

## **Principal Terms and Conditions for the Outright Purchases of Asset-Backed Securities**

### **1. Purpose**

These Principal Terms and Conditions prescribe the principles for the Bank of Japan's outright purchases of asset-backed securities, including synthetic-type securities and asset-backed commercial paper, with the aim of promoting smooth corporate financing by encouraging the development of asset-backed securities market and of strengthening the transmission mechanism of monetary easing.

### **2. Location of Purchases**

At the Head Office (Operations Department) of the Bank.

### **3. Eligible Counterparties**

Eligible counterparties shall, pursuant to the Bank's relevant rules, be selected from financial institutions (as defined in Article 37, Paragraph 1 of the Bank of Japan Law, Law No.89, 1997, excluding the Resolution and Collection Corporation and bridge banks <as defined in Article 2, Paragraph 13 of the Deposit Insurance Law, Law No.34, 1971>), domestic and foreign securities companies (Article 10, Paragraph 1, Clause 2 of the Bank of Japan Law Enforcement Order <Order No. 385, 1997> and Article 10, Paragraph 1, Clause 4 of the same Order, respectively), securities finance companies (Article 10, Paragraph 1, Clause 3 of the Order), and tanshi companies (Article 10, Paragraph 1, Clause 5 of the Order).

#### **4. Eligible Securities to be Purchased**

Eligible securities to be purchased shall be asset-backed securities <ABSs>, synthetic-type securities <STSs>, and asset-backed commercial paper (including dematerialized asset-backed commercial paper) <ABCP> satisfying the following requirements:

##### **(1) General requirements**

- (a) Securities shall be denominated in Japanese yen.
- (b) Securities shall be issued in Japan.
- (c) Securities shall be governed by Japanese law.
- (d) In addition to (a), (b), and (c), there shall be no obstacles to Bank's exercise of its rights.

##### **(2) ABSs**

- (a) Creditworthiness of specific assets, structure of securities, etc.

Eligible ABSs to be purchased shall be publicly-offered and satisfy the requirements (1) and (2) of ABSs as eligible collateral prescribed in Table 2 of "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000).

- (b) Ratio of assets related to small and medium-sized enterprises

50% or more of the value of 'specific assets' (i.e. pools of financial assets which constitute original sources for paying principal and interest of ABSs) shall be composed of assets related to small and medium-sized enterprises (i.e. enterprises with capital of less than 1 billion yen). 'Assets related to small and medium-sized enterprises' mean (i) financial assets such as receivables whose original creditors are small and medium-sized enterprises and (ii) financial assets such as loans whose debtors are small and medium-sized enterprises.

(c) Creditworthiness of debtors of specific assets

If specific assets include loans whose original creditors are financial institutions, debtors of the loans shall be those classified as “normal” based on the FSA’s examination manual through banks’ self-assessment of loan portfolios at the time when the loans were transferred to issuers of ABSs.

(d) Ratings

ABSs shall be rated BB or higher by all eligible rating agencies (two or more ratings are required).

(e) Original maturity

Original maturities of ABSs shall be up to three years.

(f) Debt obligations issued by counterpart financial institutions and their affiliates

ABSs shall not be debt obligations that are deemed ineligible as collateral under paragraph 5. of "Guidelines on Eligible Collateral" ("Guidelines on Eligible Collateral" stipulates that debt obligations issued or guaranteed by the financial institutions that have current accounts with the Bank or their affiliates shall be ineligible as collateral.).

(3) STSs

(a) Creditworthiness of specific assets, structure of securities, etc.

Eligible STSs to be purchased shall be publicly-offered and satisfy the following requirements:

(i) Specific assets shall be composed of a) pools of financial assets in which proceeds raised through the issuance of STSs are invested, and b) proceeds from financial transactions (other than sales of underlying assets) through which credit risk of a specified portfolio (hereinafter referred to as “reference portfolio”) is transferred to issuers of STSs.

(ii) Proceeds raised through the issuance of STSs shall be invested in financial assets that the Bank deems appropriate such as JGBs.

(iii) Cash flows from specific assets shall be deemed sufficient to service the principal and interest of STSs, in light of the creditworthiness of specific assets and any supplementary measures to enhance their creditworthiness.

(iv) Specific assets shall validly belong to issuers of STSs.

(b) Ratio of assets related to small and medium-sized enterprises

50% or more of the value of reference portfolios shall be composed of assets related to small and medium-sized enterprises.

(c) Creditworthiness of debtors of reference portfolios

If reference portfolios include loans whose creditors are financial institutions, debtors of the loans shall be those classified as “normal” based on the FSA’s examination manual through banks’ self-assessment of loan portfolios at the time when the credit risk of loans was transferred to issuers of STSs.

(d) Ratings

STSs shall be rated BB or higher by all eligible rating agencies (two or more ratings are required).

(e) Original maturity

Original maturities of STSs shall be up to three years.

(f) Debt obligations issued by counterpart financial institutions and their affiliates

STSs shall not be debt obligations that are deemed ineligible as collateral under paragraph 5. of "Guidelines on Eligible Collateral".

#### (4) ABCP

##### (a) Creditworthiness of specific assets, structure of securities, etc.

Eligible ABCP to be purchased shall satisfy the requirement (1) and (2) of ABCP as eligible collateral prescribed in Table 2 of "Guidelines on Eligible Collateral".

##### (b) Ratio of assets related to small and medium-sized enterprises

50% or more of the value of specific assets shall be composed of assets related to small and medium-sized enterprises.

##### (c) Creditworthiness of debtors of specific assets

If specific assets include loans whose original creditors are financial institutions, debtors of the loans shall be those classified as "normal" based on the FSA's examination manual through banks' self-assessment of loan portfolios at the time when the loans were transferred to issuers of ABCP.

##### (d) Ratings

ABCP shall be rated a-1 by at least two eligible rating agencies.

##### (e) Original maturity

Original maturities of ABCP shall be up to one year.

##### (f) Debt obligations issued by counterpart financial institutions and their affiliates

ABCP shall not be debt obligations that are deemed ineligible as collateral under paragraph 5. of "Guidelines on Eligible Collateral" and "Temporary Rules of Eligibility Standards for Asset-backed Commercial Paper and Dematerialized Asset-backed Commercial Paper" (Policy Board Decision on December 17, 2002).

## **5. Purchasing Method**

### **(1) ABSs and STSs**

Within a certain period specified by the Bank after an initial public offering is closed, the Bank will purchase the requested amount of ABSs and STSs from counterparties at their request at the price prescribed in paragraph 6 (1). The purchasing amount can be reduced if the Bank deems necessary through appropriate methods such as pro-rata allotment.

### **(2) ABCP**

A multiple-price competitive auction shall be conducted for each purchase where counterparties bid "yield spreads," which are calculated by subtracting the "floor yields" (the lowest yields at which the Bank purchases ABCP) from the yields at which counterparties desire to sell their ABCP to the Bank. The floor yields shall be set for each zone of the residual maturity of ABCP with consideration for market price.

## **6. Purchase Price**

### **(1) ABSs and STSs**

The purchase prices shall be decided based on those applied for the public offering.

### **(2) ABCP**

The purchasing price for each issue is calculated by using the yield obtained by adding the yield spread accepted by the Bank to the minimum yield for the corresponding issue.

## **7. Period of this Scheme**

This purchase scheme shall be valid until end-March 2006.

## **8. Maximum Amount of Purchases and Limit per Issue**

(1) The maximum outstanding amount of the Bank's purchases shall be 1 trillion yen.

(2) For ABSs and STSs, the amount purchased by the Bank shall not exceed 50% of each tranche of an issue.

## **9. Sales of Securities**

Taking account of development of asset-backed securities market, the Bank might sell the purchased securities at appropriate price.

## **10. Others**

The Bank shall determine specifications necessary for purchases in the Bank's relevant rules.

### **(Supplementary Provision)**

These terms and conditions shall become effective on a day designated by the Governor, which shall be no later than July 31, 2003.