
OCC Publishes LIBOR-Transition Self-Assessment Tool.

On February 10, 2021, the Office of the Comptroller of the Currency (the "OCC") issued a bulletin (OCC Bulletin 2021-7) that provides a self-assessment tool for national banks, federal savings associations, and federal branches and agencies of foreign banking organizations ("banks") to evaluate their preparedness for the expected cessation of the London Interbank Offered Rate ("LIBOR").

What's the Background?
LIBOR is a reference rate used most commonly in transactions involving loans and derivatives engaged in by financial institutions and other sophisticated market participants. It is being phased out globally and replaced by risk-free rates, including the Secured Overnight Financing Rate. It is expected that banks will cease entering into new contracts that use LIBOR as a reference rate by December 31, 2021. For additional background on the LIBOR transition, please visit our LIBOR Transition Resource Center.

The global effort to transition away from LIBOR has been an operational and legal hurdle for the industry, requiring varying levels of attention depending on the size and scope of activity engaged in by market participants. As the OCC notes in its bulletin, "[t]here 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)."

What Is the OCC's Self-Assessment Tool?
The OCC's self-assessment tool is designed to assist bank management personnel in evaluating an institution's progress with the LIBOR transition. The assessment tool, which is annexed to this memorandum, is in the form of a checklist focusing on four areas:

- Exposure Assessment and Planning,
- Replacement Rates,
- Fallback Language, and
- Progress and Oversight.

Not all sections or questions will apply to all banks. According to the OCC, responses will depend on the size and scope of their activities. Perhaps not surprisingly, the OCC also acknowledges that large or complex banks and those with material LIBOR exposures are expected to have a "robust, well-developed transition process in place," whereas smaller or non-complex banks and those with limited LIBOR exposures may be engaging in "less extensive and less formal transition efforts."

The OCC advises that, in 2021, LIBOR-related assessments and plans should be "at least near completion with appropriate management oversight and reporting in place," and that "[m]ost banks should be working toward resolving replacement rate issues while communicating with affected customers and third parties."

Which Institutions Are Covered?
The self-assessment tool is directed to bank management personnel at national banks, federal

savings associations, and the federal branches and agencies of foreign banking organizations.

What Are the Next Steps?

There is no indication in the bulletin that responses to the self-assessment tool are required to be reported to the OCC or that a self-assessment is required to be conducted at all. However, as a practical matter, institutions should view the tool as offering an analytical framework for assessing their LIBOR transition preparedness. Responses to the questions contained in the tool will be helpful in eventually responding to any more formal requests for information, including from examiners.

Print or download the OCC’s LIBOR Self-Assessment Tool.