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Public Consultation on permanent cessation of Euroyen TIBOR
and related issues

([2nd Consultative Document] Approach for Integrating Japanese Yen TIBOR and Euroyen TIBOR)

August 1, 2023

JBA TIBOR Administration

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1. Executive summary

(1) Objective

In response to Principles for Financial Benchmarks –Final report– (“IOSCO Principles”)¹ published by the International Organization of Securities Commissions, Reforming Major Interest Rate Benchmarks (“FSB Report”)² published by the Financial Stability Board and other initiatives, in July 2017, JBA TIBOR Administration (“JBATA”) (the chairperson: Satoshi INOUE) implemented³ “First Phase of JBA TIBOR Reform” with a primary aim of integrating and clarifying the calculation and determination processes of reference banks’ submission rates.

Based on First Phase of JBA TIBOR Reform and the progress in subsequent discussions, JBATA periodically evaluates that compliance with the IOSCO Principles has been achieved. However, with a view to further enhancing the transparency, robustness, and reliability of JBA TIBOR,⁴ JBATA has identified the remaining issue for Principle 7 (Data Sufficiency). To solve these issues⁵ and fully be compliant with the IOSCO Principles, JBATA has worked on an initiative⁶ called “Second Phase of JBA TIBOR Reform”.

As part of the actions to address the remaining issue for Principle 7 (Data Sufficiency), JBATA published the [1st Consultative Document] Approach for Integrating Japanese Yen TIBOR and Euroyen TIBOR (“1st Consultation”)⁷ in October 2018, inviting comments on the “approach for the reform”⁸ in consideration of the factors including the prolonged downsizing of the Japan Offshore Market that is the underlying market of Euroyen TIBOR.

In May 2019, JBATA announced the following decisions as a result of the 1st Consultation:⁹

- (i) Deeming “Retaining Japanese Yen TIBOR and discontinuing Euroyen TIBOR¹⁰” as the

¹ Principles for Financial Benchmarks - Final Report -
(<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>)

² Reforming Major Interest Rate Benchmarks
(https://www.fsb.org/wp-content/uploads/r_140722.pdf)

³ https://www.jbatibor.or.jp/english/news/2017/implementation_of_jba_tibor_reform.html

⁴ “JBA TIBOR” in the Public Consultation collectively means “Japanese Yen TIBOR and Euroyen TIBOR.”

⁵ JBATA recognized a remaining issue for Principle 13 (Transition): i.e. “Appropriate fallback rates for JBA TIBOR have not yet been identified”. With the publication of the results of Public Consultation on fallback issues for JBA TIBOR and other initiatives, JBATA has evaluated that this issue has been resolved.
(https://www.jbatibor.or.jp/english/news/Compliance_with_IOSCO_19principles_2023.html)

⁶ <https://www.jbatibor.or.jp/english/reform/>

⁷ https://www.jbatibor.or.jp/english/news/20181002_tibor_1st_consultation.html

⁸ For details, see section 2.(4)a.

⁹ <https://www.jbatibor.or.jp/english/news/consultative%20document.html>

¹⁰ Hereinafter referred to as the “permanent cessation of Euroyen TIBOR” except for the excerpts from the 1st Consultation (including its results).

most likely option of all at this stage, and JBATA will devise the specifics of the reforms, while paying attention to developments in the financial markets and ongoing domestic and international policy discussions, such as those on the cessation of LIBOR.

- (ii) 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.¹¹

In consideration of the results of the 1st Consultation above and other developments, JBATA initiates this Public Consultation on permanent cessation of Euroyen TIBOR (“Public Consultation”) to seek to solicit comments from a wide range of market participants on whether to permanently cease Euroyen TIBOR which is currently deemed as the most likely option and its timing, if adopted.¹²

As a practical issue related to the permanent cessation of Euroyen TIBOR, the Public Consultation also seeks comments on the timing to cease entering into new contracts for cash products (loans and bonds) and interest rate swaps referencing Euroyen TIBOR.

Based on comments which will be received in the Public Consultation, JBATA will summarize each issue and publish the results by March 31, 2024. If the results of the Public Consultation indicate JBATA’s determination to permanently cease Euroyen TIBOR, publishing such results would be intended to constitute a “Permanent Cessation Trigger”.¹³

(2) Disclaimer

The permanent cessation of Euroyen TIBOR has not been determined as of the publication date of the Public Consultation. Therefore, the publication of the Public Consultation 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, and results of, the Public Consultation 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 Public Consultation and its results.

¹¹ Subsequently in March 2021, in view of the announcement relating to the timing of permanent cessation of LIBOR and other matters by the Financial Conduct Authority (FCA), JBATA announced that it expected that the timing of implementing the permanent cessation of Euroyen TIBOR, if adopted, would be at the end of December 2024. For details, see 2.(4)b.

¹² Note that, as for Japanese Yen TIBOR, JBATA has not discussed its permanent cessation.

¹³ See page 17 of the Public Consultation on fallback issues for JBA TIBOR.

<https://www.jbatibor.or.jp/english/Public%20Consultation%20on%20fallback%20issues%20for%20JBA%20TIBOR.pdf>

2. Key developments

This section summarizes key developments from the initiation of JBA TIBOR calculation and publication processes up to the publication of the Public Consultation.

(1) Initiation of JBA TIBOR calculation and publication processes

Tokyo Interbank Offered Rate (“TIBOR”) is a Japanese yen interest rate benchmark mainly used¹⁴ in loans and derivative transactions and is composed of “Japanese Yen TIBOR” and “Euroyen TIBOR”.

The Japanese Bankers Association (“JBA”) began calculating and publishing “Japanese Yen TIBOR” from November 1995 as a benchmark that reflects prevailing rates for the Japan unsecured call market and “Euroyen TIBOR” from March 1998 as a benchmark that reflects prevailing rates for the Japan Offshore Market.

With the establishment of JBATA on April 1, 2014, the calculation and publication operations of Japanese Yen TIBOR and Euroyen TIBOR were transferred from JBA to JBATA. Since then, JBATA has been calculating and publishing JBA TIBOR mostly in accordance with the procedures¹⁵ described below:

- a. Reference banks (rate submission banks) submit to JBATA quotes of prevailing market rates for five different tenors (i.e. 1-week, 1-month, 3-month, 6-month, and 12-month)¹⁶ as of 11:00 a.m. each business day (submission rates);
- b. JBATA excludes the top two and the bottom two submission rates for each tenor and takes the average of the remaining rates to calculate “JBA TIBOR rates” (five tenors each for Japanese yen TIBOR and Euroyen TIBOR); and
- c. JBA TIBOR rates are published through information providers that are contracted by JBATA.¹⁷

¹⁴ For details, see 3.(1) and footnote 31.

¹⁵ For details, see the JBA TIBOR Code of Conduct.

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

¹⁶ Initially, eight tenors (i.e. 2-month, 4-month, 5-month, 7-month, 8-month, 9-month, 10-month, and 11-month) were calculated and published for JBA TIBOR in addition to the current five tenors. However, since April 2015, these eight tenors had sequentially ceased to be published.

(https://www.jbatibor.or.jp/english/news/notes_on_referencing_the_jba_tibor_in_association_with_the_change_in_jba_tibor_calculation_publication.html)

(https://www.jbatibor.or.jp/english/news/Revision_of_CoC.html)

¹⁷ <https://www.jbatibor.or.jp/english/about/providers.html>

(2) Designation as Specified Financial Benchmark and Specified Financial Benchmark Administrator

On May 29, 2015, JBA TIBOR was designated as a “Specified Financial Benchmark”¹⁸ and JBATA which calculates JBA TIBOR as a “Specified Financial Benchmark Administrator” under the Financial Instruments and Exchange Act (“FIEA”).

With this designation, JBATA established “Operational rules pertaining to specified financial benchmark administration” which set out the policy and methods for calculating and publishing a Specified Financial Benchmark based on the FIEA and the Cabinet Office Order on Specified Financial Benchmark Administrator, and obtained approval from the Prime Minister.¹⁹

(3) Implementation of the “First Phase of JBA TIBOR Reform”

To ensure compliance with the IOSCO Principles published in July 2013, JBATA implemented “First Phase of JBA TIBOR Reform” in July 2017 primarily to integrate and clarify the calculation and determination processes of reference banks’ submission rates.

Specifically, JBATA introduced the waterfall methodology in the JBA TIBOR Code of Conduct that sets out the matters to be complied by reference banks. The waterfall methodology is a calculation methodology, which removes any arbitrarily manipulated rates as much as practicable and it is based on various data, including data of actual transactions in the underlying market. The underlying concept of the reform was to enhance the reliability and transparency of the determination process of JBA TIBOR by introducing this methodology and eliminating expert judgment from the calculation and determination processes of daily submission rates.

Under the introduced waterfall methodology, if data of actual transactions or quotes in the underlying markets (e.g. the unsecured call market) or other equivalent markets are not available, actual transaction data of the relevant wholesale market (e.g. NCD transactions with corporates, large term deposits) will be used.

¹⁸ The term “Specified Financial Benchmark” refers to a financial benchmark specified by the Prime Minister as that which, in light of the mode of the derivatives transactions or transactions of securities in relation to that financial indicator, a decline in its credibility could have a material impact on Japan’s capital market.

¹⁹ https://www.jbatibor.or.jp/english/news/approval_for_operational_rules.html

(4) Implementation of the “Second Phase of JBA TIBOR Reform”

In “Compliance with ‘IOSCO Principles for Financial Benchmarks (19 principles)’ ” published on an annual basis pursuant to Article 2(2) of the JBA TIBOR Operational Rules, based on JBA TIBOR Reform and the progress in discussions, JBATA periodically evaluates²⁰ that compliance with the IOSCO Principles has been achieved.

However, with a view to further enhancing the transparency, robustness, and reliability of JBA TIBOR, JBATA has identified the remaining issue for Principle 7 (Data Sufficiency), and other areas. In order to solve these issues, JBATA has launched and worked on an initiative²¹ called “Second Phase of JBA TIBOR Reform” following the First Phase of JBA TIBOR Reform.

The specific issue JBATA recognized for Principle 7 included the prolonged downsizing of the Japan Offshore Market that is the underlying market of Euroyen TIBOR as well as the low percentage of reference banks’ submission rates that were determined based on data of the underlying market for Euroyen TIBOR.²² Based on these issues recognized, JBATA implemented the 1st Consultation in 2018 as outlined below.

a. [1st Consultative Document] Approach for Integrating Japanese Yen TIBOR and Euroyen TIBOR

In view of the issue recognized for Principle 7, JBATA published the 1st Consultation in October 2018²³ to seek to solicit comments by providing the following three options as the approach for the reform.

[Figure 1] Options provided in the 1st Consultation

- | |
|---|
| <ul style="list-style-type: none">(a) Retaining Japanese Yen TIBOR and discontinuing Euroyen TIBOR(b) Retaining Euroyen TIBOR and discontinuing Japanese Yen TIBOR(c) 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 |
|---|

As a result of the 1st Consultation, the majority of responders supported Option “(a) Retaining Japanese Yen TIBOR and discontinuing Euroyen TIBOR.” In light of this, in May

²⁰ For the latest self-assessment as of the publication date of the Public Consultation, see the URL described in footnote 5.

²¹ Footnote 6.

²² For details, see 3.(2).

²³ Footnote 7

2019, JBATA published the results of the 1st Consultation,²⁴ stating that:

- it would contemplate future actions while deeming “retaining Japanese Yen TIBOR and discontinuing Euroyen TIBOR” as the most likely option of all, while paying attention to developments in the financial markets and ongoing domestic and international policy discussions, such as those on the cessation of LIBOR, and would also engage in necessary discussions to identify issues and matters to be addressed in practice; and
- while 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 of the discontinuation of Euroyen TIBOR, if adopted, it envisioned a preparation period of approximately two years following the permanent cessation of LIBOR.

b. Discussions since the publication of the results of 1st Consultation

As mentioned in 2.(4)a., JBATA indicated the timing of implementing the permanent cessation of Euroyen TIBOR, stating that it envisioned a preparation period of approximately two years following the permanent cessation of LIBOR.

In this respect, the FCA made the announcement²⁵ relating to the future cessation and loss of representativeness of the LIBOR benchmarks in March 2021, clarifying that the timing when LIBOR settings will either permanently cease to be published or become non-representative may differ depending on currencies and tenors.

Based on the announcement above, JBATA announced in the same month that:²⁶

- (a) it considered that the timing of “permanent cessation of LIBOR” described in the results of 1st Consultation means “permanent cessation or loss of representativeness of LIBOR’s all currencies and tenors (35 types) (i.e. end of June 2023);
- (b) in view of the above, JBATA expected that the timing of implementing the permanent cessation of Euroyen TIBOR, if adopted, would be at the end of December 2024,²⁷ to ensure a preparation period following the permanent cessation; and
- (c) JBATA planned to seek comments on whether to implement the permanent cessation of Euroyen TIBOR, the specifics of the reform and timing through public consultation.

²⁴ Footnote 9

²⁵ <https://www.fca.org.uk/news/press-releases/announcements-end-libor>

²⁶ https://www.jbatibor.or.jp/english/news/Compliance_with IOSCO_19principles_2021.html

²⁷ This reflects that many respondents supported the preparation period of 1.5 years (18 months) as proposed in the 1st Consultation if the option of the permanent cessation of Euroyen TIBOR is implemented.

Following these announcements, taking into account the possibility of the permanent cessation of Euroyen TIBOR, JBATA published the results of the Survey on JBA TIBOR Exposures (survey reference date: End-2021) in May 2022 (see 3.(1)).

Further, in consideration of the permanent cessation of Euroyen TIBOR and to avoid resulting market disruption, JBATA published the Public Consultation on fallback issues for JBA TIBOR in August 2022 in advance of discussing the permanent cessation (this Public Consultation) to further address fallback²⁸ issues and published its results in March 2023.²⁹

²⁸ “Fallback” in the context of this Public Consultation means an “approach to agree between the contracting parties referencing JBA TIBOR in advance on the treatment of the benchmark replacement to be referenced to substitute JBA TIBOR and other necessary matters after the permanent cessation of JBA TIBOR.”

²⁹https://www.jbatibor.or.jp/english/news/Results_of_Public_Consultation_on_fallback_issues_for_jba_tibor.html

Also see 3.(3) and Appendix 2.

3. Current status of Euroyen TIBOR

(1) Overview of Survey on JBA TIBOR Exposures

JBATA conducted the Survey on JBA TIBOR Exposures (survey reference date: End-2021) with a view to enable more informed discussions in consideration of the actual conditions of financial instruments and transactions referencing JBA TIBOR³⁰ and published the results in May 2022.³¹

The figure below shows the overview of the survey results for Euroyen TIBOR exposures.

[Figure 2] Overview of the survey results for Euroyen TIBOR exposures

	Amount outstanding or notional amount (JPY tri.)	Number of contracts
a. Assets	3.8	2,725
Loans	3.8	2,716
(Maturities beyond the end of December 2024)	(1.6)	(1,397)
Bonds	0.02	9
(Maturities beyond the end of December 2024)	(0.02)	(9)
b. Liabilities	0.004	9
(Maturities beyond the end of December 2024)	(0.004)	(9)
c. Derivatives	347.7	30,688
(Maturities beyond the end of December 2024)	(206.1)	(21,532)
OTC (ISDA)	345.1	30,307
(Maturities beyond the end of December 2024)	(205.4)	(21,368)

The survey revealed that the majority of products referencing Euroyen TIBOR are derivatives, while loans that reference Euroyen TIBOR also reach a certain level of volume.

Specifically, the survey indicated that a significant volume of loan and derivative contracts referencing Euroyen TIBOR have maturities beyond the end of December 2024, the potential permanent cessation date of Euroyen TIBOR, and that the greater part of

³⁰ The FSB Report recommends that it would be preferable to use respective interest rate benchmarks in consideration of the features of financial instruments or transactions.

³¹ JBATA surveyed banks, securities companies, insurance companies and other entities in Japan to understand the actual conditions of the amount outstanding and the number of contracts of financial instruments and transactions that reference Japanese Yen TIBOR or Euroyen TIBOR. Please refer to the following URL for details of the survey results.

https://www.jbatibor.or.jp/english/news/publication_of_the_key_results_of_the_survey_on_jba_tibor_exposures.html

derivatives are governed by ISDA Master Agreement ("ISDA Derivatives").

(2) Underlying market and levels of the waterfall methodology for calculating/determining submission rates

Based on Article 48(1) of the JBA TIBOR Operational Rules, JBATA conducts a periodic review of the operational framework and publishes results of the review. The results show the conditions of the underlying markets of JBA TIBOR and the levels of the waterfall methodology for calculating/determining submission rates.

(i) Underlying market of Euroyen TIBOR

The following figure summarizes, in chronological order, data reported in the results of a periodic review of the operational framework [Figure 3].³²

The recent percentage of the transactions executed by reference banks in the Japan Offshore Market is approximately 70%. However, the estimated market size of the Japan Offshore Market has been less than JPY1 trillion for both the financing side and funding side, indicating a prolonged downsizing of the market.

[Figure 3] Trend in the conditions of the underlying market (Japan Offshore Market) of Euroyen TIBOR (as of the end of July)

		2015	2016	2017	2018	2019	2020	2021	2022
Estimated market size of the Japan Offshore Market	Financing side (Approx.) (JPY tri.)	1.2	0.9	0.6	0.5	0.6	0.5	0.3	0.3
	Funding side (Approx.) (JPY tri.)	1.2	1.1	0.9	0.6	0.8	0.8	0.5	0.5
Estimated share of transactions by reference banks (Calculated by including overnight rates.) (Approx.) (%)		—*						70	69

* The data was not disclosed.

(ii) Levels of the waterfall methodology for calculating/determining submission rates of Euroyen TIBOR

The following figure summarizes the levels of the waterfall methodology for calculating/determining submission rates of Euroyen TIBOR reported in the most recent

³² For details on the basis of calculation and other related matters, please refer to the materials published for each fiscal year. The latest result (March 2023) is available at the following URL.
https://www.jbatibor.or.jp/english/news/periodical_review_2023.html

result of a periodic review of the operational framework in March 2023 [Figure 4].³³

The submission rates for 6-month and 12-month tenors are mostly determined in the 1st Level (data of the underlying market) while particularly for 1-week and 1-month tenors, the percentage of submission rates determined in the 2nd or 3rd Level (data other than that of the underlying market) is rather high. Chronologically, the percentage of submission rates determined in the 2nd Level (or 3rd Level) tended to be relatively high, especially for shorter tenors. This is consistent with the most recent result (2023) (Appendix 1).

[Figure 4] Levels of the waterfall methodology for calculating/determining submission rates of Euroyen TIBOR

Level \ Tenor		Tenor				
		1W	1M	3M	6M	12M
1st Level	Data of the Japan Offshore Market	16.3%	51.5%	71.9%	99.2%	99.2%
2nd Level	Data of the inter-bank market which is similar to the Japan Offshore Market	67.6%	43.1%	28.1%	0.8%	0.1%
3rd Level	Data of the relevant market including the wholesale market	16.1%	5.4%	—	—	0.7%
4th Level	Expert judgment	—	—	—	—	—

(3) Summary of the fallback issues for Euroyen TIBOR

In August 2022, with a primary focus on the recognized issue for Principle 13 (Transition),³⁴ JBATA published Public Consultation on fallback issues for JBA TIBOR³⁵ to seek to solicit comments from a wide range of market participants on appropriate benchmark replacement to be referenced as an alternative to JBA TIBOR. Based on the comments received, the results of the public consultation were published in March 2023.³⁶

For cash products (loans and bonds)³⁷ referencing JBA TIBOR, the results of the public consultation provided JBATA's position on the fallback procedures in terms of (i) conditions on which fallback provisions are activated (triggers), (ii) options of appropriate fallback rates that could be referenced to substitute JBA TIBOR, and (iii) methodologies of the

³³ See footnote 32.

³⁴ See footnote 5.

³⁵ https://www.jbatibor.or.jp/english/news/public_consultation_on_fallback_issues_for_jba_tibor.html

³⁶ See footnote 29.

³⁷ Fallbacks for derivative transactions have been already discussed by ISDA. For details, see page 10 of the document referred to in footnote 13.

spread adjustment between JBA TIBOR and the fallback rate. JBATA's position on fallback issues for Euroyen TIBOR is as described in Appendix 2.

The results also mentioned that: “In the Policy on Material Changes in the Definition or Calculation Method and Permanent Cessation of JBA TIBOR³⁸ and other relevant materials, JBATA recommends the contracting parties to reach an agreement on alternative benchmarks in advance”; and provided the views on the introduction of fallback provisions in contracts referencing JBA TIBOR based on the comments received for the Public Consultation on fallback issues for JBA TIBOR.³⁹

The following is the views on the introduction of a fallback provision⁴⁰ in contracts referencing Euroyen TIBOR.

[Figure 5] Introduction of fallback provisions in contracts referencing Euroyen TIBOR⁴¹

“Given that the permanent cessation at the end of December 2024 is under consideration for Euroyen TIBOR ..., its users should promptly consider, as an option, the introduction of fallback provisions for Euroyen TIBOR contracts that will mature after the end of December 2024.”

³⁸ https://www.jbatibor.or.jp/english/Policy_on_Material_Changes_in_the_Definition_or_Calculation.pdf

³⁹ In response to the publication of the Results of Public Consultation on fallback issues for JBA TIBOR, the Financial Services Agency (JFSA) has announced that it “expects the introduction of fallback provisions into contracts referencing JBA TIBOR to be advanced based on the Results of the Public Consultation and will support these efforts as needed.” For details, see the following URL.
(<https://www.fsa.go.jp/en/news/2023/20230316/20230316.html>)

⁴⁰ Following the publication of the Results of Public Consultation on fallback issues for JBA TIBOR, the JBA published the samples of the fallback provision for bilateral loans referencing JBA TIBOR (available in Japanese only).
(<https://www.zenginkyo.or.jp/news/2023/n033001/>)

⁴¹ Excerpt from page 43 of the Results of Public Consultation on fallback issues for JBA TIBOR (partially edited)
(https://www.jbatibor.or.jp/english/Results_of_Public_Consultation_on_fallback_issues.pdf)

4. Description of issues for permanent cessation of Euroyen TIBOR

(1) Whether to permanently cease Euroyen TIBOR

In consideration of sections 2. and 3. above, JBATA has discussed the implementation of the permanent cessation of Euroyen TIBOR based on Article 51 of the JBA TIBOR Operational Rules (“Operational Rules”) [Figure 6].

[Figure 6] Article 51 of the Operational Rules

Article 51 - Permanent cessation of JBA TIBOR, etc.

- (1) JBATA shall consider permanent cessation of JBA TIBOR, etc. in cases where any (either individually or collectively) of the following situations are likely to continue to exist over a long period and there is no prospect of early restoration of such situation(s) in the future, which has led to a conclusion that JBA TIBOR is probably no longer representative as a benchmark:
 - (i) where any structural changes in the Japan unsecured call market or the Japan Offshore Market have given rise to the decline in the awareness of such market as an active market by market participants and related authorities, and doubt exists as to its use as the underlying market of JBA TIBOR;
 - (ii) where the publication of JBA TIBOR has violated laws and regulations;
 - (iii) where the reduction in demand for JBA TIBOR users is significant and it is determined that the impact on the financial industry and the economy will be limited even if the publication of JBA TIBOR will be ceased; or
 - (iv) where a change is deemed to be difficult to improve although the change in the definitions or calculation methods of JBA TIBOR has been considered pursuant to the preceding Article 49 (1).
- (2) When JBATA considers the permanent cessation of JBA TIBOR, etc. pursuant to the preceding paragraph, such permanent cessation shall be decided by the Board of Directors after discussion at the Administration Committee. In submitting matters for resolution to the Board of Directors, the matters shall also be reported to the Oversight Committee. This consideration and decision shall, to the utmost extent, reflect an objective of continuously ensuring the soundness of JBA TIBOR determination, taking into account the effect of such cessation, etc. on the stability of the financial economy, the scope of contracts referencing JBA TIBOR, and the degree of the impact of such cessation on the contract.
- (3) In considering the cessation pursuant to the preceding two paragraphs, JBATA shall seek public comment and hold discussions with market participants including the users, as appropriate. Further, JBATA shall hold discussions with related authorities

as appropriate.

- (4) In seeking the public comment as stated in preceding paragraph, JBATA shall allow a sufficient period so that stakeholders, such as users, can have appropriate time to consider and comment on the impact of the cessation, and JBATA shall consider carrying out an impact analysis of the cessation, as appropriate.
- (5) When JBATA ceases JBA TIBOR publication, etc. as stated herein, it shall disclose at least six months prior to the effective date of the timing of the cessation, its reason, the feedback and comments submitted by stakeholders through public consultations as stated in the preceding paragraphs and the details of the discussions with the comment submitter(s) based on such comments (unless the comment submitter(s) request non-disclosure).

The steps to be taken for the permanent cessation of Euroyen TIBOR specified in Article 51 of the Operational Rules are summarized as below [Figure 7].

[Figure 7] Steps to be taken for the permanent cessation of Euroyen TIBOR

- I. Assess the eligibility to start considering the permanent cessation of Euroyen TIBOR (Article 51(1) of the Operational Rules)
- II. Decide to start considering the permanent cessation of Euroyen (Article 51(2) of the Operational Rules)
- III. Implement a public consultation on the permanent cessation of Euroyen TIBOR (Articles 51(3) and 51(4) of the Operational Rules)
- IV. Decide to undertake the permanent cessation of Euroyen TIBOR (publication of public consultation results) (Article 51(5) of the Operational Rules)

The following describes (i) the assessment and decision JBATA has made (Step I and Step II) prior to initiating the Public Consultation (Step III) and (ii) the issues on which JBATA seek to solicit comments through the Public Consultation.

(i) Assessment and decision JBATA has made

a. Step I - Assess the eligibility to start considering the permanent cessation of Euroyen TIBOR (Article 51(1) of the Operational Rules)

Article 51(1) of the Operational Rules sets forth the condition to start considering the permanent cessation of JBA TIBOR. In accordance with this Article, JBATA has assessed whether the current status of Euroyen TIBOR meets that condition.

As a result, as described in [Figure 8], based on the factors including the prolonged

downsizing of the Japan Offshore Market that is the underlying market of Euroyen TIBOR, JBATA has concluded that the current status of Euroyen TIBOR is deemed as the situation specified in item (i) of Article 51(1) of the Operational Rules (meaning that JBATA has assessed that the condition to start considering permanent cessation of Euroyen TIBOR specified in Article 51(1) of the Operational Rules is met).

[Figure 8] Assessment of whether the situation specified in item (i) of Article 51(1) of the Operational Rules is met

Article 51 - Permanent cessation of JBA TIBOR, etc.	
(1) JBATA shall consider permanent cessation of JBA TIBOR, etc. in cases where any (either individually or collectively) of the following situations are likely to continue to exist over a long period and there is no prospect of early restoration of such situation(s) in the future, which has led to a conclusion that JBA TIBOR is probably no longer representative as a benchmark:	
(i) [JBATA's assessment: <u>Met.</u>]	
	where any structural changes in the Japan unsecured call market or the Japan Offshore Market have given rise to the decline in the awareness of such market as an active market by market participants and related authorities, and doubt exists as to its use as the underlying market of JBA TIBOR
✓	As a result of the 1st Consultation published to respond to the issue recognized for Principle 7 (e.g. prolonged downsizing of the Japan Offshore Market which is the underlying market of Euroyen TIBOR), the majority of respondents supported the permanent cessation of Euroyen TIBOR as the basic approach to further reforms. This is deemed as the situation specified in this item: "... the decline in the awareness of such market (i.e. Japan Offshore Market) as an active market by market participants ..., and doubt exists as to its use as the underlying market of JBA TIBOR."
✓	As mentioned in section 3.(2), given that such prolonged downsizing of the Japan Offshore Market continues to be observed, it is considered that the above situation is likely to continue for a long period and there is no prospect of early restoration of the situation in the future, indicating that it is highly likely that Euroyen TIBOR will lose its representativeness as a benchmark. ⁴²

JBATA has assessed whether the current status of Euroyen TIBOR meets any of the situations set forth in the remaining items (ii) to (iv), and has concluded that none of them

⁴² As for the level of the waterfall methodology for calculating/determining submission rates of Euroyen TIBOR, as mentioned in section 3.(2), it is observed that the percentage of submission rates determined by using data other than that of the underlying market is rather high, especially for shorter tenors.

are met [Figure 9].

[Figure 9] Assessment of whether the situations specified in items (ii) to (iv) of Article 51(1) of the Operational Rules are met

(ii) [JBATA's assessment: Not met.]

where the publication of JBA TIBOR has violated laws and regulations

- ✓ As mentioned in section 2.(2), Euroyen TIBOR is designated as a “Specified Financial Benchmark” under the FIEA, and JBATA, which is responsible for calculating Euroyen TIBOR, is designated as a “Specified Financial Benchmark Administrator”.
- ✓ Based on the FIEA and the Cabinet Office Order on Specified Financial Benchmark Administrators, Specified Financial Benchmark Administrators are subject to recordkeeping and other applicable requirements related to the calculation operations of the Specified Financial Benchmark. JBATA complies with these requirements and has not received any order to improve, or suspend, the calculation operations of the Specified Financial Benchmark based on the FIEA.
- ✓ Therefore, JBATA has not violated any laws and regulations of Japan in the calculation (publication) of Euroyen TIBOR, and does not recognize any violations of laws and regulations of other jurisdictions.

(iii) [JBATA's assessment: Not met.]

where the reduction in demand for JBA TIBOR users is significant and it is determined that the impact on the financial industry and the economy will be limited even if the publication of JBA TIBOR will be ceased

- ✓ As mentioned in section 3.(1), it was identified that Euroyen TIBOR was mainly used in derivatives, as well as loans to a certain extent. Given the number of contracts and amount outstanding or notional amount of these products, JBATA does not consider that “the reduction in demand for Euroyen TIBOR users is significant” situation is met.
- ✓ However, “the impact on the financial industry and the economy will be limited even if the publication of Euroyen TIBOR will be ceased” situation may be met, on the basis that (i) the majority of derivative transactions are derivatives governed by ISDA Master Agreement, and fallbacks for derivative transactions have been already discussed and reflected in the derivative contracts; and (ii) necessary measures to address the fallback issues for cash products (loans and bonds), such as discussions by JBATA, have been taken as mentioned in section 3.(3).

(iv) [JBATA's assessment: Not met.]

where a change is deemed to be difficult to improve although the change in the definitions or calculation methods of JBA TIBOR has been considered pursuant to the preceding Article 49 (1)⁴³

- ✓ As a result of the periodic review of the operational framework,⁴⁴ JBATA has not determined that the current status of Euroyen TIBOR meets the conditions specified in each item of Article 49(1) of the Operational Rules. Therefore, JBATA has not considered changing the definitions or calculation methods of JBA TIBOR specified in Article 49(1). Accordingly, there have been no facts where such changes were deemed to be difficult.

⁴³ Article 49 – Changes in the definitions or calculation methods of JBA TIBOR

(1) JBATA shall consider changes in the definitions or calculation methods of JBA TIBOR in cases where either or both of the following situations are likely to continue to exist for a certain period of time and there is no prospect of early restoration of such situation(s), which has led to a conclusion that JBA TIBOR may no longer be representative as a benchmark:

- (i) where there have been any structural changes in the Japan unsecured call market or the Japan Offshore Market that may require changes in the definitions, calculation methods of JBA TIBOR; or
- (ii) where underlying interest which JBA TIBOR seeks to measure is no longer generally used or is not functioning, and hence is deemed to be not fulfilling its role as a reliable benchmark.

⁴⁴ Footnote 32

b. Step II - Decide to start considering the permanent cessation of Euroyen TIBOR (Article 51(2) of the Operational Rules)

Article 51(2) sets forth the decision-making process to be applied when starting the consideration of the permanent cessation of JBA TIBOR.

[Figure 10] Article 51(2) of the Operational Rules (re-mentioned, partial excerpt)

Article 51
(2) When JBATA considers the permanent cessation of JBA TIBOR, etc. pursuant to the preceding paragraph, such permanent cessation shall be decided by the Board of Directors after discussion at the Administration Committee. In submitting matters for resolution to the Board of Directors, the matters shall also be reported to the Oversight Committee. This consideration and decision shall, to the utmost extent, reflect an objective of continuously ensuring the soundness of JBA TIBOR determination, taking into account the effect of such cessation, etc. on the stability of the financial economy, the scope of contracts referencing JBA TIBOR, and the degree of the impact of such cessation on the contract.

In consideration of the assessment described in the preceding (i)a., the Board of Directors of JBATA has decided to start considering the permanent cessation of Euroyen TIBOR after discussion at the Administration Committee and reporting to the Oversight Committee.

JBATA has also “taken into account the effect of such cessation, etc. on the stability of the financial economy, the scope of contracts referencing JBA TIBOR, and the degree of the impact of such cessation on the contract” as specified in the above item in reference to the Analysis of the impact of Euroyen TIBOR cessation (Appendix 3).

(ii) Issues on which JBATA seeks to solicit comments through the Public Consultation

Step III - Implement a public consultation on the permanent cessation of Euroyen TIBOR (Article 51(3) and Article 51(4) of the Operational Rules)

Based on the assessment and decision described in the preceding (i), JBATA published the Public Consultation pursuant to Article 51(3) of the Operational Rules [Figure 11].

[Figure 11] Article 51(3) of the Operational Rules (re-mentioned, partial excerpt)

Article 51
(3) In considering the cessation pursuant to the preceding two paragraphs, JBATA shall seek public comment and hold discussions with market participants including the users, as appropriate. Further, JBATA shall hold discussions with related authorities as appropriate.

Pursuant to Article 51(3), to inform JBATA's consideration of the permanent cessation of Euroyen TIBOR, the Public Consultation seeks comments from market participants on whether to permanently cease Euroyen TIBOR.

Based on Article 51(4) [Figure 12], the Public Consultation provides a two-month comment period from the perspective of enabling stakeholders, such as users, to have sufficient time to consider and comment on the impact of the cessation (see subsequent section 7).

Further, the Analysis of the impact of Euroyen TIBOR cessation (Appendix 3) that takes into account the previous sections 2. and 3. is attached to the Public Consultation.

[Figure 12] Article 51(4) of the Operational Rules (re-mentioned, partial excerpt)

Article 51
(4) In seeking the public comment as stated in preceding paragraph, JBATA shall allow a sufficient period so that stakeholders, such as users, can have appropriate time to consider and comment on the impact of the cessation, and JBATA shall consider carrying out an impact analysis of the cessation, as appropriate.

(2) Timing of the permanent cessation of Euroyen TIBOR

As mentioned in section 2.(4), in light of the results of the 1st Consultation and the development of discussions made since the publication of that result, JBATA has announced that it expects that the timing of implementation of the permanent cessation of Euroyen TIBOR, if adopted, would be at the end of December 2024 and that it plans to seek comments through a public consultation on the specific timing to permanently cease Euroyen TIBOR.

Given the above, the Public Consultation seeks comments from market participants on whether to set the end of December 2024 as the timing for the permanent cessation of Euroyen TIBOR, if JBATA determines to cease Euroyen TIBOR.

In accordance with Article 51(5) of the Operational Rules [Figure 13], if it is determined to permanently cease Euroyen TIBOR, JBATA will also announce information including the timing of the cessation and its reasons.

[Figure 13] Article 51(5) of the Operational Rules (re-mentioned, partial excerpt)

Article 51
(5) When JBATA ceases JBA TIBOR publication, etc. as stated herein, it shall disclose at least six months prior to the effective date of the timing of the cessation, its reason, the feedback and comments submitted by stakeholders through public consultations as stated in the preceding paragraphs and the details of the discussions with the comment submitter(s) based on such comments (unless the comment submitter(s) request non-disclosure).

5. Related issues

In the discussion on the permanent cessation of Euroyen TIBOR, JBATA has closely paid attention to market participants' efforts to address practical issues for achieving an orderly cessation of Euroyen TIBOR.⁴⁵

As mentioned in section 3.(3), JBATA has taken measures to facilitate Euroyen TIBOR users' efforts as the benchmark administrator including considering its views on the introduction of fallback provisions in contracts referencing Euroyen TIBOR, indicating that "its users should promptly consider, as an option, the introduction of fallback provisions for Euroyen TIBOR contracts that will mature after the end of December 2024."

Considering market participants' future initiatives to prepare for the permanent cessation of Euroyen TIBOR, it would be necessary for them to carry out the transition in a planned way, taking into account the limited timeline and in reference to developments including the discussion on the timing of implementing the permanent cessation described in section 4.

Reflecting on the initiatives related to the permanent cessation of LIBOR, each jurisdiction developed and published milestones (target dates) or transition plans (collectively, "milestones") so that a wide range of market participants would be able to carry out the transition in a planned manner, giving consideration to the limited timeline (this issue is discussed in detail in section 5.(1)). Further, JBATA understands that there is an opinion, based on experience of the permanent cessation of LIBOR, that JBATA or related entities should encourage a wide range of market participants to take actions in consideration of the limited timeline when considering the permanent cessation of Euroyen TIBOR as well.⁴⁶

For the reasons stated above, the Public Consultation discusses the milestones for the permanent cessation of Euroyen TIBOR as an issue related to the permanent cessation of Euroyen TIBOR described in section 4, in reference to each jurisdiction's milestones.

⁴⁵ See page 38 of the document referred to in footnote 13 and page 36 (footnote 17) of the document referred to in footnote 41.

⁴⁶ For example, in the fourth meeting of the Cross-Industry Forum on Interest Rate Benchmarks (secretariat office: Bank of Japan(BOJ)) held on March 28, 2023, a securities company member commented as follows: "Besides pushing for the incorporation of fallback provisions before the cessation of Euroyen TIBOR, for which the permanent cessation at the end of December 2024 was under consideration, some form of messages should be sent out to call on market participants at home and abroad to avoid referencing the benchmark for new transactions."

(https://www.boj.or.jp/en/paym/market/i_forum/data/ifo230328a2.pdf)

(1) Reviews on the milestones for the permanent cessation of LIBOR

As of the end of December 2021 (or as of the end of June 2023, in the case of major tenors for USD LIBOR), LIBOR on the basis of panel bank submissions, which had been referenced globally in various financial transactions, ceased to be published permanently without giving rise to any major confusion.

One of the reasons that enabled many market participants to smoothly complete the transition away from LIBOR-based contracts, despite an enormous amount outstanding and an enormous number of contracts, is that the working groups of respective jurisdictions in each currency established and published milestones. before the determination of the permanent cessation of LIBOR and market participants took actions in line with such milestones.

The figure below is a brief summary of the milestones established and published by the working groups of respective jurisdictions working on major LIBOR currencies (Figure 14). For all currencies, at least a milestone related to the timing to cease entering into new contracts was established for each product type (loans, bonds and derivatives), and for certain currencies, a recommendation regarding actions to address legacy contracts was provided.

[Figure 14] Milestones for major LIBOR currencies that ceased to be published as of the end of December 2021⁴⁷

Information in parentheses shows the timing based on Dec. 31, 2021 (the date of LIBOR cessation)

Currency	Timing to cease entering into new contracts			Actions to address legacy contracts
	Loans	Bonds	Interest rate swaps, etc.	
JPY	Jun. 30, 2021 (6 months before)	Jun. 30, 2021 (6 months before)	Sep. 30, 2021 ⁴⁸ (3 months before)	Sep. 30, 2021 (3 months before)*2
USD (1-week, 2-month)	Jun. 30, 2021 (6 months before)	Jun. 30, 2021 (6 months before)	Jun. 30, 2021 (6 months before)	Not established*3
GBP	March 31, 2021 (9 months before)	March 31, 2021 (9 months before)	March 31, 2021 (9 months before)*1	Sep. 30, 2021 (3 months before)*4

⁴⁷ This figure is a brief summary created by JBATA to outline the milestones established and published by the working groups of respective jurisdictions working on LIBOR currencies. Therefore, for details (e.g. the scope of applicable products, exceptions) such as the one described in footnote 48, please refer to the materials published by the respective working groups.

⁴⁸ Except for risk management of existing positions. In addition, the Cross-Industry Committee shall not preclude financial institutions from executing those transactions for customers which would result in increasing LIBOR exposure, and shall not require financial institutions to confirm their customers' purposes of trade before and after selling financial instruments or executing transactions.

- *1 Linear products. The milestone for non-linear products was set on June 30, 2021 (6 months before).
- *2 Aimed to significantly reduce legacy contracts for cash products.
- *3 Recommended an early introduction of a robust fallback provision in order to avoid legacy contracts from being subject to uncertainty.
- *4 Aimed to complete the active transition of all contracts to the extent practicable (and if it was impracticable to implement the active transition, recommended that a robust fallback provision to be introduced as much as practicable).

(2) Milestones for the permanent cessation of Euroyen TIBOR

Taking into account of the size of Euroyen TIBOR exposures (the outstanding amount and the number of contracts) is smaller than those of Japanese Yen LIBOR, JBATA has considered the milestone for the permanent cessation of Euroyen TIBOR on a product-by-product basis, focusing on the timing to cease entering into new contracts,⁴⁹ which was the milestone established for major LIBOR currencies (Figure 15).

In reference to JBATA's consideration described below (Figure 15), the Public Consultation seeks comments from market participants on the timing to cease entering into new contracts for products referencing Euroyen TIBOR.⁵⁰

[Figure 15] JBATA's consideration on the milestone (timing to cease entering into new contracts) for products referencing Euroyen TIBOR

(i) Cash products (loans and bonds)

As shown in Figure 14, preparing for the LIBOR cessation, the milestone for the timing to cease entering into new contracts was established six months before the cessation date for cash products referencing JPY LIBOR and USD LIBOR (1-week, 2-month) and nine months before the cessation date for GBP LIBOR.

According to the results of the Survey on JBA TIBOR Exposures related to Euroyen TIBOR, the size of cash products referencing Euroyen TIBOR is small compared to JPY LIBOR.⁵¹

⁴⁹ The Public Consultation does not directly seek comments on “the reduction target for legacy contracts” but does not intend to preclude individual market participants from setting such a target.

⁵⁰ JBATA does not plan to establish any milestones (e.g. timing to cease entering into new contracts) related to Euroyen TIBOR. Instead, JBATA intends to publish comments on the milestones (e.g. timing to cease entering into new contracts) for products referencing Euroyen TIBOR received from market participants through the Public Consultation and based on such comments, to coordinate with related authorities as necessary. JBATA considers that such coordination will contribute to support market participants in preparing for the permanent cessation of Euroyen TIBOR.

⁵¹ JFSA and BOJ conducted a joint survey on the use of LIBOR, covering Japanese financial institutions (278 institutions), before the actions for transition away from JPY LIBOR began on a full scale. According to the survey results, cash products (loans and bonds) maturing beyond the end of 2021 amounted to at least

Given this, in order to achieve a smooth transition of cash products referencing Euroyen TIBOR, it would be an option to set a milestone for the timing to cease entering into new contracts on the date at least six months before the date of its permanent cessation, consistent with JPY LIBOR.

(ii) Interest rate swaps

As shown in Figure 14, as for derivatives (e.g. interest rate swaps), the milestone for the timing to cease entering into new contracts was established three months before the cessation date for JPY LIBOR, six months before the cessation date for USD LIBOR (1-week, 2-month), and six months or nine months before for the cessation date for GBP LIBOR.

According to the results of the Survey on JBA TIBOR Exposures related to Euroyen TIBOR, the size of interest rate swaps referencing Euroyen TIBOR is small compared to JPY LIBOR,⁵² similar to cash products.

On the other hand, given that interest rate swaps referencing Euroyen TIBOR are used more widely than cash products, it would be an option to set a milestone for the timing to cease entering into new contracts on the date at least six months before the date of its permanent cessation, consistent with cash products, in order to ensure a sufficient preparation period to reduce exposures.

approximately JPY16 trillion (approx. 19,000 contracts).

(<https://www.fsa.go.jp/en/policy/libor/libor.survey.english.200313.pdf>)

⁵² Footnote 51. Derivatives maturing beyond the end of 2021 amounted to at least approximately JPY1,952 trillion (approx. 329,000 contracts).

6. Next steps

○ Publication of the results of the Public Consultation

JBATA plans to publish the results of the Public Consultation by March 31, 2024.

The results of the Public Consultation will also provide JBATA's position on the following issues, based on comments submitted during the Public Consultation and other relevant information.⁵³

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

If the results of the Public Consultation indicate JBATA's determination to permanently cease Euroyen TIBOR, publishing such results would be intended to constitute a "Permanent Cessation Trigger."

When publishing the results of the Public Consultation, JBATA will 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.

⁵³ When implementing the permanent cessation of Euroyen TIBOR, the results of the Public Consultation will also describe other necessary matters in accordance with Article 51(5) of the Operational Rules.

7. Public Consultation procedures

(1) Consultation period

Comments to this Public Consultation shall be sent no later than September 30, 2023.

(2) How to submit your comments

Comments shall be submitted by e-mail to: contact@jbatibor.or.jp

[Guidance]

Your comment shall be titled “Comments on [Consultative Document] Permanent cessation of Euroyen TIBOR and related issues” and shall **include the following information in the specified format:**

- Name;
- Contact information (Phone number, e-mail address);
- Name of the legal entity or organization (if you are a member of any); and
- Your comments and reasons for your opinions on each question⁵⁴.

[Reminder]

Personal information (e.g. name and contact information) included in the comment will be used when JBATA needs to contact you to inquire about unclear matters in comments.

For further detail regarding the treatment of personal information, see our Privacy Policy.

[Contact information for any inquiry regarding the consultative document]

■ Office for TIBOR Reform,

General Incorporated Association JBA TIBOR Administration

E-mail: contact@jbatibor.or.jp

⁵⁴ Responding to only some questions is welcomed as well.

8. Consultation questions

No.	Consultation question	Reference
1	<p>Based on Article 51 of the JBA TIBOR Operational Rules, JBATA is considering the permanent cessation of Euroyen TIBOR. In light of the current status of Euroyen TIBOR, the impact analysis and other relevant information described in the Public Consultation, please provide your opinion on whether to permanently cease Euroyen TIBOR.</p> <p>(Yes (Support the permanent cessation)/No (Do not support the permanent cessation)/No opinion) Please also explain the reason.</p>	4.(1)
2	<p>If your answer to Question 1 is “Yes (Support the permanent cessation),” do you support JBATA’s view on the timing to implement the permanent cessation of Euroyen TIBOR?</p> <p>(Yes/No/No opinion) Please also explain the reason.</p> <p>[Timing of the permanent cessation of Euroyen TIBOR] End of December 2024</p>	4.(2)
3	<p>If your answer to Question 2 is “<u>No</u>,” please provide your opinion on the specific timing of the permanent cessation of Euroyen TIBOR and the reason thereof.</p>	4.(2)
4	<p>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?</p> <p>Please provide the specific timing and the reason thereof.</p>	5.(2)(i)
5	<p>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?</p> <p>Please provide the specific timing and the reason thereof.</p>	5.(2)(ii)
6	<p>Please describe any comments on issues other than the consultation questions listed above for the Public Consultation.</p>	—

Levels of the waterfall methodology for calculating/determining submission rates of Euroyen TIBOR⁵⁵

[1-week]

	2017	2018	2019	2020	2021	2022
1st Level	12.86%	2.1%	0.2%	17.2%	12.8%	16.3%
2nd Level	84.87%	97.7%	98.6%	79.4%	80.8%	67.6%
3rd Level	2.27%	0.3%	1.2%	3.4%	6.3%	16.1%
4th Level	—	—	—	—	—	—

[1-month]

	2017	2018	2019	2020	2021	2022
1st Level	6.69%	16.6%	20.3%	24.2%	37.5%	51.5%
2nd Level	93.31%	83.4%	79.7%	73.3%	39.4%	43.1%
3rd Level	—	—	—	2.4%	23.1%	5.4%
4th Level	—	—	—	—	—	—

[3-month]

	2017	2018	2019	2020	2021	2022
1st Level	26.88%	42.8%	37.4%	37.6%	48.3%	71.9%
2nd Level	73.12%	57.2%	62.6%	62.4%	51.7%	28.1%
3rd Level	—	—	—	0.0%	—	—
4th Level	—	—	—	—	—	—

[6-month]

	2017	2018	2019	2020	2021	2022
1st Level	37.40%	61.8%	65.8%	59.4%	70.7%	99.2%
2nd Level	62.60%	38.2%	34.2%	40.6%	29.3%	0.8%
3rd Level	—	—	—	—	—	—
4th Level	—	—	—	—	—	—

[12-month]

	2017	2018	2019	2020	2021	2022
1st Level	51.36%	74.5%	100%	95.7%	100%	99.2%
2nd Level	48.64%	25.5%	—	4.3%	—	0.1%
3rd Level	—	—	—	—	—	0.7%
4th Level	—	—	—	—	—	—

⁵⁵ The data represents the status after the introduction of the waterfall methodology under the First Phase of JBA TIBOR Reform in 2017. The sum of figures described in the table may not add up to 100% due to rounding.

JBATA's position on fallback issues for Euroyen TIBOR⁵⁶

Issues	JBATA's position (Key view)											
Trigger	<p>At least include in the fallback provisions the “Permanent Cessation Trigger” that assumes an announcement stating that JBATA has ceased or will cease to provide Euroyen TIBOR permanently or indefinitely.</p> <p>If the contracting parties focus on ensuring consistency with ISDA Derivatives, include in the fallback provisions the language that assumes an announcement by the regulatory supervisory of JBATA (i.e. JFSA), etc., stating that JBATA has ceased or will cease to provide Euroyen TIBOR permanently or indefinitely</p>											
Benchmark replacement *3	Fallback rates (Options and setting priorities in the fallback provisions)											
	Options											
	Compounded TONA (fixing in arrears), Term RFR, Japanese Yen TIBOR											
	<table border="1" data-bbox="354 826 1396 869"> <thead> <tr> <th data-bbox="354 826 885 869">Setting priorities - Option 1</th> <th colspan="2" data-bbox="885 826 1396 869">Setting priorities – Option 2 *1</th> </tr> </thead> <tbody> <tr> <td data-bbox="354 869 885 1003" rowspan="2">Compounded TONA (fixing in arrears)</td> <td data-bbox="885 869 1066 911">1st priority</td> <td data-bbox="1066 869 1396 911">Term RFR</td> </tr> <tr> <td data-bbox="885 911 1066 1003">2nd priority</td> <td data-bbox="1066 911 1396 1003">Compounded TONA (fixing in arrears)</td> </tr> </tbody> </table>	Setting priorities - Option 1	Setting priorities – Option 2 *1		Compounded TONA (fixing in arrears)	1 st priority	Term RFR	2 nd priority	Compounded TONA (fixing in arrears)			
	Setting priorities - Option 1	Setting priorities – Option 2 *1										
	Compounded TONA (fixing in arrears)	1 st priority	Term RFR									
		2 nd priority	Compounded TONA (fixing in arrears)									
<p>If the waterfall methodology is applied, the following can be added to the subordinate priority level of each setting priority.</p> <p>[Loans] “Rate deemed as suitable (after appropriately considering recommendations by the regulatory supervisor, etc. or market convention) and notified by the lender to the borrower”</p> <p>[Bonds] “Benchmark recommended by relevant committees convened by authorities”</p> <p>“Fallback rate for the benchmark to be replaced as defined in the ISDA Definitions”</p> <p>“Benchmark selected by the issuer, etc.”</p>												
Spread adjustment *2												
<table border="1" data-bbox="354 1525 1396 1924"> <tbody> <tr> <td data-bbox="354 1525 726 1615">Fallback rate</td> <td data-bbox="726 1525 1066 1615">Compounded TONA (fixing in arrears)</td> <td data-bbox="1066 1525 1396 1615">Term RFR</td> </tr> <tr> <td data-bbox="354 1615 726 1704">Spread adjustment methodology</td> <td colspan="2" data-bbox="726 1615 1396 1704">Historical five-year median spread adjustment methodology*4</td> </tr> <tr> <td data-bbox="354 1704 726 1839">Historical data of term RFRs</td> <td data-bbox="726 1704 1066 1839">- (No consideration required)</td> <td data-bbox="1066 1704 1396 1839">Use data of compounded TONA (fixing in arrears)</td> </tr> <tr> <td data-bbox="354 1839 726 1924">Transition period for the spread adjustment</td> <td colspan="2" data-bbox="726 1839 1396 1924">No transition period to be set</td> </tr> </tbody> </table>	Fallback rate	Compounded TONA (fixing in arrears)	Term RFR	Spread adjustment methodology	Historical five-year median spread adjustment methodology*4		Historical data of term RFRs	- (No consideration required)	Use data of compounded TONA (fixing in arrears)	Transition period for the spread adjustment	No transition period to be set	
Fallback rate	Compounded TONA (fixing in arrears)	Term RFR										
Spread adjustment methodology	Historical five-year median spread adjustment methodology*4											
Historical data of term RFRs	- (No consideration required)	Use data of compounded TONA (fixing in arrears)										
Transition period for the spread adjustment	No transition period to be set											

⁵⁶ Excerpted and partially edited from pages 41 and 42 of the document referenced in footnote 41

	The officially published spread adjustment	ISDA spread adjustments published by Bloomberg
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- *1 Responses were evenly split between support and opposition for JBATA's proposal on setting Japanese Yen TIBOR as the first priority fallback rate in the waterfall methodology.
- *2 For the option to use Japanese Yen TIBOR as a fallback rate, there were no specific spread adjustment methodologies supported by the respondents.
- The permanent cessation of Japanese Yen TIBOR has not been discussed and there are no restrictions in selecting it as a fallback rate. Therefore, when selecting the option to use it as a fallback rate, it will be necessary to reach an agreement between the contracting parties on the benchmark replacement in the absence of consensus among respondents on the specific spread adjustment methodology. For example, in the case of loans, the lender would need to take actions in consideration of conduct and dispute risks.
- The use of Japanese Yen TIBOR through the active transition could also be considered, instead of in the fallback approach. In that case, the approach to spread adjustments would be determined based on the bilateral agreement between the contracting parties.
- *3 There is a difference in day count convention between Euroyen TIBOR (act/360) and fallback rate options (act/365). Therefore, when calculating the fallback rate for Euroyen TIBOR, the ratio of the Euroyen TIBOR day count over the fallback rate day count would be 360/365 (ISDA spread adjustments calculated by Bloomberg have accommodated the different day count convention).
- *4 The contracting parties should note that the historical five-year median spread adjustment methodology may give rise to a certain "difference" in a level of spread adjustments compared to the case of adopting a methodology based only on the latest market trends.

Analysis of the impact of Euroyen TIBOR cessation

In accordance with Article 51(2) of the Operational Rules, JBATA has analyzed the effect on the stability of financial economy arising from the permanent cessation of Euroyen TIBOR based on information available as of today and in reference to the discussions on the permanent cessation of LIBOR (particularly JPY LIBOR).

1. Analysis result of the product types referencing Euroyen TIBOR and their size

For the consideration of the potential permanent cessation of an interest rate benchmark, it is important to perform the survey and analysis of its effect on the stability of financial economy from quantitative perspectives, such as identifying exposures by product types referencing the benchmark.

Therefore, JBATA conducted the Survey on JBA TIBOR Exposures (survey reference date: End-2021, see the [Figure] below) using the Survey on the Use of LIBOR conducted by JFSA and BOJ as reference, before the consideration on whether to permanently cease Euroyen TIBOR.

According to the results of the Survey on JBA TIBOR Exposure, it was identified that Euroyen TIBOR was mostly used in derivatives, as well as in loans to a certain extent. In addition, compared with the results of the Survey on the Use of LIBOR,⁵⁷ the exposures of respective products referencing Euroyen TIBOR was small.

Given the above, from a quantitative perspective, it is expected that the effect on the stability of the financial economy arising from the permanent cessation of Euroyen TIBOR will be relatively limited compared to the effect caused by the permanent cessation of JPY LIBOR. Nevertheless, it would be necessary to pay due attention to the product types (derivatives and loans) for which it was identified that Euroyen TIBOR is used to a certain extent.

[Figure] Comparison of the amount outstanding / the number of contracts between Euroyen TIBOR and JPY LIBOR

	Amount outstanding or notional amount (JPY tri.)		Number of contracts	
	Euroyen TIBOR	JPY LIBOR	Euroyen TIBOR	JPY LIBOR
Assets	3.8	31	2,725	28,314
Loans	3.8	21	2,716	25,760
Liabilities	0.004	8	9	83,304
Bonds	0.004	2	9	990
Derivatives	347.7	2,971	30,688	419,545
OTC (ISDA)	345.1	Not published	30,307	Not published

⁵⁷ See footnote 51. The surveyed financial instruments (e.g. Loans Bonds) within each category (Assets, Liabilities, and Derivatives) and the survey reference date do not completely match between the Survey on JBA TIBOR Exposures (Euroyen TIBOR) and the Survey on the Use of LIBOR. Given this, please note that it is difficult to precisely compare the amounts outstanding and the number of contracts between the two surveys and that the [Figure] is provided only for reference purposes.

2. Results of analysis on the impacts related to the respective issues of the permanent cessation of Euroyen TIBOR

If the treatment of the benchmark replacement to be referenced to substitute an interest rate benchmark and other necessary matters are not explicitly specified by a contract or are not agreed upon in advance between the contracting parties, terms and conditions specified in the contract or interest payments may be subject to uncertainty. Therefore, in considering the potential permanent cessation of an interest rate benchmark, it is also important to perform an analysis of the effect on the stability of financial economy from the perspectives of factors including these contractual issues and agreement between the contracting parties in addition to the quantitative perspectives described in the Appendix 3 section 1.

(1) Contractual issues

If the contracting parties do not agree on an interest rate benchmark referenced on the first and subsequent interest payment dates after the permanent cessation of Euroyen TIBOR, the terms and conditions of contracts and interest payments will become uncertainty.⁵⁸

In the Policy on Material Changes in the Definition or Calculation Method and Permanent Cessation of JBA TIBOR and other related documents, JBATA recommends that users introduce fallback provisions into contracts referencing JBA TIBOR to prepare for the permanent cessation of benchmarks.

The fallbacks for derivatives and loans referencing Euroyen TIBOR have been discussed as described below. Therefore, it is expected that its users are able to appropriately address the risk of uncertainty related to the terms and conditions of contracts and interest rate payments.

(i) Fallbacks for derivatives referencing Euroyen TIBOR

- ✓ The fallbacks for derivatives referencing Euroyen TIBOR have already been discussed by ISDA. Specifically, the 2021 ISDA Interest Rate Derivatives Definitions includes a provision regarding fallbacks,⁵⁹ and therefore derivatives governed by the ISDA Master Agreement (“ISDA Derivatives”) is deemed as completing the introduction of fallbacks.
- ✓ Based on the Survey on JBA TIBOR Exposures described in the Appendix 3 section 1, approximately 99% of derivative transactions referencing Euroyen TIBOR are ISDA

⁵⁸ In general contracts for loans and bonds, there are some cases where the contracts contain a provision on the “temporary” cessation of a referenced interest rate benchmark. However, it may differ between the contracting parties whether that provision can be effected in the case of permanent cessation of a referenced interest rate benchmark.

⁵⁹ The triggers and fallbacks for derivatives referencing Euroyen TIBOR were incorporated in the ISDA 2020 IBOR Fallbacks Protocol and Supplement 70 to the 2006 ISDA Definitions, and then reflected in the 2021 ISDA Interest Rate Derivatives Definitions. For details, see Appendix 3 of the document referred to in footnote 13.

Derivatives, which means that the introduction of fallback provision into derivative contracts is completed. Therefore, JBATA considers that, for most of derivative contracts referencing Euroyen TIBOR, the risk of uncertainty in the terms and conditions of contracts or interest rate payments is significantly low.⁶⁰

(ii) Fallbacks for loans referencing Euroyen TIBOR

- ✓ JBATA has discussed relevant issues on the fallbacks for loans referencing Euroyen TIBOR. In March 2023, JBATA published the Results of Public Consultation on fallback issues for JBA TIBOR,⁶¹ discussing a. triggers, b. fallback rate options, and c. spread adjustment methodologies, and then presented “JBATA’s position (on fallback issues for Euroyen TIBOR)” to market participants.
- ✓ For general loans, the contracting parties will need to reach an agreement and then introduce fallback provisions into contracts (using JBATA’s position mentioned above as reference). Therefore, JBATA considers that, as of the publication date of the Public Consultation, there are only a small number of loan contracts that have completed the introduction of robust fallback provisions in line with JBATA’s position.
- ✓ In response to JBATA’s discussions, a. JFSA has announced that it “expects the introduction of fallback provisions into contracts referencing JBA TIBOR to be advanced based on the Results of the Public Consultation⁶²”, and b. the JBA published the samples of the fallback provisions for bilateral loans referencing JBA TIBOR (available in Japanese only) in order to help users introduce fallback provisions smoothly. Given these efforts, it is expected that the risk of uncertainty in the terms and conditions of contracts referencing Euroyen TIBOR or interest rate payments will be mitigated through the introduction of fallback provisions into loan contracts referencing Euroyen TIBOR.

(2) Issues related to the preparation period for market participants

The potential issues include a considerable amount of time required for the contracting parties to reach an agreement, and complete the introduction of fallback provisions into loan contracts referencing Euroyen TIBOR as described in the Appendix 3 section 2.(1) (ii). In addition, the use of another interest rate benchmarks after the permanent cessation of Euroyen TIBOR may have an impact on market participants’ operations and systems. Therefore, it would be necessary to take account of the preparation period for market participants in considering the permanent cessation of an interest rate benchmark.

⁶⁰ With respect to derivatives that are not governed by ISDA Master Agreement, it would be desirable that treatment of such transactions be discussed between the contracting parties by taking into account the results of discussions by ISDA and the results of discussions on cash products published in “the Results of Public Consultation on fallback issues for JBA TIBOR”.

⁶¹ See the document referred to in footnote 41 as well as Appendix 2.

⁶² This refers to the “Results on Public Consultation on fallback issues for JBA TIBOR”.

To ensure that market participants will have a sufficient preparation period, JBATA has taken, or will take, the following actions.

- ✓ In May 2019, in the results of the 1st Consultation, JBATA stated that, as to the timing of implementation of the permanent cessation of Euroyen TIBOR, if adopted, it envisions a preparation period of approximately two years following the permanent cessation of LIBOR.⁶³
- ✓ JBATA plans to publish comments received from market participants through the Public Consultation in relation to the milestone (timing to cease entering into new contracts) for products referencing Euroyen TIBOR, and will appropriately coordinate with related authorities, as necessary.
- ✓ JBATA plans to publish the results of the Public Consultation by March 31, 2024. Therefore, even if it is determined and announced, as a result of the Public Consultation, that Euroyen TIBOR will permanently cease to be published at the end of December 2024, JBATA consider that market participants will be able to ensure a sufficient period compared to the permanent cessation of JPY LIBOR⁶⁴ which had a larger exposure.

As previously mentioned, the samples of the fallback provision for bilateral loans referencing JBA TIBOR (available in Japanese only) are published by the JBA with the timing that gives due consideration to market participants' preparation period (one year and nine months before the expected timing of the permanent cessation of Euroyen TIBOR (i.e. end of December 2024)).⁶⁵

In view of the above, even if JBATA determines and announces by March 31, 2024, that Euroyen TIBOR will permanently cease to be published at the end of December 2024 based on the results of the Public Consultation, market participants will have a sufficient preparation period (at least compared to the preparation period allowed for the permanent cessation of JPY LIBOR) to take necessary steps.

⁶³ In March 2021, in response to the announcement relating to the timing of permanent cessation of LIBOR, JBATA announced that it expected that the timing of implementing the permanent cessation of Euroyen TIBOR, if adopted, would be at the end of December 2024. For details, see section 2.(4)b.

⁶⁴ As for JPY LIBOR which permanently ceased to be published at the end of December 2021, the timing of its permanent cessation was determined in March 2021 (i.e. nine months before its permanent cessation).

⁶⁵ As for JPY LIBOR which permanently ceased to be published at the end of December 2021, the JBA published the samples of the fallback provision for bilateral loans (available in Japanese only) in March 2020 (i.e. one year and nine months before the permanent cessation).

(3) Other practical issues

In relation to the impact of the permanent cessation of Euroyen TIBOR, if adopted, JBATA has recognized,⁶⁶ besides the issues described in (1) and (2) above, other practical issues, including (i) accounting issues related to hedge accounting, (ii) issues on clearing of interest rate swap with a floating rate leg referencing JBA TIBOR, and (iii) issues on the impact on interest rate futures and options referencing Euroyen TIBOR.

For these practical issues, JBATA will continue to pay attention to the development of discussions by related stakeholders and has started to coordinate with related regulatory supervisors and agencies, and expects that appropriate steps will be taken.

3. Conclusion

Based on the results of the analysis described in Appendix 3 section 1. and 2., we consider that the effect of the permanent cessation of Euroyen TIBOR on the stability of financial economy is expected to be limited.

Nevertheless, given that there are remaining tasks (e.g. introducing fallback provisions into contracts referencing Euroyen TIBOR) that market participants need to work on, JBATA will continue to communicate information on the potential permanent cessation of Euroyen TIBOR to market participants after the publication of the Public Consultation and pay due attention to the impact of the permanent cessation of Euroyen TIBOR, if adopted, through confirming steps taken by market participants.

⁶⁶ For details, see page 38 of the document referred to in footnote 13.