As of March 20, 2025, the OCC will no longer examine for reputation risk.
Refer to OCC Bulletin 2025-4"

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Joint Statement on Managing the LIBOR Transition

The Federal Financial Institutions Examination Council (FFIEC)[1] on behalf of its members is issuing this statement to highlight the financial, legal, operational, and consumer protection risks that will result from the expected discontinuation of the London Interbank Offered Rate (LIBOR) and to encourage supervised institutions to continue their efforts to prepare for this change and address its associated risks.[2,3] The financial services industry has used LIBOR as a short-term reference rate to price variable rate loans and securities, deposits, borrowings, and interest rate hedging transactions. While some smaller and less complex institutions may hold little to no LIBOR-denominated assets and liabilities, the change will affect almost every institution. Impact is expected to be particularly significant for the largest institutions and those engaged materially in capital markets activities such as interest rate swaps, other derivatives, or hedging transactions.

The LIBOR transition is a significant event that supervised institutions should closely manage. This statement highlights a number of potential preparedness and risk management actions that institutions should factor into their planning for the transition. This statement does not establish new guidance or regulation. Institutions should consider existing safety and soundness standards[4] and consumer protection laws as they plan for and address risks that will arise with the transition from LIBOR. Careful planning will help institutions avoid financial losses or consumer harm.

Risks to Institutions

Institutions can have a variety of on- and off-balance sheet assets and contracts that reference LIBOR including derivatives, commercial and retail loans, investment securities, and securitizations. On the liability side, Federal Home Loan Bank advances; other borrowings; derivatives; and capital

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[1] The FFIEC is composed of the following: a member of the Board of Governors of the Federal Reserve System (FRB), appointed by the Chairman of the FRB; the Director of the Bureau of Consumer Financial Protection; the Chairman of the Federal Deposit Insurance Corporation (FDIC); the Chairman of the National Credit Union Administration (NCUA); the Comptroller of the Currency; and the Chairman of the State Liaison Committee.

[2] In July 2017, the UK Financial Conduct Authority stated that it has intervened to preserve LIBOR's continued publication through the end of
[3] , but that it could not guarantee the continuation of LIBOR thereafter. See: https://www.fca.org.uk/news/speeches/the-future-of-libor

[4] See for example, Section 39 of the Federal Deposit Insurance Act, which requires the FRB, FDIC, and Office of the Comptroller of the Currency to establish safety and soundness standards. These standards are set forth in the Interagency Guidelines Establishing Standards for Safety and Soundness, and address, among other things, operational and managerial standards relating to (1) internal controls, information systems and internal audit systems; (2) loan documentation; (3) credit underwriting; and (4) interest rate exposure. The NCUA is not subject to the Federal Deposit Insurance Act, but addresses comparable standards through various regulations, guidance, and supervision.

instruments, including subordinated notes and trust preferred securities, can reference LIBOR. Moreover, many market participants rely on LIBOR for discounts and other purposes. An institution's risk exposure from LIBOR's discontinuation depends on the institution's specific circumstances. Potential risks include:

- Operational difficulty in quantifying exposure.
- Financial, valuation, and model risk related to reference rate transition.
- Inadequate risk management processes and controls to support transition;
- Consumer protection-related risks;
- Limited ability of third-party service providers to support operational changes; and,
- Potential litigation and reputational risk arising from reference rate transition.

Assessing LIBOR Risk Exposure

Institutions should identify and quantify their LIBOR exposures to prepare for the transition. Exposure is generally measured as the size of any activity and the number of counterparties or consumers with financial contracts that reference LIBOR across all products. Once exposures are identified, management can better understand the risks of LIBOR's discontinuance and determine actions to address them such as communicating with clients and counterparties about changes in contract terms. Additionally, institutions' evaluations of the language in their financial contracts outlining the provisions for LIBOR's discontinuation will allow them to better understand the risks associated with each contract and determine risk mitigation efforts. Institutions should also consider limiting their exposure by discontinuing the origination or purchase of LIBOR-indexed instruments.

Contract Fallback Language

Fallback language in financial contracts determines how the replacement of a discontinued reference rate will be handled. Many existing contracts contain fallback language designed for only a temporary rather than permanent discontinuance of a reference rate such as LIBOR. Accordingly, institutions should take steps to identify and address contracts with inadequate fallback language. Assessing existing contracts (including contracts serviced by third parties) could be difficult for institutions with contracts that use a range of fallback language (particularly institutions with merger and acquisition history, and larger, more complex institutions that have separately managed lines of business). New contracts should either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR's discontinuation. If not sufficiently addressed, inadequate fallback language could pose legal as well as safety and soundness risk.

For derivatives exposures, the International Swaps and Derivatives Association is consulting on and will issue a protocol for market participants to include fallback language for legacy LIBOR-linked contracts. While adherence to this protocol will be voluntary, institutions and their clients should consider adoption of the protocol upon its release. If adhering to the protocol is not feasible, institutions and their clients should take appropriate steps to address bilaterally any needed changes to derivatives contract fallback language in a timely manner.

Consumer Impact

The LIBOR transition also has consumer protection and compliance implications. Retail loans, such as adjustable-rate home mortgages, home equity lines of credit, student loans, credit cards, and other personal loans may reference LIBOR. If LIBOR is no longer available, a replacement reference rate may be necessary. Any alternative rate not specified in fallback language may impact consumers, increase reputation risk, and result in legal exposure to institutions and the financial industry.

Institutions should understand the legal, operational, and other risks they face associated with various consumer financial products as a result of the LIBOR transition. Institutions should plan appropriate actions to address or mitigate these risks. Transition plans should identify affected consumer loan contracts, highlight necessary risk mitigation efforts, and address development of clear and timely consumer disclosures regarding changes in terms. Disclosure of these altered terms should, and in some cases are required by law to, be communicated to borrowers in advance of a reference rate change to help them understand how a new reference rate affects their contractual principal and interest payments, APR, and other terms.

Third-Party Service Provider Considerations

The LIBOR transition could also affect critical activities performed by third-party service providers. Institutions should evaluate their reliance on third-party service providers that provide valuation/pricing services that reference or use LIBOR and associated discount curves in the services they deliver. Institutions should determine whether those third-party service providers will be able to accommodate alternative reference rates after LIBOR's discontinuation. Third-party service providers that provide modeling, document preparation, accounting or other services should also be considered. When relying on third-party service providers for the processing of loan, investment, funding, or derivative transactions, institutions should evaluate the preparedness and transition planning of those entities for the LIBOR transition to mitigate potential risk.

Supervisory Activities

Given the significant effort involved in preparing for the transition, the supervisory focus on evaluating institutions' preparedness for LIBOR's discontinuation will increase during 2020 and 2021, particularly for institutions with significant LIBOR exposure or less-developed transition processes.

During regularly scheduled examinations and monitoring activities, supervisory staff will ask institutions about their planning for the LIBOR transition including the identification of exposures, efforts to include fallback language or use alternative reference rates in new contracts, operational preparedness, and consumer protection considerations. At institutions with exposures to LIBOR-indexed instruments, supervisory staff will engage in discussions about transition efforts including:

- Identification and quantification of LIBOR exposure across product categories and lines of business.
- Risk assessment of LIBOR exposures, which may include scenario testing, legal review, and other analysis.
- Transition plans with milestones and key completion dates addressing areas such as: ▪ Strategies to inventory, analyze, and assess risk posed by existing contracts.
    - Strategies to identify replacement rates, modify spreads, and revise existing contracts, as necessary.
    - Strategies to address third-party risk management.
    - Potential impact to the institution's customers.
    - Communication plans for engaging with customers and other stakeholders; and,
    - Plans to identify, monitor, and resolve system and other operational constraints.

- Management's assessment of revisions that may be necessary to update the institution's policies, processes, and internal control systems.
- Responsibility for LIBOR transition oversight (to a committee, team, or officer); and,
- Progress reporting to a supervised institution's board of directors and senior management on the LIBOR transition plan.

All institutions should have risk management processes in place to identify and mitigate their LIBOR transition risks that are commensurate with the size and complexity of their exposures. Supervisory focus will be tailored to the size and complexity of each institution's LIBOR exposures. Large or complex institutions and those with material LIBOR exposures should have a robust, well-developed transition process in place. In contrast, for smaller institutions and those with limited exposure to LIBOR indexed instruments, less extensive and less formal transition efforts may be appropriate. By taking steps to identify and mitigate risks early, institutions will be better prepared to address potential risks that may arise from the LIBOR transition.

LIBOR TRANSITION RESOURCES

Alternative Reference Rates Committee
https://www.newyorkfed.org/arrc

Federal Financial Institutions Examination Council

Webinar: LIBOR and Alternative Reference Rates (December 6, 2018)
https://industryoutreach.ffiec.gov/events/event/92244d2e-524d-49ee-a126-e8a87ff4013e

Consumer Financial Protection Bureau:

You Might Have Heard that LIBOR is Going Away (October 17, 2019)
https://www.consumerfinance.gov/about-us/blog/libor-going-away-heres-what-you-need-know-aboutlibor-and-adjustable-rate-loans/

Federal Deposit Insurance Corporation:

Transitions in Financial Instrument Reference Rates - Supervisory Insights (Winter 2018)
https://www.fdic.gov/regulations/examinations/supervisory/insights/siwin18/si-winter-2018.pdf

Federal Reserve Board of Governors:

Supervision and Regulation Report (November 2019)
https://www.federalreserve.gov/publications/files/201911-supervision-and-regulation-report.pdf

Office of the Comptroller of the Currency:

Semiannual Risk Perspective – Fall 2019
https://www.occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pubsemiannual-risk-perspective-fall-2019.pdf

Semiannual Risk Perspective – Fall 2018
https://www.occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pubsemiannual-risk-perspective-fall-2018.pdf

National Credit Union Administration:

2020 Supervisory Priorities
https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/2020-supervisorypriorities

State Liaison Committee:

Ten Steps for LIBOR Transition – A Guide for Financial Institutions www.csbs.org/ten-steps-libor-transition