

January 22, 2009

Bank of Japan

**Establishment of "Principal Terms and Conditions for Outright Purchases of CP"**

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, in view of a possible further tightening of corporate financing conditions during the run-up to the fiscal year-end, to establish "Principal Terms and Conditions for Outright Purchases of CP," with the aim of ensuring stability in financial markets as well as facilitating corporate financing by conducting appropriate money market operations (see Attachment).

## **Principal Terms and Conditions for Outright Purchases of CP**

### 1. Purpose

These principal terms and conditions prescribe the principles for the Bank of Japan's outright purchases of CP with the aim of ensuring stability in financial markets as well as facilitating corporate financing by conducting appropriate money market operations.

### 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 Act, Act No.89, 1997, excluding the Resolution and Collection Corporation and bridge banks [as defined in Article 2, Paragraph 13 of the Deposit Insurance Act, Act No.34, 1971]), financial instruments firms (Article 10, Paragraph 1, Clause 2 of the Bank of Japan Act Enforcement Order [Order No. 385 of 1997]) that conduct the first financial instruments business (Article 28, Paragraph 1 of the Financial Instruments and Exchange Act, Act No. 25, 1948), securities finance companies (Article 10, Paragraph 1, Clause 3 of the Order), and *tanshi* companies (Article 10, Paragraph 1, Clause 4 of the Order).

### 4. CP to be Purchased

Commercial paper (excluding asset-backed commercial paper), dematerialized commercial paper issued by domestic corporations, dematerialized commercial paper issued by foreign corporations with guarantees, asset-backed commercial paper and dematerialized asset-backed commercial paper which shall fulfill the following criteria and have no particular obstacles to become eligible.

## (1) General Criteria

- a. Fulfill the eligible collateral standard set forth in "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000) and "Temporary Rules regarding Eligibility Standards for Asset-backed Commercial Paper and Dematerialized Asset-backed Commercial Paper" (Policy Board Decision on October 14, 2008).
- b. Maturity date falls within 3 months.
- c. Issued before or on the day of auction.

## (2) Specific Criteria for Commercial Paper and Dematerialized Commercial paper

- a. Rated a-1 by an eligible rating agency.
- b. Do not fulfill criteria a., but are fully guaranteed by a company rated a-1 by an eligible rating agency.

## (3) Specific Criteria for Dematerialized Commercial Paper Issued by Foreign Corporations with Guarantees

Fully guaranteed by a company rated a-1 by an eligible rating agency.

## 5. Method for Auctions

A multiple-price competitive auction shall be conducted for each purchase where counterparties bid "yield spreads," which are calculated by subtracting the "minimum yields" determined by the Bank from the yield at which counterparties desire to sell CP to the Bank. Minimum yields shall be determined respectively by the Bank for each bracket of remaining maturity of CP in light of prevailing market prices.

## 6. Purchasing Price

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

## 7. Duration of Purchases

All outright purchases of CP shall be conducted by March 31, 2009.

## 8. Amount to be Purchased

- (1) The outstanding amount of CP purchased by the Bank shall not exceed 3 trillion yen.
- (2) The outstanding amount of a single issuer's CP purchased by the Bank shall not exceed 100 billion yen. In addition, if the outstanding amount of a single issuer's CP purchased by the Bank at the time of purchase exceeds 25% of the "upper limit" (the highest end-of-month figure for the CP issued by an issuer between July 2008 and December 2008), the CP would be excluded from the eligible list.

## 9. Dates for Purchase, Amount of CP to be Purchased, etc.

Taking into account conditions in financial markets, the Bank shall determine, for each purchase, specifications necessary for purchases, including dates and the amount of CP to be purchased.

### **(Supplementary Provision)**

These terms and conditions shall become effective today and shall be valid through March 31, 2009.