

May 10, 2010  
Bank of Japan

### **Introduction of US Dollar Funds-Supplying Operations against Pooled Collateral**

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, in view of recent liquidity pressures in the international financial markets and the possible impact of those on liquidity in the Yen money market, to take following measures with the aim of further facilitating money market operations and maintaining the smooth functioning of the money market as well as ensuring stability in financial markets.

1. The Bank shall introduce U.S. dollar funds-supplying operations against pooled collateral. See the attachment 1 for the newly established “Principal Terms and Conditions for US Dollar Funds-Supplying Operations against Pooled Collateral.”
2. The Bank shall enter into a U.S. Dollar-Yen Swap Agreement with the Federal Reserve Bank of New York. See the attachment 2 for the summary of the agreement.

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

### 1. Purpose

These Terms and Conditions prescribe the principles for the Bank of Japan's U.S. Dollar (USD) funds-supplying operations against pooled collateral (USD denominated loans that are made against pooled eligible collateral by way of open market operations) introduced with the aim of further facilitating money market operations and maintaining the smooth functioning of the money market as well as ensuring stability in financial markets in view of recent liquidity pressures in the international financial markets and the possible impact of those on liquidity in the Yen money market.

### 2. Location of Operations

At the Head Office (International 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 Law, Law No.89, 1997, excluding the Resolution and Collection Corporation and bridge banks [as defined in Article 2, Paragraph 13 of the Deposit Insurance Law, Law No.34, 1971]), financial instruments firms (Article 10, Paragraph 1, Clause 2 of the Bank of Japan Law Enforcement Order [Order No. 385 of 1997]) that conduct the first financial instruments business (Article 28, Paragraph 1 of the Financial Instruments and Exchange Law, Law 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. Form of Loans

Loans shall be provided in the form of electronic lending.

### 5. Duration of Loans

Taking account of conditions in financial markets, the Bank shall determine the duration of each loan and the duration shall not exceed three months.

## 6. Loan Rates and Collection of Interest

### (1) Interest rates on the loans

Interest rates shall be determined by one of the following methods.

(a) Interest rates on the loans shall be determined by multiple-rate competitive auctions. The rate shall not fall below the rate set by the Federal Reserve Bank of New York (FRBNY) as a prevailing USD Overnight Indexed Swap market rate that corresponds to the duration of the loan.

(b) Interest rates on the loans shall be set by the Federal Reserve Bank of New York taking account of a prevailing USD Overnight Indexed Swap market rate that corresponds to the duration of the loan.

### (2) Collection of interest

The interest on a loan shall be calculated based on the rate determined by the method described in (1) for the number of days from the first day after the disbursement of the loan up to the maturity date, and the interest shall be collected after the loan reaches maturity.

## 7. Date of Loan Disbursement, Amount of Loans, etc.

Taking account of conditions in financial markets, the Bank shall determine specifications necessary for lending, including the date of loan disbursement, the amount, and the counterparties for each loan.

## 8. Collateral

(1) The standing pool of eligible collateral pledged by an eligible counterparty to the Bank shall secure the loans made to the counterparty.

(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) The Yen denominated amount for which the counterparty shall pledge eligible collateral shall be obtained by multiplying a yen-denominated loan value based on the USD/Yen spot exchange rate prevailing in the market by 1.13 for the loan with a duration of up to one month and by 1.25 for the loan with a duration of more than one month and up to three months respectively.

## 9. Settlement

The payment and receipt of USD between the Bank and the counterparties

shall be made through the accounts at the FRBNY which each party shall specify in advance.

(Supplementary Provision)

These terms and conditions shall become effective today and shall be valid until January 31, 2011. To the loans that are disbursed on or before January 31, 2011, these terms and conditions shall be applied until the maturity of the loans.

Summary of a U.S. Dollar-Yen Swap Agreement with the Federal Reserve  
Bank of New York

1. Purpose

To obtain U.S. Dollar(USD), which is to be provided to financial institutions for the time being by the Bank of Japan(BoJ), to maintain the smooth functioning of the money market and ensure stability in financial markets.

2. Parties

Federal Reserve Bank of New York(FRBNY) and BoJ

3. Transactions

BoJ sells Yen to the FRBNY to purchase USD from the FRBNY by means of a spot transaction, with a simultaneous agreement by BoJ to sell USD to the FRBNY and to purchase Yen from the FRBNY on the maturity date of such swap transaction by means of a forward transaction.

4. End of Drawing Period

January 31, 2011

5. Maximum aggregate amount

Unlimited