

SPEECHES & TESTIMONY

Opening Statement of Chairman J. Christopher Giancarlo before the Market Risk Advisory Committee Meeting, Washington, D.C.

July 12, 2018

Thank you, Commissioner Behnam.

Good morning, everyone.

A warm welcome to the MRAC Committee members and today's presenters and participants, both here and on the telephone. Welcome to the CFTC.

All meetings of CFTC advisory committees are important. But, today's meeting is *particularly* important.

The discontinuation of LIBOR is not a possibility. It is a certainty. We must anticipate it, we must accommodate it and we must adapt to it.

The transition from LIBOR to SOFR and the other risk-free rates requires thoughtfulness and preparation in order to support and not jeopardize financial stability.

It requires dialogue and planning - such as that we will conduct today under the rightful auspices of the market risk advisory committee, sponsored by Commissioner Behnam.

Some brief and selected history of this issue:

In July 2013, the Financial Stability Board established an Official Sector Steering Group, which includes senior officials from central banks and regulatory agencies, including the CFTC Chair. The OSSG serves to focus the FSB's work on the interest rate benchmarks that are considered to play the most fundamental role in the global financial system.

The FSB published its recommendations in July 2014 and called for the development of alternative interest rate benchmarks.

In November 2014, the Alternate Reference Rates Committee or ARRC was convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York. The ARRC consists of a group of banks, market participants, industry associations, and other U.S. financial regulators.

The ARRC also includes the CFTC, first under my predecessor, Chairman Timothy Massad. I have been pleased to continue that work.

The ARRC was tasked with two primary goals:

- identify an alternative reference rate to replace LIBOR; and
- develop a market strategy and make the transition.

After deliberating for over two years, in June 2017, the ARRC selected the Secured Overnight Financing Rate (or SOFR) as the replacement for LIBOR. SOFR's publication began in April of this year.

Trading in SOFR futures began in the United States in May and the initial trading volumes and liquidity are quite promising.

“ARRC 2.0” is now busy with the education and implementation of the transition from LIBOR to SOFR.

Yet, prior to all of this, LIBOR was well in the headlines of the mainstream press. In large part that was due to the CFTC’s vigorous enforcement efforts initiated under Chairman Gensler.

The CFTC’s leadership in policing benchmark manipulation has continued through to his successor and the current commission, where it remains bipartisan in importance and continues to set a global standard for enforcement of benchmark integrity.

It is undeniable that a major contributor to LIBOR’s ability to be manipulated was its weakening foundation. Simply put, money center banks no longer rely on unsecured inter-bank lending to finance their daily operations. As a result, LIBOR is a widely utilized benchmark that is no longer derived from a widely traded market. It is an enormous edifice built on an eroding foundation – an unsustainable structure.

Yet because LIBOR is so widely used in a broad range of financial products and contracts, including derivatives such as swaps and futures, we must not - we cannot - stand still.

Insuring that LIBOR and other such benchmarks are not readily susceptible to manipulation is a key part of the statutory mission of this agency.

That is why the CFTC supports the transition from LIBOR to SOFR and the other risk-free rates.

That is why we continue to serve on the ARRC Committee through the change in administration.

It is why we continue to cooperate closely with our fellow U.S. financial regulators, in particular the Federal Reserve, regarding benchmark reform.

We also work closely with the FCA that has regulated LIBOR since 2013 when the ICE Benchmark Association took over the administration of the LIBOR.

A year ago, FCA Chief Executive Andrew Bailey signaled loud and clear that there is a fair amount of uncertainty about whether we will be able to keep the banks in the panel making submissions for the LIBOR through the transition period (*that’s that eroding foundation I mentioned*).

Last week, Andrew Bailey, David Bowman (of the Fed) and I along with senior CFTC staff, including Sayee Srinivasan, met in New York to discuss next steps in the transition away from LIBOR.

The three agencies are unified in determination to move forward.

This morning, Andrew Bailey gave a powerful speech stating that:

- The underlying weakness of LIBOR cannot be remedied.
- LIBOR’s discontinuation of LIBOR is NOT something that MAY happen, but is something that WILL happen; and

- Market participants MUST prepare accordingly.

It is for these reasons that the work of the ARRC and the other risk-free reference rate working groups is so important.

It is why MRAC's discussion today is so important.

We are going to be hearing from the experts on the current state of play, the plans for the months ahead, the many complex issues to be addressed, and the hopes and challenges for both market participants and the official sector. It is an excellent program.

Clearly, we are in some uncharted territory. There is still a lot to be done.

Yet, the forward course is clear – it is away from LIBOR.

The means of travel is also clear. It is a market-driven one – led by the private sector, with participation by both the buy-side and the sell-side.

The official sector will assist and stay close by the course, helping coordinate and encourage, prod and explain and, if appropriate, give a shove or two.

On this side of the Atlantic, the Federal Reserve and we at the CFTC remain committed to working with the market participants, with the ARRC and the various trade associations, and global regulatory authorities to facilitate a smooth transition.

We also recognize ISDA for their work, specifically the recent consultation on the functioning of derivatives contracts through LIBOR discontinuation.

As I said at the beginning, this is an important issue. Fortunately, it is one that has always been and continues to be nonpartisan. There are Republican and no Democrat issues when it comes to benchmark integrity.

I want to particularly commend Commissioner Behnam for taking up such an important topic. I anticipate that he, Alicia Lewis and all the members of MRAC will bring an impressive level of thought leadership and intelligence to the discussion.

Your work will also help educate the market about the transition from LIBOR to its chosen replacement. That, in itself is an important public service.

Thank you again for participating.

Let's get to work!