LIBOR Transition Member Checklist

1. Educate

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Educate and Facilitate Communication

Link to educational materials related to LIBOR-SOFR transition including the LIBOR-SOFR timeline, FAQs and informational articles.

https://www.fhlb.com/SOFR

The Alternative Reference Rates Committee (ARRC) is a committee with a broad range of representation across the financial services industry and is responsible for ensuring an orderly transition from LIBOR to SOFR. A link to its website is provided below.

https://www.newyorkfed.org/arrc

2. Collaborate

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Set up a LIBOR transition team within your organization and create a LIBOR transition plan.

Teams can range in size depending on the size of your organization and complexity of your LIBOR transition plan. Areas of your firm to consider including on your transition team include:

Legal	Accounting	Risk Management	IT
Sales	Compliance	Finance	Trading Desk
Treasury	Operations	Collateral	Tax

Additional areas not included in this list may also be added to your team depending on your individual situation and institution.

Your LIBOR transition plan should include mechanisms and timelines to execute and monitor transition activities.

3. Analyze

Perform a quantitative analysis of LIBOR exposure in existing and legacy products

Perform a qualitative analysis to determine impact on existing and future contracts, models and systems from the LIBOR transition

3. Analyze continued

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Consider potential accounting and tax implications, especially for hedging portfolios, if applicable

Transitioning securities from LIBOR could lead to the loss of the securitization trust's special tax status and create a taxable exchange, according to the Structured Finance Industry Group.

Transitioning securities from LIBOR could also cause debt instruments that are otherwise grandfathered from the Foreign Account Tax Compliance Act, or FATCA, to lose that status, leaving them unable to comply with the reporting requirements and subject to a withholding tax on loan interest, principal payments and sale proceeds.

Source: National Mortgage News

4. Execute and Monitor

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Include appropriate fallback language in contracts with LIBOR-linked elements

Fallback language is contractual language that specifies the rate that will be used if the current reference rate is unavailable. Most fallback language in contracts originated before 2017 do not account for LIBOR phasing out completely, but rather addresses a temporary unavailability of LIBOR. This type of fallback language is insufficient to address a situation where LIBOR may be permanently unavailable.

The ARRC Committee published guidance in April 2019 regarding fallback language to:

- Ensure contracts continue to function as closely as possible to what was initially intended by the parties
- Minimize any potential transfer of value between the parties when the fallback takes effect

The ARRC recommendation is composed of three components:

- **Trigger events**: Define the circumstances under which references to LIBOR in a contract will be replaced with an alternative reference rate
- **Replacement benchmark**: Identify the rate, or waterfall of rates, that would replace LIBOR following a trigger event
- **Spread adjustment:** An adjustment added to the replacement rate to account for differences between LIBOR and the replacement benchmark

4. Execute and Monitor continued

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Consider reducing new issuance of LIBOR-linked products with maturity beyond 2021 to minimize exposure

Consider using SOFR for new issuances ahead of the 2021 transition date to test operational readiness