

SOFR First | MRAC Subcommittee Recommendation

- On June 4th, the MRAC Subcommittee on Interest Rate Benchmark Reform voted to recommend the SOFR First Initiative for linear swaps to the MRAC
- In a follow up meeting on June 24th, the Subcommittee broadened the SOFR First recommendation to additional products including cross currency swaps, non-linear derivatives and exchange traded derivatives
- SOFR First represents a prioritization of trading in SOFR rather than USD LIBOR for particular market segments and products, which is designed to help market participants decrease reliance on USD LIBOR in light of supervisory guidance that such activity should cease as soon as practicable and in any event by December 31, 2021
- Phase 1 (linear swaps) is recommended for July 26, 2021; the Subcommittee expects to complete subsequent phases prior to end-2021

1

Linear Swaps

- Scope:** Interdealer market
- Impacted Products:** Outright swaps, swap spreads, curve trades; excludes LIBOR/SOFR basis, LIBOR/LIBOR basis, Forward Rate Agreements, Single Period Swaps
- Date:** July 26, 2021 (change of trading convention); October 22, 2021 (interdealer LIBOR screens no longer available)

2

Cross Currency Swaps

- Scope:** Interdealer market
- Impacted Products:** Cross currency swaps with legs involving CHF, GBP, JPY and USD LIBOR (other currencies to be transitioned at a later date)
- Date:** September 21, 2021 (expected timing)

3

Non-Linear Derivatives

- Scope:** Interdealer market
- Impacted Products:** Swaptions, caps, floors, other non-linear products
- Date:** To be confirmed by the Subcommittee

4

Exchange Traded Derivatives / Other

- Scope:** Exchanges, Other
- Impacted Products:** Certain futures contracts, other exchange traded products (giving due consideration to supervisory guidance and USD LIBOR's cessation date). Other products may include XCCY swaps for currencies not covered in Phase 2
- Date:** To be confirmed by the Subcommittee

The Subcommittee submits SOFR First, inclusive of all four phases, to the MRAC for consideration

MRAC Subcommittee Documents Published on June 8th, 2021

Press Release

Release Number 8394-21

CFTC's Interest Rate Benchmark Reform Subcommittee Recommends July 26 for Transitioning Interdealer Swap Market Trading Conventions from LIBOR to SOFR

June 08, 2021

Washington, D.C. — The CFTC's Market Risk Advisory Committee's (MRAC) Interest Rate Benchmark Reform Subcommittee voted to recommend a market best practice for switching interdealer trading conventions from LIBOR to the Secured Overnight Financing Rate (SOFR) for U.S. Dollar (USD) linear interest rate swaps. This MRAC Subcommittee initiative, referred to as "SOFR First," is the third recommendation this Subcommittee has referred to the MRAC for consideration in connection with the transition of USD derivatives and related contracts away from LIBOR. Acting Chairman Rostin Behnam is the sponsor of MRAC.

SOFR First, a best practice modeled after the U.K.'s SONIA First, represents a prioritization of interdealer trading in SOFR rather than LIBOR. Specifically, the Subcommittee recommends that on July 26, 2021 and thereafter, interdealer brokers replace trading of LIBOR linear swaps with trading of SOFR linear swaps. This step will cause trading activity amongst swap dealers on these platforms, which account for a substantially large share of trading in the interest rate swap markets, to switch from LIBOR to SOFR. The SOFR First best practice recommends keeping interdealer brokers' screens for LIBOR linear swaps available for informational purposes, but not trading activity, until October 22, 2021. After this date, these screens should be turned off altogether. Given most tenors of USD LIBOR will continue to be published until June 30, 2023, the Subcommittee views it as appropriate that the rate remain accessible in the interdealer market as a basis to SOFR for risk management purposes as highlighted in the U.S. banking regulators' [supervisory guidance](#). SOFR First recommendations are focused on the interdealer market only, and therefore do not impact availability of LIBOR linear swaps in dealer-to-client transactions.

"I commend the Interest Rate Benchmark Reform Subcommittee on the development of SOFR First and its forward-thinking approach to increasing overall SOFR derivatives trading in order to facilitate a smooth transition of exposures from LIBOR to SOFR. SOFR First's milestone date of July 26, 2021 is consistent with, and is designed to complement, U.S. banking regulators' supervisory guidance that banks should cease entering into new contracts that use USD LIBOR as a reference rate at the end of 2021. Many thanks to the Subcommittee for their hard work on this important contribution to the benchmark reform effort," said Acting Chairman Behnam.

The Subcommittee's recommendations will be submitted to the MRAC for consideration. The views, analyses, and conclusions expressed regarding SOFR First reflect the work of the MRAC Interest Rate Benchmark Reform Subcommittee, and do not necessarily reflect the views of the MRAC, the Commission or its staff, or the U.S. government.

See [SOFR First Frequently Asked Questions](#) [here](#) and under [Related Links](#).

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Frequently Asked Questions



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June 8, 2021

CFTC's MRAC Subcommittee on Interest Rate Benchmark Reform Responses to Frequently Asked Questions (FAQs) on "SOFR First" Transition Initiative¹

1. What is the "SOFR First" Transition Initiative from the MRAC Subcommittee on Interest Rate Benchmark Reform ("MRAC Subcommittee")?

- The "SOFR First" Transition Initiative represents a prioritization of interdealer trading in the Secured Overnight Financing Rate (SOFR) rather than the London Interbank Offered Rate (LIBOR). Specifically, as part of the "SOFR First" Transition Initiative, the MRAC Subcommittee believes that it is appropriate for interdealer brokers to change USD linear swap trading conventions to SOFR on July 26, 2021. The MRAC Subcommittee recommends keeping interdealer broker USD LIBOR linear swap screens available for informational purposes, but not trading activity, until October 22, 2021.

2. What does the "SOFR First" Transition Initiative mean in practice?

- The MRAC Subcommittee's recommendation is that on July 26, 2021 and thereafter, interdealer brokers replace trading of USD LIBOR linear swaps with trading of SOFR linear swaps. USD LIBOR is expected to be accessible as a basis to SOFR after this date. However, interdealer broker screens for USD LIBOR linear swaps should remain visible for informational purposes only after this date.
- After October 22, 2021, interdealer broker screens for USD LIBOR linear swaps should be turned off altogether.

3. What products are considered USD linear swaps?

- For purposes of the "SOFR First" Transition Initiative, USD linear swaps include outright swaps, swap spreads and curve trades. Other products like LIBOR/SOFR basis swaps, LIBOR/LIBOR basis swaps, Forward Rate Agreements and Single Period Swaps are not included in the MRAC Subcommittee's recommended "SOFR First" Transition Initiative, and are expected to continue trading in the interdealer market after July 26, 2021.

¹ The "SOFR First" Transition Initiative was approved on June 4, 2021 by the Subcommittee on Interest Rate Benchmark Reform of the Market Risk Advisory Committee (MRAC). The views, analyses, and conclusions expressed herein reflect the work of the Subcommittee on Interest Rate Benchmark Reform of the MRAC, and do not necessarily reflect the views of the MRAC, the Commodity Futures Trading Commission or its staff, or the U.S. government.

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4. Why did the MRAC Subcommittee select these specific near term dates for the "SOFR First" Transition Initiative?

- Given guidance from Global banking regulators that supervised entities should cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021, the MRAC Subcommittee believes it is prudent to change trading conventions in the USD interest rate swaps market from USD LIBOR to SOFR in the near term. This change in trading conventions is an important step to increase overall SOFR swap volumes and contribute to a smooth transition of liquidity towards SOFR.
- Additionally, the MRAC Subcommittee recognizes that the Alternative Reference Rates Committee has identified changing USD swap market conventions to SOFR as important to the potential recommendation of a term SOFR rate, which is critical for certain cash markets to transition from USD LIBOR.

5. Can end users still access USD LIBOR linear swaps, which may be necessary for risk management purposes, after July 26, 2021 and after October 22, 2021?

- Yes, the "SOFR First" Transition Initiative is designed for the interdealer market only. Dealers may still execute USD LIBOR linear swaps with clients after July 26, 2021 and after October 22, 2021. Additionally, it is expected that dealers will continue to stream USD LIBOR linear swap prices to dealer-to-client electronic trading platforms, for clients who prefer to execute trades in that manner.

6. Will there be any impact to the continued publication of USD LIBOR ICE Swap Rates, which may be important for valuing certain USD LIBOR based non linear products?

- ICE Swap Rates are based on pricing from several electronic platforms, which include both dealer-to-dealer platforms and dealer-to-client trading venues. After the "SOFR First" Transition Initiative, publication of these ICE Swap Rates may have greater reliance on pricing quotes from dealer-to-client trading venues, but the MRAC Subcommittee expects that USD LIBOR Swap Rates will continue to be published. Additionally, successful completion of the "SOFR First" Transition Initiative will improve a benchmark administrator's ability to publish SOFR Swap Rates, which is a critical development needed to boost trading of SOFR-based non-linear products.

7. After July 26, 2021, the recommended date for the transition of USD linear swaps, will the MRAC Subcommittee focus on a similar "SOFR First" Transition Initiative for other products impacted by the transition away from LIBOR?

- Later this year, the MRAC Subcommittee will turn its focus to the next phase of the "SOFR First" Transition Initiative and will consider other impacted products like non-linear derivatives, exchange traded derivatives and cross-currency swaps.

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