

Public Statements & Remarks

Statement from CFTC Staff on Transition Away from LIBOR

July 14, 2021

Washington, D.C. — The Commodity Futures Trading Commission's Market Participants Division and Division of Market Oversight (Divisions) today are jointly issuing this statement to advise market participants and swap execution facilities (SEFs) of the importance of ensuring a smooth and timely transition away from LIBOR.

Sound functioning systemically important benchmarks are vital to derivatives markets that the CFTC oversees. As the timelines for the end of all LIBOR panels are now clear, the Divisions' staff believe that continued reliance on LIBOR benchmarks poses risks to the stability and integrity of these markets and consumer protection. Market participants and SEFs themselves may also face financial, conduct, litigation, operational, and reputational risks associated with inadequate preparation.

Therefore, the cessation of and transition away from LIBOR remains one of the Divisions' significant regulatory priorities. This transition will require market participants to take steps to stop issuance of new derivatives linked to LIBOR and to transition away from LIBOR in legacy contracts. For this purpose, the use of LIBOR rates in new contracts should, with very limited exceptions,[1] be ceased as soon as practicable and no later than December 31, 2021[2] to avoid these risks. Further, market participants should accelerate their conversion of legacy LIBOR contracts and SEFs should continue to focus on efforts to build liquidity in alternative reference rates in their markets. The Divisions expect that these entities have been and will continue to keep their clients, participants, and stakeholders informed of developments in this area.

The Financial Stability Board published a set of documents (<https://www.fsb.org/2021/06/fsb-issues-statements-to-support-a-smooth-transition-away-from-libor-by-end-2021/>) that outlines recommendations further supporting stakeholders transitioning away from LIBOR, and the Federal Housing Finance Agency issued a letter (<https://www.fhfa.gov/SupervisionRegulation/LIBORTransition/Documents/Alternative-Reference-Rate-Selection-Risk-Management-712021.pdf>) on alternative reference rate selection risk management. The Divisions believe that prudent risk management should consider, among other things, the robustness of the reference rate being used in place of LIBOR.

Further, the CFTC's Market Risk Advisory Committee (MRAC) yesterday unanimously adopted its recommendation that the Commission adopt SOFR First (https://www.cftc.gov/media/6176/MRAC_SOFRFirstSubcommitteeRecommendation071321/download) as a best practice. [See CFTC Press Release No. 8409-21 (<https://www.cftc.gov/PressRoom/PressReleases/8409-21>)] SOFR First represents a prioritization of trading in the Secured Overnight Financing Rate (SOFR) rather than USD LIBOR for particular market segments and products, and is designed to help market participants decrease reliance on USD LIBOR. The first three phases of SOFR First only apply to the interdealer market and the fourth, and final, phase applies more broadly. The first phase applies only to linear swaps and is recommended for July 26, 2021, with the additional phases applicable to other products expected to occur later this year.[3] MRAC's SOFR First is neither Commission nor Division action and should be viewed as a best practice. However, the Divisions strongly encourage market participants and SEFs to consider following SOFR First. Market participants and SEFs should also monitor the transition away from other IBOR rates relevant to their businesses.

This statement represents the views of the Divisions listed above and does not necessarily represent the views of the Commission or those of any other Division or office of the Commission. The staff statements herein have no legal force or effect; they do not alter or amend applicable law, and they do not create any enforceable rights or new or additional obligations for any person.

[1] For example, for the purposes of transactions that reduce or hedge LIBOR exposure on contracts entered into before January 1, 2022.

[2] See similar statement (<https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20201130a1.pdf>) of the Board of Governors of the Federal Reserve System (Reserve Board), the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (November 2020), the Reserve Board's related examination guidance (<https://www.federalreserve.gov/supervisionreg/srletters/SR2107.htm>) (March 2021), and IOSCO's statement (<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD676.pdf>) (June 2021).

[3] Interdealer LIBOR screens will no longer be available starting on October 22, 2021.

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