



[V] Direction of Way Forward

- Time axis based on availability of each benchmark option, consideration of options and handling of recognized challenges

- According to reports from the sub-groups, all benchmark options presented thus far shall not be excluded as possible contenders for the alternative reference rate to LIBOR amid concern about its sustainability beyond the end of 2021.
- It is necessary to take the following actions in order for market participants and interest rate benchmark users to properly select and use the Japanese Yen interest rate benchmarks based on the characteristics of financial products and transactions, while keeping an eye on the progress of similar discussions held overseas about other currencies.
- ✓ The reports from the sub-groups suggest that the option that best fulfills the requirements for interest rate benchmarks is risk-free term reference rates. However, since the long-term and well-planned commitment of market participants and interest rate benchmark users is a prerequisite for developing credible term reference rates, further discussion shall be conducted.
- ✓ On the other hand, considering the possible discontinuation of LIBOR beyond the end of 2021, discussion shall be conducted to launch O/N RFR compounding that seems to be available at the moment. Issues to be discussed shall include the modalities of the interest rate benchmark, and operational challenges and their solutions, reflecting on the reports from the sub-groups which pointed out the necessity to revise current operations and systems, including accounting standards.
- ✓ Furthermore, since the reports from the sub-groups recognize legal and accounting challenges in the fallback contract language to switch the reference rate of preexisting contracts from LIBOR to alternative rates upon the discontinuation of LIBOR, discussion shall be conducted to find concrete solutions.

[Background : Further steps ahead and time axis for each option]

Reference Rate Options		Fixing	Availability	Further steps and time axis	
				Challenges at hand	From Y2019 onward
O/N Rates	(1) O/N RFR Compounding (Fixing in Advance)	In advance	Available at the moment	✓ Discussion required on the modalities of the interest rate benchmark, considering the difference in reference period	 Could possibly be used temporarily until development of risk-free term reference rates is completed (however, overseas trends in issuance shall be taken into account for fixing in arrears)
	(2) O/N RFR Compounding (Fixing in Arrears)	In arrears		✓ Revision of operations and systems are required to adapt to fixing in arrears (such as the calculation method for accrued interest)	
Term Reference Rates	(3) Term Reference Rates (Swap)	In advance	Development required from scratch	✓ Discussion required on the modalities of the interest rate benchmark (such as identification of underlying market and establishment of benchmark derivation process)	 Well-planned commitment of market participants and interest rate benchmark users are required to develop credible risk-free term reference rates
	(4) Term Reference Rates (Futures)			✓ Discussion required on the timing of release	
	(5) TIBOR		Preexisting	✓ In case hedging activity using preexisting products proves difficult, should create and activate swap markets referencing risk-free term reference rates	
				(Continuously available)	