



# LIBOR Transition in the Final Stage:

There will be No *Deus ex Machina*

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1<sup>st</sup> 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

2<sup>nd</sup> 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