

December 19, 2019

Bank of Japan

Establishment of "Special Rules for Lending of ETFs"

At the Monetary Policy Meeting held on December 18 and 19, 2019, the Policy Board of the Bank of Japan made the following decisions with the aim of further facilitating the Bank's purchases of beneficiary interests in index-linked exchange-traded funds (ETFs).

The decisions were made in accordance with the introduction of an ETF lending facility, which is part of measures contributing to the continuation of powerful monetary easing decided at the Monetary Policy Meeting held on April 24 and 25, 2019.

Regarding this decision, please refer to "(Reference) Introduction of the ETF Lending Facility" as well.

1. The Bank shall establish the "Special Rules for Lending of ETFs" (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 Lending of ETFs

1. Purpose

With regard to the Bank's lending of beneficiary interests in index-linked exchange-traded funds (hereinafter referred to as "ETFs"), with the aim of further facilitating the purchases of ETFs, the Bank shall apply the special rules, in addition to the "Principal Terms and Conditions for Purchases of ETFs and J-REITs" (Policy Board Decision on April 4, 2013, hereinafter referred to as the "Principal Terms and Conditions") and the "Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital" (Policy Board Decision on March 15, 2016).

2. Location of Lending

The Bank's Head Office (Operations Department).

3. ETFs to Be Lent

ETFs to be lent shall, pursuant to the Bank's relevant rules, be selected from ETFs held by the Bank.

4. Eligible Counterparties

(1) Eligible counterparties shall, pursuant to the Bank's relevant rules, be selected from financial institutions, etc. (as defined in Article 37, Paragraph 1 of the Bank of Japan Act [Act No. 89, 1997]) satisfying the eligibility criteria listed below.

(a) To have a current account at the Bank.

(b) To be deemed sufficiently creditworthy in light of its capital condition

and other relevant information obtained through the Bank's on-site examinations and so forth.

(2) In principle, the Bank shall review eligible counterparties annually.

(3) If the Bank specifically deems it necessary in order to achieve the smooth conduct of ETF lending, it can implement such measures as an exclusion of the institution in question from eligible counterparties.

5. Method

The trustee stipulated in Paragraph 4. (1) of the Principal Terms and Conditions (hereinafter referred to as the "trustee") shall lend ETFs from the trust property stipulated in Paragraph 4. (1) of the Principal Terms and Conditions (hereinafter referred to as the "trust property").

6. Duration of Lending

The duration of lending shall not exceed one year.

7. Lending Rates

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

(1) Determined by multiple-rate competitive auctions.

(2) Determined by the Bank in advance, taking into account conditions of ETF markets.

8. Lending Dates, Amount of ETFs to Be Lent, etc.

For each lending, taking into account conditions of ETF markets, the Bank shall determine specifications necessary for lending, including the lending dates, the amount of ETFs to be lent, and the counterparties.

9. Collateral

- (1) The trustee shall accept cash collateral as the trust property from counterparties in advance; the amount of cash collateral shall be calculated by multiplying market prices (prevailing prices in financial markets) of ETFs to be lent by the margins specified by the Bank based on historical market price fluctuations over the period of time necessary for the Bank to exercise its rights concerning lending.
- (2) The interest rate applied to cash collateral that counterparties have supplied shall be the rate stipulated in Paragraph 4. (4) of the "Principal Terms and Conditions of Complementary Deposit Facility" (Policy Board Decision on January 29, 2016).
- (3) In case there is a surplus or shortage of cash collateral as the result of daily marking to market of the ETFs that have been lent, the trustee shall accept or return cash collateral based on requests from the Bank or counterparties.

10. Cash Collateral Managed by the Trustee

- (1) The trustee shall manage cash collateral accepted from counterparties pursuant to 9. (1) in its current account at the Bank.
- (2) The amount of cash collateral managed by the trustee pursuant to (1) shall not be included in the current account balance at the Bank regarding the calculation of the applied interest rate stipulated in Paragraph 4. of the "Principal Terms and Conditions of Complementary Deposit Facility."

(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.