



September 28, 2018

RFR Secretariat
Bank of England
Threadneedle St, London, EC2R 8AH
United Kingdom

**Comments on *Consultation on Term SONIA Reference Rates*
issued by the Working Group on Sterling Risk-Free Reference Rates**

Dear Sirs/Madams:

We, the Japanese Bankers Association, would like to express our gratitude for this opportunity to comment on *Consultation on Term SONIA Reference Rate* issued on July 17, 2018 by the Working Group on Sterling Risk-Free Reference Rates (“Working Group”). We respectfully expect that the following comments will contribute to your further discussion.

[General Comments]

1. Development of Term SONIA reference rates (TSRRs)

We welcome that the Working Group has considered and proposed the following with a view to developing Term SONIA reference rates (TSRRs).

- i) In light of the possibility that the submission of LIBOR will be permanently discontinued after the end of 2021, the Working Group has been considering forward-looking term risk-free rates based on demands in cash products such as loans and securitisations to establish a framework for a smooth transition to a new financial benchmark;**
- ii) The consultation proposes the use of firm quotes available on exchange or MTF central limit order books (“CLOBs”), on the premise of compliance with the IOSCO principle, instead of relying solely on executed transaction data;**
- iii) The consultation proposes the use of regulated electronic trading platforms to enhance the robustness of TSRRs; and**
- iv) The consultation sets timing for TSRRs available for use by the second half of 2019 to improve the liquidity of transactions and ensure a smooth transition.**

(Rationale)

In general, the reliability and robustness of financial benchmarks will improve provided that there are sufficient volume of actual transactions and that the rates are calculated based on

relevant executed transaction data. On the other hand, there may be cases where the volume of actual transactions will decline as market and economic environments are changing from moment to moment.

Considering these, we appreciate the content of the consultation, as it proposes to use the regulated electronic trading platforms and reference weighted average of firm quotes, instead of relying solely on executed transaction data, to make the price discovery process more transparent and robust as much as possible. We believe that the consultation contain a good reference for other benchmark reforms as well.

We also appreciate that the Working Group has given due consideration to practical feasibility based on surveys and other inputs in the design of the regime and setting of specific transition timing.

[Specific Comments]

Section 1 – Summary of reported use cases for TSRRs

(1) Would the availability of robust TSRRs facilitate transition to SONIA for end users in loan and debt capital markets? Are there other use cases which should be considered?

(Comment)

We consider that the availability of robust TSRRs would facilitate transition to SONIA.

(Rationale)

In the current market practice, the method of determining interest rates using fixing in arrears based on calculation by compounding overnight SONIA has the following problems with respect to loans and bonds.

- The amount of interest payments for the most recent interest period cannot be determined at the time of pricing, and hence burdens such as cash flow management may increase.
- The calculation of accrued and unpaid interest payments for account closing procedures will become complicated.
- Since this method is not compatible with current settlement processes, it is necessary to modify systems and establish new operational flows.

These challenges will be resolved if robust TSRRs becomes available, and the transition to SONIA will be facilitated if TSRRs are used as a reliable benchmark by end-users in lending markets, etc.

(2) In what context would you foresee use of TSRRs in OTC and listed derivative markets? What risks might arise with their use and how could they be managed?

(Comment)

For hedging loans and bonds, it is preferable to use hedging instruments referencing the same rate as much as possible. Therefore, TSRRs may be used in derivatives for hedging loans and bonds that reference TSRRs.

Potential risks include the risk that the spread between the LIBOR curve and SONIA/TSRRs will fluctuate before and after applying TSRRs. It is therefore necessary to estimate and examine the impact on pricing in advance.

Section 3 – Data sources and methodologies for a TSRR

(6) Do you agree that firm OIS quotes on regulated, electronic trading platforms are likely to offer the most feasible and robust data source for TSRRs in the near term? Are there alternative proposals which merit further consideration?

(Comment)

We agree.

(Rationale)

Given the increasing use of regulated electronic trading platforms, we believe it is feasible to gather feasible and robust transaction data in a short period of time.

(7) Do you agree that greater transparency and verifiable quotes would be required to support the development of robust TSRRs? How would trading practices in SONIA derivatives need to evolve in support of robust TSRRs?

(Comment)

We agree.

(Rationale)

In order to improve the robustness of TSRRs, it is vital to pursue both the improvement of transparency and promotion of the use of regulated electronic trading platforms.

(8) Do you see benefit in early publication of 'prototype' TSRRs based on currently available data sources?

(Comment)

We consider that there are benefits.

(Rationale)

'Prototype' TSRRs can be used to estimate and examine the extent of differences between TSRRs and existing benchmarks, such as spreads with the current LIBOR.

(9) Do you agree that the definition of TSRR benchmarks should allow data sources to evolve (for example, to include inputs from listed futures) to reflect potential future changes in market structure?

(Comment)

We agree.

(Rationale)

As the SONIA market has just started to expand, and its market structure may change in the future, we believe that it is crucial that data sources of TSRRs can be flexibly changed in order to bring the level of TSRRs closer to interest rates reflecting prevailing market rates.