

(Tentative translation)

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks
Minutes for the July 16, 2020 Meeting
4:30 – 5:50 PM
(Meeting Room in the Bank of Japan and via Webex Meetings)

I. Update on International Discussions on Interest Rate Benchmarks

1. The Secretariat informed the Committee of the latest discussions on interest rate benchmarks in major jurisdictions.
2. The Japanese Bankers Association (JBA), chaired by MUFG Bank, gave an overview of the recently held roundtable of the Financial Stability Board's Official Sector Steering Group (FSB OSSG).
3. The International Swaps and Derivatives Association (ISDA) explained its initiatives such as establishing fallback provisions in derivative contracts as well as its future work plan.

On this point, the Financial Services Agency (hereinafter the JFSA) made the following comments.

- It would be desirable for many institutions to adhere to a related protocol and widely use fallback provisions to ensure a smooth transition from LIBOR in derivative contracts. In particular, if leading financial institutions and non-financial corporates adhered to the protocol at an early stage, more companies might follow the same steps. The JFSA therefore would like these leading companies to consider adhering to the protocol.
- In addition, regarding the market regulations for OTC derivative transactions under the Financial Instruments and Exchange Act and relevant laws, the status of unregulated legacy contracts at the moment would be invariant, still exempt from those regulations even if companies would add fallback provisions to the legacy contracts by adhering to the protocol. Likewise, the addition of the fallback provisions to the legacy contracts would not automatically impose any obligations other than reporting of transactions, even after the replacement benchmarks from LIBOR would be realized. The JFSA therefore would like to address these points to the companies considering the adherence to the protocol.

II. Report from the Sub-Groups

1. The chairs of the Sub-Group on Loans, Sub-Group on Bonds and Sub-Group for the Development of Term Reference Rates, as well as the Task Force on Term Reference Rates (hereinafter the Task Force) reported what had been discussed so far in their respective sub-groups and the Task Force since last meeting and the members exchanged views on the reports.

The chair of the Sub-Group on Loans reported that the sub-group had consulted with its members and, based on the views provided by the members, requested the

(Tentative translation)

Committee to issue a recommendation on replacement benchmarks and spread adjustment methodologies for fallbacks in loans referencing JPY LIBOR.

The chair of the Sub-Group on Bonds reported that the sub-group had consulted with its members and, based on the views by the members, requested the Committee to issue a recommendation on replacement benchmarks. The chair of the sub-group also reported that it had been agreed within the sub-group that it would be appropriate to adopt the same spread adjustment methodologies for bonds as that for loans. In addition, with regard to bondholders meetings pursuant to the Companies Act, the chair mentioned that the amendment of the Companies Act 2019 would enable the amendment of contracts to take place without the permission of the court, if all bondholders manifested in writing or in an electronic or magnetic record their intention to agree on such proposals.

The chairs of the Sub-Group on Loans and Sub-Group on Bonds reported that a large majority of members had supported the draft transition plans for loans and bonds proposed by the JBA and the Discussion Group on Interest Rate Benchmark Transition comprising of major securities companies (the Secretariat: the Japan Securities Dealers Association; hereinafter the Discussion Group), respectively, and a number of members indicated that it would be beneficial to publish the draft plans.

The chair of the Sub-Group for the Development of Term Reference Rates reported that the sub-group had consulted with its members in order to improve the robustness of Term Reference Rates and reported the potential course of action based on the views provided by the members. In addition, the chair of the sub-group also reported that there had been a request to the supervisory authority to clarify the responsibility of dealer financial institutions that submitted quote data, by enhancing the transparency of calculation procedures by QUICK Corp. (hereinafter Quick), which was expected to become the benchmark administrator.

With regard to this point, the JFSA made the following comments.

- The JFSA considered that it would be important to establish governance structures centered on Quick and to clarify the calculation procedures of Term Reference Rates. For that purpose, Quick was expected to create guidelines or other principles and to enhance the transparency of its benchmark calculation methodologies.
- The JFSA, together with the Bank of Japan (hereinafter the Bank) and relevant parties, would provide appropriate support for Quick's initiatives.
- In addition, the JFSA would like to act appropriately on the matters relevant to Term Reference Rates on the Financial Instruments and Exchange Act, as well as the matters concerning foreign regulations such as the European benchmark regulation. In this regard, the JFSA would like to add that progress had been made in the discussions with the European supervisory authorities, one of which was the publication of the European Commission's consultation on the equivalence of the legal and supervisory framework applicable to benchmarks in Japan in accordance with Regulation (EU) 2016/1011 of the European

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Parliament and of the Council in April 2020.

The Task Force informed the Committee of the weekly publication of prototype rates for Term Reference Rates that Quick had begun on May 26, 2020, and also explained the schedule for publication of the production rates.

2. Lastly, the Chair of the committee proposed Japan's draft roadmap for loans and bonds based on the draft transition plans proposed by the JBA and the Discussion Group, respectively.

In response, the JFSA welcomed the draft roadmap and indicated their expectations that market participants would proceed with their preparations in accordance with the draft roadmap, taking into account the "end-2021" time limit, although the time frame indicated in the roadmap is non binding. In addition, the JFSA mentioned that it would plan to conduct a second survey on the use of LIBOR as of end-December 2020, together with the Bank. It showed their expectations that more progress, compared with at the time of the first survey, would be observed in the transition from LIBOR and introduction of fallback provisions in the second survey.

A bank member addressed a question on the progress in market participants' preparations for the discontinuation of LIBOR and the Secretariat responded that they expected to check the progress through the second survey. A securities company member made comments that the draft roadmap would promote market participants' initiatives and pointed out that it would be important for market participants to prepare for new products proactively. As part of the market-making of such new products referencing Risk-Free Reference Rates, the member introduced an example of an execution of a TONA/SOFR basis swap transaction in the interbank market.

III. Draft Public Consultation

1. The Secretariat outlined the main points of the draft of the second public consultation, mainly on technical and practical matters regarding fallbacks for cash instruments, considering the domestic and global developments in discussions since the publication of the final report on the results of the first public consultation in November 2019.
2. The chair made a proposal to launch the second public consultation by around early August and to set the submission deadline for views around the end of September, which then was approved by the members.

IV. AOB

1. The Secretariat provided the Committee with an explanation for the Exposure Draft of Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR released by the Accounting Standards Board of Japan (ASBJ) on June 3, 2020.
2. The JFSA explained that they, together with the Bank, had written to the CEOs of major financial institutions regarding LIBOR transition ("Dear CEO" letter) and the purpose of sending the letter was to urge financial institutions to take actions for

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permanent discontinuation of LIBOR and to request submission of relevant materials to review the progress of preparedness in individual firms.

3. The vice-chair made several announcements about the Committee's commitment to external communication, and noted that it would work to gain recognition for the second public consultation scheduled ahead and encourage market participants' proactive initiatives through multiple channels such as by holding seminars.
4. Prior to the closing, given a scheduled personnel change, the Director-General of Financial Markets Department of the Bank and his successor each made a brief speech, expressing their gratitude to the Committee comprised of a wide variety of parties, and asking for their continued cooperation.

Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks

Attendance for the July 16, 2020 Meeting

(Members)

| | | |
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| Chair | MUFG Bank | MATSUURA Taro |
| Vice Chair | Nomura Securities | NONOMURA Shigeru |
| | Mizuho Bank | KOBAYAKAWA Motomu |
| | Sumitomo Mitsui Banking Corporation | ORIHARA Takashi |
| | Bank of Yokohama | ARAI Tomoki |
| | North Pacific Bank | TAKAHASHI Kazuhiro |
| | 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 | CHIBA Yuji |
| | Shinkin Central Bank | TANAKA Hiroyuki |
| | Nippon Life Insurance Company | OKAMOTO Shinichi |
| | Tokio Marine Holdings | NIKKAWA Shinya |
| | Daiwa Asset Management | KOMIYA Tsutomu |
| | Mitsubishi Corporation | OKAWARA Makoto |
| | Mitsui Fudosan | TOGASHI Retsu |
| | East Japan Railway Company | ISHIMARU Mikito |
| | Mitsubishi UFJ Lease & Finance | TOMINAGA Osamu |
| | Nippon Telegraph and Telephone Corporation | MOMOSE Shinya |

(Observers)

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

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|---------------------------------------|-------------------|
| Tokyo Financial Exchange | OSAWA Hirohiko |
| Japan Securities Clearing Corporation | KANEKO Takahiko |
| Japanese Bankers Association | KOYAMA Hiroataka |
| Japan Securities Dealers Association | MATSUNAGA Hideaki |
| Financial Services Agency | ISHIMURA Kozo |
| Bank of Japan | SHIMIZU Seiichi |
| Bank of Japan | OTANI Akira |
| Bank of Japan | OOTAKE Hiroki |
| Bank of Japan | SHIOZAWA Hiroyuki |

The chairs of the sub-groups and the coordinator of the working group attended the meeting.

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| Chair of the Sub-Group on Loans | Mizuho Bank | SHIBATA Noriyuki |
| Chair of the Sub-Group on Bonds | Nomura Securities | HASHIMOTO Shigeru |
| Chair of the Sub-Group for the Development of Term Reference Rates | MUFG Bank | AMAGI Yutaka |
| Chair of the Sub-Group for the Development of Term Reference Rates | Citigroup Global Markets Japan | WATANABE Atsuya |
| Coordinator of the Working Group on Currency Swaps | Sumitomo Mitsui Banking Corporation | ISHIKAWA Satoshi |