Public Statements & Remarks

Opening Statement of Acting Chairman Rostin Behnam before the Market Risk Advisory Committee

July 13, 2021

Good morning and welcome to the CFTC's Market Risk Advisory Committee (MRAC or Committee) summer meeting. I want to thank Commissioners Quintenz, Stump, and Berkovitz for joining today's meeting. I also want to thank and acknowledge the MRAC members and the subcommittee chairs who will present reports today.

I would like to extend my gratitude to MRAC Chair Nadia Zakir for her leadership and to Alicia Lewis, the Committee's Designated Federal Officer, for her commitment to making the MRAC and its subcommittees a success. I would also like to thank all the CFTC staff behind the scenes who make these virtual meetings possible.

I would like to extend a warm welcome to our new members: Andrew Danzig, Vice President, Federal Reserve Bank of New York; Amy Hong, Head of Market Structure & Strategic Partnerships in the Global Markets Division, Goldman Sachs; David Horner, Chief Risk Officer, LCH Limited, and Elisabeth Kirby, Head of Market Structure, Tradeweb.

I would like to say farewell to our departing MRAC members: Dennis McLaughlin, Sujatha Srinivasan, Marcus Stanley, Janine Tramontana, Scott Zucker, and CCP Risk and Governance Subcommittee member, Bill Thum. On behalf of the MRAC, I thank you for your time and dedicated service and wish you luck as you take on new and engaging issues and challenges.

And finally, I would like to acknowledge that since our last MRAC meeting, the Market Structure and Climate—Related Market Risk Subcommittees concluded, having delivered their final recommendations. Thank you to all the Subcommittee members, and special thanks to their chairs, MRAC members Lisa Shemie and Stephen Berger who led the Market Structure Subcommittee, and Bob Litterman, a market risk expert and climate policy pioneer who led the Climate Subcommittee.

Our last meeting found us almost one year into the COVID-19 pandemic with an ambitious agenda where we heard from all four of the MRAC subcommittees and held our first panel focused on diversity, equity, and inclusion in the derivatives industry and related markets.[1] The vibrant discussions and overwhelming participation exemplified the MRAC as a forum for developing ideas, provoking change, and ensuring that consensus is reached through open and transparent debate. Having seen the momentum generated by the Climate Report[2] in our industry and beyond, and the ongoing debates regarding swap dealer regulation and the Made Available—to—Trade or "MAT" process, there is no doubt that our efforts lead to success. We have changed the landscape, and more importantly, started dialogues to explore and identify solutions. As I pledged to continue supporting MRAC and subcommittee momentum in addressing the issues of the day and those to come in 2021, I highlighted the larger role of financial market regulators in ensuring transparency and equity, as well as providing firm and decisive leadership during times of market transition.

Today's agenda will hone in on transition and building consensus. First, we will hear from Tom Wipf and the Subcommittee on Interest Rate Benchmark Reform (Benchmark Subcommittee), and the full MRAC will vote on whether to adopt the Subcommittee's SOFR First Recommendation.

On June 8th, the Commission announced that the Benchmark Subcommittee voted to recommend the *SOFR First [Transition] Initiative* (the Initiative) as a best practice aimed at prioritizing interdealer trading in SOFR over LIBOR for consideration by the MRAC.[3] That same day, I delivered remarks at the SOFR Symposium sponsored by the Alternative Reference Rates Committee (ARRC) and the New York Fed.[4] I spoke at length about the history of LIBOR, its regression on several fronts, and the general observation that, as a market regulator, it would be indefensible to stand by and allow market participants to mechanically continue down LIBOR's road to obsolescence when a sustainable path is clearly in sight.

The Initiative represents a prioritization of interdealer trading in SOFR over LIBOR. Specifically, as part of the Initiative, the Benchmark Subcommittee recommends that interdealer brokers change U.S. Dollar (USD) linear swap trading conventions to SOFR on July 26, 2021. After July 26, 2021, the interdealer market should replace trading of LIBOR linear swaps with trading of SOFR linear swaps. LIBOR would be expected to be accessible as a basis to SOFR after this date. However, screens for LIBOR linear swaps should remain visible for informational purposes only after this date. In other words, the recommendation is that dealer to dealer trading in LIBOR linear swaps should cease at the end of July. All trading, outrights and basis swaps, would be around SOFR. After October 22, 2021, the recommendation is that screens operated by platforms specializing in inter-dealer trading for LIBOR linear swaps should be turned off altogether.

Later that week, I shared a shortened version of those remarks at the Open Session of the Meeting of the Financial Stability Oversight Council, during which I took the opportunity to highlight the significant ongoing and collaborative work of the Benchmark Subcommittee and the ARRC and the milestones they had reached alongside one another.[5]

Shortly thereafter on June 24th, the Benchmark Subcommittee voted to broaden the SOFR First Initiative to cover additional products including cross currency swaps, non-linear derivatives and exchange-traded derivatives.

The SOFR First Initiative is designed to help market participants decrease reliance on USD LIBOR in light of the FSB and IOSCO statements on LIBOR transition,[6] which are supportive of interagency guidance from U.S. banking regulators that banks cease entering new contracts that reference USD LIBOR post December 31, 2021.[7]

Since the early June announcement, the Commission has received feedback regarding how the SOFR First Initiative implicates the mandatory clearing requirements and related MAT determinations for SOFR swaps under the Commodity Exchange Act and Commission regulations. In anticipation of the end of LIBOR and its replacement with SOFR, my plan is to have staff present the Commission with a rule proposal addressing mandatory clearing of SOFR swaps, with the expectation of finalization in 2022.

Relatedly, and in the interim of a Commission rulemaking on mandatory clearing, for purposes of the Commission rule prohibiting post-trade name give up (PTNGU) on swap execution facilities (SEFs), which is now applicable to swaps that are mandatorily cleared or intended to be cleared,[8] Commission staff expects that SEF's will treat SOFR swaps as intended to be cleared or as mandatorily cleared swaps for purposes of Commission Rule 37.9(d).[9]

In short, it may be simplest to think of LIBOR and SOFR swaps as identical with regard to their treatment under the post-trade name give up rule.

Second, the CCP Risk and Governance Subcommittee will present its reports on (1) Capital and Skin—in—the—Game and (2) Stress Testing and Liquidity for acceptance by the full MRAC. The reports provide a glimpse into the areas of discussion that took place throughout the last 1 ½ years, and given the considerable diversity of views represented by the MRAC, I recognize that there is still much left to be done. I am committed to continuing an open and fulsome dialogue on these issues. Along those lines, I wish to thank Alicia Crighton and Lee Betsill, the CCP Risk and Governance Subcommittee Co-Chairs and workstream heads for their leadership, and the Subcommittee for its steadfast commitment to completing the task before them.

As our time is short this morning, I will wrap it up quickly so we can hear from my fellow Commissioners and move forward with our agenda. Again, I wish to thank everyone participating in the MRAC today, and out there watching for the comments, collaboration, coordination, and communication that help ensure that our Advisory Committees keep us moving in the right direction. Thank you.

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[1] *See* Rostin Behnam, Acting Chairman, CFTC, Opening Statement of Acting Chairman Rostin Behnam before the Market Risk Advisory Committee (Feb. 23, 2021), https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement022321 (https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement022321).

[2] Climate Related Market Risk Subcommittee (2020), *Managing Climate Risk in the U.S. Financial System,* Washington, D.C.: U.S. Commodity Futures Trading Commission, Market Risk Advisory Committee, *available at* https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf (https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf).

[3] *See* Press Release Number, CFTC, CFTC's Interest Rate Benchmark Reform Subcommittee Recommends Dates for Transitioning Interdealer Swap Market Trading Conventions to SOFR (June 8, 2021), https://www.cftc.gov/PressRoom/PressReleases/8394-21 (https://www.cftc.gov/PressRoom/PressReleases/8394-21).

[4] Rostin Behnam, Acting Chairman, CFTC, Remarks of Acting Chairman Rostin Behnam at The SOFR Symposium: The Final Year sponsored by the Alternative Reference Rates Committee (ARRC) (June 8, 2021), https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam17 (https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam17).

[5] Rostin Behnam, Acting Chairman, CFTC, Statement of Acting Chairman Rostin Behnam at the Open Session of the Meeting of the Financial Stability Oversight Council (June 11, 2021), https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam18 (https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam18).

[6] Press Release, Financial Stability Board, FSB issues statements to support a smooth transition away from LIBOR by end 2021 (June 2, 2021), https://www.fsb.org/2021/06/fsb-issues-statements-to-support-a-smooth-transition-away-from-libor-by-end-2021/ (https://www.cftc.gov/Exit/index.htm?https://www.fsb.org/2021/06/fsb-issues-statements-to-support-a-smooth-transition-away-from-libor-by-end-2021/); International Organization of Securities Commissions, Statement on Benchmarks Transition (June 2, 2021), https://www.iosco.org/library/pubdocs/pdf/IOSCOPD676.pdf (https://www.cftc.gov/Exit/index.htm?https://www.iosco.org/library/pubdocs/pdf/IOSCOPD676.pdf).

[7] Board of Governors of the Federal Reserve System, SR 20-27: Interagency Statement on LIBOR Transition (Nov. 30, 2020), https://www.federalreserve.gov/supervisionreg/srletters/SR2027.htm (https://www.federalreserve.gov/supervisionreg/srletters/SR2027.htm). *See also* Board of Governors of the Federal Reserve System, SR 21-7: Assessing Supervised Institutions' Plans to Transition Away from the Use of the LIBOR (Mar. 9, 2021), https://www.federalreserve.gov/supervisionreg/srletters/SR2107.htm (https://www.federalreserve.gov/supervisionreg/srletters/SR2107.htm).

[8] *See* Post—Trade Name Give—Up on Swap Execution Facilities, 85 FR 44693 (July 24, 2020).

[9] 17 C.F.R. 37.9(d).

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