Office of the Comptroller of the Currency

RESCINDED

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Libor Transition: Self-Assessment Tool for Banks

Replaced - See OCC 2021-46

Summary

This bulletin provides a self-assessment tool for banks[1] to evaluate their preparedness for the expected cessation of the London InterBank Offered Rate (Libor).

Chief Executive Officers of All National Banks, Federal Savings Associations, and Federal Branches and Agencies; Department and Division Heads; All Examining Personnel; and Other Interested Parties

Note for Community Banks

This bulletin applies to community banks, but the applicability of some concepts depends on the nature and extent of the bank's Libor exposure.

Highlights

The self-assessment tool can be used to assess

- the appropriateness of a bank's Libor transition plan.
- bank management's execution of the bank's transition plan.
- related oversight and reporting.

Libor cessation preparedness assessments should be risk based and might not need to include all points in this bulletin. Similarly, a bank's transition plans, oversight, and reporting might not need to include all points in the self-assessment.

Background

Libor is referenced globally, and its expected cessation could affect banks of all sizes through direct or indirect exposure. There is risk of market disruptions, litigation, and destabilized balance sheets if acceptable replacement rate(s) do not attract sufficient market-wide acceptance or if contracts cannot seamlessly transition to new rate(s). A bank's risk exposure from expected Libor cessation depends on the bank's specific circumstances. Many community banks may not offer products or services that use Libor. Community banks could, however, have Libor exposure in such positions as Federal Home Loan Banks borrowings, mortgage-backed securities, or bonds in the banks' investment portfolios.

Banks should develop and implement risk management plans to identify and control risks related to expected Libor cessation. The extent of a bank's plans to address risks from expected Libor cessation should be tailored to the bank's specific risks. OCC Bulletin 2020-68, "Libor Transition: FFIEC Statement on Managing the Libor Transition and Guidance for Banks," and OCC Bulletin 2020-98, "Libor Transition: Interagency Statement on Reference Rates for Loans," provide interagency guidance for managing the risks associated with the Libor transition. OCC bulletin 2020-104, "Libor Transition: Joint Statement on U.S. Dollar Libor Transition," communicates the agency's expectation for banks to cease entering into new contracts that use Libor as a reference rate by December 31, 2021.

Libor Self-Assessment Tool

Bank management may use this self-assessment tool to evaluate bank risk management processes to identify and mitigate the bank's Libor transition risks. Not all sections or questions apply to all banks. Bank management should tailor the bank's risk management process to the size and complexity of the bank's Libor exposures. For example, large or complex banks and those with material Libor exposures should have a robust, well-developed transition process in place. In contrast, for small or non-complex banks and those with limited exposure to Libor-indexed instruments, less extensive and less formal transition efforts may be appropriate. Bank management should consider all applicable risks (e.g., operational, compliance, strategic, and reputation) when scoping and completing Libor cessation preparedness assessments.

Given the expectation for banks to cease entering into new contracts that use Libor as a reference rate by December 31, 2021, bank management should assess whether the bank's progress with preparedness is sufficient. For example, in 2021, Libor exposure and risk assessments and cessation preparedness plans should be at least near completion with appropriate management oversight and reporting in place. Most banks should be working toward resolving replacement rate issues while communicating with affected customers and third parties, as applicable.

Further Information

Please contact Ang Middleton, Risk Specialist, or Chris McBride, Director, Treasury and Market Risk Policy, at (202) 649-6360.

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Related Link

- Libor Self-Assessment Tool (MS Word)

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[1]"Banks" refers collectively to national banks, federal savings associations, and federal branches and agencies of foreign banking organizations.