

## **Examiner Guidance for Assessing LIBOR Transition Efforts at Firms with Less Than \$100 Billion in Total Consolidated Assets Supervised by the Federal Reserve**

During regularly scheduled Federal Reserve-led examinations of holding companies, state member banks and U.S. branches and agencies of foreign banks for 2021, 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.

Examination work should be tailored to the size and complexity of the LIBOR exposures. For most firms with less than \$100 billion in total consolidated assets, exposures to LIBOR are modest and reviews should be narrowly focused while using the considerations listed below as a guide when planning examination work. LIBOR exposures may be significant at larger firms and foreign banking organizations and, as a result, require more supervisory scrutiny—particularly for firms with more capital markets activities or broker-dealer affiliates.

If necessary, examiners should conduct work at a holding company or its nonbank subsidiary(s) to assess the overall preparedness of the consolidated organization.<sup>1</sup> To the fullest extent possible, examiners should rely on assessments completed by primary supervisors of lead depository institutions<sup>2</sup> in their assessment of a consolidated organization's LIBOR preparedness.<sup>3</sup>

Examiners should invite their state supervisory counterparts to participate in any targeted examinations and, if requested, should assist in assessing preparedness during state-led examinations. Examiners should also collaborate with other federal regulators as appropriate.

### **Examination considerations:**

A supervised firm with exposure to LIBOR and less than \$100 billion in total assets<sup>4</sup> should prepare for the LIBOR transition with respect to six key areas:

1. Transition planning: The firm should plan to transition away from LIBOR-based financial products. The detail and scope of transition planning should be commensurate with the firm's LIBOR exposures. Institutions with complex products or multiple

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<sup>1</sup> SR Letter 13-21, [Inspection Frequency and Scope Requirements for Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of \\$10 Billion or Less](#), provides guidance regarding inspections of holding companies with \$10 billion or less in total consolidated assets.

<sup>2</sup> 12 CFR 225.2(h).

<sup>3</sup> SR Letter 16-4, [Relying on the Work of the Regulators of the Subsidiary Insured Depository Institution\(s\) of Bank Holding Companies and Savings and Loan Holding Companies with Total Consolidated Assets of Less than \\$50 Billion](#). Examiners should also rely, to the fullest extent possible, on assessments of LIBOR preparedness completed by the Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (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).

<sup>4</sup> This includes foreign banking organizations (FBOs) with consolidated U.S. assets of less than \$100 billion.

product lines tied to LIBOR should maintain plans with greater detail and a project roadmap that defines transition timelines and milestones.

2. Financial exposure measurement and risk assessment: The firm should accurately measure its financial exposures to LIBOR and report the exposure to senior management.
3. Operational preparedness and risk control: The firm should identify any internal and vendor-provided systems and models that use or require LIBOR as an input and, if possible, make necessary adjustments to maintain smooth operation of those systems and models ahead of the cessation of LIBOR. The firm should establish a contingency plan in the event that its service provider is unable to deliver a solution in a timely manner.
4. Legal contract preparedness: The firm should identify contracts that reference LIBOR. 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.<sup>5</sup> The firm's transition plans should address how the firm will determine the impact of LIBOR's cessation on its contracts and the steps the firm will take to modify these contracts prior to LIBOR's cessation.
5. Communication: Commensurate with its exposure to LIBOR, 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.
6. Oversight: The firm should provide the plan (as described in 1) to applicable management,<sup>6</sup> and provide regular status updates to senior management.

Examiners should review the plan of a supervised firm to confirm that the firm is able to identify and understand their LIBOR exposures. Examiners should discuss with a 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.

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<sup>5</sup> 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.

<sup>6</sup> For a foreign bank's U.S. operations this could include the country head, U.S. executive, branch manager, or other leadership function.