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May 30, 2019

Result of public consultation: 1st Consultative Document
Approach for Integrating Japanese Yen TIBOR and Euroyen TIBOR

Executive summary

- The General Incorporated Association JBA TIBOR Administration (“JBATA”), on its first consultative document published in October 2018, received a number of comments, the majority of which supported “retaining Japanese Yen TIBOR and discontinuing Euroyen TIBOR (‘retaining Japanese Yen TIBOR’)” as the basic approach to further reforms.
- JBATA, in light of comments received, will contemplate further actions while deeming retaining Japanese Yen TIBOR as the most likely option of all at this stage. JBATA will devise the specifics of the reforms and work on identifying and streamlining practical issues and tasks, while paying attention to developments in the financial markets and ongoing domestic and international policy discussions, such as those on the cessation of LIBOR.
- JBATA then plans to seek comments on the specifics of the reform and timing of their implementation through a second consultation. As to the timing of implementation, JBATA currently envisions a preparation period of approximately two years following the permanent cessation of LIBOR.
- Notwithstanding the foregoing, if relevant circumstances necessitate the reforms to be reconsidered which may include a change of approach and specifics as well as changes to the timing of implementation, then JBATA will undertake an additional public consultation at an appropriate time to seek further comments. Such circumstances may include developments in the financial markets (e.g. a significant contraction in the Euroyen TIBOR market), developments in domestic and international policy discussions (e.g. delays in the anticipated permanent cessation of LIBOR), or other similarly relevant factors.

○ Background and overview of the consultation result

We, General Incorporated Association JBA TIBOR Administration (“JBATA”) (the chairman: Akihiro Wani), implemented the JBA TIBOR reforms in July 2017 primarily to integrate and clarify the calculation and determination processes of reference banks’ submission rates.

Currently, JBATA is discussing the issue of “integrating Japanese Yen TIBOR and Euroyen TIBOR” that was regarded as a medium and long-term issue during the past three JBA TIBOR reform public consultations.¹ To address this issue, JBATA published the first consultative

¹ See the following links for the Consultative Documents *Promoting the JBA Tokyo Inter Bank Offered Rate (“JBA TIBOR”) Reforms following reports by Financial Stability Board (“FSB”) and International Organization of Securities Commissions (“IOSCO”)* (issued in December 2014), *Promoting the JBA Tokyo Inter Bank Offered Rate (“JBA TIBOR”) Reforms (2nd Consultative Document)* (issued in August 2015) and *Revision to the “JBA TIBOR Code of Conduct”, etc. for Implementing the JBA Tokyo Inter Bank Offered Rate (“JBA TIBOR”) Reforms (3rd*

document *Approach for Integrating Japanese Yen TIBOR and Euroyen TIBOR* (“1st Consultative Document”)² in October 2018 to seek comments.

As a result, we have received comments from 14 organizations (i.e. 10 financial institutions, 1 exchange and 3 groups) in total. We would like to take this opportunity to express our gratitude to those respondents for their comments.

Appendix to this document provides an overview of major comments on the 1st Consultative Document submitted by the deadline.

Consultative Document) (issued in November 2016), respectively:
http://www.jbatibor.or.jp/english/news/consultative_documentpromoting_the_jba_tokyo_inter_bank_offered_rate_jba_tibor_reforms_following_rep.html,
http://www.jbatibor.or.jp/english/news/2015/150818_tibor_consultation_e.html, and
http://www.jbatibor.or.jp/english/news/20161130_tibor_3rd_consultation.html.

² The deadline of submission of comments was Friday, January 18, 2019.

Overview of major comments: **1st Consultative Document**
Approach for Integrating Japanese Yen TIBOR and Euroyen TIBOR

Questions in the 1st Consultative Document	Overview of major comments, etc.	JBATA's view
<p>(1) Approach of reforms <Options></p> <p>① Retaining Japanese Yen TIBOR and discontinuing Euroyen TIBOR (“retaining Japanese Yen TIBOR”)</p> <p>② Retaining Euroyen TIBOR and discontinuing Japanese Yen TIBOR (“retaining Euroyen TIBOR”)</p> <p>③ Integrating data (underlying markets) that are referenced when calculating and determining submission rates for Japanese Yen TIBOR and Euroyen TIBOR and transitioning to a new benchmark (“integration”)</p>	<p>➤ Of the three options described in the left column, the majority of respondents supported “retaining Japanese Yen TIBOR” as the basic approach to further reforms.</p> <p>➤ No respondent supported the “retaining Euroyen TIBOR” option.</p> <p>➤ Some supported the “integration” option on the basis that, for example, the option would enable banks to avoid addressing practical issues that will arise when a fallback provision of transactions and contracts referencing Euroyen TIBOR is triggered upon its discontinuation.</p>	<p>➤ JBATA, in light of comments received, will contemplate further actions while deeming “retaining Japanese Yen TIBOR” as the most likely option of all at this stage.</p> <p>➤ Furthermore, JBATA will devise the specifics of the reforms and work on identifying and streamlining practical issues and tasks, while paying attention to developments in the financial markets and ongoing domestic and international policy discussions, such as those on the cessation of LIBOR (e.g. removing enforceability on panel banks).</p> <p>➤ The “integration” option would require review of the current definition of both Japanese Yen TIBOR and Euroyen TIBOR as it integrates data (underlying markets) that are referenced when calculating and determining submission rates for both benchmarks and transitions to a new benchmark.</p> <p>➤ Therefore, JBATA considers it difficult to conclude that the new benchmark will retain the benchmark’s continuity from, and identity with, the current JBA TIBOR.</p> <p>➤ The issue above was indicated in the 1st Consultative Document published in October 2018. JBATA has given further consideration based on comments received, and has come to the same conclusion at this stage.</p>

Questions in the 1st Consultative Document	Overview of major comments, etc.	JBATA's view
<p>(1) Approach of reforms (Cont'd)</p> <p>③ Integrating data (underlying markets) that are referenced when calculating and determining submission rates for Japanese Yen TIBOR and Euroyen TIBOR and transitioning to a new benchmark (“integration”)</p>	<p>➤ There was a proposal for an alternative to the three options we presented. The alternative option focuses on similarities between Euroyen TIBOR and Japanese Yen TIBOR (e.g. the calculation process) and proposes to retain Euroyen TIBOR and calculate and determine Euroyen TIBOR based on Japanese yen TIBOR adjusted to a 360-day basis (the “review of Euroyen TIBOR calculation method”). (Note that the “review of Euroyen TIBOR calculation method” option is different from the “publication of Japanese Yen TIBOR adjusted to a 360-day basis” proposed in the 1st Consultative Document as the former assumes that Euroyen TIBOR is retained whereas the latter assumes its discontinuation.)</p>	<p>➤ If the new benchmark does not retain continuity from, and identity with, the current JBA TIBOR, it is highly likely that actions will need to be taken to address practical issues arising from a fallback provision being triggered, not only with respect to transactions referencing Euroyen TIBOR but also for transactions referencing Japanese Yen TIBOR (i.e. primarily loan transactions in Japan) that would have larger effects on the financial markets.</p> <p>➤ The JBA TIBOR Operational Rules defines Japanese Yen TIBOR and Euroyen TIBOR as a completely different benchmark. Given this, while JBATA is still identifying and sort out challenges and issues relating to the “review of Euroyen TIBOR calculation method” (i.e. an option to newly define Euroyen TIBOR as the current Japanese Yen TIBOR adjusted to a 360-day basis), JBATA considers it difficult to conclude that the option will retain the benchmark’s continuity from, and identity with, the current JBA TIBOR (i.e. it is difficult to conclude that this option further applies the concept of “data cross-reference” introduced as a new calculation method in the 2017 JBA TIBOR reforms).</p> <p>➤ According to JBATA’s comparative analysis (see the Reference) of Japanese Yen TIBOR adjusted to a 360-day basis and historical Euroyen TIBOR rates, the gap between the two benchmarks is generally increasing since the 2017 JBA TIBOR reforms although they showed a similar trend. This also makes it difficult to conclude that the option will retain the benchmark’s continuity from, and identity with, the current JBA TIBOR.</p>

Questions in the 1st Consultative Document	Overview of major comments, etc.	JBATA's view
(2) Potential issues that may arise if JBATA adopts the retaining Japanese Yen TIBOR		
① Impact on the existing contracts referencing Euroyen TIBOR that is to be discontinued	<ul style="list-style-type: none"> ➤ The majority of respondents requested JBATA to obtain and publish the view of a third party who is in a neutral position (e.g. lawyer) or industry-level consensus (collectively, “lawyer’s view, etc.”) while some commented that such lawyer’s view, etc. is unnecessary on the basis that, for example, the impact of discontinuation of Euroyen TIBOR is immaterial for themselves. ➤ In relation to obtaining and publishing the lawyer’s view, etc., some respondents requested JBATA to provide, at an earlier stage, specific matters that can be addressed by JBATA, clarify to what extent such view can be referenced by users and clearly identify matters that should be addressed by them. ➤ In addition, there were comments made from the perspective of reducing operational burdens (e.g. modification of contracts), requesting that JBATA should develop and publish standard templates and renewal procedures or consider measures to minimize litigation risk and contract renewal costs, etc. 	<ul style="list-style-type: none"> ➤ Ensuring consistency with discussions on fallback plans carried out by domestic/foreign study bodies, JBATA will consider obtaining, as necessary, lawyer’s view, etc. whether discontinuation of Euroyen TIBOR constitute the reasons for nullifying or terminating existing contracts referencing Euroyen TIBOR and other relevant matters. ➤ When obtaining lawyer’s view, etc., JBATA will select a lawyer by sufficiently considering his/her knowledge and practical experience, etc. with respect to foreign laws, etc. because Euroyen TIBOR is used in derivatives transactions with overseas counterparties. ➤ Note that JBATA will not obtain lawyer’s view, etc. individually for those issues that should be addressed between users (e.g. standardization of contract renewal procedures and minimization of litigation risk/contract renewal costs).
② Publication of Japanese Yen TIBOR adjusted to a 360-day basis after discontinuation of Euroyen TIBOR	<ul style="list-style-type: none"> ➤ Many respondents commented that it is necessary or preferable for JBATA to publish Japanese Yen TIBOR adjusted to a 360-day basis (“adjusted Japanese Yen TIBOR”) from the viewpoint of facilitating the transition from Euroyen TIBOR to minimize the impact on markets as well as preventing misunderstandings by users. 	<ul style="list-style-type: none"> ➤ With regard to the publication of Japanese Yen TIBOR adjusted to a 360-day basis after discontinuation of Euroyen TIBOR, JBATA will continue considering the legal context of the adjusted Japanese Yen TIBOR as well as the methods and conditions of its use (for example, use the adjusted Japanese Yen TIBOR only when transitioning from Euroyen TIBOR, or clarify the timing of its cessation in advance as a transitional measure and then publish it).

Questions in the 1st Consultative Document	Overview of major comments, etc.	JBATA's view
<p>(2) Potential issues that may arise if JBATA adopts the retaining Japanese Yen TIBOR (Cont'd)</p> <p>② Publication of Japanese Yen TIBOR adjusted to a 360-day basis after discontinuation of Euroyen TIBOR</p>	<ul style="list-style-type: none"> ➤ Of those who commented that JBATA's publication of the adjusted Japanese Yen TIBOR is necessary, some requested that it should be published for all tenors available for the current Euroyen TIBOR while some suggested that it should be posted on the website of the current Euroyen TIBOR. ➤ On the other hand, some expressed concern over the possibility of market confusion arising from the simultaneous publication of the current Japanese yen TIBOR and the adjusted Japanese yen TIBOR, and some argued that it was not necessary to publish the adjusted Japanese yen TIBOR because the impact of the discontinuation of the Euroyen TIBOR would be minimal for themselves. ➤ Some also argued that more time is needed to form an opinion. 	
<p>③ Other issues</p>	<ul style="list-style-type: none"> ◆ <u>Fallback rates to be applied after discontinuation of Euroyen TIBOR</u> <ul style="list-style-type: none"> ➤ In consideration of derivatives transactions, etc., some gave support to risk-free rates ("RFR") (or term RFR) that were assumed in ISDA's consultation while some preferred Japanese Yen TIBOR as a fallback rate because of its similarity to, and compatibility with, Euroyen TIBOR. ➤ In addition, some also pointed out that it would be difficult to convince a wide range of users, including overseas market participants, to uniformly apply Japanese Yen TIBOR as a fallback to Euroyen TIBOR by relying on Japanese Yen TIBOR's similarity with Euroyen TIBOR. There was also a request for JBATA to actively participate in ISDA's discussions regarding fallbacks and P/L adjustments in preparation for discontinuation of Euroyen TIBOR, and to present an industry-level conclusion. 	<ul style="list-style-type: none"> ➤ There are indeed products that are considered to be reasonable to apply Japanese Yen TIBOR as a fallback rate when Euroyen TIBOR is discontinued, given its similarity and compatibility. This matter, however, should be individually determined and agreed between the parties to the contract.

Questions in the 1st Consultative Document	Overview of major comments, etc.	JBATA's view
<p>(2) Potential issues that may arise if JBATA adopts the retaining Japanese Yen TIBOR (Cont'd)</p> <p>③ Other issues</p>	<p>◆ <u>Spread adjustment</u></p> <ul style="list-style-type: none"> ➤ Some suggested that spread adjustment for the gap between Japanese yen TIBOR and Euroyen TIBOR would not be necessary if the Japanese yen TIBOR was adopted as a fallback rate. ➤ On the other hand, there were opinions that spread calculation methods need to be considered for a case when the market value fluctuation and the value transfer caused by the difference between the Euroyen TIBOR and the fallback rate reaches a level that cannot be ignored. ➤ Also, some commented that the spread adjustment needs to be considered in line with the results of ISDA's benchmark fallbacks consultation. <p>◆ <u>Consideration to impacts on markets</u></p> <ul style="list-style-type: none"> ➤ From the viewpoint of minimizing the impacts of the retaining Japanese Yen TIBOR on the markets, some requested JBATA to consider measures that will help: <ul style="list-style-type: none"> ● enhancing the liquidity of the reference markets for Japanese Yen TIBOR; and ● by explaining to customers of financial transactions referencing TIBOR, a plan for future discontinuation of Euroyen TIBOR will be widely recognized in advance. 	<ul style="list-style-type: none"> ➤ JBATA does not plan to consider the spread adjustment or the calculation method as we believe that the spread adjustment is an issue that should be addressed between the parties to the contract. ➤ From the perspective of minimizing the impacts on the markets arising from the retaining Japanese Yen TIBOR, JBATA will, in cooperation with relevant authorities and organizations, undertake efforts to raise awareness of future retaining Japanese Yen TIBOR, promote the use of Japanese Yen TIBOR in new transactions (including early transition and recommending and encouraging inclusion of a fallback provision, assuming that it will be regarded as an alternative rate to Euroyen TIBOR) and take other necessary actions.

Questions in the 1st Consultative Document	Overview of major comments, etc.	JBATA's view
(3) Preparation period needed for the retaining Japanese Yen TIBOR		
① Preparation period	<ul style="list-style-type: none"> ➤ Many supported the proposed preparation period of 1.5 years (18 months). ➤ On the other hand, some commented that approximately two years will be needed given the time required for JBATA to develop and publish specific policies and procedures after consensus is reached among Euroyen TIBOR users, while some, although few, commented that 0.5 years would be enough for preparation. 	<ul style="list-style-type: none"> ➤ We presume that excessive burdens will be placed on relevant parties if our implementation of the reform coincides with the timing to take actions for the permanent cessation of LIBOR. ➤ Therefore, in order to ensure a sufficient time for users to prepare for retaining Japanese Yen TIBOR, and from the viewpoint of taking a more cautious approach, JBATA currently envisions a preparation period of approximately two years following the permanent cessation of LIBOR.
② Timing of implementation	<ul style="list-style-type: none"> ➤ Many commented that the timing of implementation should be after the end of December 2021 when LIBOR may be ceased permanently and that public consultation should be conducted with respect to the adequate date after assessing the impacts on the markets. ➤ Some pointed out that the implementation of the reform may be the trigger of the fallback. ➤ In addition, some commented that it would not be late to wait the results of discussions on RFR by the “Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks” (Secretariat: Market Infrastructure Division, Financial Markets Department, Bank of Japan) before making a decision, while some, although few, commented that the sooner the better. 	<ul style="list-style-type: none"> ➤ JBATA plans to seek comments on the specifics of the reform and timing of their implementation through a second consultation. As to the timing of implementation, JBATA currently envisions a preparation period of approximately two years following the permanent cessation of LIBOR. ➤ Notwithstanding the foregoing, if relevant circumstances necessitate the reforms to be reconsidered which may include a change of approach and specifics as well as changes to the timing of implementation, then JBATA will undertake an additional public consultation at an appropriate time to seek further comments. Such circumstances may include developments in the financial markets (e.g. a significant contraction in the Euroyen TIBOR market), developments in domestic and international policy discussions (e.g. delays in the anticipated permanent cessation of LIBOR), or other similarly relevant factors.