Establishment and Abolishment of Principal Terms and Conditions in accordance with the Introduction of the "Quantitative and Qualitative Monetary Easing"

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan made the following decisions in accordance with the introduction of the "Quantitative and Qualitative Monetary Easing."

1. The Bank shall establish the "Principal Terms and Conditions for Outright Purchases of CP and Corporate Bonds" (see Attachment 1).

2. The Bank shall establish the "Principal Terms and Conditions for Purchases of ETFs and J-REITs" (see Attachment 2).

3. The Bank shall amend the "Principal Terms and Conditions for the Outright Purchase/Sale of Japanese Government Bonds" (see Attachment 3).

4. The Bank shall abolish the "Principal Terms and Conditions for the Asset Purchase Program," "Principal Terms and Conditions for Outright Purchases of Japanese Government Bonds and Treasury Discount Bills Conducted through the Asset Purchase Program," "Principal Terms and Conditions for Outright Purchases of CP and Corporate Bonds Conducted through the Asset Purchase Program," and "Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral Conducted through the Asset Purchase Program" today. The Bank shall also abolish the "Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program" on the
effective date of "Principal Terms and Conditions for Purchases of ETFs and J-REITs." The outstanding amount of assets purchased (including unsettled transactions) or loans disbursed pursuant to terms and conditions which shall be abolished herein shall be deemed as those pursuant to "Principal Terms and Conditions for the Outright Purchase/Sale of Japanese Government Bonds," "Principal Terms and Conditions for the Outright Purchase/Sale of Treasury Discount Bills," "Principal Terms and Conditions for Outright Purchases of CP and Corporate Bonds," "Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral," or "Principal Terms and Conditions for Purchases of ETFs and J-REITs."

5. The Bank shall seek, from the Minister of Finance and the Commissioner of the Financial Services Agency, authorization regarding the implementation of 2., in accordance with Article 43, Paragraph 1 and Article 61-2 of the Bank of Japan Act.
Principal Terms and Conditions for Outright Purchases of CP and Corporate Bonds

1. Purpose

The terms and conditions prescribe the principles for the Bank of Japan's outright purchases of commercial paper and corporate bonds with the aim of facilitating money market operations.

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 (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) and corporate bonds (corporate bonds and bonds issued by real estate investment corporations, hereinafter the same) 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 3 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 3 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 a Single Issuer’s CP and Corporate Bonds to Be Purchased

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 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 at which they 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 derived from the method described in item 6.
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 Purchases of ETFs and J-REITs

1. Purpose

The terms and conditions prescribe the principles for the Bank of Japan's purchases of beneficiary interests in index-linked exchange-traded funds (hereinafter referred to as "ETFs") and investment equities issued by real estate investment corporations (hereinafter referred to as "J-REITs") with the aim of facilitating money market operations.

2. Location of Purchases

The Bank's Head Office (Operations Department).

3. ETFs and J-REITs to Be Purchased

ETFs and J-REITs that are listed on a financial instruments exchange (as defined in Article 2, Paragraph 16 of the Financial Instruments and Exchange Act, Act No. 25, 1948, hereinafter the same), 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) or the Nikkei 225 Stock Average.

(2) J-REITs shall be issued by real estate investment corporations whose debts satisfy the eligible collateral standards set forth in the "Guidelines on Eligible Collateral" (Policy Board Decision on October 13, 2000). Additionally, in principle, the purchase and sale of J-REITs shall have been transacted on a financial instruments exchange 200 days or more per
annum with a total trading value of 20 billion yen or more per annum.

4. Method

(1) The Bank, as trustor and beneficiary, shall appoint a trust bank (a bank that engages in trust business under the authorization pursuant to Article 1, Paragraph 1 of the Act on Provision, etc. of Trust Business by Financial Institutions, Act No. 43, 1943, hereinafter the same) as trustee, and shall create a money trust, with which ETFs and J-REITs shall be purchased as its trust property.

(2) The Bank shall select the trustee prescribed in (1) pursuant to the relevant rules of the Bank.

(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.

5. Purchasing Price

In principle, the purchasing price for each ETF or J-REIT shall be the volume-weighted average price at a financial instruments exchange or the price at which the trustee transacts at a financial instruments exchange by targeting the volume-weighted average price.

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 roughly be proportionate to the total market value of that ETF issued.

(2) The maximum amount of each J-REIT to be purchased shall not exceed 5 percent of the total amount of that J-REIT issued, and shall, pursuant to
the relevant rules of the Bank, be set so that the Bank’s purchase would roughly be proportionate to the total market value of that J-REIT issued.

7. Exercise of J-REIT Voting Rights

Taking into account (1) and (2) below, the Bank shall establish basic principles regarding the exercise of J-REIT voting rights. Within the scope of such basic principles, the trustee shall exercise such voting rights pursuant to the duty of due care of a prudent manager.

(1) Voting rights shall be exercised with the aim of increasing the Bank’s economic benefit.

(2) Voting rights shall be exercised so that real estate investment corporations would be managed in a way that would maximize the benefits of equity holders.

8. Disposal of Purchased ETFs and J-REITs

(1) ETFs and J-REITs purchased by the Bank shall be promptly disposed in the following cases.

   a. In case a fractional portion of an ETF or a J-REIT occurs (only the fractional portion shall be disposed).

   b. In case the total amount of a J-REIT purchased exceeds 5 percent of the total amount of that J-REIT issued (only the portion exceeding 5 percent shall be disposed).

   c. In case an ETF or a J-REIT is assigned to the supervision post or the liquidation post pursuant to the relevant rules of the financial instruments exchange.

   d. In case the Bank accepts tender offers.
(2) For disposals of J-REITs pursuant to (1)d., the trustee shall, taking into account a. and b. below, prepare guidelines for how to respond to tender offers, and, within the scope of such guidelines, determine the response to tender offers pursuant to the duty of due care of a prudent manager. The guidelines shall not require the Bank to give specific instruction to the trustee regarding the response to tender offers.

a. Liquidity of the particular J-REIT held by the Bank.

b. Improvement in the value of the real estate investment corporation.

(3) In case the Bank is disposing ETFs or J-REITs based on grounds other than provided in (1), the Bank shall, taking into account the situation such as the condition of the ETF or J-REIT market, dispose them for adequate prices. In such case, the Bank shall, taking into account a. and b. below, establish basic principles for disposing ETFs and J-REITs. Within the scope of such basic principles, a trustee, who shall be selected from trust banks pursuant to the relevant rules of the Bank, shall dispose ETFs and J-REITs pursuant to the duty of due care of a prudent manager.

a. Avoid incurring losses as much as possible.

b. Avoid inducing destabilizing effects on the financial markets by disposing ETFs and J-REITs as much as possible.

9. Loss Reserve Policy

In principle, in case the total market value of ETFs or J-REITs purchased by the Bank falls below their total book value, the Bank shall record, for ETFs and J-REITs respectively, the difference between the total market value and the total book value as provisions for possible losses at the end of September and March.
1. These terms and conditions shall become effective on 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.

2. The standard provided in 4.(3) and any other necessary specifications for implementing these terms and conditions shall be determined by the Governor.
Amendment to "Principal Terms and Conditions for the Outright Purchase/Sale of Japanese Government Bonds"

- 4. shall be amended as follows.

4. Bonds to be Purchased/Sold

(1) Japanese government bonds with coupons excluding floating-rate bonds and inflation-indexed bonds (among those issued not more than a year ago, the latest 2 issues of each maturity are excluded).

(2) Floating-rate bonds and inflation-indexed bonds (among both of those issued not more than a year ago, the latest 2 issues of each maturity are excluded).

(Supplementary Provision)

This amendment shall become effective today.