BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

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TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE BANK AND INSTITUTIONS SUPERVISED BY THE FEDERAL RESERVE

SUBJECT: ISDA IBOR Fallback Protocol and IBOR Fallback Supplement

Applicability: This letter applies to all institutions supervised by the Federal Reserve.

The International Swaps and Derivatives Association (ISDA) recently announced an IBOR Fallback Protocol and IBOR Fallback Supplement (together, the Protocol). The Protocol facilitates the transition away from LIBOR by providing derivatives market participants with new fallbacks for legacy and new derivative contracts.

The publication of LIBOR is not guaranteed after 2021, and its continued use by market participants poses risks to financial stability. Given these financial stability risks, the Federal Reserve strongly supports the transition away from LIBOR and expects supervised institutions to manage the risks associated with this transition in a manner commensurate with their size and risk profile. Examiners should alert supervised firms to announcement of the Protocol and encourage those that are active in the derivatives market—particularly those with large LIBOR denominated derivatives exposures—to give strong consideration to adhering to the Protocol.

Derivatives represent the vast majority of the outstanding LIBOR exposure, and existing language in derivatives contracts should be amended to include more durable fallbacks that can withstand a possible discontinuation of LIBOR. The Protocol provides an efficient mechanism to amend a large number of derivatives contracts with many counterparties, and therefore will play an important role in an orderly transition away from LIBOR.

Broad adherence by market participants to the Protocol is important for mitigating the financial stability risks associated with LIBOR becoming unusable. The Protocol will help preserve derivatives market functioning, by allowing LIBOR derivatives contracts to continue to perform through the transition. The Federal Reserve is supportive of ISDA's efforts and encourages the continuation of work to facilitate the transition away from LIBOR in the derivatives market.

Reserve Banks are asked to distribute this letter to the supervised organizations in their districts and to appropriate supervisory staff.

In addition, institutions may send questions via the Board's public website.[1]

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Supervision and Regulation

[1] See http://www.federalreserve.gov/apps/contactus/feedback.aspx