

Study Group on Regulation of Financial Benchmarks

Summary of Discussions

Background & Identifying the Problem

Following LIBOR manipulation cases, problems regarding the setting process for financial benchmarks were identified and discussed internationally: a) Opportunities exist for manipulation, b) Inadequate disclosure, c) Conflicts of interest

International Developments in Introduction of Regulations

IOSCO published the “Principles for Financial Benchmarks” (“IOSCO Principles”) in July 2013 and provided principles that administrators should implement. (Note 1): IOSCO Principles address a) Governance for administrators, b) Quality of benchmarks, c) Quality of benchmark methodology, d) Administrators’ accountability

UK implemented the Law concerning a regulation of LIBOR in April 2013.

European Commission published a draft proposal for a Regulation on financial benchmarks including EURIBOR, in September 2013.

(Note 2): Benchmarks administered outside of EU permissible if regulations in administrators’ home country are assessed to be equivalent to EU regulations

Japan needs to establish government regulation for financial benchmarks used as basis for financial transactions

Framework for Government Regulation

Basic Approach

1. Amendment to the Financial Instruments and Exchange Act
2. Regulation in line with the IOSCO Principles
3. TIBOR as target for regulation for the time being
4. Administrators as primary target for regulation

Regulation of Administrators

1. Regulatory Framework

Introduce regulations on administrators of specified financial benchmarks

2. Specific Content of Regulation

To strengthen governance, designated administrators required to formulate and comply with operational rules made in line with the IOSCO Principles

3. Inspection & Supervision Framework

To ensure the effectiveness of regulation, develop inspection and supervision framework which includes the authority to require submission of reports and to conduct on-site inspections

4. Ensuring Continuity

Establish contingency plans mandated to ensure continuity of determination of specified financial benchmarks

Discipline for Submitters

1. Indirectly establish discipline through administrators by concluding Code of Conduct subject to approval by authorities
2. Introduction of penal provisions against submission of false data by submitters that are Financial Instruments Business Operators, etc.

Benchmarks Administered Abroad

LIBOR and other benchmarks administered abroad exempted from Japanese regulation if they comply with the IOSCO Principles