

July 29, 2009  
Bank of Japan

The Effective Date and Commencement of the Application  
of "Collateral Guidelines on Eligible Foreign Bonds"

The Bank of Japan has set the effective date of "Collateral Guidelines on Eligible Foreign Bonds" (Policy Board Decision on May 22, 2009) for July 31, 2009, and will commence the application of the guidelines from that date to accept eligible foreign bonds as collateral (the so-called cross-border collateral).

Eligible foreign bonds accepted as collateral shall secure any and all obligations arising from the overdrafts, bilateral electronic lending, funds-supplying operations against pooled collateral, agency agreements, revenue agency agreements, U.S. dollar funds-supplying operations against pooled collateral, and special funds-supplying operations to facilitate corporate financing.<sup>1</sup>

Further operational details for the application of the guidelines are to be communicated separately to the relevant counterparty financial institutions.

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<sup>1</sup> It should be noted that the collateral value of eligible foreign bonds shall not be taken into account when calculating the maximum amount of loans extended in special funds-supplying operations to facilitate corporate financing.

## Overview of the Scheme to Accept Eligible Foreign Bonds as Collateral

1. The Bank of Japan (BOJ) opens securities custody accounts with the Federal Reserve Bank of New York, the Bank of England, the Deutsche Bundesbank, and the Banque de France, in order to accept U.S., U.K., German, and French government bonds (eligible foreign bonds) as collateral.
2. The BOJ's counterparty financial institutions transfer eligible foreign bonds to the BOJ's securities custody accounts through central securities depositories (CSDs) for respective government bonds, namely, the Federal Reserve Banks, Euroclear UK & Ireland, Clearstream Banking Frankfurt, and Euroclear France.
  - (1) A counterparty instructs its custodian to transfer eligible foreign bonds to the BOJ's securities custody accounts.<sup>1</sup>
  - (2) The custodian instructs the CSD to transfer eligible foreign bonds to the BOJ's securities custody accounts.
  - (3) The CSD transfers eligible foreign bonds to the securities custody accounts of the overseas central banks.<sup>2</sup>
  - (4) The overseas central banks transfer eligible foreign bonds to the BOJ's securities custody accounts, and notify the BOJ of the receipt of collateral.
  - (5) For each individual counterparty, the BOJ administers eligible foreign bonds that it has accepted as collateral, calculates the collateral value of those bonds, and adds the value to the existing pooled collateral value provided by counterparties.

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<sup>1</sup> There may be a case where a CSD also acts as a custodian of the counterparty.

<sup>2</sup> This operational step is not required in the case of U.S. government securities, since the Federal Reserve Bank of New York acts as the CSD for U.S. government securities.

