



LIBOR Transition in the Final Stage:

There will be No *Deus ex Machina*

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1st stage (2012-)

- Both yen LIBOR and TIBOR (calculated based on interbank rates in the Tokyo market) became subject to the enhancement of robustness as benchmarks
- The uncollateralized overnight call rate was identified as the yen risk-free rate in Japan

2nd stage (July 2017-)

- The Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks (the Committee) was established. It promoted considerations on the choice and usage of alternative interest rate benchmarks replacing yen LIBOR

Final stage (March 2021-)

- With more progress made in the considerations, tools necessary for the transition are ready
-> Now the focus is on the actual transition activities by individual market participants

TIBOR

- Based on interbank rates submitted by 15 financial institutions in Japan, including major banks

O/N RFR Compounding (Fixing in Arrears)

- Based on the uncollateralized overnight call rate used in actual transactions
- The most robust benchmark, but it may be less compatible with the existing administrations and systems because the interest amount is only finalized just before the next payment

TORF (Tokyo Term Risk Free Rate)

- The term risk-free rate in Japan
- Based on the OIS rate, a fixed interest rate exchanged in the interest rate swaps (IRS) to a floating rate calculated using the uncollateralized overnight call rate compounded in arrears
- It may be more compatible with the existing operations and systems but how to establish its robustness is a critical issue

Milestone

- The issuance of new transactions for loans and bonds referencing yen LIBOR needs to be ceased by the end of June 2021



Tools for the success

- The Committee indicated in the results of its first public consultation that the term risk-free rate received the most support as an alternative benchmark
- The publication of a production rate for TORF started on April 26, 2021 (about two months ahead of its initial schedule)

Milestone

- The amount outstanding of legacy contracts for loans and bonds referencing yen LIBOR needs to be reduced substantially by the end of September 2021



Tools for the success

- The Committee indicated in the results of its second public consultation that its recommendation to give TORF the first priority and the O/N RFR Compounding (Fixing in Arrears) the second priority as fallback rates was supported by many market participants
- Industry groups, including the JBA, published samples for fallbacks in loans

Milestone

- New transactions of yen LIBOR swaps needs to be ceased and transitioned to those of OIS



Tools for the success

- The Committee published "Preparations for the discontinuation of LIBOR in the JPY interest rate swaps market"
 - ✓ New transactions of yen LIBOR swaps should be ceased by no later than the end of September 2021
 - ✓ OIS should be the dominant option replacing yen LIBOR swaps