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OCIE Issues Risk Alert on LIBOR Transition Preparedness

Earlier this year, the staff of the SEC's Office of Compliance Inspections and Examinations ("OCIE") published its annual list of examination priorities, which included firms' preparation for the transition away from LIBOR as a widely used reference rate for various financial instruments. On June 18, OCIE followed-up with a [risk alert](#) that provides additional details about how it evaluates firms' LIBOR transition preparedness.

Critical Issues

OCIE identified four primary areas for which it will assess the impact of the LIBOR transition on an organization, including its: (i) business activities, (ii) operations, (iii) services, and (iv) customers, clients, and/or investors (collectively, "investors"). Within these four areas, OCIE will review the ways in which a firm has prepared for the LIBOR transition, including as applicable, the following issues:

- The firm's and investors' exposure to LIBOR-linked contracts that extend past the current expected discontinuation date, including any fallback language incorporated into these contracts;
- The firm's operational readiness, including any enhancements or modifications to systems, controls, processes, and risk or valuation models associated with the transition to a new reference rate or benchmark;
- The firm's disclosures, representations, and/or reporting to investors regarding its efforts to address LIBOR discontinuation and the adoption of alternative reference rates;
- Identifying and addressing any potential conflicts of interest associated with the LIBOR discontinuation and the adoption of alternative reference rates; and
- Clients' efforts to replace LIBOR with an appropriate alternative reference rate.

OCIE also included a sample document request in its risk alert which it says can help compliance professionals assess their organization's preparedness for the LIBOR discontinuation, regardless of whether they are included in OCIE's examinations. Please refer to our partner Lincoln Finkenberg's [article](#) for more details on the LIBOR transition.

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