

P.R.I.M.E. Finance

Panel of **R**ecognized **I**nternational **M**arket **E**xperts in **F**inance



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Benchmark update: Tokyo Risk Free Rate And Multiple Rate Approach

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P.R.I.M.E. Finance Annual Conference 2020
3 February 2020, The Hague

a. Disappearance of JPY LIBOR and Emergence of TONA (Tokyo Overnight Average Rate)

1. JPY Risk Free Rate

TONA:

Uncollateralized overnight call rate (“Main Points of the Final Report on the Results of the Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks” by Cross-Industry committee on Japanese Yen Interest Rate Benchmarks sponsored by the Bank of Japan, November 2019)

- some credit risk of the parties reflected, but not very much
- enough market depth (JPY OIS or Overnight Call Rate Futures markets are not qualified)

Calculation:

Data are supplied by three 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 a weighted average basis.

2. ISDA

“Fallback of JPY LIBOR is adjusted TONA”. Theoretically correct, but practically...

3. Challenges

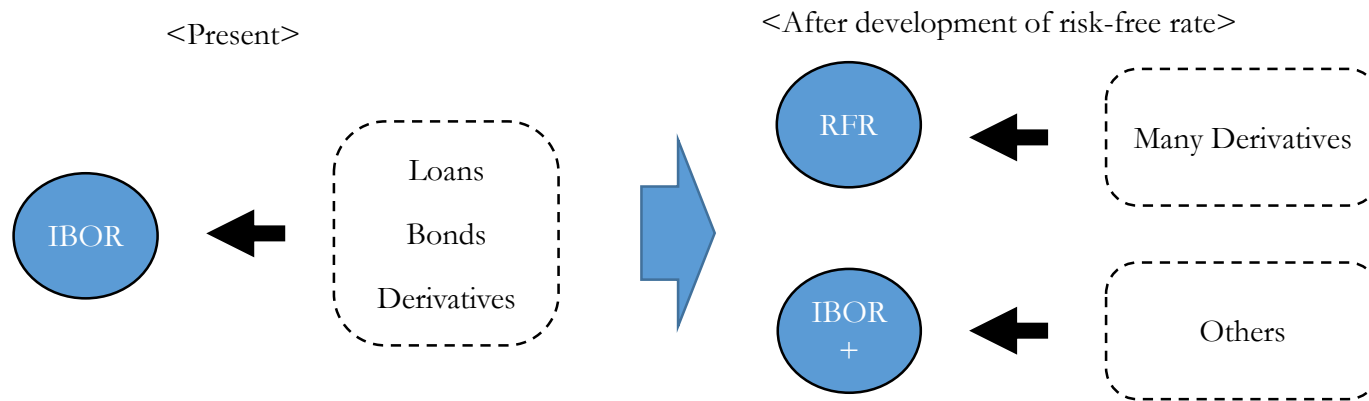
- 1) Can we create TONA-based benchmark with tenors (adjusted TONA with tenors) by the end of 2021?
- 2) The application for the Calculating and Publishing Entities (not the Administrator) of adjusted TONA was cut off on 31st December 2019 and there seem to be several applicants. The BoJ does not seem to be interested in becoming the administrator of adjusted TONA with tenors.
- 3) How to handle compliance issues?



b. Tokyo Multiple Rate Approach – STILL UNIQUE?

Financial Stability Board – “Reforming Major Interest Rate Benchmarks (July 2014)” confirmed by its Progress Report (most recently 18 December 2019)
“Ideal model for the Benchmark users”
The choice by users is given priority.

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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In Japanese capital markets, TIBOR and JPY LIBOR have been used in cash transactions for a long time. After the phase-out of JPY LIBOR, TIBOR will continue to exist. Japanese regulators are neutral.

Practically speaking, forcing the market to shift to RFR Single Rate Approach is quite difficult in Japan at present.

“Efficiency” does not seem to be the only key factor.

“One size does not fit all.”

