

P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance

TOKYO MULTIPLE RATE APPROACH



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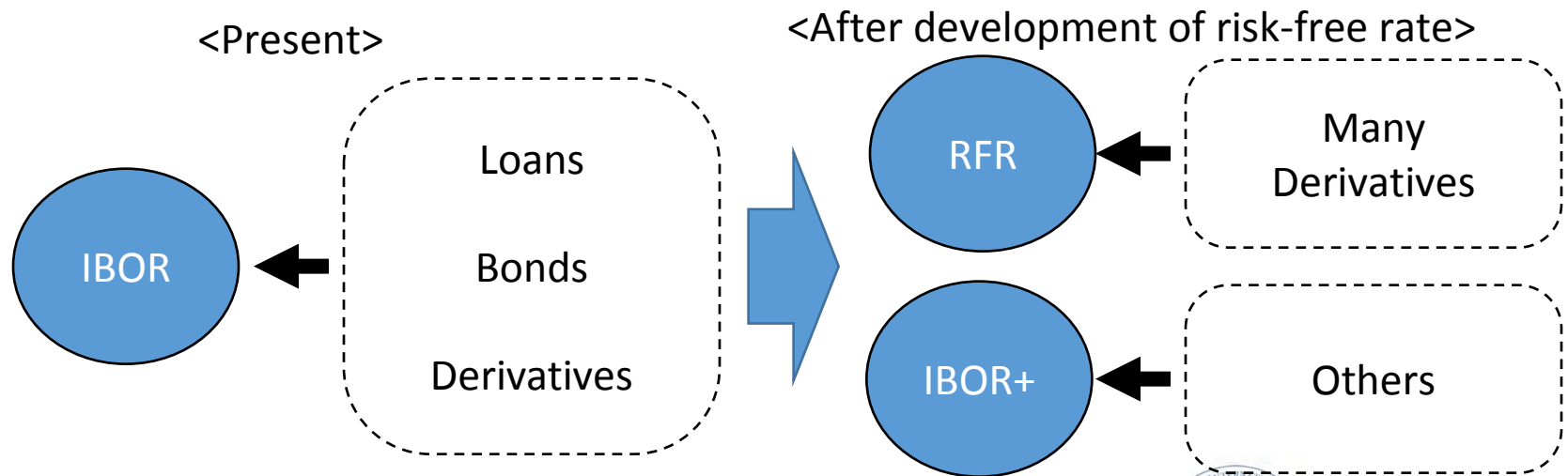
Akihiro Wani
P.R.I.M.E. Finance Annual Conference 2019
4 February, Peace Palace, The Hague

a. Tokyo Multiple Rate Approach – UNIQUE?

Financial Stability Board – Reforming Major Interest Rate Benchmarks (July 2014)

“Ideal model for the users of the Benchmark users”

Image of the Use of Interest Rate Benchmarks in the FSB Report



(Study Group on Risk Free Reference Rates “Public Consultation on Identification and use of a Japanese Yen Risk-Free Rate, March 2016 at page 3)



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b. JBA TIBOR or TIBOR+ (Tokyo Inter-bank Offered Rate)

Designed in line with the Principles for Financial Benchmarks issued by the Board of Directors of IOSCO dated July 17, 2013

Launched on 24 July, 2017 (complete)

Definition: Average of actual interest rates which reference banks deem as prevailing market rates assuming transactions between prime banks (emphasis added) on the Japan unsecured call market as of 11:00 a.m., for five (i.e. 1 week, 1 month, 3 months, 6 months and 12 months). Although TIBOR is defined in a traditional way, it is basically the funding costs of the reference banks.

* Currently consisting of Japanese Yen TIBOR market and Euroyen TIBOR market.

Administrator: JBA Tibor Administration (JBATA), a subsidiary of the Japanese Bankers Association.

JBATA processes the calculation of the interest rates submitted by the reference banks and does not gather direct transaction data by itself.



c. TONA (Tokyo Overnight Average Rate) and Tokyo Market's Challenges

1. Japanese Yen Risk Free Rate

TONA: Uncollateralized overnight call rate

- with some credit risk of the parties reflected, but not so much
- enough market depth
- a benchmark is calculated and published by the Bank of Japan

Calculation:

Data are supplied by 3 call-loan brokers (Ueda Yagi Tanshi Co., Ltd., Central Tanshi Co., Ltd. and The Tokyo Tanshi Co., Ltd.) and the call rate is calculated by The Bank of Japan on weighted average basis.

2. Challenges

- 1) What would be the best practice of TONA? How to create TONA based benchmarks with tenors?
- 2) Succession Plan for Japanese Yen LIBOR
3. Cessation of Euro Yen TIBOR – FSB Recommendation and ISDA's new Definitions (Trigger Event?)

