes:
  • Monitoring the adoption of SOFR and SOFR Term Rates as well as considering recommendation of 12-month SOFR Term Rate.
  • Continuing to engage in outreach to market participants, including smaller corporates, to identify and help address any market segments in need of support.

• Legacy Contracts - Supporting the transition of legacy contracts ahead of the 2023 end of USD LIBOR. This includes:
  • Pursuing both federal and state legislation as appropriate which can provide a path for legacy contracts that have no effective means to replace LIBOR upon its cessation to transition.
  • Encouraging compression/conversion of LIBOR positions to SOFR to reduce the scale of LIBOR legacy contracts that need to be addressed prior to LIBOR’s cessation.
  • Continuing the Operations/Infrastructure Working Group’s efforts on communicating legacy LIBOR changes as of July 3, 2023.
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Linear Swaps

Cross-Currency Swaps

Non-Linear Derivatives

Figure 1: Interdealer Outright Linear Swaps Risk Traded

Figure 2: Total Outright Linear Swaps Risk Traded

Figure 3: SOFR Linear Swaps Open Interest

Figure 4: Monthly SOFR OTC Derivatives Volumes

Figure 5: GBPUSD, USDCHF, and USDJPY Cross-Currency Swaps

Figure 6: EURUSD Cross-Currency Swaps

Figure 7: Swaption Volumes
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Exchange-Traded Derivatives

Cash Products