

P.R.I.M.E. Finance
Panel of Recognized International Market Experts in Finance

TIBOR Reform:
Clear and Present Challenges



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2015 P.R.I.M.E. Finance Annual Conference
26 & 27 January, Peace Palace, The Hague

Current status of TIBOR reform

a. Current status of TIBOR reform

1. The first stage of the TIBOR reform became effective in April 2014. However, Principles 6 (Benchmark Design), 7 (Data Sufficiency) and 9 (Transparency of Benchmark Determinations) of IOSCO-recommended remediation have not been satisfied.
2. The definition of TIBOR has not been amended to introduce a new benchmark (TIBOR+). The definition remains as follows:

“The rates which reference banks deem as prevailing market rates, assuming transactions between prime banks on the Japan unsecured call market as at 11:00 a.m.” (JBA TIBOR Code of Conduct, Section 1.(1) “Japanese Yen TIBOR”, footnote (1)).



TIBOR calculation

- b. Currently, reference banks use various information in the following order for submission of rates ((1), (2) and (3)):
- (1) Transactions between prime banks in the Japanese unsecured call market, which can be observed by the reference bank; and then
 - (2) Any of the following:
 - unsecured funding transactions between banks observable by the reference bank such as unsecured call market Euroyen TIBOR transactions and/or interbank negotiable certificate of deposit (NCD) transactions;
 - other related transactions in the money market observable by the reference bank such as short-term JGB transactions, bond repo/Gensaki transactions, commercial paper (CP) transactions and/or overnight index swap (OIS) transactions; or
 - qualitative information including indicative rates; and then



TIBOR calculation (cont'd)

(3) Expert judgment, especially where:

- Transactions between prime banks in the Japanese unsecured call market (Euroyen transactions in the Japan Offshore Market in case of Euroyen TIBOR) are not constantly observable;
- no data are observable around 11:00 a.m.; or
- the transactions observable cannot be considered as standard.

Therefore, TIBOR can still be a “virtual” rate rather than an actual rate, although use of information based on actual transactions is strongly encouraged.



Challenging reality

c. Challenging reality of introducing new financial indices ("TIBOR+")

- (1) There are not enough observable unsecured call market transactions for a term exceeding 2 months because of the increased liquidity supplied by the Bank of Japan since 1999. The reference banks have to rely on their own expert judgment to submit rates for longer tenors.
- (2) How does one obtain reliable data free of commercial factors specific to individual transactions?
- (3) Significant costs for reference banks, such as the establishment of an internal compliance system and retention of an outside auditor. Japanese Financial Services Agency does not have the authority to order the banks to submit the rates.
- (4) JBA TIBOR Administration ("JBATA") is currently considering 2 approaches for calculating TIBOR+. Both approaches have issues.
- (5) Credit risk-free indices, to be introduced after TIBOR+, present further obstacles.



What is coming next?

d. What is coming next?

1. JBATA launched its “outreach” (i.e., sounding of the market) on the desirable TIBOR+ methodologies on December 22, 2014.
2. FSB’s suggested time schedule:
 - **By March 31, 2015: Completion of analysis of available transaction data**
 - By June 30, 2015: Completion of review of TIBOR+ methodologies and the feasibility of using each rate and tenor for calculation, together with JFSA and the Bank of Japan
 - By December 31, 2015: Completion of public consultation on any recommended changes in connection with the introduction of TIBOR+

