

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

## **Minutes for the June 7, 2023 Meeting**

**4:00-5:00 PM**

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

- Prior to the opening, the Director-General of the Bank of Japan's Financial Markets Department expressed appreciation for the Forum's activities to date, pointing that its discussions among a broad range of market participants on the LIBOR transition and alternative interest rate benchmarks were contributing to facilitating the smooth usage of JPY interest rate benchmarks. The Director-General also commented that the transition away from USD LIBOR was proceeding smoothly and asked the Forum to discuss the direction of its future activities as well.

### **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 and a securities company 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 had been almost completed as of the end of April. Regarding the remaining contracts, except for some contracts of which the transition was difficult such as overseas project finance loans booked domestically and loan contracts guaranteed by foreign governments, the transition was expected to be completed by the end of June. Meanwhile, the transition of syndicated loans led by other banks (those arranged overseas in particular) was behind schedule, and the member was following up with the agent banks and the customers to achieve an early completion of the transition.
- As for the progress in overseas contracts, in the United States, the transition for

bilateral loans, syndicated loans led by the member, and those led by other banks had been mostly completed as of the end of April. In Asia, while the transition of most bilateral loans and syndicated loans led by the member had been completed, that for syndicated loans led by other banks was slow. In Europe, the transition was slightly delayed because the negotiation with customers regarding the allocation of the costs was taking time, and thus the member was also considering the use of safety nets to advance the process.

- Since the use of Term SOFR in the interbank market was prohibited in principle, the member was considering alternative risk hedging measures.

(A securities company member)

- Overall, the transition was going well. As centrally-cleared transactions, the transition of most derivatives had been completed with the bulk conversion by central counterparties (CCPs) to replacement benchmarks. Since most of the remaining transactions were subject to the Master Agreements of International Swaps and Derivatives Association (ISDA master agreements), their transition would proceed in accordance with the ISDA protocol. Besides, although a few derivative transactions with non-financial corporates for the purpose of hedging risks of loans would require further coordination with the borrowers, most of such contract amendment procedures had already been completed.
- The transition of products provided by the member such as structured bonds had picked up speed, due to the member's experience with JPY LIBOR transition. However, some overseas issuers seemed to be thinking that it would be early enough to complete the transition by the first revision of interest rates after the end of June. Thus, the member had encouraged those issuers to accelerate the transition as much as possible.
- Based on the above comments, the chair stated that it was confirmed that the transition away from USD LIBOR was steadily progressing. The chair pointed to the members' comments, however, that it was taking time to complete the transition of syndicated loans. The chair also touched upon the comment that although the transition of some contracts would probably not be completed by the end of June, consideration was being given to amending the contracts by the next revision of interest rates or to using safety nets.
- Next, the Financial Services Agency (FSA) reiterated its appreciation to the market

participants who had been working diligently on the LIBOR transition since the establishment of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks in August 2018. The FSA also asked those with contracts of which the transition had not been completed to continue their diligent action. The FSA noted that although no major obstacles to the transition process had been identified, it planned to conduct the Fifth Survey on the Use of LIBOR in order to ascertain the scale of contracts of which the transition had not been completed and that of contracts which could incorporate safety nets.

- In response, the chair commented that the transition away from USD LIBOR was reaching its final stages and requested those still involved in the transition process to continue to take steps forward.

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

- The Secretariat reported on the results of the questionnaire survey conducted among those participating in the Forum concerning the possible topics that the Forum should continue to address. In the survey, five members suggested topics related to alternative interest rate benchmarks, two members responded that there were no remaining topics or issues that needed to be addressed by the Forum, and 45 members expressed no particular opinions.
- Next, QUICK Benchmarks Inc. and the JBA TIBOR Administration respectively reported on the usage of TORF and TIBOR and efforts to enhance their reliability and robustness.
- In response, securities company members, a brokerage member, and a bank member made the following comments.

(A securities company member)

- The Forum had played a vital role in dealing with such issues as the LIBOR transition in Japan. As the LIBOR transition was reaching its final stages, the Forum would likely assume a new role in dealing with more practical issues with respect to interest rate benchmarks. With many issues still remaining, some type of a meeting body that deliberates on international discussions was also needed. The format of such meeting body did not need to be that of the current Forum, and it could take the form of ad hoc study groups that could be upgraded in status as appropriate, depending on the

importance of the issues they address.

(A brokerage member)

- As an issue concerning JPY interest rate benchmarks, the future possible change to policy interest rates by the Bank of Japan could have an impact on the actual operations of the TONA swap market if the timings of the announcement and the actual interest rate change were to differ significantly. Since there was currently a divergence between the GC repo rate and the TONA rate, it might be useful for market participants to have swap transactions between the two rates.

(A securities company member)

- Regarding the divergence between the GC repo rate and the TONA rate, a similar condition existed in the United States as well. As for the future activities, it would be an option to narrow down participants in each discussion depending on its topics, while maintaining the current network of members. The activities by the Cross-Industry Committee and the Forum to date had been of great use. A new body for deliberating related issues in place of the Forum could take some form of discussion groups for each topic comprised of members drawn from the current network, with the outcome of their discussions being shared.

(A bank member)

- The money markets had been stable, but the situation could change with different market environment. It would be appreciated if there were opportunities to discuss lively with interested parties.
- Based on the above comments, the chair stated that future discussion topics were likely to shift from the LIBOR transition to medium- to long-term considerations on alternative interest rate benchmarks. The chair pointed to the members' suggestions that the discussion groups could adopt a different format from the current one by, for example, selecting different participants depending on the topics. The chair noted that the future direction of the Forum, including whether or not the current setup was appropriate, would be discussed with the vice-chair and the Secretariat, taking into consideration that the topics of the discussions were expected to move away from the LIBOR transition, which required a cross-industry approach, and shift toward an individualized, medium- to long-term issues related to alternative interest rate benchmarks. The chair also noted that the outcome of their deliberation would be presented at a future Forum meeting this

autumn or thereafter.

### III. AOB

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

## Cross-Industry Forum on Interest Rate Benchmarks

### Attendance for the June 7, 2023 Meeting

#### (Members)

Chair	MUFG Bank	GODA Kenichiro
Vice Chair	Nomura Securities	NONOMURA Shigeru
	Mizuho Bank	IWATA Koji
	Sumitomo Mitsui Banking Corporation	NUMAZAWA Yohei
	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	ONSO Koichi
	Nippon Life Insurance Company	KON Shinichiro
	Tokio Marine Holdings	MORIMOTO Takuya
	Sumitomo Corporation	MINOHARA Tomoyasu
	Mitsui Fudosan	MURATA Tadahiro
	East Japan Railway Company	SHIRAI Masayuki
	Mitsubishi HC Capital	SAKAI Takeshi

#### (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
Bank of Japan	FUJITA Kenji
Bank of Japan	SHIMIZU Yoshimitsu
Bank of Japan	YAMAZAKI Sayaka
Bank of Japan	KAWANO Shinichiro