

February 19, 2009

Bank of Japan

Establishment of "Principal Terms and Conditions for Outright Purchases of Corporate Bonds"

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to establish "Principal Terms and Conditions for Outright Purchases of Corporate Bonds," 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 Corporate Bonds

1. Purpose

These principal terms and conditions prescribe the principles for the Bank of Japan's outright purchases of corporate bonds 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. Corporate Bonds to be Purchased

Corporate bonds (excluding dematerialized commercial paper) which shall fulfill the following criteria and have no particular obstacles to become eligible.

- (1) Fulfill the eligible collateral standard set forth in "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000).
- (2) Rated A or higher by an eligible rating agency (including those issued by a

company rated A or higher, those fully guaranteed by a company rated A or higher, and those guaranteed by a company whose non-guaranteed bonds issued are rated A or higher).

- (3) The maturity date will fall within a year at the end of the month in which the purchase is conducted.
- (4) Issued before or on the day of auction.

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 corporate bonds to the Bank. Minimum yields shall be determined respectively by the Bank for each bracket of remaining maturity of corporate bonds in light of prevailing market prices.

6. Purchasing Price

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

7. Duration of Purchases

All outright purchases of corporate bonds shall be conducted by September 30, 2009.

8. Amount to be Purchased

- (1) The outstanding amount of corporate bonds purchased by the Bank shall not exceed 1 trillion yen.
- (2) The outstanding amount of a single issuer's corporate bonds purchased by the Bank shall not exceed 50 billion yen. In addition, if the outstanding amount of a single issuer's corporate bonds purchased by the Bank at the time of purchase exceeds 25% of the "upper limit" (the highest end-of-the-month figure for a given issuer's corporate bonds between July 2008 and January 2009), the corporate bonds would be excluded from the eligible list of corporate bonds.

9. Dates for Purchase, Amount of Corporate Bonds 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 corporate bonds to be purchased.

(Supplementary Provision)

These terms and conditions shall become effective today and shall be valid through September 30, 2009.