

March 15, 2016

Bank of Japan

Establishment of "Detailed Rules on Eligibility Criteria for Indices regarding 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 established the "Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital".

In accordance with the special rules, the Bank established the "Detailed Rules on Eligibility Criteria for Indices regarding Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital" (see Attachment).

Detailed Rules on Eligibility Criteria for Indices regarding Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital

1. Application

Detailed rules on eligibility criteria for indices and eligibility criteria for ETFs to be purchased prescribed in the "Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital" (Policy Board Decision on March 15, 2016) shall be as follows except as otherwise specifically provided.

2. Detailed Rules on Eligibility Criteria for Indices

(1) Evaluation of Firms' Investment in Physical and Human Capital

(a) Investment in Physical Capital

Constituents of eligible indices shall be selected based on at least one quantitative datum in legal disclosure such as Annual Securities Report (hereinafter referred to as "disclosed quantitative data") regarding firms' capital expenditure or research and development expenditure.

(b) Investment in Human Capital

Constituents of eligible indices shall be selected based on the disclosed quantitative data or other information related to firms' investment in human capital (including qualitative factors regarding human resource development systems or diversity of labor force).

(c) Growth Potential

The relationship between firms' investment in physical and human capital and those firms' growth potential shall be evaluated based on the disclosed quantitative data or other information (including information regarding firms' corporate governance), and shall be reflected in the method of selecting, removing, or weighting constituents.

(d) Appropriate Evaluation

The data or information prescribed in (a), (b), or (c) shall, taking into account the characteristics of each industry or temporary fluctuations, be evaluated by an appropriate method including an analysis of year-over-year change or multi-year data.

(2) Creditworthiness and Diversification

(a) Constituents shall not include stocks listed below.

- i) Stocks issued by firms whose liabilities have been reported as being in excess of assets when closing accounts during any of the recent three fiscal years
- ii) Stocks issued by firms who have marked operating deficit or overall deficit when closing accounts in all of the recent three fiscal years
- iii) Stocks specified as securities under supervision or securities to be delisted by 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)

(b) The number of constituents shall be, in principle, 100 or more. Eligible constituents shall, in principle, comprise 1,000 or more stocks, or the constituents of other indices with 1,000 or more constituents.

(c) The weight of constituents shall, in principle, be determined based on the total market value and the free-float shares (listed shares deemed likely to be traded on a financial instruments exchange) of each constituent. Otherwise, it shall be determined by a method which will not excessively affect the price or marketability of any particular stock, taking into account the number and marketability of the constituents. Additionally, the maximum weight of each constituent shall be 5% in principle.

(d) Constituents shall be reviewed at least once a year.

(3) Marketability

In principle, constituents shall have been traded on a financial instruments exchange for 200 days or more per annum with a total trading value of 100 billion yen or more per annum.

(4) Other Criteria

(a) The index provider shall publicly disclose the index, the calculation methodology, the constituents, and the weight of each constituent for free.

(b) In case the index provider makes an analysis based on information other than the disclosed quantitative data (including assessing qualitative factors) regarding from (a) to (c) of (1), it shall clarify as much as possible the method of the analysis, its objectivity and fairness, on its web site or by other means, so that a third party could calculate the index.

(c) The index provider shall be providing other indices which are tracked by ETFs (only ETFs that shall be issued in exchange for stocks of firms set up based on Japanese law, hereinafter the same) listed on a financial instruments exchange.

(5) Procedures for Eligibility Assessment

The Bank shall assess the eligibility of the indices upon request in the joint names of the parties who list the ETFs that track the indices and handle the ETFs' offering.

3. Detailed Rules on Eligibility Criteria for ETFs to Be Purchased

(1) ETF Provider and Related Parties

(a) The investment trust management company shall be an entrustor of at least one other ETF listed on a financial instruments exchange.

(b) The trust bank shall be a trustee of at least one other ETF listed on a financial instruments exchange, and shall have a current account at the Bank.

(c) The designated participants shall comprise at least two financial service providers who are the current account holders of the Bank.

(2) Other Criteria

The indicative net asset value per share (Indicative NAV) during trading hours shall be publicly available with high frequency and for free.

(Supplementary Provision)

The detailed rules shall become effective on the date that the "Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital" become effective.