

October 28, 2010
Bank of Japan

Establishment of "Principal Terms and Conditions for the Asset Purchase Program"

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, taking into account that there is little room for a further decline in short-term interest rates, to implement the following measures regarding the Asset Purchase Program, with the aim of encouraging the decline in longer-term interest rates and various risk premiums to further enhance monetary easing.

1. The Bank shall establish the "Principal Terms and Conditions for the Asset Purchase Program" (see Attachment 1).
2. The Bank shall establish the "Principal Terms and Conditions for Outright Purchases of Japanese Government Bonds and Treasury Discount Bills Conducted through the Asset Purchase Program" (see Attachment 2).
3. The Bank shall establish the "Principal Terms and Conditions for Outright Purchases of CP and Corporate Bonds Conducted through the Asset Purchase Program" (see Attachment 3).
4. The Bank shall establish the "Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral Conducted through the Asset Purchase Program" (see Attachment 4).
5. The Bank shall seek, from the Minister of Finance and the Commissioner of the Financial Services Agency, authorization regarding the purchases of beneficial interests in index-linked exchange-traded funds and investment equity issued by real estate investment corporations, in accordance with Article 43, Paragraph 1 and Article 61-2 of the Bank of Japan Act.

Principal Terms and Conditions for the Asset Purchase Program

1. Purpose

The terms and conditions prescribe the principles for the Bank of Japan's Asset Purchase Program (a program established on the Bank's balance sheet to conduct outright purchases of various financial assets and funds-supplying operations against pooled collateral [loans that are made against pooled collateral as open market operations], hereinafter referred to as "Program"), introduced as a temporary measure to encourage a decline in longer-term interest rates and various risk premiums, with a view to further enhance monetary easing.

2. Location and Eligible Counterparties of Purchases and Loans

The location and eligible counterparties of purchases and loans shall be determined pursuant to the relevant rules of the Bank, for each financial asset to be purchased and loan.

3. Method for Operating the Program, etc.

- (1) The Bank shall conduct outright purchases of financial assets and funds-supplying operations against pooled collateral through the Program.
- (2) Financial assets to be purchased through the Program as described in (1) shall, pursuant to the relevant rules of the Bank, be determined from the following assets: Japanese government bonds with coupons, treasury discount bills (treasury bills and financing bills, hereinafter the same), CP (commercial paper [excluding asset-backed commercial paper and commercial paper issued by real estate investment corporations], dematerialized commercial paper issued by domestic corporations, commercial paper issued by real estate investment corporations, dematerialized commercial paper issued by real estate investment corporations, dematerialized commercial paper issued by foreign corporations with guarantees, asset-backed commercial paper, and dematerialized asset-backed commercial paper, hereinafter the same), corporate bonds (corporate bonds and bonds issued by real estate investment corporations, hereinafter the same), beneficiary interest in index-linked exchange-traded funds, and investment equity issued by real estate investment corporations.

Principal Terms and Conditions for Outright Purchases of Japanese Government Bonds and Treasury Discount Bills Conducted through the Asset Purchase Program

1. Purpose

The Terms and Conditions prescribe the principles for the Bank's outright purchases of Japanese government bonds (JGBs) and treasury discount bills (T-Bills, consisting of treasury bills and financing bills) without repurchase agreements through the Asset Purchase Program set forth in the "Principal Terms and Conditions for the Asset Purchase Program" (Policy Board Decision on October 28, 2010).

2. Application

The terms and conditions shall apply to the purchases of JGBs and T-Bills through the Asset Purchase Program, notwithstanding the "Principal Terms and Conditions for the Outright Purchase/Sale of Japanese Government Bonds" (Policy Board Decision on March 25, 1999) and the "Principal Terms and Conditions for the Outright Purchase/Sale of Treasury Discount Bills" (Policy Board Decision on October 27, 1999).

3. Location of Purchases

The Bank's Head Office (Operations Department).

4. Eligible Counterparties

Eligible counterparties shall, pursuant to the relevant rules of the Bank, be selected from financial institutions (as defined in Article 37, Paragraph 1 of the Bank of Japan Act, Act No. 89, 1997, excluding the Resolution and Collection Corporation and bridge banks [as defined in Article 2, Paragraph 13 of the Deposit Insurance Act, Act No. 34, 1971]), financial instruments firms (Article 10, Paragraph 1, Clause 2 of the Bank of Japan Act Enforcement Order [Order No. 385 of 1997]) that conduct the first financial instruments business (Article 28, Paragraph 1 of the Financial Instruments and Exchange Act, Act No. 25, 1948), securities finance companies (Article 10, Paragraph 1, Clause 3 of the Order), and *tanshi* companies (Article 10, Paragraph 1, Clause 4 of the Order).

5. Assets to Be Purchased

JGBs with coupons (2-year bonds, 5-year bonds, 10-year bonds, and 20-year bonds, with a remaining maturity of 1 year or more and up to 2 years) and T-Bills issued on or before the day of auction.

6. Maximum Outstanding Amount of JGBs and T-Bills to Be Purchased

The maximum outstanding amount of JGBs and T-Bills to be purchased by the Bank through the Asset Purchase Program shall be as prescribed in paragraph 4.(2)(a) and (b) of the "Principal Terms and Conditions for the Asset Purchase Program."

7. Method

A multiple-price competitive auction shall be conducted for each purchase where counterparties bid "yield spreads," which shall not be negative and are calculated by subtracting the minimum yield of 0.1 percent per annum from the yield at which counterparties desire to sell JGBs and T-Bills to the Bank.

8. Purchasing Price

The purchasing price for each issue of JGBs or T-Bills is calculated by using the yield obtained by adding the yield spread derived from the method described in item 7. above to the minimum yield.

9. Purchase Date, Amount of JGBs and T-Bills to Be Purchased, etc.

Taking into account conditions in financial markets, the Bank shall determine, at each purchase, necessary specifications, including dates, amount of JGBs and T-Bills to be purchased, eligible JGBs and T-Bills, and counterparties.

10. Miscellaneous

The outstanding amount of JGBs purchased through the program shall not be added to "the outstanding amount of long-term government bonds effectively held by the Bank, i.e., after taking account of the government bond sales under *gensaki* repurchase agreements" defined in "Change in the Guideline for Money Market Operations" (Policy Board Decision on March 19, 2001).

(Supplementary Provision)

These terms and conditions shall become effective today.

Principal Terms and Conditions for Outright Purchases of CP and Corporate Bonds Conducted through the Asset Purchase Program

1. Purpose

The terms and conditions prescribe the principles for the Bank of Japan's outright purchases of commercial paper and corporate bonds conducted through the Asset Purchase Program set forth in the "Principal Terms and Conditions for the Asset Purchase Program" (Policy Board Decision on October 28, 2010).

2. Location of Purchases

The Bank's Head Office (Operations Department).

3. Eligible Counterparties

Eligible counterparties shall, pursuant to the relevant rules of the Bank, be selected from financial institutions (as defined in Article 37, Paragraph 1 of the Bank of Japan Act, Act No. 89, 1997, excluding the Resolution and Collection Corporation and bridge banks [as defined in Article 2, Paragraph 13 of the Deposit Insurance Act, Act No. 34, 1971]), financial instruments firms (Article 10, Paragraph 1, Clause 2 of the Bank of Japan Act Enforcement Order [Order No. 385 of 1997]) that conduct the first financial instruments business (Article 28, Paragraph 1 of the Financial Instruments and Exchange Act, Act No. 25, 1948), securities finance companies (Article 10, Paragraph 1, Clause 3 of the Order), and *tanshi* companies (Article 10, Paragraph 1, Clause 4 of the Order).

4. CP and Corporate Bonds to Be Purchased

CP and corporate bonds prescribed in paragraph 3. of the "Principal Terms and Conditions for the Asset Purchase Program" which shall satisfy the following criteria and have no particular obstacles to become eligible.

(1) General Criteria

- a. Satisfy the eligible collateral standard set forth in the "Guidelines on

Eligible Collateral" (Policy Board Decision on October 13, 2000). Criteria prescribed in 4.(2) through (7) shall also be satisfied, if applicable.

b. Issued on or before the day of auction.

(2) Specific Criteria for Commercial Paper and Dematerialized Commercial Paper Issued by Domestic Corporations

Satisfy either criteria a. or b. below.

a. Rated a-2 or higher by an eligible rating agency.

b. Do not satisfy criteria a., but are fully guaranteed by a company rated a-2 or higher by an eligible rating agency.

(3) Asset-Backed Commercial Paper and Dematerialized Asset-Backed Commercial Paper

Rated a-1 by an eligible rating agency. When assessing the eligibility of asset-backed commercial paper and dematerialized asset-backed commercial paper for satisfying the criteria prescribed in (1)a., the Bank shall not apply paragraph 5 of the "Guidelines on Eligible Collateral" which stipulates debt obligations guaranteed by the Bank's counterparty financial institutions and their affiliates as ineligible.

(4) Specific Criteria for Dematerialized Commercial Paper Issued by Foreign Corporations with Guarantees

Fully guaranteed by a company rated a-2 or higher by an eligible rating agency.

(5) Commercial Paper Issued by Real Estate Investment Corporations and Dematerialized Commercial Paper Issued by Real Estate Investment Corporations

Satisfy either criteria a. or b. below.

a. Rated a-1 by an eligible rating agency.

b. Do not satisfy criteria a., but are fully guaranteed by a company rated a-2 or higher by an eligible rating agency.

(6) Corporate Bonds

Satisfy either criteria a. or b. below, and with a remaining maturity of 1 year or more and up to 2 years.

- a. Rated BBB or higher by an eligible rating agency.
- b. Do not satisfy criteria a., but are fully guaranteed by a company rated BBB or higher by an eligible rating agency (including those fully guaranteed by a company whose non-guaranteed bonds issued are rated BBB or higher).

(7) Bonds Issued by Real Estate Investment Corporations

Satisfy either criteria a. or b. below, and with a remaining maturity of 1 year or more and up to 2 years.

- a. Rated AA or higher by an eligible rating agency.
- b. Do not satisfy criteria a., but are fully guaranteed by a company rated BBB or higher by an eligible rating agency (including those fully guaranteed by a company whose non-guaranteed bonds issued are rated BBB or higher).

5. Maximum Outstanding Amount of CP and Corporate Bonds to Be Purchased

- (1) The maximum outstanding amount of CP and corporate bonds purchased by the Bank through the Asset Purchase Program shall be as prescribed in paragraph 4.(2)c. and d. of the "Principal Terms and Conditions for the Asset Purchase Program."
- (2) The outstanding amount of a single issuer's CP and corporate bonds purchased by the Bank shall not exceed 100 billion yen, respectively. In addition, if the outstanding amount of a single issuer's CP or corporate bonds purchased by the Bank through the Asset Purchase Program at the time of purchase exceeds 25 percent of the total amount of CP or corporate bonds issued by the particular issuer at the time determined pursuant to the relevant rules of the Bank, such CP and corporate bonds shall be excluded from the list of CP and corporate bonds to be purchased.

6. Method

A multiple-price competitive auction shall be conducted for each purchase where counterparties bid "yield spreads," which shall not be negative and are calculated by subtracting the minimum yield of 0.1 percent per annum from

the yield at which counterparties desire to sell CP or corporate bonds to the Bank.

7. Purchasing Price

The purchasing price for each issue of CP or corporate bonds is calculated by using the yield obtained by adding the yield spread derived from the method of 6. to the minimum yield.

8. Purchase Date, Amount of CP and Corporate Bonds to Be Purchased, etc.

Taking into account conditions in financial markets, the Bank shall determine, at each purchase, necessary specifications, including dates, amount of CP and corporate bonds to be purchased, and counterparties.

(Supplementary Provision)

These terms and conditions shall become effective today.

Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral Conducted through the Asset Purchase Program

1. Purpose

The terms and conditions prescribe the principles for the Bank of Japan's funds-supplying operations against pooled collateral (loans that are made against pooled collateral by way of open market operations) conducted through the Asset Purchase Program set forth in the "Principal Terms and Conditions for the Asset Purchase Program" (Policy Board Decision on October 28, 2010).

2. Application

The terms and conditions shall apply to the funds-supplying operations against pooled collateral conducted through the Asset Purchase Program, notwithstanding the "Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral" (Policy Board Decision on April 11, 2006).

3. Location of Operations

The Bank's Head Office (Operations Department) or its branches.

4. Eligible Counterparties

Eligible counterparties shall, pursuant to the relevant rules of the Bank, be selected from financial institutions (as defined in Article 37, Paragraph 1 of the Bank of Japan Act, Act No. 89, 1997, excluding the Resolution and Collection Corporation and bridge banks [as defined in Article 2, Paragraph 13 of the Deposit Insurance Act, Act No. 34, 1971]), financial instruments firms (Article 10, Paragraph 1, Clause 2 of the Bank of Japan Act Enforcement Order [Order No. 385 of 1997]) that conduct the first financial instruments business (Article 28, Paragraph 1 of the Financial Instruments and Exchange Act, Act No. 25, 1948), securities finance companies (Article 10, Paragraph 1, Clause 3 of the Order), and *tanshi* companies (Article 10, Paragraph 1, Clause 4 of the Order).

5. Form of Loans

Loans shall be provided in the form of electronic lending.

6. Duration of Loans

Duration of each loan shall be about 3 months or 6 months.

7. Loan Rates and Collection of Interest

(1) Interest Rates on the Loans

The interest rate shall be 0.1 percent per annum.

(2) Collection of Interest

The interest on a loan shall be calculated based on the rate stipulated in (1) for the number of days from the first day after the disbursement of the loan up to the maturity date, and the interest shall be collected after the loan reaches maturity.

8. Maximum Amount of Loan

The maximum outstanding amount of loans shall be as prescribed in paragraph 4.(1) of the "Principal Terms and Conditions for the Asset Purchase Program."

9. Date of Loan Disbursement, Amount of Loans, etc.

Taking into account conditions in financial markets, the Bank shall determine, at each operation, necessary specifications, including dates of loan disbursement, amount of loans, and counterparties.

10. Collateral

(1) The Bank shall accept eligible collateral from counterparties in advance.

(2) The "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000) and the "Collateral Guidelines on Eligible Foreign Bonds" (Policy Board Decision on May 22, 2009) shall apply to the collateral for the loans.

(Supplementary Provision)

1. These terms and conditions shall become effective today.
2. The outstanding amount of loans disbursed pursuant to paragraph 6.(1)(b) of the "Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral" on the effective date of the terms and conditions provided herein shall be deemed as the outstanding amount of loans disbursed pursuant to the terms and conditions provided herein from the effective date above.