

CFA Trending Topics

September 5, 2018

SOFR: almost ready for prime-time

Key takeaways:

- SOFR (Secured Overnight Financing Rate) is widely expected to replace LIBOR and the transition appears to be accelerating.
- SOFR implementation is starting to be seen across multiple areas of the debt capital markets.
- The market may swing from LIBOR to SOFR more quickly than anticipated but the development of SOFR term rates and related derivatives products will be key.

SOFR is an overnight rate based on transactions conducted in the Treasury repo market, which is poised to join the list of benchmarks used with financial instruments. Recommended language to replace LIBOR with SOFR, should LIBOR be discontinued, is expected to be proposed by a special committee by the end of 2018.

After Fannie Mae issued the first SOFR linked note (\$6bn floating rate note), the World Bank was first to hedge a bond issuance linked to SOFR (\$1bn 2Y note using a SOFR to 3-month LIBOR swap). Expansion into other capital markets products like CDs by Credit Suisse (\$100mm 6 month CD), commercial paper by Barclays (\$525mm floating rate commercial paper), and GIC notes by MetLife (\$1bn 2Y guaranteed floating rate note) highlight the continued progress, so a logical next step could be traditional corporates. Pricing of recent SOFR offerings appears to be roughly flat to 'LIBOR equivalent' offerings.

SOFR still remains an overnight rate, however and its full potential will only be seen once term rates and derivative products develop around the new benchmark, and broader market infrastructure gets upgraded to accommodate both primary and secondary markets for SOFR-linked products.

Disclaimer: This material is not a product of the Research Departments of J.P. Morgan and is not a research report. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Corporate Finance Advisory, and may differ from the views and opinions expressed by J.P. Morgan's Research Departments or other departments or divisions of J.P. Morgan and its affiliates. Distribution, copy, reprints, and/or forwarding of these materials to non-investment banking clients of J.P. Morgan is not permitted unless specifically approved by J.P. Morgan. Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. In no event shall J.P. Morgan be liable for any decision made or action taken in reliance upon the information contained herein. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument, and is a "solicitation" only as that term is used within CFTC Rule 1.71 and 23.605 promulgated under the U.S. Commodity Exchange Act. Questions regarding swap transactions or swap trading strategies should be directed to one of the Associated Persons of J.P. Morgan's Swap Dealers. JPMorgan Chase and its affiliates do not provide tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

© 2018 JPMorgan Chase & Co. All rights reserved. JPMorgan Chase Bank, N.A. Member FDIC.

J.P. Morgan Corporate & Investment Bank Marketing, 4 New York Plaza, Floor 12, NY1-E035, New York, NY, 10004-2413, United States.

Important Reminder: JPMorgan Chase will never send emails that require you to send account information or passwords to us via public email or pop-up windows.