

**Maximizing the Potential of JGBs as Global Financial Assets:
Recent Initiatives to Improve the Market Infrastructure
for JGB Settlement**

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Takehiro Sato

Bank of Japan

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A. The Development of the New BOJ-NET

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Recent Initiatives for JGB Settlement

	Major Initiatives
1980s	'80: Establishment of the JGB Book-Entry System '88: Launch of the BOJ-NET Funds Transfer System
1990s	'90: Expansion of the BOJ-NET services to JGB settlement ("BOJ-NET JGB Services") '94: Introduction of DVP in the BOJ-NET '96: Achievement of the rolling settlement for JGB settlement
2000s	'01: Introduction of RTGS to the BOJ-NET '03: Dematerialization of JGB certificates '05: Start of clearing services by the Japan Government Bond Clearing Corporation (today's JSCC)
2010s	'11: Establishment of cross-border collateral arrangements for JGBs with the Bank of Thailand '14: Launch of 1 st phase of the new BOJ-NET '15 -'16: Planned launch of 2 nd phase of the new BOJ-NET

JGB Settlement Cycle

Types of transactions		Before Apr. 2012	Present (Apr. 2012 -)	earliest possible time after 2017
Outright transactions		T+3 (standard)	T+2 (standard)	T+1 (standard)
Repos	SC (Special Collateral) Repo	Mainly T+3	Mainly T+2	Mainly T+1
	GC (General Collateral) Repo	Mainly T+2	Mainly T+1	Mainly T+0

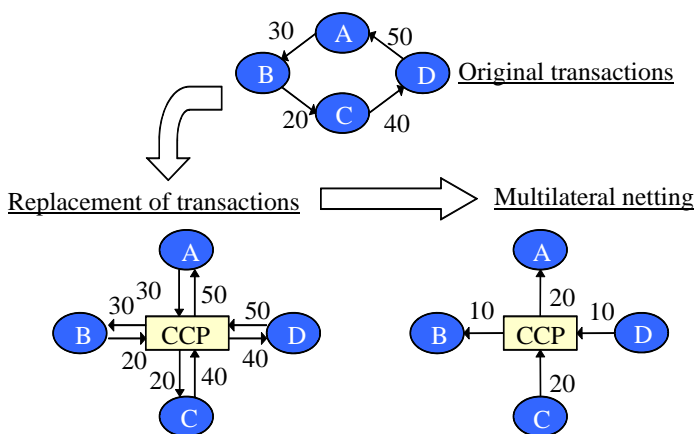
SC: Repurchase agreement for which the main objective is to lend or borrow specified bonds by posting cash as collateral.

GC: Repurchase agreement for which the main objective is to lend or borrow funds by posting bonds as collateral.

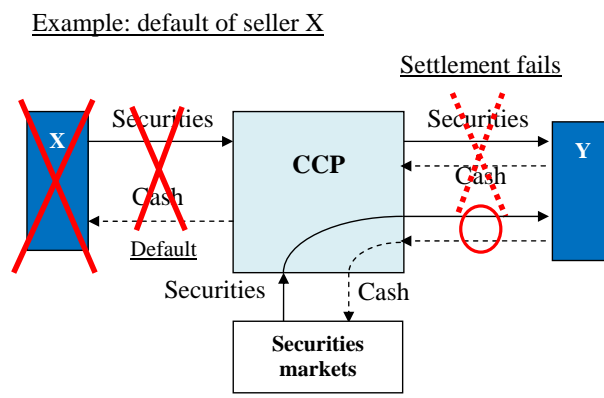
Role of CCP

- I. Central counterparty (CCP) accepts settlement obligations from clearing members and conducts the multilateral netting.
- II. CCP provides guarantee for settlements, even in the case of the default of a buyer or a seller.

I. Acceptance of obligations and the multilateral netting



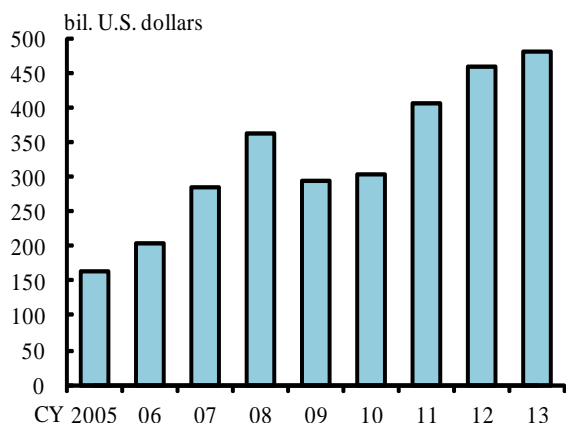
II. Guarantee of settlement in the case of default



CCP delivers failed securities to Y by buying the securities in the market.

Expansion of Overseas Business by Japanese Financial Institutions

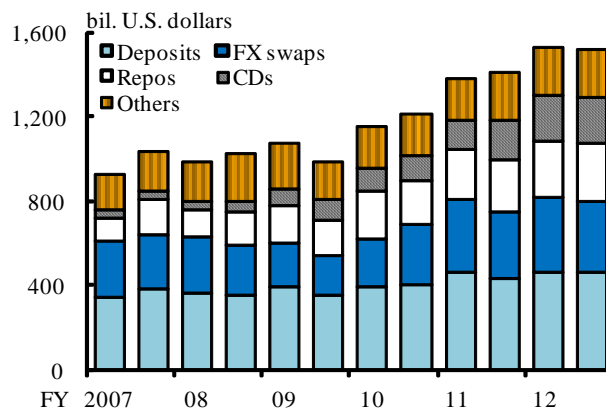
I. Overseas loans of Japanese financial institutions



Note: The data are as of end-December of each year, converted to U.S. dollars. For 2013, the data are as of end-August, converted to U.S. dollars. The chart shows loans outstanding at overseas branches of Japanese major banks.

Source: Bank of Japan.

II. Amount outstanding of foreign currency funding

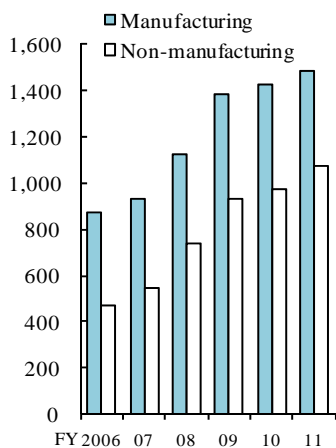


Note: Japanese major banks and regional banks are counted. The latest data are as of end-March 2013.

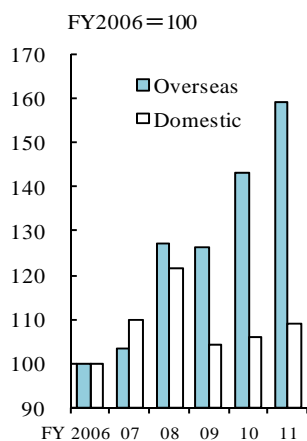
Source: Bank of Japan.

Expansion of Overseas Business by Japanese Small and Medium Enterprises and Increase in Share of JGB Holdings by Foreign Investors

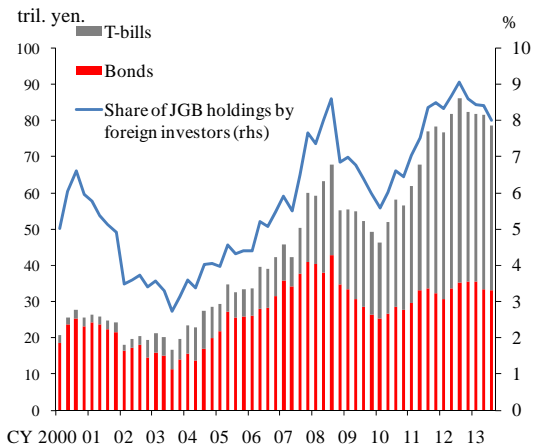
I. Number of overseas affiliated firms



II. Number of enterprises making business fixed investment



III. JGB holdings by foreign investors

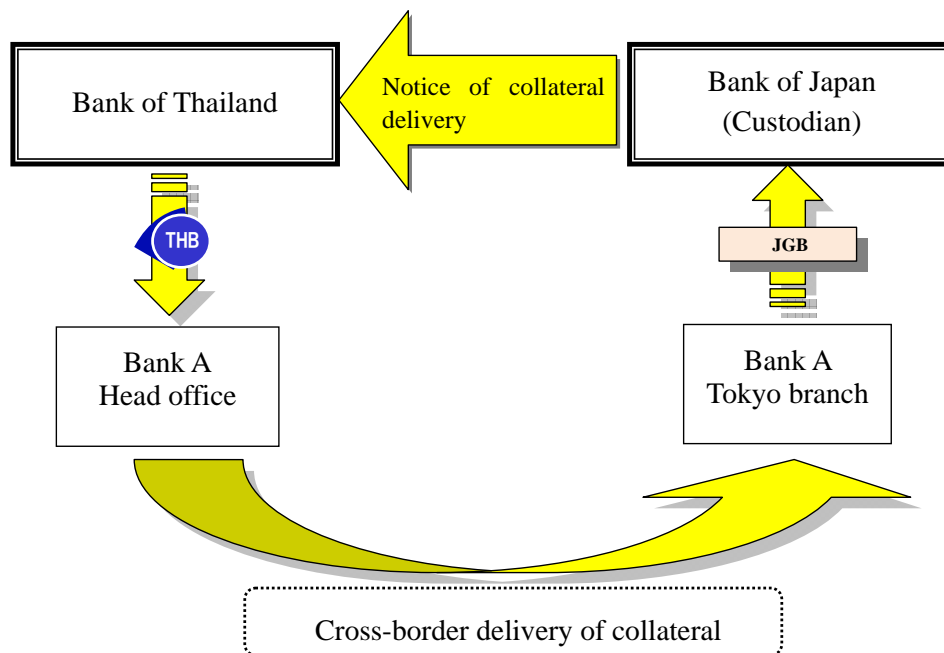


Note: Japanese firms whose capital amounts to 100 million yen or less are counted.

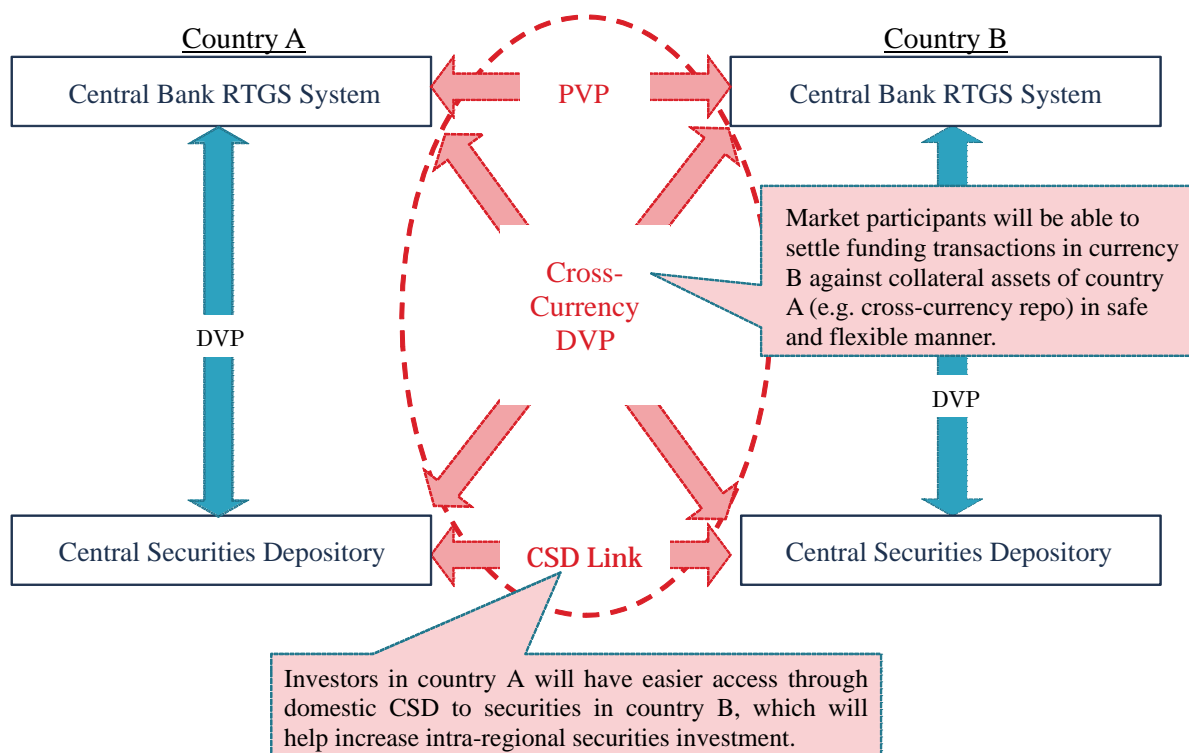
Sources: Ministry of Economy, Trade and Industry; Small and Medium Enterprise Agency.

Source: Bank of Japan.

Cross-Border Collateral Arrangements: Case of Bank of Thailand



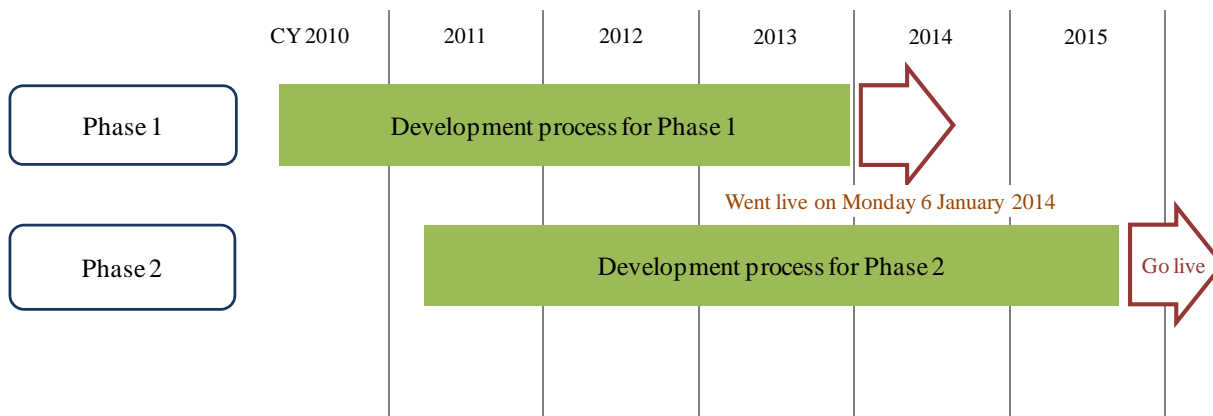
An Illustration of Possible Regional Securities Settlement Infrastructure in Asia



Implementation Timeline of the New BOJ-NET

The BOJ-NET will be fully renewed and the new system will be implemented in two phases.

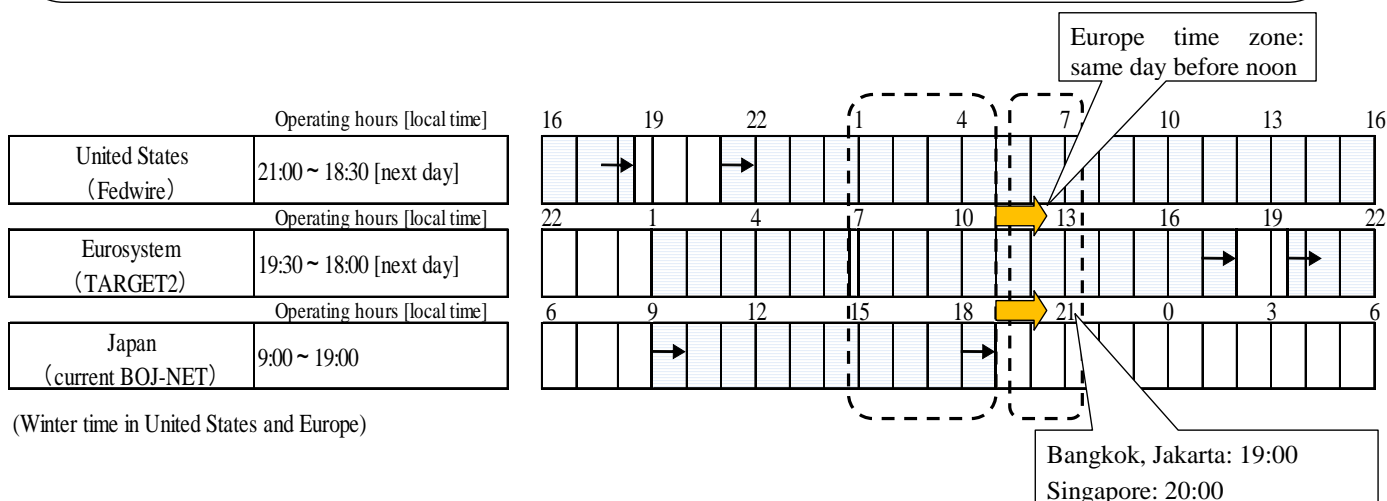
- Phase 1 went live on Monday 6 January 2014. BOJ market operations and JGB auctions migrated to the new platform.
- A vast majority of transactions (e.g., JPY fund transfers and JGB settlements) will be settled on the existing platform until the start of Phase 2 which is currently scheduled to go live late 2015/early 2016.



Faster and Safer Cross-Border Settlement

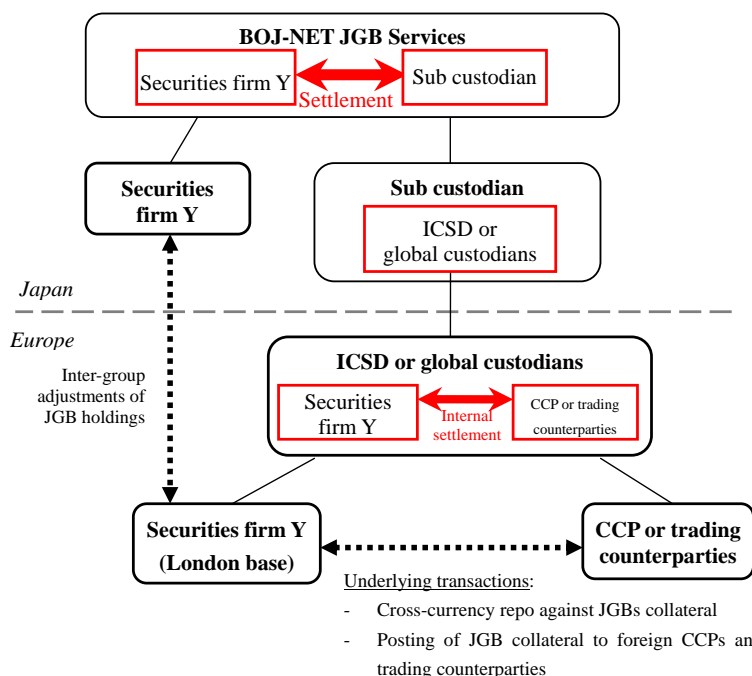
The possible extension of BOJ-NET operating hours will achieve a longer overlap of operating hours with Asian and European markets.

- Same-day remittance in JPY will be possible for customers in Asia.
- Same-day remittance in JPY will be possible for customers in Europe (until CET 13:00).
- Faster and safer settlement of foreign-currency funding/investment.
- Faster and safe posting of collateral to foreign CCPs and trading counterparties.

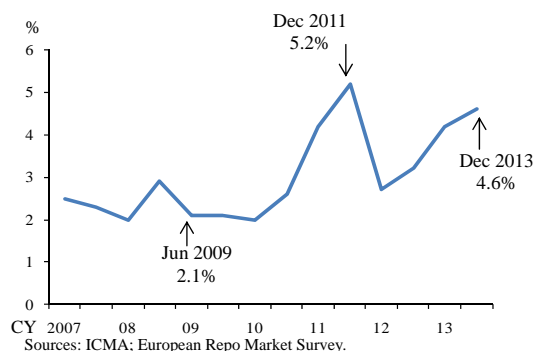


Greater Use of JGBs in Global Financial Markets

I. Settlement of cross-currency repo against JGB and posting of JGB collateral to foreign CCPs and trading counterparties



II. Use of JGB collateral in European repo markets



III. Eligibility of JGB collateral at foreign CCPs

LCH.Clearnet Ltd (UK)	○
ICE Clear Europe (UK)	○
Eurex Clearing (DE)	○
CME Clearing (US)	○
FICC (US)	--