

May 22, 2009

Bank of Japan

Establishment of "Collateral Guidelines on Eligible Foreign Bonds"

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, with a view to further facilitating the Bank's money market operations in response to developments in financial markets, while ensuring the appropriate and efficient management of collateral, to take the following measures, and also decided, in view of the recent developments in domestic and overseas financial markets, to commence application of "Collateral Guidelines on Eligible Foreign Bonds" from the day the guidelines become effective, with the aim of ensuring stability in financial markets through further facilitating money market operations.

1. The Bank shall establish "Collateral Guidelines on Eligible Foreign Bonds" (see Attachment 1).
2. The Bank shall amend "Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral" (see Attachment 2).
3. The Bank shall amend "Principal Terms and Conditions for Complementary Lending Facility" (see Attachment 3).
4. The Bank shall amend "Principal Terms and Conditions for U.S. Dollar Fund-Supplying Operations against Pooled Collateral" (see Attachment 4).
5. The Bank shall amend "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Corporate Financing" (see Attachment 5).

Collateral Guidelines on Eligible Foreign Bonds

1. Purpose

- (1) These guidelines prescribe the principles concerning foreign bonds denominated in foreign currencies that become eligible collateral notwithstanding "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000) for the Bank's provision of credit related to currency and monetary control (hereinafter "Eligible Foreign Bonds").
- (2) Provisions of "Guidelines on Eligible Collateral" shall be applied to Eligible Foreign Bonds so far as they are relevant to those bonds, unless otherwise specifically provided by these guidelines.

2. Application

- (1) These guidelines shall be applied only when deemed necessary for ensuring stability in financial markets through further facilitating the Bank's money market operations, or when deemed necessary for conducting appropriate money market operations in view of developments in domestic and overseas financial markets.
- (2) When commencing or suspending application of these guidelines, the Bank shall make it public by means deemed appropriate by the Bank.

3. Eligibility Standards and Collateral Prices

Eligibility standards and collateral prices for Eligible Foreign Bonds shall be as set forth in the table.

4. Replacement of Terms in Related Guidelines

In applying these guidelines, the following replacement of terms shall be made with regard to related guidelines.

- (1) In the case of paragraph 4.(3) of "Guidelines on Eligible Collateral," the term "collateral other than government bonds (excluding treasury bills), treasury discount bills (treasury bills and financing bills), government-guaranteed bonds, and municipal bonds issued through public offering" shall be deemed to be replaced with "collateral other than government bonds (excluding treasury bills), treasury discount bills (treasury bills and financing bills), government-guaranteed bonds, municipal bonds issued through public offering, and Eligible Foreign Bonds."
- (2) In the case of paragraph 8.(1) of "Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral" (Policy Board Decision on April 11, 2006), paragraph 8.(1) of "Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral" (Policy Board Decision on September 18, 2008), and paragraph 10.(1) of "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Corporate Financing" (Policy Board Decision on December 19, 2008), the term "The standing pool of eligible collateral" shall be deemed to be replaced with "The standing pool of eligible collateral (including Eligible Foreign Bonds)."

5. Exception

When the Bank specifically deems it necessary for its business operations, it may make exceptions to the guidelines set forth in paragraphs 3. and 4.

(Supplementary Provisions)

1. These guidelines shall become effective as soon as the preparatory work to accept Eligible Foreign Bonds as collateral is completed, and a specific effective date shall be determined by the Governor.
2. The Governor shall determine specifications necessary for implementing these guidelines, including the procedure for accepting Eligible Foreign Bonds as collateral.
3. "Eligibility Standards and Collateral Prices" prescribed in paragraph 3. shall be reviewed in light of conditions in domestic and overseas financial markets about once a year in principle, and shall be amended when necessary.

Table

Eligibility Standards and Collateral Prices

1. Eligibility Standards

Publicly-offered bonds satisfying the following two requirements (the issuing country needs to be rated AA or higher by at least two rating agencies which the Bank considers to be appropriate):

(1) Bonds that are listed below.

- a. Treasury Bonds, Treasury Notes, or Treasury Bills that are U.S. dollar-denominated bonds issued by the Federal Government of the United States of America
- b. Conventional Gilts or Treasury Bills that are pound sterling-denominated bonds issued by the Government of the United Kingdom of Great Britain and Northern Ireland
- c. Bunds (Bundesanleihen), Bobls (Bundesobligationen), Schätze (Bundesschatzanweisungen) or Bubills (Unverzinsliche Schatzanweisungen des Bundes) that are euro-denominated bonds issued by the Government of the Federal Republic of Germany
- d. OAT (Obligations Assimilables du Trésor), BTAN (Bons du Trésor à intérêts annuels), or BTF (Bons du Trésor à taux fixe et à intérêt précompté) that are euro-denominated bonds issued by the Government of the Republic of France

(2) Bonds deemed appropriate in light of ensuring smooth business operation of the Bank and other relevant factors.

2. Collateral Prices

A residual maturity of:

(1) up to 1 year	84% of market price (yen equivalent)
(2) more than 1 year and up to 5 years	84% of market price (yen equivalent)
(3) more than 5 years and up to 10 years	84% of market price (yen equivalent)
(4) more than 10 years and up to 20 years	84% of market price (yen equivalent)
(5) more than 20 years and up to 30 years	83% of market price (yen equivalent)
(6) more than 30 years	82% of market price (yen equivalent)

**Amendment to "Principal Terms and Conditions for
Funds-Supplying Operations against Pooled Collateral"**

- Paragraph 8 shall be amended as follows.

8. Collateral

(1) (No change)

(2) "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000) and "Collateral Guidelines on Eligible Foreign Bonds" (Policy Board Decision on May 22, 2009) shall apply to the collateral for the loans.

(Supplementary Provision)

This amendment shall become effective when "Collateral Guidelines on Eligible Foreign Bonds" becomes effective.

**Amendment to "Principal Terms and Conditions for
Complementary Lending Facility"**

- Paragraph 7 shall be amended as follows.

7. Collateral

(1) (No change)

(2) "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000) and "Collateral Guidelines on Eligible Foreign Bonds" (Policy Board Decision on May 22, 2009) shall apply to the collateral for the loans.

(Supplementary Provision)

This amendment shall become effective when "Collateral Guidelines on Eligible Foreign Bonds" becomes effective.

Amendment to "Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral"

- Paragraph 8 shall be amended as follows.

8. Collateral

(1) (No change)

(2) "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000) and "Collateral Guidelines on Eligible Foreign Bonds" (Policy Board Decision on May 22, 2009) shall apply to the collateral for the loans.

(3) (No change)

(Supplementary Provision)

This amendment shall become effective when "Collateral Guidelines on Eligible Foreign Bonds" becomes effective.

Amendment to "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Corporate Financing"

- Paragraph 10 shall be amended as follows.

10. Collateral

(1) (No change)

(2) "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000) and "Collateral Guidelines on Eligible Foreign Bonds" (Policy Board Decision on May 22, 2009) shall apply to the collateral for the loans.

(Supplementary Provision)

This amendment shall become effective when "Collateral Guidelines on Eligible Foreign Bonds" becomes effective.