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Notes on Referencing the JBA TIBOR in Association with the Change in JBA TIBOR Calculation/Publication Entity

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On April 1, 2014, the JBA TIBOR Administration ("JBATA") that was newly established commenced the "JBA TIBOR (Tokyo Interbank Offered Rate)" calculation and publication operations transferred from the Japanese Bankers Association ("JBA") on the same day.
In response to the "Report on the Review of JBA TIBOR Administration[1]" released by the JBA on December 27, 2013, JBATA has been committed to maintaining and enhancing the credibility and transparency of the JBA TIBOR through structuring and administering a framework in accordance with the IOSCO's "Principles for Financial Benchmarks"[2] ("IOSCO Principles").
We have summarized potential impacts and consequences on users of the JBA TIBOR as a result of the change in the JBA TIBOR calculation/publication entity as well as the planned reduction in tenors.

1. Preservation of JBA TIBOR

   With the transfer of the operations, the JBA TIBOR calculation/publication entity has changed from JBA to JBATA. This change, however, does not give rise to revision of the definition and calculation methodology of the JBA TIBOR as well as to the name of the benchmark or the publication method of the information vendors. Thus, the JBA TIBOR that JBA has published until March 31, 2014 and the JBA TIBOR that JBATA has published since April 1, 2014 substantially remains unchanged.

   Therefore, notwithstanding preexisting contracts and financial instruments (collectively referred to as "Contracts") designating "JBA" as a publication entity of the JBA TIBOR, no particular amendment of such Contracts is required. We believe it reasonable to deem such contract as a contract that references "the JBA TIBOR published by the JBA TIBOR Administration" between the concerned parties of the contract. Please note, however, that the decision to amend Contracts in line with this change should be considered and agreed between the concerned parties on a contract-by-contract basis.

2. Impact of reduction in tenors of the JBA TIBOR

[1] http://www.zenginkyo.or.jp/news/2013/12/27103000.html
[2] Refers to the principles to be followed by financial benchmarks ("Principles for Financial Benchmark") published by IOSCO in July 2013. http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf

The JBATA will reduce the number of tenors for which the JBA TIBOR rates are published, from the current 13 tenors to six tenors from April 1, 2015.

Continuing tenors	1 week, 1 month, 2 month, 3 month, 6 month, and 12 month (6 tenors in total)
Discontinued tenors	4 month, 5 month, 7 month, 8 month, 9 month, 10 month and 11 month (7 tenors in total)

When entering into a new Contract referencing the JBA TIBOR, certain measures need to be taken; for example, by just not referencing the ‘to be discontinued’ tenors or; setting out an alternative arrangement in preparation for such discontinuation.
If a Contract referencing the discontinued tenor does not stipulate alternative measures/arrangements, the concerned parties may, for example, agree upon the following arrangements in advance. Please note though, the details of these arrangements should be considered and agreed by the concerned parties, taking into account the nature of the Contract and are not limited to those described below.

(i) Rates reasonably determined as offered rates of JPY loan transactions in the Tokyo interbank market with a duration equivalent to the tenors to be reduced will be applied.
(ii) Rates calculated by linear interpolation using rates corresponding to the shorter and the longer of tenors closest to the discontinued tenor will be applied. .

3. Recommendation for adopting fallback provisions

The IOSCO Principles requires administrators to encourage users to arrange robust “fall-back” provisions (alternative arrangement) in contracts or financial instruments that reference a Benchmark in preparation for situations where financial benchmarks cease its publications.
The JBATA recommends, on its website, parties under the relevant contract to agree on a "fall-back" provision as an alternative arrangement or measure to prepare for situations where modifications are made to the JBA TIBOR after its publication or where the JBA TIBOR is not published due to reasons beyond its control, such as disasters, electricity outage and other similar events preventing rate publication as well as excessive market stress and decrease in reference banks.
Although we believe that the concerned parties are primarily responsible for determining whether to include “fall-back” provisions in individual Contracts, we would appreciate your understanding of the issue and consider necessary measures or arrangements in case of such situation.