RESCINDED

OCC Bulletin 2021-46 | October 18, 2021

LIBOR Transition: Updated Self-Assessment Tool for Banks

Outdated - See OCC 2023-13

To

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

Summary

This bulletin provides an updated self-assessment tool for banks [1] to evaluate their preparedness for the cessation of the London Interbank Offered Rate (LIBOR).

Rescission

This bulletin rescinds OCC Bulletin 2021-7, “Libor Transition: Self-Assessment Tool for Banks,” published on February 10, 2021, and replaces the tool attached to OCC Bulletin 2021-7.

Note for Community Banks

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

Highlights

Bank management can use this self-assessment tool to evaluate the bank's risk management process for identifying and mitigating LIBOR transition risks.

- Not all sections or questions in the tool 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.
  - small or non-complex banks and those with limited exposure to LIBOR-indexed instruments can consider less extensive and less formal transition efforts.
- Bank management should consider all applicable risks (e.g., operational, compliance, strategic, and reputation) when scoping and completing LIBOR cessation preparedness assessments.

The OCC expects banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable and no later than December 31, 2021. When assessing preparedness

- bank management should consider whether the bank's progress in preparing for the transition is sufficient. LIBOR exposure and risk assessments and cessation preparedness plans should be complete or 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.

Background

On September 8, 2021, the International Organization of Securities Commissions (IOSCO) issued a statement on credit sensitive rates, reiterating the importance of transitioning to robust alternative financial benchmarks and reminding benchmark rate administrators that demonstrating compliance with the IOSCO principles is not a one-time exercise.[2] The IOSCO specifically highlighted Principles 6 and 7, calling on benchmark rate administrators to assess whether benchmarks are based on active markets with high volumes of transactions and whether such benchmarks are resilient during times of stress. The IOSCO cited concern that some of LIBOR's shortcomings may be replicated through the use of credit sensitive rates that lack sufficient underlying transaction volumes. The OCC shares those concerns. In addition, from a macroprudential perspective the Financial Stability Board (FSB) has noted that "to ensure financial stability, benchmarks which are used extensively must be especially robust."[3]

The IOSCO's focus on compliance with the principles is an important reminder to banks to select rates that are robust, resilient, and reliable at all times, particularly in times of market stress. The OCC expects banks to demonstrate that their LIBOR replacement rates are robust and appropriate for their risk profile, nature of exposures, risk management capabilities, customer and funding needs, and operational capabilities. The IOSCO noted that the Secured Overnight Financing Rate (SOFR) provides a robust rate suitable for use in most products, with underlying transaction volumes that are unmatched by other alternatives. While banks may use any replacement rate they determine to be appropriate for their funding model and customer needs,[4] OCC supervisory efforts will initially focus on non-SOFR rates.

The updated self-assessment tool includes questions and considerations regarding replacement rates' robustness. In particular, when assessing a replacement rate, bank management should evaluate whether

- the rate always reflects competitive forces of supply and demand and is anchored by a sufficient number of observable arm's-length transactions, during all market conditions including periods of stress.

- the rate's underlying historical data are extensive, spanning a variety of economic conditions.
- the rate's administrator maintains durable methodology and governance processes to ensure the quality and integrity of the benchmark through periods of market stress.
- the rate's transparency provides market participants the ability to understand the methodology, permitting them to independently substantiate the rates published.
- the market for financial instruments that use the rate is sufficiently liquid to allow for the effective management of market risk.

Bank management should continually monitor the rates it uses for uninterrupted availability. If future circumstances limit any rate's availability, it may be necessary for bank management to change affected contracts to a different rate. New or modified financial contracts should have fallback language that permits efficient rate replacement that is clearly identified in the contractual terms. Management should have an internal process to assess a rate's availability and to prepare the bank to transition to a different reference rate if necessary.

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 Links

- Updated "LIBOR Self-Assessment Tool" (MS Word)

- OCC Bulletin 2020-98, “Libor Transition: Interagency Statement on Reference Rates for Loans”
- “Statement on Credit Sensitive Rates”
- “Interest rate benchmark reform: Overnight risk-free rates and term rates”

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

[2] Refer to The Board of the IOSCO, “Statement on Credit Sensitive Rates” (September 8, 2021).

[3] Refer to FSB, “Interest rate benchmark reform: Overnight risk-free rates and term rates” (June 2, 2021).

[4] For example, refer to OCC Bulletin 2020-98.

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