

**Issues regarding Money Markets after the Conclusion of
the Quantitative Easing Policy**

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August 2006*

At the Monetary Policy Meeting held on March 8 and 9, 2006, the Bank of Japan decided to change the operating target of money market operations from the outstanding of Current Account Balance at the Bank to the uncollateralized overnight call rate. The outstanding of Current Account Balance at the Bank will be reduced towards a level in line with required reserves over a period of a few months, taking full account of conditions in the money markets.

Although this move is likely to gradually activate money market transactions, the environment surrounding the money markets over the past five years of the quantitative easing policy has changed significantly: (1) changes in the roster of lenders and borrowers due to factors such as changes in the balance sheet structure of banks; (2) increased awareness of counterparty risk; and (3) increased fluctuation of intraday funds position accompanying the introduction of real-time gross settlement (RTGS). Under the quantitative easing policy, the Bank ensured an ample supply of funds to the money markets. This significantly reduced the size of the money markets, and thus the influence of the aforementioned changes in the environment had not surfaced. How these underlying influences are going to affect the money markets deserves careful monitoring.

Accompanying shrinkage in the money markets, the market infrastructure which provides a foundation for smooth transactions in the markets, such as credit line networks and the operational capacities of individual market participants, has contracted. Market participants will need to establish their investment and financing policies in the money markets in accordance with not only the balances of their assets and liabilities but also their creditworthiness in the markets. At the same time, they must make necessary arrangements to obtain and set up credit lines; and to enhance operational capacities for managing funds (including intraday liquidity) as well as collateral and conducting transactions in the markets.

The Bank will keep a close watch on how the money markets are going to change by exchanging views with market participants and will support market participants' efforts to enhance market functions.

Introduction

At the Monetary Policy Meeting held on March 8 and 9, 2006, the Bank of Japan decided to change the operating target of money market operations from the outstanding of Current Account Balance ("CAB") at the Bank to the uncollateralized overnight call rate.¹ The outstanding of CAB will be reduced towards a level in line with required reserves over a period of a few months, taking full account of conditions in the money markets.

Under the quantitative easing policy, the Bank engaged in ample liquidity-supplying operations, which resulted in less need for financial institutions to raise funds in the money markets. However, the decrease in CAB will gradually bring about active market transactions. In this article, we will discuss

how the money markets might change in the future and what the issues might be in terms of market functions.

**Money Markets under the Quantitative Easing Policy
(Environmental Changes Surrounding Money Markets)**

We will begin by examining how the money markets and their surrounding environment changed during the five years of the quantitative easing policy.

(1) Changes in the Balance Sheet Structure of Banks

First of all, there were considerable changes in the balance sheet structure of banks. Looking at the

* This report was first published in Japanese in April 2006. It is, therefore, based on data and information available then.

balances of deposits and loans at banks over the past five years (Chart 1), it is clear that an increase in deposits and a decrease in loans has led to a large surplus of deposits and an increase in holdings of Japanese government securities (JGSs). This is especially true with City Banks. Although they used to have more loans than deposits on their balance sheets, they now carry more deposits than loans. These changes have led a major change in the roster of lenders and borrowers in the money markets. Again, this is especially true with City Banks, which used to be typical borrowers in the money markets, are now often lenders. During the process of reducing the CAB, market participants' behavior in investment and financing will change accordingly and will likely to lead to further changes in the roster of borrowers/lenders and the size of the markets. It is, however, difficult to predict at present what the changes might be.

Chart 1: Changes in the Balance Sheet Structure of Banks

Balance Sheet Structure of Domestically Licensed Banks [Banking Accounts] (trillion yen)

	End of 2000	End of 2005	change
Deposits + Debentures (A)	511	535	24
Loans and Bills Discounted + Stocks (B)	507	429	-78
Net Balance of Deposits against Loans (A)-(B)	4	106	102
Government Bonds	69	97	28

Balance Sheet Structure of City Banks [Banking Accounts] (trillion yen)

	End of 2000	End of 2005	change
Deposits + Debentures (A)	213	251	38
Loans and Bills Discounted + Stocks (B)	243	201	-42
Net Balance of Deposits against Loans (A)-(B)	-30	50	80
Government Bonds	37	57	20

Source: Bank of Japan, "Assets and Liabilities of Domestically Licensed Banks (Banking Accounts)."

"Assets and Liabilities of City Banks (Banking Accounts)"

Notes Both domestically licensed banks and city banks include offshore accounts, with the exception of overseas branch accounts.

(2) Mergers of Large Financial Institutions

Second, major banks have become much larger through mergers and the number of major market participants has decreased. As the scale of their transactions in the markets has grown, they are now exerting greater influence on market transactions. These financial institutions have seen an increase in their settlement amounts of domestic fund transfers and foreign exchange yen clearings. This has resulted in increased uncertainty of their cash positions. In this regard, another major event was the entry of Japan Post as a holder of a current account with the Bank in April 2003.

(3) Increased Awareness of Counterparty Risk

Third, instability of Japan's financial system that persisted until full removal of the governmental guarantee of deposits in 2005, led to increased awareness of counterparty risks among market participants. Also, there has been an increased tendency regarding money market transactions to set rigid credit lines in accordance with the creditworthiness of counterparties.

(4) Introduction of RTGS and Expansion of Intraday Funds Fluctuations

Fourth, changes in the settlement system have led to increased in intraday funds fluctuations. With a view to reducing settlement risk, the Bank introduced the RTGS to its current accounts in January 2001. This resulted in a temporary increase in funds needed during the day (intraday liquidity) to enable account

Chart 2: Amounts Outstanding in Money Markets

	Outstanding (trillion yen)			Major settlement method	
	end-1995	end-2005	change	Settlement convention	Settlement method
Call market	38.6	21.2	-17.4	T+0	RTGS through Current Account (large defrayal of funds)
Uncollateralized	29.3	7.6	-21.7		
Collateralized	9.3	13.6	4.3		
Euro-yen/currency swap (Figures on the right: JOM)	23.6	2.9	-20.7	T+1	FX settlement or CLS (small defrayal of funds)
Securities lending with cash collateral/Repo	11.1	89.8	78.7	T+2	Delivery versus payment (DVP), JGBCC (small defrayal of funds)
Repo	11.1	28.1	17.0		
Securities lending with cash collateral	0.0	61.7	61.7		

Sources:

Uncollateralized call, collateralized call: Bank of Japan, "Amounts Outstanding in Short-term Money Markets"

Repo: Japan Securities Dealers Association, "Trading Volume of Over-the-Counter Bonds"

Securities lending with cash collateral: Japan Securities Dealers Association, "Bond Margin Loans"

Certificates of Deposit: Bank of Japan, "Amounts Outstanding in Short-term Money Markets"

Commercial Paper: For the end of 2005, Bank of Japan, "Amounts Outstanding in Short-term Money Markets." For the end of 1995, Bank of Japan, "Flow of Funds."

Notes:

1. JOM's outstanding amount refers to the "Deposits/Call Loan" raising balance denominated in yen in the Japan Offshore Market (JOM) Account (Source: Ministry of Finance, "Balance of Offshore Accounts").

2. The figure at the end of 1995 for Commercial Paper represents the balance at the end of fiscal 1995.

3. Figures related to Treasury Bills and Financing Bills are issued balance in the market, which is calculated according to volume issued in the market and redemption volume (Source: Ministry of Finance).

(Reference)

	Outstanding (trillion yen)		
	end-1995	end-2005	change
Certificates of Deposit	24.3	30.6	6.3
Commercial Paper	7.8	18.7	10.9
Treasury Bills	12.1	30.3	18.2
Financing Bills	0.0	50.0	50.0

holders to make settlements, and there was an increase in fluctuations in their CAB in the course of a single day. In the call market, the so-called “practice of repayment before receiving funds” (discussed later) was introduced on the basis of agreements between market participants, and the situation arose when borrowers were rolling over their borrowings and had to temporarily make up their repayment funds. The Bank therefore decided to provide intraday overdrafts against collateral without limits. In addition, market participants took some measures to reduce settlement amounts. Such measures include netting contracts whereby market participants, when engaged in rollover, offset the repayment of existing borrowings against new borrowings, and open-end transactions where the repayment date was not specified in advance. However, soon afterwards in March 2001, the quantitative easing policy was introduced. The resultant buildup of CAB prevented the effects of expanded demand for intraday liquidity from materializing, and the measures to reduce settlement amounts have remained underutilized.

(Shrinkage in Money Markets)

As we have seen above, the environment surrounding the money markets has changed significantly. However, because large amounts of funds have been supplied under the quantitative easing policy, no influence of these changes has surfaced and the size of the call market and the Euro-yen market has shrunk significantly (Chart 2). Consequently, the basis for smooth transactions in the markets has contracted. Specifically, the credit line network used for the mutual supply of interbank credit has shrunk; due to a decline in transaction amounts in the markets and profitability, financial institutions have been downsizing their operational capacities (personnel and computerized systems etc. in the front and back offices in connection with financial transactions). In addition, there has been little progress in reducing intraday liquidity, which was studied when RTGS was introduced five years ago. In order to ensure the smooth formation of interest rates and to facilitate borrowing and lending in the markets, market participants’ efforts to address these issues might be important.

Changes in the Markets after the Conclusion of the Quantitative Easing Policy

After the conclusion of the quantitative easing policy, the following might be two primary and direct influences caused by reducing the outstanding of CAB as well as market operations.

(An Increase in the Need for Investment and Financing)

The first influence might be an increase in the need for investment and financing in the money markets as a result of less frequent market operations and thus decrease in their outstanding.

The Bank has maintained huge CAB under the quantitative easing policy (Chart 3). As of the end of February 2006, the CAB in excess of required reserves (“excess reserves”) was around 27 trillion yen.

Chart 3: Balance Sheet of the Bank of Japan at the End of February, 2006 (trillion yen)

		(trillion yen)	
Japanese Government Bonds	64.6	Banknotes	74.7
TBs/FBs*	17.4	Current Deposit	32.6
Short-term Funds-supplying Operations	62.8	[Excess Reserve**	26.7]
Stocks Held as Trust Property	1.9	Government Cash Surplus	34.5
		Short-term Funds-absorbing Operations	0.8

* Treasury Bills (TBs) in this column are underwritten for rollover in connection with Japanese government bonds that have matured. Financial Bills (FBs) in this column are underwritten by the Bank as necessary for the business such as trading with overseas central banks. They do not include TBs/FBs purchased through market operations.

** The amount of excess reserves is obtained by subtracting the amount of required reserves during the February reserve maintenance period from the amount of CAB at the end of February 2006.

At a macro level, it is expected that excess reserves held at the current account (liabilities of the Bank) will decrease proportionately with the balances of market operations (assets of the Bank).² However, its influence on funding positions of individual financial institutions varies depending on how such institutions rely on funding through the Bank’s market operations. In the case of financial institutions where the decrease in fund-raising through market operations is greater than excess reserves, they will have to increase fundraising in the markets in place of market operations (or reduce investment). Conversely, in the case of financial institutions where the decrease in fundraising through market operations is less than excess reserves, the excess reserves will remain. Higher interest rates imply increase in opportunity costs for not investing these funds. This is expected to encourage investment and financing in the money markets.

In this regard, we have conducted a provisional calculation based on the amount of funds raised through market operations and excess reserves (CAB in the case of counterparties such as securities companies that lie outside the scope of the Reserve Deposit Requirement System) as of the end of February, 2006, under the assumption that;

(1) The Bank's market operations (62.8 trillion yen) are mechanically curtailed by 26.7 trillion yen (a 42.5% decrease) as the CAB is cut down to the level of required reserves, and

(2) The amount of funds raised through market operations by individual counterparties decreased on a pro rata basis.

Based on this assumption, we compared the decrease in funds raised through market operations with the excess reserves, counterparty by counterparty. According to this analysis, for counterparties where the decrease in funds raised through market operations is greater than excess reserves, the total gap between the decrease in funds and excess reserves is around 10 trillion yen. On the other hand, for counterparties where the decrease is less than excess reserves, the total gap is around 5 trillion yen. (In addition, the total sum of excess reserves held by financial institutions who are not counterparties of market operations is around 5 trillion yen.)

Needless to say, this analysis is based on the crude assumption that outstanding balances of market operations decrease instantaneously. In reality, they are reduced gradually over several months; meanwhile, the balance sheet of each market participant and thus the amounts of funds to be raised are going to change. Accordingly, the actual figures might considerably deviate from those previously stated. However, at a macro level, the calculation implies 10 trillion yen will shift from those with surpluses to those with deficits, in the process of reducing the CAB and market operations by more than 20 trillion yen.

The trading needs of participants in the money markets are thus likely to increase in terms of investment and fundraising. However, the demand of a fundraiser is not necessarily fully met a priori in terms of the market that the borrower would like to tap or the maturity of the transaction. As we have already seen, the environment surrounding markets is changing considerably, with changes, for instance, in the roster of borrowers and lenders. It will take time for market participants to smoothly invest or raise

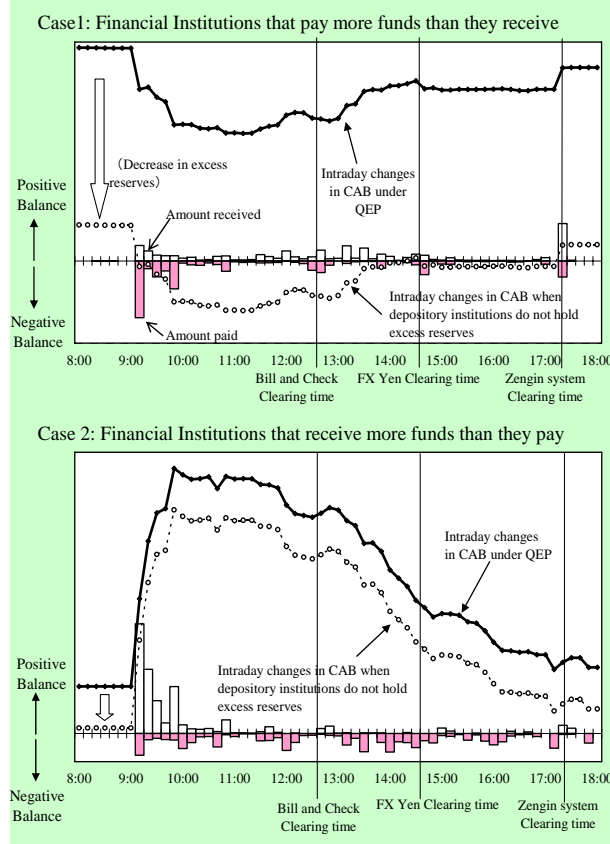
funds in the money markets. It is therefore possible that, on the one hand, interest rates may rise due to unsmooth transactions and become more volatile. On the other hand, an increase in interest rates might encourage investments. Financial institutions with good credit standing may create long-short positions where they raise funds overnight and invest in instruments with longer maturities. Arbitrage mechanisms may thus begin to work. Through this process, the functions of the money markets are likely to recover.

(Growth in Need for Intraday Liquidity)

The second influence might be growth in demand for intraday liquidity.

Chart 4 shows hypothetical examples of intraday CAB. Account holders with the Bank can be classified into two categories, ones that pay more funds than they receive in the morning and ones that receive more funds than they pay in the morning.

Chart 4: Image of Intraday CAB



Case 1 shows the intraday balance of an account holder with the Bank that pays more funds than it receives in the morning. This is the case for a financial institution that raises large amounts of funds in the call market. Looking at the CAB under the

quantitative easing policy (the thick line in the chart) in this hypothetical case, it shows a substantial temporary decrease between 9:00 a.m. and 10:00 a.m. This is because of the market practice (the so-called “practice of repayment before receiving funds”), whereby a borrower shall return funds to fund-suppliers no later than 10:00 a.m. This practice was established in order to settle interbank transactions smoothly on a RTGS basis. There is then a gradual increase in CAB due to the receipt of newly raised funds through the call market, and by 17:00 the CAB level returns to around its 9:00 a.m. levels. In this way, although the flow of funds maintains its balance in total throughout the day, a temporary CAB decrease occurs during business hours. Under the quantitative easing policy, it was not difficult to cover liquidity for settlement purposes with a high CAB level, and in many cases CAB remained positive throughout business hours.

Assuming there is no change in the present pattern of intraday funds receipts and payments (the bar graph in the chart), the CAB will make a parallel downward shift (broken line in the chart) as excess reserves are absorbed. In such cases, since there will be a time during a day when CAB becomes negative (deficiency balance), there will be a need for intraday liquidity. In conjunction with such cases, the amounts of JGS held by financial institutions have increased further since the introduction of RTGS. Furthermore, less frequent market operations in smaller amounts will release more JGS earmarked for collateral. Therefore, looking at the markets as whole, financial institutions will be able to raise necessary intraday liquidity via the Bank’s intraday overdrafts using JGS as collateral. Of course, the availability of collateral for each account holder with the Bank varies, and the account holders who do not hold sufficient collateral, such as JGS, may have to raise intraday liquidity from the market (intraday call market). Moreover, if money market transactions become more active, this will result in larger amounts of repayments (decrease in CAB) being made between 9:00 a.m. and 10:00 a.m. This may encourage financial institutions, including those with large amounts of collateral, to secure access to intraday liquidity and to reduce settlement amounts.

Case 2 shows the intraday balance of an account holder with the Bank that receives more funds than it pays in the morning. This is the case of a financial institution that invests large amounts of funds in the call market. In contrast to Case 1, CAB increases

substantially between 9:00 a.m. and 10:00 a.m., because the account holder receives more funds than it pays in the morning. This is followed by a gradual decrease reflecting investments in the call market. By 17:00 the CAB level returns to levels of 9:00 a.m. An account holder of this type has ample funds throughout the day, and no problems will arise regarding intraday liquidity even if excess reserves are reduced.

As we have seen, reducing CAB is likely to have various effects depending on receipt and payment patterns of individual account holders with the Bank. The need for intraday liquidity, however, will become larger compared with the period of the quantitative easing policy. Of course, from a longer-term perspective, it is possible that market participants may change their transactions and settlement methods to save intraday liquidity. Therefore, it is difficult to predict how much the demand for intraday liquidity will increase.

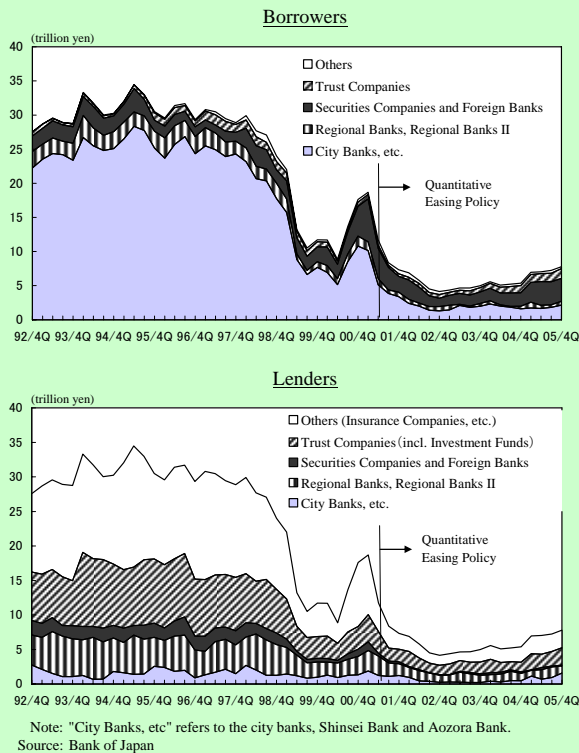
Issues for Each Money Market

Next, we will focus on the issues of each money market, especially with respect to market functions.

(1) Uncollateralized Call Market

The uncollateralized call market is the market which contracted most drastically in size under the quantitative easing policy (Chart 5). In this market, transactions are conducted without collateral, so amounts and interest rates of loans are determined in accordance with the creditworthiness of borrowers. With a decline in transaction volume, however, most financial institutions no longer make use of the credit lines they set in the past. As we saw earlier, the roster of borrowers and lenders has significantly changed and major banks, which used to raise large amounts of funds in this market, frequently become lenders due to their deposit surpluses. Meanwhile, securities companies and foreign banks are raising more funds through this market. Greater attention is now being paid to counterparty risks.

Chart 5: Amounts Outstanding in the Uncollateralized Call Market



Therefore, one issue for this market in terms of market functions is restoration of credit lines. Some market participants have already confirmed how much credit lines are available from their counterparties. Likewise, more institutions are investing and raising funds on a trial basis. However, not a few market participants intend to address this issue in the future. It seems that lenders are not fully prepared to supply funds since the overnight uncollateralized call rate still remains nearly zero at present.

In addition, as market size recovers, the issues related to means to reduce settlement amounts, such as netting contracts and open-ended transactions, may be revisited for the first time since RTGS was introduced five years ago.

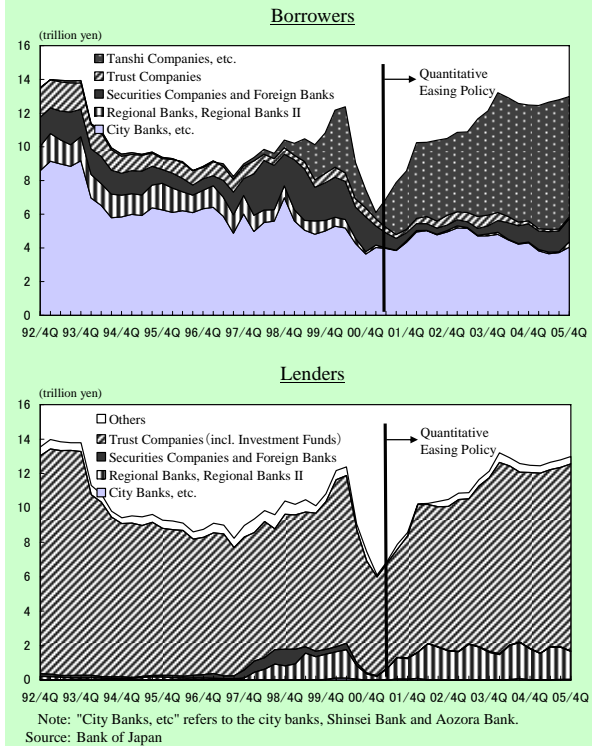
(2) Collateralized Call Market

Although the collateralized call market's outstanding amount has not dropped (Chart 6), a small number of large lenders and borrowers have continued to dominate the market. Accordingly, the scale of transactions in this market by the minor players has shrunk significantly in the same manner as in the uncollateralized call market.

An increase in JGS held by market participants and a decrease in loans on bills has led to increased

use of JGS for collateral. In the case of transactions collateralized by JGS, lenders and borrowers need to deliver collateral for each transaction by themselves. Since the contracts are usually settled on the same day, there is a considerable operational burden on both lenders and borrowers. Moreover, there were many cases where financial institutions slimmed down their operational capacities in both the front and back offices in line with reduced market transactions. Partly against such backgrounds, the so-called "tanshi dealing method"³ continues to be frequently used. In this method, *tanshi* companies, intermediaries in the money markets, are to some extent functioning as buffers for mismatched amounts between lenders and borrowers and the gap in timing of transfers of funds and collateral.

Chart 6: Amounts Outstanding in the Collateralized Call Market



Accordingly, an issue for this market is to ensure that market participants deliver funds versus collateral efficiently and establish operational capacities necessary for it, especially when using JGS as collateral. The need for collateralized transactions differs from one financial institution to another. Nonetheless, in view of changes in market conditions, such as changes in the roster of lenders and borrowers or increased awareness of counterparty risk, it will be useful to ensure a liquid market for collateralized transactions with the same day settlement readily available.

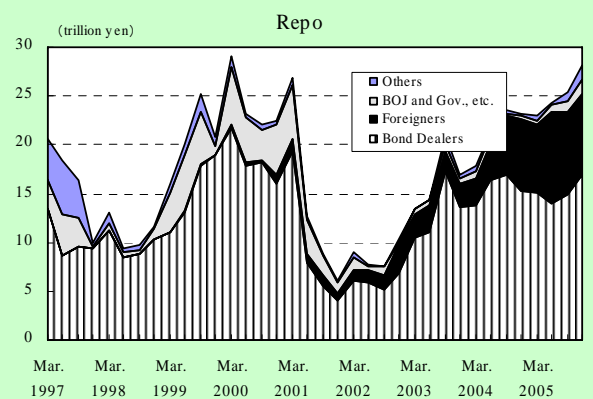
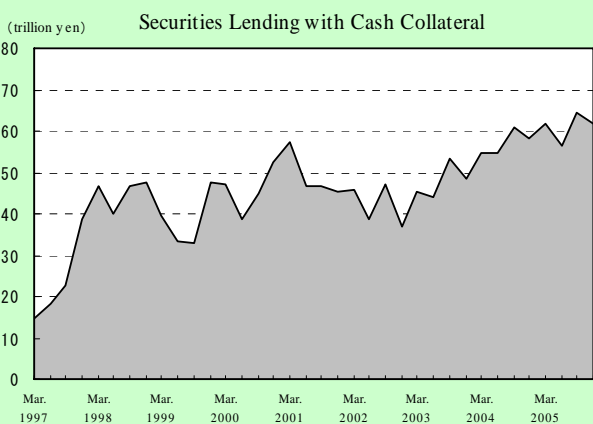
Furthermore, as market recovers size, the means to reduce settlement amounts, such as the so-called “*tanshi* brokering method”,⁴ or open-ended transactions, which were initially explored upon the introduction of RTGS may become an issue.

(3) Securities Lending with Cash Collateral and Repo Markets

The securities lending with cash collateral and repo markets (“repo markets”) have expanded in scale even under the quantitative easing policy (Chart 7). This is because, along with a sharp increase in outstanding JGS, securities companies and other financial institutions have increasingly found it necessary to finance their JGS inventory or to cover their short positions resulting from their customers’ purchase orders⁵ through the repo markets.

The repo markets are steadily expanding. Although there are no major issues in terms of market functions, one issue worth noting is that longer-term transactions are relatively thin.

Chart 7: Amounts Outstanding in the Repo Markets

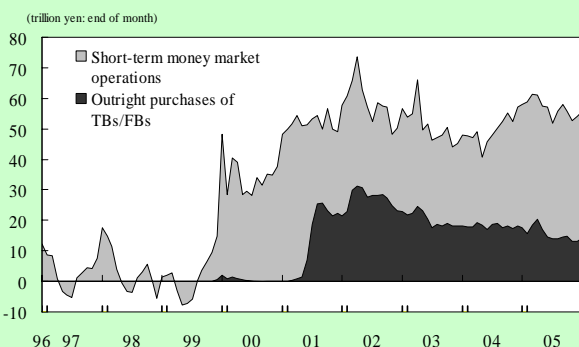


The Bank’s market operations take various forms

such as purchases of bills and purchases of JGS under repurchase agreements (Chart 8). These are mainly collateralized by JGS, and they have the same economic effect as securities lending with cash collateral and repo (“repo transactions”). As the amount outstanding in market operations decreases in the future, a considerable amount of funds raised by market operations may be shifted to funds raised in the repo markets.

In comparison with the Bank’s market operations, repo transactions have shorter maturities, and in the early stage of shifting a funding source from market operations to repo markets, there may well be a mismatch between lenders and borrowers regarding the desired maturities. Although repo transactions generally start two days after the trading date, there may be an increased need for transactions that start on the same date as the trading date, depending on future market trends. In such cases, as with the collateralized call market, it will be important to ensure the efficient transfer of funds versus collateral and to establish operational capacities for such purposes.

Chart 8: Amounts Outstanding in Market Operations



Source: Bank of Japan “Sources of Changes in Current Account Balances at the Bank of Japan and Market Operations”

(4) Intraday Call Market

Intraday call transactions involve borrowing and lending funds over several hours during the daytime. The need for the intraday call market was pointed out when RTGS was introduced. Standardized transactions were introduced at that time,⁶ but transactions have remained at a low level under the quantitative easing policy. Of course, depending on future trends, the need for intraday liquidity and intraday call transactions may grow.

There are many market participants who are not making use of the intraday call market either as borrowers or as lenders of funds. If this market is

actually to be used, market participants must improve their operational capabilities by enhancing the precision of their intraday cash management and by establishing credit lines for intraday call transactions.

Efforts by Market Participants with a View to Restoring Market Functions and the Bank of Japan's Response

(Efforts by Market Participants)

Based on what we have stated above, it will be important for market participants (1) to establish their basic policies for investment and fundraising by deciding whether they are going to be lenders or borrowers in the money markets and in which markets they would like to be most active, in accordance with not only their respective balances of investment and fundraising but also their creditworthiness, and (2) to develop infrastructures for such transactions. Specifically, they will need to obtain/set credit lines, transfer funds and collateral efficiently, establish operational capabilities (e.g., improve the precision of their cash management throughout the day, allocate more resources to personnel and computerized systems in the market-related sections, utilize collateral more effectively), and make use of intraday call transactions. If these efforts are continued, we can expect overall improvement in the efficiency of the money markets.

In the future, we may encounter new issues for market practices to address. The Study Group for Activation of Short-term Money Markets is examining many issues which could promote market functions. Progress in such discussions is expected.

(The Bank of Japan's Response)

After concluding its quantitative easing policy, the Bank decided to reduce CAB toward a level in line with required reserves over a period of a few months. This will be implemented while taking account of the issues stated above and keeping a close watch on developments in the money markets and on the extent to which the market functions are recovering.

The Complementary Lending Facility⁷ was designed to enable stable formation of interest rates in the money markets, and the Bank hopes that it will be used without hesitation when necessary. The Bank announced that the Complementary Lending Facility

loan rate would remain at its current level (i.e., 0.1%), and the temporary waiver of add-on rates for frequent users of the facility would also be maintained.

In the medium term, in order to relax needs regarding intraday liquidity and to increase the efficiency of funds settlements, preparations are underway to introduce a liquidity-saving facility in RTGS processing at the current account. This will presumably take place in FY2008 (Next-Generation RTGS Project).⁸

The money markets are the place for financial institutions to adjust their fund surpluses and deficits. For the Bank, it is a place to conduct its market operations. For this reason the Bank has a natural and legitimate interest in how quickly the money markets will recover their functions. The Bank will keep a close watch on how the money markets are going to change in the future by exchanging views with market participants and support their efforts to enhance market functions.

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¹ See Bank of Japan [March 9, 2006]

² "The process will be managed through short-term money market operations. With respect to the outright purchases of long-term interest-bearing Japanese government bonds, purchases will continue at the current amounts and frequency for some time, with due regard for future conditions of the balance sheet of the Bank." [Bank of Japan, March 9, 2006]

³ A method of transaction whereby a *tanshi* company acts as a dealer, making transactions between final

lenders and final borrowers through its own account

⁴ A method of transactions whereby a *tanshi* company acts as a broker, matching up deals between lenders and borrowers, and funds are settled directly between lenders and borrowers

⁵ JGS Inventory is usually funded by general collateral (GC) whereby JGS issues to be lent or sold are not specified. Short positions resulting from customers' purchase orders are covered by special collateral (SC) whereby JGS issues to be lent or sold are specified.

⁶ The current timeframes for standardized intraday call transactions are: (1) 9:10 to 13:00, (2) 9:10 to 16:30, (3) 13:00 to 16:30, and (4) 14:00 to 16:30. For non-standardized transactions, lenders and borrowers can freely agree on the starting and ending times during the trading hours for call markets. See Association of Tanshi Companies [1994]

⁷ The Complementary Lending Facility is a facility through which the Bank extends loans as requested by counterparties, subject to the conditions pre-specified by the Bank. The interest rate applied shall be the basic loan rate (official discount rate); provided that a higher rate of the basic loan rate plus 2% shall be applied to counterparties who have used, on a cumulative-business-day basis, the facility for over 5 days. However, since March 2003, a temporary measure has been taken whereby no upper limit regarding the number of days the facility can be used at the basic loan rate.

⁸ See Bank of Japan [December 2, 2005], [February 3, 2006]