(Tentative translation)

[II] Report from the Sub-Group on Bonds

- As a result of the public consultation held by the Committee last year, a large majority of respondents agreed that fallbacks for bonds referencing JPY LIBOR should be aligned with those for ISDA derivatives in order to maintain a hedge accounting relationship.

- Since then, some progress has been made in global discussions (initiatives made by national working groups and authorities), as well as in several domestic areas such as accounting standards and individual firms' initiatives to review business operations and IT systems. For bonds, it is important that the fallbacks are standardized to some extent, taking account of their nature that involves many and unspecified investors (bondholders) with a view to enhancing liquidity in the secondary market.

- The Discussion Group on Interest Rate Benchmark Transition comprising of major securities companies (the Secretariat: the Japan Securities Dealers Association; hereinafter the "Discussion Group") has deliberated on the summary of potential conventions and fallback options for bonds. The sub-group consulted with its members on the results of the deliberations made by the Discussion Group, in order to solicit comments from a wider range of relevant parties and show a direction of fallbacks for bonds referencing JPY LIBOR. The results are as described below. The sub-group would like to ask the Committee to issue a recommendation, particularly on the points indicated in (1).

(1) Replacement benchmarks for bonds

✓ As for the replacement benchmarks for straight bonds, with reference to the Alternative Reference Rate Committee (ARRC)'s recommended fallbacks, the Discussion Group proposed that it was desirable to adopt the waterfall structure as shown below, which would facilitate the smooth transition of the benchmarks by using the rates fixing in advance (Term Reference Rates). The proposal was agreed unanimously.

1st priority	Term Reference Rates
2nd priority	O/N RFR Compounding (Fixing in Arrears)
3rd priority	Rates recommended by the authority related committee[1]
4th priority	ISDA Fallback Rate
5th priority	Rates selected by issuers

[1] It points to the committees recommended or convened by the central bank or the relevant authority.

(2) Draft of the transition plan for bonds

- ✓ Members agreed on a draft of the transition plan for bonds referencing JPY LIBOR proposed by the Discussion Group. A number of members were of the opinions 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.

(3) Other issues

- ✓ As for fallbacks for securitizations, the following points were supported among members: (a) to recommend to introduce not only a permanent cessation trigger and a "non-representative" pre-cessation trigger but also an "asset replacement percentage" pre-cessation trigger and (b) to use the same replacement benchmark as that of the underlying assets to minimize the basis risk, while the discretion should be left for the underlying markets to some extent in order to take the developments in replacement benchmarks into account.

- ✓ As for fallbacks for structured bonds, it was agreed that it would be appropriate not to adopt Term Reference Rates in some cases as the first priority in the waterfall structure, in order to ensure alignments with fallbacks for derivatives, while characteristics of the products should also be taken into account.

- ✓ Some members shared a view that it would be desirable that industry groups take the initiative in proceeding with further deliberations on actual operations including the following points.

  (a) to prepare a sample of the fallback provision for bonds

  (b) to develop a convention related to settlement such as a calculating method for accrued interest

  (c) to deliberate on outreach activities for investors including retail customers