Finance Alert
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CFTC Subcommittee Recommends July 26 for USD LIBOR-SOFR Transition for Linear Swap Trading Conventions

A Commodity Futures Trading Commission (CFTC) subcommittee voted on June 8 to recommend that interdealer brokers transition from the U.S. Dollar London Interbank Offered Rate (USD LIBOR) to the Secured Overnight Financing Rate (SOFR) on July 26 for linear swap trading conventions. The Interest Rate Benchmark Reform Subcommittee's recommendations will now be submitted to the Market Risk Advisory Committee (MRAC) for consideration.

Although the majority of LIBOR tenors will be published until their June 30, 2023, sunset date, the prioritization of interdealer trading in SOFR rather than LIBOR, an initiative known as "SOFR First," signals an acceleration in the transition process.

According to the MRAC Subcommittee's recommendations, interdealer brokers should replace LIBOR linear swaps with SOFR linear swaps on July 26. Upon the convention switch, the Alternative Reference Rates Committee (ARRC) anticipates that market indicators for implementation of a SOFR term rate will have been met.

"The recommendations set out by the MRAC Subcommittee provide market participants with important guidance that will help accelerate the interest rate swap market's shift away from LIBOR," said Tom Wipf, ARRC Chairman and Vice Chairman of Institutional Securities at Morgan Stanley, in a statement. "On behalf of the ARRC, I encourage market participants to support these recommended dates."

The MRAC Subcommittee recommends that interdealer brokers' screens for LIBOR linear swaps should be used solely for informational purposes and not for trading until Oct. 22, 2021. After that date, it is recommended that those screens should be turned off for good.

"This important step will increase the volume of transactions quoted in SOFR, and thus fulfill the final market indicator for the implementation of a term rate for SOFR. As a result, term SOFR will be available upon implementation of the change in quoting conventions, removing the last obstacle to using SOFR as a replacement reference rate," Randal K. Quarles, Vice Chair for Supervision at the Federal Reserve Board and Chair of the Financial Stability Board, said in a statement. "There is now no excuse to delay transition as the path that leads beyond LIBOR could not be clearer."

Ultimately, SOFR First—which is modeled after the UK's SONIA First—mirrors the guidance issued by the country's banking regulators that banks should no longer enter contracts using LIBOR after this year.

"If you are active in derivatives markets, circle July 26th on your calendar," said John C. Williams, President of the Federal Reserve Bank of New York and Co-Chair of the Financial Stability Board's Official Sector Steering Group, in a statement. "I have encouraged this move and urge everyone to take action now and prepare for this change."

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