(Tentative translation)
(Meeting item for the Mar. 26, 2021 Meeting)

Report from the Sub-Group for the Development of Term Reference Rates

- ■ The Sub-Group for the Development of Term Reference Rates consulted with its members who participated in the interbank market on points such as a potential course of action for the Japanese yen (JPY) interest rate swaps market and measures to revitalize transactions of JPY overnight index swaps (OIS). Views provided by the consulted members (respondents) are as follows.
- ■ Based on these views, the sub-group decided to ask the Committee to publish the appendix as follows and engage in the external communication regarding this point.

1. Target deadline for ceasing the initiation of new interest rate swaps referencing JPY LIBOR

- ✓ A large majority of respondents answered that it was necessary to set the target deadline for ceasing the initiation of new interest rate swaps referencing JPY LIBOR and maturing after the end of 2021, in order to encourage market participants in early transition from LIBOR.[1]
  - ― Some respondents were of the view that such a deadline was not necessary mainly because introducing a fallback provision would be sufficient for an orderly wind-down of LIBOR and demand for interest rate swaps referencing JPY LIBOR would be likely to remain strong until the end of 2021.
- ✓ Many respondents expressed views that it would be appropriate to propose the end of June 2021 as the target deadline, taking into account the consistency with the target deadline for ceasing the issuance of new cash products referencing JPY LIBOR.[2] On the other hand, some respondents commented that the end of September 2021 would be appropriate, with a view to securing sufficient time for preparation.
- ✓ Therefore, the sub-group decided to propose the target deadline as "no later than the end of September 2021," whereas it would encourage market participants in early transition, without waiting for the end of September, if they are able to do so.

[1] Except for risk management of existing positions. In addition, the sub-group shall not preclude financial institutions from executing those transactions for customers which would result in increasing LIBOR exposure, and shall not require financial institutions to confirm their customers' purposes of trade before and after selling financial instruments or executing transactions.
[2] In "Roadmap to Prepare for the Discontinuation of LIBOR," the Committee has set the target deadline for ceasing the new issuance of cash products referencing JPY LIBOR at the end of June 2021.

(Tentative translation)

2. Alternative benchmark in the JPY interest rate swaps market

- ✓ A large majority of respondents answered that it was necessary to propose a desirable alternative benchmark to be used in the JPY interest rate swaps market in order to encourage in early transition from JPY LIBOR and to enhance the liquidity in the market referencing an alternative benchmark.
  - Some respondents were of the view that it was not necessary to indicate desirable alternative benchmarks, mainly because they deemed it appropriate to let the market decide which alternative benchmark(s) would be desirable and that it was premature to propose a specific alternative benchmark.
- ✓ A large majority of respondents supported the Tokyo O/N Average rate (TONA) as a desirable alternative benchmark, with a view to maintaining consistency with global discussions[3] and to enhancing the robustness of the Tokyo Term Risk Free Rate (TORF).[4]
  - Some respondents supported TORF strongly, mainly because they expected the need for hedging risks in cash products referencing TORF.

3. Alternative benchmark for new quoting conventions in the JPY interest rate swaps market

- ✓ A large majority of respondents answered that it was appropriate to encourage liquidity providers as well as interdealer brokers in the JPY interest rate swaps market to adopt new quoting conventions for interdealer trading based on an alternative benchmark and that it was necessary to set the target deadline for adopting the new quoting conventions.
- ✓ A large majority of respondents answered that it would be appropriate to set the target deadline prior to ceasing the initiation of new interest rate swaps referencing JPY LIBOR. Specifically, many respondents who supported TONA responded that the end of May or June 2021 would be appropriate as the target deadline. On the other hand, some respondents expressed their opinions that it would be appropriate to set the deadline after July 2021, with a view to securing sufficient time for preparation.

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[3] For example, the FSB recommended, in its report published in July 2014, to promote the usage of existing IBORs and RFRs, in ways suited to the characteristics of financial instruments and financial transactions (see Figure 1-1 of the first consultation paper [p.2]). In this regard, the report pointed out that, in terms of the economic exposures to which the counterparties would ideally be exposed, many derivative transactions do not need a reference rate that includes bank credit risk. Moreover, it stated that shifting a material portion of derivative transactions to a risk-free rate would reduce the incentive to manipulate rates that include bank credit risk and would reduce the risks to bank safety and soundness and to overall financial stability. This point was also mentioned in footnote 57 of the first consultation paper.

[4] The respondents who supported TONA also deemed that using other alternative benchmarks including TORF and TIBOR shall not be precluded, as they expected that there would be demand for those alternative benchmarks depending on the purpose of trade.

-- Those who supported TORF responded that it would be appropriate to transition "during the first half of 2021," taking into consideration the publication of TORF as the production rate planned for no later than the middle of 2021.

✓ Based on these views and the premise that the target deadline for ceasing the initiation of new interest rate swaps referencing JPY LIBOR would be set at no later than the end of September 2021, the sub-group decided to propose "no later than the end of July 2021" as the target deadline for adopting the new quoting conventions, whereas it would encourage market participants to transition early, without waiting for the end of July, if they are able to do so.

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Appendix: Preparations for the discontinuation of LIBOR in the JPY interest rate swaps market

The Sub-Group for the Development of Term Reference Rates has reached a consensus on the course of action with regard to the discontinuation of LIBOR in the Japanese yen (JPY) interest rate swaps market as follows. It expects market participants to proceed with necessary preparations in accordance with the consensus below.

1. Initiation of new interest rate swaps referencing JPY LIBOR and maturing after the end of 2021 shall be ceased by no later than the end of September 2021, except for the purpose of risk management of existing positions. Market participants are expected to transition early, without waiting for the end of September, if they are able to do so.

2. The Tokyo O/N Average rate (TONA) shall be the main alternative benchmark for the JPY interest rate swaps market. However, market participants are not necessarily precluded from using other alternative benchmarks including the Tokyo Term Risk Free Rate (TORF) and TIBOR, as demand for those benchmarks is expected to remain depending on the purpose of trade.

3. New quoting conventions for the JPY interest rate swaps market based on TONA, instead of LIBOR, shall be adopted by no later than the end of July 2021. Market participants are expected to adopt the new quoting conventions early, without waiting for the end of July, if they are able to do so.