

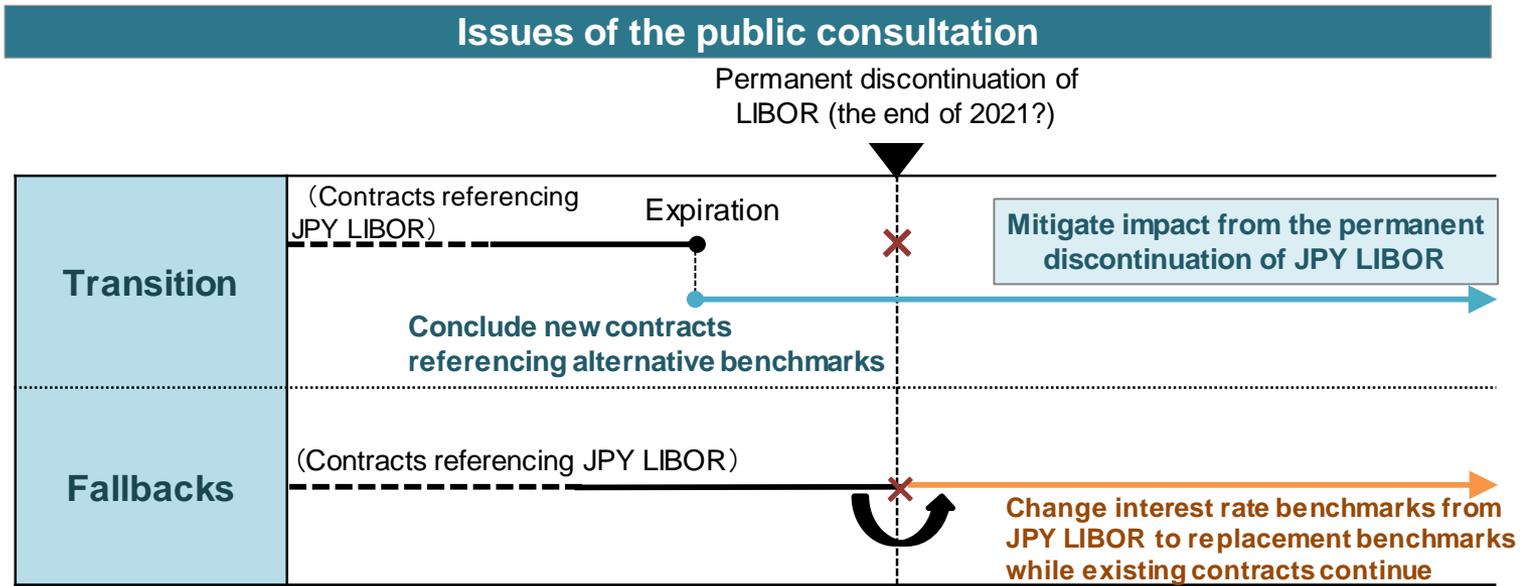
This paper aims to summarize the main points of the “Final Report on the Results of the Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks”. For details, please refer to the original document.

Main Points of the Final Report on the Results of the Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks
Nov. 2019

1. Overview

- The Committee held a public consultation on transition and fallbacks which envisage the permanent discontinuation of JPY LIBOR for financial products and transactions referencing JPY LIBOR.
- A total of 40 entities from a wide range of industries provided their responses and comments. A summary of the feedback received in the public consultation is as follows.



Number of respondents by industry

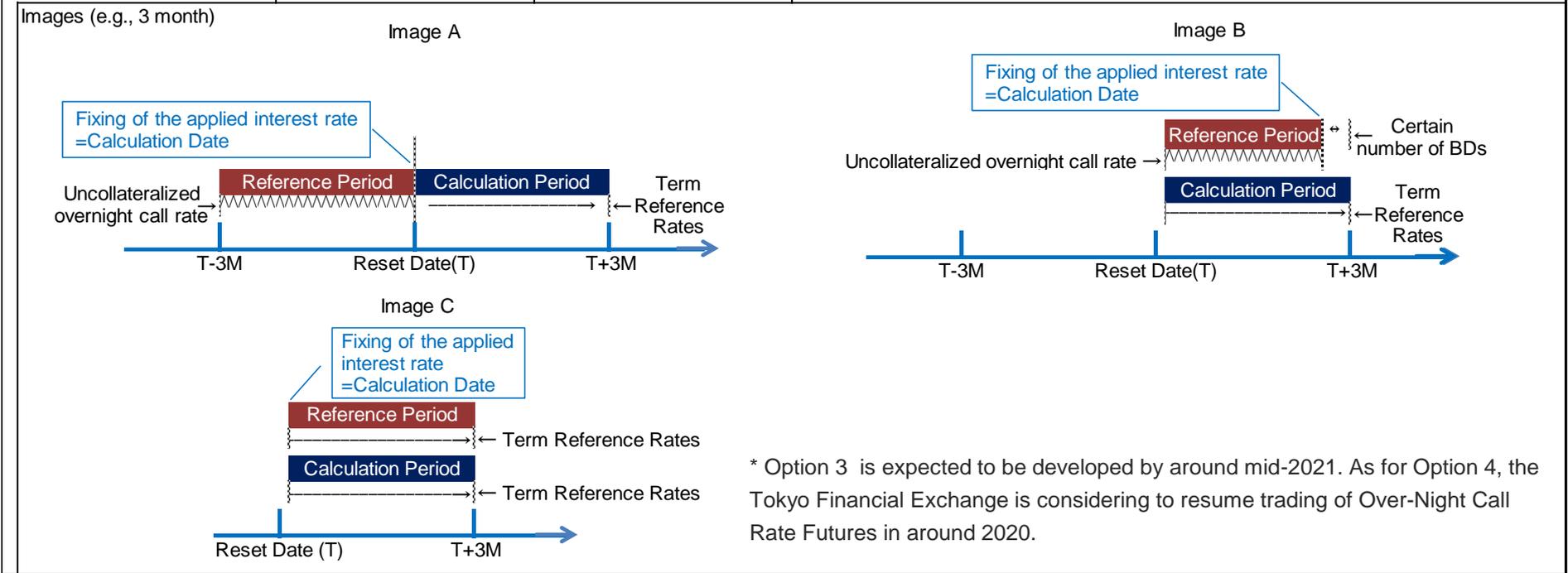
Total	Number of respondents by industry				
	Banks	Securities Companies	Institutional Investors	Non-financial Corporates	Others
40	9	12	3	10	6

Note: Industry groups are classified according to the type of industry that the constituent companies are in. Those which reach across multiple industries are classified as "Others." The same applies to the remainder of this material.

Ref. Alternative Benchmarks and Fallback Options

- The public consultation sought feedback from a wide range of entities on five options to be used as alternative benchmarks upon transition and replacement benchmarks. More specifically, the options are Term Reference Rates based on the uncollateralized overnight call rate (TONA), which is a risk-free rate (RFR), and TIBOR, which is an existing benchmark.

Item	Option 1 O/N RFR Compounding (Fixing in Advance)	Option 2 O/N RFR Compounding (Fixing in Arrears)	Option 3 Term Reference Rates (Swap)	Option 4 Term Reference Rates (Futures)	Option 5 TIBOR
Underlying rate	Uncollateralized overnight call rate (TONA)		JPY OIS	Overnight call rate futures	TIBOR
Reference Period	Image A	Image B	Image C		

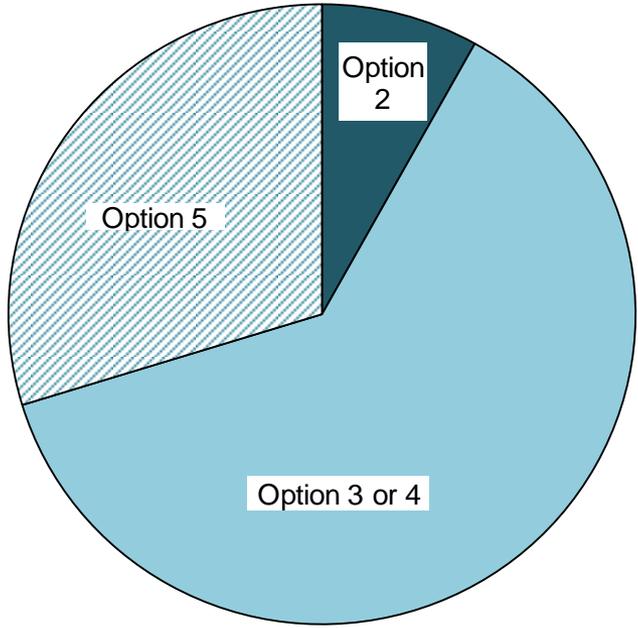


* Option 3 is expected to be developed by around mid-2021. As for Option 4, the Tokyo Financial Exchange is considering to resume trading of Over-Night Call Rate Futures in around 2020.

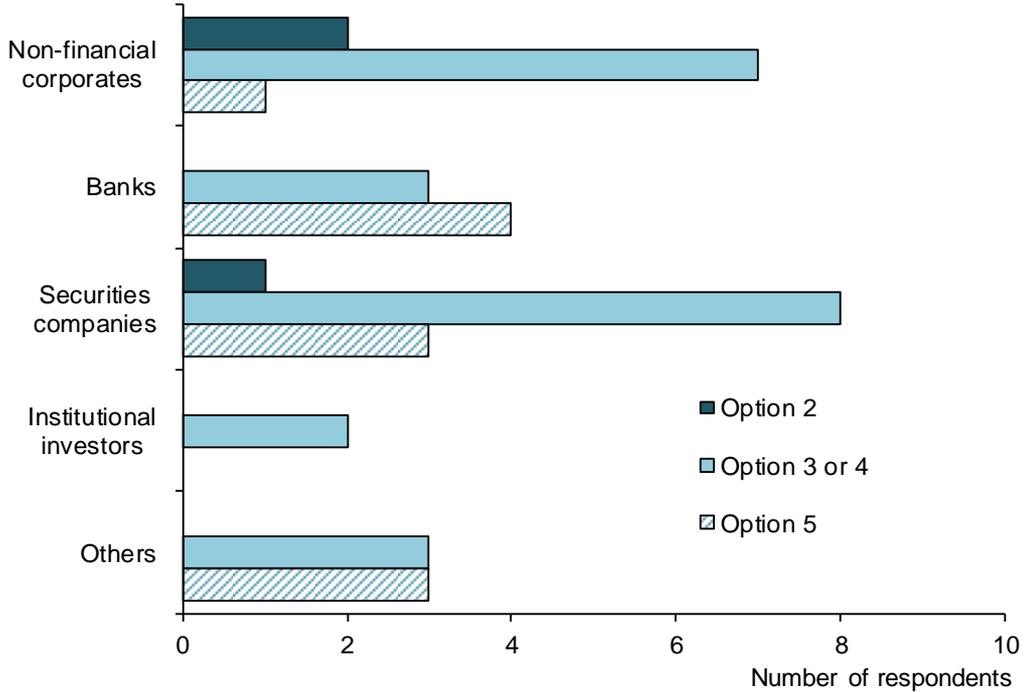
2. Transition: Options for Alternative Benchmarks Loans

- Option 3 and Option 4 were most preferred, followed by Option 5.
- A look at individual industries reveals that many non-financial corporates, securities companies, and institutional investors selected Option 3 or Option 4, whereas for banks, Option 5 was the most preferred.
- With regard to the use of Option 5, banks which expressed positive opinions suggested that it is a widely used interest rate in Japan and is highly compatible with current business operations and systems. On the other hand, many non-financial corporates expressed negative opinions since JPY TIBOR is higher than JPY LIBOR, and hedging by derivatives is difficult.

Overall



By industry

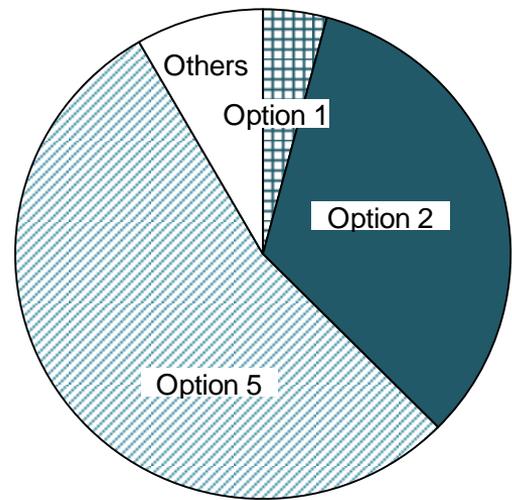


Note: Multiple answers allowed.

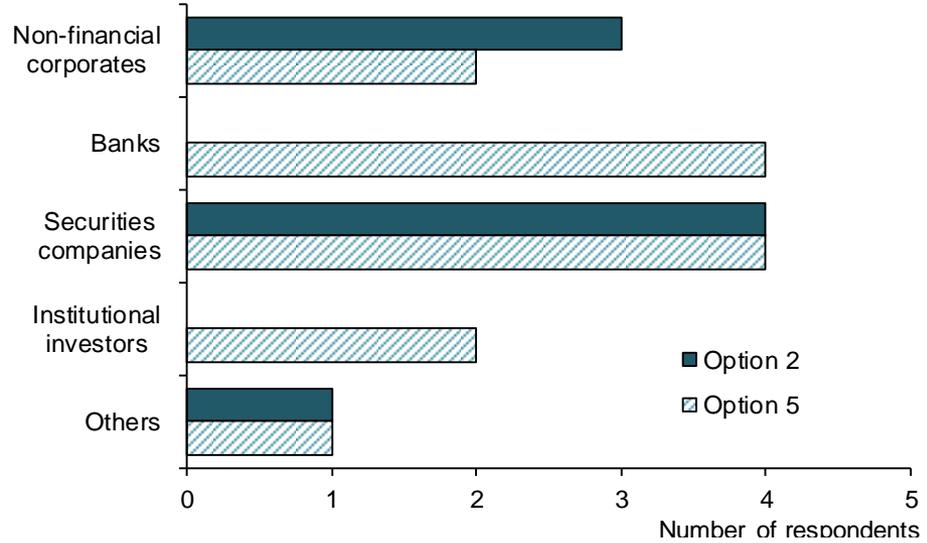
3. Transition: Temporary Use of Alternative Benchmarks until the Development of Term Reference Rates **Loans**

- As described in 2. above, a majority of respondents supported Option 3 or Option 4; however, these options are not available at the moment and cannot be immediately used. Therefore, respondents were also asked about the temporary use of alternative benchmarks until Term Reference Rates are developed, by around the middle of 2021. In this respect, responses from non-financial corporates and securities companies were divided between Option 2 and Option 5, whereas all banks and institutional investors selected Option 5.
- With regard to Option 2, it was pointed out that it poses many challenges for the business operations and systems of companies.
- As for Option 5, non-financial corporates which supported its temporary use indicated that appropriate spread adjustment is necessary for adopting Option 5.
- Meanwhile, several respondents requested the early development of Term Reference Rates in order to avoid temporary use of other options.

Overall



By industry

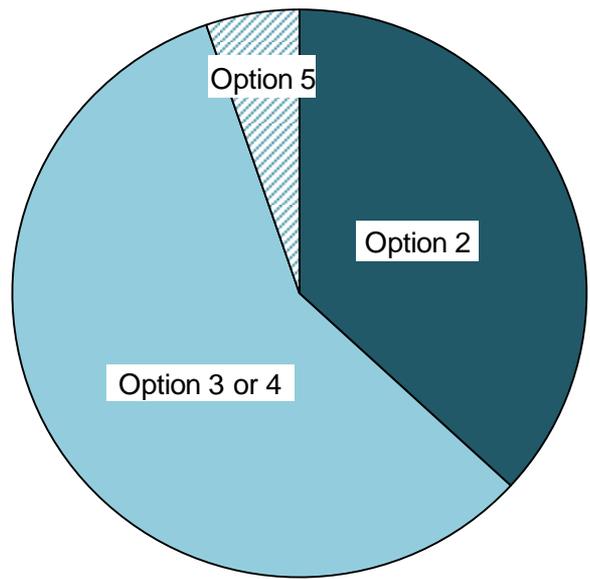


Note: Multiple answers allowed.

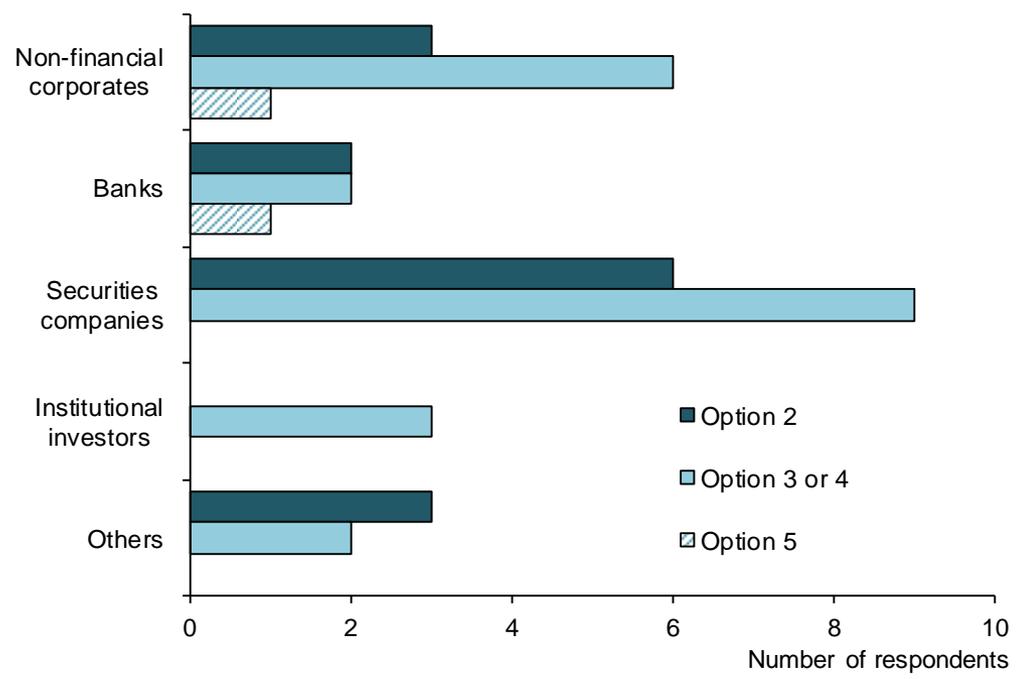
4. Transition: Options for Alternative Benchmarks **Bonds**

- A majority of respondents preferred Option 3 or Option 4. Furthermore, a considerable number of respondents supported Option 2.
 - A look at individual industries reveals that many non-financial corporates and securities companies selected Option 3 or Option 4, while a considerable number of them also showed a preference for Option 2. All institutional investors selected Option 3 or Option 4, and none of them selected Option 2 or Option 5.
 - Most respondents who supported Option 2 highlighted the advantage of a hedge relationship between bonds to be hedged and hedging derivatives as well as the consistency with overseas bond markets.

Overall



By industry

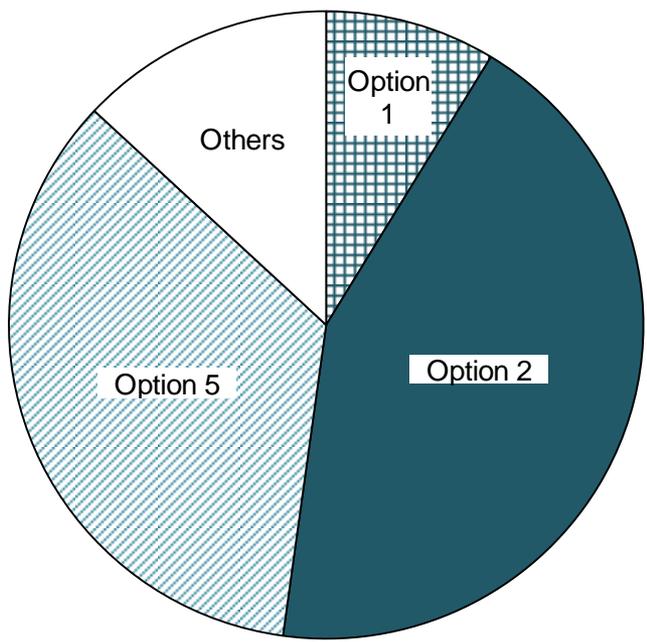


Note: Multiple answers allowed.

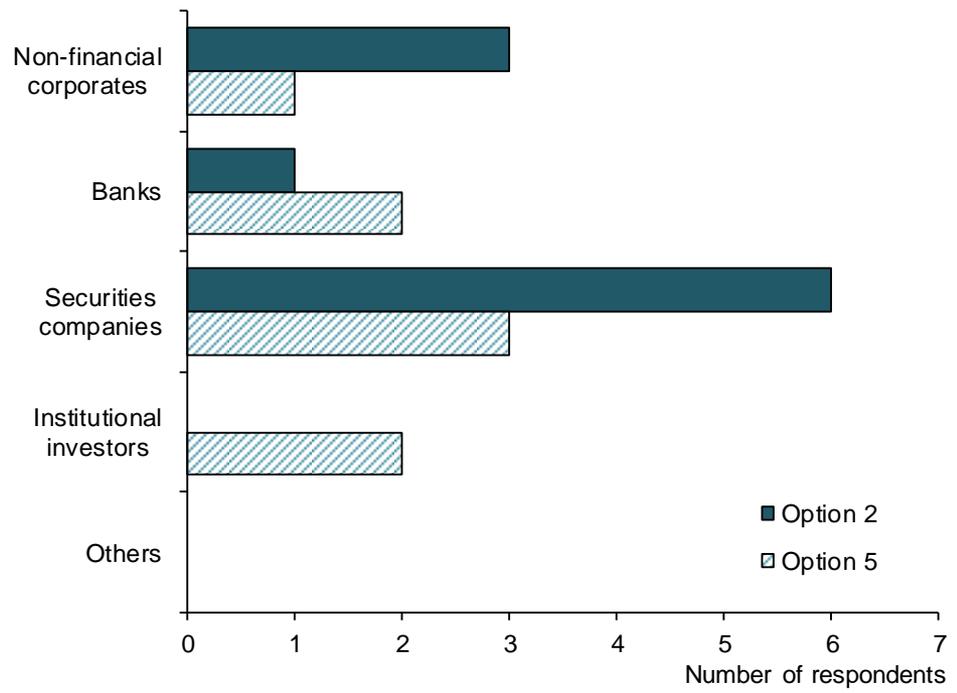
5. Transition: Temporary Use of Alternative Benchmarks until the Development of Term Reference Rates **Bonds**

- As described in 4. above, a majority of respondents preferred Option 3 or Option 4. However, as with loans, respondents were asked about the temporary use of alternative benchmarks until Term Reference Rates are developed by around the middle of 2021. In this respect, many respondents, mainly non-financial corporates and securities companies, preferred Option 2 due to relevance to ISDA derivatives.
- All institutional investors selected Option 5 highlighting its compatibility with current business operations and systems, and none of them selected Option 2.

Overall



By industry



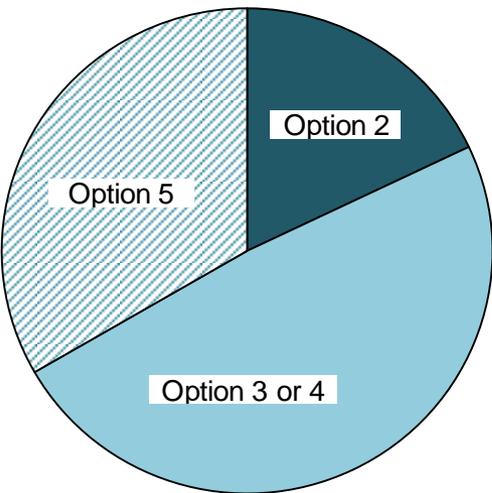
Note: Multiple answers allowed.

6. Fallbacks: Replacement Rate and Trigger Events Loans

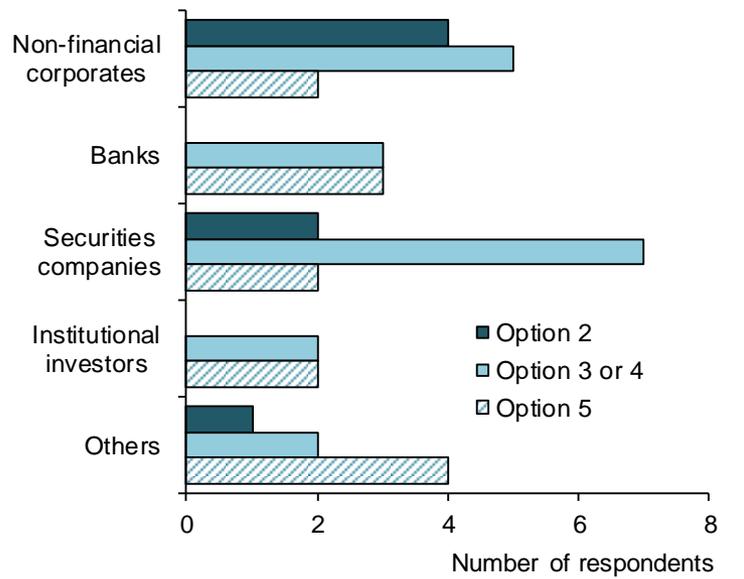
- Option 3 and Option 4 were most supported as replacement benchmarks, followed by Option 5. With regard to spread adjustment, while the number of responses totaled only 12, few respondents expressed negative opinions against the Historical Mean/Median Approach.
 - A look at individual industries reveals that non-financial corporates most preferred Option 3 or Option 4, followed by Option 2. A majority of securities companies preferred Option 3 or Option 4. Responses from banks were divided between Option 3 or Option 4, and Option 5.
 - As for trigger events, for consistency with ISDA derivatives, a majority of respondents agreed that, at a minimum, permanent cessation triggers should be introduced, while other triggers should be introduced as necessary.
- Note: For ISDA derivatives, ISDA has continued to deliberate on pre-cessation triggers based on the premise that permanent cessation triggers will be introduced.

Replacement benchmarks

Overall

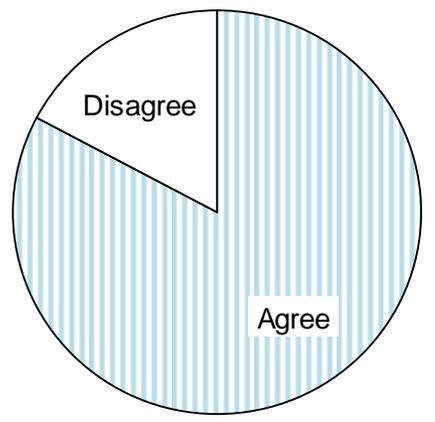


By industry



Trigger events

Agree or disagree that, at a minimum, permanent cessation triggers should be introduced, while other triggers should be introduced as necessary



Note: Multiple answers allowed.

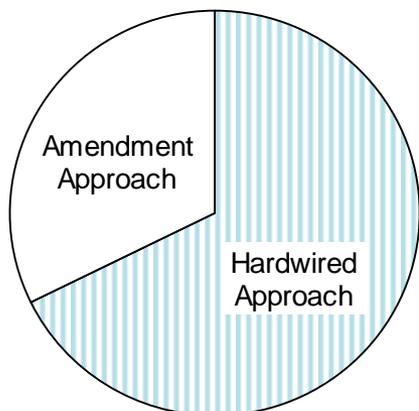
7. Fallbacks: Procedures for Introducing Fallback Provisions **Loans**

- A majority of respondents preferred the Hardwired Approach, in which a replacement rate is agreed when introducing a fallback provision, in order to reduce their negotiation and decision-making burden in dealing with fallback provisions. On the other hand, some respondents preferred the Amendment Approach, in which a replacement rate is agreed when trigger events occur, indicating that they needed to consider market trends at the time when selecting the replacement rate.
 - A look at individual industries reveals that many non-financial corporates, banks, and institutional investors preferred the Hardwired Approach, whereas many securities companies preferred the Amendment Approach.
 - With regard to the Amendment Approach, slightly over half of the respondents opposed the “negative consent” procedure, in which provisions such that “the replacement rate proposed by lender shall be deemed consented to unless the borrower sends a notice to the lender rejecting it” are stipulated when amending the contract. Meanwhile, many proponents of the procedure suggested that the lender should provide sufficient explanation to the borrower in advance.

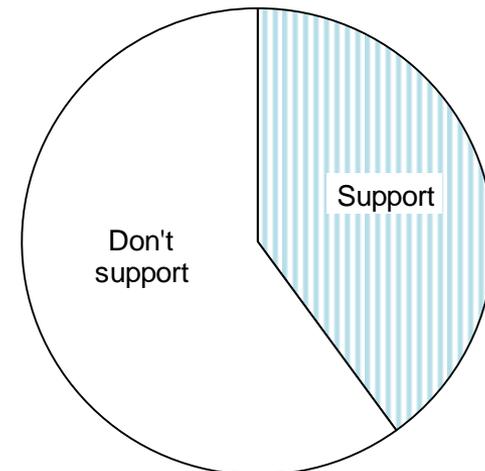
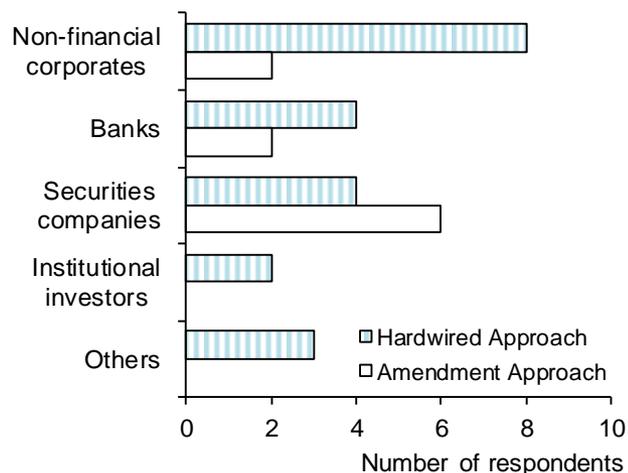
Hardwired Approach/Amendment Approach

Negative consent procedure

Overall



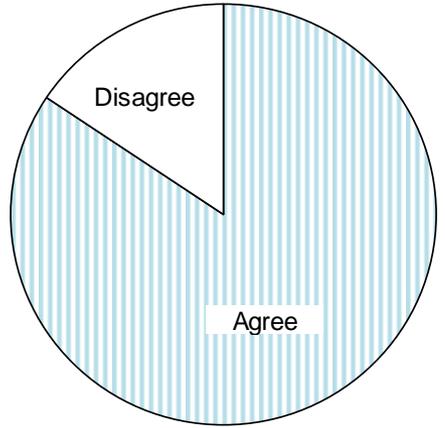
By industry



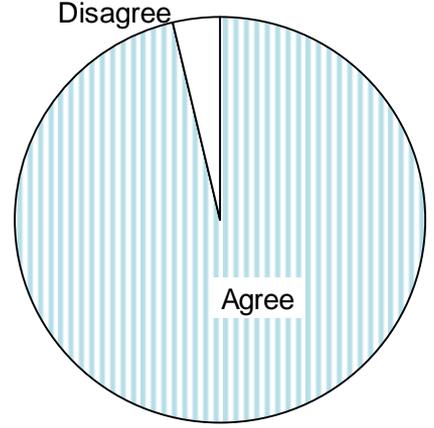
8. Fallbacks: Replacement Rate, Trigger Events, Procedures for Introducing Fallback Provisions **Bonds**

- A large majority of respondents agreed that the replacement rate and triggers should be aligned with the fallbacks for ISDA derivatives in order to maintain a hedge accounting relationship.
Note: 1) Replacement rate...Replacement benchmark: Option 2, Spread adjustment: Historical Mean/Median Approach
2) Trigger events...Introduce permanent cessation triggers (ISDA has continued to deliberate on pre-cessation triggers)
 - Even among the proponents who highlighted the advantage of maintaining a hedge accounting relationship, some preferred to adopt a waterfall structure which places first priority on using Option 3 as the replacement rate.
 - Opponents pointed out that Option 2, which is the replacement benchmark for ISDA derivatives, imposes a large practical burden by requiring the development of business operations and systems compatible with fixing interest rates in arrears.
 - With regard to the procedures for introducing a fallback provision, almost all respondents agreed with the Hardwired Approach.
- Many respondents expressed concern that administrative burdens for holding bondholders' meetings to amend contracts would be substantial. Most of them have yet to start deliberating on other measures.
 - For privately-placed bonds, it was noted that obtaining consent directly from all bondholders was being considered.

< Replacement rate, Trigger events >
Alignment with ISDA Derivatives



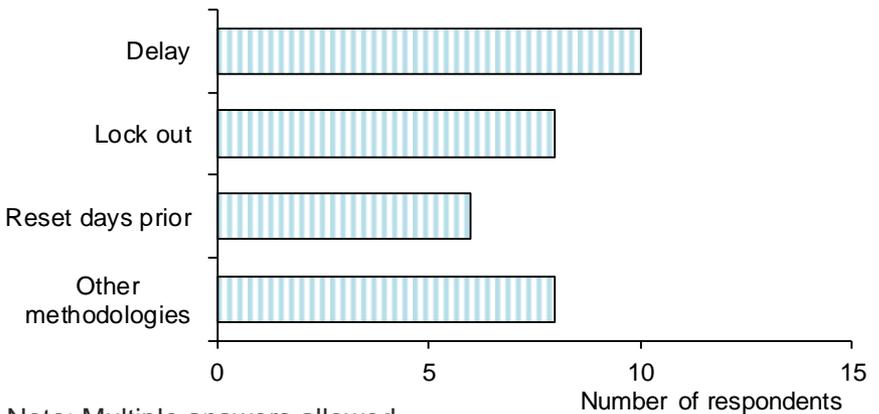
< Procedures for introducing fallbacks >
Adopting the Hardwired Approach



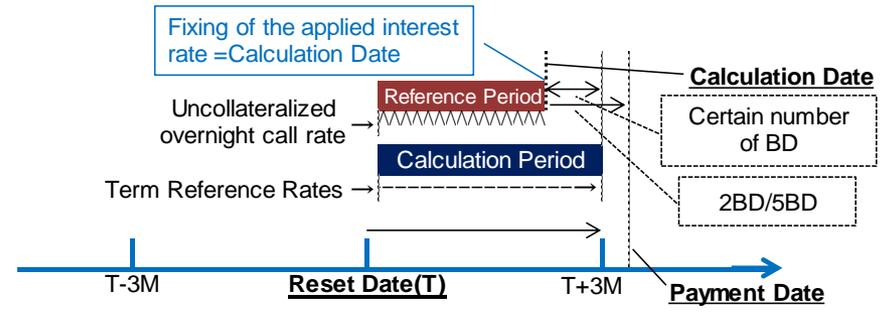
9. Specific Requirements for Option 2

- A majority of respondents agreed with the proposed requirements in the consultation paper.
- However, respondents were divided on the methodologies for calculating Option 2, pointing to the advantages and disadvantages of each calculation methodology.
- No overwhelming consensus was reached on the period from the Calculation Date to the Payment Date, as a diverse set of opinions were presented in terms of (1) the number of business days (i.e., two business days, five business days, other) and (2) flexibility and optionality.

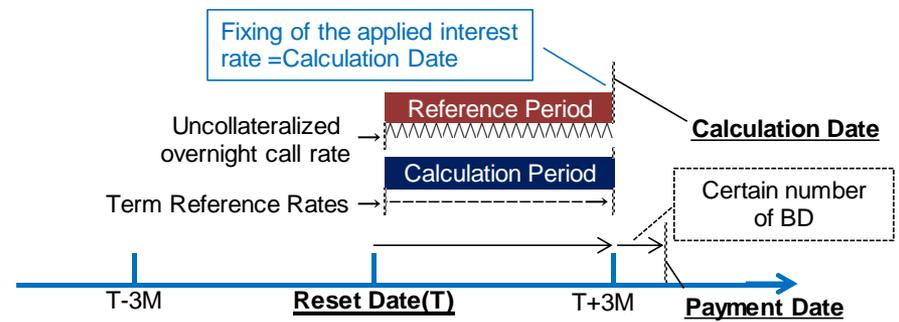
Specific requirements for Option 2



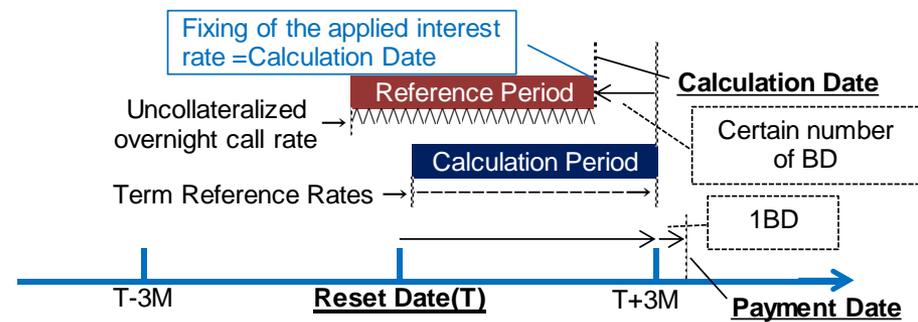
(Reference) Lock out



(Reference) Delay



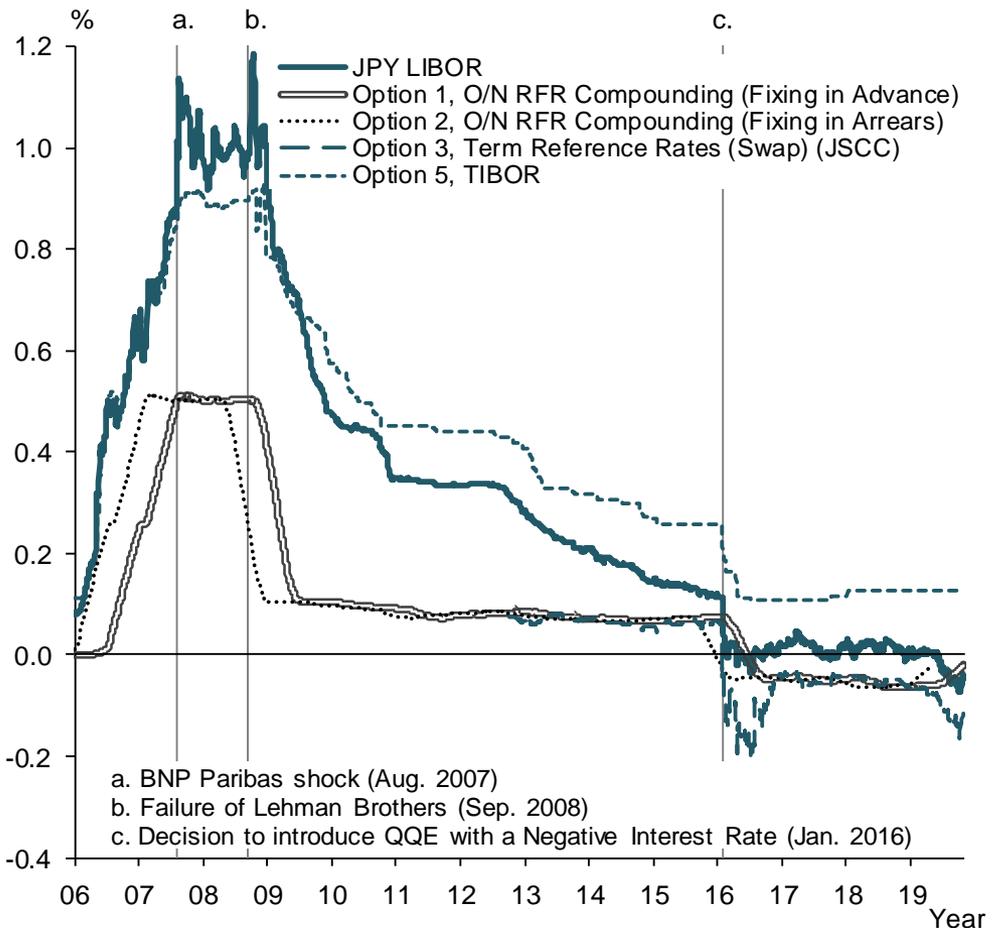
(Reference) Reset days prior



10. Conclusion and Next Steps

- The responses received were well-aligned with the issues subject to the public consultation and reflected feedback from a wide range of industries, including non-financial corporates. Therefore, the intended purpose of the public consultation to obtain feedback from a wide range of entities, representing broad insight, has been achieved.
- The consultation mainly asked market participants for feedback on alternative interest rate benchmarks for JPY LIBOR. Specific evaluations of the five options presented by the Committee according to the nature of financial instruments and transactions were gathered reflecting feedback from a wide range of industries.
 - In general, most respondents supported Option 3 or Option 4, highlighting their compatibility with current business operations and systems, and trading practices
 - The development of Term Reference Rates would take a certain amount of time; for the development of Option 3, a consensus was consequently reached on the need to take initiatives toward enhancing its liquidity, aiming to ensure its robustness and reliability, by taking a phased approach. The need for the temporary use of other options until its development was also shared.
 - For loans, as different views were presented by lenders and borrowers, it was confirmed that they would need to reach a mutual agreement on the path for permanent measures, which includes the selection of the temporary options described above, by engaging in sufficient communication with each other.
 - For bonds, while Option 2 was supported by a relatively large number of respondents including those who envisage using it temporarily, it was confirmed that a sufficient period for preparation is necessary in order to accommodate business operations and systems, as well as trading practices for Option 2, which differ from the current systems and practices.
 - It was pointed out that initiatives led by industry groups and other relevant bodies to establish, for example, transparent guidelines are required to develop market practices and enhance appropriate client services. Some respondents also indicated that appropriate involvement by the relevant authorities is necessary to promote such initiatives.
- The Committee will continue to examine the progress of interest rate benchmark reform and to provide support for market-wide initiatives toward the development of Term Reference Rates.

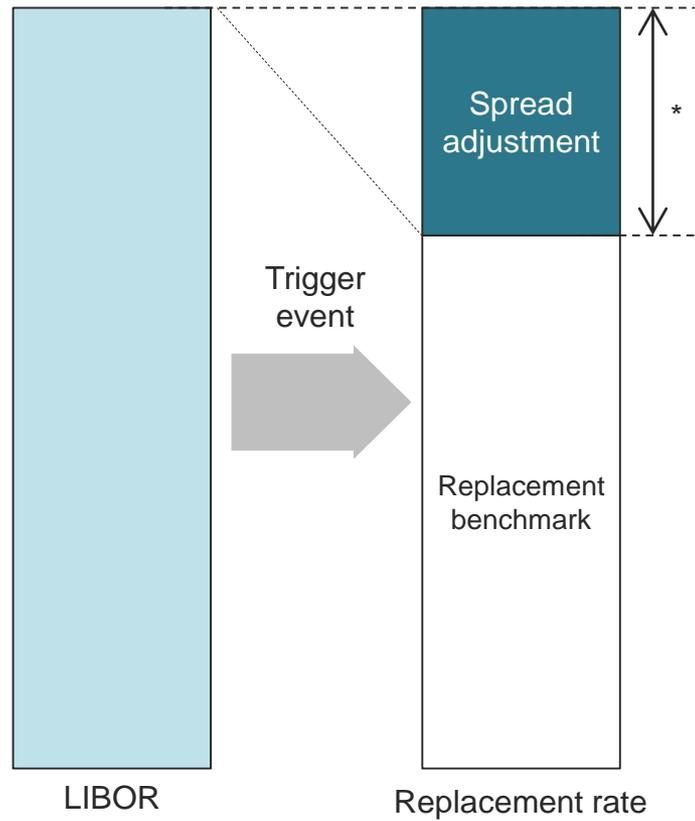
6-month rates for each option



*1 The latest data for Option 2 are as at Apr. 26, 2019. The latest data for options other than Option 2 are as at Oct. 31, 2019.
 *2 Because Option 3 has yet to be developed, the data are substituted with JPY OIS data published by the JSCC on every business day. The data are only available since Oct. 2012.

Source: Refinitiv

Fallback Rate and Spread Adjustment



* Contracting parties agree on a replacement benchmark and corresponding spread adjustment to achieve equivalence with LIBOR to the greatest extent possible. However, it should be noted that no combination can entirely eliminate value transfer.