

May 7, 2020

## Alternative Reference Rates Committee Vendor Survey Results

The Alternative Reference Rates Committee ([ARRC](#)) conducted a vendor readiness survey on the status of work underway to address operational challenges in the transition from U.S. dollar (USD) LIBOR to the ARRC's recommended alternative, Secured Overnight Financing Rate (SOFR).

The survey, available at [this site](#), was segmented into two key sections.

- **Section I focused 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. Initial results from Section I are summarized in this document.
- **Section II was focused on information about applications only** and covered the high-level capabilities necessary to transition, such as the ability for systems to forecast cash flows.

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### METHODOLOGY

The ARRC only requested responses from vendors on Section I. Section II was provided solely for vendors' use as an additional self-assessment tool. Initial results from Section I are summarized in this document. Responses were received for 60 applications and were widely distributed across vendor services, as shown in the box below.

Vendor Category	Total
Accounting platform	2
Bank loan processing	5
Clearing / settlement	2
Commercial loan processing	3
Data management & analytics	1
Derivatives software	5
Document application	1
Leasing software	1
Loan management	4
Loan servicing	4
MBS software	6
Payment systems	1
Risk analytics	15
Systems and analytics	1
Trading software	5
Treasury systems	4
Total	60

### 4 KEY TAKEAWAYS

- 1. Overall, responding vendors described themselves as having good awareness of the LIBOR transition<sup>1</sup> and noted that they have assessed the potential effects on their products and services.**
  - In regards to those assessments, respondents were split almost evenly between characterizing the impact on their applications as low or medium.
  - Two points worth highlighting in these responses, shown in the box below, are that ten applications were described as being highly affected by the transition and almost all firms said that their applications will be affected in some way.
  
- 2. Almost all vendors said that they have a good understanding of the key enhancements needed.**
  - Many applications (38 percent), however, have third-party dependencies that need to be resolved before enhancements can be completed (dependencies that include ARRC recommendations on, for example, spread adjustment methodologies).
  
- 3. Vendors reported work on applications at all stages of development,** with some noting that they have begun discussions with clients, some currently building system requirements, some in development and quite a few with releases scheduled.
  - A little over half of the respondents said that they were incorporating systematic fallback treatment allowing for automated rate transition.
  
- 4. Most vendors have considered backward compatibility and incorporated transition work into upcoming release schedules.**
  - Most delivery will be through system upgrades with a few vendors using patches or API enhancements. Almost 2/3rds of the respondents said that, before completing the transition, they needed additional industry guidance such as pricing conventions for floating rate notes.
  - A majority of vendors plan on communicating, or have communicated, with customers using multiple approaches including one-on-one client meetings, emails and scheduled events.
  - Customer communications are planned, or have taken place, over the past and coming year.

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<sup>1</sup> The survey solicited responses based on rates of in all five currencies (U.S. dollar, British pound, Euro, Swiss franc and Japanese yen) quoted for the Intercontinental Exchange, collectively called “IBORs.” This note refers to the more familiar, for U.S. readers, LIBOR. IBOR is preserved when the survey questions are displayed.

## SURVEY DATA

**What is the likely impact of IBOR transition on your product / application (e.g., minimal changes or significant redevelopment)?**

Responses	Count	%
High	10	17%
High to Medium	2	3%
Medium	21	35%
Low to Medium	1	2%
Low	18	30%
No Impact	3	5%
Have Not Assessed	1	2%
Unknown	3	5%
Not Answered	1	2%
Total	60	100%

**Do you have any external dependencies before you can start making changes to your product / application?**

Responses	Count	%
Yes	23	38%
No	36	60%
Not Answered	1	2%
Total	60	100%

**Have you begun work to implement changes requires for the IBOR transition?**

Responses	Count	%
Yes (No Details Provided)	7	12%
No Work	10	17%
Beginning Discussions with Clients	4	7%
Building Requirements	2	3%
In Development	12	20%
Scheduled Release	19	32%
Multiple Implementation Stages	5	8%
Not Answered	1	2%
Total	60	100%

**Do you have a timeline for communicating details on anticipated changes, including implementation timelines and testing strategy?**

<b>Responses</b>	<b>Count</b>	<b>%</b>
Yes (No Detailed Provided)	7	12%
Q2 2019	1	2%
Q3 2019	4	7%
Q4 2019	5	8%
Q1 2020	7	12%
Q2 2020	7	12%
Q3 2020	2	3%
Q4 2020	3	5%
No	2	3%
Ongoing	6	10%
No Change Required	8	13%
Multiple Timelines	5	8%
Not Answered	3	5%
<b>Total</b>	<b>60</b>	<b>100%</b>