Q&A for Establishment of JBA TIBOR Administration

April 2014
JBA TIBOR Administration (“JBATA”)
Japanese Bankers Association (“JBA”)

Q1: What aspects of JBA TIBOR will be changed as a result of establishing a JBATA? What impacts does this establishment have on users?

A1: The JBATA has established processes and operates in complying with the International Organization of Securities Commissions ("IOSCO")'s Principles for the purpose of maintaining and enhancing the credibility and transparency of TIBOR. Specifically, the JBA TIBOR Oversight Committee, which is mainly comprised of external experts and set up within the JBATA, assesses the adequacy of the operations of both JBATA and reference banks from a fair and neutral standpoint. Further, an external audit will be performed on the JBA TIBOR calculation and publication processes on an annual basis.

While the change in the publication entity focuses on strengthening the governance system of JBATA and reference banks, this change does not give rise to any revision to the definition and calculation methodology of JBA TIBOR as well as to the name of "JBA TIBOR" and the publication screen of information vendors (*). Thus, the sameness as a benchmark between the JBA TIBOR that the JBA has published until March 31, 2014 and the JBA TIBOR that the JBATA will publish on and after April 1, 2014 is ensured. Therefore, the JBA TIBOR published by JBATA can be used as the same as the JBA TIBOR published by the JBA regardless before and after this change.

On the other hand, the number of tenors will be reduced (from the current 13 tenors i.e. 1 week and 1 to 12 months to six tenors i.e 1 week, 1 month, 2 months, 3 months, 6 months and 12 months) from April 1, 2015.The change will affect contracts that reference the tenors to be reduced.

(*) Except for the change in the name of the publication entity displayed on the screen.

Q2: Where a loan or derivative contract specifies a publication entity such as "JBA TIBOR published by the JBA", does this change in the publication entity require amendment of the contract (from the JBA to JBATA)?

A2: We believe that amendment of the contract in line with this change should be considered and made by the contract parties. However, as per the response to Q1, the sameness as a benchmark between the JBA TIBOR that the JBA has published until March 31, 2014 and the JBA TIBOR that the JBATA will publish on and after April 1, 2014 is ensured. Therefore, even if the existing contract designates the "JBA" as a publication entity of JBA TIBOR, no particular amendment of such contract is required and the JBA can be deemed with "JBA TIBOR Administration". Thus, we believe that deeming such contract as a contract that references "JBA TIBOR published by JBA TIBOR Administration" would be considered reasonable among the parties to the contract.

Q3: Why does "Terms and conditions for viewing and using JBA TIBOR" recommend to consider including fall-back provisions in the contract referencing JBA TIBOR in line with this change in the publication entity? What are examples of fall-back provisions?

A3: The "Principles for Financial Benchmarks" published by IOSCO in July 2013 sets out that administrators should encourage users to have robust fall-back provisions (provisions related to alternative measures) in contracts of financial instruments that reference a benchmark. In line with this, we recommend that the contracting parties should consider stipulating fall-back provisions in the contract referring to JBA TIBOR in preparation for using alternative measures for the suspension of the JBA TIBOR publication.

We believe that the parties should have discretion whether to set out the fall-back provisions in each contract. Nonetheless, for example, provisions may include stipulating that a discussion on what rates should be referred to the contract, or that either party should designate another benchmark or rate as the alternative to be referred, in the event that JBA TIBOR is not published. However, the details of fall-back provisions depend on the agreements between the parties and hence are not limited to these examples.

Also, if continuous suspension of the JBA TIBOR publication is considered, we would take into account the influence on the stability of the financial economy and the scope and impact on contracts that refer to JBA TIBOR. In such cases, we set sufficient period to collect comments from market participants including the users of JBA TIBOR to consider for the continuous suspension.