

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks

Minutes for the January 11, 2022 Meeting

5:00—6:00 PM

(Via conference call)

I. Update on International Discussions on Interest Rate Benchmarks

The Secretariat informed the Committee of the latest discussions on interest rate benchmarks in major jurisdictions.

II. Progress of the LIBOR Transition in Japan

1. The Secretariat reported on the key results of "Questionnaire Survey on the Progress in the Transition away from JPY LIBOR" which had been conducted from November through December 2021.

- As of the end of November, steady progress had been made in the transition by entities participating in the Committee. It was expected that the transition of most contracts referencing JPY LIBOR would be completed by the end of December. For a small number of contracts for which the transition would not be completed by the end of December, it was expected to be completed by the day of the first revision of interest rates in each contract in 2022.
- Operational measures such as IT system arrangements were also progressing well.

2. The chair of the Sub-Group on Loans, the chair of the Sub-Group on Bonds, and Japan Securities Clearing Corporation (JSCC) reported on the progress of the transition in their respective markets (loans, bonds, and derivatives).

- In the loan market, the transition of most contracts had been completed by the end of 2021. Some exceptions appeared to exist, such as contracts referencing the LIBOR Tokyo Swap Reference Rate (TSR) and contracts concluded overseas, for which some entities were considered to have been in negotiation over the transition continuously. The transition was mostly expected to be completed by the day of the next revision of interest rates in each of these contracts. It seemed that there were few cases where synthetic yen LIBOR would be adopted.
- In the bond market, the transition appeared to be completed for almost all contracts as of the end of 2021 by, for example, holding bondholders' meetings for publicly offered bonds and

(Tentative translation)

obtaining the consent from all of the bondholders of privately placed bonds. The transition had also been mostly completed for structured bonds referencing the LIBOR TSR, owing to efforts made by relevant parties.

- With regard to Japanese yen interest rate swaps cleared by JSCC, significant progress had been made in the transition of the referenced rate in new transactions, from JPY LIBOR to TONA (OIS), since July 2021. Moreover, efforts had been made for existing yen interest rate swaps, and about 143,000 transactions referencing JPY LIBOR had been transitioned to TONA (OIS) altogether on December 4 and 5, 2021. Through these measures, JSCC had completed the procedures for the transition for which it was responsible. There were no major problems with regard to the transitioned contracts.
3. QUICK Benchmarks reported that it had received approval for operational rules of the Tokyo Term Risk Free Rate (TORF) from the Financial Services Agency (JFSA).
 4. On these topics, a bank member commented that the transition had been smoothly proceeded based on the deliberations by the Committee and completed without any particular problem. The member continued that, on the other hand, the transition of some contracts governed by laws in other jurisdictions had been still in progress, and explained that it would be appreciated if the Committee could continue to share information on developments surrounding the transition overseas.
 5. Moreover, a securities company member commented that the transition for structured bonds, which the member had been most concerned, had been completed. The member added that the transition had also been completed for both over-the-counter and centrally-cleared derivatives and thanked those involved in the Japanese markets for their cooperation.
 6. Furthermore, the International Swaps and Derivatives Association (ISDA) made the following comment.
 - The number of parties adhering to the ISDA IBOR Fallbacks Protocol in Japan had reached about 220, an increase of about 90 entities in comparison with January 2021. A wide range of market participants, including financial institutions and business corporations, had adhered to the protocol. It was consequently considered that JPY LIBOR referenced in most of the non-centrally cleared derivatives contracts of these parties had already been replaced with TONA, and there had been no report on problems during the year-end and New Year holidays. It was possible to assess that the transition had been carried out very smoothly, although such assessment was not definite at the moment.

(Tentative translation)

7. Based on these comments, the chair summarized that the transition in the Japanese markets was expected to be completed smoothly with support from a wide range of relevant parties and expressed his appreciation for their efforts.

III. Initiatives to Be Taken by the Committee

1. The chair noted that the transition in the Japanese markets was expected to be completed smoothly and the Committee's activities based on the purpose of its establishment had come to an end. He continued that, on the other hand, there were still a small number of contracts for which the transition would be continued and the transition would also be continued in other jurisdictions and foreign currencies. He added that practical issues might arise with regard to the use of alternative interest rate benchmarks. The chair then proposed to continue exchanging opinions and sharing information under a framework consisting of market participants from a wide range of industries, and he noted that the direction of the Committee's future activities would be explained by the Secretariat and asked for opinions of those present at the meeting.
2. Given the comment from the chair, the Secretariat explained that (i) the Committee would be reorganized and changed to a forum format; (ii) activities after the reorganization would include coordinating with other national working groups, receiving reports from administrators working on the enhancement of the robustness of Japanese yen interest rate benchmarks, and having study sessions on practical topics, in addition to sharing information and exchanging opinions on contracts for which the transition had not been completed and on developments surrounding the transition in other jurisdictions; (iii) the frequency of meetings would be reduced and the three sub-groups of the Committee would be abolished; and that (iv) the reorganization was expected to take place in February or March 2022.
3. In response, a securities company member commented that it supported the proposal, as the smooth transition away from JPY LIBOR had been achieved and the forum for exchanging opinions and sharing information on the transition away from USD LIBOR was considered to be necessary going forward.
4. The chair explained that how to proceed with the agenda item would be decided at the Committee's next meeting scheduled for February 2022, after having considered the terms of reference of the new forum. The chair asked those who had additional comments and questions prior to the meeting to contact the Secretariat.
5. In addition, the JFSA provided the following comments, taking account of the agenda items II and III.

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- The JFSA would like to thank all those involved in the Committee for their contribution to the smooth and orderly transition away from JPY LIBOR in Japan. Regarding initiatives to be taken by the Committee, the JFSA would continue to participate as an observer after the reorganization. The JFSA would like to ask for the continued cooperation of all those involved in the Committee.
- Looking ahead, there were two important points to consider. First, synthetic LIBOR might be used in other jurisdictions. In such cases, it was essential to continue making efforts toward the transition to alternative interest rate benchmarks. Second, with regard to the transition away from USD LIBOR, the JFSA would like to ask concerned parties to keep a close eye on initiatives taken by the authorities and the Alternative Reference Rates Committee (ARRC) in the United States and to take a systematic approach to making an active conversion or introducing fallback provisions and ceasing the initiation of new transactions.

IV. AOB

1. The Secretariat explained the Exposure Draft of the PITF No. 62 for "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (Proposed Amendments to the PITF No. 40 for Practical Solution), which was published by the Accounting Standards Board of Japan (ASBJ) in December 2021.
2. The vice-chair made several announcements about the Committee's commitment to external communication and its future policy. It was also proposed to publish "Key Results of the Questionnaire Survey on the Progress in the Transition away from JPY LIBOR" as part of the meeting materials, and the members approved the proposal.

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks

Attendance for the January 11, 2022 Meeting

(Members)

Chair	MUFG Bank	GODA Kenichiro
Vice Chair	Nomura Securities	NONOMURA Shigeru
	Mizuho Bank	KOBAYAKAWA Motomu
	Sumitomo Mitsui Banking Corporation	ORIHARA Takashi
	Bank of Yokohama	ARAI Tomoki
	The Tochigi Bank	ONO Kazuhiro
	Deutsche Bank	MORITA Shigeki
	Daiwa Securities	INADA Yuichiro
	Goldman Sachs	TAGUCHI Kengo
	Morgan Stanley MUFG Securities	EZUKA Takeshi
	Japan Post Bank	ICHIKAWA Tatsuo
	The Norinchukin Bank	HARADA Noriyuki
	Shinkin Central Bank	TANAKA Hiroyuki
	The Dai-ichi Life Insurance Company	KAI Akifumi
	Tokio Marine Holdings	KATO Hiromitsu
	Daiwa Asset Management	TAKAO Norihisa
	Mitsui&Co.	GOTO Takashi
	Mitsui Fudosan	MURATA Tadahiro
	East Japan Railway Company	ISHIMARU Mikito
	Mitsubishi HC Capital	TOMINAGA Osamu
	Nippon Telegraph and Telephone Corporation	MOMOSE Shinya

(Observers)

JBA TIBOR Administration	KOYAMA Hirotaka
International Swaps and Derivatives Association	MORITA Tomoko
Financial Law Board	TOTSUKA Takaharu (Attorney-at-Law)

Tokyo Financial Exchange	NONAKA Atsushi
Japan Securities Clearing Corporation	KANEKO Takahiko
Japanese Bankers Association	TAKAHASHI Tetsuo
Japan Securities Dealers Association	NISHIMURA Yoshiko
Financial Services Agency	TSUJIMURA Tomoya
Bank of Japan	SHIMIZU Yoshimitsu
Bank of Japan	CHIBA Makoto
Bank of Japan	YOSHIMURA Haruka

The chairs of the sub-groups and the coordinator of the working group attended the meeting.

Chair of the Sub-Group on Loans	Mizuho Bank	SHIBATA Noriyuki
Chair of the Sub-Group on Bonds	Nomura Securities	HASHIMOTO Shigeru
Chair of the Sub-Group for the Development of Term Reference Rates	Citigroup Global Markets Japan	WATANABE Atsuya
Chair of the Sub-Group for the Development of Term Reference Rates	MUFG Bank	TSUCHIDA Masaya
Coordinator of the Working Group on Currency Swaps	Sumitomo Mitsui Banking Corporation	ISHIKAWA Satoshi