

December 2, 2008

Bank of Japan

**Establishment of "Temporary Rules regarding the Eligibility Standards for Corporate Bonds and Loans on Deeds to Companies"**

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, in view of the recent conditions in corporate financing, to take the following measures regarding the treatment of corporate debt as collateral and funds-supplying operations collateralized by corporate debt, with the aim of ensuring market stability through conducting appropriate money market operations as well as facilitating corporate financing.

1. The Bank shall establish "Temporary Rules regarding the Eligibility Standards for Corporate Bonds and Loans on Deeds to Companies" (see Attachment 1).
2. The Bank shall introduce temporary funds-supplying operations (see Attachment 2 for the summary of the operations). Bank staff shall examine the details of the operations and shall propose principal terms and conditions of the operations to the Policy Board.

## Temporary Rules regarding the Eligibility Standards for Corporate Bonds and Loans on Deeds to Companies

1. When assessing the eligibility of corporate bonds and loans on deeds to companies, the Bank shall not apply the eligibility standards in table 2 of the Guidelines on Eligible Collateral, but instead apply the standards set forth in the following table.

Collateral Category	Eligibility Standard
Corporate Bonds	Publicly-offered straight bonds that are rated BBB or higher by an eligible rating agency (including those issued by the company rated BBB or higher, those fully guaranteed by the company rated BBB or higher and those guaranteed by the company whose non-guaranteed bonds issued are rated BBB or higher) as well as those deemed eligible in light of the creditworthiness and other relevant factors.
Loans on Deeds to Companies	Loans on deeds satisfying the following requirements: (1) The debtor corporation is rated BBB or higher by an eligible rating agency (including the case bonds issued by the debtor corporation are rated BBB or higher) as well as deemed eligible in light of the creditworthiness of the debtor corporation and other relevant factors. (2) Loans on deeds with a residual maturity of up to 10 years (including those with the maturity date falling in the same month of the 10th year).

2. For corporate bonds that are neither rated A or higher by an eligible rating agency nor issued by the company that are rated A or higher (excluding those that are guaranteed by the company rated A or higher or by the company whose issuing bonds are rated A or higher) and loans on deeds to companies that are neither rated A or higher nor those to companies whose issuing bonds are rated A or higher, the Bank shall not apply the collateral price in table 1 of the Guidelines on Eligible Collateral, but instead apply the following collateral prices.

#### Corporate Bonds

A residual maturity of:

(1) up to 1 year	97% of market price
(2) more than 1 year and up to 5 years	96% of market price
(3) more than 5 years and up to 10 years	95% of market price
(4) more than 10 years and up to 20 years	89% of market price
(5) more than 20 years and up to 30 years	83% of market price
(6) more than 30 years	80% of market price

#### Loans on Deeds to Companies

A residual maturity of:

(1) up to 1 year	95% of outstanding principal balance
(2) more than 1 year and up to 3 years	86% of outstanding principal balance
(3) more than 3 years and up to 5 years	75% of outstanding principal balance
(4) more than 5 years and up to 7 years	70% of outstanding principal balance
(5) more than 7 years and up to 10 years (including those with the maturity date falling in the same month of the 10th year)	60% of outstanding principal balance

3. Above rules shall become effective on December 9, 2008, and shall be valid through April 30, 2009.

## **Summary of the New Operations Utilizing Corporate Debt**

### **1. Eligible Counterparties**

Financial institutions that are already counterparties in the Bank's Funds-Supplying Operations against Pooled Collateral at All Offices and wish to be counterparties for this operation.

### **2. Form of Loans**

Loans shall be provided in the form of electronic lending (the same form as the Bank's Funds-Supplying Operations against Pooled Collateral).

### **3. Duration of Loans**

Within 3 months (the maturity date shall be no later than April 30, 2009).

### **4. Loan Rates**

An average of the target for the uncollateralized overnight call rates during the period in which loans are extended.

### **5. Total Amount of Loans**

Unlimited.

### **6. Maximum Loan Amounts for Each Counterparty**

The collateral value of corporate bonds, CP, bills drawn by companies, and loans on deeds to companies pledged by each counterparty as the standing pool of eligible collateral to the Bank.

### **7. Collateral**

The standing pool of eligible collateral pledged by an eligible counterparty to the Bank.