Statement on LIBOR Transition

November 30, 2020

The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the agencies) are issuing this statement to encourage banks to transition away from U.S. dollar (USD) LIBOR as soon as practicable.¹

Background and Discussion

The FFIEC’s “Joint Statement on Managing the LIBOR Transition”² noted that the LIBOR transition is a significant event that banks should closely manage. The FFIEC statement further explained that new financial 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. Separately, the agencies recently issued a statement that says a bank may use any reference rate for its loans that the bank determines to be appropriate for its funding model and customer needs.³

The administrator of LIBOR has announced it will consult on its intention to cease the publication of the one week and two month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining USD LIBOR settings immediately following the LIBOR publication on June 30, 2023.⁴ Extending the publication of certain USD LIBOR tenors until June 30, 2023 would allow most legacy USD LIBOR contracts to mature before LIBOR experiences disruptions. Failure to prepare for disruptions to USD LIBOR, including operating with insufficiently robust fallback language, could undermine financial stability and banks’ safety and soundness.⁵

¹ For purposes of this guidance, the term “bank” includes depository institutions under the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(1)), U.S. branches and agencies of foreign banks, Edge and agreement corporations, bank holding companies, and savings and loan holding companies.
³ See Federal Reserve Supervision and Regulation Letter 20-25 (November 6, 2020); OCC Bulletin 2020-98 (November 6, 2020); and FDIC Financial Institution Letter 104-2020 (November 6, 2020).
⁴ Previously, the Contributor Banks to the USD LIBOR panel had agreed to serve as Contributor Banks only until December 31, 2021.
⁵ For example, a disorderly transition away from LIBOR could pose consumer protection, litigation, and reputational risks. Various provisions of federal law require banks to operate in a safe and sound manner. See, e.g., 12 U.S.C. 321–338a, 1467a(g), 1818(b), 1844(b), and 3101 et seq.
Given consumer protection, litigation, and reputation risks, the agencies believe entering into new contracts that use USD LIBOR as a reference rate after December 31, 2021, would create safety and soundness risks and will examine bank practices accordingly. Therefore, the agencies encourage banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021. New contracts entered into before December 31, 2021 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. These actions are necessary to facilitate an orderly— and safe and sound— LIBOR transition. If the administrator of LIBOR extends the publication of USD LIBOR beyond December 31, 2021, the agencies recognize that there may be limited circumstances when it would be appropriate for a bank to enter into new USD LIBOR contracts after December 31, 2021, such as: (i) transactions executed for purposes of required participation in a central counterparty auction procedure in the case of a member default, including transactions to hedge the resulting USD LIBOR exposure; (ii) market making in support of client activity related to USD LIBOR transactions executed before January 1, 2022; (iii) transactions that reduce or hedge the bank’s or any client of the bank’s USD LIBOR exposure on contracts entered into before January 1, 2022; and (iv) novations of USD LIBOR transactions executed before January 1, 2022.

Conclusion

The LIBOR transition is a significant event that poses complex challenges for banks and the financial system. The agencies encourage banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021, in order to facilitate an orderly—and safe and sound— LIBOR transition.

This statement should not be read as announcing that the LIBOR benchmark has ceased, or will cease, to be provided permanently or indefinitely or that it is not, or no longer will be, representative for the purposes of language adopted by the International Swaps and Derivatives Association.

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6 For this purpose, “new contracts” would include new USD LIBOR lending; new USD LIBOR debt, preferred equity, or securitization issuance; and new USD LIBOR derivatives transactions.