(Tentative translation)

[I] Report from the Sub-Group on Loans

- The Committee determined at its twelfth meeting (February 25, 2020) that the Sub-Group on Loans would make deliberation on spread adjustment methodologies for fallbacks in loans referencing JPY LIBOR. Thereafter, at its thirteenth meeting (March 31, 2020), the members of the Committee approved the specific matters to be discussed in the sub-group proposed by the chair.

- On this point, the sub-group discussed spread adjustment methodologies, mainly focusing on a historical median approach over a 5-year lookback period for each replacement benchmark, taking into account the public consultation held by the Committee and the consistency with global discussions. Subsequently, the sub-group consulted with its members on specific issues and the results are as described below in (1). The sub-group would like to ask the Committee to issue a recommendation on spread adjustment methodologies applicable to either Term Reference Rates or to O/N RFR Compounding (Fixing in Arrears).

- Some financial institutions and non-financial corporates indicated that it would be useful to further examine the details of replacement benchmarks in order to proceed with actual operations including client negotiations and internal discussions for introducing a fallback provision. Given these views, the sub-group consulted with its members whether a recommendation for loans should be issued by the Committee and about the content of the recommendation. Based on the results of the consultation, the sub-group would like to ask the Committee to issue a recommendation as shown below in (2).

- The Japanese Bankers Association (JBA) recognized that it would be important to set a time frame in order to encourage market participants to transition away more actively from JPY LIBOR to alternative benchmarks. Based on this recognition, the JBA proposed a draft transition plan for loans referencing JPY LIBOR. The sub-group consulted with its members on the draft transition plan and the results are as shown below in (3).

(1) Spread adjustments

- ✓ As for spread adjustment methodologies applicable to either Term Reference Rates or to O/N RFR Compounding (Fixing in Arrears) as the replacement benchmark for loans, all respondents agreed on the following points, taking into account the public consultation held by the Committee and the consistency with global discussions. That is, they prefer to use (i) the historical median approach over a 5-year lookback period (without a transition period), (ii) O/N RFR Compounding (Fixing in Arrears) to address any lack of a historical data of Term Reference Rates, and (iii) ISDA spread for spread adjustment (the historical median approach over a 5-year lookback period, without a transition plan) to be released by Bloomberg for specific figures.

✓ A large majority of respondents agreed to continue examining appropriate spread adjustment methodologies applicable to TIBOR as a replacement benchmark, as some respondents pointed out issues arising when adopting the "historical median approach over a 5-year lookback period," for example, those associated with the economic value of the rates calculated by using the approach.

(2) Replacement benchmarks for loans

✓ Regarding replacement benchmarks for JPY LIBOR, a majority of respondents supported the waterfall structure shown below, taking into account the consistency with global discussions, market participants' preference for Term Reference Rates, and the sub-group's discussion on spread adjustments for those rates being completed.

1st priority	Term Reference Rates
2nd priority	O/N RFR Compounding (Fixing in Arrears)[1]
3rd priority	The alternate rate of interest that has been selected by the Lender [giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention]

— On the other hand, on the premise that the spread adjustment methodology applicable to TIBOR[2] as the replacement benchmark would be established, the waterfall structure using TIBOR in the second priority was supported by some respondents mainly due to a preference for the rates fixing in advance, the compatibility with the current administration and systems, and a consideration for developing administrative systems. Therefore, even if the Committee recommends the waterfall structure using O/N RFR

[1] Taking account of the discussions in the Alternative Reference Rates Committee (ARRC), there was also a view that a simple average of O/N RFR (Fixing in Arrears) should be used in the second priority.
[2] There were opinions that TIBOR would be one of the best options for the transition in advance.

Compounding (Fixing in Arrears) in the second priority, the sub-group would like to ask the Committee to include the following: "the Committee shall not preclude contracting parties from selecting waterfall structures other than the above including those using TIBOR or single replacement benchmark."

(3) Transition plan

- ✓ A large majority of respondents supported the draft transition plan for loans referencing JPY LIBOR proposed by the JBA. A number of members indicated that, as in the case of the ARRC's best practice, it would be beneficial to publish the draft in order to develop a common understanding among the entire market.