

Summary of Survey Results on the Use of LIBOR and Main Actions Needed

13 March 2020

Financial Services Agency and Bank of Japan

Volume of contracts referencing LIBOR (by currency)^{1,2,3}

Survey scope

This survey covers 278 entities: 9 major banks, 104 regional banks, 9 trust banks, Norinchukin Bank, Shinkin Central Bank, 12 other Japanese banks, 15 foreign bank branches, 19 major Japanese securities companies, 13 foreign securities companies, 42 life insurance companies, and 53 non-life insurance companies.

	JPY LIBOR		USD LIBOR		EUR LIBOR		GBP LIBOR		CHF LIBOR	
	Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts
Assets	32	28,314	121	100,030	3	1,918	7	2,280	0	56
Of which: those maturing beyond end-2021	<u>21</u>	<u>19,804</u>	<u>70</u>	<u>59,058</u>	<u>2</u>	<u>840</u>	<u>5</u>	<u>1,208</u>	<u>0</u>	<u>22</u>
Loans	21	25,760	75	87,004	2	1,288	5	1,805	0	36
Of which: those maturing beyond end-2021	<u>14</u>	<u>18,049</u>	<u>39</u>	<u>49,879</u>	<u>1</u>	<u>336</u>	<u>3</u>	<u>909</u>	<u>0</u>	<u>16</u>
Liabilities	8	83,304	24	361,464	2	6,123	1	35	0	1
Of which: those maturing beyond end-2021	<u>7</u>	<u>80,083</u>	<u>9</u>	<u>323,900</u>	<u>1</u>	<u>5,711</u>	<u>0</u>	<u>12</u>	<u>0</u>	<u>1</u>
Bonds	2	990	2	349	0	1	0	12	0	1
Of which: those maturing beyond end-2021	<u>2</u>	<u>852</u>	<u>2</u>	<u>271</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>1</u>
Derivatives⁴	2,971	419,545	3,073	358,911	14	789	193	35,336	2	492
Of which: those maturing beyond end-2021	<u>1,952</u>	<u>329,476</u>	<u>1,161</u>	<u>204,735</u>	<u>3</u>	<u>324</u>	<u>96</u>	<u>20,445</u>	<u>1</u>	<u>310</u>
Sales to customers⁵	6	152,628	2	29,587	0	340	0	254	0	1
Of which: those maturing beyond end-2021	<u>5</u>	<u>146,378</u>	<u>2</u>	<u>23,570</u>	<u>0</u>	<u>315</u>	<u>0</u>	<u>234</u>	<u>0</u>	<u>0</u>

Notes:

1. Data are as of end-June 2019, with the exception of data including those reported as of end-March or end-September 2019.
2. Data other than JPY LIBOR are converted into yen based on foreign exchange rates as of end-June 2019.
3. The aggregated data on the table include those reported as approximate by some financial institutions.
4. Derivatives contracts are based on notional amounts.
5. Data for sales to customers only cover those of securities companies.

* These footnotes are applied to pages 2 to 3.

Volume of contracts referencing JPY LIBOR (by business type)

	All business types		Banks ¹				Securities companies		Insurance companies			
	Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts	Major banks ²		Regional banks		Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts
					Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts				
Assets	32	28,314	28	27,165	13	3,118	10	21,063	0	232	4	917
Of which: those maturing beyond end-2021	<u>21</u>	<u>19,804</u>	<u>17</u>	<u>18,912</u>	<u>9</u>	<u>1,413</u>	<u>6</u>	<u>16,768</u>	<u>0</u>	<u>161</u>	<u>4</u>	<u>731</u>
Loans	21	25,760	21	25,461	10	2,862	9	20,161	0	44	1	255
Of which: those maturing beyond end-2021	<u>14</u>	<u>18,049</u>	<u>13</u>	<u>17,891</u>	<u>7</u>	<u>1,272</u>	<u>6</u>	<u>16,147</u>	<u>0</u>	<u>21</u>	<u>1</u>	<u>137</u>
Liabilities	8	83,304	4	72,708	4	2,025	0	70,359	3	1,331	1	9,265
Of which: those maturing beyond end-2021	<u>7</u>	<u>80,083</u>	<u>4</u>	<u>69,755</u>	<u>4</u>	<u>1,294</u>	<u>0</u>	<u>68,148</u>	<u>2</u>	<u>1,105</u>	<u>1</u>	<u>9,223</u>
Bonds	2	990	0	19	0	9	0	8	1	942	1	29
Of which: those maturing beyond end-2021	<u>2</u>	<u>852</u>	<u>0</u>	<u>12</u>	<u>0</u>	<u>8</u>	<u>0</u>	<u>4</u>	<u>1</u>	<u>815</u>	<u>1</u>	<u>25</u>
Derivatives	2,971	419,545	941	129,085	876	110,015	14	9,652	2,014	287,543	16	2,917
Of which: those maturing beyond end-2021	<u>1,952</u>	<u>329,476</u>	<u>600</u>	<u>92,395</u>	<u>568</u>	<u>80,111</u>	<u>9</u>	<u>6,561</u>	<u>1,339</u>	<u>234,550</u>	<u>13</u>	<u>2,531</u>
Sales to customers	6	152,628	-	-	-	-	-	-	6	152,628	-	-
Of which: those maturing beyond end-2021	<u>5</u>	<u>146,378</u>	-	-	-	-	-	-	<u>5</u>	<u>146,378</u>	-	-

Notes:

1. Banks include Norinchukin Bank, Shinkin Central Bank, and foreign bank branches.
2. Major banks comprise the following 9 banks: Mizuho Bank, MUFG Bank, Sumitomo Mitsui Banking Corporation, Resona Bank, Mitsubishi UFJ Trust and Banking Corporation, Mizuho Trust and Banking Company, Sumitomo Mitsui Trust Bank, Shinsei Bank, and Aozora Bank.

Volume of contracts referencing USD LIBOR (by business type)

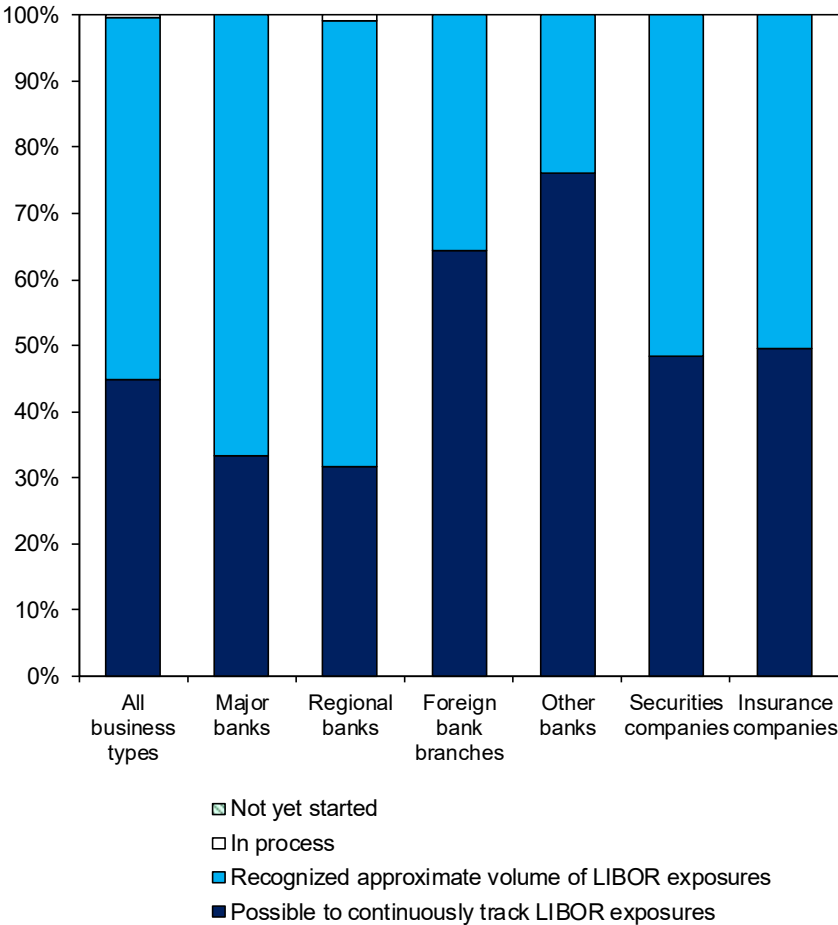
	All business types		Banks ¹				Securities companies		Insurance companies			
	Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts	Major banks ²		Regional banks		Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts
					Amount outstanding (tril. yen)	Number of contracts	Amount outstanding (tril. yen)	Number of contracts				
Assets	121	100,030	112	91,848	86	83,832	6	4,262	4	2,391	5	5,791
Of which: those maturing beyond end-2021	<u>70</u>	<u>59,058</u>	<u>64</u>	<u>53,315</u>	<u>45</u>	<u>48,547</u>	<u>4</u>	<u>2,316</u>	<u>2</u>	<u>1,095</u>	<u>4</u>	<u>4,648</u>
Loans	75	87,004	72	85,042	65	79,996	4	3,269	1	396	2	1,566
Of which: those maturing beyond end-2021	<u>39</u>	<u>49,879</u>	<u>38</u>	<u>48,774</u>	<u>33</u>	<u>46,365</u>	<u>2</u>	<u>1,679</u>	<u>1</u>	<u>287</u>	<u>1</u>	<u>818</u>
Liabilities	24	361,464	19	9,836	16	1,207	1	8,531	2	614	3	351,014
Of which: those maturing beyond end-2021	<u>9</u>	<u>323,900</u>	<u>4</u>	<u>3,590</u>	<u>4</u>	<u>391</u>	<u>0</u>	<u>3,160</u>	<u>2</u>	<u>384</u>	<u>3</u>	<u>319,926</u>
Bonds	2	349	1	29	0	28	0	1	0	312	1	8
Of which: those maturing beyond end-2021	<u>2</u>	<u>271</u>	<u>0</u>	<u>13</u>	<u>0</u>	<u>12</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>250</u>	<u>1</u>	<u>8</u>
Derivatives	3,073	358,911	1,189	142,146	1,125	137,900	5	1,571	1,880	215,662	4	1,103
Of which: those maturing beyond end-2021	<u>1,161</u>	<u>204,735</u>	<u>461</u>	<u>76,693</u>	<u>442</u>	<u>74,557</u>	<u>3</u>	<u>712</u>	<u>698</u>	<u>127,224</u>	<u>3</u>	<u>818</u>
Sales to customers	2	29,587	-	-	-	-	-	-	2	29,587	-	-
Of which: those maturing beyond end-2021	<u>2</u>	<u>23,570</u>	-	-	-	-	-	-	<u>2</u>	<u>23,570</u>	-	-

Notes:

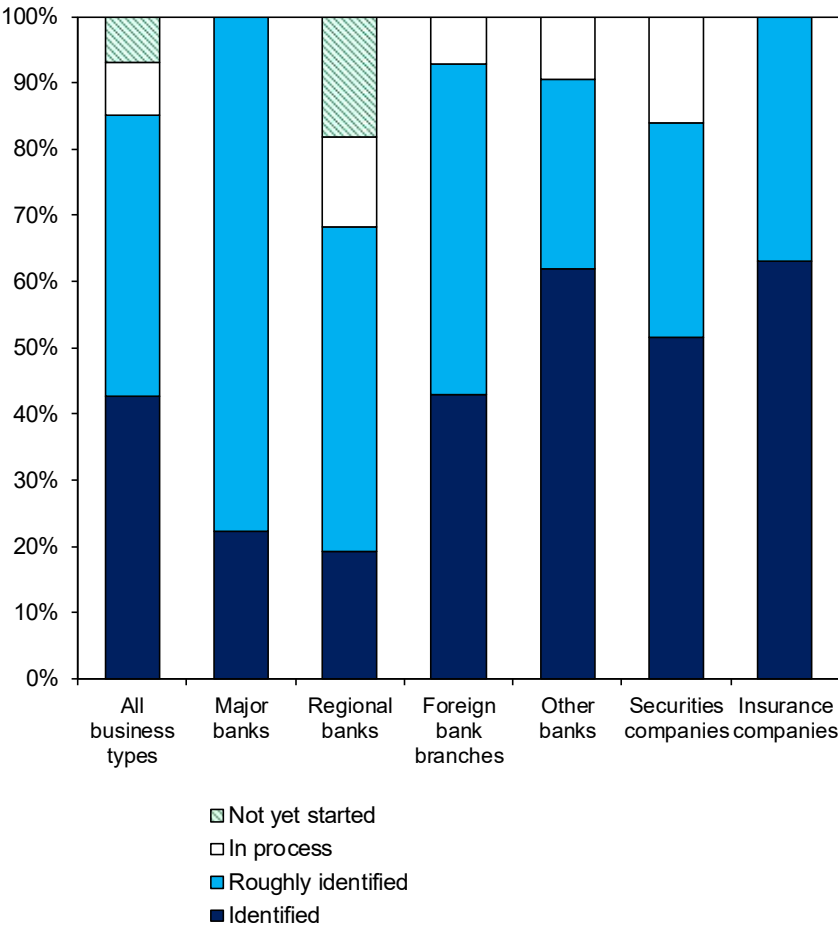
1. Banks include Norinchukin Bank, Shinkin Central Bank, and foreign bank branches.
2. Major banks comprise the following 9 banks: Mizuho Bank, MUFG Bank, Sumitomo Mitsui Banking Corporation, Resona Bank, Mitsubishi UFJ Trust and Banking Corporation, Mizuho Trust and Banking Company, Sumitomo Mitsui Trust Bank, Shinsei Bank, and Aozora Bank.

Identification of LIBOR-related contracts and business operations

Proportion of entities that have recognized contracts referencing LIBOR in financial transactions



Proportion of entities that have identified business operations affected by LIBOR transition



Notes:

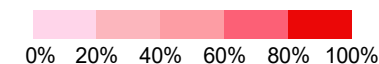
1. Examples of business operations affected by LIBOR transition are shown on page 5.
2. Data are as of December 2019.

Preparedness of business operations for LIBOR transition in Japan

	Number of respondents																							
	All business types			Major banks			Regional banks			Foreign bank branches			Other banks			Securities companies			Insurance companies					
	1, 2	3	4	1, 2	3	4	1, 2	3	4	1, 2	3	4	1, 2	3	4	1, 2	3	4	1, 2	3	4			
i. Customer Services Division																								
Development of customer service manuals	7	20	93	2	3	4	0	0	67	2	4	2	0	2	7	3	9	9	0	2	4			
Employee training	7	30	86	0	6	3	1	1	67	2	6	0	0	2	6	3	12	6	1	3	4			
Explanation to customers	6	26	111	0	2	7	1	4	79	2	6	1	0	1	7	2	10	10	1	3	7			
Discussion with customers on transition	2	17	123	0	0	9	0	4	80	1	5	3	0	0	8	1	6	15	0	2	8			
Revision of contracts	1	15	126	0	0	9	0	3	80	1	4	4	0	0	9	0	6	16	0	2	8			
ii. IT Systems Division																								
Identification of IT systems requiring upgrades	76	37	45	6	2	1	29	15	33	7	4	0	9	2	4	14	6	1	11	8	6			
Identification of requirements for system upgrades	13	50	86	0	7	2	3	14	56	3	7	0	0	5	10	6	12	2	1	5	16			
Securing budgets for IT system upgrades	17	43	87	0	8	1	1	13	57	7	3	0	0	4	11	9	9	2	0	6	16			
Implementation of IT system upgrades	2	30	114	0	7	2	0	2	68	1	6	3	0	2	13	1	11	8	0	2	20			
iii. Administrative Division																								
Identification of administrative rules and operational processes in need of revision	37	43	69	0	7	2	19	7	46	2	7	1	4	4	7	4	10	5	8	8	8			
Revision of administrative rules	4	18	115	0	3	6	1	2	62	1	4	4	0	1	14	1	5	11	1	3	18			
Revision of operational processes	4	19	115	0	3	6	1	2	61	1	4	4	0	1	13	1	6	12	1	3	19			
iv. Financial Accounting Division																								
Identification of issues and concerns for the preparation of financial statements	37	41	77	6	2	1	11	12	52	2	7	1	4	2	8	4	9	3	10	9	12			
Discussion with outside auditors (esp. on hedge accounting issues)	1	37	90	0	7	2	0	10	56	0	6	1	0	2	10	0	6	3	1	6	18			
Developing policies for the preparation of financial statements	4	28	115	0	4	5	0	4	69	1	5	3	0	2	11	1	7	8	2	6	19			
v. IR Division																								
Identification of issues and concerns for own-issued bonds	22	11	15	4	1	0	4	2	5	1	2	0	2	0	2	5	3	3	6	3	5			
Development of policy on own-issued bonds (incl. the consideration of the need for bondholders' meetings)	7	17	22	0	4	1	2	3	5	0	3	0	0	0	3	1	5	5	4	2	8			
Explanation to investors (holders) of own-issued bonds	3	8	32	0	1	4	0	1	7	0	2	1	0	0	3	0	4	7	3	0	10			
Revision of contracts on own-issued bonds	1	4	35	0	0	5	0	1	7	0	1	2	0	0	3	0	1	9	1	1	9			
vi. Markets/Risk Management Division																								
Adjustment of quantitative models (e.g., for fair value and VaR)	4	48	123	0	8	1	0	10	80	0	8	1	0	1	14	0	15	5	4	6	22			
Review of ALM framework	4	25	105	0	7	1	1	7	72	0	4	1	0	2	13	0	5	2	3	0	16			
Review of framework of managing other risks	3	35	113	0	7	1	0	8	72	0	6	3	0	1	14	0	12	7	3	1	16			
Development of operational risk framework (e.g., risks associated with business procedures and computer systems)	8	21	108	0	3	2	1	4	68	2	5	3	0	1	12	2	7	5	3	1	18			
vii. Legal Division																								
Review and amendment of contract format	4	29	121	0	6	3	1	2	80	2	8	1	0	0	12	1	12	7	0	1	18			
Preparation for litigation risks (e.g., risks arising from incomplete contracts and insufficient customer explanation, and conduct risks associated with sales of products referencing LIBOR)	4	33	108	0	7	2	1	1	79	2	9	0	0	1	7	1	14	7	0	1	13			

Notes:

1. Data are as of December 2019.
2. The response options are as follows: 1 = action completed; 2 = action almost completed; 3 = action in process; 4 = action not yet started; and 5 = not applicable.
3. Figures in the table show the number of responses, while the different shades represent the percentage shares of responses 1 to 4.



Overview of the survey results

Overview

Volume of contracts referencing LIBOR

Overview

- ✓ In the aggregate of the five currencies, the amounts outstanding of contracts referencing LIBOR are about 164 trillion yen of assets (e.g., loans), about 35 trillion yen of liabilities (e.g., deposits and bonds), and about 6,300 trillion yen of notional amounts of derivatives, of which, respectively, about 60 percent of assets (about 97 trillion yen), about 50 percent of liabilities (about 17 trillion yen), and about 50 percent of derivatives (about 3,200 trillion yen of notional amounts) will mature beyond end-2021.
- ✓ Most contracts reference USD LIBOR, followed by JPY LIBOR. Contracts referencing EUR, GBP, and CHF LIBOR are limited.

By business type

- ✓ In terms of amounts outstanding, banks (esp. major banks) have the largest proportion of contracts referencing LIBOR, with about 90 percent of assets and about 70 percent of liabilities. For derivatives contracts, securities companies have the largest proportion with about 65 percent, followed by banks with about 35 percent.
- ✓ In terms of number of contracts, when compared within the same business type, some financial institutions have a remarkably large number of contracts referencing LIBOR in loans, deposits, bonds (on the liability side), and insurance products.

By product

- ✓ In terms of amounts outstanding, about 60 percent of asset-side contracts are on loans. On the liability side, deposits and bonds account for about 13 percent and about 12 percent, respectively.
- ✓ In terms of number of contracts, bond contracts on the liability side come to about 1,000 and about 350 for JPY and USD LIBOR, respectively. Most of them are privately-placed bonds.

Other findings

- ✓ A very few contracts incorporate fallback provisions.

Identification of LIBOR-related contracts and business operations

- ✓ Almost all the entities have either developed a framework that can continuously track the volume of contracts referencing LIBOR or recognized the approximate volume.
- ✓ About 85 percent of the entities have identified or roughly identified business operations affected by the LIBOR transition.

Preparedness of business operations for LIBOR transition in Japan

- ✓ Some progress is suggested for the early stage of preparations, such as the identification of IT systems requiring upgrades. However, most of the survey items chosen indicate that preparations as a whole are still in process or not yet started.

Next steps

Main actions needed

Overall review

- ✓ Given that the LIBOR transition requires comprehensive actions, specific preparations are needed with responsible and active involvement of management officials.

Customer services

- ✓ Financial institutions with a large number of contracts maturing beyond end-2021 with no fallback provisions should press ahead with necessary actions for customers given the limited time available. They need to promptly set policies on new products referencing RFR and on new contracts referencing LIBOR, so that the number of contracts referencing LIBOR will not increase.
- ✓ Financial institutions that have not started employee training or provided explanations to customers should start with what they can, with a view to addressing conduct risks.
- ✓ Financial institutions with a larger number of contracts need to strengthen coordination among customer services, back office, and legal sections as they may incur more costs on those sections than anticipated. Even if they have fallback provisions, if they take the “amendment approach,” they need to prepare for scenarios where a number of consultations with customers can arise at one time.

IT systems

- ✓ Financial institutions that have not identified IT systems requiring upgrades need to do so promptly. Considering the time required to complete such upgrades, they need to prioritize which systems to upgrade first, clarify the schedule, and secure sufficient budgets for such upgrades.

Other actions

- ✓ Financial institutions that have issued bonds referencing LIBOR must take procedures according to the applicable laws of each jurisdiction in order to revise contractual terms; in principle they need to host bondholders’ meetings for those issued in Japan, based on the Companies Act.
- ✓ If financial institutions use LIBOR for their ALM and other risk management, they need to consider reviewing their management framework.
- ✓ Financial institutions need to identify issues and concerns associated with accounting and discuss them with outside auditors.

<Focus points in supervisory monitoring>

Overall review

- ✓ Responsible and active involvement of management officials.

Customer services

- ✓ Setting of internal core targets (e.g., employee training, explanation of risks to customers, negotiation to introduce fallback provisions in new/existing contracts, introduction of new products referencing RFR, and termination of use of LIBOR for new contracts maturing beyond end-2021).
- ✓ Implementation of internal indicators for progress management (e.g., completion rate for customer explanation, transition rate from LIBOR to alternative reference rates, and implementation rate for fallback provisions to existing contracts).
- ✓ Policies on customer services (e.g., FAQs for explanations to customers, explanation of risks when selling financial products, and spread adjustments).
- ✓ Development of new products (loans and bonds) referencing RFR and development of operational processes.
- ✓ Level of coordination among relevant divisions and preparedness for a possible concentration of customer consultations.

IT systems

- ✓ Identification of IT systems requiring upgrades.
- ✓ Prioritization, scheduling, and budgeting of IT system upgrades.

Other actions

- ✓ Identification and policy development for issues and concerns associated with the issued bonds referencing LIBOR.
- ✓ Status of the revision of ALM and framework of managing other risks.
- ✓ Identification and policy development for issues and concerns associated with accounting.

In light of the above findings, the Financial Services Agency and the Bank of Japan will monitor whether financial institutions take necessary actions in view of the time limit of end-2021. To this end, the two entities will deliberate on the need to set more specific core targets and conduct on-site monitoring, taking into account the progress in financial institutions’ preparations for LIBOR transition.