

Examiner Guidance for Assessing LIBOR Transition Efforts at Supervised Firms with \$100 Billion or More in Total Consolidated Assets.

As part of continuous monitoring of large firms, examiners should evaluate preparedness for the LIBOR transition based on the considerations described below. Examiners should document findings regarding LIBOR preparedness in workpapers and summarize those findings, along with any recommendations for board or management attention, in examination reports.

Examiners should invite their state and federal supervisory counterparts to participate in monitoring meetings and, if requested, should assist in assessing preparedness during examinations led by other supervisory agencies. If necessary, examiners should conduct work at a holding company or its nonbank subsidiary(s) to assess the overall preparedness of the consolidated organization. To the fullest extent possible, examiners should rely on assessments completed by primary supervisors of lead depository institutions¹ in their assessment of a consolidated organization's LIBOR preparedness.²

Large holding companies are likely to have significant exposure to LIBOR and examination work may be needed to assess their readiness for the transition. If assessments suggest a firm is lagging in its LIBOR preparedness or may not be able to address its exposures in a timely manner, examiners should plan to conduct, or request that the primary supervisor conduct, additional targeted reviews for the organization before the end of 2021.

Examination considerations:

A supervised firm with exposure to LIBOR and \$100 billion or more in total consolidated assets³ should prepare for the LIBOR transition with respect to six key areas:

1. Transition plan: The firm should have a LIBOR transition plan that includes a governance structure that clearly defines roles and responsibilities needed to execute the plan and a project roadmap with defined timelines and milestones.
 - a. The plan should align with the firm's risk management function across business and product lines and cover all geographies relevant to the firm.
 - b. The governance structure specified in the plan should designate a specific group (existing or new) to oversee the plan with appropriate senior-level oversight,

¹ 12 CFR 225.2(h)

² Examiners should also rely, to the fullest extent possible, on assessments of LIBOR preparedness completed by the SEC, CFTC, or State regulatory agencies in the case of subsidiaries that are functionally regulated subsidiaries under the Bank Holding Company Act. 12 U.S.C. 1844(c)(5).

³ This includes FBOs with more than \$100 billion in consolidated U.S. assets.

- including involvement from affected business lines and the funds management (e.g., treasury, asset-liability committee), risk management and audit functions.
- c. The plan should address how the firm will identify and address both financial impacts and operational gaps in order to complete the plan.
 - d. The firm should define, and identify within the plan, contingencies that could impact the success of the plan or of components of the plan.
 - e. Senior leadership of the firm should provide appropriate budget and personnel resources to support implementation of the plan and to avoid timeline delays.
 - f. The plan should address how the oversight and independent review/internal audit functions will effectively review LIBOR transition project status, reporting, timelines, and milestones.
2. Financial exposure measurement and risk assessment: The firm should accurately measure its financial exposures to LIBOR. Exposure measurement should include any financial product that references LIBOR and may include, but is not limited to, investments, derivatives, and loans.
- a. Exposure measurement should identify exposures by product, counterparty, and business line. The firm should identify what exposures are proprietary or custodial.
 - b. The firm should have adequate controls and review processes in place to maintain a reasonable level of reporting accuracy and completeness.
 - c. Exposure measurement reporting should be frequent, for example quarterly.
 - d. The firm should have the ability to identify the proportion of its LIBOR exposure that will run off before the relevant tenor ceases (either December 31, 2021 or June 30, 2023). The firm should be able to highlight valuation and hedging challenges resulting from switching from LIBOR to an alternative rate.
 - e. Foreign firms should measure LIBOR exposures booked and/or managed within U.S. operations. Foreign firms should also be able to quantify exposures within the U.S. operations in comparison to the LIBOR exposure of the consolidated foreign parent.
3. Operational preparedness and risk control: The firm should identify all internal and vendor-provided systems and models that use or require LIBOR as an input and make

necessary adjustments to provide smooth operation of those systems and models ahead of cessation of LIBOR.

- a. The firm should have a complete inventory of affected systems and models, ranked by criticality or significance.
 - b. Where the firm uses vendor-provided systems, the firm should confirm with the service provider that necessary updates will be available for testing and implementation before December 31, 2021.
 - c. The firm should establish a contingency plan in the event that a service provider is unable to deliver a solution in a timely manner.
 - d. Any changes made by the firm to models should adhere to sound model risk management practices as described in SR Letter 11-7, and progress reporting should be included in the firm's transition plan.
4. Legal contract preparedness: The firm should identify all contracts that reference LIBOR and refrain from entering into contracts without fallback language.
- a. The firm should identify contracts that lack fallback language that defines an alternative reference rate after LIBOR is no longer available.
 - b. For contracts that lack adequate fallback language and will mature after the relevant tenor ceases (either December 31, 2021 or June 30, 2023), the firm's transition project plans should address how the firm will determine the impact of LIBOR's cessation on these contracts and the steps the firm will take to address these contracts prior to LIBOR's cessation. Given that one objective of the extension of certain LIBOR tenors was to allow more time for the development of transition plans for such contracts, examiners should recognize that these plans will become more detailed as the relevant cessation date approaches. Firms should show credible progress in developing their plans during this period, and should have complete plans well before the cessation date of any particular tenor (for example, six months).
 - c. If a firm is a major user of derivatives, it should consider adhering to the International Swaps and Derivatives Association (ISDA) IBOR Fallback Protocol and IBOR Fallback Supplement (together, the Protocol) to implement robust fallbacks for legacy and new derivative contracts.⁴ The firm should also track

⁴ SR Letter 20-22 [ISDA IBOR Fallback Protocol and IBOR Fallback Supplement](#)

customers who will not adopt the Protocol and take action to mitigate associated risks.

- d. New LIBOR-based contracts entered into before December 31, 2021 should have robust fallback language that includes a clearly defined alternative reference rate after LIBOR is no longer available.⁵
 - e. Any firm that invests in syndicated loans should work with its relevant agent banks to ensure that the agent banks appropriately address fallback language in syndicated loan contracts.
5. **Communication:** The firm should communicate to its counterparties, clients, consumers, and internal stakeholders about the LIBOR transition. The firm should ensure compliance with requirements of the Truth in Lending Act and other applicable laws and regulations and with the prohibition on engaging in Unfair or Deceptive Acts or Practices.
- a. The firm should implement training for employees to inform all relevant staff of the LIBOR transition, how the LIBOR transition will affect staff work, and, if applicable, how staff are to communicate the implications of the LIBOR transition externally.
 - b. The firms should provide regular updates to key stakeholders during the transition period covered by the plan.
6. **Oversight:** The group designated to oversee the transition plan (as described in 1.b), should ensure timely updates to senior management and the board of directors.
- a. The group should provide regular updates on plan progress and alerts regarding any significant/material delays in plan progress, including gaps or obstacles that could impede plan completion. Any reporting should be timely and include financial exposures as well as inventories of legal contracts referencing LIBOR.
 - b. If the firm is a foreign entity with U.S. total assets over \$100 billion, the firm should provide updates on LIBOR transition efforts to the U.S. Chief Risk Officer and the U.S. Risk Committee.
 - c. The board should hold senior management accountable for effectively implementing the firm's plan.

Examiners should review the internal plans of supervised firms to ensure that firms identify and mitigate risks related to their LIBOR exposures. Examiners should discuss with the firm its plans for addressing LIBOR exposures and evaluate whether the firm has a plan in place to transition away from entering into new LIBOR-based financial contracts after December 31, 2021.

⁵ As noted in SR Letter 20-25, a firm may use any reference rate for its loans that the firm determines to be appropriate for its funding model and customer needs. Fallback language may identify a clear mechanism for selecting an alternative rate if the parties believe that an appropriate alternative rate is not currently available.