Cross-Industry Forum on Interest Rate Benchmarks
Minutes for the March 28, 2023 Meeting
4:00-5:10 PM

(The fourth meeting held at the Head Office of the Bank of Japan, hybrid meeting)

I. Exchanging Information on the LIBOR Transition

- The Secretariat (Market Infrastructure Division at the Financial Markets Department, Bank of Japan) reported on the results of the questionnaire survey conducted among those participating in the Forum concerning the progress in and measures for the transition away from USD LIBOR. The Secretariat also provided an update on domestic and international trends on the LIBOR transition since the Forum's previous meeting. Then, members from a bank, securities companies and a non-financial corporation respectively made the following comments on the transition away from USD LIBOR.

(A bank member)

－In Japan, the transition of bilateral loans and syndicated loans led by the member was slightly behind the initial plan to make it completed by the end of December 2022, as contract amendment was taking some time. That said, the transition was expected to be almost completed by the end of April 2023. The status of the transition as of the end of March was approaching "almost completed (over 80%)," if assessed with the choices in the questionnaire survey. On the other hand, the transition of syndicated loans led by other banks had been "mostly uncompleted (20-40%)," and the member was following up with agent banks and customers to achieve an early completion of the transition.

－As for the progress in overseas contracts, the transition in the United States was proceeding smoothly for bilateral loans, syndicated loans led by the member, and those led by other banks. The situation in Asia was more or less the same as that in Japan; while the transition was going relatively well for bilateral loans and syndicated loans led by the member, that for syndicated loans led by other banks was slow. The transition in Europe had been rather challenging, because the majority of contracts in the region were for project finance loans with many parties involved and the language in such contracts tended to be complex. The transition in Europe was expected to accelerate toward the publication cessation date. The member would continue to work on the transitional arrangements with appropriate prioritization while carefully monitoring the developments in synthetic USD LIBOR and other legislative measures to help deal with legacy contracts.

(A securities company member)

— Overall, the transition was going well, with no major problems. Most subordinated bonds issued by global financial institutions were expected to be redeemed at the first call date, but decisions by the issuers should be monitored. Some securitized products of which the member had been working on the transition had complex structures with many parties involved and it would require time to transit such products. Therefore, the member kept a close contact with contracting parties so it could stay updated on the progress in the transition. With regard to derivatives transactions with non-financial corporate customers to hedge fixed-rate loans, the terms of the transition could not be set unless the transitional measures for the loans were decided. Thus, the member was regularly checking up on the progress in the transition of the loans through its communication with customers. Its overseas branches were intensively following up with customers that had not experienced the LIBOR transition aside from the transition away from USD LIBOR.

(A non-financial corporate member)

— The transition of loans and derivatives had either been mostly completed or proceeded to the point where completion was firmly in sight. For derivatives subject to the ISDA protocol, there would be only a few days' lag period between the interest rate determination and the settlement. This would make the delivery of the transactions difficult when multiple contracts shared the same settlement date, and the member was considering negotiating with contracting parties to extend the number of lag days. In addition, careful consideration was required in setting a lookback methodology, including how to factor in weekends and holidays in the calculation, when structuring a syndicated loan referencing SOFR compounding (fixing in arrears).

(A securities company member)

— The transition was moving ahead in Japan. Contracts without fallback provisions were dwindling, and many respondents to the questionnaire survey had answered that the transition had been either "almost completed (over 80%)" or "mostly completed (60-80%)". Even so, there remained a certain number of respondents who had answered that the transition had been either "almost uncompleted (under 20%)" or "mostly uncompleted (20-40%)." It seemed that many of the contracts of which the transition had not been completed required efforts in the transition.

— Regarding the transition going forward, attention should be paid to (1) negotiations on spread adjustments, (2) basis risk arising from the application of the U.S. federal LIBOR legislation to both cash products and derivatives for risk-hedging purposes, and (3) dispute risk entailed in the use of synthetic USD LIBOR for contracts that were governed by U.S. law and had fallback provisions without pre-cessation triggers. It was crucial that firms deal with these practical issues, while appropriately allocating their resources and minimizing conduct and litigation risks.

- Based on the above comments, the chair stated that, as confirmed in the results of the questionnaire survey, the transition away from USD LIBOR was progressing, thanks to market participants' initiatives. He pointed to the members' comments, however, that it was taking time to complete the transition of syndicated loans led by other banks and of bonds with complex structures, and more time was needed for the transition of some derivatives that required individual transition plans. He also touched upon the comment that there were risks to keep in mind when using safety nets. He then noted that continued efforts should be made with close communication among involving parties to complete the transition by the end of June.

- Next, the Financial Services Agency (FSA) provided an overview of the Summary of Results of the Fourth Survey on the Use of LIBOR released in March 2023 by the FSA and the Bank of Japan. The FSA noted that the transition should be made based on the guidelines issued by the U.S. authorities, while keeping in mind the timeframe until the cessation of USD LIBOR. It added that, if there arose existing contracts that were difficult to transition, appropriate consideration was required on the application of U.S. federal LIBOR legislation and the use of synthetic USD LIBOR, the publication of which had been discussed, based on the content of the contract and the intentions of contracting parties.

- In response, the chair commented that, although no major challenges had been identified at the moment, the transition away from USD LIBOR was still partway through and that the Forum should continue to carefully monitor the progress in the transition.

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

- The Secretariat reported on the results of the questionnaire survey conducted among those participating in the Forum concerning the usage of alternative interest rate benchmarks for JPY LIBOR. The JBA TIBOR Administration then reported on their initiatives including a public consultation on fallback issues for TIBOR. After that, the following comments regarding alternative interest rate benchmarks were made by the vice chair of the Forum, the Japanese Bankers Association (JBA), and a securities company member.

(The vice chair)

— The results of the questionnaire survey were no different from the vice chair's recognition that TONA compounding (fixing in arrears), TORF, and TIBOR were also being used for bonds. Among recently issued new bonds in the publicly offered bond market were callable bonds and hybrid bonds which would reference TIBOR, TONA compounding (fixing in arrears), or yields on Japanese government bonds after the first call date. Interest rate benchmarks were chosen for each bond, taking into consideration factors such as issuers' needs, investors' requests, and overseas benchmark regulations.

— In the Japanese markets, alternative interest rate benchmarks were chosen based on the purpose of individual transactions, and they were used without major problems as a whole although the ease of use varied depending on their characteristics. Going forward, the liquidity in the OIS market needed to be improved first and foremost to enhance the robustness of TORF, while there had been debate about the use of term risk-free rates for derivatives. Actions should also be taken for the cessation of Euroyen TIBOR, for which the permanent cessation at the end of December 2024 was under consideration.

(JBA)

— "Sample fallback provisions for bilateral loans" was scheduled to be released shortly as an initiative to support the incorporation of fallback provisions to contracts referencing JBA TIBOR.

(A securities company member)

— Besides pushing for the incorporation of fallback provisions before the cessation of Euroyen TIBOR, for which the permanent cessation at the end of December 2024 was under consideration, some form of messages should be sent out to call on market participants at home and abroad to avoid referencing the benchmark for new transactions.

- Based on the above comments, the chair stated that transactions referencing alternative interest rate benchmarks for JPY LIBOR were by and large traded smoothly, albeit with some challenges arising from the benchmarks' respective characteristics. With regard to the challenges for the respective benchmarks, the continued development of systems and operations by users was expected to further expand the use of TONA, although it was already used widely. For TORF, the liquidity in the OIS market needed to be improved, and communication regarding conflicts of interest should be made among those concerned. Besides, the administrators of TORF and TIBOR were working on improving the robustness of the benchmarks, including the public consultation by the JBA TIBOR Administration.

III. AOB

- Regarding upcoming Forum activities, the chair stated that the second round of questionnaire survey would be conducted among those participating in the Forum by the end of June. The results of the survey would be utilized in discussions at the Forum and deliberation on its future activities. The chair asked for everyone's input.
- The Secretariat then discussed the handling of the minutes and other matters.

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Attendance for the March 28, 2023 Meeting

(Members)

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	TOMIZAWA Naoto
	Nippon Life Insurance Company	KON Shinichiro
	Tokio Marine Holdings	CHIKAMATSU Takehiro
	Daiwa Asset Management	MITSUI Takaya
	Sojitz Corporation	TSUJIMOTO Makoto
	Mitsui Fudosan	MURATA Tadahiro
	East Japan Railway Company	NIIKURA 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	OOSAWA Hirohiko
Japan Securities Clearing Corporation	TSUJI Kensuke
Japanese Bankers Association	SEKIGUCHI Tatsuhito
Japan Securities Dealers Association	NISHIMURA Yoshiko
Financial Services Agency	TSUJIMURA Tomoya
Financial Services Agency	KUMAKURA Masakazu
Bank of Japan	SHIMIZU Yoshimitsu
Bank of Japan	YAMAZAKI Sayaka
Bank of Japan	KAWANO Shinichiro