

## **Cross-Industry Forum on Interest Rate Benchmarks**

### **Minutes for the April 21, 2022 Meeting**

**4:30—5:40 PM**

**(The first meeting, via conference call)**

- The chair started the meeting with some remarks on the holding of the first meeting of the Cross-Industry Forum on Interest Rate Benchmarks (hereinafter "the Forum"), introduced the participants, and explained the meeting agenda. The chair also stated that he expected lively communication from a large number of participants in view of the purpose for which the Forum had been established.

#### **I. Exchanging Information on the LIBOR Transition**

##### **(1) Domestic and international developments in the LIBOR transition and "Summary of Results of the Third Survey on the Use of LIBOR"**

- The Secretariat (Market Infrastructure Division at the Financial Markets Department, Bank of Japan) discussed domestic and international trends on the LIBOR transition.
- The BOJ's Financial System and Bank Examination Department provided explanation of "Summary of Results of the Third Survey on the Use of LIBOR." The survey was conducted by the FSA and the BOJ and the results were published at the end of March 2022.

##### **(2) Exchanging opinions on the progress of the LIBOR transition**

- Buy-side members and bank members made the following comments regarding the progress in transition from JPY LIBOR since the beginning of 2022 and the efforts to prepare for the cessation of USD LIBOR at the end of June 2023 among other issues.

—JPY LIBOR transition had been almost completed at the end of 2021. Some exceptional cases included loans and bonds for which the transition had not been completed, but transition policies had been finalized for these cases and revision of the contracts had been underway. As for the transition from USD LIBOR, trends that were emerging in response to the enactment of the federal legislation in the United States were being monitored, and the transition in a global manner had been discussed. IT system arrangements had been completed and SOFR was used in new transactions, such as corporate bonds and interest rate swaps.

—For contracts referencing JPY LIBOR, the transition had been completed by the end of 2021. The member wished to express their appreciation to those who had taken the

initiative in the transition. As for USD LIBOR, a certain number of exposures remained and it was planned to move ahead with the transition in earnest. Any major challenges had not been identified at the moment.

- A smooth transition had been achieved with regard to JPY LIBOR. Some contracts had been planned to transition by the day of the first revision of interest rates after the turn of 2022 as of the end of 2021 and the size of the internal project setup had been reduced. With regard to USD LIBOR, new transactions had been transitioned without any problem. As for existing transactions, we recognized that full-scale initiatives in the market as a whole had not yet begun. It would be desirable to consider the idea of external communication via the Forum as necessary.
- Initiation of new transactions referencing USD LIBOR had been ceased in general in line with recommendations issued by U.S. authorities. As for existing transactions, no recommendations or milestones had been indicated yet and it was unclear when exactly the full-scale transition would take place in the industry as a whole. In particular, in the case of transactions involving many parties, such as syndicated loans, the transition was expected to be sped up as much as possible.
- Based on the above comments, the chair summarized that smooth progress had been observed in the transition away from JPY LIBOR, including in a small number of contracts for which the transition had not been completed at the end of 2021. He also touched upon many comments made about transition away from USD LIBOR that the transition of existing transactions would be carried out in full scale in the coming months. He then added that he would like activities of the Forum to be continued while keeping a close eye on overseas developments.

## II. Trends on Alternative Interest Rate Benchmarks in the Japanese Markets

### (1) Efforts on the enhancement of reliability and robustness of TIBOR and TORF

- The Japanese Bankers Association TIBOR Administration (JBATA) reported on efforts on the enhancement of reliability and robustness of TIBOR, and QUICK Benchmarks reported on equivalent efforts for TORF.
- In response, a securities company member asked about the progress in efforts to have TORF meet the EU Benchmark Regulation, and QUICK Benchmarks replied that they had been working on it steadily in cooperation with the relevant authorities.

## (2) Exchanging opinions on the usage of each interest rate benchmark

- Bank, securities company, and non-financial corporate members shared opinions as follows regarding the usage of Japanese yen interest rate benchmarks.

(Bank members)

- Both TONA Compounding (fixing in arrears) and TORF had been used to a certain extent as replacement rates for existing contracts of loans referencing JPY LIBOR. However, TIBOR, which was widely used in new transactions, had been used only to a limited extent in the existing loans. As for derivatives, many transactions had adhered to the ISDA protocol and completed their transition to TONA Compounding (fixing in arrears). There were customers who chose TORF in a small number of ISDA-compliant and non-compliant transactions for reasons such as in-house administrative procedures or maintaining consistency with other transactions.
- To promote the use of TONA Compounding (fixing in arrears), there was room for improvement on the operational side both at customers and financial institutions. As for customers, there were cases in which the use of TONA Compounding (fixing in arrears) had been postponed due to the need for administrative and systems preparations. Some financial institutions seemed to have been unable to handle TONA Compounding (fixing in arrears) and continued to face challenges with regard to improving the efficiency of their operations.

(Securities company members)

- TONA Compounding (fixing in arrears), TORF, and TIBOR were all used as fallback rates for existing transactions of bonds. In many cases, TONA Compounding (fixing in arrears) was preferred for structured products that included derivatives, while TONA Compounding (fixing in arrears) and TORF were both preferred for general bonds. The use of TIBOR was limited, owing to factors including a lack of consensus for spread adjustments. With regard to new transactions, market standards did not seem to have been fixed yet. Hybrid bonds had adopted TONA Compounding (fixing in arrears), TIBOR, and the interest rate of Japanese government bonds in some cases. Among general bonds, TONA Compounding (fixing in arrears) was used for Euroyen bonds. TONA Compounding (fixing in arrears) was also used in the majority of cases of structured products.
- In derivatives, most interest rate swaps and swaptions in the interbank market used TONA

Compounding (fixing in arrears). But there were also some transactions referencing TIBOR.

(Non-financial corporate members)

- The member had been proceeded with the shift to transactions based on risk-free rates, especially TORF, which was considered easier to use. Hereafter, TORF was expected to be used more widely, and thereby improve its representativeness. Conversely, there had been only limited transition from JPY LIBOR to TIBOR. Nevertheless, TIBOR was regarded highly in Japan, and some parties had in fact transitioned to it.
- In the case of TONA Compounding (fixing in arrears), time and effort were required during the administrative work regarding settlement, mainly for recording accrued and unpaid interests. The use of TONA Compounding (fixing in arrears) was expected to increase as progress would be made in setting fixed rules and devising simpler calculation methods.

(A bank member)

- The member said it had the impression that the use of TONA Compounding (fixing in arrears) required more administrative work, and that TORF should be used more widely.
- Based on the above discussions, the chair expressed his appreciation for various opinions from the members and summarized that he hoped to utilize them in future meetings of the Forum.

### III. AOB

- The Secretariat discussed the handling of the minutes, the new webpage that had been created for the Forum, the publication method of meeting materials, and the schedule for the next meeting.
- Prior to the closing, the Director-General of the BOJ's Financial Markets Department made brief remarks. He commented that the achievement of the JPY LIBOR transition had been confirmed anew at the meeting, discussions at the Forum were expected to help raise awareness of and resolve issues with regard to smooth usage of alternative interest rate benchmarks, and that exchanging information on overseas developments and other topics was important. He then asked for the participants' continued cooperation in the Forum's activities.

## Cross-Industry Forum on Interest Rate Benchmarks

### Attendance for the April 21, 2022 Meeting

#### (Members)

Chair	MUFG Bank	GODA Kenichiro
Vice Chair	Nomura Securities	NONOMURA Shigeru
	Mizuho Bank	TAKASU Motohiro
	Sumitomo Mitsui Banking Corporation	MIKAWA Takuya
	Bank of Yokohama	SASAKI Yuji
	The Tochigi Bank	ONO Kazuhiro
	Deutsche Bank	MORITA Shigeki
	Daiwa Securities	INADA Yuichiro
	Goldman Sachs	ISHIDA Hiromitsu
	Morgan Stanley MUFG Securities	EZUKA Takeshi
	Japan Post Bank	ICHIKAWA Tatsuo
	The Norinchukin Bank	HARADA Noriyuki
	Shinkin Central Bank	ANDO Takaaki
	The Dai-ichi Life Insurance Company	MIKAMI Yoshinori
	Tokio Marine Holdings	CHIKAMATSU Takehiro
	Daiwa Asset Management	FUKUDA Takuma
	Sojitz Corporation	MAEDA Tatsuya
	Mitsui Fudosan	MURATA Tadahiro
	East Japan Railway Company	ISHIMARU Mikito
	Mitsubishi HC Capital	TOMINAGA Osamu
	Nippon Telegraph and Telephone Corporation	YODA Kenichiro

#### (Observers)

JBA TIBOR Administration	KOYAMA Hirotaka
International Swaps and Derivatives Association	MORITA Tomoko
Financial Law Board	TOTSUKA Takaharu (Attorney-at-Law)

Tokyo Financial Exchange	NONAKA Atsushi
Japan Securities Clearing Corporation	KANEKO Takahiko
Japanese Bankers Association	TAKAHASHI Tetsuo
Japan Securities Dealers Association	NISHIMURA Yoshiko
Financial Services Agency	TSUJIMURA Tomoya
Bank of Japan	SHIMIZU Yoshimitsu
Bank of Japan	CHIBA Makoto
Bank of Japan	YOSHIMURA Haruka