

August 1, 2018

Cross-Industry Committee on Japanese Yen
Interest Rate Benchmarks

Terms of Reference

1. Background

The Financial Stability Board (FSB) published a report titled “Reforming Major Interest Rate Benchmarks” in July 2014. In this report, the FSB recommended the following:

- (1) strengthening existing IBORs and developing “nearly risk-free reference rates (RFRs)” without bank credit risk; and
- (2) promoting the usage of existing IBORs and RFRs, in ways suited to the characteristics of financial instruments and financial transactions.

In line with the recommendation in (1) above, in Japan, the Japanese Bankers Association (JBA) TIBOR Administration (JBATA) finalised the TIBOR reform in July 2017, and the “Study Group on Risk-Free Reference Rates” identified the uncollateralized overnight call rate as the Japanese yen (JPY) RFR in December 2016. As a next step, in order to comply with the recommendation in (2) above, it is important to provide grounds for market participants and interest rate benchmark users to appropriately choose and use interest rate benchmarks in ways suited to the characteristics of financial instruments and financial transactions.

Meanwhile, with concerns about the sustainability of LIBOR beyond the end of 2021, the identification of RFRs and transition to RFRs where appropriate have also been discussed in full swing for major currencies. In addition, the discussion on “fallbacks” in case the publication of existing interest rate benchmarks such as LIBOR is discontinued permanently has been developing, notably for derivatives transactions. Against the backdrop of such developments regarding interest rate benchmark reform in major currencies, it is necessary in Japan to forward discussion to promote the usage of the RFR in ways suited to the characteristics of financial instruments and financial transactions.

2. Objectives of the Committee

- (1) The Committee shall, taking account of the discussion held overseas on the interest rate benchmarks in other currencies, provide necessary deliberations on the following, with aims to facilitate market participants and interest rate benchmark users to appropriately choose and use JPY interest rate benchmarks in ways suited to the characteristics of financial instruments and financial transactions:
 - (a) developing recommendations for the stocktaking of ideas on the appropriate choice and usage of JPY interest rate benchmarks;
 - (b) identifying specific challenges arising from (a) above and proposing solutions; and
 - (c) developing transition plans based on (a) and (b) above for a new framework enabling the use of JPY interest rate benchmarks.

The deliberations shall also include ensuring the robustness of financial contracts in case the publication of existing interest rate benchmarks such as LIBOR is discontinued permanently, as well as on developing the term structure of RFRs that might be needed for the transition from IBORs to RFRs.

- (2) The Committee shall, if deemed necessary for the deliberations, hold public consultations in order to collect opinions from a diverse set of stake holders.

3. Framework and Governance

- (1) The members of the Committee shall be drawn from a diverse set of market participants and interest rate benchmark users, including financial institutions, institutional investors, and non-financial corporates.
- (2) The Committee shall have a chair and vice-chair or multiple co-chairs. The chair (including co-chairs; the same shall apply hereinafter) and vice-chair shall be elected from within its members.
- (3) The following shall take part in the Committee as observers:
 - (a) JBATA;

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- (b) International Swaps and Derivatives Association (ISDA);
- (c) Financial Law Board (FLB);
- (d) Tokyo Financial Exchange (TFX);
- (e) Japan Securities Clearing Corporation (JSCC);
- (f) JBA;
- (g) Japan Securities Dealers Association (JSDA);
- (h) Financial Services Agency (FSA); and
- (i) Bank of Japan (BOJ).

In order to have relevant parties, other than those specified above, act as observers, the parties need to be approved by the Committee.

- (4) The chair shall, if deemed necessary, invite representatives from relevant parties to the Committee or approve their attendance in the Committee to listen to the deliberations.
- (5) The Committee secretariat shall be staffed by the BOJ (Market Infrastructure Division, Financial Markets Department). The secretariat shall undertake administrative issues of the Committee, such as the preparation of meeting agendas and their distribution to the members, provision of meeting rooms, and compilation of meeting minutes.
- (6) The decision making of the Committee shall be carried out on a consensus basis. On the issues where a consensus cannot be achieved, the chair and vice-chair shall determine how to summarize views after due consultation. If the issue is to be settled by vote, each member of the Committee shall be entitled one vote per corporate. In case where a consensus cannot be achieved, minority views shall be noted in the minutes.

4. Right to Call a Meeting

The chair shall call a meeting of the Committee.

5. Sub-Groups and Forums

- (1) The Committee shall, if deemed necessary, form sub-groups. The

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Committee shall decide on issues for deliberation and terms of reference for the sub-groups. The chair and vice-chair of the Committee may attend the sub-groups to listen to the deliberations.

- (2) The Committee shall, if deemed necessary, hold forums in order to inform a diverse set of market participants and interest rate benchmark users of the deliberations of the Committee. The issues regarding the organization of forums shall be decided on each occasion.

6. Disclosure

The Committee shall be closed to the public. The meeting minutes of the Committee shall be prepared by the secretariat and published subject to approval of its members. The meeting agenda and a list of participants including the members and observers of the Committee shall also be published.

7. Confidentiality

The members and observers and other participants of the Committee and sub-groups shall be prohibited to disclose any non-public information obtained through the deliberations of the Committee and sub-groups. The information obtained through the deliberations of the Committee and sub-groups shall be used solely to achieve the objectives of the Committee and not for anti-competitive purposes or for the benefits of their own or third parties. The same shall continue to apply after the resignation of members and observers and other participants of the Committee and sub-groups.

8. Compliance with Competition Laws

The members and observers and other participants of the Committee and sub-groups shall fully comply with all applicable competition laws in Japan and overseas, including the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of April 14, 1947).

9. Other Issues

The chair shall decide any other issues not specified in these Terms of Reference that are necessary to conduct the Committee.