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ARRC Releases Practical Implementation Checklist for SOFR Adoption

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Time to seriously plan for the transition from USD LIBOR to SOFR? The ARRC sure thinks so.

The ARRC, or the Alternative Reference Rates Committee, recently released a practical implementation checklist as an informational guide to assist market participants' transition to SOFR, the Secured Overnight Financing Rate, which is the ARRC's recommended alternative to USD LIBOR.[1] The checklist presents a framework and lays out practical considerations for the LIBOR-to-SOFR transition, particularly for firms that have not yet fully commenced planning for the transition. The checklist builds on the ARRC's work developing the Paced Transition Plan, which outlines the steps for an effective transition to SOFR, and is designed to be used alongside the ARRC's User's Guide to SOFR.[2]

The following is a summary of the ten suggested considerations and related step-by-step process that the checklist addresses:

1. **Establish Program Governance:** Implement a robust program governance and management framework and define and prioritize program objectives.

2. **Develop Transition Management Program:** Establish an enterprise-wide program to evaluate and mitigate risk for transitioning away from LIBOR and adjust as needed.

3. **Implement Communication Strategy:** Develop a strategy to proactively engage, educate, and consistently communicate with internal and external stakeholders.

4. **Identify and Validate Exposure:** Quantify and develop a process for monitoring LIBOR-linked exposure and construct capabilities to value and price SOFR-based products.

5. **Develop Product Strategy:** Develop a strategy for redesigning/transitioning existing portfolio of LIBOR-based products into new SOFR-linked products.

6. **Risk Management:** Identify key transition risks and mitigating actions to address those risks and establish a process for ongoing risk management and role of key control functions.

7. **Assess Contractual Remediation Impact and Design Plan:** Review existing LIBOR-related contracts to determine impact of fallbacks and define prioritization strategy for remediation, and incorporate recommended fallback language developed by ARRC/ISDA for new contracts that reference LIBOR.

8. **Develop Operational and Technology Readiness Plan:** Develop a plan to address large-scale operating model, data, and technology implications, including assessing LIBOR usage, implementing capabilities to incorporate/build new rate financial products, supporting fallback processing technology, and building testing plans.

9. **Accounting and Reporting:** Identify impacts to accounting standards along with related reporting considerations.

10. **Taxation and Regulation:** Determine tax and regulatory implications and any required reporting considerations.

While the ARRC checklist provides a useful starting point for firms that are in the early stages of developing a transition plan, it will need to be modified and tailored to suit your institution's individual circumstances, including the types of instruments with LIBOR exposure, the size and volume of these positions, and the capabilities of your firm's risk management system. Moreover, if your institution has positions involving non-USD LIBOR, it would be advisable to consider the ARRC checklist in parallel with other industry working groups' efforts and guidance, such as ISDA's initiatives addressing non-USD LIBOR exposure, which would allow you to harmonize your transition plans across various products and markets.

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[1] The Alternative Reference Rates Committee, Practical Implementation Checklist for SOFR Adoption, *September 2019*, https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2019/ARRC-SOFR-Checklist-20190919.pdf.

[2] For more information on the ARRC's "A User's Guide to SOFR," a white paper to help explain how market participants can use SOFR as the alternative to LIBOR, please see our publication, ARRC Releases White Paper Regarding SOFR – The New U.S. Dollar LIBOR Alternative, available here.