

Assessment of LIBOR Transition Plans: FRB SR 21-7

Importance of LIBOR Transition Preparedness

In February 2021, the Office of the Comptroller of the Currency (OCC), issued a self-assessment tool¹ for banks to evaluate their preparedness for the expected cessation of LIBOR. This tool allows banks to assess the appropriateness of their LIBOR transition plans, management's execution of the plan, as well as oversight and reporting.

Subsequently, on March 9, 2021, the **Federal Reserve Board (Fed) issued guidance (SR 21-7) for examiners to review the progress of supervised firms in preparing for the LIBOR transition** during examinations and other supervisory activities in 2021. The scope of examination will be determined based on the size and complexity of the LIBOR exposures, with increased supervisory scrutiny at larger firms (consolidated assets greater than \$100 billion) with significant LIBOR exposures.

The Fed expects the supervised firms to have a detailed plan with an adequate level of review and senior management oversight. The LIBOR transition program is complex, given the need for close coordination between multiple departments such as legal, IT, treasury, and finance, and an assessment of the impact across firms' businesses, product lines, and geographies. The guidance states, "Supervised firms that are not making adequate progress in transitioning away from LIBOR could create safety and soundness risk for themselves and for the financial system." **Examiners will be expected to issue supervisory findings and other supervisory actions for firms that are not prepared to cease LIBOR-based contract issuance by December 31, 2021.**

Considerations for Supervised Firms

The guidance emphasizes six aspects for assessment of all supervised firms. These are outlined below:

1. **Transition Planning:** Detailed plan with a well-defined governance structure to transition away from LIBOR-based financial products, commensurate with the firm's LIBOR exposure. The plan should call out contingencies that may affect the plan and include the provision for independent review/internal audit.
2. **Financial Exposure Management and Risk Assessment:** Accurate measurement of the firm's financial exposure to LIBOR for any financial product that references LIBOR, and may include - but is not limited to - investments, derivatives, and loans.
3. **Operational Preparedness and Controls:** Identification of all internal and vendor-provided systems/models, that use LIBOR as an input. Firms are also expected to establish a contingency plan if a service provider is unable to deliver a solution in a timely manner to ensure smooth operation of systems and models ahead of the cessation of LIBOR.
4. **Legal Contract Preparedness:** Identification of all LIBOR-based contracts, and include robust fallback language with a clearly defined alternative reference rate in new LIBOR-based contracts entered before December 31, 2021. For the existing contracts lacking adequate fallback language, establish policies and plans to address how the firm will determine the impact of LIBOR's cessation on these contracts and the steps to be taken to address these contracts prior to LIBOR's cessation.
5. **Communication:** Communication of LIBOR transition updates to the relevant counterparties, clients, consumers, and internal stakeholders. Ensure compliance with the requirements of the Truth in Lending Act and other applicable laws and regulations. This will require internal training procedures as well.
6. **Oversight:** Timely updates to senior management and the board of directors, with a key focus on any material delays in the plans' progress. Foreign entities with U.S. total assets greater than \$100 billion need to provide updates on the efforts to the US Chief Risk Officer and the US Risk Committee. The board should hold senior management accountable for effectively implementing the firm's plan.

¹ <https://www OCC.treas.gov/news-issuances/bulletins/2021/bulletin-2021-7.html>

Deloitte's Perspective



The OCC checklist and FRB announcement are **strong signals from regulators that the LIBOR transition continues to be a high priority for them in 2021**. It is clear from these communications that there is a significant expectation that supervised firms have made meaningful progress in their LIBOR transitions and continue to prioritize this work.

The Fed's guidance indicates the shift from regulatory encouragement to a potentially more forceful use of supervisory tools. The Alternative Reference Rate Committee's (ARRC) Best Practices recommendations, while not regulatory in nature, describe a reasonable timeline to ensure compliance well before the end of the year.

For organizations that have not yet begun, or achieved substantial progress in, their LIBOR transitions, now is the time to accelerate the transition efforts. LIBOR transitions have been a multi-month/year and time-consuming effort for peers in the industry. If organizations are to meet the December 31, 2021 deadline, a thorough plan should be established and executed.

For organizations that have achieved meaningful progress and are on track to meet the December 31, 2021 timeline, **now is a good time to begin the regulatory review readiness assessment activities**. Organizations should determine if sufficient documentation has been prepared for supervisory review to demonstrate the wide range of considerations made, actions taken, and involvement from senior leadership. It may be beneficial to have "fresh eyes" review the work that has been performed to-date to identify if there is any aspect of the LIBOR transition that has been overlooked or not fully addressed.

How Deloitte Can Help?

End-to-End LIBOR Transition Services	
<p><u>Deloitte has been assisting a range of financial services institutions, from regional banks to SIFIs, with the execution of LIBOR transition.</u></p> <p>Recent Experience:</p> <ul style="list-style-type: none"> LIBOR exposure identification Operational and System change assurance Transition execution activities Transition program execution review (IA) 	<div>  LIBOR Transition Execution </div> <p>End-to-end LIBOR transition services including:</p> <ul style="list-style-type: none"> Identification and monitoring of LIBOR exposures Transition roadmap execution: <ul style="list-style-type: none"> Internal / external communications New products (rates/conventions) Operations / IT / Data / Models Accounting / Tax Legal / Contract Management Real-time support (SME* / staff to drive change)
	<div>  De-Risking LIBOR Transition </div> <p>Suite of readiness assessment services, including:</p> <ul style="list-style-type: none"> Bank resiliency testing ("War-Gaming"): <ul style="list-style-type: none"> Mock Day 1 go-live systems / processes testing Customer / counterparty interaction simulations Mock regulatory inspections <ul style="list-style-type: none"> Aligned to OCC / FRB focus areas Anticipate and remediate potential findings Assessment and validation of operational elements including data, models, processes, and controls
	<div> Why Deloitte? </div> <p>Since the planned cessation of LIBOR was first announced, we've been at the forefront of the industry, helping the ARRC develop their transition recommendations / guidance and assisting our clients with an efficient transition. We're well-positioned to help with all aspects of LIBOR transition:</p> <ul style="list-style-type: none"> Our experience: We bring lessons learned from our extensive involvement driving clients' LIBOR transition Tools & Accelerators: Our technology / toolkit of ready-to-go resources are designed to save time and money

*Subject Matter Experienced Professional

To learn more, please visit our LIBOR Transition Website:

<https://www2.deloitte.com/us/en/pages/regulatory/articles/libor-transition-resource.html>

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