

March 15, 2016

Bank of Japan

**Establishment of "Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital"**

At the Monetary Policy Meeting held on March 14 and 15, 2016, the Policy Board of the Bank of Japan made the following decisions in light of facilitating monetary operations.

The decisions were made in accordance with the decision at the Monetary Policy Meeting held on December 17 and 18, 2015.

1. The Bank shall establish the "Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital" (see Attachment).
2. The Bank shall seek, from the Minister of Finance and the Commissioner of the Financial Services Agency, authorization regarding the implementation of 1., in accordance with Article 43, Paragraph 1 and Article 61-2 of the Bank of Japan Act.

## **Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital**

### 1. Purpose

The Bank shall apply the special rules with regard to the Bank's purchases of beneficiary interests in index-linked exchange-traded funds (hereinafter referred to as "ETFs") with the aim of supporting firms that are proactively investing in physical and human capital, in addition to the "Principal Terms and Conditions for Purchases of ETFs and J-REITs" (Policy Board Decision on April 4, 2013).

### 2. ETFs to Be Purchased

ETFs 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 have no particular obstacles for purchase among those satisfying either of the criteria below

- (1) ETFs that shall be managed so that they track the indices the Bank deems eligible in accordance with the eligibility criteria for indices (see Annex 1), and that shall satisfy the eligibility criteria for ETFs (see Annex 2)
- (2) ETFs that shall be managed so that they track the JPX-Nikkei Index 400 (JPX-Nikkei 400)

### 3. Amount to Be Purchased

- (1) As for the Bank's purchases of ETFs prescribed in 2. (1), the outstanding amount of each issue of ETF purchased by the Bank shall be, in principle, up to half of the total market value of that ETF.

(2) The Bank shall purchase ETFs prescribed in 2. (2) up to the amount obtained by subtracting the amount of ETFs to be purchased under 2. (1) from the expected amount of ETFs to be purchased under the special rules.

(3) The Bank shall purchase ETFs under the special rules approximately at an even pace.

#### 4. Procedures for Eligibility Assessment

The Bank shall assess the eligibility of the indices prescribed in 2. (1) upon request pursuant to the relevant rules of the Bank. The Bank shall then announce the eligible indices.

#### (Supplementary Provision)

The special rules shall become effective on the date determined by the Governor after the date the Bank obtains authorization from the Minister of Finance and the Commissioner of the Financial Services Agency in accordance with Article 43, Paragraph 1 and Article 61-2 of the Bank of Japan Act, Act No. 89, 1997, provided that the Bank obtains such authorization.

## **Eligibility Criteria for Indices**

Eligible indices shall satisfy all the criteria below.

### 1. Evaluation of Firms' Investment in Physical and Human Capital

The portfolio tracking the index shall meet all the following requirements. Additionally, each constituent of the portfolio shall meet the requirements for stocks prescribed in either (1), (2), or both, while meeting the requirement prescribed in (3).

#### (1) Investment in Physical Capital

The portfolio shall comprise stocks (stocks which are issued by firms set up based on Japanese law, and are listed on a financial instruments exchange, hereinafter the same) of firms whose capital expenditure or research and development expenditure demonstrates an uptrend.

#### (2) Investment in Human Capital

The portfolio shall comprise stocks of firms whose expenditure on human capital demonstrates an uptrend as observed by indicators, such as the number of employees, wages and salaries expense, or spending on career development, or those who are objectively considered to be enhancing human resource development, such as improving working environment, providing childcare support, or expanding employee training programs.

#### (3) Growth Potential

The portfolio shall comprise stocks of firms whose investment in physical and human capital is reasonably considered to enhance their growth potential through effective corporate governance, from the perspective of the firms' sales, profitability, productivity, corporate value, or other indicators.

## 2. Creditworthiness and Diversification

- (1) The portfolio shall not comprise stocks of firms which demonstrate weak creditworthiness in light of their financial conditions.
- (2) The number of constituents and the universe from which the constituents are selected shall be sufficiently large.
- (3) The constituents shall not be concentrated in any particular industry. Additionally, the weight of any particular constituent shall not be overly high in light of the total market value of each constituent.

## 3. Marketability

The constituents shall demonstrate sufficient marketability in light of transaction conditions in the stock market.

## 4. Other Criteria

- (1) The index, the calculation methodology, the constituents, and the weight of each constituent shall be appropriately disclosed.
- (2) The index provider shall have experience of providing other indices.
- (3) The index shall not be an enhanced, leveraged, or inverse index.

### **Eligibility Criteria for ETFs to Be Purchased**

Eligible ETFs shall satisfy all the criteria below.

1. ETF Provider and Related Parties

Each of the parties who lists the ETF or handles its offering shall have experience of such activities.

2. Other Criteria

(1) The ETF shall be issued in exchange for baskets of actual stocks.

(2) The ETF's price information shall be appropriately disclosed.