

**MEMO# 32189**

January 31, 2020

# **LIBOR Update: ARRC Releases Buy-Side Checklist and Vendor Questionnaire**

[32189]

January 31, 2020 TO: ICI Members  
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Valuation RE: LIBOR Update: ARRC Releases Buy-Side Checklist and Vendor Questionnaire

We wanted to alert you to two recent ARRC publications concerning LIBOR transition for asset managers and vendors: the Buy-Side/Asset Owner Checklist and Request for Information Regarding LIBOR Transition Plans.

## **I. ARRC Buy-Side/Asset Owner Checklist**

The ARRC released its Buy-Side/Asset Owner Checklist to provide asset managers and asset owners with further clarity on the practical considerations for the LIBOR transition.[\[1\]](#) In the checklist, the ARRC reminds asset managers that LIBOR discontinuation is a certainty and to take appropriate actions to transition from LIBOR to an alternative risk-free rate.

The checklist provides lists of actions or issues for asset managers to consider in ten broad functional categories:

1. Establish Program Governance: Implement a robust governance framework with accountable senior executives to oversee the delivery and coordination of the firm's enterprise-wide LIBOR transition program.
2. Develop Transition Management Program: Establish an enterprise-wide program across functions and businesses to evaluate and mitigate the risks associated with transition with specific considerations for unique product and client exposures.
3. Implement Communication Strategy: Develop and implement an enterprise-wide strategy with clear objectives to proactively engage, communicate, and increase levels of education with impacted internal and external stakeholders.
4. Identify and Validate Exposure: Quantify and develop a flexible approach to monitor LIBOR-linked assets and exposures through the transition period. Obtain or develop capabilities to value SOFR-based products where transitioning to using those products.
5. Assess Contractual Remediation Impact and Design Plan: Understand the financial, customer, and legal impacts resulting from transitioning from LIBOR via fallbacks, and plan mechanisms for implementing those fallback provisions.
6. Develop Product and Portfolio Strategy: Develop strategy for redesigning or transitioning the existing portfolio of LIBOR products, where needed, including consideration of using new products based on SOFR. For portfolios tied to LIBOR as a benchmark or investment guideline, understand implications for the forward portfolio and transition where appropriate.
7. Risk Management: Identify, measure, monitor, and control financial and non-financial risks of transition, establishing processes and oversight routines for ongoing management.
8. Develop Operational and Technology Readiness Plan: Develop a plan to address the operating model, data, and technology implications required as a result of LIBOR transition, including with respect to vendors.
9. Accounting and Reporting: Determine accounting, reporting, and NAV considerations.
10. Taxation and Regulation: Determine tax and regulatory considerations.

This checklist is similar to the Practical Implementation Checklist for SOFR Adoption that the ARRC released in September 2019.[\[2\]](#) The ARRC notes that the Practical Implementation Checklist focused on banks. In addition to the actions that the ARRC recommended in that checklist, the Buy-Side/Asset Owner Checklist also suggests:

- In general, focusing on vendors, custodians, product administrators and other third parties, considering the impact of transition on different types of assets,[\[3\]](#) reviewing an expansive list of LIBOR-related contracts,[\[4\]](#) and considering alternative rates in addition to SOFR.
- Collaborating to test LIBOR transition across asset classes to validate inter-company interoperability.
- Determining Investment Company Act fund accounting implications of fallback conversions on the NAVs of affected share classes, as well as of an ongoing multi-rate environment.
- Determining the impact of LIBOR transition on the operation and effectiveness of liquidity risk management programs.

The Buy-Side/Asset Owner Checklist also warns “[a]s new products using new rates emerge it will be essential to be consistent with industry best practices. Market participants, however, should use readily available alternative rates rather than wait for the

development of other markets or benchmarks.”

## II. ARRC Vendor Questionnaire

The ARRC also released a Request for Information Regarding LIBOR Transition Plans (the “Vendor Questionnaire”). The ARRC explains that it sent this survey to vendors that ARRC members identified as offering products and/or services that might be impacted by USD LIBOR transition. The survey is intended to provide information to the ARRC and market participants regarding vendor readiness, as well as serving as a self-assessment tool for vendors.<sup>[5]</sup> The Vendor Questionnaire includes two sections:

- Section I requests information on vendors’ understanding of the LIBOR transition’s impact on their products and applications and the key enhancements necessary to ensure product readiness. The ARRC requests that vendors provide responses to Section I of the Vendor Questionnaire in a spreadsheet that ARRC provided by March 16, 2020.<sup>[6]</sup>
- Section II describes the high-level, illustrative capabilities of vendor applications that will be necessary for LIBOR transition, such as the ability for systems to forecast cash flows. The ARRC recommends vendors use Section II to guide their self-assessment for LIBOR transition readiness.

Finally, the ARRC notes that it will be hosting a webcast to answer questions about the Vendor Questionnaire on February 10, 2020. Information about the webcast will be updated when available on the ARRC’s “Meetings and Events” page.<sup>[7]</sup>

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Assistant General Counsel

### endnotes

<sup>[1]</sup> Available at [https://www.newyorkfed.org/medialibrary/Microsites/arcc/files/2020/ARRC\\_Buy\\_Side\\_Checklist.pdf](https://www.newyorkfed.org/medialibrary/Microsites/arcc/files/2020/ARRC_Buy_Side_Checklist.pdf). The ARRC notes that the checklist focuses on USD LIBOR in particular.

<sup>[2]</sup> Available at <https://www.newyorkfed.org/medialibrary/Microsites/arcc/files/2019/ARRC-SOFR-Checklist-20190919.pdf>.

<sup>[3]</sup> E.g., loans, insurance contracts, and cash deposit accounts.

<sup>[4]</sup> The Buy-Side/Asset Owner Checklist recommends reviewing “contracts, service level agreements and benchmarks, including but not limited to offering memorandums, fund prospectuses, investment management agreements or similar documents, International Swaps and Derivatives Association (ISDA) agreements, insurance policies, and credit agreements, to determine the presence and financial impact of fallbacks. This should include inventorying the triggers, changes to terms, financial impact, customer impact, and potential legal interpretations.”

<sup>[5]</sup> Available at [https://www.newyorkfed.org/medialibrary/Microsites/arcc/files/2020/ARRC\\_Vendor\\_Questionnaire.pdf](https://www.newyorkfed.org/medialibrary/Microsites/arcc/files/2020/ARRC_Vendor_Questionnaire.pdf).

[naire.pdf](#).

[6] *Available at*

[https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC\\_External\\_Vendor\\_List\\_Categories.xlsx](https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_External_Vendor_List_Categories.xlsx).

[7] See <https://www.newyorkfed.org/arrc/meetings-events>.

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