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Frequently Asked Questions (“FAQ”)

Q1 What is “consultative document”?

A1. The consultative document, which is also called “public comment” or “public consultation”, is a document that are used to widely seek views from the public in considering new frameworks and rules for further discussions.

Q2 What is the background to the publication of the consultative document “*Promoting the JBA Tokyo Inter Bank Offered Rate (“JBA TIBOR”) Reforms following reports by Financial Stability Boards (“FSB”) and International Organization of Securities Commissions (“IOSCO”)*”(“Consultative Document”)?

A2. As described in section 1.(3) of the Consultative Document, FSB published the report “*Reforming Major Interest Rate Benchmarks*” in July 2014, providing recommendations on three major interest rate benchmarks which are widely used across the world. The recommendations included the consideration of possible alternative rates that are based on actual transactions in markets to the greatest extent possible by expansion of the scope of markets for instance, including not only interbank markets but also wholesale funding markets.

In light of the FSB’s recommendations, General Incorporated Association JBA TIBOR Administration (“JBATA”) has been considering the direction of the JBA TIBOR reform. As part of this consideration, and with a view to maintaining TIBOR as a widely used benchmark representing Japanese yen interest rates, JBATA has decided to publish the Consultative Document to provide a picture of current international discussions and to seek comments from users on future TIBOR reforms based on such international discussions.

Other benchmark administrators are also working on similar reform initiatives. For example, EMMI, an administrator of EURIBOR held a workshop for end users in October 10, and IBA, an administrator of LIBOR, published a position paper on October 20 to seek comments from a wide range of stakeholders¹.

¹ EMMI: <http://www.emmi-benchmarks.eu/emmi/euribor-european-end-user-workshop.html>
IBA: https://www.theice.com/publicdocs/ICE_LIBOR_Position_Paper.pdf

Q3 Has any manipulation or other similar incidents been detected, which prompted JBATA to consider further TIBOR reforms, as is the case with LIBOR? Or, has JBATA discovered any weakness in the current TIBOR framework, in terms of the rate determination process or its level, that will (or may) incentivize manipulation, as was the case with LIBOR?

A3. We did not embark on further TIBOR reform initiatives because any fraudulent act has been detected in relation to the current TIBOR nor because we have discovered any specific weakness in its determination process or level of current TIBOR.

As mentioned in our response to Q2, we have decided to study further TIBOR reforms, in addition to other reform initiatives to date, in response to the aforementioned FSB report “*Reforming Major Interest Rate Benchmarks*” which sets out international requests to improve the accountability and transparency of financial benchmarks and to ensure international confidence in such benchmarks.

Q4 Will the publication of the Consultative Document itself cause some impact on the current TIBOR?

A4. As mentioned in our answer to Q2, the Consultative Document is published for the purpose of considering the direction of future TIBOR reforms in light of international discussions. We acknowledge that, depending on the content of TIBOR reforms, the nature of the benchmark may change, causing some impact on users. In further promoting TIBOR reforms, therefore, we will discuss the benchmark calculation methodology and transition method based on comments from users received through this public consultation.

Q5 Why was the Consultative Document published at this timing?

A5. The aforementioned FSB report “*Reforming Major Interest Rate Benchmarks*” requires the administrators of LIBOR, EURIBOR and TIBOR to publicly consult on any recommended changes by end of December 2015. Before formulating and publicly consulting on a draft of such changes, we have decided to seek views from users so that we can refer to such views in considering what kind of changes we should make to the design and calculation methodology of TIBOR.

Similar approaches to seek comments from users are taken by other benchmark

administrators, EEMI and IBA, as well (please see Q2).

Q6 What is the overall timeline for the TIBOR reform initiative, including public consultation process? When will the direction of the TIBOR reform and the timing to implement the reformed TIBOR rates (including the period of parallel run², if conducted) be clarified?

A6. The JBATA's schedules, in accordance with FSB's propose, are as described in section 3 of the Consultative Document.

Going forward, the assessment of the feasibility and viability of the reformed TIBOR rates will be completed by June 2015, and following public consultation regarding changes to TIBOR for reform will be implemented by the end of December 2015, showing therein the deadline to seek users' comments.

FSB does not give specific recommendation on when to start implementing the reformed TIBOR (including when to implement parallel run, if conducted). We are planning to discuss the implementation date in details by taking into account any implications and other relevant factors, after another public consultation to be carried out by no later than December 2015.

Q7 The Consultative Document describes that increased reliance on actual transactions may change the rate level and volatility from the current TIBOR. How would it impact on current loan contracts referencing TIBOR?

A7. TIBOR reforms may give rise to changes in the rate level and volatility.

Issues that may have an impact on users as a result of the benchmark reforms are detailed in section 2.(2)³ of the Consultative Document. We welcome comments from users on possible approaches that could be taken to address such issues.

² To publish both the current TIBOR and its alternative, which is more anchored by actual transactions (and based on different market activity), simultaneously over a certain period (Please see page 12 of the Consultative Document)

³ If any significant changes occur to TIBOR as a result of the benchmark reform, the parties to the existing financial transactions referencing TIBOR would need to discuss and agree to some reasonable contractual modifications, and to conclude a revised contract or memorandum (Please see page 12 of the Consultative Document).

Q8 Do TIBOR reforms have any impact on consumer deposit?

A8. Given that deposit interest rates are determined at the discretion of each bank, we, as a benchmark administrator, are not in a position to respond to the question.

With regard to impact on structured deposits and bonds which embed derivatives and are referencing TIBOR under individual contracts, please refer to Q7.

Q9 We use TIBOR as a reference rate for internal purposes. Can we continue to reference TIBOR going forward?

A9. TIBOR reforms may change the rate level and volatility. Whether it is appropriate to keep using TIBOR as a reference rate for internal purposes under such circumstances would be judged by users in accordance with their respective purposes of use.

Q10 TIBOR rates are published for tenors up to 12 months, and are also used as a 'Merkmal' for short-term interest rates. Please confirm whether we can understand that TIBOR reforms will not influence the movements of longer-term interest rates than 1-year.

A10. Longer-term interest rates than 1-year are determined based on the supply and demand as much as market participants' forecast for markets. Further, to what extent TIBOR rates are reflected in forecasting market movements would differ across market participants. We therefore are not in a position to comment on magnitude of impact and its extent from TIBOR reforms, on the movement of longer-term interest rates than 1-year.

Q11 In Appendix B, JBATA states that the adoption of "an alternative benchmarks with bank credit risk component" recommended by FSB will be achieved not by the development of the whole new benchmark different from the existing JBA TIBOR , but promoting JBA TIBOR Reforms. And for that purposes as a possible approach JBATA will expand the underlying markets to include not only interbank markets but also wholesale funding markets. Even if this approach is actually taken, will the reformed rate retain the name of "TIBOR (Tokyo Inter Bank Offered Rate)" and will

not be regarded a new benchmark?

A11. We will consider this issue as we review the design and calculation methodology of TIBOR going forward based on comments received from users through this public consultation.

Q12 As a possible approach to be taken to address concerns arising from increased reliance on actual transactions, the Consultative Document describes that JBATA could cease publishing panel banks' reference rates along with TIBOR rates and instead publishes them after about three months. If such an approach is taken, will we be unable to enter into any contract referencing individual reference rates?

A12. As mentioned in section 2.(4) of the Consultative Document, if you have any contracts entered into with a panel bank and referencing individual reference rates by the panel bank, you would need to consult with the panel bank how its rates should be published.

On the other hand, in the case that parties who are not affiliated with the panel bank enter into a contract that references the reference rates of the panel bank, the parties to the contract would need to consult each other about possible approaches, for example, under which the parties carry out the contract with reference rates published after about three months.

Q13 Specifically, how will reformed TIBOR rates be determined and what are the implications in terms of the rate level?

A13. Given that we have published the Consultative Document to obtain insights that could help us work on the review of the benchmark design and calculation methodology in light of international discussions, it is too early to provide specific examples of reform implications at this stage.

Based on comments received through this public consultation, we will review the TIBOR design and calculation methodology and discuss transition method and other relevant matters. We will be able to give more specific information regarding the impact that may arise from TIBOR reforms in the next public consultation planned to be carried by the end of December 2015.

Q14 After TIBOR reforms, including the expansion of markets, specifically, how will the benchmark publication process change?

A14. We will separately consider how TIBOR rates should be published.

Main issues would include the following, some of which are described in the Consultative Document.

- (i) Change of the publication timing (In the afternoon of the day, the following day or later)
- (ii) Suspension of simultaneous publication of individual submissions
- (iii) Change in how to provide information if parallel run is carried out

Q15 How is TIBOR rate calculated currently?

A15. The panel banks submit to JBATA reference rates which they deem as prevailing market rates, assuming transactions between prime banks⁴ on the Japan unsecured call market (or the Japan Offshore Market in the case of Euroyen TIBOR) as of 11:00 a.m. Then, JBATA discards two highest quotes as well as two lowest quotes from the panel banks and averages the remaining rates to derive TIBOR.

Q16 What is “Euroyen”?

A16. “Euroyen” represents financial assets denominated in Japanese yen which are deposited or traded outside Japan. A “special international financial transactions account” needs to be opened to execute such Euroyen transactions, under the approval from Minister of Finance. The Japan Offshore Market is a market where Euroyen transactions are executed by using such special international financial transactions accounts. (The Japan Offshore Market is a relatively unregulated market established in December 1986, separated from other domestic and international markets, to further liberalize and internationalize Japanese financial

⁴ A “prime bank” is a bank which is financially resilient (e.g. a bank having adequate capital and sufficient liquid assets) and which is a major player in the Japan unsecured call market (or in the Japan Offshore Market in the case of Euroyen TIBOR).

markets.)

Euroyen TIBOR is an interest rate to represent prevailing rates in the Japan Offshore Market.

Q17 What is the “expert judgment”?

A17. According to the International Organization of Securities Commissions’ final report “*Principles for Financial Benchmark*” published in July 2013, “expert judgment” is defined as described in the following.

“Expert Judgment” refers to the exercise of discretion by an Administrator or Submitter with respect to the use of data in determining a Benchmark. Expert Judgment includes extrapolating values from prior or related transactions, adjusting values for factors that might influence the quality of data such as market events or impairment of a buyer or seller’s credit quality, or weighting firm bids or offers greater than a particular concluded transaction.

JBATA does not use expert judgment in determining TIBOR. Panel banks, however, use expert judgment in calculating their reference rates when, for example, observable transactions are deemed to be insufficient to determine the reference rates in accordance with the TIBOR definition.