Farm Credit Administration

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INFORMATIONAL MEMORANDUM

December 18, 2020

To: Chair, Board of Directors
Chief Executive Officer
Each Farm Credit System Institution

From: Roger Paulsen, Director and Chief Examiner
Office of Examination

David P. Grahn, Director
Office of Regulatory Policy

Laurie A. Rea, Director
Office of Secondary Market Oversight

Subject: LIBOR transition guidance

The Farm Credit Administration is issuing this informational memorandum to provide additional guidance to Farm Credit System (System) institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac), on the transition away from the London Interbank Offered Rate (LIBOR). This guidance supplements the informational memorandum (PDF) we issued on September 11, 2018, on planning for the LIBOR phaseout.[1]

The IBA proposal and responses from regulators and ARRC

The ICE Benchmark Administration (IBA) has announced that it will seek public comment on a proposal to cease publication of the one-week and two-month U.S. dollar (USD) LIBOR tenors by year-end 2021 (see the November 30 news release (PDF)). However, according to the proposal, the IBA would continue to publish the remaining, more heavily used, LIBOR tenors until June 30, 2023.[2]

As discussed below, the IBA proposal is not intended to provide additional time for entering into new contracts that reference LIBOR but to allow time for legacy contracts to mature. The IBA plans to close this consultation for feedback by the end of January 2021.

[1] FCA's Office of Secondary Market Oversight issued similar guidance to Farmer Mac on October 18, 2018.

[2] If the proposal is adopted, the panel banks will cease publishing the overnight and the 1-, 3-, 6-, and 12-month USD LIBOR rates after June 30, 2023. The IBA has not yet released the details of its proposal. It plans to make another announcement following the consultation.

The United Kingdom's Financial Conduct Authority published a response supporting the IBA proposal and stating it will consult on a policy to prohibit some or all new use of LIBOR after year-end 2021 at supervised entities in the UK.

In a joint statement (PDF), the federal banking regulatory agencies — the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation — said the IBA proposal will allow most legacy LIBOR contracts to mature before LIBOR disruptions occur. The agencies stressed the importance of having robust fallback language and encouraged banks to cease entering into new contracts that reference USD LIBOR as soon as practicable and in any event no later than December 31, 2021. The agencies stated that entering into new LIBOR-referenced contracts after that date would be a safety and soundness risk.

In a November 30 press release (PDF), the Alternative Reference Rates Committee (ARRC) applauded the concurrent announcements by the IBA, the UK Financial Conduct Authority, and the U.S. regulators. The committee said these announcements align with its own transition efforts.[3]

FCA's response and guidance

We agree with the joint statement by the federal banking regulatory agencies and emphasize that the IBA proposal is not in any way intended to slow down the transition. As indicated in the informational memorandum we issued in September 2018, your institution should continue reducing LIBOR exposures as soon as practicable. You should not extend LIBOR exposures in response to the IBA proposal.[4]

The guidance provided in the September 2018 informational memorandum remains appropriate and consistent with our expectations. The following applies to any System institution with significant LIBOR exposure:

- You should adopt 2021 transition plans with detailed actions steps and timeframes to accomplish the following:
  - Reduce LIBOR exposures.
  - Stop the inflow of new LIBOR volume.
  - Develop and implement loan products with alternative reference rates.
  - Assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts.
  - Adjust operational processes, including accounting and management information systems, to handle alternative reference rates.
  - Communicate pending or imminent changes to customers as appropriate.

[3] On December 4, the ARRC released a guide (PDF) explaining the interplay between the announcements from IBA and the federal banking regulatory agencies. While it intends to consider revisions to its best practice guidelines for transition strategies, the committee indicated that the current guidelines are consistent with the goal to cease new LIBOR issuance as soon as practicable.

[4] The joint statement by the Federal Reserve, the OCC, and the FDIC recognizes instances where extending LIBOR exposures may be appropriate in light of the IBA proposal. FCA would evaluate these instances on a case-by-case basis. In general, however, LIBOR exposures should not be extended in response to the IBA proposal.

- You should also provide comprehensive reporting to your board at least quarterly on the following:
  - Your progress implementing strategies and action steps.
  - LIBOR exposure trends, including exposure with inadequate fallback language.
  - Results of analyses on the impact of the LIBOR phaseout on your institution.

If you have any questions, please contact your examiner-in-charge or FCA's LIBOR phaseout workgroup at LIBORphaseout@fca.gov.