

November 5, 2010

Bank of Japan

Establishment of "Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program"

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, taking into account that there is little room for a further decline in short-term interest rates, to establish the "Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program," with the aim of encouraging the decline in risk premiums to further enhance monetary easing (see Attachment).

Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program

1. Purpose

The terms and conditions prescribe the principles for the Bank of Japan's purchases of beneficiary interests in index-linked exchange-traded funds (hereinafter referred to as "ETFs") and investment equities issued by real estate investment corporations (hereinafter referred to as "J-REITs") conducted through the Asset Purchase Program set forth in the "Principal Terms and Conditions for the Asset Purchase Program" (Policy Board Decision on October 28, 2010).

2. Location of Purchases

The Bank's Head Office (Operations Department).

3. ETFs and J-REITs to Be Purchased

ETFs and J-REITs that are listed on a financial instruments exchange (as defined in Article 2, Paragraph 16 of the Financial Instruments and Exchange Act, Act No. 25, 1948, hereinafter the same), and that shall satisfy the criteria below and for which there are no particular obstacles to eligibility.

- (1) ETFs shall be managed so that they track the Tokyo Stock Price Index (TOPIX) or the Nikkei 225 Stock Average.
- (2) J-REITs shall be issued by real estate investment corporations whose debts satisfy the eligible collateral standards set forth in the "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000). Additionally, in principle, purchase and sale of J-REITs shall have been transacted on a financial instruments exchange 200 days or more per annum with a total trading value of 20 billion yen or more per annum.

4. Method

- (1) The Bank, as trustor and beneficiary, shall appoint a trust bank (a bank that engages in trust business under the authorization pursuant to Article 1,

Paragraph 1 of the Act on Provision, etc. of Trust Business by Financial Institutions, Act No. 43, 1943, hereinafter the same) as trustee, and shall create a money trust, with which ETFs and J-REITs shall be purchased as its trust property.

- (2) The Bank shall select the trustee prescribed in (1) pursuant to the relevant rules of the Bank.
- (3) Purchases of ETFs and J-REITs shall, taking into account the conditions in the market, be conducted by the trustee pursuant to a standard prescribed by the Bank.

5. Purchasing Price

In principle, the purchasing price for each ETF or J-REIT shall be the volume-weighted average price at a financial instruments exchange or the price at which the trustee transacts at a financial instruments exchange by targeting the volume-weighted average price.

6. Schedule of Purchases

Purchases of ETFs and J-REITs shall be conducted until around the end of 2011.

7. Maximum Outstanding Amount to Be Purchased

- (1) The maximum outstanding amounts of ETFs and J-REITs to be purchased by the Bank shall be as prescribed in paragraph 4.(2)e. and f. of the "Principal Terms and Conditions for the Asset Purchase Program."
- (2) The maximum amount of each ETF to be purchased shall, pursuant to the relevant rules of the Bank, be set so that the Bank's purchase would roughly be proportionate to the total market value of that ETF issued.
- (3) The maximum amount of each J-REIT to be purchased shall not exceed 5 percent of the total amount of that J-REIT issued, and shall, pursuant to the relevant rules of the Bank, be set so that the Bank's purchase would roughly be proportionate to the total market value of that J-REIT issued.

8. Exercise of J-REIT Voting Rights

Taking into account (1) and (2) below, the Bank shall establish basic principles regarding the exercise of J-REIT voting rights. Within the scope of

such basic principles, the trustee shall exercise such voting rights pursuant to the duty of due care of a prudent manager.

- (1) Voting rights shall be exercised with the aim of increasing the Bank's economic benefit.
- (2) Voting rights shall be exercised so that real estate investment corporations would be managed in a way that would maximize the benefits of equity holders.

9. Disposal of Purchased ETFs and J-REITs

- (1) ETFs and J-REITs purchased by the Bank shall be promptly disposed in the following cases.
 - a. In case a fractional portion of an ETF or a J-REIT occurs (only the fractional portion shall be disposed).
 - b. In case the total amount of a J-REIT purchased exceeds 5 percent of the total amount of that J-REIT issued (only the portion exceeding 5 percent shall be disposed).
 - c. In case an ETF or a J-REIT is assigned to the supervision post or the liquidation post pursuant to the relevant rules of the financial instruments exchange.
 - d. In case the Bank accepts tender offers.
- (2) For disposals of J-REITs pursuant to (1)d., the trustee shall, taking into account a. and b. below, prepare guidelines for how to respond to tender offers, and, within the scope of such guidelines, determine the response to tender offers pursuant to the duty of due care of a prudent manager. The guidelines shall not require the Bank to give specific instruction to the trustee regarding the response to tender offers.
 - a. Liquidity of the particular J-REIT held by the Bank.
 - b. Improvement in the value of the real estate investment corporation.
- (3) In case the Bank is disposing ETFs or J-REITs based on grounds other than provided in (1), the Bank shall, taking into account the situation such as the condition of the ETF or J-REIT market, dispose them for adequate prices. In such case, the Bank shall, taking into account a. and b. below, establish basic principles for disposing ETFs and J-REITs. Within the scope of such basic principles, a trustee, who shall be selected from trust banks pursuant to the relevant rules of the Bank, shall dispose ETFs and J-REITs

pursuant to the duty of due care of a prudent manager.

- a. Avoid incurring losses as much as possible.
- b. Avoid inducing destabilizing effects on the financial markets by disposing ETFs and J-REITs as much as possible.

10. Loss Reserve Policy

In principle, in case the total market value of ETFs or J-REITs purchased by the Bank falls below their total book value, the Bank shall record, for ETFs and J-REITs respectively, the difference between the total market value and the total book value as provisions for possible losses at the end of September and March.

(Supplementary Provision)

1. These terms and conditions shall become effective today.
2. The standard provided in 4.(3) and any other necessary specifications for implementing these terms and conditions shall be determined by the Governor.