

Overview of the "Special Deposit Facility to Enhance the Resilience of the Regional Financial System"

1. Background

- The business environment surrounding regional financial institutions has become more severe due to the impact of COVID-19, in addition to structural factors such as the shrinking population and a continued low interest rate environment.
- On this basis, the Bank of Japan decided to introduce the Special Deposit Facility to Enhance the Resilience of the Regional Financial System (Special Deposit Facility) to encourage regional financial institutions' initiatives to strengthen their business foundations so that they may firmly support their respective regions into the future.

2. Outline of the facility

- For regional financial institutions that strengthen their business foundations while supporting regional economies, their excess reserve balances shall be remunerated at +0.1 percent per annum.
- A three-year temporary measure for the fiscal years ending (FYE) March 2021-2023.

(1) Eligible financial institutions

- Regional banks and *shinkin* banks that have current accounts at the Bank.
 - The Bank shall allow financial cooperatives that do not have current accounts at the Bank (some *shinkin* banks, credit unions, labor banks, and agricultural and fishery cooperatives, etc.) to use the facility via their central organizations under the special rules for financial cooperatives.¹

(2) Requirements for special remuneration

- Eligible financial institutions shall be committed to contributing to sustainable development of regional economies and meet any of the following.
 - (i) To strengthen business foundations to a designated degree (hereinafter referred to as the "OHR requirement")

¹ Special Rules for Member Financial Institutions of Central Organizations of Financial Cooperatives to Use the Special Deposit Facility to Enhance the Resilience of the Regional Financial System.

- For each of the FYE March 2021-2023, each eligible financial institution's overhead ratio (OHR, or the ratio of overhead costs to gross operating profits) shall improve in line with the figures in the table below compared to the OHR for the FYE March 2020 (on a consolidated and holding company basis).^(Note)

	FYE March 2021	FYE March 2022	FYE March 2023
OHR changes to be satisfied	-1% or lower	-3% or lower	-4% or lower

(Note) To incentivize eligible financial institutions to strengthen business foundations when they face huge downward pressure on gross operating profits in the future, due to economic stagnation, a relief measure shall be introduced. Namely, the OHR requirement shall be deemed to be met if each financial institution's overhead costs decrease by a percentage equal to or lower than a certain threshold compared to those for the FYE March 2020. Such threshold shall be -2% for FYE March 2021, -4% for FYE March 2022, and -6% for FYE March 2023.

- (ii) To make an institutional decision on mergers, business integration, or certain forms of acquisitions toward strengthening business foundations (hereinafter referred to as the "consolidation requirement")
 - Institutional decisions between November 10, 2020 and the end of March 2023 on mergers, business integration, or certain forms of acquisitions shall be eligible if they are evaluated by the Bank as contributing factors to strengthening business foundations. However, if two or more institutional decisions on mergers, business integration, or certain forms of acquisitions are made between the same parties during the aforementioned period, special remuneration shall be applied only to the first one.
 - In principle, the term "institutional decisions" specifically refers to decisions at shareholder meetings (general meetings for *shinkin* banks, etc.).

(3) Duration of special remuneration

- For each of the requirements, special remuneration shall be paid as follows.
 - (i) **The OHR requirement:** special remuneration shall be paid for one year after the Bank confirms that the eligible financial institution meets the requirement for each of the FYE March 2021-2023
 - If eligible financial institutions that do not meet the OHR requirement for FYE March 2021 and/or 2022 meet the requirement in the subsequent fiscal year(s) (FYE March 2023 at the latest), the Bank shall pay in the subsequent fiscal year(s) the amount equivalent to special remunerations for the past fiscal year(s).

(ii) **The consolidation requirement:** special remuneration shall be paid for three years after the Bank confirms that the eligible financial institution meets the requirement

- Payments of special remuneration shall not overlap, even if eligible financial institutions meet the requirement multiple times or meet it after meeting the OHR requirement.

(4) Outline of the special rules for financial cooperatives

- Requirements for and duration of special remuneration shall be the same as those in the principal terms and conditions.²
- Special remuneration shall be paid to each central organization. Central organizations shall pay all of the relevant amounts to their member financial institutions that meet the requirements (hereinafter referred to as the "eligible member financial institutions").
 - The eligible amount for special remuneration shall be calculated by multiplying each central organization's excess reserve balances by the following ratio.

$$\frac{\text{The amount outstanding of deposits held at a central organization by its eligible member financial institutions}}{\text{The amount outstanding of deposits held at the central organization by all of its member financial institutions}}$$

- Each central organization shall monitor its member financial institutions' implementation status of the requirements if they wish to use the facility.

3. Implementation Schedule

- Provided that the Bank obtains necessary government authorization, it plans to implement the facility around the beginning of March 2021.

² Principal Terms and Conditions of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System.