Report on the Review of JBA TIBOR Administration

December 2013

Japanese Bankers Association

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1. Intent and Objectives of the Report

We, the Japanese Bankers Association ("JBA"), have been exploring measures to maintain and enhance the credibility of JBA TIBOR ("TIBOR"), in view of issues such as the manipulation of LIBOR and the subsequent international discussions, including those by the International Organization of Securities Commissions ("IOSCO"), on measures to enhance the credibility and transparency of financial benchmarks.

After publishing an interim report to outline the progress of its efforts in July,[1] the JBA has continued its efforts in light of subsequent developments in international discussions, including the IOSCO's "Principles for Financial Benchmarks ("IOSCO Principles")," [2] and also national discussions on the role of financial benchmark regulations. (The JBA's measures taken thus far are detailed later in the Report.)

Based on such discussions, the JBA has compiled the Report that describes specific measures to change the administration of TIBOR.

We will seek to maintain and enhance the credibility of JBA TIBOR by taking measures set forth in the Report, and commit to strengthen the administration of TIBOR so that it will be internationally recognized as a benchmark that is in line with the IOSCO Principles and widely used as a representative financial benchmark for Japanese yen interest rate.

The measures set forth in the Report are subject to changes, as necessary, in accordance with future developments in national legislation and other relevant matters.

2. JBA TIBOR

To contribute to the development and reinvigoration of Japan's short-term financial markets, the JBA has been publishing "Japanese Yen TIBOR" rates, which reflect prevailing conditions on the unsecured call market,[3] since November 1995, and "Euroyen TIBOR" rates, which reflect prevailing conditions on the Japan offshore market,[4] since March 1998.[5]

The calculation and publication of JBA TIBOR is performed in the following way. Each business day, reference banks (i.e. banks submitting reference rates)[6] quote prevailing market rates for 13 tenors (i.e. 1 week and 1 to 12 months) as of 11:00 a.m. in accordance with the "JBA TIBOR Publication Rules,"[7] and submit such rates to the JBA. The JBA excludes the two highest and two lowest reference rates submitted by these reference banks for each tenor, and averages the remaining rates to calculate JBA TIBOR rates, which are published through price vendors.[8] The JBA outsources part of TIBOR

[1] "The Progress of Our Efforts to Enhance the Credibility and Transparency of the JBA TIBOR" (July 5, 2013) (http://www.zenginkyo.or.jp/en/news/2013/07/05110000.html)

[2] "Principles for Financial Benchmarks" (http://www.fsa.go.jp/inter/ios/20130718-1/01.pdf)

[3] An interbank market where financial institutions borrow/lend money from/to one another for short-term funding purposes.

[4] An international financial market, separated from national markets, mainly aimed at residents outside Japan.

[5] The publication of both Japanese Yen TIBOR and Euroyen TIBOR rates for a one-week tenor, has commenced from July 2000.

[6] As of December 2013, there are 17 reference banks (15 banks of which quote rates for Japanese Yen TIBOR and 14 of which quotes rates for Euroyen TIBOR).

[7] JBA TIBOR Publication Rules (http://www.zenginkyo.or.jp/en/tibor/publication_rules/)

[8] As of December 2013, there are 5 price vendors: Thomson Reuters Markets KK, QUICK Corp., Jiji Press, Ltd., Bloomberg

calculation and publication operations to the service providers.[9]

Since its initial publication, TIBOR has been universally recognized as a representative benchmark for short-term Japanese yen interest rates, and currently is widely used as a reference rate primarily for corporate loans in Japan and also as a fixing rate in transactions such as interest rate swaps and futures.

Although there is no official statistics or other similar data, loans by banks referring to TIBOR are estimated to reach approximately 100 trillion yen, while notional amounts of derivatives may even reach the level of hundreds of trillions of yen, only for the Japan markets.

3. Development of International Discussions on Financial Benchmarks

Since 2012, in the wake of the LIBOR manipulation, authorities and benchmark administrators have embarked on reforms of major reference interest rates which are widely used across the world, such as LIBOR and EURIBOR, to enhance their credibility and transparency.

The IOSCO established a Task Force on Financial Market Benchmarks in September 2012 to discuss how to maintain and improve the credibility of financial benchmarks, and in July 2013 published its final report on this issue after seeking public consultation twice.
This IOSCO's final report sets out 19 principles and stipulates that administrators of major financial benchmarks widely used in financial markets should retain primary responsibility for all aspects of such benchmarks including governance, quality of the benchmark, quality of the methodology and accountability.
Further, the final report requires benchmark administrators to publicly disclose their compliance with the IOSCO Principles within 12 months of its publication; and subsequently, on an annual basis. Also, the final report expressed the IOSCO's intention to review the extent to which the IOSCO Principles have been implemented within an 18-month period after its publication.

The Bank for International Settlements ("BIS") also set up a working group on reference rates in September 2012 to discuss how to enhance the reliability and robustness of existing reference rates, and complied and published the results of such discussions in March of this year.

With respect to foreign major benchmark interest rates, the UK's HM Treasury published the "The Wheatley Review of LIBOR" covering LIBOR reform in September 2012. December of the same year saw the enactment of the Financial Services Act, which came into force in April 2013, together with the rules on the regulation and supervision of financial benchmarks.
In the meantime, the BBA LIBOR, its benchmark administrator, was reviewing its administration framework and decided in December 2012 to discontinue its LIBOR publication for certain currencies and tenors with small transaction volume. Further, in July 2013, it developed and published an interim code of conduct for reference banks to comply with, and also announced that it would transfer the administration of LIBOR to NYSE Euronext.

In Europe, the European Banking Authority and the European Securities and Markets Authority jointly published the "Principles for Benchmark-Setting Processes in the EU" in June 2013 while the European Commission issued the "Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on indices used as benchmarks in financial instruments and

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Finance L.P. and Nomura Research Institute, Ltd.

[9] Currently, the JBA outsources its TIBOR computation/publication operations to QUICK Corp. and, as part of BCP, its Secretariat's administrative work related to TIBOR computation/publication to the Osaka Bankers Association.

financial contracts” in September 2013. Amid such movements, EURIBOR-EBF, the EURIBOR administrator, also developed and published a code of conduct for reference banks to comply with in October 2013 and implemented the reduction of tenors the following month.

In Japan, the JBA has been discussing measures to be taken to maintain and enhance the credibility of TIBOR, as mentioned later. Japan’s Financial Services Agency set up the Study Group on Regulation of Financial Benchmarks regulation in November 2013, which has been discussing a regulatory framework for financial benchmarks in Japan in view of international developments. The result of such discussions is just published as a report of the Study Group in December 2013. It is expected that Japan will develop a financial benchmark framework based on this report.

4. The JBA’s Measures

(1) Measures Taken Prior to the Fiscal Year 2013

Given that the manipulation of LIBOR has prompted the international momentum toward improving the credibility and transparency of reference rates and price indices that serve as benchmarks; in July 2012, the JBA first conducted a review of reference banks, service providers, price vendors, the JBA Secretariat and other relevant parties on their compliance with the “JBA TIBOR Publication Rules,” which provide for the TIBOR publication processes and other matters, in order to ensure that the TIBOR publication is being implemented in accordance with the Rules. As a result, the JBA confirmed that there was no non-compliance at any of the parties reviewed and posted the result on its website.[10]

Since the autumn of 2012, the JBA has been discussing specific measures to maintain and enhance the credibility of TIBOR, taking into account developments in LIBOR and EURIBOR reform initiatives, discussions by IOSCO and BIS and other relevant matters. In March 2013, the JBA Board of Directors decided to form the Committee on TIBOR comprised of members of the JBA’s Planning Committee.

(2) Discussions by the Committee on TIBOR

The Committee on TIBOR (“Committee”) was established on April 1, 2013. The Working Committee on TIBOR was also set up under the Committee to discuss specific measures from more practical perspectives. With this structure, the JBA has been discussing measures in detail.

To ensure objectivity, external experts[11] (i.e. a lawyer and a certified public accountant (“CPA”)) participated in the Committee, whereas responsible personnel at all reference banks in addition to external experts participated in the Working Committee.[12]

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10 “Result of the Review of Compliance with the JBA TIBOR Publication Rules” (August 17, 2012) (http://www.zenginkyo.or.jp/news/2012/08/17150000.html) (available in Japanese only)

11 Mr. Akihiro Wani, Lawyer, Partner of Linklaters Tokyo; and Mr. Tetsuya Mogi, CPA, Partner, financial service office of Ernst & Young ShinNihon LLC.

12 The external experts include Mr. Yosuke Unami and Ms. Reiko Omachi, and previously included, Ms. Yukiko Kido, all lawyers of Linklaters Tokyo; and Mr. Yoshio Wagoya, Principal, Financial Services Office (Advisory) of Ernst & Young ShinNihon LLC; in addition to Messrs Wani and Mogi who also participated in the Committee.

(3) Interim Report and Subsequent Discussions

In July 2013, the JBA compiled the matters discussed at the Committee and other relevant committees in an interim report, and published the report which outlined the progress of its efforts made up until that time.[13]

This interim report clarified the direction of the review of the TIBOR administration from two broad perspectives: "to enhance the governance system of reference banks" and "to enhance the governance system of the administrator." Further, the interim report expressed the JBA's intention to reduce the number of tenors (currently 13) published for both the Japanese Yen and Euroyen TIBOR rates, as well as to clarify the definition of TIBOR.

Based on the direction of the TIBOR review initiative in the interim report, the JBA has further worked on the consideration of specific measures.

For the purpose of enhancing reference banks' governance system, we have repeatedly discussed matters related to the code of conduct to be observed by reference banks in submitting rates; for example, the concept of the scope of transaction data and other information to be referred to in determining reference rates, the concept of conflicts of interest inherent in rate submission processes and how to provide best practice for the establishment of rate submission processes.

On the other hand, for the purpose of enhancing the administrator's governance system, we have discussed, taking into account the IOSCO Principles, how an organization should be structured to ensure appropriate benchmark administration.

Further, in the context of reducing the number of tenors, in August 2013, the JBA conducted a survey, in the form of a questionnaire, to (21) banks participating in the Working Committee on TIBOR, in order to determine the volume of loan and derivative transactions, which are referring to TIBOR, for each of the currently-used 13 tenors. Based on the survey results, the JBA drafted a proposal to discontinue the TIBOR publication for seven tenors for which the impact arising from discontinuation is considered to be limited. On October 18, 2013, public consultation[14] was undertaken on the proposal over a three-week period to widely invite comments from users. Taking into consideration the public comments, the JBA has developed its final proposal on the reduction of tenors.
In addition to these, clarification of terms (e.g. prime bank) used to define TIBOR was also discussed with the view to clarifying the definition of TIBOR.

5. Measures to Enhance the Credibility of TIBOR

In light of the above mentioned discussions, the JBA will reform the administration of JBA TIBOR in line with the IOSCO Principles, to enhance the benchmark administrator's and reference banks' governance systems, in order to ensure the credibility and transparency of the JBA TIBOR administration.

[13] "The Progress of Our Efforts to Enhance the Credibility and Transparency of the JBA TIBOR" (July 5, 2013) (http://www.zenginkyo.or.jp/en/news/2013/07/05110000.html)

[14] "Seeking public comments on the review of JBA TIBOR tenors" (October 18, 2013) (http://www.zenginkyo.or.jp/en/news/2013/10/18100000.html)
See Appendix 3 to the Report for public comments received by the JBA.

(1) Enhancement of the Administrator's Governance System

To establish a more neutral administration framework, the JBA will newly form a legal entity that undertakes TIBOR calculation and publication ("New Administrator"), and will transfer its TIBOR calculation/publication operations to this entity.

As the New Administrator will assume the responsibilities for fair calculation and publication of TIBOR in line with the IOSCO Principles, a governance system which focuses on ensuring the fairness and transparency of benchmark administration will be developed.

The outline and governance system of the New Administrator is as described below.

[Outline of New Administrator]

Name: JBA TIBOR Administrator (Provisional name)

Form of establishment: *Ippan Shadan Hojin* (General incorporated association)

Voting rights: Japanese Bankers Association to hold 100% of voting rights.

Timing of establishment: TBD (as soon as possible)

[Governance System of New Administrator]

① Organizational Structure

The Board of Directors will be formed as a decision-making body of the New Administrator. The JBA TIBOR Oversight Committee (a provisional name) ("Oversight Committee"), which is mainly comprised of external experts, will be set up under the Board of Directors..
The Oversight Committee will have a high degree of independence, and provide the Board of Directors with recommendation that contributes to the appropriateness and transparency of benchmark administration.

Further, other committees, such as the JBA TIBOR Administration Committee (a provisional name) which will undertake discussions on practical issues relating to benchmark administration, will be established under the Board of Directors, as well as an internal audit function and a necessary secretariat function.

The following discusses the currently-planned organizational structure of the New Administrator.

i) Directors/ Board of Directors

The majority of directors should be elected from those who do not belong to banks. The Board of Directors which is comprised of directors should serve as a decision-making body of the New Administrator.

ii) Committees

The following committees will be established under the Board of Directors.

a) JBA TIBOR Oversight Committee (Provisional name)

[Roles]

In accordance with the commission by the Board of Directors, the Oversight Committee will provide a recommendation that contributes to the enhancement of the fairness and transparency of benchmark administration practices in relation to the following matters.

- Matters related to the management of conflicts of interest arising from benchmark administration
- Responses to instructions, findings, complaints and other similar actions by authorities or external parties in relation to benchmark administration
- Reviewing the results of monitoring conducted by the Secretariat in relation to reference banks' compliance with the code of conduct and daily rate submissions
- Matters related to the punishment of reference banks

[Member composition]

The Oversight Committee will be comprised of experts (e.g. lawyers, CPAs, academic experts) and the Secretariat. From the perspective of maintaining independence, those who belong to banks should not be appointed as a member.

b) JBA TIBOR Administration Committee (Provisional name)

[Roles]

The JBA TIBOR Administration Committee will discuss the following matters related to JBA TIBOR from a practical perspective, and will submit these to the Board of Directors for deliberation. Further, this Committee will report to the Board of Directors and the Oversight Committee on a regular basis to update them on benchmark administration-related matters.

- Review of definitions
- Review of the selection criteria of reference banks, the selection of reference banks, etc.
- Review of reference banks' rate submission procedures
- Development and amendment of relevant rules

[Member composition]

This Committee will be comprised of representatives of the JBA's member banks and the Secretariat. In addition, relevant bodies, which are representative of users, or reference banks will be invited as observers.

Experts (such as lawyers and CPAs) and others will also be invited as observers, where appropriate.

c) JBA TIBOR Planning Committee (Provisional name)

[Roles]

The JBA TIBOR Planning Committee will discuss the New Administrator's organization, budget and other similar issues, and will submit these to the Board of Directors for deliberation.

The details of discussions will be reported to the Oversight Committee as well.

[Member composition]

This Committee will be comprised of representatives of the JBA's member banks and the Secretariat.

iii) Others (Internal audit function/ Secretariat function)

a) Internal audit function

A division to assume the internal audit function will be established under the Board of Directors, and will perform internal audits on the benchmark administration operations, at least annually. The audit results should be retained for five years.

b) Secretariat function

An organization to assume the secretariat function will be established under the Board of Directors to undertake the following administrative tasks related to benchmark administration.

・Checking published JBA TIBOR rates
・Contact, including for complaints and inquiries
・Monitoring of reference banks' compliance with the code of conduct, and daily rate submissions
・The secretariat function for the administration of committees
・Supervision of service providers
・Other administrative tasks related to benchmark administration

② Development of Relevant Rules

To ensure the appropriateness of benchmark administration operations, relevant rules, such as operational rules and guidelines for service providers, will be developed and maintained.

The operational rules will provide for the following areas in line with the IOSCO Principles, and will be publicly disclosed on a website or by other means in order to ensure the transparency of benchmark administration.

[Areas to be covered in the operational rules]

・Treatment in case of insufficient/inadequate submissions, and during times of market stress (including the establishment of contingency plans)

・Matters related to the supervision of service providers

・Matters related to the administrator's management of conflicts of interest (e.g. Clarification of the reporting line within the administrator and its confidentiality framework)

・Basic matters related to remuneration plans (e.g. Design plans so that employees' remuneration is not linked to the level of TIBOR)

・Matters related to the training of personnel who are involved in the TIBOR calculation and publication processes

・The involvement of the Oversight Committee, consultation with related parties and publication-related matters in the case of material changes to the TIBOR calculation method

・Matters related to the management of data collected from outside sources, if applicable

・Guidelines on how to respond to complaints, inquiries and other similar actions in relation to TIBOR

・Matters related to internal and external audits of the administrator

・Matters related to the administrator's retention of documents related to the TIBOR calculation and publication (e.g. scope and period (five years) of the retention)

③ Implementation of External Audit

From the perspective of ensuring the appropriateness of benchmark administration operations, the New Administrator will in principle be audited by external auditors or equivalent bodies on an annual basis. The audit results should be retained for five years, and should in principle be published on a website or by other means.

<u>(2) Enhancement of Reference Banks' Governance System</u>

① Development of the JBA TIBOR Code of Conduct

The "JBA TIBOR Publication Rules," which provide for TIBOR publication processes and other matters, will be replaced, and the "JBA TIBOR Code of Conduct" will be newly developed to set forth the rules that reference banks should abide by as well as processes that they should have in place in connection with rate submission.

Such rules that reference banks should abide by and processes that they should have in place, which are to be stipulated in the Code of Conduct, include the following matters.

i) Submission of rates based on the definition

Establishing standards for types and scope of transactions, qualitative information and other reference information used in determining reference rates.

ii) Establishment of processes for appropriate rate submission

Establishing processes to verify reference rates by multiple persons before the submission and to monitor subsequently whether there is any suspicious reference rate

iii) Establishment of processes for management of conflicts of interest in relation to rate submission

Defining a conflict of interest in relation to rate submission, illustrating examples of transactions/operations that may particularly cause a conflict of interest, and establishing of a process to manage a conflict of interest taking into account the degree of the risk of the manipulation

iv) Prohibition of information sharing, coordination and similar behaviors regarding rate submission

Prohibiting a reference bank's person responsible for rate submission and staff performing rate submission tasks to share information, or coordinate rate submission, with personnel outside the bank including other reference banks as well as personnel inside the bank other than the person responsible for rate submission and staff performing rate submission tasks, unless there is a reasonable reason to do so

v) Establishment of processes to enable post-submission explanations on the basis of rate submissions

Establishing processes that enable post-submission explanations on the basis of rate submissions, such as retention of documents and data concerning the determination of reference rates

vi) Retention of communication records

Retaining communication records (e.g. e-mail, chat and phone calls) regarding rate submissions of the person responsible for rate submission and staff performing rate submission tasks

vii) Implementation of internal and external audits

Requiring internal and external audits of compliance with the Code of Conduct

viii)Establishment of reporting process in the event of incidents

Establishing reporting processes to the benchmark administrator and internal reporting processes in order to address violation of the Code of Conduct and other similar incidents occurred.

ix) In-house training

Providing in-house training for understanding of the Code of Conduct

x) Establishment of internal rules

Establishing internal rules concerning the matters described above

② Administrator's Assessment on Compliance with the Code of Conduct

The New Administrator will assess annually whether reference banks are implementing rate submissions appropriately in accordance with the Code of Conduct.

③ Effective Date of the Code of Conduct

TBD (as soon as possible)

<u>(3) Others</u>

① Reduction of the Number of Tenors

The JBA has decided to reduce the number of tenors for which the Japanese Yen TIBOR and Euroyen TIBOR rates are published, 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), discontinuing the publication of TIBOR for the other tenors (i.e. 4 months, 5 months, 7 months, 8 months, 9 months, 10 months and 11 months). The revised tenors will be effective from April 1, 2015.

② Clarification of the Definition

TIBOR is currently defined as a so-called "prevailing market rate," which is calculated by the JBA based on "rates, which are quoted and regarded as prevailing market rates by reference banks, assuming transactions between prime banks on the Japan unsecured call market (in the case of Japanese Yen TIBOR) as of 11:00 a.m."

While some argue that the current definition leaves considerable discretion to reference banks in determining rates, it has the merit of enabling stable and continuous rate submissions even in times when financial markets are unstable.

The JBA discussed the current definition, taking into account its benefit, the degree of impact if it is changed and other factors. As a result, as previously explained, the JBA adopted a policy to retain the basic concept of the current TIBOR definition and to enhance the TIBOR processes so as to ensure appropriate rate submission, calculation and publication by strengthening the governance system at both the administrator and reference banks.

Further, the term "prime bank," which is used in defining TIBOR, shall be explicitly defined as "a bank which is financially resilient (e.g. banks having adequate capital and sufficient liquid assets) and which is a major player in the Japan unsecured call market (or in the Japan Offshore Market in the case of Euroyen TIBOR)."

6. Closing

By implementing the aforementioned measures in this Report, the JBA will aim to further increase market participants and users' confidence in TIBOR, and commit to strengthen the administration of TIBOR so that TIBOR will be internationally recognized as a benchmark compliant with the IOSCO Principles and will continue to be widely used as a representative benchmark for Japanese yen interest rates.

Further, the JBA will also actively address challenges such as the enhancement of contingency plans and strengthening of monitoring of reference rates.

[Appendix 1]

Record of Working Committee Convened in This Fiscal Year

Date and Time	Discussed Matters
Apr. 19 (Fri.) (1st meeting) 10:00-12:00	**(1) Governance system of reference banks** Collected opinions from members on the following main issues, taking into account discussions made in the previous fiscal year, latest developments of the IOSCO discussions and developments of other benchmarks. ① Clarification of rate submission processes and retention of related documents by establishing internal rules and other means ② Involvement of the compliance and risk management functions ③ Verification by internal/external audits and by the benchmark administrator ④ Reporting procedures in the event of incidents **(2) Review of definitions, etc.** Collected opinions from members concerning the clarification of the term “prime bank,” reduction of the number of tenors, and review of the timing of rate publication by individual banks.
May 7 (Tue.) (2nd meeting) 14:00-16:00	**(1) Governance system of the TIBOR administrator** Collected opinions from members concerning issues such as the establishment of the Oversight Committee. **(2) Governance system of reference banks** Collected opinions from members on the following main issues. ① Prohibiting exchange of information between the division in charge of rate submissions and other divisions ② Remuneration plans, in-house training ③ Cost to maintain governance ④ Public disclosure of rate submission processes **(3) Review of definitions, etc.** ① Discussion concerning the clarification of terms such as “prime bank” and the reduction of the number of tenors ② Combining the publication of Japanese Yen TIBOR and Euroyen TIBOR
May 27 (Mon.) (3rd meeting) 15:00-16:30	**(1) Code of Conduct** Collected information from members on the Secretariat’s draft of the Code of Conduct.
Jun. 20 (Thu.) (4th meeting) 14:00-14:30	**(1) Interim report** Explained on the content of the interim report and the publication policy

[Survey questionnaire concerning the reduction of the number of tenors]

The survey was conducted from August 2 to 30, 2013 (targeting 21 banks in total, comprising of the Working Committee member banks and reference banks).

[Internal audit working group meeting]

The meeting was assembled on August 23, attended mainly by the persons in charge of the internal audit function at reference banks, to collect opinions on issues that may arise if internal audits are performed on rate submissions.

Date and Time	Discussed Matters
Sep. 20 (Fri.) (5th meeting) 13:00-14:00	**(1) Reduction of the number of tenors** Discussed on a proposed reduced number of tenors and its public consultation plan based on the result of the August questionnaire survey concerning, among other things, the transaction volume of loans and derivatives for each tenor
Oct. 11 (Fri.) (6th meeting) 10:00-11:00	**(1) Processes for Management of conflicts of interest in relation to rate submissions** Collected opinions on operations that may cause conflicts of interest described in the Code of Conduct and examples of framework/processes to manage such conflicts of interest in rate submission **(2) Clarification of the term “prime bank”** Discussed the proposed clarification of the term “prime bank.” **(3) Identification of the scope (hierarchy) of transactions, etc. to be referred to in determining reference rates** Discussed how to describe those matters to be covered by the Code of Conduct, such as the examples of transactions and other relevant information to be referred to by reference banks for their rate submissions in line with the definition of TIBOR, as well as the use of expert judgment.
Oct. 18 (Fri.) (7th meeting) 10:00-12:00	**Additional items to be covered by the Code of Conduct** Discussed on additional items to be covered in the Code of Conduct in accordance with the IOSCO’s final report
Nov. 20 (Tue.) (8th meeting) 14:00-15:00	**(1) Reduction of the number of tenors** Discussed on the timing of reducing the number of tenors taking into consideration the comments submitted during the public consultation. **(2) External/internal audits** Explained the policy to require the implementation of external/internal audits under the Code of Conduct. **(3) Draft of the Code of Conduct** Explained and collected opinions on the secretariat’s proposed amendment to the Code of Conduct.

Dec. 3 (Tue.) (9th meeting) 14:00-15:30	**(1) Draft of the Code of Conduct** Explained the proposed amendment to the Code of Conduct that reflects opinions of banks. **(2) Rate modification and review of contingency plans** Explained the concept of a rate modification, how to reflect such a modification to the Code of Conduct and a policy to review contingency plans. **(3) Schedule of final coordination** Explained the proposed schedule of final coordination and the transition to the new framework.
Dec. 11 (Wed.) (10th meeting) 10:00-10:30	**(1) Completion of the final report (draft) and the final Code of Conduct (draft)** **(2) Schedule of final coordination**

* The Committee is convened monthly, to share information on discussions by the Working Committee and make decisions on policies.

[Appendix 2]

July 5, 2013

Japanese Bankers Association

The Progress of Our Efforts to Enhance the Credibility and Transparency of the JBA TIBOR

We, the Japanese Bankers Association ("JBA"), have been exploring measures to enhance the credibility of the JBA TIBOR since last year, in view of issues such as the manipulation of LIBOR and the subsequent international discussions, including those by the International Organization of Securities Commissions ("IOSCO"), on measures to enhance the credibility and transparency of financial benchmarks.

In April this year, we established the Working Committee on TIBOR within the JBA to examine specific measures in consultation with experts and other concerned parties, and have compiled an interim report on measures to enhance the credibility of the JBA TIBOR. The outline of the report is as follows.

Since the commencement of its publication in 1995, the JBA TIBOR has been widely recognized as a major benchmark of short-term Japanese yen interest rates and used in many loan and derivative contracts. Given the significance and public nature of the JBA TIBOR as a financial tool, the JBA will continue to examine specific measures to enhance the credibility of the JBA TIBOR as a major international financial benchmark.

1. International discussions on financial benchmarks

The manipulation of LIBOR prompted the international movement toward improving the credibility and transparency of reference rates and price indices that serve as benchmarks for transactions of various financial instruments. Since last year, efforts have accelerated to enhance the credibility and transparency of widely-used international reference rates, such as LIBOR and EURIBOR. Also, from the perspectives of regulators and central banks, discussions on policy recommendations to restore the market's and user's confidence in financial benchmarks are underway at international organizations, including IOSCO and the Bank for International Settlements.

2. Measures taken thus far for the JBA TIBOR

In July 2012, the JBA conducted a review of all reference banks and service providers on their compliance with the "JBA TIBOR Publication Rules," which provide for TIBOR publication process and other matters, and confirmed that there were no compliance problems at any of the parties reviewed. In addition, in April this year, we established the Working Committee on TIBOR within the JBA, and since then, with the participation of reference banks and outside experts, such as lawyers and auditors, we have been intensively discussing specific measures to enhance the credibility of the JBA TIBOR in an effort to make the JBA TIBOR a more trusted benchmark not only domestically but also internationally.

3. Measures for enhancement of the credibility of the JBA TIBOR

As a result of the above factors, we have decided to implement the following measures to enhance the credibility of the JBA TIBOR. We will further examine specific measures taking into account the current ongoing international discussions.

(1) Measures to enhance the governance system of reference banks

(i) Establishment of Code of Conduct

We will revise the JBA TIBOR Publication Rules and transform them into "JBA TIBOR Code of Conduct," stipulating matters that must be observed by reference banks to submit rates and defining necessary systems that must be established. We will require each reference bank to comply with the Code of Conduct, and also strengthen our framework for calculating and publishing TIBOR based on rates appropriately submitted by the reference banks.

(2) Measures to enhance the governance system of the JBA

(i) Establishment of an organization dedicated to and responsible for management and administration of TIBOR

We will consider the establishment of a new organization within the JBA dedicated to and responsible for the management and administration of TIBOR, in order to further enhance the framework for the management and administration of TIBOR.

(ii) Establishment of an oversight committee

We will consider the establishment of an independent oversight committee to supervise the management and administration of TIBOR, in order to further enhance the governance of benchmark administration.

(iii) Enhancement of control system

We will consider measures such as external audits to enhance the governance and transparency of benchmark publication services of the JBA.

(3) Other matters

(i) Clarification of definition of TIBOR

We are not, at the present, planning to change the basic definition of TIBOR itself. However, we will consider clarifying the meaning of a number of terms including "prime bank."

(ii) Reduction of number of tenors

Discussions are ongoing to reduce the number of tenors of other major international benchmarks. We, as well, are considering reducing the number of TIBOR tenors, and the specifics, the tenors to be reduced and when, will be determined after taking into account various factors including the opinions of TIBOR users.

[Appendix 3]

Comments on the Proposed Review of the Tenors for the JBA TIBOR Publication

Type of bank	Item No.	Comments	Response
Major bank	1	○ In the case of floating rate loans, 3-month or 6-month tenors are frequently used. However, in some cases, other interest rate periods are exceptionally applied to the initial and last interest periods. In such cases, a linear interpolation is performed by using 4 month or 5 month LIBOR interest rates. Removing the 4 month and 5 month tenors does not give rise to a material impact because an interpolation can be performed using the 6 month LIBOR interest rate. However, it is preferable to maintain these tenors from the perspective of reflecting an interest rate which more closely approximates prevailing rates. On the other hand, the 7 month to 12 month tenors are used in relatively fewer cases; and therefore, there is no particular problem in removing the 7 month to 11 month tenors. ○ If the number of tenors is reduced, a period of approximately one year is necessary to prepare for such changes, including entering into new contracts.	○Regarding the request for continuing the 4 month and 5 month tenors, we do not change our original offering which exclude these tenors given that only one participant requested for it. ○Regarding the effective date of reduction of the tenors, we will set the date from April 1,2015.
Regional bank	2	○ Many financial institutions use TIBOR as a base interest rate for customers and a reference rate for determining the interest rate between the bank head office and branches. Therefore, the impact arising from the reduction of the number of tenors would not be small, for example it may require system modifications. If the reduction of the number of tenors is to be implemented, the JBA should take into account the above impact and give due regard to the timing of the implementation; for example, providing a sufficient period after the finalization of the reduced tenors until its implementation to fully disseminate the change. Further, the JBA's current proposal plans to put the revised tenors into effect for TIBOR publication from January 5, 2015. However, taking into consideration that fiscal periods adopted by the majority of Japanese companies,	○Considering the opinion, we will set the effective date of reduction of the tenors to be from April 1,2015.

		including banks, end in March, the revised tenors should be effective from April 1, 2015.	
Exchange	3	○ We have no disagreement with the JBA's proposal because the tenors proposed to be removed are used only for a limited volume of fund transactions, and this reduction would further enhance the credibility of TIBOR. (1) From our perspective ・Futures which use the 3-month Euroyen TIBOR as a benchmark are listed on our exchange, and therefore the removal of other tenors will have no direct impact on us. (2) From the perspective of participants of our exchange ・According to interviews with participants of our exchange, they are generally in support of the JBA's proposal; however, the concern over practical burden was raised in the following cases. ・Some odd-term swap contracts designate the TIBOR tenor proposed to be removed as a base rate for the components of interest rate calculations. Therefore, the reduction of tenors will require system modifications and impose other practical burdens. ・Similar system modifications and other changes will be required in the case of reducing the number of LIBOR tenors.	○Considering the opinion, we will set the effective date of reduction of the tenors to be from April 1,2015.