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Feature Articles

This month's focus: **The End of LIBOR and Related Issues**

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In this paper, we briefly explore several factors lying behind the LIBOR scandal in order to propose desirable interest rate indexes. Given some lessons from the scandal, not only institutional and technical aspects, but also strict behavioral codes imposed on market participants (including traders, officers, and brokers) play an essential role in constructing desirable indexes.

Pricing Interest-rate Derivatives and Interest-rate Environments after LIBOR Fallback, from the Standpoint of the Multi-curve framework

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We briefly summarize the multiple interest-rate curve theory which can consistently explain the present multi-curve environment after the worldwide financial crisis from the standpoint of the no-arbitrage theory, and discuss the pricing of interest-rate derivatives and the interest-rate environments after the LIBOR fallback. Some theoretically desirable correspondences are also proposed.

Several Risk Management Challenges Associated with the Transition from LIBOR to Risk-Free Rates

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The transition from LIBOR to alternative reference rates (risk-free rate: RFR) will affect a wide range of corporate business activities. For a smooth transition, risk factors for the transition must be identified and each risk controlled and reduced systematically. This paper provides an overview of several challenges in the management of transition risk including those in valuation/risk calculation/validations, hedging relationships, and the pricing of loan rates stemming from differences in characteristics between RFR and LIBOR.

Progress of Interest Rate Benchmark Reform and Remaining Issues: A review of measures in the US and other countries

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Given the possibility that the London Interbank Offered Rate (LIBOR) will be discontinued after the end of 2021 is increasing, this paper focuses mainly on US dollar LIBOR, which is the most widely used LIBOR currency rate, and reviews progress of the transition from LIBOR and remaining issues in the US and other countries. Market conditions for individual currencies differ, and there seem to be differences in the

responses of the US and Europe to interest rate benchmark reform.

35th SAAJ Annual Conference:

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Economic and Industrial Analysis

The Role of Independent Directors of Japanese Companies: In comparison with US companies	<i>Masako Egawa</i>	71
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I interviewed over 30 independent directors and executives of Japanese and US companies, focusing on (1) nomination process and expected roles, (2) board meeting structure, and (3) role of independent directors. Based on those interviews, I found that: (1) the independent directors of Japanese companies have improved the effectiveness of their respective boards, and management has embraced their advisory and monitoring roles, and (2) the independent directors of Japanese companies regard themselves more as advisors, while the independent directors of US companies focus on their roles as monitors.

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We examine the effects of a shortened settlement cycle on investor behavior and intraday interest rate. In the case of the Japanese government bond repo market, the peak of order submission has moved from 12:40-13:00 to 09:00-09:20 due to time constraints in post-trade processing. “Specialness” tends to increase toward the closing time of trading, which indicates that bond borrowers take precedence over completion of trades even if they concede the rate. Our results suggest that the shortened settlement cycle has a significant impact on the determination of intraday repo rates.

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