[II] Possible Options and Evaluations of Reference Rates for Loans

■ The following are the evaluations of the members of Sub-Group on Loans of the reference rate options (1) through (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 loans referencing LIBOR. Furthermore, loans referencing this option might not be hedged by OIS. However, considering its compatibility with current operations and systems, this option might potentially serve as a temporary reference rate until the development of term reference rates (3) or (4) is completed.

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

- ✓ While its fixing method differs from loans referencing LIBOR, since loans referencing this option might be hedged by OIS (although OIS transactions need to be activated), this option might potentially serve as a temporary reference rate until the development of term reference rates (3) or (4) is completed. However, compatibility with current operations, systems and accounting standards, such as the calculation of accrued interest must be examined.

(3) (4) Term Reference Rates (Swap and Futures)

- ✓ Having only a few practical issues to be solved upon their implementation because of their compatibility with current operations, systems and accounting standards resulting from similarities in fixing methods with loans referencing LIBOR, they might potentially serve as an alternative reference rate. That said, the two options need to first be developed and their development respectively requires activation of OIS transactions, and reopening and activation of futures markets. Also, in case loans referencing these options might not be hedged using preexisting products, creation and activation of swap markets referencing risk-free term rates based on these options would be necessary.

(5) TIBOR

- ✓ With a similar fixing method as loans referencing LIBOR, this option basically seems compatible with current options, systems and accounting standards, and thus TIBOR is expected to continue to be used as always. Nevertheless, there are several hurdles such as setting its fallback contract language, activation of derivatives referencing TIBOR and harmonization with risk-free based reference rates overseas.