

October 28, 2010

Bank of Japan

Statement on Monetary Policy

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided on the conduct of monetary policy and the Asset Purchase Program.

1. Monetary Policy

The Policy Board decided, by a unanimous vote,¹ to set the following guideline for money market operations for the intermeeting period:

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

2. Asset Purchase Program

- The Bank decided the principal terms and conditions for operational details of the Asset Purchase Program, such as the total amount of the Program, the maximum outstanding amount for each asset to be purchased, and the method of purchase.² Of the assets to be purchased, the Bank formulated implementation guidelines for the purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs), and decided to seek authorization for the purchases in accordance with the Bank of Japan Act. The Bank will promptly conduct the purchases of the assets (see Attachments 1 and 2).

(1) Total amount of the Program: about 35 trillion yen

Purchases of assets: about 5 trillion yen

The fixed-rate funds-supplying operation against pooled collateral: about 30 trillion yen

(2) The maximum outstanding amount for each asset to be purchased

Japanese government bonds (JGBs) and treasury discount bills (T-bills): about 3.5 trillion yen (of which about 1.5 trillion yen for JGBs)

¹ Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto.
Voting against the action: None.

² Ms. M. Suda dissented from the inclusion of Japanese government bonds and treasury discount bills as assets to be purchased in the Program.

CP and corporate bonds: about 0.5 trillion yen, respectively

ETFs: about 0.45 trillion yen (conditional on obtaining authorization)

J-REITs: about 0.05 trillion yen (same as the above)

- The Bank intends to ensure its financial soundness by managing risks stemming from the purchases of various financial assets under the Program and by properly recording loss provisions and appropriately treating losses if they are incurred. The Bank seeks for the government's understanding in this regard.

3. Change in Schedule for the Next Monetary Policy Meeting

At today's Monetary Policy Meeting, the Bank decided to change the date of the next meeting scheduled on November 15-16 to November 4-5, 2010, to discuss and decide the principal terms and conditions for the purchases of ETFs and J-REITs with a view to promptly starting their purchases.

Operational Guidelines for "Asset Purchase Program"

1. Purpose

Taking into account that there is little room for a further decline in short-term interest rates, the Bank will encourage the decline in longer-term interest rates and various risk premiums to further enhance monetary easing. To this end, the Bank will establish, as a temporary measure, a program on its balance sheet to conduct outright purchases of various financial assets and the fixed-rate funds-supplying operation against pooled collateral.

2. Assets to Be Purchased, etc.

(1) Assets to be purchased

Japanese government bonds (JGBs), treasury discount bills (T-Bills), CP (commercial paper, asset-backed commercial paper, and commercial paper issued by real estate investment corporations), corporate bonds (corporate bonds and bonds issued by real estate investment corporations), exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs).

(2) The fund provisioning method other than the purchase of assets

The fixed-rate funds-supplying operation against pooled collateral.

3. Maximum Outstanding Amount of Purchases and Loans

(1) Total amount: about 35 trillion yen

Asset purchasing: about 5 trillion yen

The fixed-rate funds-supplying operation against pooled collateral: about 30 trillion yen

(2) The maximum outstanding amount for each asset to be purchased

JGBs: about 1.5 trillion yen

T-Bills: about 2 trillion yen

CP: about 0.5 trillion yen

Corporate bonds: about 0.5 trillion yen

ETFs: about 0.45 trillion yen (conditional on obtaining authorization)

J-REITs: about 0.05 trillion yen (same as the above)

(3) The Bank shall start purchases of assets for which necessary arrangements are completed, and shall conduct purchases so that the outstanding amount of total assets purchased will be around 5 trillion yen by around the end of 2011.

4. Outline of the Purchases by Asset

(1) See Annex 1 for the outline of outright purchases of JGBs and T-Bills and Annex 2 for the outline of outright purchases of CP and corporate bonds.

(2) See Attachment 2 for the outline of the implementation guidelines for the purchases of ETFs and J-REITs.

(3) The fixed-rate funds-supplying operation against pooled collateral shall be managed under the program hereafter.

5. Others

(1) The assets purchased through the program will be segregated from the assets obtained through other money market operations.

(2) The Bank's holdings of JGBs purchased through the program shall be treated differently from those purchased subject to the ceiling on the amount of banknotes in circulation.

**Outline of Outright Purchases of Japanese Government
Bonds and Treasury Discount Bills**

1. Bonds and Bills to Be Purchased

- Japanese government bonds (JGBs) issued on or before the auction date with a remaining maturity of 1 to 2 years.
- Treasury discount bills (T-Bills) issued on or before the auction date.

2. Eligible Counterparties

- Eligible counterparties shall be selected from financial institutions that are users of the BOJ-NET at the Bank's Head Office and the JGB Book-Entry System and those for which there are no concerns regarding their creditworthiness.

3. Method

- A multiple-price competitive auction in which counterparties' bid spreads, which shall not be negative, above the minimum yield (0.1 percent per annum).

4. Others

- Eligible counterparties may participate in auctions of both JGBs and T-Bills. Auctions of JGBs and T-Bills shall be conducted respectively.

Outline of Outright Purchases of CP and Corporate Bonds

1. CP and Corporate Bonds to Be Purchased

- Commercial paper rated a-2 or higher and asset-backed commercial paper and commercial paper issued by real estate investment corporations rated a-1 that are issued on or before the auction date, and for which there are no concerns regarding creditworthiness.
- Corporate bonds rated BBB or higher and bonds issued by real estate investment corporations rated AA or higher that are issued on or before the auction date, with a remaining maturity of 1 to 2 years, and for which there are no concerns regarding creditworthiness.

2. Eligible Counterparties

- Eligible counterparties shall be selected from financial institutions that are users of the BOJ-NET at the Bank's Head Office and those for which there are no concerns regarding their creditworthiness.

3. Method

- A multiple-price competitive auction in which counterparties' bid spreads, which shall not be negative, above the minimum yield (0.1 percent per annum).

4. Maximum Outstanding Amount of a Single Issuer's CP or Corporate Bonds

- The outstanding amount of a single issuer's CP and corporate bonds purchased by the Bank shall not exceed 100 billion yen, respectively. In addition, if the outstanding amount of a single issuer's CP or corporate bonds purchased by the Bank at the time of purchase exceeds 25 percent of the total amount of CP or corporate bonds issued by the particular issuer, such CP or corporate bonds shall be excluded from the list of CP and corporate bonds to be purchased.

5. Others

- Eligible counterparties may participate in auctions of both CP and corporate bonds. Auctions of CP and corporate bonds shall be conducted respectively.

Outline of the Implementation Guidelines³ for the Purchases of ETFs and J-REITs

1. ETFs and J-REITs to Be Purchased

- (1) ETFs whose prices shall be set according to the index prescribed in the relevant rules of the Bank.
- (2) J-REITs for which there are no concerns regarding the creditworthiness of issuers.

2. Method

The Bank will purchase ETFs and J-REITs as trust property through a trust bank that the Bank appoints as a trustee.

3. Price

At market prices.

4. Duration

The Bank will conduct outright purchases so that the outstanding amount of ETFs and J-REITs purchased will reach the maximum outstanding amount by around the end of 2011.

5. Maximum Outstanding Amount of ETFs and J-REITs to Be Purchased

- (1) The maximum outstanding amount of ETFs to be purchased shall be about 450 billion yen and that of J-REITs shall be about 50 billion yen.
- (2) The Bank may set a purchase limit for each ETF from a viewpoint of portfolio diversification.
- (3) The outstanding amount of each J-REIT purchased by the Bank shall not exceed 5 percent of the total amount of each J-REIT issued. The Bank may set a purchase limit for each J-REIT from a viewpoint of portfolio diversification.

³ The whole text of the Guidelines is available only in Japanese.

6. Exercise of Voting Rights of J-REITs

The Bank shall set basic principles regarding the exercise of voting rights of J-REITs with the aim of maximizing returns on investment and shall let the trustee exercise such rights.

7. Disposal of Purchased ETFs and J-REITs

In case the Bank sells the purchased ETFs and J-REITs, the Bank shall set basic principles to avoid, as much as possible, incurring losses and inducing destabilizing effects on the financial markets.

8. Loss Reserve Policy

Provisions for possible losses on ETFs and J-REITs, respectively, shall be the difference between the market value and the book value.

9. Others

The Bank will create a system that allows for the control of information related to the purchases of the assets.

(Reference)

Meeting hours:

October 28: 9:00-13:26

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

(Others present)

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (9:00-13:04,13:15-13:26)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (9:00-13:04,
13:15-13:26)

Release of the minutes:

8:50 on Monday, December 27