(Tentative translation)

(Meeting item for the August 26, 2021 Meeting)

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

- The Sub-Group for the Development of Term Reference Rates evaluated results of the public consultation paper mainly on the fallback for the LIBOR Tokyo Swap Reference Rate (TSR) released by Refinitiv[1] and reached a consensus as below.
- The Sub-Group expects market participants to proceed with necessary preparations in accordance with the consensus below.

1. The Sub-Group welcomes the public consultation paper mainly with regard to the fallback for the LIBOR TSR by Refinitiv and releases its results to promote smooth preparations for the transition including that for financial transactions referencing the LIBOR TSR.

2. The fallback approach to and the formula for the LIBOR TSR suggested in the results of the public consultation paper are consistent with approaches regarding the ICE Swap Rate taken by the Working Group on Sterling Risk-Free Reference Rates (RFRWG)[2] in the United Kingdom and the Alternative Reference Rates Committee (ARRC)[3] in the United States. They can be used as fallback provisions including those for existing contracts referencing the LIBOR TSR after the end-2021 cessation of LIBOR based on the current methodology that references rates provided by panel banks.

   - The Sub-Group evaluated the fallback for the LIBOR TSR suggested in the results of the public consultation paper, specifically taking account of the following points.

[1] The LIBOR TSR is an interest rate benchmark calculated based on interest rate swaps referencing JPY LIBOR. It is used for such as interest rates determination after the closing date of fixed rates of constant maturity swaps and subordinated debt and formula for working expenses in the public finance initiative taken in Japan.
https://www.refinitiv.com/content/dam/marketing/ja_jp/documents/white-papers/tokyo-swap-rate-methodology-consultation-summary.pdf

[2] https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/supporting-transition-in-sterling-non-linear-derivatives-referencing-gbp-libor-ice-swap-rate.pdf

[3] https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/arrc-white-paper-on-suggested-fallback-formula-for-the-usd-libor-ice-swap-rate

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- *Timing of adopting the fallback rate*
  - The fallback rate is intended for use after the end-2021 cessation of LIBOR based on the current methodology referencing rates provided by panel banks.
- *Fallback approach to and formula for the LIBOR TSR*
  - Using (1) convexity adjustment, (2) spread adjustment, and (3) day count adjustment is consistent with approaches related to the ICE Swap Rate taken by the RFRWG and ARRC.

$$Fallback\ \ LIBOR\ \ TSR = \underbrace{2 \times \left[\sqrt{1 + TONA\ \ TSR} - 1\right]}_{\text{(1) convexity adjustment}} + \underbrace{ISDA\ \ Spread_{6M}}_{\text{(2) spread adjustment}} \times \underbrace{\frac{365}{360}}_{\text{(3) day count adjustment}}$$