

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

## **Minutes for the September 9, 2022 Meeting**

**4:00—5:00 PM**

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

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

#### **(1) Domestic and international developments in the LIBOR transition**

- The Secretariat (Market Infrastructure Division at the Financial Markets Department, Bank of Japan) discussed domestic and international trends on the LIBOR transition.

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

- First, bank members made the following comments on the progress in the transition from JPY LIBOR and GBP LIBOR, which were ceased at the end of 2021.

— Among contracts referencing synthetic yen LIBOR and synthetic sterling LIBOR, the transition had not been completed only in the contracts of syndicated loans in which other banks were lead agents. The number of such contracts was limited and the transition was expected to be completed by the end of 2022.

— The transition of existing contracts referencing JPY LIBOR had been virtually completed. As for those referencing GBP LIBOR, there was also only a limited number of contracts that needed to be transitioned. But some contracts referencing 6-month synthetic sterling LIBOR remained in private finance initiative (PFI) loans and syndicated loans led by other banks in the United Kingdom, so the transition would be continued with due attention to the timing of the cessation of synthetic sterling LIBOR.

- Next, a securities company member and bank members made the following comments on the transition from USD LIBOR, which will be ceased at the end of June 2023.

— With respect to financial products owned by Japanese financial institutions and non-financial corporates, both the amount outstanding and the number of contracts of cash products referencing USD LIBOR that required the transition were similar to or exceeded those of cash products referencing JPY LIBOR. Market participants therefore needed to have a sense of urgency in their preparations for the cessation of USD LIBOR. In other words, the transition should be carried out ahead of time by an active conversion, rather than simply relying on the federal LIBOR legislation in the United States. In any case, it

was necessary to consider and decide on in what way the transition would be carried out in individual contracts by the end of 2022, to transition via, for example, an active conversion, an insertion of fallback provisions through changes in the conditions of the contract, or an adoption of legislative measures. Given that this process required effort, there was little time left.

- Initiation of new transactions referencing USD LIBOR had already been ceased. As for existing transactions, although there was some difference between Japan and overseas in terms of the timing of the transition, a target period of between the end of 2022 and the end of March 2023 had been set for making changes to contracts, and customers were given a thorough explanation on the timeline. There had not been any particular challenges recognized at the moment, but attention needed to be paid because the transition could not be done independently in many of the remaining contracts, as they were, for example, overseas project finance loans and syndicated loans led by other banks.
- In line with recommendations issued by the U.S. authorities, initiation of new transactions referencing USD LIBOR had been ceased, excluding some exceptions that were allowed. With respect to existing transactions, progress had been made in the transition so it would be completed by the target dates that had been set voluntarily. In the Japanese office, the end of 2022 had been set as the target date for completing the transition, and full-scale negotiations with customers had been carried out since July with a goal of completing the transition by the end of the year. Although the transition was to be generally proceeded in accordance with requests from customers, a fallback to SOFR Compounding (fixing in arrears) had been suggested as a replacement benchmark and a transition method for derivatives and for loans combined with derivatives (swaps) and an active conversion to Term SOFR had been suggested for general loans. In this situation, it was not expected to simply rely on the federal LIBOR legislation in the United States.
- Based on the above comments, the chair summarized that there had not been problems with respect to the transition from JPY LIBOR, and that although the number of contracts referencing synthetic sterling LIBOR was limited, the transition required preparation which took into account the timeline for the cessation. With regard to USD LIBOR, the chair noted that a full-scale transition had been taking place, but that there were some comments on the limited time left for the transition. He then added that he expected this sort of information sharing to be continued at the Forum.

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

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

- The Japanese Bankers Association TIBOR Administration (JBATA) reported on efforts on the enhancement of reliability and robustness of TIBOR.

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

- Securities company members commented on the usage of Japanese yen interest rate benchmarks as follows.
  - Among publicly offered bonds in Japan, some new hybrid bonds had been issued in which the coupons, after the first call date, used either TONA Compounding (fixing in arrears), yields on Japanese government bonds, or TIBOR. There had also been some bonds for which the use of TORF was considered, but those bonds were not issued after all. Interest rate benchmarks were chosen based on investor needs and/or the market environment, partly because these bonds were highly likely to be redeemed on the first call date. Among privately placed bonds, TONA Compounding (fixing in arrears) was referenced in many of the privately placed structured bonds that were newly issued.
  - Although TIBOR was used in some derivatives, TONA Compounding (fixing in arrears) was chosen in all other new transactions. TORF was not actively suggested to customers at the moment. Given that in the future there would be events such as the cessation of Euroyen TIBOR, it was planned to continue in-house discussions so as to be able to respond flexibly to, for example, changes in customer needs.
- Based on the above comments, the chair summarized that members had shared information on how they were choosing various benchmarks as replacement rates for JPY LIBOR based on factors such as the purpose of transactions and customer needs. He added that he would like participants to continue exchanging opinions at the Forum and facilitate the smooth use of Japanese yen interest rate benchmarks.

## III. AOB

- The Secretariat discussed the handling of the minutes and the schedule for the next meeting.

## Cross-Industry Forum on Interest Rate Benchmarks

### Attendance for the September 9, 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	ISHII Tomoyuki
	The Keiyo Bank	NAKAMURA Hiroaki
	Deutsche Bank	MORITA Shigeki
	Daiwa Securities	INADA Yuichiro
	Goldman Sachs	TAGUCHI Kengo
	Morgan Stanley MUFG Securities	EZUKA Takeshi
	Japan Post Bank	ICHIKAWA Tatsuo
	The Norinchukin Bank	FUJII Motoo
	Shinkin Central Bank	TOMIZAWA Naoto
	Nippon Life Insurance Company	KON Shinichiro
	Tokio Marine Holdings	CHIKAMATSU Takehiro
	Daiwa Asset Management	MITSUI Takaya
	Sojitz Corporation	TSUJIMOTO Makoto
	Mitsui Fudosan	IMADA Takahito
	East Japan Railway Company	NIKURA Takafumi
	Mitsubishi HC Capital	TOMINAGA Osamu
	Nippon Telegraph and Telephone Corporation	KOJIMA Hisayoshi

#### (Observers)

JBA TIBOR Administration	TAKAHASHI Tetsuo
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	SEKIGUCHI Tatsuhito
Japan Securities Dealers Association	NISHIMURA Yoshiko
Financial Services Agency	TSUJIMURA Tomoya
Bank of Japan	SHIMIZU Yoshimitsu
Bank of Japan	YAMAZAKI Sayaka
Bank of Japan	KAWANO Shinichiro