(Tentative translation)

[III] Reports from the Sub-Group on Bonds

■ Approach to Fallbacks for Bonds

The following are the views of the members of the Sub-Group on Bonds concerning the approach to fallbacks for bonds, according to an internal survey, to which 22 issuers and 28 investors responded. The sub-group intends to continue further deliberation on the topic, taking into account ISDA's approach to fallbacks for derivatives and developments overseas.

(1) Status of the development of fallback provisions

- ✓ Of the respondents who have issued or have invested in bonds maturing after the end of 2021, more than half reported that they do not have fallback provisions contemplating the permanent discontinuation of JPY LIBOR.

(2) Attitude toward content of fallback provisions

- ✓ More than half of the respondents favored the idea that fallback provisions should be consistent in certain respects with fallbacks that ISDA intends to include in its standard documentation for derivatives. However, some preferred that they be defined by third parties such as a relevant public body and that the replacement benchmark waterfall suggested by the U.S.'s ARRC be adopted.

It should be noted that a Bondholders' Meeting must be held in principle to amend or adopt fallback provisions for existing bonds for which fallback provisions contemplating the permanent discontinuation of JPY LIBOR are not in place. In order to ensure smooth transition, it is desirable to conduct the meeting well before the discontinuation of JPY LIBOR and establish secure fallback provisions in advance.

- ✓ Considering their characteristics, including liquidity, anonymity, and holder diversity, a Bondholders' Meeting must be held to amend or adopt fallback provisions for publicly offered bonds in particular. (As for privately placed bonds, it is possible to assume that this could be done after directly gaining consent from each bondholder.)
- ✓ Some respondents stated that it is ideal for some sort of procedural guideline to be presented on how to gain consent from bondholders.

■ Bonds and Issues regarding Hedge Accounting

As for hedge accounting, it is assumed that the main debate will be whether it is possible for the hedging relation to continue to be effective in the following scenarios. Efforts will be made to consult the matter with the Financial Services Agency and the Accounting Standards Board of Japan.

(1) When the replacement benchmark of a hedged item (bonds) and that of its hedging instrument (derivatives) to be used after the activation of fallbacks differ

(2) (With the replacement benchmarks being the same,) when the timing of activation of fallbacks for a hedged item and its hedging instrument differ because of a difference in trigger events between the two products (e.g., in cases where bonds are transitioned to their replacement benchmarks due to after fallbacks are triggered, while related derivative products are still referencing LIBOR.)