

December 25, 2020

Bank of Japan

**Establishment of the "Principal Terms and Conditions of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System"**

At a regular board meeting held today, the Policy Board of the Bank of Japan decided upon the following with the aim of strengthening the business foundations of regional financial institutions so that they may firmly support regional economies into the future and smoothly fulfill their financial intermediation function.

- (1) The Bank shall establish the "Principal Terms and Conditions of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System" (see Attachment 1).
- (2) The Bank shall establish the "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" (see Attachment 2).
- (3) The Bank shall seek, from the Minister of Finance and the Commissioner of the Financial Service Agency, authorization regarding the implementation of (1) and (2), in accordance with Article 43, Paragraph 1 and Article 61-2 of the Bank of Japan Act (Act No.89, 1997).

**Media inquiries**

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## **Principal Terms and Conditions of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System<sup>1</sup>**

### 1. Purpose

These Terms and Conditions prescribe the principles of remuneration on current account balances at the Bank of Japan (hereinafter referred to as "special remuneration") with the aim of strengthening the business foundations of regional financial institutions so that they may firmly support regional economies into the future and smoothly fulfill their financial intermediation function.

### 2. Eligible Institutions

Regional banks (member banks of the Regional Banks Association of Japan or the Second Association of Regional Banks) or *shinkin* banks that have current accounts at the Bank and wish to use the "Special Deposit Facility to Enhance the Resilience of the Regional Financial System" (hereinafter referred to as "the Special Deposit Facility").

### 3. Requirements for Special Remuneration

Special remuneration shall be paid to eligible financial institutions that shall meet all of the following requirements in (1)-(3).

(1) Being committed to contributing to sustainable development of regional economies

(2) To meet either (a) or (b) in the following:

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<sup>1</sup> The English translation has been prepared by the Bank's staff based on the Japanese original and is an unofficial translation. The translation is to be used solely as reference material to aid in the understanding of the Japanese original.

(a) Meet either of the requirements stipulated in (i) or (ii) below by strengthening business foundations to a designated degree. For those that do not meet the requirement for the overhead ratio (OHR, or the ratio of overhead costs to gross operating profits) stipulated in (i) or those that do not meet the requirement for overhead costs stipulated in (ii) for fiscal 2020 or 2021, if those financial institutions meet the requirement stipulated in (i) or (ii) in fiscal 2021 or 2022, requirements are deemed to have been met in the previous fiscal year[s].

(i) For each of fiscal 2020-2022, each eligible financial institution's OHR, calculated by the method stipulated by the Bank, shall decrease by a percentage equal to or greater than a certain threshold compared to the OHR for fiscal 2019, 1 percent for fiscal 2020, 3 percent for fiscal 2021, and 4 percent for fiscal 2022.

(ii) For each of fiscal 2020-2022, each eligible financial institution's overhead costs, calculated by the method stipulated by the Bank, shall decrease by a percentage equal to or greater than a certain threshold compared to the overhead costs for fiscal 2019, 2 percent for fiscal 2020, 4 percent for fiscal 2021, and 6 percent for fiscal 2022.

(b) Make institutional decisions (decisions at shareholder meetings or general meetings, or those deemed to have similar characteristics) between November 10, 2020 and March 31, 2023 to carry out mergers, business integration, or certain forms of acquisitions. 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 to the first one. Such mergers, business integration, or certain forms of acquisitions shall be evaluated by the Bank as contributing factors to strengthening business foundations.

(3) There being no special circumstances in which such remunerations are deemed inappropriate

#### 4. Eligible Amount for Special Remuneration

- (1) The amount (excluding the case where such amount is negative, hereinafter "eligible amount for special remuneration") during the reserve maintenance period for special remuneration (a month stipulated in Article 7, Paragraph 3 of the Law Concerning Reserve Deposit Requirement System [Law No.135, 1957], the same hereafter) derived by deducting the amount of required reserve (defined in Article 2, Paragraph 2 of Law No.135, 1957, the same hereafter) of each eligible financial institution from the average amount outstanding of their current account balances.
- (2) Notwithstanding (1), the Bank shall set for each eligible financial institution a limit to the eligible amount for special remuneration, with the aim of ensuring appropriate operation of the Special Deposit Facility and conducting money market operations smoothly.
- (3) The limit for each financial institution, stipulated in (2), shall be the higher of the following.
  - (a) The amount calculated by multiplying the amount of each eligible financial institution's balances for the designated maintenance period derived by deducting their required reserve balances from the average amounts outstanding of their current account balances (excluding the case where such amount is negative) pursuant to the relevant rules of the Bank, by the rate decided in light of the development of the overall amount outstanding of the current account balances at the Bank pursuant to the relevant rules of the Bank.
  - (b) The total of the amounts stipulated in the "Principal Terms and Conditions of Complementary Deposit Facility" (Policy Board Decision on January 29, 2016) Paragraph 4. (2) and (3) of each eligible financial institution.

## 5. Interest Rate

The interest rate applied to the eligible amount for special remuneration shall be +0.1 percent per annum.

## 6. Relevant Period for the Special Remuneration

(1) Eligible financial institutions that meet the requirements stipulated in Paragraph 3. (2) (a) shall be remunerated for one year, starting from the reserve maintenance period after the reserve maintenance period in which the Bank's eligibility evaluations complete.

(2) Eligible financial institutions that meet the requirements stipulated in Paragraph 3. (2) (b) shall be remunerated for three years, starting from the reserve maintenance period after the reserve maintenance period in which the Bank's eligibility evaluations complete.

(3) Notwithstanding (1) and (2), in the case where eligible financial institutions that meet the requirements stipulated in Paragraph 3. (2) (a) or (b) newly meet the requirements stipulated in (b) during the ongoing period relevant for the special remuneration, that period shall expire on the last day of the reserve maintenance period in which the Bank's new eligibility evaluations complete.

## 7. Monitoring the Implementation Status

The Bank shall continuously monitor eligible financial institutions' implementation status of the requirements stipulated in Paragraph 3.

## 8. Exception

If the Bank specifically deems it necessary in order to ensure appropriate operation of the Special Deposit Facility and to conduct money market operations smoothly, in accordance with the purpose of the Special Deposit Facility, the Bank can make exceptions to the terms and conditions stipulated from Paragraph 2. to Paragraph 7. above.

(Supplementary Provision)

These terms and conditions shall become effective on a date determined by the governor after 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, and shall be valid until the date when the period of special remuneration for all eligible financial institutions and member financial institutions ("member financial institutions" stipulated in the "Special Rules for Member Financial Institutions of Central Organizations of Financial Cooperatives to Use the Special Deposit Facility with Enhance the Resilience of the Regional Financial System" [Policy Board Decision on December 25, 2020]) ends. These terms and conditions shall be applied to the treatment of the special remuneration that is made on or after the date when the period of special remuneration ends.

## **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<sup>1</sup>**

### 1. Purpose

The Bank of Japan established special rules that supplement the "Principal Terms and Conditions of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System" (Policy Board Decision on December 25, 2020, hereinafter referred to as the "Principal Terms and Conditions"). The special rules shall be applied when member financial institutions of central organizations of financial cooperatives (the *Shinkin* Central Bank, the *Shinkumi* Federation Bank, the *Rokinren* Bank, and the *Norinchukin* Bank, hereinafter the same) without a current account at the Bank (hereinafter referred to as "member financial institutions") wish to use the "Special Deposit Facility to Enhance the Resilience of the Regional Financial System" (hereinafter referred to as "the Special Deposit Facility") under the Principal Terms and Conditions through central organizations of financial cooperatives.

### 2. Methods for Special Remuneration

Special remuneration, which is applied in the case where member financial institutions of central organizations of financial cooperatives that wish to use the Special Deposit Facility are evaluated as meeting the requirements stipulated in Paragraph 3. of the Principal Terms and Conditions, shall be made by the Bank to the current accounts of central organizations of financial cooperatives. Central organizations of financial cooperatives shall then pay the full amount equivalent to the special remuneration to their member financial institutions that are approved to have met the requirements stipulated in Paragraph 3. of the Principal Terms and Conditions (hereafter "eligible member financial institutions").

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### 3. Eligible Amount for Special Remuneration

(1) The eligible amount of special remuneration shall be obtained by the following method. The share of deposits of eligible member financial institutions in their immediate superior financial institutions (central organizations of financial cooperatives or, of the member financial institutions, those that accept deposits from other member financial institutions, hereinafter the same) to the total of deposits that immediate superior financial institutions receive from all of their member financial institutions (deposits of member financial institutions funded from other member financial institutions shall be excluded; for central organizations of financial cooperatives that have deposits from financial institutions holding current accounts at the Bank, the amount of those deposits shall be included) shall be calculated pursuant to the relevant rules of the Bank. The share shall then be multiplied by the amount (excluding the case where such amount is negative, hereinafter "calculated amount") during the reserve maintenance period for special remuneration (a month stipulated in Article 7, Paragraph 3 of the Law Concerning Reserve Deposit Requirement System [Law No.135, 1957]) derived by deducting the amount of required reserve (defined in Article 2, Paragraph 2 of Law No.135, 1957) of each central organization of financial cooperatives from the average amount outstanding of their current account balances.

(2) Notwithstanding (1), the Bank shall set for each central organization of financial cooperatives a limit to the calculated amount, according to Paragraph 4. (2) and (3) of the Principal Terms and Conditions.

### 4. Monitoring the Implementation Status by Central Organizations of Financial Cooperatives

(1) According to Paragraph 7. of the Principal Terms and Conditions, central organizations of financial cooperatives shall continuously monitor the implementation status of the requirements stipulated in Paragraph 3. of the Principal Terms and Conditions of member financial institutions that wish to use the facility.



(2) In addition to (1), central organizations of financial cooperatives shall take measures with their member financial institutions necessary for implementation and proper operations of the Special Deposit Facility in compliance with the aim of the facility and in response to the Bank's requests.

## 5. Exception

The Bank can implement necessary measures, such as suspension of special remuneration under the special rules, in case central organizations of financial cooperatives and member financial institutions are inconsistent with the special rules.

### (Supplementary Provision)

These special rules shall become effective on a date determined by the governor after 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, and shall be invalid on the date when the Principal Terms and Conditions become invalid. These terms and conditions shall be applied to the treatment of the special remuneration that is made on or after the date when the period of such special remuneration ends.