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ARRC Releases Vendor Survey and Buy-Side Checklist on Transition to SOFR

Survey Helps Software and Technology Vendors Assess their Readiness to Transition to SOFR and Articulate Related Challenges; Checklist Provides Firms with Specific Steps to Consider when Transitioning

The Alternative Reference Rates Committee (ARRC) today released two items developed by its Operations/Infrastructure Working Group: a vendor survey and a buy-side checklist. Both documents are intended to support market participants' work to address operational challenges in the transition from U.S. dollar (USD) LIBOR to the Secured Overnight Financing Rate (SOFR), which is the ARRC's recommended alternative to USD LIBOR.

As noted in the accompanying letter, the survey serves as a self-assessment tool for software and technology vendors to assess their own readiness, while also serving as a platform to raise operational issues to the ARRC. The checklist provides steps that buy-side firms can consider when transitioning from LIBOR.

"The clock is running out on LIBOR's existence and that means everyone must be ready for the challenges they will face if they continue to hold LIBOR exposures. The ARRC is focused on helping market participants and service providers meet these challenges, and we will be providing more tools in the coming months," said Tom Wipf, ARRC Chair and Vice Chairman of Institutional Securities at Morgan Stanley. "We urge all vendors to complete the survey, and we encourage buy-side firms to make use of today's checklist for steps to consider when transitioning to SOFR."

Vendor Survey and Submitting Responses

The survey is being conducted by the ARRC and it is segmented into two key sections. Section I focuses on foundational questions about the transition, such as vendors' understanding of the transition's impact on their products and applications, the key enhancements necessary to ensure product readiness, and the financial instruments to which their products or applications pertain. Section II focuses on information about applications only and covers the high-level capabilities necessary to transition, such as ability for systems to forecast cash flows. The ARRC's vendor survey is limited to Section I only. Section II is provided for vendors' use only as an additional self-assessment tool.

The ARRC asks vendors to input responses to Section I in the spreadsheet, and submit the spreadsheet by email to the ARRC Secretariat (arrc@ny.frb.org) by March 16, 2020.

ARRC representatives will host a webcast on February 10, 2020 to answer any questions that vendors might have. Details will be provided separately, and they will be listed in the "Meetings & Events" page on the ARRC website when available. In addition to the webcast, questions can also be submitted directly to the ARRC Secretariat mailbox.

As noted in the letter, the aggregated summary will be made public to inform other market participants. This summary will not contain any firm-specific attribution.

Buy-Side Checklist

Today's checklist builds on the ARRC's work developing the Paced Transition Plan, which outlines the steps for an effective shift to SOFR, and is designed to be used alongside the User's Guide to SOFR. It is similar to the practical implementation checklist released in 2019, but is more narrowly intended for use by buy-side firms. Relative to the practical implementation checklist, it adds topics specific to the needs of buy-side firms.

The checklist covers 10 key areas where action is needed. These include governance, communications, identification of LIBOR exposures, and contractual remediation. It deliberately does not include timelines, as these will need to be set as part of the implementation plans for each firm and tailored to their circumstances. The points listed should be modified according to firms' size and volume of LIBOR exposures, among other factors.

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 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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