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Comments on the “timing to cease entering into new contracts” for products referencing Euroyen TIBOR

(Results of responses to the consultation questions No. 4 and No. 5 in “Public Consultation on permanent cessation of Euroyen TIBOR and related issues”)

December 22, 2023

JBA TIBOR Administration

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1. Introduction

(1) Overview

On August 1, 2023, JBA TIBOR Administration (“JBATA”) (the chairperson: Satoshi INOUE) published the *Public Consultation on permanent cessation of Euroyen TIBOR and related issues* (“Public Consultation”),¹ and sought comments until September 30, 2023.

Through this consultation, JBATA received a comment² requesting to ensure a sufficient period to prepare for the timing (milestone) for cessation of entering into new contracts. Therefore, this document describes the comments received regarding the timing to cease entering into new contracts for cash products (loans and bonds) and interest rate swaps referencing Euroyen TIBOR³ in advance of publishing the result of Public Consultation.

(2) Disclaimer

The permanent cessation of Euroyen TIBOR has not been determined as of the publication date of this document. Therefore, the publication of this document should not be read as announcing that the Euroyen TIBOR has ceased, or will cease (at the end of December 24), to be provided permanently or indefinitely, including for the purposes of language adopted by ISDA.

The descriptions in this document regarding the timing to cease entering into new contracts for cash products (loans and bonds) and interest rate swaps referencing Euroyen TIBOR will not have any binding effects on individual contracts referencing Euroyen TIBOR, and JBATA does not recommend any particular timing.

JBATA is not responsible for any damages or losses resulting directly or indirectly from the publication of this document.

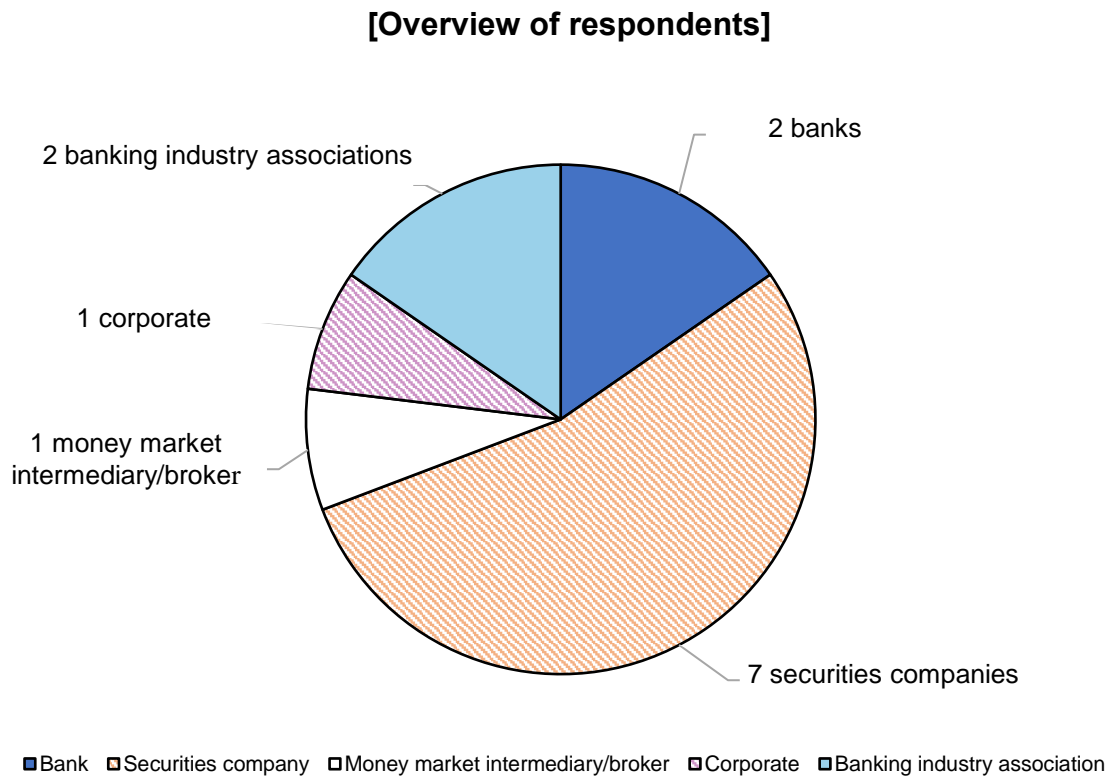
¹ *Public Consultation on permanent cessation of Euroyen TIBOR and related issues*
(https://www.jbatibor.or.jp/english/news/tibor_16.html)

² For details of the comments received, see 3.(3).

³ Consultation questions No. 4, No. 5, and part of No. 6. The treatment of the remaining consultation questions, see 4.(2).

2. Overview of respondents

A total of 13 entities (banks, securities companies, money market intermediary/broker, corporate, banking industry associations⁴) provided their comments to the Public Consultation.



⁴ The two banking industry associations provided comments that summarize their member's views.

3. Comments on the “timing to cease entering into new contracts” for products referencing Euroyen TIBOR

(1) Cash products (loans and bonds) (Consultation question No. 4 in the Public Consultation)

[Consultation question No. 4]

In consideration of the milestones of permanent cessation of LIBOR, JBATA’s considerations, and other relevant information, how many months before the permanent cessation of Euroyen TIBOR is desirable to be set as the timing (milestone) for cessation of entering into new contracts for cash products (loans and bonds) referencing Euroyen TIBOR?

Please provide the specific timing and the reason thereof.

The table below summarizes the responses (e.g. specific timing) to this consultation question.

Responses (e.g. specific timing)	Number of respondents
Six months before the cessation date [including more than six months before the cessation date]	8
Should not be set a specific timing	1
No opinion	4

Seven respondents commented that “six months before the cessation date” is a desirable timing to cease entering into new contracts for cash products referencing Euroyen TIBOR. One respondent commented that “more than six months before the cessation date” is desirable. The reasons for their responses are as follows.

- It would be desirable to set the timing on the date six months before the cessation date, consistent with the milestone of permanent cessation of JPY LIBOR (the timing to cease entering into new contracts for cash products was six months before the cessation date).
- Given the size of cash products referencing Euroyen TIBOR and the initiatives related to the permanent cessation of JPY LIBOR, it would be desirable to set the timing to cease entering into new contracts on the date at least six months before the cessation date in order for the contracting parties to reduce their exposures in a planned way and realize an orderly transition. From the hedge transaction perspective, it would be desirable to align the timing to cease entering into new contracts between cash products and interest rate swaps.
- The impact of the cessation of entering into new contracts referencing Euroyen TIBOR is expected to be relatively insignificant because Japanese Yen TIBOR is alternatively available as a term rate. Therefore, assuming that the results of the

Public Consultation will be published and the spread adjustment between Euroyen TIBOR and the fallback rate will be determined by the end of FY2023, applying the timeline consistent with that of JPY LIBOR (the timing to cease entering into new contracts for cash products was six months before the cessation date) would ensure a sufficient period. Further, given that the cessation of entering into new contracts will facilitate market participants' preparation for the transition from Euroyen TIBOR, it is not necessary to set the timing on the date less than six months before the cessation date. Therefore, the above timeline consistent with the milestone of permanent cessation of JPY LIBOR would be desirable.

- We recognize that 3-month or 6-month Euroyen TIBOR is generally used as an interest benchmark for cash products. In order to avoid an increase in Euroyen TIBOR exposures prior to its permanent cessation and ensure the negotiation period with customers, it would be desirable to set the milestone on the date more than six months before the cessation date.

One respondent commented that it is "Should not be set" a specific timing (milestone) to cease entering into new contracts, due to the following reason.

- As entering into new contracts for cash products referencing Euroyen TIBOR is extremely limited even at present, we consider that its smooth cessation can be realized without setting a milestone. A milestone should not be set as it could rather give an impression that new contracts may be entered into until then.

(2) Interest rate swaps (Consultation question No. 5 in the Public Consultation)

[Consultation question No. 5]

In consideration of the milestones of permanent cessation of LIBOR, JBATA's considerations, and other relevant information, how many months before the permanent cessation of Euroyen TIBOR is desirable to be set as the timing (milestone) for cessation of entering into new contracts for interest rate swaps referencing Euroyen TIBOR?

Please provide the specific timing and the reason thereof.

The table below summarizes the responses (e.g. specific timing) to this consultation question.

Responses (e.g. specific timing)	Number of respondents
Six months before the cessation date [including more than six months before the cessation date]	8
Three months or six months before the cessation date [to be set according to the status of use]	1
Three months before the cessation date	1
Should not be set a specific timing	1
No opinion	2

Seven respondents commented that “six months before the cessation date” is a desirable timing to cease entering into new contracts for interest rate swaps referencing Euroyen TIBOR. One respondent commented that “more than six months before the cessation date” is desirable. The reasons for their responses are as follows.

- It would be desirable to set the timing on the date six months before the cessation date in order to refer to the examples of the milestone of permanent cessation of JPY LIBOR and in light of the fact that the number of interest rate swap contracts referencing Euroyen TIBOR has already decreased.
- Based on the alignment with the timing to cease entering into new contracts for cash products and on the results of JBATA's survey on Euroyen TIBOR exposures which indicated that the size of derivative transactions referencing Euroyen TIBOR is small, it would be desirable to set the timing to cease entering into new contracts on the date at least six months before the cessation date.
- We consider that it is desirable to set the milestone on the date more than six months before the cessation date in order to ensure consistency with cash products, to avoid an increase in Euroyen TIBOR exposures prior to its permanent cessation given that the 3-month or 6-month Euroyen TIBOR is generally used as an interest rate benchmark for interest rate swaps, and to ensure the negotiation period with customers.

One respondent commented that “three months or six months before the cessation date” is a desirable timing, due to the following reason.

- In the case of that financial institutions engage in many bilateral transactions with customers, it may take time to explain the fallback, spread adjustment, and contract modifications with customers. Further, once entering into a new contract is restricted, it may cause a problem when an additional hedge transaction is required due to the contract modification. Therefore, it would be desirable to set the timing to cease entering into new contracts on the date three months before the cessation date to allow entering into new contracts as long as possible. On the other hand, in the case of that there are not many bilateral transactions with customers, contracts will be modified in accordance with the rules of central clearing counterparties, and it is unlikely that an additional hedge transaction will be required. Therefore, there should be no problem in setting the timing to cease entering into new contracts on the date six month before the permanent cessation date.

One respondent commented that “three months before the cessation date” is a desirable timing, due to the following reason.

- Assuming that the results of the Public Consultation will be published and the spread adjustment between Euroyen TIBOR and the fallback rate will be determined by the end of FY2023, applying the timeline consistent with that of JPY LIBOR would ensure a sufficient preparation period. Further, as many derivatives transactions are governed by ISDA Master Agreement, financial institutions would be able to complete the necessary preparations within a shorter time frame compared to cash products.

One respondent commented that it is “should not be set” a specific timing (milestone) to cease entering into new contracts, due to the following reason.

- The number of new contracts with customers for interest rate swaps referencing Euroyen TIBOR is already limited at present, and new contracts to be entered for purposes other than risk management are extremely limited. Further, most recently, transactions referencing Euroyen TIBOR in the interbank market are rare. Therefore, we consider that a smooth cessation can be realized without setting a milestone.

In addition to comments on specific timing to cease entering into new contracts, several respondents commented that: if the timing (milestone) to cease entering into new contracts is to be set, it should be clarified that “As an exception, derivatives transactions such as those intended for risk management of existing positions are excluded.” or that “it does not preclude financial institutions from executing those transactions for customers which would result in increasing Euroyen TIBOR exposure, and does not require financial institutions to confirm their customers’ purposes of trade before and after selling financial instruments or executing transactions.”

(3) Other comments (Consultation question No. 6 in the Public Consultation)

[Consultation question No. 6]

Please describe any comments on issues other than the consultation questions listed above for the Public Consultation.

In response to this question, one respondent provided the following comment regarding the timing to cease entering into new contracts for products referencing Euroyen TIBOR.

- Please consider the following points regarding the milestone to the extent possible.
 - To ensure a sufficient period to prepare for the timing for cessation of entering into new contracts, publish the results of responses to consultation questions on the milestone prior to making a decision on whether to permanently cease Euroyen TIBOR.
 - Although it is mentioned in the Public Consultation that JBATA does not plan to establish any milestones, JBATA should not only publish the comments to the Public Consultation regarding the timing to cease entering into new contracts for products referencing Euroyen TIBOR but also appropriately share them with related authorities and then take measures to ensure that the results of the consultation questions will effectively function as a milestone for a wide range of market participants.

4. Next steps

(1) Timing to cease entering into new contracts for products referencing Euroyen TIBOR

To support market participants in preparing for the permanent cessation of Euroyen TIBOR, JBATA has coordinated with related authorities as necessary.⁵

JBATA, as an administrator responsible for the calculation and publication of Euroyen TIBOR, does not plan to establish any specific timing (milestone) for cessation of entering into new contracts related to Euroyen TIBOR. However, market participants are expected to prepare⁶ for the potential permanent cessation of Euroyen TIBOR at the end of December 2024 based on this document⁷ and other information provided by related authorities.

(2) Consideration of the permanent cessation of Euroyen TIBOR (publication of the results of the Public Consultation)

JBATA plans to publish the results of the Public Consultation by March 31, 2024, based on comments received on the consultation questions No. 1 to 3 and other relevant information. Further, we will also publish our official statement on the following issues at the same time.⁸

- ✓ Whether to permanently cease Euroyen TIBOR
- ✓ When to implement the permanent cessation of Euroyen TIBOR, if adopted

In order to figure out the potential impact on financial and economic stability of the permanent cessation of Euroyen TIBOR, if adopted, JBATA continues to take necessary actions pursuant to Article 51 of the JBA TIBOR Operational Rules,⁹ including conducting surveys on the exposures of certain products and transactions referencing Euroyen TIBOR and on the status of introduction of fallback provisions (as of September 30, 2023).

JBATA will continue to appropriately coordinate with related stakeholders including the regulatory supervisor and related associations/organizations to ensure that market participants will be furnished with appropriate information in a timely manner.

⁵ See page 21 (footnote 50) of the document referred to in footnote 1.

⁶ Please refer to page 43 of the *Results of Public Consultation on fallback issues for JBA TIBOR*. (https://www.jbatibor.or.jp/english/Results_of_Public_Consultation_on_fallback_issues.pdf)

⁷ The Public Consultation does not directly seek comments on “the reduction target for legacy contracts” (page 21 (footnote 49) of the document referred to in footnote 1). Further, this document also does not preclude individual market participants from setting such a target.

⁸ If the statement indicates JBATA’s determination to permanently cease Euroyen TIBOR, it would be intended to constitute a “Permanent Cessation Trigger.”

⁹ <https://www.jbatibor.or.jp/english/public/>