

# Benchmark Factsheet



## Tokyo Overnight Average Rate - (TONA)

This document must be read in conjunction with the respective *Product Summary*

### What is TONA?

TONA is an interest rate benchmark – also known as a reference rate or a benchmark rate. It is a measure of the cost of borrowing in the Japanese yen unsecured overnight money market and is the near risk-free rate (RFR) for Japanese yen markets. TONA was introduced in 2016 and is administered and published by the Bank of Japan. It is sometimes referred to as “TONAR”.

The Japanese Bankers Association (JBA) has implemented a multi-rate approach, ensuring some continuation of Tokyo Interbank Overnight Rate (TIBOR) alongside TONA. On 29 March 2021 JBA TIBOR Administration (JBATA) announced that it will consult on its intention to retain yen TIBOR and discontinue Euroyen TIBOR at end-2024.

Lloyds Bank offers products that reference both TIBOR and TONA.

### Differences between TONA and LIBOR

1. TONA is described as a risk-free, or near risk-free, rate as unlike LIBOR it does not contain material term risk or bank credit risk.
2. TONA is an overnight rate which is published in arrears. In contrast LIBOR is a term rate which is published at the start of the relevant interest period. This means that for products referencing TONA, unless adjustments are made to the methodology, the actual amount of interest payable is not known until the end of the agreed interest period.

### How is TONA calculated?

TONA is calculated from transactions in the Japanese yen unsecured overnight money market and is the volume weighted average of the rates of all transactions settled on the same day as the trade date and maturing the following business day. It is published to 3 decimal places.

Volume-weighted average is calculated by dividing the sum of the product of each transaction volume and its corresponding rate by the sum of the overall transaction volumes.

TONA is published at 10am Tokyo time for the previous business day. Lloyds Bank uses the daily rate for the upcoming overnight calculations.

### Features to consider

Interest for TONA products may be payable for periods longer than overnight (e.g. monthly, quarterly), so the daily TONA rate will be aggregated in order to determine the effective interest rate that will apply for the relevant interest period.

As RFRs are overnight rates, the interest due for the respective period will not be known until the end of the interest period i.e. on the actual payment date. Lloyds Bank has adopted a number of possible conventions to address this uncertainty. These are explained below.

**Please note: The effective interest rate for a period will not be known at the start of that period.**

## Conventions for interest calculation

Where Lloyds Bank uses TONA the rate of interest is calculated on a compounded basis (that is, interest is calculated daily on both the notional and any interest already accrued).

As the interest rate for a period is calculated in arrears, the last piece of data for the calculation will only be available at the end of the interest period. This may present operational difficulties in making timely payments, as amounts due will not be known until the actual payment date.

Lloyds Bank provides a range of different conventions and calculation methods for RFR products, for example observation lag or payment delay (such as 2 days or 5 days). Interest rate quoting conventions continue to evolve as the market develops, and consequently there may not be an exact match for certain structure or derivative types. However the expectation is that, in most circumstances, the difference in floating rate calculated between these various conventions is likely to be minimal.

You should ensure that you understand the requirements of any convention applicable to your transaction. If you have any questions please contact your Lloyds Bank representative, or for further information refer to the links below.

### It is important for all parties to a transaction to understand:

- The calculation method that will be used to determine the aggregate rate of interest
- When the floating interest rate for a given period will be known

## Further Information

- [https://www.boj.or.jp/en/paym/market/jpy\\_cmte/index.htm/](https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/)
- <https://www.boj.or.jp/en/statistics/market/short/mutan/index.htm/>
- <https://www.zenginkyo.or.jp/en/libor/en/libor>

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