

March 19, 2021

Bank of Japan

Establishment of "Principal Terms and Conditions of the Interest Scheme to Promote Lending"

At the Monetary Policy Meeting held on March 18 and 19, 2021, the Policy Board of the Bank of Japan made the following decisions with a view to conducting further effective and sustainable monetary easing.

1. The Bank shall establish the "Principal Terms and Conditions of the Interest Scheme to Promote Lending" (see Attachment 1).
2. The Bank shall amend the "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)" (see Attachment 2).
3. The Bank shall amend the "Principal Terms and Conditions of Complementary Deposit Facility" (see Attachment 3).
4. The Bank shall amend the "Special Rules regarding Calculation of Interest of Complementary Deposit Facility for Money Reserve Funds" (see Attachment 4).
5. The Bank shall amend the "Principal Terms and Conditions for Purchases of ETFs and J-REITs" (see Attachment 5).
6. The Bank shall amend the "Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital" (see Attachment 6).
7. The Bank shall seek 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.

Principal Terms and Conditions of the Interest Scheme to Promote Lending

1. Purpose

These terms and conditions prescribe the principles of interest on current account balances (hereinafter referred to as "CABs") based on the amount of loans that the Bank of Japan provides to support private financial institutions' efforts in lending or investment, with a view to further promoting their efforts.

2. Eligible Institutions

Institutions shall be the eligible counterparties of the loans listed from (1) to (4) below and shall have no obstacles to become eligible.

- (1) Loans denominated in Japanese yen under the "Principal Terms and Conditions for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program" (Policy Board Decision on June 15, 2010) (hereinafter referred to as "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth")
- (2) Loans under the "Principal Terms and Conditions for the Fund-Provisioning Measure to Stimulate Bank Lending Conducted through the Loan Support Program" (Policy Board Decision on December 20, 2012) (hereinafter referred to as "Fund-Provisioning Measure to Stimulate Bank Lending")
- (3) Loans under the "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)" (Policy Board Decision on March 16, 2020)

(hereinafter referred to as "Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)")

- (4) Loans under the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" (Policy Board Decision on March 16, 2020) (hereinafter referred to as "Funds-Supplying Operation to Support Financial Institutions in Disaster Areas")

3. Amount to Which Interest is Applied and Applied Interest Rate

The amounts to which interest is applied and the applied interest rates are listed from (1) to (3) below.

(1) Category I

An interest rate of 0.2 percent per annum shall be applied to the average amount of CAB during the reserve maintenance period (as defined in Article 7, paragraph 3 of the Law Concerning Reserve Deposit Requirement System [Law No.135, 1957, hereinafter referred to as the "Law"]) for which interest is calculated (hereinafter referred to as the "Designated Reserve Maintenance Period" or "DRMP") subtracted by the amount of required reserve per day (as prescribed in Article 2, paragraph 2 of the Law) (excluding the case where such amount is negative), up to the average amount of the smaller of the following (a) and (b) each day during the DRMP (hereinafter referred to as "the amount for Category I").

- (a) The amount outstanding of borrowings under the "Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)"
- (b) The amount prescribed in paragraph 8. (2) (b) in the "Principal Terms and Conditions of the Special Funds-Supplying Operations

to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)" at the time determined pursuant to the relevant rules of the Bank. If the counterparties are central organizations of financial cooperatives (the Shinkin Central Bank, the Shinkumi Federation Bank, the Rokinren Bank, and the Norinchukin Bank, hereinafter the same), they shall add the amount reported by their member financial institutions based on paragraph 1. (2) in "Special Rules for Member Financial Institutions of Central Organizations of Financial Cooperatives to Use the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)" (Policy Board Decision on April 27, 2020) (hereinafter referred to as "the amount reported by member financial institutions").

(2) Category II

An interest rate of 0.1 percent per annum shall be applied to the average amount of CAB during the DRMP subtracted by the amount of required reserve per day and the amount for Category I (excluding the case where such amount is negative), up to the average amount outstanding of borrowings each day during the DRMP under the "Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)" subtracted by the amount prescribed in paragraph 8. (2) (b) in the principal terms and conditions of the operation at the time determined pursuant to the relevant rules of the Bank (zero in the case where such amount is negative) (hereinafter referred to as "the amount for Category II"). If the counterparties are central organizations of financial cooperatives, they shall add the amount reported by member financial institutions to the amount prescribed in paragraph 8. (2) (b) in the principal terms and conditions of the operation.

(3) Category III

An interest rate of 0 percent per annum shall be applied to the average amount of CAB during the DRMP subtracted by the amount of required reserve per day, the amount for Category I, and the amount for Category II (excluding the case where such amount is negative), up to the sum of the average amount of borrowings each day during the DRMP under the operations listed from (a) to (c) below.

(a) Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

(b) Fund-Provisioning Measure to Stimulate Bank Lending

(c) Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

4. Calculation of Interest

The interest each eligible institution receives is calculated for each DRMP based on the eligible amount and the applied interest rate for each category stipulated in Paragraph 3.

5. Exception

If the Bank specifically deems it practically necessary in order to conduct market operations smoothly, in accordance with the purpose of the interest scheme to promote lending, the Bank can make exceptions to the terms and conditions stipulated from Paragraph 2. to Paragraph 4. above.

(Supplementary Provision)

1. These terms and conditions shall become effective today and shall be applied to the calculation of interest for the reserve maintenance period

starting on or after April 16, 2021.

2. Loans in Category III shall include those under the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" (Policy Board Decision on April 28, 2011) and the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas of the 2016 Kumamoto Earthquake" (Policy Board Decision on April 28, 2016) until all of the loans disbursed to the counterparties have reached maturity.

Amendment to "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)"

- Paragraph 12. shall be deleted.

(Supplementary Provision)

This amendment shall become effective today. The calculation of interest based on Paragraph 12., which shall be abolished by the amendment, shall remain applicable for the reserve maintenance period starting on or before April 15, 2021.

Amendment to "Principal Terms and Conditions of Complementary Deposit Facility"

- Paragraph 4. shall be amended as follows.

4. Interest Rate

(1) }
(2) } (No change)

(3) The interest rate applied to the average amount of CAB during the DRMP, subtracted by the amount of required reserve per day during the DRMP and the amount stipulated in (2) above (excluding the case where such amount is negative), shall be 0% per annum up to the amount of the sum of (a), (b), and (c) subtracted by (d) below.

(a) The amount calculated by multiplying the Benchmark Balance by a certain ratio (equal to or greater than zero) specified by the Bank (hereinafter referred to as the "Benchmark Ratio").

(b) (No change)

(c) The amount calculated by multiplying the part of the amount stipulated in (b) above which exceeds the amount of the sum of yen-denominated loans under the "Principal Terms and Conditions for the Loan Support Program" and the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" (Policy Board Decision on April 28, 2011) to be abolished at the end of March 2016, by a certain ratio specified by the Bank (hereinafter referred to as the "Add-on Ratio";

the Add-on Ratio shall be one when the Benchmark Ratio is above zero and be between zero or more and up to one when the Benchmark Ratio is zero).

(d) The amount specified by the Bank when the Bank deems that the amount of the sum of (a), (b), and (c) above substantially exceeds the amount stipulated in (3) above for every reserve maintenance period specified by the Bank which is before the DRMP, or when the Bank deems appropriate.

(4) (No change)

- Paragraph 6. shall be amended as follows.

6. Review of the Benchmark Ratio and the Add-on Ratio

(1) The Benchmark Ratio and the Add-on Ratio stipulated in Paragraph 4. ~~(3) (a) shall be zero initially, and~~ shall be reviewed, in principle, every ~~three~~ reserve maintenance periods, taking account of developments in trading activity in the money markets, in order to change the total amount stipulated in Paragraph 4. (3) held by eligible institutions generally in accordance with changes in the total amount of CABs held by eligible institutions.

(2) When the Bank reviews the Benchmark Ratio and the Add-on Ratio, the Bank shall announce the Ratios.

(Supplementary Provision)

These amendments shall become effective today. The amendments concerning Paragraph 4. (3) (a) and (c) shall be applied to the calculation of interest for the reserve maintenance period starting on or after April 16, 2021, and the amendments concerning the main sentence of Paragraph 4. (3) and

Paragraph 4. (3) (d) shall be applied to the calculation of interest for the reserve maintenance period starting on or after the date determined by the Governor.

Amendment to "Special Rules regarding Calculation of Interest of Complementary Deposit Facility for Money Reserve Funds"

- The name shall be amended to "Special Rules regarding Calculation of Interest of Complementary Deposit Facility for Money Reserve Funds, etc."
- Paragraph 1. shall be amended as follows.

1. Purpose

In light of the functions of the money reserve funds for settlement of securities trading and the developments in the amounts of current account balances and the special reserve account balances at the Bank (hereinafter referred to as the "CABs") held by eligible institutions under the complementary deposit facility, for the time being, the Bank established special rules for calculation of interest of complementary deposit facility, stipulated in Paragraph 5. of the "Principal Terms and Conditions of Complementary Deposit Facility" (Policy Board Decision on January 29, 2016, hereinafter referred to as the "Principal Terms and Conditions").

- Paragraph 2. shall be amended as follows.

2. Calculation of Interest

The amounts in (1) and (2) below shall be added to the amount of the sum prescribed in Paragraph 4. (3) of the Principal Terms and Conditions.

(1) In calculating the interest of an institution which is a trustee of a money reserve fund (in case sub trust is conducted for a money reserve fund, an institution which is a sub trustee of the money reserve fund), the smaller of the following two ~~is added to the amount of the sum prescribed in Paragraph 4. (3) of the Principal Terms and Conditions.~~

~~(1)~~(a) The amount outstanding of money reserve funds entrusted to the institution during the Benchmark Period.

~~(2)~~(b) The amount outstanding of money reserve funds entrusted to the institution during the Designated Reserve Maintenance Period.

(2) Of the amount calculated by subtracting the amount prescribed in Paragraph 4. (3) (c) of the Principal Terms and Conditions from the average amount of CAB for the period between the reserve maintenance period starting from February 16, 2016 and that starting from December 16, 2019 (hereinafter referred to as the "Reference Period"), a third of the amount that exceeds the Benchmark Balance by three times (the amount for eligible institutions that meet either (a) or (b) in the following shall be zero: (a) the amount prescribed in Paragraph 4. (2) of the Principal Terms and Conditions during the Reference Period is equal to or greater than the amount prescribed in Paragraph 4. (4); or (b) their CABs for the Benchmark Period did not exist).

(Supplementary Provision)

These amendments shall become effective today and shall be applied to the calculation of interest for the reserve maintenance period starting on or after the date determined by the Governor.

Amendment to "Principal Terms and Conditions for Purchases of ETFs and J-REITs"

- Paragraph 3. shall be amended as follows.

3. ETFs and J-REITs to Be Purchased

ETFs and J-REITs that are listed on a financial instruments exchange licensed in Japan (hereinafter referred to as "a financial instruments exchange"), and that shall satisfy the criteria below and for which there are no particular obstacles for eligibility.

(1) ETFs shall be managed so that they track the Tokyo Stock Price Index (TOPIX), ~~the Nikkei 225 Stock Average, or the JPX-Nikkei Index 400 (JPX-Nikkei 400).~~

(2) (No change)

- Paragraph 4. shall be amended as follows.

4. Method

(1) }
(2) } (No change)

(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, as needed.

- Paragraph 6. shall be amended as follows.

6. Maximum Outstanding Amount to Be Purchased

(1) 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 ~~take into account~~ roughly be proportionate to the amount outstanding in circulation of that ETF issued ~~and the coverage of the index which that~~ ~~ETF tracks.~~

(2) (No change)

- Paragraph 2. in the Supplementary Provision shall be amended as follows.

2. The standard provided in 4. (3) and any other necessary specifications for implementing these terms and conditions shall be determined by the Governor. When the Governor finds it necessary to conduct purchases under these terms and conditions, they shall immediately report it to Policy Board members.

(Supplementary Provision)

These amendments shall become effective on the date determined by the Governor.

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

- Paragraph 2. shall be amended as follows.

2. ETFs to Be Purchased

~~ETFs that are~~shall have no particular obstacles for purchase among those listed on a financial instruments exchange licensed in Japan (hereinafter referred to as "a financial instruments exchange"), ~~and that shall have no particular obstacles for purchase among those satisfying either of the criteria below~~those managed so that they track the indices the Bank deems eligible in accordance with the eligibility criteria stipulated in Annex 1, and those satisfy the eligibility criteria stipulated in Annex 2

~~(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)~~

- Paragraph 3. shall be amended as follows.

3. Amount to Be Purchased

~~(1) As for the Bank's purchases of ETFs prescribed in 2. (1), the~~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.~~

(32) The Bank shall purchase ETFs under the special rules approximately at an even pace, and the maximum amount to be purchased shall be about 300 billion yen per annum and about 1,200 million yen per business day.

- Paragraph 4. shall be amended as follows.

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)

These amendments shall become effective on the date determined by the Governor.