

October 29, 2019

Solicitation of the Calculating and Publishing Entities of Prototype Rates  
for Term Reference Rates (Swap)

As described in the “Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks”<sup>1</sup> released on July 2, 2019, the “Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks” (referred to as “Committee” hereinafter) deems it appropriate to take a gradual approach to calculating and publishing term structures based on Japanese yen (JPY) overnight index swap (OIS) (referred to as “Term Reference Rates (Swap)” hereinafter) that will divide the process into two phases.

In Phase 1, prototype rates, which are not assumed to be actually referenced in contracts for various financial instruments and transactions, will be calculated and published.

Meanwhile, in Phase 2, production rates, which are assumed to be actually referenced in contracts, will be calculated and published as a potential alternative benchmark for JPY LIBOR. Therefore, potential administrators will need to make preparations to meet requirements that will be imposed if Term Reference Rates (Swap) are designated as a “Specified Financial Benchmark”<sup>2</sup> under the Financial Instruments and Exchange Act and its administrators are designated as a “Specified Financial Benchmark Administrator.”<sup>3,4</sup>

The Committee, in light of the contents of the public consultation, has decided to solicit entities that are contemplating becoming future administrators of Term Reference Rates (Swap) and that will for the time being calculate and publish prototype rates in Phase 1.

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<sup>1</sup> Please refer to the following link:

[http://www.boj.or.jp/en/paym/market/jpy\\_cmte/index.htm/](http://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/)

<sup>2</sup> TIBOR is designated as a specified financial benchmark at present.

<sup>3</sup> The JBA TIBOR administration is designated as a specified financial benchmark administrator at present.

<sup>4</sup> Considering that LIBOR is an internationally used reference rate, Term Reference Rates (Swap) would need to meet the requirements of EU Benchmark Regulation to be used within Europe.

(Tentative translation)

## 1. Requirements for Application

- (1) Applicants shall respect the principles and requirements in the public consultation (or the final results if already available) when calculating and publishing Term Reference Rates (Swap).
- (2) Applicants shall submit materials which include the following points to the Committee.<sup>5</sup>

<p>&lt; Company Information &gt;</p> <ul style="list-style-type: none"><li>• Company profile</li><li>• Outline of business</li><li>• Financial conditions</li></ul> <p>&lt; Operational System in Japan &gt;</p> <ul style="list-style-type: none"><li>• Expected operational system for calculating and publishing benchmarks (e.g., personnel and business systems)<ul style="list-style-type: none"><li>- An explanation of the actual operational system is expected based on experience, if any, with calculating and publishing interest rate benchmarks.</li><li>- Expected operational system in the future for publishing production rates (e.g., an appropriate governance system for calculating and publishing interest rate benchmarks,<sup>6</sup> as well as cost burden)</li></ul></li><li>• Operational system and specific measures<sup>7</sup> for sustainably calculating and publishing benchmarks<ul style="list-style-type: none"><li>- The purpose of Article 156-91 of the Financial Instruments and Exchange Act, which provides for a recommendation of transfer of services, needs to be taken into account, considering that suspension or discontinuation of the Specified Financial Benchmark administration services could have much impact on financial markets.</li></ul></li></ul>
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<sup>5</sup> The contents of materials to be submitted and deadlines will be announced later.

<sup>6</sup> Aside from the above, operational system and supervisory regime for outsourced contractors (if operations concerning the calculation and publication of interest rate benchmarks are to be outsourced to third parties).

<sup>7</sup> Communication with the Japanese supervisory authority and views on establishing an operating subsidiary in Japan for benchmark administration will also be taken into account for evaluation.

(Tentative translation)

- Business continuity management
    - Business continuity plan in the event of disasters and system failures
  - Information management
    - Policy concerning the development of internal rules (especially, measures for preventing conflicts of interest)
- < Other issues >
- Specific proposals on data exchange with data providers,<sup>8</sup> benchmark calculation, benchmark publication, quality management, and other related matters, in light of the contents of the public consultation (if applicable)
  - Other requests concerning the development of Term Reference Rates (Swap) (if applicable)

(3) Applicants shall not submit materials in (2) above which include false or wrongful information.

(4) Applicants shall not disclose or divulge any undisclosed information acquired in the course of application or the calculation and publication of prototype rates to any third party without prior approval from the Committee and other disclosing parties.

## 2. Overview of the selection process

Applicants will be evaluated by the Task Force on Term Reference Rates<sup>9</sup> (referred to as “Task Force” hereinafter) based on presentations<sup>10</sup> using the materials in 1.(2) above, and the opinions of data providers as well as the supervisory authority of the entity.

The Committee plans to discuss and evaluate each entity after receiving an explanation of the reasoning behind the evaluations from the Task Force to ensure the transparency of the selection process.

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<sup>8</sup> Transaction data and quote data will be provided by brokers that offer broking services for JPY OIS.

<sup>9</sup> The Task Force was established on August 28, 2019 to provide the calculating and publishing entities of Term Reference Rates with practical support. For more information, please refer to the following links:

“Establishment of the ‘Task Force on Term Reference Rates’” (released on July 30, 2019)

[http://www.boj.or.jp/en/announcements/release\\_2019/rel190730b.pdf](http://www.boj.or.jp/en/announcements/release_2019/rel190730b.pdf)

“Establishment of the ‘Task Force on Term Reference Rates’ and Holding of the First Meeting” (released on August 28, 2019)

[http://www.boj.or.jp/en/announcements/release\\_2019/rel190828a.pdf](http://www.boj.or.jp/en/announcements/release_2019/rel190828a.pdf)

<sup>10</sup> Similar initiatives have been conducted in the United Kingdom. For more information, please refer to the following link:  
<https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor>

(Tentative translation)

### 3. Application method

Interested applicants are requested to make contact in the following manner (the secretariat will send a reply and coordinate the schedule of the presentations).

Other inquiries including the request for the opportunity to discuss with relevant parties of the Task Force prior to application will also be accepted.

Submission address: [post.fmd33@boj.or.jp](mailto:post.fmd33@boj.or.jp)

Secretariat of the Committee (Market Infrastructure Division, Financial Markets Department, Bank of Japan)

Required information: Contact information (the name of contact person[s], the name of your organization, the name of your department/affiliation, and email address)

Application period: As occasion demands<sup>11</sup>

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<sup>11</sup> The deadline for application has yet to be determined, but the call for application shall be closed once the Committee selects the calculating and publishing entity, and also in other cases as applicable. If the call for application is to be closed, it will be informed on the Bank of Japan's website in advance.