

Are You Ready for the Transition to SOFR?



Updated February 19, 2021

The introduction of new products and the transition of legacy products from LIBOR to SOFR is an enormous task that impacts all areas of a financial services institution.

Because financial institutions are experiencing challenges with transitioning legacy contracts and introducing new SOFR products, the ICE Benchmark Administration (IBA) is changing their recommendation regarding the cessation date of the LIBOR Index from the end of 2021 to June 2023 for certain LIBOR tenors. Prior to the recent announcement from the ICE Benchmark Administration (IBA) the publication of LIBOR rates was to cease on December 31, 2021. Per a Senior Federal official "Waiting until June 2023 to end many key LIBOR tenors should allow for the majority of contracts tied to dollar LIBOR to expire naturally and avoid having to shift them to a new benchmark."

This new announcement does not change the requirement that no new LIBOR-based contracts may be initiated after 2021, however it does change the LIBOR cessation date for certain LIBOR tenors. Despite this recommendation by IBA, it is vital that financial services organizations do not pause their efforts to introduce new SOFR based products or cease their plans to convert their legacy LIBOR based contracts.

SOFR Readiness Checklist:

Financial Institutions need to prepare strategies for product pricing, funding and risk management. We have prepared this high-level checklist of areas that need to be assessed as you are planning your SOFR transition plans.

SOFR READINESS CHECKLIST

- ✓ Create a strategy for transitioning the current portfolio of LIBOR based products
- ✓ Identify impacted applications and models that use a LIBOR index as a reference rate
- ✓ Assess current processes for impacts
- ✓ Identify & modify existing contracts/securities fallback language
- ✓ Validate when partners/vendors will update their systems/feeds for SOFR & determine internal changes required
- ✓ Determine accounting & reporting considerations and tax and regulatory impacts

Need Experienced Support?

At Clarendon Partners, we have extensive experience working on transformation initiatives such as assisting operations with switching from LIBOR to SOFR for our financial services clients. Our expertise includes risk management, model governance, disaster recovery planning and transformation of processes, systems, and people.

We would like to hear about the challenges you're facing with your LIBOR transition efforts and would welcome the opportunity to support you in executing this change.

Contact Us
evolve@clarendonptrs.com

 1220 N. Fillmore Street, Suite 305
Arlington, VA 22201

 evolve@clarendonptrs.com



Clarendon Partners is an operations consultancy that enables growing businesses to scale efficiently, reduce risk and improve strategic results through digital solutions.