FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

Financial Institution Letter

Answers to Frequently Asked Questions about the Impact of London Interbank Offered Rate (LIBOR) Transitions on Regulatory Capital Instruments

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Summary:

The Federal Deposit Insurance Corporation (FDIC) is issuing answers to frequently asked questions (FAQs) about the impact of LIBOR transitions on regulatory capital instruments under 12 CFR 324. Among other things, the FAQs address the issue of changing a reference rate from LIBOR to an alternative rate and clarify that such a transition would not change the capital treatment of the instrument, provided the alternative rate is economically equivalent with the LIBOR-based rate. The Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System are issuing similar FAQs.

The FAQs can be found on the FDIC's website.

Statement of Applicability: The final rule is applicable to all FDIC-supervised institutions.

Highlights:

- The FAQs clarify that the agencies do not consider the replacement or amendment of a capital instrument (e.g., qualifying preferred stock or subordinated debt) that solely replaces a reference rate linked to LIBOR with another reference rate or rate structure to constitute an issuance of a new capital instrument for purposes of the capital rule. Such a replacement or amendment also would not create an incentive to redeem, as long as the replacement or amended capital instrument is not substantially different from the original instrument from an economic perspective.

- An FDIC-supervised institution that replaces or amends the terms of a capital instrument to transition from LIBOR should support its determination with an appropriate analysis that demonstrates that the replacement or amended instrument is not substantially different from the original instrument from an economic perspective. The FDIC may ask the supervised institution to provide the analysis.

- Considerations for determining that a replacement or amended capital instrument is not substantially different from the original instrument from an economic perspective could include, but are not limited to, whether the replacement or amended instrument has amended terms beyond those relevant to implementing the new reference rate or rate structure.

Attachment:

Regulatory Capital Rule FAQs on LIBOR transition

Distribution:

FDIC-Supervised Institutions

Suggested Routing:

Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:

Risk-Based Capital Rules, 12 CFR Part 324