

[V] Direction of Way Forward – Toward Public Consultation

(Tentative translation)

➤ The following is an idea for what the Committee will “consult,” “present,” and “recommend” in the future Public Consultation on major issues concerning the permanent discontinuation of JPY LIBOR.

1. Alternative Benchmark Options

(1) O/N RFR Compounding -- Use TONA, which is an O/N rate, as a term rate with tenors such as 3M

- ◆ The Committee will present market practice standards that include the following elements for both (1) “O/N Compounding (Fixing in Advance)” and (2) “O/N Compounding (Fixing in Arrears)” with the notion that the scope of use for option (1) could be limited because its reference period differs from its calculation period.
 - Specifications regarding calculation, receipt, and payment of interest such as day count fractions
 - Method for recording accrued interest under option (2)
 - Items that are generally considered to require adjustments to operations and systems under option (2)

(2) Term Reference Rates -- Develop an interest rate benchmark usable as a term rate, based on derivatives markets referencing TONA

- ◆ The Committee will present a work plan that includes the following elements with a time axis based on the current state of OIS and futures markets
 - Methodology and required time axis (the work plan should be based on the assumption that the benchmark will be available from 2021 onward)
 - A specific mention of the difference between IBORs and Term Reference Rates as a matter of importance

(3) TIBOR -- An interest rate benchmark already usable as a term rate, based on interest rates in the interbank unsecured call market

- ◆ The Committee will indicate that having gone through the reforms, TIBOR can be used as always as an interest rate benchmark fixed in advance.

2. Preparation for Fallbacks

(4) Triggers

- ◆ The Committee will present issues and ideas on triggers. In related deliberations, the Committee will respect harmonization among different products.¹⁾

(5) Replacement Benchmarks (unadjusted)

- ◆ The Committee will present issues and ideas on replacement benchmarks. To respect harmonization among different products, the Committee’s focus will mainly be on “O/N RFR Compounding (Fixing in Arrears).”²⁾

(6) Spread Adjustments

- ◆ The Committee will present issues and ideas on spread adjustments. The Committee’s focus will mainly be on the “Historical Mean/Median approach” and it will also consider the publishing entity for the spreads.³⁾

(7) Economic Significance of Fallbacks

- ◆ It should be noted that adopting the “Historical Mean/Median approach” might cause value transfer.
- ◆ Also, different economic properties from LIBOR could be realized by fixing the subsequent spreads.

(8) Hurdles for Embedding Fallbacks in Legacy Contracts Contemplating the Permanent Discontinuation of JPY LIBOR

- ◆ It should be noted that other than the ISDA Protocol, there might not be legal means to collectively amend provisions for cash products.

3. Accounting

(9) Hedge Accounting

- ◆ The Committee might in some way present a general view on the potential effects that the use of alternative benchmark could have on accounting.

[Whether the Committee could take action and the language in the Public Consultation will depend on the future progress of deliberations.]

¹⁾ The Committee will continue to prioritize ISDA developments and cash products in other currencies.
²⁾ Note that under bilateral agreements, it is possible to use reference rates other than “O/N RFR Compounding (Fixing in Arrears).”
³⁾ The Committee might also consider quoting the data provided by other sources such as the ISDA.