

Outlines concerning Handling of Conversion of LIBOR Referencing Swaps to OIS, etc.

September 7, 2021
Japan Securities Clearing Corporation

I. Purpose

In the announcement of ICE Benchmark Administration, the administrator of LIBOR, on March 5, 2021, "Feedback Statement on Consultation on Potential Cessation," and the announcement of Financial Conduct Authority (FCA) on the same day, "FCA announcement on future cessation and loss of representativeness of the LIBOR benchmarks," the permanent cessation of LIBOR publication as of December 31, 2021, excluding certain tenors of USD LIBOR, was announced.

To deal with the permanent cessation of JPY LIBOR publication in JSCC's IRS Clearing Service, JSCC will establish required frameworks for conversion of IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option to JPY-TONA-OIS Compound (hereinafter referred to as "OIS Conversion"), exclusion of IRS referencing JPY-LIBOR-BBA as their Floating Rate Option from eligible IRS Transactions and other necessary procedures.

II. Outlines

Item	Description	Remarks
I. Implementation of OIS Conversion and Make JPY-LIBOR Ineligible for Clearing		
1. Implementation of OIS Conversion		
(1) OIS Conversion Method	<ul style="list-style-type: none">IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option existing as of the close of business on the day designated by JSCC will be replaced with IRS Cleared Contracts referencing JPY-TONA-OIS Compound as their Floating Rate Option in a manner prescribed by JSCC.	<ul style="list-style-type: none">The day designated by JSCC will be December 3, 2021.IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option for which the interest rate applicable to the final calculation period will be fixed on or before the date of permanent discontinuation of JPY LIBOR publication (December 31, 2021) will not be subject to the OIS Conversion.

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(2) Fee	<ul style="list-style-type: none"> • Fee shall be as follows: <ul style="list-style-type: none"> ➤ Residual LIBOR Special Fee Monthly fee of JPY500/IRS Cleared Contract referencing JPY-LIBOR-BBA as its Floating Rate Option remaining as of the end of Oct. and Nov. 2021. ➤ Conversion Fee JPY3,500 per Cleared Contract subject to OIS Conversion. 	<ul style="list-style-type: none"> • Other details of OIS Conversion shall be separately prescribed by JSCC. • Under the rules, the process is as described on the left. However, system-wise, IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option will be terminated, and, at the same time, new Cleared Contracts referencing JPY-TONA-OIS Compound as their Floating Rate Option will come into existence. • Residual LIBOR Special Fee shall be set for Clearing Members and Affiliates. Conversion Fee shall be set for Clearing Members, Affiliates and Clients. • No annual limits shall be set for Class C shareholder Clearing Members and their Affiliates. • Conversion Fee is the fee for one-time OIS conversions to be implemented as of December 3, 2021 and as of December 30, 2021 (see 1.(1) and 2. Remarks) and conversion of trades into IRS referencing JPY-TONA-OIS Compound as their Floating Rate Option to be implemented on and after January 4, 2021 (see 2. Remarks).
2. Make JPY-LIBOR-BBA Trades Ineligible for Clearing	<ul style="list-style-type: none"> • After the implementation of the OIS Conversion, IRS Transactions referencing JPY-LIBOR-BBA as their Floating Rate Option will be ineligible for clearing. 	<ul style="list-style-type: none"> • Up to Dec. 30, 2021, JSCC clears swaps referencing JPY-LIBOR-BBA as their Floating Rate Option that would come into existence as a result of swaption exercise as

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		<p>eligible trades for clearing. Then, JSCC will implement OIS conversion with respect to IRS Cleared Contracts referencing JPY-LIBOR-BBA as their Floating Rate Option that exist as of the end of business on Dec. 30, 2021 in a manner prescribed by JSCC.</p> <ul style="list-style-type: none"> For certain period of time after Jan. 4, 2022, any IRS referencing Fallback Rate(TONA) as its Floating Rate Option that would come into existence as a result of swaption exercise will be converted to IRS referencing JPY-TONA-OIS Compound as its Floating Rate Option in a manner prescribed by JSCC, and then the converted IRS will be cleared.
<p>II. Expansion of Clearing Eligibility of JPY Denominated IRS</p> <p>1. Extension of Remaining Period to Maturity of JPY TIBOR (D-TIBOR) Referencing Trades</p> <p>2. Make Transactions Referencing 2021 ISDA</p>	<ul style="list-style-type: none"> From viewpoint of diversification of solutions to prepare for market change due to the permanent cessation of JPY-LIBOR-BBA publication, the remaining period to the Termination Date of the IRS Transactions eligible for clearing referencing JPY TIBOR (JPY-TIBOR-17097 and JPY-TIBOR) will be extended to 30 years. IRS Transactions governed by the 2021 ISDA Definitions which are the same coverage as the IRS Transactions currently eligible 	<ul style="list-style-type: none"> Currently, JSCC clears IRS Transactions referencing JPY-TIBOR-17097 with remaining period up to 20 years. As to IRS Transactions currently eligible for clearing at JSCC, there will be changes in the definition of Floating Rate

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Definitions Eligible for Clearing	for clearing will be eligible IRS Transactions for JSCC clearing.	<p>Option in the 2021 ISDA Definitions. So, the rules will be amended to cover the Floating Rate Option after change (JPY-TIBOR, JPY-Euroyen TIBOR and JPY-TONA-OIS Compound).</p> <ul style="list-style-type: none"> ISDA Definitions to govern Cleared Contracts will be changed from 2006 ISDA Definitions to 2021 ISDA Definitions.
III. Implementation Timing	<ul style="list-style-type: none"> To be implemented on December 6, 2021. 	<ul style="list-style-type: none"> Residual LIBOR Special Fee described in I.1.(2) to be applied from the last day of Oct. 2021.

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