

Results of Public Consultation on permanent cessation of Euroyen TIBOR and related issues

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

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JBA TIBOR Administration

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1. Introduction

(1) Executive summary

To fully be compliant with *Principles for Financial Benchmarks – Final report* – (“IOSCO Principles”)¹ published by the International Organization of Securities Commissions, JBA TIBOR Administration (“JBATA”) (the Chairperson: Satoshi INOUE) has launched an initiative² called “Second Phase of JBA TIBOR Reform.”

In August 2023, with a primary focus on the remaining issue for IOSCO Principle 7 (Data Sufficiency), JBATA published the *Public Consultation on permanent cessation of Euroyen TIBOR and related issues* (“Public Consultation”)^{3,4} to seek to solicit comments from a wide range of market participants on whether to permanently cease Euroyen TIBOR which was deemed as the most likely option and its timing, if adopted.

Through this consultation, JBATA received feedback from 13 respondents (banks, securities companies, money market intermediary/broker, corporate, banking industry associations) by the end of the consultation period (September 30, 2023). In summary, all the respondents supported for “to implement the permanent cessation of Euroyen TIBOR” and “to set its timing at the end of December 2024.” For details, see sections 3. and 4.

In consideration of the comments received for this Public Consultation (“Results of Public Consultation”) and other relevant inputs, we further discussed the permanent cessation of Euroyen TIBOR and have decided on the permanent cessation of all tenors (i.e. 1-week, 1-month, 3-month, 6-month, and 12-month) of Euroyen TIBOR at the end of December 2024. For details, see the *JBATA statement on future cessation of Euroyen TIBOR*⁵ (“Statement on Future Cessation of Euroyen TIBOR”).

(2) Disclaimer

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

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

² See the following URL.

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

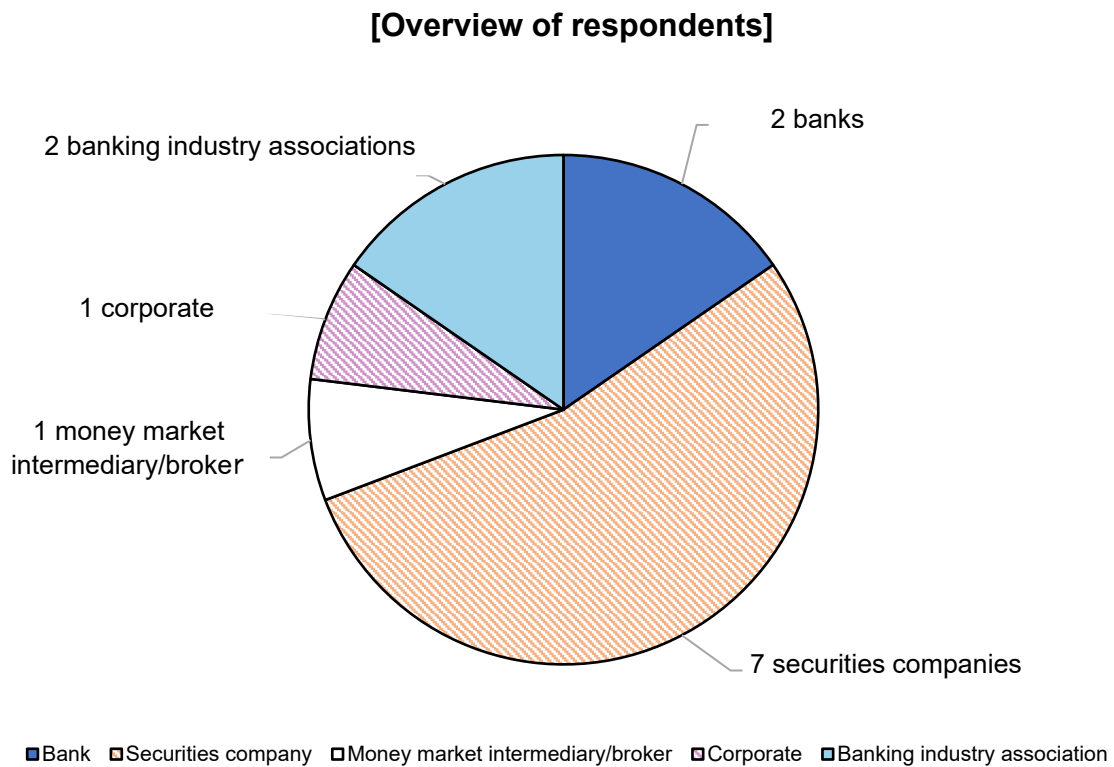
³ https://www.jbatibor.or.jp/english/Public_Consultation_on_permanent_cessation_of_Euroyen_TIBOR.pdf

⁴ As a practical issue related to the permanent cessation of Euroyen TIBOR, the Public Consultation also sought comments on the timing to cease entering into new contracts for cash products (loans and bonds) and interest rate swaps referencing Euroyen TIBOR. The comments received for this issue have been compiled and published in December 2023 in advance of the publication of this document. For details, see 4.(1).

⁵ https://www.jbatibor.or.jp/english/Statement_on_future_cessation_of_Euroyen_TIBOR.pdf

2. Overview of respondents

A total of 13 entities (banks, securities companies, money market intermediary/broker, corporate, banking industry associations⁶) provided their comments to the Public Consultation.



⁶ The two banking industry associations provided comments that summarize their member's views.

3. Results of the Public Consultation

In discussing⁷ the implementation of the permanent cessation of Euroyen TIBOR based on Article 51 of the JBA TIBOR Operational Rules, the Public Consultation sought comment on whether to permanently cease Euroyen TIBOR and the timing of implementing the permanent cessation, if adopted, through the consultation questions No.1 to No.3.

(1) Whether to permanently cease Euroyen TIBOR (Consultation question No. 1)

[Consultation question No. 1]

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.

(Yes (Support the permanent cessation)/No (Do not support the permanent cessation)/No opinion) Please also explain the reason.

Response	Number of respondents
Yes (Support the permanent cessation)	13
No (Do not support the permanent cessation)	0
No opinion	0

As a result, all the respondents selected “Yes (Support the permanent cessation).” Some of the respondents provided following reasons for their response.

- Since it has been announced that “the majority of which supported discontinuing Euroyen TIBOR” in the results of the public consultation implemented by JBATA in October 2018, a wide range of market participants assume that Euroyen TIBOR will permanently cease. In addition, the results of the Survey on JBA TIBOR Exposures showed that the size of exposures referencing Euroyen TIBOR was relatively small. Given these, we believe that it is feasible to permanently cease Euroyen TIBOR.
- As sufficient discussions have been made and market participants expect that Euroyen TIBOR will be ceased, they would have already made a significant progress in preparing for the permanent cessation, such as using Japanese Yen TIBOR for new contracts. Therefore, the impact of the future cessation of Euroyen TIBOR on the market would be limited. In addition, from the perspective of ensuring consistency with the result of prior public consultation, JBATA should

⁷ See pages 12 to 18 of the document referred to in footnote 3.

implement the permanent cessation of Euroyen TIBOR at this juncture.

- We believe that JBATA's discussion on the permanent cessation of Euroyen TIBOR is appropriate, as it based on the result of the 1st Consultation and the global initiatives for interest rate benchmark reform, such as the permanent cessation of LIBOR. As mentioned in the Public Consultation, prolonged downsizing of the Japan Offshore Market which is the underlying market of Euroyen TIBOR is observed and it is considered that this 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. Therefore, we support the future cessation at an appropriate timing which will be determined on the impact on the stability of the financial economy and the progress of preparedness of the market participants.

(2) Timing of the permanent cessation of Euroyen TIBOR (Consultation question No. 2)

[Consultation question No. 2]

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? (Yes/No/No opinion) Please also explain the reason.

[Timing of the permanent cessation of Euroyen TIBOR]

End of December 2024

Response	Number of respondents
Yes	13
No	0
No opinion	0

As a result, all the respondents selected "Yes." Some of the respondents provided following reasons for their response.

- A wide range of market participants expect that the permanent cessation of Euroyen TIBOR will be implemented. Further, JBATA announced in March 2021 that the timing of the permanent cessation of Euroyen TIBOR, if adopted, would be at the end of December 2024. Therefore, we believe that many market participants presume the timing of the permanent cessation to be at the end of December 2024.
- We do not have practical concerns, as a wide range of market participants have already recognized the end of December 2024 as the criterion timing of the

permanent cessation and a significant time has already been ensured from the date of the loss of representativeness of USD LIBOR (end of June 2023).

- It would be better to promptly take necessary steps for the TIBOR transition process at this timing because, currently, both financial institutions and corporates have personnel who have experienced the LIBOR transition process.
- Most derivatives are governed by the ISDA Master Agreement and therefore their fallbacks have already been introduced. In contrast, there are only a small number of loan contracts that have completed the introduction of robust fallback provisions. Therefore, it is necessary to negotiate between contracting parties and introduce fallback provisions. To address this issue, in March 2023, JBATA presented its position on the triggers and benchmark replacement (fallback rates, spread adjustments) and the JBA published the samples of the fallback provisions for bilateral loans referencing JBA TIBOR. We therefore believe that the tools have been available for Euroyen TIBOR users to prepare for the permanent cessation of Euroyen TIBOR.

(3) Timing of the permanent cessation of Euroyen TIBOR (other than the end of December 2024) (Consultation question No. 3)

[Consultation question No. 3]

If your answer to Question 2 is “No,” please provide your opinion on the specific timing of the permanent cessation of Euroyen TIBOR and the reason thereof.

As mentioned in (2) above, there were no respondents who answered “No” to the consultation question No. 2. Therefore, there were no comments provided for this question.

(4) Other comments related to the permanent cessation (Consultation question No. 6)

[Consultation question No. 6]

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

In response to the consultation question No. 6, three respondents provided the following comments in relation to whether to permanently cease Euroyen TIBOR and its timing.

- We welcome that JBATA has been discussing whether to permanently cease Euroyen TIBOR and the timing of the permanent cessation based on the results of the *[1st Consultative Document] Approach for Integrating Japanese Yen TIBOR and Euroyen TIBOR* published in May 2019 as well as the global initiatives for interest rate benchmark reform, such as the permanent cessation of LIBOR. At

the same time, JBATA has also been discussing the milestone related to the timing to cease entering into new contracts referencing Euroyen TIBOR. We consider that these initiatives are appropriate for encouraging the transition away from Euroyen TIBOR and achieving an orderly cessation of Euroyen TIBOR. Going forward, we expect that JBATA will proactively communicate information and make a decision on, and announce, whether to implement the cessation at an appropriate timing in light of the results of the Public Consultation so that a wide range of market participants can smoothly make preparations with predictability. We also request that JBATA continue to describe accurate statements to avoid misunderstanding by a wide range of market participants, coordinate with regulatory supervisors and agencies, and take appropriate steps for the practical issues referred to in the Public Consultation to the extent of its responsibility from the perspective of minimizing the effect of the cessation of Euroyen TIBOR on the financial market.

- Market participants have already incorporated the future statement on the determination of permanent cessation of Euroyen TIBOR, the timing of its cessation, and determination of the spread adjustment between Euroyen TIBOR and fallback rate. Therefore, it is desirable that these publication/implementation dates will be close to the dates market participants currently assume.
- When the results of the Public Consultation are published, it is desirable that the Financial Services Agency (“JFSA”) and the ISDA will also publish an announcement at the same time.

JBATA’s position

We have confirmed through the above (1) to (3) that all the respondents supported for “to implement the permanent cessation of Euroyen TIBOR” and “to set its timing at the end of December 2024.”

For our determination considering the Results of Public Consultation and other relevant inputs, see the *Statement on Future Cessation of Euroyen TIBOR*. It is noted that we have taken the necessary steps to coordinate with the JFSA and the ISDA for today’s statement.

In response to the comments referred to in the above (4), we will continue appropriate coordination with regulatory supervisors and agencies. To address the practical issues,⁸ we will also provide information and make outreach efforts to related stakeholders, based on the decision to permanently cease Euroyen TIBOR at the end of December 2024.

⁸ See page 33 of the document referred to in footnote 3 and page 38 of the document available from the following URL.

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

4. Comments on the related issues

- (1) Comments on the “timing to cease entering into new contracts” for products referencing Euroyen TIBOR (Consultation questions No. 4 and No. 5 and partly, No. 6)

JBATA compiled the responses to the questions concerning the “timing to cease entering into new contracts” for products referencing Euroyen TIBOR and published the “*Comments on the ‘timing to cease entering into new contracts’ for products referencing Euroyen TIBOR*”^{9,10} in December 2023, prior to the publication of the Results of Public Consultation. For details, see footnote 9.

- (2) Other comments (Consultation question No. 6)

With respect to the consultation question No. 6 (i.e. question on any issues other than those addressed in the consultation questions No. 1 to No. 5), three respondents provided the following comments. JBATA’s feedbacks on respective comments are described after the arrow (“⇒”).

- JBATA should consider ways for Euroyen TIBOR users to use spread adjustment values without any cost, for example, through the publication of spread adjustment values by JBATA at no cost.

⇒We understand that the term “spread adjustment values” mentioned here means the difference (spread) to be used to minimize “value transfer” resulting from a fallback. We have recognized that the reasonable spread adjustment methodology for derivatives governed by ISDA Master Agreement has been already determined by ISDA and, as for cash products, we have already presented our position of its methodology.¹¹

Therefore, JBATA does not plan to make any additional considerations or take any additional actions with respect to the publication of spread adjustment values. Notwithstanding the aforementioned methodology, please note that we do not recommend any particular fallback rates and spread adjustment methodologies, and they should be determined through negotiation in good faith between the contracting parties.

- In July 2023, the IOSCO published a statement, describing that administrators should refrain from any representation that USD credit sensitive rates (“CSRs”)

⁹ https://www.jbatibor.or.jp/english/news/tibor_17.html

¹⁰ In response to the publication of this document, the JFSA published the *Suggestion on the timing to cease entering into new contracts for products referencing Euroyen TIBOR in response to the publication of the Comments on the “timing to cease entering into new contracts” for products referencing Euroyen TIBOR by JBA TIBOR Administration.* (<https://www.fsa.go.jp/en/news/2023/20231222/20231222.html>)

¹¹ See pages 41 to 42 of the document accessible from the following URL. (https://www.jbatibor.or.jp/english/Results_of_Public_Consultation_on_fallback_issues.pdf)

reviewed are “IOSCO-compliant.” In particular, the IOSCO pointed out in the statement that administrators should consider and clearly disclose how they have considered applying the “concept of proportionality” (i.e. relative size of the underlying market in relation to the volume of trading in the market that references the Benchmark, as specified in Principle 6c)) in assessing compliance with the IOSCO Principles. In light of this, JBATA should recognize that there is room for enhancement in your compliance effort with IOSCO Principle 6. For example, we understand that the market size of Japanese Yen TIBOR as of the end of 2021 was over JPY300 trillion, which is about 20 times more than the outstanding amount of the unsecured call market of term rates as of the end of July 2022. We expect that JBATA will establish a framework for periodically disclosing such JBA TIBOR related market data.

⇒ We will continue to take actions to maintain and enhance the transparency, robustness, and reliability of Japanese Yen TIBOR through compliance with the IOSCO Principles in light of the statement and other documents published by the IOSCO.

- We consider that governance for reference banks is adequately effective. However, we wonder about sufficiency of governance for the brokers presenting “Indicative Quotes of Unsecured Call transactions,” which is used for Level 1-3 of the waterfall methodology for Japanese Yen TIBOR. According to related data, most of the submission rates for 3-month and 6-month tenors of Japanese Yen TIBOR are calculated based on Level 1-3. This means that those submission rates are calculated and determined by referencing brokers’ quotes on the screen in almost all cases. We consider that the process of calculating and determining submission rates in reference banks has been standardized and clarified by the introduction of waterfall methodology, and that transparency and integrity have been enhanced. In our view, however, it seems that the issue that the reference banks had faced has just transferred to the brokers. In other words, since the waterfall methodology incorporates brokers’ quotes, the waterfall methodology would not produce the intended effects unless the process of calculating and determining “brokers’ quotes” will be standardized and clarified.

⇒ We have been voluntarily communicating with each money market intermediary/broker regarding their governance for presenting indicative quotes used in calculating/determining JBA TIBOR submission rates, and we have also been cooperating with regulatory supervisors as necessary. We will consider your comment in our future discussions on the enhancement of the transparency, robustness, and reliability of Japanese Yen TIBOR.

5. Conclusion and next steps

In light of the Results of Public Consultation and other relevant inputs, we further discussed the permanent cessation of Euroyen TIBOR and have decided on the permanent cessation of all tenors (i.e. 1-week, 1-month, 3-month, 6-month, and 12-month) of Euroyen TIBOR at the end of December 2024.

With the determination on future cessation of Euroyen TIBOR, our initiative to solve the remaining issue for IOSCO Principle 7 (Data Sufficiency) has made significant progress.¹² Going forward, we will continue coordinating with related stakeholders including regulatory supervisors and agencies to ensure the smooth transition away from Euroyen TIBOR and the orderly cessation at the end of December 2024.

Further, we aim to maintain and further enhance the transparency, robustness, and reliability of Japanese Yen TIBOR which continues to be published. We have been kept working to ensure that Japanese Yen TIBOR is internationally recognized as a benchmark that is compliant with the IOSCO Principles and continues to be widely used as one of the major JPY interest rate benchmarks.

¹² Considering the Results of Public Consultation and the Statement on Future Cessation of Euroyen TIBOR, we will publish the self-assessment results of the status of compliance with the IOSCO Principles by the end of March 2024.