



Interest Rate Benchmark Reform in Japan

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Figure 1

Widespread Use of LIBOR

Outstanding volume of transactions referencing key IBORs

(tril. U.S. dollars)

Currency	Volume
USD LIBOR	150
GBP LIBOR	30
CHF LIBOR	6.5
EUR LIBOR	2
JPY LIBOR	30
Ref. EURIBOR	150
Ref. TIBOR	5

Assets referencing JPY LIBOR

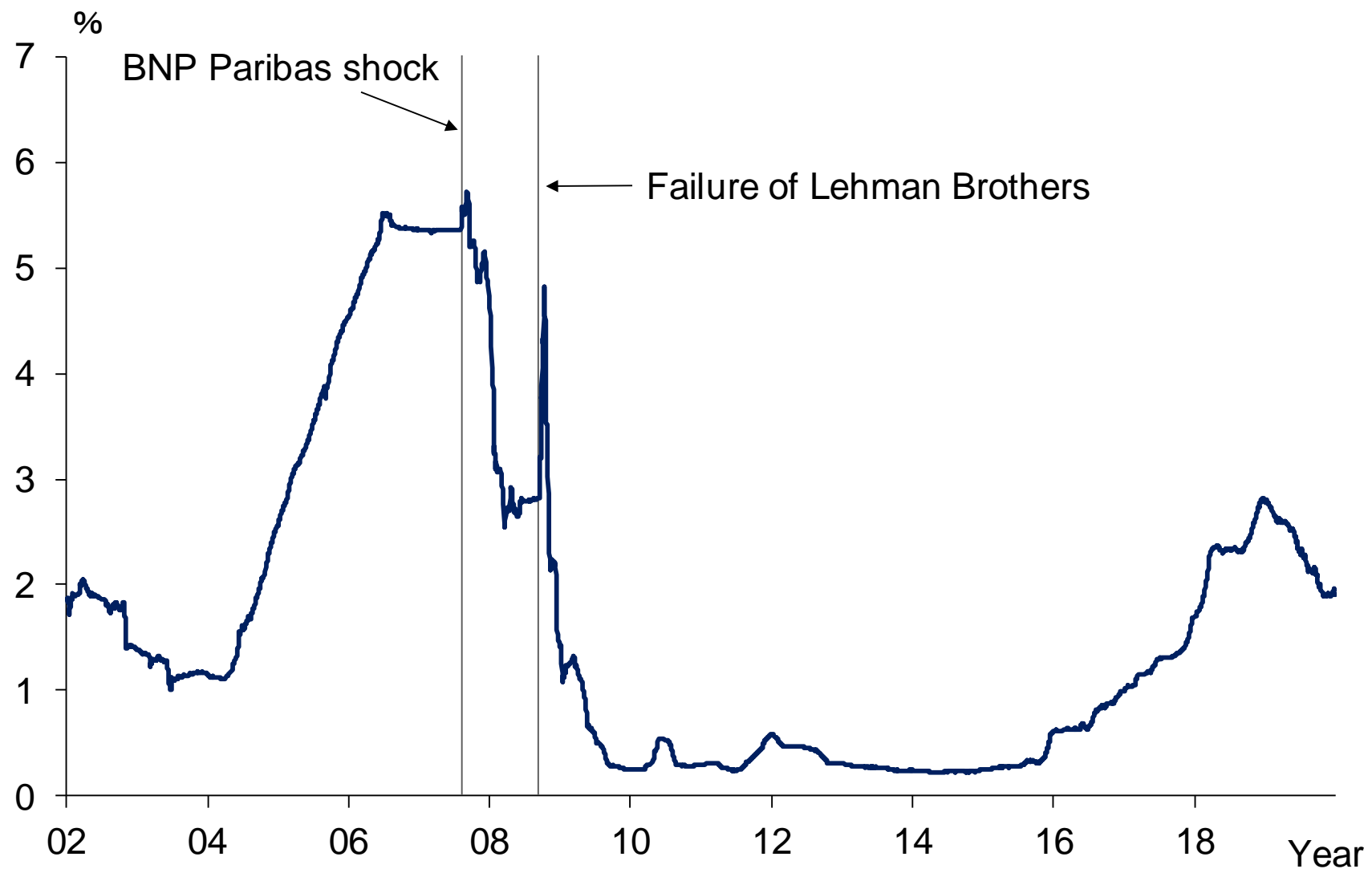
(tril. yen)

Asset Class		Volume
Loans	Corporate loans (bilateral)	68
	Syndicated loans	75
Bonds	Floating rate notes	3
OTC Derivatives	IR swaps	2,453
	Swaptions	235
	Basis swaps	197
	Cross-currency swaps	108

Source: FSB "Final Report of the Market Participants Group on Reforming Interest Rate Benchmarks" (March 2014).

Figure 2 Sharp Rise of LIBOR in the Global Financial Crisis

3-month USD LIBOR



Note: The latest data as of December 31, 2019.
Source: Bloomberg.

Figure 3 Toward Interest Rate Benchmark Reform

- Decrease in the reliability of LIBOR, which has been widely used in various areas
- Concerns over smooth pricing in financial markets, including the derivative market
- Influence on corporate financing through loans and bonds

Potential threat to financial stability



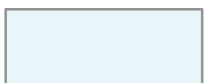
Interest Rate Benchmark Reform

- Restore the reliability of interest rate benchmarks
- Secure robustness to prevent fraudulent manipulation

Figure 4

Direction of Interest Rate Benchmark Reform

USD	EUR	JPY
<p>SOFR (Secured Overnight Financing Rate)</p>	<p>€STR (Euro Short-Term Rate)</p>	<p>TONA (Uncollateralized overnight call rate, Tokyo Overnight Average rate)</p>
	<p>EURIBOR</p>	<p>TIBOR</p>



... Risk-free rates identified in each currency

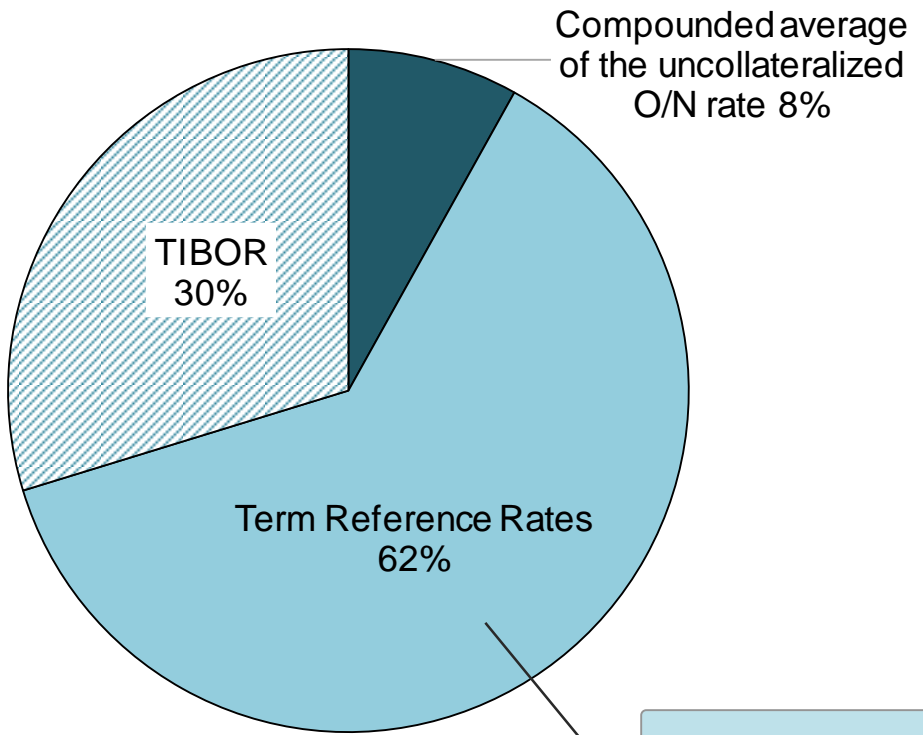


... Existing interest rate benchmarks that include bank credit risk

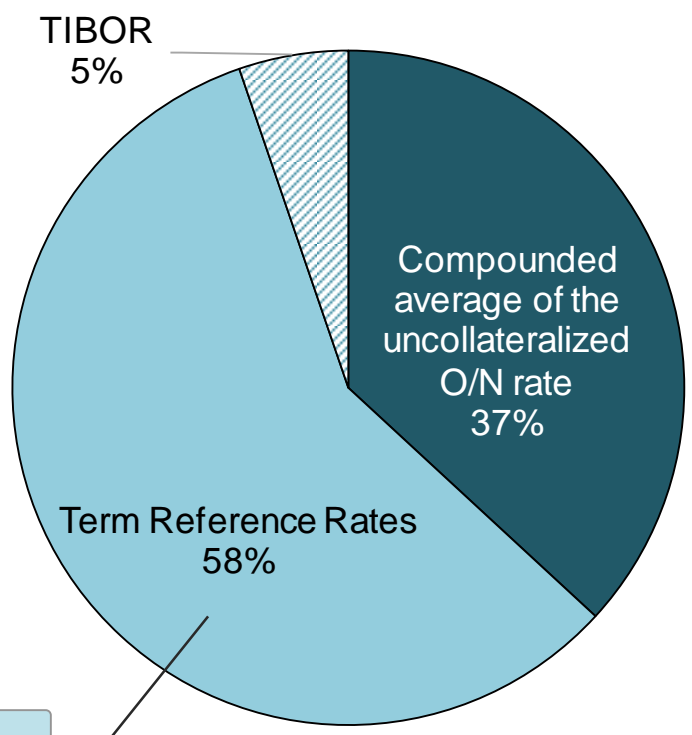
Figure 5 Results of Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks (excerpt)

Options for alternative benchmarks to JPY LIBOR

Loans



Bonds



To be published by mid-2021

Note: Multiple answers allowed. Comments from industry groups are regarded as one opinion regardless of the number of members in the group.

<p>Understand the status of using LIBOR</p>	<ul style="list-style-type: none"> • Identify specific financial instruments and transactions referencing LIBOR • Identify operations using LIBOR other than financial transactions (e.g., accounting and risk management)
<p>Develop systems and secure internal resources</p>	<ul style="list-style-type: none"> • Establish a specified section dedicated to the transition to an alternative interest rate benchmark • Secure internal resources, including staff and a budget <p>⇒ It should be noted that it will take considerable time to review systems and operations and revise loan contracts.</p>

Figure 7

Planned Market-Wide Initiatives

Expected discontinuation of LIBOR after end-2021



Item	2019		2020				2021			
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Publication of prototype rates for Term Reference Rates (Phase 1)	To be published around the first quarter of 2020									
Publication of production rates for Term Reference Rates (Phase 2)				To be published no later than mid-2021, (while making best efforts to move the schedule forward)						

Support by the Bank of Japan and the Japan Financial Services Agency

<Encourage financial institutions to take measures>

Initiatives by individual companies

e.g., BOJ and JFSA conducted a joint survey regarding the status of using LIBOR, etc. by financial institutions

<Coordinate different viewpoints of a diverse range of parties>

Market-wide initiatives

e.g., BOJ serves as the secretariat of the Committee, playing the role of coordinator and facilitator.

Secure smooth pricing in financial markets and the stability of financial transactions

Figure 9 Improving the Attractiveness of Tokyo's Financial Markets

Initiatives to improve the functions of important infrastructure for economic entities to engage in financial and economic activities

Initiatives for interest rate benchmark reform

Examples of other initiatives

**Bond
Market**

2018: Shortening of the JGB settlement cycle to T+1

**Equity
Market**

2014: Japan's Stewardship Code

2015: Japan's Corporate Governance Code

**FX
Market**

2017: FX Global Code

Improving the attractiveness of Tokyo's markets as international financial markets and Japanese yen's mother market