

Procedures for Japanese Government Securities Delivery Failure in Japanese Government Securities-Related Operations

I. Scope of Japanese Government Securities (JGSs)-Related Operations

- (a) Outright purchases of Japanese government bonds (JGBs)
- (b) Outright purchases of treasury discount bills (T-Bills)
- (c) Purchases of JGSs with repurchase agreements
- (d) Sales of JGSs with repurchase agreements

Notes: 1. These procedures apply to the initial settlement of (a), (b), (c) and the final settlement of (d). (c) includes cases in which counterparties redeem the original JGSs but fail to deliver other JGSs by the cut-off time for settlement when executing substitution.

2. In cases in which counterparties are using settlement agents, these procedures will also apply to the agents concerned.

3. These procedures do not apply to the sale of JGSs with repurchase agreements to provide the markets with a secondary source of JGSs. (However, when suspending settlement agent proxy settlement, those for the sale of JGSs with repurchase agreements to provide the markets with a secondary source of JGSs shall also be suspended.)

II. The Procedures

- A. In the event of counterparty failure to deliver JGSs to the Bank by the designated time¹

In cases in which a counterparty fails to deliver JGSs by the cut-off time for settlement, the Bank shall permit the counterparty to deliver the JGSs after the cut-off time for settlement if it deems that the counterparty has a clear plan for securing sufficient JGSs by the designated time and can take the necessary steps in a prompt manner.²

In cases in which a counterparty is using a settlement agent and fails to deliver JGSs by the cut-off time for settlement stated above due to conditions relating to the counterparty or the settlement agent concerned, the Bank shall permit the counterparty or the settlement agent to deliver the JGSs after the cut-off time for settlement, if it deems that the counterparty or the settlement agent has a clear plan of how it can solve the delivery failure problem by the cut-off time for settlement, and can take the necessary steps in a prompt manner.²

Notes: 1. JGSs shall be delivered to the Bank for each individual contract of the JGSs-related operation.

2. Excluding cases in which issues are subject to redemption or interest payments apply.

B. In the event of counterparty failure to deliver JGSs to the Bank by the end of the operating hours of BOJ-NET JGB Services

In cases in which a counterparty fails to deliver JGSs by the end of the operating hours of BOJ-NET JGB Services, the Bank will reduce the settlement volume for the operation concerned (transactions in which JGSs have not been delivered will be cancelled).

The same process as that described above will be followed in cases in which a counterparty is using a settlement agent and fails to deliver JGSs by the cut-off time for settlement stated above due to conditions relating to the counterparty or settlement agent concerned.

C. Actions against counterparties (excluding counterparties using settlement agents; the same applies in C herein)

The Bank requires counterparties to "exhibit accuracy and swiftness in their operational procedures." Based on this requirement, in cases in which a counterparty fall within the ambit of A or B above, the Bank counts the scores for each case of delivery failure in each type of operation according to the rules described in 1 and 2 below. According to the aggregate score, the Bank will take the actions described in 3 below.

1. Scoring rule

- a. 0.5 points per failure to deliver JGSs on time despite delivery ultimately being made (i.e. causing A but not B)
- b. 1.0 point per failure to ultimately deliver JGSs (i.e. causing both A and B)

2. Effective period for the score

The score will stand for three months starting from the date of failure to deliver JGSs.

3. Actions taken by the Bank according to the aggregate score

- a. From the day when a counterparty's aggregate score reaches 1.5 points for each type of operation, offers to the counterparty for that particular operation shall be suspended for one month.
- b. From the day when a counterparty's aggregate score reaches 2.5 points for each type of operation, offers to the counterparty for that particular operation shall be suspended for one month.
- c. If a counterparty's aggregate score reaches 3.5 points for each type of operation, it shall lose its status as a counterparty for that particular operation.

D. Actions against counterparties using settlement agents

When counterparties are using settlement agents, the Bank requires both counterparties and settlement agents to "exhibit accuracy and swiftness in their operational procedures through appropriate coordination."

Based on this requirement, the Bank, in principle, takes actions in accordance with C when counterparties and settlement agents fall within the ambit of A or B above.

Specifically, the following shall apply.

1. Counterparties using settlement agents

C above shall apply.

2. Settlement agents

Each case of delivery failure in each type of operation will be scored according to the rules described in a and b below. According to the aggregate score, the Bank will take the actions described in c below.

When calculating the aggregate score, all settlement activity related to various JGSs-related operations entrusted to settlement agents shall be taken into account.

When settlements are entrusted to settlement agents by several counterparties, all settlement activity concerned shall be taken into account.

a. Scoring rule

- (1) 0.5 points for failure to deliver JGSs on time despite delivery ultimately being made (i.e. falling under A but not under B).
- (2) 1.0 point for failure to ultimately deliver JGSs (i.e. falling under both A and B)

b. Effective period for the score

The score will stand for three months starting from the date of failure to deliver JGSs.

c. Actions taken by the Bank according to the aggregate score

- (1) From the day when a settlement agent's aggregate score reaches 2.0 points for each type of operation, proxy settlement for all of the settlement agents' entrusted operations (including the sale of JGSs with repurchase agreements to provide the markets with a secondary source of JGSs; the same applies in c. herein) shall be suspended for one month.
- (2) From the day when a settlement agent's aggregate score reaches 3.0 points for each type of operation, proxy settlement for all of the settlement agents' entrusted operations shall be suspended for one month.
- (3) If a settlement agent's aggregate score reaches 4.0 points for each type of operation, it shall lose its status as a settlement agent in all of its entrusted operations.

However, this procedure shall not apply to financial institutions for the counterparties and settlement agents concerned falling under A or B above which have been confirmed, after considering their individual situations, as not bearing responsibility.

III. Effective Date

These procedures have been in effect since May 24, 2005.

However, The Bank may not follow the above procedures if it deems that it would not be appropriate to take such procedures after considering the reasons for the occurrence of incidents in JGSs-related operations such as a shortage of outstanding JGSs, as well as the operational procedures of counterparties and settlement agents.