

[III] Possible Options and Evaluations of Reference Rates for Bonds

- The following are the evaluations of the members of Sub-Group on Bonds of the reference rate options (1) to (5). The sub-group does not intend to exclude any of the options at this stage and intends to continue further deliberation on each option.

(1) O/N RFR Compounding (Fixing in Advance)

- ✓ Fixing method differs from bonds referencing LIBOR. Furthermore, bonds referencing this option might not be hedged by OIS. However, considering its compatibility with the current operations and systems, this option might potentially serve as a temporary reference rate until the development of term reference rates rate (3) or (4) is completed.

(2) O/N RFR Compounding (Fixing in Arrears)

- ✓ While its fixing method differs from bonds referencing LIBOR, bonds referencing this option might be hedged by OIS (although OIS transactions need to be activated). Furthermore, several bonds referencing this option have already been issued in the US and the UK. However, compatibility with current operations, systems and accounting standards must be examined.

(3) Term Reference Rates (Swap)

- ✓ With a similar fixing method as bonds referencing LIBOR, this option might be compatible with current operations, systems and accounting standards. That said, the rates need to first be developed and their development requires activation of OIS transactions.

(4) Term Reference Rates (Futures)

- ✓ With a similar fixing method as bonds referencing LIBOR, this option might be compatible with current operations, systems and accounting standards. That said, the rates need to first be developed (which might demand model derivation) and their development requires reopening and activation of futures transactions.

(5) TIBOR

- ✓ With a similar fixing method as bonds referencing LIBOR, this option basically seems compatible with current operations, systems and accounting standards. Nevertheless, there are several hurdles such as activation of derivatives referencing TIBOR and harmonization with risk-free based reference rates overseas.