

Attachment B: Answers to Frequently Asked Questions on the Transition Away from LIBOR

Effective November 19, 2021

Supervision FAQs on the Transition away from LIBOR

- 1. After December 31, 2021, would supervisors view a modification to a LIBOR-referenced adjustable-rate mortgage as a new contract?**

Supervisors would not view a modification to a LIBOR-referenced adjustable-rate mortgage as a new contract unless it (i) creates additional LIBOR exposure for a supervised institution or (ii) extends the term of the mortgage.

- 2. If a loan contract will automatically renew after December 31, 2021, would this be viewed as a new contract?**

Yes, the automatic renewal of the loan would be viewed as a new contract because it would extend the term of an existing LIBOR contract. A Board-supervised institution should take steps to address such automatic renewals.

- 3. Would the physical settlement of a contract that existed prior to year-end 2021 (e.g., a swaption) be viewed as a new contract?**

No, this would not be viewed as a new contract.

- 4. Would it be appropriate for Board-supervised institutions to enter into *any* new LIBOR contracts after December 31, 2021?**

As stated in [SR Letter 20-27](#) and [SR Letter 21-17](#), there may be limited circumstances in which it would be appropriate for an institution 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 institution's or any client of the institution's USD LIBOR exposure on contracts entered into before January 1, 2022; and (iv) novations of USD LIBOR transactions executed before January 1, 2022.

A Board-supervised institution should have reasonable measures in place to assess whether a new USD LIBOR contract would be consistent with safety and soundness practices. These measures should align with the institution's existing risk management processes.

- 5. After December 31, 2021, would it be appropriate for Board-supervised institutions to engage in secondary trading of LIBOR-linked cash instruments issued prior to year-end 2021?**

Yes, it would be appropriate to engage in secondary trading of LIBOR-linked instruments issued prior to December 31, 2021.

- 6. Should Board-supervised institutions include fallback language in LIBOR contracts entered into on or before December 31, 2021?**

As stated in [SR Letter 21-17](#), LIBOR contracts entered into on or before December 31, 2021, should either use a reference rate other than LIBOR or have fallback language that provides for use of a strong and clearly defined alternative reference rate after LIBOR's discontinuation. Such fallback language will ensure there are no

disagreements between the parties to a LIBOR contract about how to calculate interest when LIBOR is no longer available.

7. How will examiners assess Board-supervised institutions' LIBOR transition planning? Will supervisors issue MRAs and take other supervisory actions in connection with the LIBOR transition?

Consistent with [SR Letter 21-7](#), examiners first assess whether a Board-supervised institution has exposure to LIBOR. For institutions with LIBOR exposure, examiners have focused on (1) transition planning; (2) financial exposure measurement and risk assessment; (3) operational preparedness and controls; (4) legal contract preparedness; (5) communication; and (6) oversight.

Board-supervised institutions that are not making adequate progress toward transitioning away from LIBOR could create safety and soundness risks for themselves and for the financial system. Accordingly, examiners will consider issuing supervisory findings and other supervisory actions if a firm is not making adequate progress.