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ARRC Releases a Tool to Help Firms Move Internal Systems and Processes away from LIBOR

Identifies Key Actions to Prepare Internal Systems and Processes for Transition

The Alternative Reference Rates Committee (ARRC) today released the [“Internal Systems and Processes: Transition Aid for SOFR Adoption”](#) to support market participants transitioning to the Secured Overnight Financing Rate (SOFR), the ARRC’s preferred alternative to U.S. dollar (USD) LIBOR.

This document builds on previous ARRC publications, including the [User’s Guide to SOFR](#), the [Practical Implementation Checklist](#), and the [Buy-Side Checklist](#), to identify the processes and systems that may need to be updated for a successful transition to SOFR.

“Transitioning from LIBOR involves complex challenges for many institution’s internal systems and processes. This publication provides a clear taxonomy for organizing one’s strategy for moving to SOFR and overcoming associated transition challenges,” said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley.

The document broadly classifies transition activities into the following categories, with one-page summaries for the sub-topics covered within each:

- Product and Business Development
- Trading and Brokerage
- Client Servicing
- Trading Risk Management
- Data Management
- Operations
- Risk Controls
- Financial Controls
- Legal and Compliance
- Information Technology

Each summary lists transition activities for market participants to consider, as well as sections on upstream and downstream areas that may be affected by the transition. The summaries also identify dependencies that may influence the timing and sequence of transition activities.

About the ARRC

The ARRC is a group of private-market participants convened by the Federal Reserve Board and Federal Reserve Bank of New York in cooperation with the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Office of Financial Research, the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission, the Securities and Exchange Commission and the U.S. Treasury Department. It was initially convened in 2014

ALTERNATIVE REFERENCE RATES COMMITTEE

to identify risk-free alternative reference rates for USD LIBOR, identify best practices for contract robustness, and create an implementation plan with metrics of success and a timeline to support an orderly adoption. The ARRC accomplished its first set of objectives and identified the SOFR as the rate that represents best practice for use in certain new USD derivatives and other financial contracts. It also published its [Paced Transition Plan](#), with specific steps and timelines designed to encourage adoption of the SOFR. The ARRC was reconstituted in 2018 with an expanded membership to help to ensure the successful implementation of the Paced Transition Plan, address the increased risk that LIBOR may not exist beyond 2021, and serve as a forum to coordinate and track planning across cash and derivatives products and market participants currently using USD LIBOR.

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