

(Tentative translation)

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks
Minutes for the February 25, 2020 Meeting
4:00 – 5:15 PM
(Meeting Room in the Bank of Japan)

I. Update on International Discussions on Interest Rate Benchmarks

1. The Secretariat informed the Committee of the latest discussions on interest rate benchmarks in major jurisdictions.
2. The chair gave an overview of the recently held meeting of the Financial Stability Board's Official Sector Steering Group (FSB OSSG).
3. The International Swaps and Derivatives Association (ISDA) explained the issues such as triggers for permanent cessation and pre-cessation fallbacks in derivatives contracts as well as its future work plan.

II. Report from the Task Force on Term Reference Rates

1. The Task Force on Term Reference Rates (hereinafter the Task Force) reported on its deliberations to date. In addition, the Task Force expressed the recognition that, in order to produce robust Term Reference Rates, it was necessary to discuss, in cooperation with the Committee, measures to enhance the liquidity of Japanese yen overnight swaps through further development of market practices.
2. The Task Force reported on the evaluation of the applicants for the calculating and publishing entities of prototype rates for Term Reference Rates as follows.
 - The Committee received applications from a number of entities that had experience in calculating and publishing benchmarks. The Task Force set a number of evaluation points, such as whether an operational system and a system structure would be established to calculate and publish benchmarks in an appropriate manner, and evaluated applicants while taking account of presentations given by each applicant.
 - Consequently, the Task Force reached a conclusion that Quick Corp. (hereinafter Quick) was suitable as the calculating and publishing entity, as it was the most highly evaluated applicant in almost all of the evaluation points.
3. A financial institution member asked whether the Task Force judged that Quick would be able to meet the schedule for the publication of production rates by around mid-2021, taking account of the necessary preparation for the registration under the EU Benchmark Regulation. The secretariat responded that the Task Force judged that Quick's proactive efforts, with the support of the Japanese Financial Services Agency (hereinafter the JFSA), would make it possible to meet the schedule. In addition, the JFSA noted that, for the publication of production rates, the JFSA would like to provide appropriate support to comply with the Financial Instruments and Exchange Act and foreign regulations such as the EU Benchmark Regulation.
4. As a result of these discussions in the Committee, the chair consulted with the members as to whether Quick was suitable as the calculating and publishing entity, as it met the principles and requirements indicated in the public consultation and was the most highly evaluated applicant

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in almost all of the evaluation points. The members then agreed.

5. Lastly, the Secretariat explained the schedule for producing Term Reference Rates that the production rates were to be published by around mid-2021.

III. Report on Industry Groups' Initiatives

1. As the Japanese Bankers Association (JBA) and the Japan Securities Dealers Association (JSDA) had noted in the November 1, 2019 meeting that they would work on issues related to each industry, the JBA and the JSDA each explained their initiatives taken since then.

2. The JBA explained as follows.

- At the end of January 2020, the JBA released a new page dedicated to the transition away from LIBOR on its website and provided reference material on the new page. It also issued a notice to its members regarding frequently asked questions.
- The JBA deliberated on sample fallback provisions for bilateral loans.
- With regard to bonds, the JBA would obtain a written opinion from a law firm to clarify the interpretation of the Companies Act regarding the introduction of fallback provisions and would summarize the opinion by the end of fiscal 2019.

3. The JSDA explained that it had held several meetings to exchange views in the securities industry and made efforts to sort out issues since January 2020. The JSDA also commented that it planned to publish the results of the deliberations and provide feedback to related entities as necessary.

4. Regarding the sample fallback provisions prepared by the JBA, some non-financial corporate members and a securities company member noted as follows.

- While some provisions of the current draft would give an impression that a lender had more discretion, it would be important to make sample fallback provisions neutral for both lenders and borrowers.
- It would be also important to make sample fallback provisions that would be used widely and in a uniform manner.
- They would like the JBA to continue its careful consideration while taking account of the above issues.

The JBA responded that the agreement between both parties of the contract was the major premise for the determination of the replacement rates, and that the JBA recognized that a lender would be generally required to provide a borrower with sufficient explanation regarding the abovementioned issues in order to reach an agreement.

The JFSA noted that it expected that the sample fallback provisions would be handled in light of the comments received by the members of the Committee and that the JFSA would monitor individual financial institutions from the perspective of customer protection and examine whether appropriate explanations to their clients were provided and their LIBOR transitions were proceeded in an appropriate manner.

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5. The chair expressed his appreciation for the industry groups' initiatives toward the permanent discontinuation of LIBOR, which encouraged smooth preparation of the entire Japanese Yen market. Regarding the sample fallback provisions prepared by the JBA, the chair asked for continued discussion in order to make new sample provisions based on views of both lenders and borrowers, in light of its objective to be referenced and used widely.

IV. Future Initiatives

1. The chair made proposals described below for the Committee's future initiatives, which were then approved by the members.
 - The Sub-Group on Loans would make deliberation on spread adjustment methodologies for fallbacks in loans referencing JPY LIBOR. As for bonds, while deliberations by the Sub-Group on Loans could be referenced for mutual issues, the Sub-Group on Bonds would make deliberation in issues specific to bonds.
 - The Sub-Group for the Development of Term Reference Rates would further develop market practices in order to enhance the liquidity of the JPY OIS for producing robust Term Reference Rates. As it would focus on practices in interbank market, financial institution members were assumed to be its major participants..

V. AOB

1. The vice-chair made several announcements about the Committee's commitment to external communication, and noted that the Committee would monitor the progress in interest rate benchmark reforms as the publication of prototype rates of Term Reference Rates was expected to start around spring 2020 and initiatives by individual firms and specific deliberations by industry organizations were also to be carried out. Additionally, the vice-chair remarked that the Committee would continue to provide information.

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks

Attendance for the February 25, 2020 Meeting

(Members)

Chair	MUFG Bank	MATSUURA Taro
Vice Chair	Nomura Securities	NONOMURA Shigeru
	Mizuho Bank	KOBAYAKAWA Motomu
	Sumitomo Mitsui Banking Corporation	ORIHARA Takashi
	Bank of Yokohama	ARAI Tomoki
	The Ehime Bank	IYODA Seiji
	Deutsche Bank	MORITA Shigeki
	Daiwa Securities	INADA Yuichiro
	Goldman Sachs	TAGUCHI Kengo
	Morgan Stanley MUFG Securities	EZUKA Takeshi
	Japan Post Bank	UCHIYAMA Katsuichiro
	The Norinchukin Bank	NAGATA Shirou
	Shinkin Central Bank	TANAKA Hiroyuki
	Nippon Life Insurance Company	OKAMOTO Shinichi
	Tokio Marine Holdings	NIKKAWA Shinya
	Daiwa Asset Management	TAKAO Norihisa
	Marubeni Corporation	HASHIMOTO Takao
	Mitsui Fudosan	MIZUSHIMA Osamu
	East Japan Railway Company	ISHIMARU Mikito
	Mitsubishi UFJ Lease & Finance	TOMINAGA Osamu
	Nippon Telegraph and Telephone Corporation	HASHIMOTO Seiichi

(Observers)

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

Tokyo Financial Exchange	SEO Ryosuke
Japan Securities Clearing Corporation	KANEKO Takahiko
Japanese Bankers Association	KOYAMA Hiroataka
Japan Securities Dealers Association	MATSUNAGA Hideaki
Financial Services Agency	AOSAKI Minoru
Bank of Japan	OOTAKE Hiroki
Bank of Japan	SHIOZAWA Hiroyuki

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
Coordinator of the Working Group on Currency Swaps	Sumitomo Mitsui Banking Corporation	ISHIKAWA Satoshi