

[III] Report from the Sub-Group for the Development of Term Reference Rates

- The Committee determined at its twelfth meeting (February 25) that 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.
- In light of this, the sub-group consulted with its members who participated in the interbank market, in order to make the Term Reference Rates robust and reliable.
- Views provided by the consulted members (respondents) and the potential course of action based on these views are as follows.
 - Institutional investors and non-financial corporates are also expected to develop the measures including the administration and IT systems.

1. Needs for JPY OIS

- ✓ In the case that clients (including borrowers on loans and issuers of bonds) raised funds with referencing the Term Reference Rates, Term Reference Rates followed by O/N RFR Compounding (Fixing in Arrears) were the most commonly cited as the assumed reference rates for the swaps (interest rate swaps and currency swaps) provided by the respondents to fulfill the clients' demand to hedge their funding.
- ✓ When respondents provided their clients with the swaps referencing the Term Reference Rates (mentioned above), many of them assumed to reference the Term Reference Rates, the same rate as the above, in interbank transactions covering the swap transactions with their clients, from the perspective of reducing basis risks.
- ✓ However, considering global discussions¹ and the fact that the Term Reference Rates swaps are not cleared by the Japan Securities Clearing Corporation (JSCC) at the moment, it is essential to revitalize trading of JPY OIS, which is the underlying transaction of the Term Reference Rates, because the robustness of the Term Reference Rates is important when using them for the transactions with clients.



Financial institutions participating in the interbank market are expected not only to increase the number of JPY OIS transactions, but also to (1) submit the quote data of JPY OIS proactively and (2) develop the related administration and IT systems.

¹ For example, the document released by the FSB described that the robustness of RFR-derived term rates would depend on liquidity in OIS markets, but activity in OIS markets might be thin and therefore RFR-derived term rates could not equal the robustness of the overnight RFRs and thus RFR-derived term rates should be used only where necessary. There are similar discussions in the United Kingdom and the United States. From this point of view, it is necessary to enhance the liquidity in the JPY OIS market.

2. Expected initiatives for revitalizing JPY OIS

(1) Proactive engagement in submitting quote data

- It was confirmed that many respondents had already submitted quote data for JPY OIS² including those with a specified notional amount.
- Meanwhile, approximately half of the respondents answered that the submission of quote data was "under discussion." Some were of the opinion that QUICK Corp. and brokers should establish governance structures, and guidelines or other principles should be formulated on the responsibility of dealers who actually submit quote data to brokers.

Status	Quote data without a specified notional amount	Quote data with a specified notional amount
(1) Already submitted every business day	2 respondents	1 respondent
(2) Already submitted (but not every business day)	6 respondents	5 respondents
(3) Plan to submit when the Term Reference Rates are published on a daily basis	1 respondent	1 respondent
(4) Plan to submit within this year	1 respondent	1 respondent
(5) Under discussion	9 respondents	11 respondents

- ✓ In order to further encourage financial institutions to submit quote data, it is important to foster an environment where dealers could submit quote data without discomfort.
- ✓ It is expected that governance structures will be established mainly by QUICK Corp. in order to enhance the transparency of the Term Reference Rates. In addition, dealer financial institutions are also expected to set up internal governance structures.



The supervisory authority should provide appropriate support in order to establish governance structures for securing transparency.

² The Term Reference Rates are calculated based on the five-tier waterfall structure using JPY OIS data. Specifically, the framework places the first priority on executed transaction data and the second to fifth priorities on quote data, and then the higher prioritized data are used for calculation.

(Tentative translation)

(2) Development of the administration and IT systems for JPY OIS

- The administration of interest rate swaps is roughly divided into four steps: (1) contracts at front offices; (2) confirmation at back offices; (3) taking counterparty credit risk, clearing, and notification of settlement amount by the JSCC; and (4) settlement. Administrative differences between LIBOR swap and JPY OIS are summarized below.

		LIBOR swap	JPY OIS
(1) Contract		2 business days before the start date of transactions	Same as on the left
(2) Confirmation of contract		In principle, 2 business days before the start date of transactions	Same as on the left
(3)	Taking counterparty credit risk	By start date of transactions	Same as on the left
	Transferring margin	Calculating margin on a daily basis and transferring on the next business day	Same as on the left
	Notification of settlement amount	1 business day before the end date of calculation period	Next business day of the end date of calculation period
(4) Settlement		End date of calculation period	2 business days after the end date of calculation period

- ✓ It was confirmed that many respondents had already developed the administrative and IT systems for JPY OIS, and the others had started to examine the related issues.
- ✓ Some respondents claimed that they would need additional measures because the duration between determination of settlement amount and settlement was shorter than LIBOR swap. However, as a whole, it is unlikely that the administrative and IT systems will put constraints on the revitalization of JPY OIS.

(Tentative translation)

3. Requests to the supervisory authority

- ✓ It is necessary to clarify the responsibility of dealer financial institutions, who submit quote data, through enhancing the transparency of calculation procedure by QUICK Corp.

4. Requests to QUICK Corp.

- ✓ Real-time distribution to information vendors (Bloomberg, Refinitiv, etc.).
- ✓ Release of data sources and calculation methodologies.
- ✓ Calculation and publication of TONA Average and TONA Index.