

MEMO# 33689

July 15, 2021

LIBOR Update: CFTC's Market Risk Advisory Committee Approves SOFR First as Recommended Best Practice

[33689]

July 15, 2021

TO: ICI Members

Derivatives Markets Advisory Committee

LIBOR Transition Working Group SUBJECTS: Derivatives RE: LIBOR Update: CFTC's Market Risk Advisory Committee Approves SOFR First as Recommended Best Practice

This week, the Commodity Futures Trading Commission (CFTC) Market Risk Advisory Committee (MRAC) unanimously adopted a recommendation that the full Commission consider a "SOFR First" plan as a market best practice for derivatives and swaps trading. SOFR First is a phased initiative for switching linear interest rate swaps, as well as other swaps and derivatives, from LIBOR to SOFR, beginning on July 26, 2021.[\[1\]](#) Doing so is expected to promote overall market transition to SOFR and progress the Alternative Reference Rate Committee's plan for formally recommending forward-looking SOFR term rates.[\[2\]](#)

SOFR First has four phases:

- Phase one recommends that interdealer brokers replace trading of LIBOR linear swaps with trading of SOFR linear swaps on July 26, 2021. Interdealer brokers' screens for LIBOR linear swaps would continue to be available for informational purposes, but not trading activity, until October 22, 2021. After that date, the recommendation would be that these screens would be turned off altogether.
- Phase two would transition cross currency swaps with legs involving Swiss franc, UK sterling, Japanese yen, and USD LIBOR on September 21, 2021.
- Phase three would transition swaptions, caps, floors, and other non-linear products on a date to be confirmed at a later time.
- Phase four would transition futures contracts and other exchange-traded products at a later date.

CFTC Acting Chairman Rostin Benham indicated his support for the SOFR First initiative.[\[3\]](#) In addition, he noted that the CFTC has received feedback regarding the interaction between the SOFR First Initiative and the mandatory clearing requirements and related MAT

determinations for SOFR swaps under the Commodity Exchange Act and regulations. In light of that feedback, Benham has asked CFTC staff for a rule proposal addressing mandatory clearing of SOFR swaps, with the expectation of finalization in 2022. CFTC Commissioner Dawn D. Stump also noted her support for CFTC work to ensure that existing clearing mandates for interest rate swaps can transition to preserve their effectiveness.^[4]

In anticipation of that rulemaking and related to the CFTC's rule prohibiting post-trade name give up on swap execution facilities (SEFs),^[5] Benham also clarified that CFTC staff will expect SEFs to treat SOFR swaps as intended to be cleared or as mandatorily cleared swaps for purposes of Commission Rule 37.9(d).

Staff of the CFTC Market Participants Division and Division of Market Oversight (Divisions) also issued a joint statement strongly encouraging market participants and SEFs to consider following SOFR First to ensure a smooth and timely transition away from LIBOR.^[6]
<https://www.cftc.gov/PressRoom/SpeechesTestimony/mpddmosfrstatement071421>

Bridget Farrell
Assistant General Counsel

endnotes

^[1] See SOFR First MRAC Subcommittee Recommendation (July 13, 2021), *available at* https://www.cftc.gov/media/6176/MRAC_SOFRFirstSubcommitteeRecommendation071321/download. See also Frequently Asked Questions (June 8, 2021), *available at* https://www.cftc.gov/media/6051/faq_SOFRFirstTransition060821/download.

^[2] See ARRC Identifies Market Indicators to Support a Recommendation of a Forward-Looking SOFR Term Rate (May 6, 2021), *available at* <https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/20210506-term-rate-indicators-press-release>. Among other market indicators, the ARRC lists "Visible progress to deepen SOFR derivatives liquidity, consistent with ARRC best practices."

^[3] See Opening Statement of Acting Chairman Rostin Behnam before the Market Risk Advisory Committee (July 13, 2021), *available at* https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement071321#_ftn8.

^[4] See Statement of Commissioner Dawn D. Stump before the Market Risk Advisory Committee (July 13, 2021), *available at* <https://www.cftc.gov/PressRoom/SpeechesTestimony/stumpstatement071321>.

^[5] See Post-Trade Name Give-Up on Swap Execution Facilities, Final Rule (June 24, 2022), *available at* <https://www.cftc.gov/sites/default/files/2020/07/2020-14343a.pdf>.

^[6] See Statement from CFTC Staff on Transition Away from LIBOR (July 14, 2021), *available at* <https://www.cftc.gov/PressRoom/SpeechesTestimony/mpddmosfrstatement071421>.

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.