

Cross-Industry Forum on Interest Rate Benchmarks

Minutes for the December 13, 2022 Meeting

4:30–5:30 PM

(The third 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

- With regard to trends in interest rate benchmarks in foreign currencies, bank members, a buy-side member, and a securities company member made the following comments on the transition from USD LIBOR, which will be ceased at the end of June 2023.

— Most loan contracts were syndicated loans in which other banks were lead agents and only a limited number of contracts were bilateral loans or syndicated loans led by our bank. A provisional deadline has been set internally at the end of March 2023 for the transition, and for syndicated loans led by other banks the transition had been carried out by following initiatives of lead agents. Negotiations with customers had been conducted for bilateral contracts, but it was taking time for the transition to be reflected in the written contracts. The transition was likely to pick up its speed toward the end of 2022. As for trends in the industry as a whole, continued information sharing on issues and responses at various industry associations and in the Forum would be appreciated.

— Customer negotiations and amendment to contracts were proceeding smoothly for domestic bilateral loans, but the transition of foreign contracts, such as syndicated loans and securitized products, did not seem to be proceeding in full scale yet. This would be checked further with arrangers after the beginning of 2023. Almost all of our derivative transactions are processed by the central counterparties (CCPs), so it was recognized that there was no need to implement additional support as an individual firm.

— Transition of bonds and structured bonds relatively required time and effort and it varied depending on the jurisdiction of the law that governed the contracts. In the case of contracts governed by U.S. law, the federal LIBOR legislation in the United States applies to some of them and not others, and even among those to which the federal LIBOR legislation

applies, the contract is amended in some instances to clarify rights. In the case of contracts not governed by U.S. law, and the amending process seemed to be proceeding smoothly thanks to the experience of transition from JPY LIBOR. In derivatives, CCPs were proceeding with preparations for a bulk conversion of all of centrally-cleared transactions, and progress had been made with the transition of centrally-cleared transactions in Asian currencies based on USD LIBOR. For most of our transactions that were not centrally cleared, the transition had already been completed. There were no plans to use synthetic USD LIBOR at the moment.

- In Japan, full-fledged discussions had been held with customers for the purpose of completing the transition by the end of 2022, as far as possible ahead of schedule. The transition -- mainly of bilateral loans and syndicated loans in which our bank was the lead bank -- was proceeding steadily. In the transition of syndicated loans led by our bank, the schedule was arranged based on customers' preference and efforts had been made toward completing the signing by the end of 2022 with the exception of some contracts. It was planned to continue cooperating with the parties concerned. The wording of written contracts was based mainly on samples provided by the Alternative Reference Rates Committee (ARRC), and the sample JPY LIBOR fallback provisions and the risk-free rate glossary by the Japanese Bankers Association (JBA) were referenced when translating into Japanese. Since practical requirements needed to be reflected by each company, the transition process should be started early.
- Overseas, progress has been made in the transition in the United States. Transition of contracts led by overseas financial institutions seemed to be progressing relatively smoothly. In Asia, transition policies have been decided for an increasing number of contracts, and the transition of most bilateral loans and syndicated loans led by our bank was expected to be completed by the end of 2022. In principle, replacement benchmarks were chosen based on requests from customers. Both the recommendations of overseas working groups and market trends were taken into account when evaluating which benchmark to use. It seemed that, in the case of loans, the majority of loans used Term SOFR in the United States and Asia, Term SOFR and SOFR Compounding (fixing in arrears) were equally adopted in Europe, and a rather large proportion of loans seemed to use Term SOFR in Japan. In the case of derivatives, SOFR Compounding (fixing in arrears) was suggested in general.
- A buy-side member and a bank member made the following comments on progress in the transition from synthetic yen LIBOR, which will be ceased at the end of 2022, and from

synthetic sterling LIBOR, which will be ceased in stages starting at the end of March 2023.

- Although there were a few contracts referencing synthetic yen LIBOR or synthetic sterling LIBOR, the transition had already been completed for all of the contracts referencing synthetic yen LIBOR. The transition of the contracts referencing synthetic sterling LIBOR was planned to be completed by the end of 2022.
- There were not any transactions that would be impacted by the cessation of synthetic yen LIBOR. Only a few contracts referencing synthetic sterling LIBOR remained, as progress had been made in the transition of private finance initiative (PFI) loans and of syndicated loans led by other banks in the United Kingdom. The rest of the transition would be supported throughout.
- Based on the above comments, the chair summarized that it was possible to expect some progress in the transition from USD LIBOR in loans in Japan by the end of 2022, while the transition overseas would not move ahead until after the beginning of 2023. He then continued that derivatives did not require individual transition, in principle, as most transactions were processed by CCPs and that it should be kept in mind that the transition of products such as structured bonds would vary depending on the jurisdiction of the law they were governed by. The chair noted that there had been a request for information sharing. He also touched upon an opinion on synthetic yen LIBOR and synthetic sterling LIBOR that there would be no particular concerns regarding the cessation, and a view on the use of synthetic USD LIBOR which had been considered cautiously.
- After that, the Financial Services Agency (JFSA) made the following statements.
 - Surveys and monitoring to date had shown that the use of synthetic yen LIBOR and synthetic sterling LIBOR was limited. For most of the contracts for which the transition had not been completed at the end of September 2022, the transition was expected to be completed by the day of the first revision of interest rates in each contract after the cessation. It had been confirmed that there were no major concerns regarding the cessation. The JFSA would like to ask financial institutions that had remaining contracts referencing synthetic LIBOR to accomplish the required transition procedures without any omissions.
 - As for USD LIBOR, although the Financial Conduct Authority (FCA) in the United Kingdom had issued a proposal of constructing synthetic USD LIBOR, the transition had to be essentially carried out via either an active conversion or an insertion of fallback provision. There is the federal LIBOR legislation in the United States as a sort of a relief measure, however, reliance on the LIBOR legislation should be considered as exceptional

and there are several obstacles for its application. Hence, the transition procedures should not easily rely on the legislation. Also, the JFSA would like to request cooperation in the Fourth Survey on the Use of LIBOR as it will ask questions on the progress in the transition.

- In response, the chair stated that he had recognized again that parties with exposure to contracts referencing USD LIBOR needed to make greater progress, and added that he expected information sharing on the USD LIBOR transition to be continued at the Forum.

II. Trends on Alternative Interest Rate Benchmarks in Japanese Markets

(1) Usage of alternative interest rate benchmarks in derivative transactions

- The Secretariat discussed the usage of JPY interest rate benchmarks in derivative transactions since the cessation of JPY LIBOR (cf. Box 1 in "Trends in the Money Market in Japan: Results of the Tokyo Money Market Survey," published in November 2022).

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

- Firstly, based on the discussion by the Secretariat, brokers commented on trends in the derivatives market in Japan as follows.
 - For JPY interest rate swap transactions in Japan, 6-month JPY LIBOR swaps had been replaced with TONA OIS since July 2021 and all transactions referencing JPY LIBOR had been replaced with TONA OIS since October 2021 in accordance with the "TONA First" initiative. Since the beginning of 2022, the OIS market had been booming, mainly in medium- and long-term transactions, partly reflecting developments in overseas interest rates. The usage of TIBOR swaps did not change greatly at the time of the cessation of JPY LIBOR. Although there was an impression that the volume of JPY TIBOR transactions had increased since March 2021 due to a possibility of permanent cessation of Euroyen TIBOR, Euroyen TIBOR transactions continued to be conducted.
 - Under the "TONA First" initiative, the transition from JPY LIBOR went extremely smoothly. Even when JPY interest rates had fluctuated due to the rise in U.S. interest rates, liquidity was maintained in the OIS market. In addition, transactions referencing TIBOR continued to be carried out. Since Euroyen TIBOR was scheduled to be ceased, developments in TIBOR benchmarks warranted attention.
 - Tools for hedging against risks in the short-term interest rates have been decreasing, as in the case of transactions referencing JPY LIBOR. TONA futures were scheduled to be listed on the Tokyo Financial Exchange (TFX) and the Osaka Exchange (OSE) in 2023, and it

was expected to help improve liquidity in the money market. If TONA futures and short-term OIS transactions were linked, and a more efficient, highly transparent money market would be realized, then it would also make TORF more robust. TONA, TIBOR, and TORF were expected to be distinguished more clearly and chosen based on the purpose of individual transactions so that it would become more convenient for market participants.

- In addition, the vice chair made the following comments on interest rate benchmarks in the bond market and on activities of the Forum.
 - In recent issuances of publicly offered bonds, there had been some hybrid bonds that referenced alternative interest rate benchmarks after the first call date. The interest rates they referenced were TIBOR, yields on Japanese government bonds, and TONA TSR, but none of these bonds used TORF. Interest rate benchmarks were chosen for each bond, taking into consideration factors such as issuers' needs, investors' requests, and overseas benchmark regulations. Among privately placed bonds, TONA Compounding (fixing in arrears), TIBOR, and TONA TSR were used.
 - 2023 was set to be a year of further changes; for example, trading of TONA futures would begin. Trends in different markets were expected to be updated regularly in the Forum.
- Next, efforts regarding alternative interest rate benchmarks were presented. The JBA TIBOR Administration (JBATA) discussed the publication of the results of "Public Consultation on Fallback Issues for JBA TIBOR," which was scheduled for around March 2023, as well as the publication of another public consultation (scheduled for the first half of fiscal 2023) on whether to discontinue Euroyen TIBOR (the timing of the permanent cessation of Euroyen TIBOR, if adopted, would be at the end of December 2024). The TFX discussed its policies on the suspension of trading in the far-distant contract months of Euroyen futures and on the listing of TONA interest rate futures (scheduled for March 2023). The OSE discussed its own policies on the listing of TONA interest rate futures (scheduled for May 2023).
- In response to the above, the chair thanked for discussions on market trends and presentations on efforts that were being made. He stated that the transition to TONA was carried out smoothly after the cessation of JPY LIBOR, and added that he expected the OIS market to be more lively and vigorous with the listing of TONA futures.

III. AOB

- The Secretariat discussed the handling of the minutes and other matters.

Cross-Industry Forum on Interest Rate Benchmarks

Attendance for the December 13, 2022 Meeting

(Members)

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| Chair | MUFG Bank | GODA Kenichiro |
| Vice Chair | Nomura Securities | NONOMURA Shigeru |
| | Mizuho Bank | IWATA Koji |
| | Sumitomo Mitsui Banking Corporation | MIKAWA Takuya |
| | Bank of Yokohama | ISHII Tomoyuki |
| | The Keiyo Bank | OKUZAWA Masaharu |
| | 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 | ANDO Noriaki |
| | Nippon Life Insurance Company | KON Shinichiro |
| | Tokio Marine Holdings | CHIKAMATSU Takehiro |
| | Daiwa Asset Management | MITSUI Takaya |
| | Sojitz Corporation | MITSUDA Akira |
| | Mitsui Fudosan | MURATA Tadahiro |
| | East Japan Railway Company | NIIKURA Takafumi |
| | Mitsubishi HC Capital | TOMINAGA Osamu |
| | Nippon Telegraph and Telephone Corporation | KOJIMA Hisayoshi |

(Observers)

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

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|---------------------------------------|---------------------|
| 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 |