




# TOKYO SWAP RATE

## CONSULTATION ON

- 1) CESSATION OF TOKYO SWAP RATE (FOR SWAPS REFERENCING TIBOR®)
  - 2) D-TIBOR® TOKYO SWAP RATE
  - 3) PUBLICATION OF TOKYO SWAP RATE (FOR SWAPS REFERENCING TONA) AND TOKYO SWAP RATE FALLBACK FOLLOWING “NO FIX”
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# 1. Responding to this consultation

## Introduction

Refinitiv is committed to transparency when reviewing benchmark methodologies or considering material changes to its benchmarks. To that end, Refinitiv is seeking feedback from interested parties on the cessation of Tokyo Swap Rate (for swaps referencing TIBOR®), viable data sources for the possible introduction of a D-TIBOR® version of Tokyo Swap Rate and publication of Tokyo Swap Rate (for swaps referencing TONA) and Tokyo Swap Rate Fallback following a “no fix”. Refinitiv invites comments on proposals put forward in this paper and in particular on the specific questions in section 6. Please structure your comments to:

- Respond to the questions stated
- Contain a clear rationale that includes evidence to support the views expressed
- Describe any alternative choices that Refinitiv should consider

Respondents are welcome to answer all questions or just select individual questions on those topics that are applicable to them. For example, a respondent may only want to provide feedback on the cessation of Tokyo Swap Rate (for swaps referencing TIBOR®) and not viable data sources for the possible introduction of a D-TIBOR® version of Tokyo Swap Rate or publication of Tokyo Swap Rate (for swaps referencing TONA) and Tokyo Swap Rate Fallback following a “no fix”.

## Submission of responses

Please email your comments to [index\\_queries@refinitiv.com](mailto:index_queries@refinitiv.com) with ‘Tokyo Swap Rate’ in the subject by no later than 12:00 (UK time) on 14 September 2022. Please note that comments submitted after this deadline or submitted via other means may not be processed.

## Handling of responses

All responses to this consultation will be treated as confidential and will not be made public. A summary of key points may be made available by Refinitiv on an anonymised basis as appropriate.

**This consultation paper is not a cessation notice for Tokyo Swap Rate (for swaps referencing TIBOR®).**

# 2. Introduction

Refinitiv is a leading calculator and administrator of benchmarks and indices. Refinitiv benchmark products include the WM/Refinitiv FX benchmarks and commodity indices. Within the interest rate asset class, Refinitiv administers products such as the Canadian Dollar Offered Rate (CDOR) and the Saudi Arabian Interbank Offered Rate (SAIBOR). In January 2021, [Refinitiv Term SONIA](#), a family of GBP term rates based on OIS, was released as a regulated benchmark and in March 2021, the Alternative Reference Rates Committee (ARRC) [announced](#) that Refinitiv had been selected to publish its recommended spread adjustments and spread adjusted rates for USD cash products. Refinitiv administers benchmarks either directly under the IOSCO Principles for Financial Benchmarks or via its authorised subsidiary, Refinitiv Benchmark Services (UK) Limited (RBSL), under the UK Benchmark Regulation.

The Tokyo Swap Rate (TSR) is a Japanese Yen (JPY) interest rate swap (IRS) benchmark family comprising benchmarks rates with tenors from 1 - 40 years. Currently three versions of the Tokyo Swap Rate are published:

- Tokyo Swap Rate (for swaps referencing TIBOR®)
- Tokyo Swap Rate (for swaps referencing TONA)
- Tokyo Swap Rate Fallback

Refinitiv is the publisher of the Tokyo Swap Rate (for swaps referencing TIBOR®). As publisher, Refinitiv is responsible for collecting input data, determining and publishing the rate, and for all aspects of governance, oversight and integrity of the rate. Refinitiv Benchmark Services (UK) Limited (“RBSL”) is the administrator of the Tokyo Swap Rate (for swaps referencing TONA) benchmark and the Tokyo Swap Rate Fallback benchmark. As administrator, RBSL is responsible for collecting input data, determining and publishing the benchmarks, and for all aspects of governance, oversight, compliance and integrity of the

benchmarks. RBSL is authorised and regulated in the UK by the Financial Conduct Authority ("FCA"), FCA Reference Number 610678.

The Tokyo Swap Rate (for swaps referencing TIBOR®) measures the fixed leg of a vanilla IRS where the floating leg is Euroyen TIBOR® (commonly known as Z-TIBOR®). Z-TIBOR® is calculated and published by JBATA and reflects the prevailing short term interest rates on the Japan offshore market. JBATA also publishes 'Japanese Yen TIBOR' (D-TIBOR), which reflects the prevailing rates on the unsecured call market<sup>1</sup>. In March 2021, JBATA announced the expected timeline for discontinuing Z-TIBOR® which if implemented would be at the end of December 2024<sup>2</sup>. There are currently no plans for cessation of D-TIBOR®. Tokyo Swap Rate (for swaps referencing TIBOR®) is available in 11 tenors from 1-10 years and is published at 15:30 Tokyo time, on each business day in Japan.

On 16 December 2021 Refinitiv issued a [consultation paper](#) requesting industry feedback on proposed methodology changes to Tokyo Swap Rate (for swaps referencing TIBOR®) in order to reduce the minimum number of contributors and simplify the fallback procedure. On 23 December 2021 Refinitiv announced the [outcome of the consultation](#) and confirmed that the proposed changes would be implemented on 4 January 2022.

On 19 January 2022 Refinitiv issued a [second consultation paper](#), which outlined the intention to cease Tokyo Swap Rate (for swaps referencing TIBOR®) and requested industry feedback on the level of use of Tokyo Swap Rate (for swaps referencing TIBOR®). On 31 January Refinitiv announced the [outcome of this second consultation](#) and confirmed that effective 1 February 2022 a new fallback procedure methodology, composed of Tokyo Swap Rate (for swaps referencing TONA) plus a spread adjustment would be introduced. The spread adjustment is equal to the trimmed average difference between Tokyo Swap Rate (for swaps referencing TONA) and Tokyo Swap Rate (for swaps referencing TIBOR®) for the 10 business days prior to 31 January 2022. The 2 largest and 2 smallest differences between the two rates during these 10 business days are to be excluded from the spread adjustment calculation. The purpose of the new fallback procedure was to facilitate the continued publication of the Tokyo Swap Rate (for swaps referencing TIBOR®) ahead of its permanent cessation.

The purpose of this consultation paper is to collect industry feedback on:

- The proposed timeline and approach for cessation of Tokyo Swap Rate (for swaps referencing TIBOR®)
- Viable data sources for the possible introduction of a D-TIBOR® version of Tokyo Swap Rate
- Whether a Tokyo Swap Rate (for swaps referencing TONA) and Tokyo Swap Rate Fallback should be published following provision of a "no fix"

### 3. Cessation of Tokyo Swap Rate (for swaps referencing TIBOR®)

As of January 2022, Tokyo Swap Rate (for swaps referencing TIBOR®) was used in loans (including syndicated loans and PFI), bonds and structured deposits as well as in valuations and reporting. At the time, some of these contracts had a remaining maturity of more than 25 years and didn't have suitable fallback language. Respondents to the January 2022 consultation had significant variation in the length of time they requested Tokyo Swap Rate (for swaps referencing TIBOR®) is published for. The majority of firms who responded proposed cessation between Q3 2022 and Q1 2023. One firm suggested longer.

In January 2022, Refinitiv made it clear that users should prepare for the permanent cessation of Tokyo Swap Rate (for swaps referencing TIBOR®) following a consultation on a D-TIBOR® version of Tokyo Swap Rate.

Refinitiv is proposing to cease publication of Tokyo Swap Rate (for swaps referencing TIBOR®), as published on <27143> and other RICs, for all tenors via all delivery channels (see list of RICs in the appendix) immediately following publication of the afternoon settings at 15:30 (Tokyo time) on **31 March 2023**.

Users of Tokyo Swap Rate (for swaps referencing TIBOR®) should ensure their contractual and other arrangements linked to this benchmark contain appropriate and robust fallback plans or other arrangements to address the cessation.

If Tokyo Swap Rate (for swaps referencing TIBOR®) ceases publication on 31 March 2023 (as proposed), following the final publication the page <27143> would display the final published rates and the notice "Tokyo Swap Rate (for swaps referencing TIBOR®) has now ceased. Users may want to consider using an alternative rate." The other RICs will display the final published

<sup>1</sup> See <https://www.jbatibor.or.jp/english/about/> for further details about TIBOR

<sup>2</sup> See <https://www.jbatibor.or.jp/english/reform/> for further details

rates without the notice. Refinitiv is proposing that three months after Tokyo Swap Rate (for swaps referencing TIBOR®) cessation the RICs and pages shown in the Appendix will be removed from Refinitiv products.

Consequently, if this proposal is implemented, Refinitiv would not publish a fallback for Tokyo Swap Rate (for swaps referencing TIBOR®) after 31 March 2023.

**This consultation paper is not a cessation notice for Tokyo Swap Rate (for swaps referencing TIBOR®).**

## 4. D-TIBOR® version of Tokyo Swap Rate

During the January 2022 consultation process there was some support for a D-TIBOR® version of Tokyo Swap Rate. Creation of such a benchmark requires data on centrally cleared spot starting JPY D-TIBOR® IRS.

During the first half of 2022, JSCC cleared 1,409 D-TIBOR® IRS<sup>3</sup> (of which 856 were in tenors up to 10 years). Whilst this is more liquid than Z-TIBOR, where JSCC cleared 1,066 swaps during the same period, it does not represent a high level of liquidity. This activity equates to less than one trade per tenor per day assuming that a D-TIBOR® swap rate has the same tenors as Tokyo Swap Rate (for swaps referencing TIBOR®). This level of liquidity would not be sufficient to create a trade-based benchmark as individual tenors would frequently have no trades or very few trades on any given day.

There is currently no or very little activity on electronic trading platforms in D-TIBOR® IRS, meaning that neither composite rates nor individual dealer streaming prices can be supplied to Refinitiv.

Major interdealer brokers produce indicative D-TIBOR® IRS rates representing the level they believe the voice brokered market is trading at. However, the level of underlying activity differs significantly across brokers leaving few firms with sufficiently robust data that can be used as an input into a benchmark.

Given the low level of activity in the market and lack of suitable data sources, Refinitiv does not believe it is currently possible to create a sufficiently robust D-TIBOR® version of Tokyo Swap Rate. Refinitiv will not create a D-TIBOR® version of Tokyo Swap Rate prior to cessation of Tokyo Swap Rate (for swaps referencing TIBOR®).

## 5. Delayed publication policy for Tokyo Swap Rate (for swaps referencing TONA) and Tokyo Swap Rate Fallback

Under section 4.2 of the Tokyo Swap Rate (for swaps referencing TONA) and Tokyo Swap Rate Fallback [methodology](#) document the administrator, RBSL, has the discretion to delay publication in the event that technical difficulties prevent receipt of input data or if RBSL has reason to believe that either the input data or the determination of the benchmarks includes a potential error. Currently there is no process or procedure to cover the scenario where a “no fix” is published but following this sufficient data becomes available or any technical difficulty is resolved permitting a valid benchmark to be published. Publishing a valid rate to replace a “no fix” can benefit the industry by avoiding the need to trigger fallback processes. However, it can also lead to material complications if such fallback processes have already been triggered.

Refinitiv welcomes industry feedback on whether a valid rate should be published following a “no fix” or whether the “no fix” should be retained.

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<sup>3</sup> [https://www.jpix.co.jp/jsc/en/interest\\_rate\\_swap.html](https://www.jpix.co.jp/jsc/en/interest_rate_swap.html)

## 6. Consultation Questions

### **Tokyo Swap Rate (for swaps referencing TIBOR®) cessation**

1. Does cessation of Tokyo Swap Rate (for swaps referencing TIBOR®) immediately following publication on 31 March 2023 provide sufficient time for you to implement suitable fallbacks or other arrangements in your contracts? If not, please provide a detailed explanation why not and how much additional time is required.
2. Following cessation, Tokyo Swap Rate (for swaps referencing TIBOR®) RICs and pages would display the final published rates for a period of 3-months. Following this the rates would be removed.
  - a. Does displaying the final rates on the RICs and pages following cessation cause any issues? If so, please explain why.
  - b. Does removing the rates 3 months after cessation cause any issues? If so, please explain why.

### **D-TIBOR® version of Tokyo Swap Rate**

3. Are there any other existing data sources that Refinitiv should consider as possible inputs into a D-TIBOR® version of Tokyo Swap Rate?
4. Do you expect any new data sources to become available in the future (or substantial improvements in liquidity of existing data sources) that could be possible inputs into a D-TIBOR® version of Tokyo Swap Rate?

### **Delayed publication policy for Tokyo Swap Rate (for swaps referencing TONA) and Tokyo Swap Rate Fallback**

5. Following publication of a “no fix”, if sufficient data becomes available to publish a benchmark value should the “no fix” be retained or should the benchmark value be published?
6. If “no fix” is superseded by a benchmark value, should there be a time limit on when this can happen? If so, what time restrictions would you prefer? E.g.
  - a. No later than one hour after the “no fix” was published
  - b. No later than the publication of the next AM or PM setting
  - c. No later than the start of the next business day
  - d. No later than the next publication of the AM or PM setting for which the “no fix” was issued (i.e., 24 hours excluding non-business days)

# Appendix

List of RICs and pages for proposed cessation immediately following publication on 31 March 2023

| <b>Tenor</b> | <b>Tokyo Swap Rate (for swaps referencing TIBOR®)</b> |
|--------------|---|
| All          | JPYTSRT=<br>27143                                     |
| 1-Year       | JPYTSRT1Y=  |
| 18-Months    | JPYTSRT18M=   |
| 2-Years      | JPYTSRT2Y=  |
| 3-Years      | JPYTSRT3Y=  |
| 4-Years      | JPYTSRT4Y=  |
| 5-Years      | JPYTSRT5Y=  |
| 6-Years      | JPYTSRT6Y=  |
| 7-Years      | JPYTSRT7Y=  |
| 8-Years      | JPYTSRT8Y=  |
| 9-Years      | JPYTSRT9Y=  |
| 10-Years     | JPYTSRT10Y=   |

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