

Study Group on Risk-Free Reference Rates
Minutes for the October 20, 2015 Meeting
4:30 – 5:30 PM
(Meeting Room in the Bank of Japan)

Summary of the Proceedings

1. Members approved the minutes of the September 16, 2015 meeting. They also approved to publish the minutes on the Bank of Japan's web site.
2. The Secretariat provided an update on recent developments of international discussions about risk-free reference rates.
3. The Secretariat provided a summary of issues related to the case in which the GC repo rate is used as a risk-free reference rate for financial contracts and transactions. After some questions and discussions, members agreed to the summary.
4. The Chair summarized that the group's discussions on the issues related to the uncollateralized overnight call rate and GC repo rate have so far indicated that introducing the latter as a risk-free reference rate would pose more challenges than the case of the former. However, the Chair proposed to defer the final decision on the identification of risk-free reference rates given that both secured rate and unsecured rate options are under review in other major jurisdictions. Members agreed to this proposal.
5. The Secretariat provided a summary of survey results on an outreach plan to market participants and end users. After some questions and discussions, members agreed to ask opinions from members of the Study Group for Activation of Short-Term Money Markets as the first step of the outreach.
6. The Chair announced that the next meeting would be held in mid-November. The Chair proposed that at the next meeting they would discuss the outreach questionnaire, and members agreed.

Summary of Issues Related to GC repo rate

1. The summary of issues agreed by the members is as follows.
 - i. Using GC repo rate as a reference rate for derivatives and coupon payments of bonds would involve the following challenges: i) since there are neither assets nor liabilities directly linked to the GC repo rate, users of interest rate swaps have little incentive to use it as a reference rate; (ii) GC repo rate reflects the supply and demand of the JGB cash market, which is an unsuitable characteristic for a reference rate for derivative transactions; and (iii) it is difficult to construct a robust and reliable benchmark as there are currently few term transactions in GC repo markets.
 - ii. Using GC repo rates as a discount curve for derivatives would necessitate a switch of CSA contracts (most of which currently use the uncollateralized overnight call rate), which could pose a challenge by entailing a transfer of economic value between counterparties.

(Tentative translation by the Secretariat)

Discussion on the Outreach Plan

1. It is preferable to start the outreach at the Study Group for Activation of Short-Term Money Markets, as members of the group represent participants of the money market from each financial industry.
2. With a view to promoting use of risk-free reference rates, the Study Group should envision the rates to be used in credit products including bank loans.
3. In a report published by the Financial Stability Board in July 2014, risk-free reference rates which do not reflect bank credit risk are supposed to be used mainly in derivative transactions. Expanding their use in other products should be carefully considered, since they would obscure the focal point of discussion.

Study Group on Risk-Free Reference Rates

Attendance for the October 20, 2015 Meeting

(Attendees)

Chair	Mizuho Bank	Junichi Kimura
Vice Chair	Nomura Securities	Shigeru Hashimoto
	SMBC Nikko Securities	Kazuhiro Ojima
	Goldman Sachs	Kengo Taguchi
	Daiwa Securities	Kazunao Obinata
	Daiwa Securities	Yukio Shishitani
	Deutsche Bank	Kei Kobayashi
	Nomura Securities	Akifumi Sakurai
	Nomura Securities	Shuhei Nakagawara
	Nomura Securities	Shunichi Fukuda
	Barclays Securities	Kosuke Morihara
	Mizuho Bank	Yoshito Kasamatsu
	Mizuho Bank	Ryosuke Komori
	Mizuho Securities	Hiromichi Kassai
	Sumitomo Mitsui Banking Corporation	Yoshihiro Yamada
	Sumitomo Mitsui Banking Corporation	Koji Yamamoto
	Bank of Tokyo-Mitsubishi UFJ	Daisuke Kataoka
	Mitsubishi UFJ Morgan Stanley Securities	Takehiro Seki
	UBS AG	Yasuo Ushijima
	ISDA	Yasunobu Arima
	ISDA	Koji Sakurai
	ISDA	Tomoko Morita
	Japanese Bankers Association	Kazuhiro Nagata
	Japan Securities Dealers Association	Hajime Takeda
	Japan Securities Dealers Association	Yuya Nakase
	Japan Securities Dealers Association	Masato Maruno

(Observers)

Financial Services Agency	Tomoaki Hayashi
Financial Services Agency	Masaya Hatoma
Financial Services Agency	Mitsune Shirasawa
Financial Services Agency	Hiroki Fukushima
Bank of Japan	Kenji Fujita
Bank of Japan	Yoshiaki Azuma
Bank of Japan	Shigeru Shimizu