Minutes of the Meeting of JGB Investors
(91st Round)

1. Date: Wednesday, March 22, 2023 (10:30 a.m.- 12:00 p.m.)
2. Place: Special Conference Room 3 at the Ministry of Finance
3. Contents:

1. Reopening rule and auction methods of fixed-rate coupon-bearing bonds in FY2023

▶ The Financial Bureau gave the following explanation about the reopening rule and auction methods of fixed-rate coupon-bearing bonds in FY2023.

・The reopening rule and auction methods of fixed-rate coupon-bearing bonds for the following fiscal year are discussed in March of every year at this meeting, and a decision is based on the opinions of the participants. Today, we would like to hear your opinions regarding the reopening rule and auction methods of fixed-rate coupon-bearing bonds in FY2023.

・Since FY2015, we have kept the reopening rule for 10-year Bonds in each case where bonds having the same redemption dates are issued and the difference between the coupon rate of its new issue and its market yield on the auction date is less than around 30 bps.

When we heard opinions from participant on this point in advance, we found that most of the participants support the current method.

Since we are of the opinion that bond market liquidity can be enhanced by reopening the bonds in normal times while leaving room to stimulate demand of investors as a new issue bond in the event of a large market fluctuation, we are considering maintaining the current method in FY2023 as well.

・Regarding the reopening rule of 20-year Bonds, 30-year Bonds, and 40-year Bonds, we reopened four issues of 20-year Bonds and 30-Year Bonds, and one issue of 40-year Bonds in FY2022.

We heard opinions from participants on this point in advance, and we found that most of you support the current method.

Therefore, we are considering maintaining the current method also in FY2023 from the perspective of enhancing bond market liquidity.

・Next, regarding the auction rule for 40-year Bonds, we continued with the yield-base uniform competitive auction in FY2022. We heard opinions from participants about the auction method of 40-year Bonds in FY2023 in advance, and most of the participants agreed that the yield uniform price auction should be maintained.

・Based on these opinions, we consider that it is desirable to maintain the yield uniform competitive auction in FY2023 as well to ensure stable issuance, as shown on page 3.

・Based on these opinions, etc., the proposal of the Financial Bureau for the reopening rule and auction methods in FY2023 are shown on page 3. The reopening rule and auction methods of fixed-rate coupon-bearing bonds in FY2023 will be comprehensively reviewed based on the discussions in this meeting, and we will hear your opinions on the matter again.

▶ Summarized below are the views and opinions submitted by the attendees.

・Regarding the reopening rule for fixed-rate coupon-bearing bonds, currently the amount of outstanding 10-year Bonds in the secondary market has been decreasing, particularly due to the effects of the Bank of Japan's (BOJ) monetary policy and the Outright Purchase of JGBs by BOJ. Therefore, while securing a certain level of liquidity through the reopening rule, if there is a large discrepancy between the price prevailing in the market and the coupon rate, then we believe that the current operation of switching to the issuance of newly-issued bonds strikes a good balance between securing liquidity and convenience for investment.

・We support the proposal regarding the reopening rule for fixed-rate coupon-bearing bonds. Due to the Outright Purchase of JGBs by BOJ, balance between the supply and demand especially the latter half of the 360 issues of 10-Year Bonds are tight. It is important to distribute a certain amount of JGBs in the secondary market, so we think that the current rules will not be a problem.

・We basically believe that it is desirable to continue the current reopening rule for fixed-rate coupon-bearing bonds. However, although a reopening issuance of 4 issues per year has the advantage of increasing the liquidity of each issue, demand for issues declines if the price prevailing in the market significantly deviates from 100 yen. Therefore, as with the 10-year Bond, there was an opinion internally that it would be good to consider reopening issuance of the 5-year Bond while allowing for a small amount of divergence between the coupon rate of the newly issued bonds and the prevailing market prices.

・In the future we would be willing to actively discuss changes in the reopening rule in the event of increased market volatility or excessive tightening of supply and demand for individual issuances.

・In principle we have no objection to the proposals regarding the reopening rule. From the standpoint of market makers, it is understandable that, from a perspective of liquidity, the reopening rule will stimulate trading by increasing issuance amount per issues. On the other hand, from the standpoint of investors, when interest rates fluctuate significantly it is easier to invest the newly-issued bonds from a book value diversification perspective when trading in the Available-for-Sale Securities account. However, at present the supply and demand of specific issues continues to be tight due to yield curve control, so we think that the current rule should be continued.
・We have no problem with the current proposal for the auction rule.

・It is also important to secure liquidity, so the proposal for the reopening rule for 20-year Bonds and 30-year Bonds is acceptable. From the perspective of book value diversification, we have also the view of wanting to have multiple issues that match the market interest rate, therefore if there is a certain degree of divergence between the coupon rate and the prevailing market prices, then we would appreciate it if the debt management office would consider issuing the newly-issued bonds in line with prevailing market prices.
・With regard to 40-year Bonds, from the perspective of diversifying redemption period, we would like to issue monthly and multiple issues. As for the auction rule, some time has passed since beginning of issuance, therefore we feel that a discriminatory price auction can also be considered, if the liquidity is secured.

・We feel that liquidity is important, therefore we support the status quo.

・With regard to the reopening rule for 10-Year Bonds, in principle we support a reopening rule issuance of four issues per year. In addition, we also support maintaining the status quo when it comes to the reopening rule for other maturities.

2. Issuance size of Inflation-Indexed Bonds in the April-June 2023 quarter

▶ The Financial Bureau gave the following explanation about the issuance size of Inflation-Indexed Bonds in the April-June 2023 quarter:

・As shown on page 5, according to the JGB Issuance Plan for FY2023, it is stipulated that there will be issuance of Inflation-Indexed Bonds four times a year at a size of 250 billion yen each time while it is stated that "the size of issuance may be adjusted in a flexible manner in response to market circumstances and demands of investors which will be determined based on discussions with market participants." In addition, as shown on page 6, it is stipulated about Buy-back Auctions that “Buy-back Auctions in FY2023 are planned to be implemented based on market conditions and through discussions with market participants.” Today, we would like to hear your opinions about the size of issuance in the April-June quarter.

・In the January-March quarter, as shown on page 7, while we conducted an auction of issuance at a size of 250 yen billion in February, we decided to implement Buy-back Auctions at 20 billion yen every month based on market conditions and through discussions with market participants. The results of the auction of issuance and of Buy-back Auctions are shown in pages 8 and 9, respectively.

・The situation of the secondary market is shown on pages 10 and 11. Based on changes over the last six months, although BEI had declined at times, BEI of on-the-run issue is currently continuing to hover around the level of 70bps.

・Under such circumstances, we asked for participant’s opinions in advance. All participants expressed the opinion that they would prefer that both the size of issuance and the Buy-back Auctions for the April-June quarter remain unchanged because supply and demand are balanced.

・The proposals of the Financial Bureau based on these circumstances and the opinions of participants are shown on page 12. Regarding the April-June quarter of FY2023, as in the January-March quarter, we are considering a Buy-back Auction of 20 billion yen each month while having a single issuance auction of 250 billion yen.

・Regarding the target issues for Buy-back Auctions, we would like to include the all issues, including on-the-run issues, as well as for FY2022.

・Regarding the reopening rule and auction methods for Inflation-Indexed Bonds in FY2023, we are considering reopening with one issue per year and auctions using the price uniform price auction the same as in FY2022.

・As stated above, we explained the situation about the Inflation-Indexed Bonds market and our proposal based thereon.

We will make a comprehensive decision based on the contents of today's meeting on the size of issuance in the April-June quarter and the adoption of the issuance auction method in FY2023, and we will again hear participant's opinions.

We recognize that the development of the Inflation-Indexed Bonds market is an important issue in our Debt Management Policy, and we will continue to carefully consider and make decisions based on the auction results, market conditions, and the opinions of each participant.

▶ Summarized below are the views and opinions submitted by the attendees.

・We recognize that there was a certain level of investor demand for Inflation-Indexed Bonds during this period. It is thought that the purpose of this is to hedge against the rise in the inflation rate, but there are also a fair volume of bids for Buy-back Auctions, etc., and we recognize that it is a situation that can see movements on both the buy and sell sides of the market. We do not have a significant amount in this portfolio. for the time being we are not considering making it an investment target. we would like to consider liquidation of portfolio for profit taking through the Buy-back Auctions.

・Previously we invested in Inflation-Indexed Bonds, but recently our balance has dropped. In addition to the fact that liquidity is quite low, the market size is also not that large, so it is difficult to consider them as a main investment asset.

・We purchase JGBs in the secondary market, and Inflation-Indexed Bonds are not currently an investment target due to concerns about their liquidity, and truthfully we do not have a particular opinion about them.

・We would like to study and consider investing in Inflation-Indexed Bonds.

・Our investment stance on Inflation-Indexed Bonds is limited to small holdings and experimental holdings to confirm market liquidity and price movements. In the long term, we believe that it will be difficult to have large holdings in the absence of market liquidity. In addition, it is difficult to foresee a rise in underlying prices in the future, therefore our stance is to limit ourselves to small holdings.

・Regarding Inflation-Indexed Bonds, we have no problems with the proposal. Under the current

ALM structure, the asset side is dominated by short-term assets and the portfolio as a whole is resistant to inflation, therefore the inclusion of Inflation-Indexed Bonds as an inflation hedge is not necessarily required.

・We think that Inflation-Indexed Bonds will be a temporary hedge against inflation until interest rate rise, but in the long term we don't necessarily see them as a hedge for the overall portfolio. We believe that the costs of inflation can be compensated for by raising interest rates, therefore we do not consider Inflation-Indexed Bonds to be a primary part of our portfolio.

・Inflation-Indexed Bonds are not an active investment target for us because the liability side of our balance sheet corresponds to fixed interest rates.

・As prices rise, nominal interest rates will also slowly rise, and then after a considerable time lag the cost of liability will rise, therefore it is not possible to hold Inflation-Indexed Bonds directly immediately on the asset side just because prices rise. We have such an ALM structure, therefore we invest primarily in fixed-rate coupon-bearing bonds.

・Inflation-Indexed Bonds are not currently a main investment target for us, and at this time we have no plans to increase them.

・Our liabilities do not have inflation-linked elements, therefore we are not currently considering investing in Inflation-Indexed Bonds via allocation, but we may invest in them depending on the valuation.

・Regarding Inflation-Indexed Bonds, about a year or two ago when US prices began to rise, we had internal discussions about the possibility of forming an Inflation-Indexed Bonds fund, but we got the impression that institutional investors and sales companies were a little hesitant. The reason why the investor base for Inflation-Indexed Bonds has not expanded as much as it has overseas is that there is no experience with inflation. Here in Japan investors have no experience with inflation, and they have not yet had successful experiences in buying Inflation-Indexed Bonds when inflation hits, therefore we have the impression that the root cause is a lack of confidence in Inflation-Indexed Bonds. As such, now is the time to foster Inflation-Indexed Bond market, and if prices rise and a track record is established that investors are glad to have Inflation-Indexed Bonds, then we believe that investors will naturally invest them.

・We support maintaining the status quo for the reopening rule for Inflation-Indexed and for the issuance auction methods /issuance size/Buy-back Auctions size.

・Inflation-Indexed Bonds are not without demand from foreign investors. There is also demand for their inclusion as an index. However, at present liquidity is low even for those composing such an index, and the government's inflation measures for in the direction of pushing down the CPI, thereby making it difficult to actively invest in Inflation-Indexed Bonds.

・We had invested in Inflation-Indexed Bonds, but, considering the current inflation measures and liquidity, we are unable to invest any more. Therefore, our policy is to slightly reduce our holding amount and to continue holding at that level for a while.

・Looking at the results of the annual labor talks and the increase in scheduled wages, we think that the changes in wages and inflation dynamism can be felt. Inflation-Indexed Bonds are promising products, but the market environment is not so good, which makes it difficult to invest in them.

・Inflation-Indexed Bonds are part of our investment portfolio. In making investment decisions the economic and prices situations are of course the most important factors for us, but we also focus on whether the low liquidity and the liquidity risk premium are fully factored into the price.

3. Issuance size of Liquidity Enhancement Auction in the April-June quarter 2023

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auction Size for the April-June 2023 quarter:

・As shown on page 14, according to the FY2023 JGB Issuance Plan regarding Liquidity Enhancement Auctions,

(1) while it is assumed that a total of 12.0 trillion yen will be issued for the year, comprising 3.0 trillion yen with remaining maturities of 1 to 5 years zone, 6.0 trillion yen with remaining maturities of 5 to 15.5 years zone, and 3.0 trillion yen with remaining maturities of 15.5 to 39 years zone, which are the same as in FY2022, and

(2) finally, "the details will be flexibly adjusted in view of the market environment and investment demands."

Today, in response to this plan, we would like to hear participant’s opinions regarding the size of issuance for each maturity zone for the April-June quarter.

・As shown on page 15, in the same manner as assumed in the FY2022 JGB Issuance Plan, we decided to issue bonds with remaining maturities of 1 to 5 years zone in the size of 500 billion yen in the odd-numbered months of January and March, bonds with remaining maturities of 5 to 15.5 years zone in the size of 500 billion yen every month, and bonds with remaining maturities of 15.5 to 39 years zone in the size of 500 billion yen in the even numbered month of February in the January-March quarter. These results are as shown on pages 16 to 18.

・In these circumstances, we asked for the opinions of participants about the Liquidity Enhancement Auctions for the April-June quarter in advance. some participants expressed the opinion that it would be appropriate to increase the size for each zone because there were several issues with tight supply and demand, and, although there were some opinions requesting changes in zone classifications or narrowing down the target issues. However, most of the participants believed at this point it is appropriate to maintain the current issuance size, etc.

・In response to this, we prepared the proposal of this issuance size for each maturity zone in the FY2023 April-June quarter, as shown on page 19.For remaining maturities of 1 to 5 years zone, we are contemplating the idea of issuing bonds in the size of 500 billion yen in the odd-numbered month of May, for bonds with remaining maturities of 5 to 15.5 years zone in the size of 500 billion yen every month, and for bonds with remaining maturities of 15.5 to 39 years zone in the size of 500 billion yen in the even numbered months of April and June,

・Regarding the issuance size for each maturity zone for Liquidity Enhancement Auctions for the April-June quarter, we will make a comprehensive decision based on the contents of today's meeting, and we will ask your opinions again.

▶ Summarized below are the views and opinions submitted by the attendees.

・The short positions on the issue number 360-369 of the 10-year Bonds are quite extensive, therefore we are considering increasing the amount of Liquidity Enhancement Auctions conducted for bonds with a remaining maturities of 5 to 15.5 years zone.

・We do not directly participate in the Liquidity Enhancement Auctions, therefore we do not have a particular opinion.

・Currently there are no problems with Liquidity Enhancement Auctions. It is important to make quarterly adjustments to the issuance amounts. In the future, if, for example, a modification in monetary policy causes the supply-demand balance in the ultra-long-term zone to collapse, then we think it will be necessary to have a flexible response, such as by shifting the issuance amount towards short zones.

・Regarding Liquidity Enhancement Auctions, if the distortion of the yield curve continues for a long period of time, then we recognize that the bonds with a remaining maturity of 5 to 15.5 years zone there will be issues with how to handle bonds whose prices are distorted due to interest rates that are stuck at the upper limit of the range of the yield curve control.

・We request an increase the bonds with a remaining maturity of 15.5 to 39 years zone. Ultra-long-term bonds have a relatively small circulation volume and high transaction costs, therefore we request to increase the size of bonds with remaining maturity of 15.5 to 39 years zone from 500 billion yen to around 800 billion yen.

・Regarding Liquidity Enhancement Auctions, we would appreciate it if the debt management office could adjust the issuance amount to reflect the liquidity situation of the entire bond market and investor trends. Because we are an investor that invests in ultra-long-term bonds, we would appreciate it if the debt management office would consider increasing the issuance ratio of bonds with remaining maturities of 15.5 to 39 years zone.

・Assuming that the issuance amount of Liquidity Enhancement Auctions are for 12 trillion yen per year, we tentatively support the proposal. However the BOJ's holding ratio of JGBs with remaining maturities of less than 10 years is increasing and liquidity is drying up, therefore we believe that it is desirable to increase the bonds with a remaining maturity of 10 years or shorter.

・We believe that the classifications should be change to the bonds with remaining maturities of 1 to 5 years zone, remaining maturities of 5 to 10 years zone, and remaining maturities of more than 10 years zone, so that the bonds with remaining maturities of 5 to 10 years zone will be intensively supplied.

・it is expected that the supply and demand situation will continue to be tight for some issues and maturities, and we believe that the BOJ will be the first to respond to such a situation through operation management.

4. Latest JGB market situation and outlook for future investments

▶ Summarized below are the views and opinions submitted by the attendees.

・Yen interest rates have also sharply fallen in the wake of financial instability that has been originating in the U.S. In addition, due to the uncertainties surrounding the BOJ's policy revisions, to speak of extremes, it is difficult to decide on an investment stance while it is hard to foresee what is going to happen. We would like to reconsider future developments by, at today's FOMC meeting, paying attention to what kind of decisions are made based on what kind of stance, how the market interprets them, and how the market reacts.
・With regard to JGBs, we would like to make them a major investment target from the next fiscal year onwards if they are expected to a certain degree of profitability. We will continue to consider this issue while also taking into consideration the market environment and trends in the BOJ's policy revisions.

・We believe that the Outright purchases of JGBs by BOJ have caused significant market distortions, such as there being almost no liquidity in some issues and there being very large basis and calendar spreads between JGB futures and JGBs. The pricing of local government bonds has also been affected, therefore we would like to see the BOJ revise or eliminate yield curve control as soon as possible.

・Before the introduction of negative interest rate policy we mainly invested in 5-year Bonds, and we would like to increase our investment in bonds with remaining maturity of 5 to 10 years zone by returning to that investment.

・After the yield curve control range widened in December, 20-year Bonds have been approaching an our investment level. However, due to the expansion of valuation losses on existing portfolios, rising interest rate volatility, and the one-year observation period for back testing, and because the multiplier correction is quite large and the amount of market risk is on the rise, it is therefore difficult for us to invest in ultra-long-term bonds in terms of the amount of risk.
・Yield curve control is expected to be revised or eliminated, therefore it is not possible for us to invest in 10-year Bonds at this time, but, if it is eliminated, then we believe that the willingness to invest in 10-year Bonds will naturally increase.

・Regarding the current state of the JGB market, in addition to the trends in BOJ's monetary policy, the JGB market is being affected by the movement of the flight to safe assets in response to growing credit concerns about European and American financial institutions. Yields on 10-year Bonds have fallen well away from the upper limit of the range of the yield curve control, and we believe that this trend is being spurred on by the fact that investors who expected interest rates to rise were forced to unwind their positions.

・Regarding the outlooks for future investments, although it may take some time to completely dispel current credit concerns, we do not expect the development of a global crisis like the Lehman Shock, and we believe that there will be a return to the process of normalizing monetary policy as credit concerns gradually subside. Naturally, in Japan as well, under new BOJ Governor Ueda we expect that yield curve control will be revised or eliminated.

・Based on that view, we have temporarily reduced the amount of interest rate risk in preparation for future interest rate hikes, and if interest rates rise then we are considering taking funds waiting to be invested in the current account at the BOJ and investing them to bonds with remaining maturities of about 5 years. Naturally, the balance of assets under management will increase, but we will keep a close eye on the loan-deposit gap and balance. In terms of our portfolio's balance, a large portion of it remains in the current account at the BOJ, on the other hand, we want to firmly hold onto JGBs because we also hold foreign bonds and investment trusts. If yield curve control is eliminated and the interest rates on JGBs are rise, we would like to increase our JGBs holding. As for investment targets, we assume that we will target bonds with remaining maturities centered around 5 years.

・So far we have had a history of getting out of the domestic market, where interest rates are low, and increasing our investment in overseas government bonds and credits. Currently we do not know the sustainability of inflation or the BOJ's stance under the new administration, therefore we are not immediately considering increasing investments in JGBs, but if interest rates are high enough then they will be a valuable positive yield curve and we would consider investing the JGBs again.

・When we invest the JGBs again, we would not consider investing to the ultra-long-term zone, which until now has had a reduced amount of risk, and, from an ALM perspective, we would like to consider building a portfolio centered around bonds with remaining maturities of 5 to 10 years.

・Large amounts of fiscal stimulus have continued since the COVID-19 pandemic, and the total amount of JGB issuance has not decreased much. Under such circumstances, if yield curve control is eliminated or if the range is expanded while the number of market participants remains low, depending on the situation, the market may not be able to absorb the amount of risk, which could lead to increased volatility. Investors are preparing for interest rate hikes, but it is unclear whether they have the room to continue buying JGBs. Therefore, in order to continue stable issuance in the future, it is necessary for the central bank, the debt management office, and investors to take a cautious approach while paying attention to the supply and demand balance of the market as a whole.

・Amidst Japan's current account balance continuing to deteriorate due to the effects of prolonged soaring energy prices, if the rating of JGBs were to be downgraded, then not only would foreign currency funding costs for financial institutions rise, but there is also the possibility that funding would be hindered. Additionally, a downgrade would lower Japan's country ceiling, which could increase financing costs for all Japanese companies that are issuing bonds globally, leading to a decline in international competitiveness. Therefore, we believe that it is important to pay attention to the downgrade risk for JGBs.

・We believe that the range for yield curve control will eventually either be expanded or eliminated, although the timing is a little unclear and there is the possibility that it will be delayed. In that case, looking at the current environment, the risk scenario is that the level of the yield curve will be slightly lower than initially assumed.

・Currently we have a considerable amount of funds accumulated in short-term bonds in addition to investing in ultra-long-term bonds, therefore, if yield curve control is eliminated, we will invest those fund in 5-year Bonds to 10-year Bonds. In addition, funds for overseas investment do not have a long duration, therefore in consideration of capital adequacy ratios we would like to gradually place more emphasis on domestic JGBs.

・If market movements lead to a downgrade then the yield curve will rise considerably, therefore we think that it is better to have a sense of tensions even if the possibility is small.

・Interest rates have continue to wildly fluctuate due to the recent turmoil in overseas markets, but we believe that a deterioration in the situation will be avoided in response to the prompt responses of overseas authorities. Going forward the BOJ will be under new administration, and there are indications that it will revise its monetary policy. But, due to this external environment, we believe that the interest rates isn’t sharply rise.

・We have been investing ultra-long-term bonds for the purpose of hedging cash flow, but we have not changed our stance and are still considering investing primarily ultra-long-term bonds. In overseas investments there are problems with hedging costs, therefore we will not change our investment behavior centered around domestic bonds.

・While market circulation has been decreasing, due to an increase in Outright Purchase of JGBs by the BOJ, interest rates have been trending downwards, mainly due to the suppression of speculative investor activity following changes the securities lending facility operations. In addition, we understand that the financial system instability originating in the U.S. has caused interest rates to further fall. With such highly volatile developments, we believe that interest rates will continue to fluctuate within a wide range because there will continue to be a sense of caution over instability in the financial system and the BOJ's monetary policy will again attract attention.

・We believe to continue investing, primarily in ultra-long-term bonds for the purpose of matching duration liabilities. Fundamentally, our investment policy will remain unchanged regardless of the recent market environment. On the other hand, our concern in continuing such investment actions is that interest rates will rise due to fiscal risk. We would like to reiterate that our investment in ultra-long-term bonds is based on the assumption that fiscal discipline will be observed.

・Regarding the rise in interest rates in the ultra-long-term zone, from an economic value perspective this is good because both assets and liabilities will shift and the asset-liability differential will increase, but, from a financial accounting perspective this is not good because valuation losses on available-for-sale securities will expand. The important thing is to firmly secure liquidity. If the BOJ ever eliminates yield curve control, then we believe it will be important to invest with sufficient remaining capacity, such as investing in 10-year Bonds and holding bonds with short maturities, rather than investing only the bonds with long maturities as we have done in the past. Additionally, it is important to apply leverage that is appropriate for one's own financial capacity, as excessive leverage can cause problems later on.

・Financial markets are turmoil, and we believe that there will eventually be a recession in the U.S. We also believe that this will be incorporated into the market. If the interest rates in Europe and the U.S. fall then it will also affect yen interest rates, therefore we believe that it will be difficult for interest rates to rise. Even if yield curve control were to be eliminated, we don’t expect interest rates to rise sharply as the elimination of yield curve control has already been factored in to some extent, particularly in the ultra-long-term zone.

・Although we are investing in overseas credit, we believe that current stock prices and credit spreads in Europe and the US do not adequately factor in recession risk in the future, and we don’t believe this is the time to invest more. Therefore, although we have not returned investing to JGBs, we have shifted our overseas investments from credit investment to the investments which is safer, higher interest rates and longer duration.

・Until now it has been difficult to create yen-denominated savings products, therefore we created foreign-currency denominated products, but if yen interest rates rise we will be able to create yen-denominated products. As the result, we believe that this will inevitably an increase the liability in yen, in particular, we believe that we will be able to invest ultra-long-term JGBs. In that sense, we see a rise in interest rates as a business opportunity for us as well.

・Although we do not actively invest in JGBs, we temporarily sold primarily JGB futures and ultra-long-term bonds due to the rise in overseas policy interest rates and on the expectations of the elimination of the BOJ's yield curve control, and in that situation, we had invested for rebalancing purposes. However, the current situation has calmed down considerably, therefore it is probably quite difficult for us to actively invest from this level.
・In the phase of overseas policy rate hikes since the second half of last year, we believe that long-term and ultra-long-term bonds may have bottomed out to some extent, therefore we are refraining from actively selling them.
・Going forward, although it may not reach the point of a financial crisis, we believe that the financial system instability will remain and are wary of falling interest rates.

・We believe that investment funds for JGBs are quite abundant, and, even if yield curve control is eliminated, it is unlikely that interest rates will rise sharply and we believe that it will return to an appropriate level.

・Due to the large-scale purchases of JGBs by BOJ, interest rates for bonds with remaining maturity of 10 years or less are much lower than they should be. Interest rates will rise as deltas are supplied to the market through the auctions of 10-year Bonds and the measure of BOJ, but we believe that this will take some time. Many market participants are hedging the interest rate risks, therefore we don't believe that there will be a significant rise in interest rates. On the other hand, the Japan Trade Union Confederation recently announced an average increase for 3.8% for the annual labor talks, which is considerably higher than we expected. Although it is necessary to look at the increase in scheduled wages after April, scheduled wages and the inflation rate are linked, and this gave us a sense of the change in Japan's inflation dynamism. Despite demographic changes, Japan has relied on non-regular labor to reduce labor costs, but it can no longer count on potential labor forces such as housewives and the elderly. As companies shift from reducing labor costs to securing talented human resources, unlike in the past, human resources will shift from low-productivity companies and zombie companies to high-productivity companies. It may be difficult, but we can expect that low productivity and zombie companies will be weeded out, and productivity in Japan will also increase. If this happens, then we believe that Japan, which has become accustomed to low interest rates, will see some changes, and we believe that is the risk.

・We believe that the current JGB market continues to be heavily influenced by the U.S. market. We continue to closely watch it due to some unusual developments, such as the recent increase in the FRB's discount window lending balance, which is well above the 2008 level. We believe that the situation will converge in the short-term depending on the response of financial authorities.

However, given the recent liquidity crisis in the U.S., we believe that small and medium-sized banks may become cautious about lending in the future, which could considerable downward pressure on the U.S. economy, and we are carefully monitoring the situation as well. Under these circumstances, we had thought that for monetary policy of the BOJ, based on the results of the annual labor talks, etc., might revise its yield curve control citing an improvement in the near-term price outlook, but we believe the possibility of this has decreased. If there were to be a revision, we believe that it will be due to a decline in market functioning. With long-term interest rates below 50bps, we recognize that the need for such revision has temporarily diminished.

・In October last year, the BOJ's holdings of the issue number 368 of 10-Year Bonds exceeded its outstanding issuance. Upon seeing this, we were struck by a strange kind of déjà vu. Some time ago we read and learned that the BOJ began underwriting JGBs in November 1932, and the following month the BOJ took the JGBs that it had bought and began selling them to the market at the same price. After the summer of 1935, however, this rate of sales rapidly declined. In response to this market warning, then-Finance Minister Takahashi announced a policy to gradually reduce the issuance of JGBs. However, confrontations with the military, who demanded an expansion of armaments, intensified. The following year, 1936, saw the February 26 incident, which was then followed by the Marco Polo Bridge Incident on July 7, 1937, the following year, and the BOJ began lending against JGBs at a daily rate of 9 *rin* (1 *rin* = 1/1000 yen), which was lower than the 1 *sen* (1 *sen* = 1/100 yen) equivalent daily interest rate on newly issued JGBs. We believe that this is similar to the Funds-Supplying Operations against Pooled Collateral which on January 18 of this year expanded the lending period from within 1 year to within 10 years.
・Looking back over the decade since 2013 in terms of monetary policy, QQE was introduced in 2013, and was then expanded to QQE with negative interest rates and yield curve control. In terms of public finances, the primary balance surplus target was postponed in 2018, and as a result of repeated large-scale supplementary budgets in response to the COVID-19 pandemic, JGB Market Issuance (Calendar Base) has increased from around 150 trillion yen to 190 trillion yen over the past decade.
・Under these circumstances, the issuance of JGBs by maturity has been quietly conducted through dialogue with the market at this Meeting of JGB Investors and at the Meeting of JGB Market Special Participants, etc. on the principle of R&P (Regular and Predictable). What we want to say here is that the debt management policy was operated independently of monetary policy. The debt management office has not been seduced by the opportunistic temptation to issue more ultra-long-term bonds in response to lower ultra-long-term interest rates or helicopter money. Additionally, in response to the rapid increase in JGB issuance due to the temporary factor of supplementary budgets and with refinancing risks being pointed out, the debt management office

has adhered to the principle of R&P for interest-bearing bonds by increasing the issuance of mostly discounted short-term JGBs.

・Regarding the future, we expect that the elimination of yield curve control will reproduce and establish a smooth yield curve. At the same time, it is necessary to ensure the risk-free status of JGBs. Therefore, it is necessary to hold fast to the goal of achieving a primary balance surplus and to maintain the fixed rate transfer to Special Account of Government Debt Consolidation Fund. Through these measures, the sharply-fallen liquidity of JGBs will be restored and the efficiency of the capital market will be promoted.

・The importance of fiscal discipline has been repeatedly mentioned, but, amidst the current instability in the financial system, it seems that for many people the events of last year's Truss administration in the UK have been pushed to the back of their minds. In Japan allowances are needed in a variety of places as measures against inflation, and it is thought that a cap is still being put on annual expenditures, but if this becomes an endless response then we could be following in the footsteps of the UK, so we believe that fiscal credibility is still the primary issue. In other words, we believe that the most important points are how to gain fiscal credibility in the market and how to maintain fiscal sustainability.

・On top of that, as a medium- to long-term issue, it is necessary to leave fiscal space so that the government can respond to large-scale disasters such as a Nankai Trough earthquake. If we don't leave fiscal space, then, in the future if the US enters a recession and additional economic stimulus measures become necessary, then we will have to issue additional JGBs in addition to the full amount that has already been issued in response to the COVID-19 pandemic, and if another shock comes along then we will be in serious trouble. We hope that this ends up being a baseless worry, but we believe that the major premise at this stage is to maintain firm fiscal discipline, in other words, ensuring fiscal reserves in the event of emergency.

・It would be good if yield curve control is eliminated, monetary policy is normalized, and inflation is contained, but if for some reason there are delays in eliminating yield curve control and inflation is allowed to continue, then it will cause distortions in the lives of the middle-income class. Regarding the excessively progressive income taxes, the critical difference between the US and Japan is that in the US tax brackets are indexed by inflation, with the point being that the real tax burdens do not change under inflation. Japan has a system that adjusts tax brackets each time malignant inflation occurs. Therefore, if we keep in mind that Inflation-Indexed Bonds for households may become necessary in preparation for a heavy tax burden on the middle-income class due to inflation, then the debt management office will be able to offer a wide range of options when they are needed.

5. GX Economic Transition Bonds

▶ Summarized below are the views and opinions submitted by the attendees.

・We are also working on medium- to long-term sustainable finance goals, and there is investment demand. However, this is premised on securing profitability and liquidity as an investment target, and there are some hurdles from the sense of caution towards the BOJ's policy revisions. Regarding issuance, if they can be specified as their own issues as GX Economy Transition Bonds and if they can be externally certified, then it seems like investor demand will increase and we recognize that there is a possibility that the bond will be able to carry a certain premium.

・We are making a budget for ESG investment and financing, and, in that sense, we would like to consider investing in GX Economy Transition Bonds positively. Regarding merchantability, if possible, we would like the bonds to be issued with less of a green premium, in other words, at an interest rate level close to that of regular JGBs, and preferably with an external certification. In terms of maturities, it would be good to have the bonds issued in the 5-year zone if possible, and we would appreciate it if they were issued on a regular basis, such as once a quarter, although they don't have to be issued every month.

・Although we have not set sustainable finance goals, we believe that GX Economy Transition Bonds will play a major role in realizing a decarbonized society, therefore, although we will emphasis liquidity, we have been positively considering investments in them.

・We have numerical targets for sustainable finance, etc., therefore if the profitability and liquidity of GX Economy Transition Bonds are on par with existing JGBs and there is no noticeable premium, then they will be a sufficiently good investment target.

・Whether or not there will be external certification is a key point.

・We believe that it is appropriate to issue them in their own issues with external certification. If the issuance is only the initial 1.6 trillion yen then they may be issued with a premium, but, assuming that the total amount of ¥20 trillion will be issued in stages, then attention will be paid to how much the premium will be attached thereafter. Although the financial resources for redemption are solid, we believe that if some kind of device, such as a carbon credit on the GX

Economy Transition Bonds, for example, could be incorporated into the pricing, then it would be easier to attach a premium to them.

・It would be easier to invest in GX Economy Transition Bonds if they were issued in their own issues. Regarding greenium, we believe that investment decisions and the extent to which greenium can be tolerated will depend on whether or not they are subject to the BOJ's Funds-Supplying Operations to Support Financing for Climate Change Responses. Regarding the system side, we believe that we can immediately respond to any form of issuance. In the future, if it is no longer necessary to differentiate them from regular JGBs, then there may be an idea to design them so that they can be integrated with regular JGBs from the beginning as a precaution against a loss of liquidity.

・We are paying attention to whether GX Economy Transition Bonds will be issued with maturities in the ultra-long-term zone. If there is a premium compared to existing JGBs, especially with short maturities, make investment more difficult as comparisons with alternative issues become clearer. We would like to continue to pay attention to how the reporting on the use of funds and their effects will be if they are issued in their own issues.

・We believe that issuing them in their own issues with having external certification will be desirable, but we also recognize that, if this leads to a situation where a premium is attached, that it will be difficult for us to make investment decisions.

・The insurance industry is putting a significant amount of effort into ESG investment, so we strongly request the debt management office to issue them in their own issues. In that case, we believe that there will be a noticeable premium placed on prices, but we do not believe that it will be impossible to invest in them, therefore investment decisions will be made on case-by-case basis.

・Issuing them in their own issues with external certification will be easier to buy, and, even with greenium attached, we will make investment decisions while taking into account our investment goals.

・We would like to request the debt management office to issue them in their own issues. We believe that this will contribute to expanding the new investor base, particularly overseas.

・We believe that having external certification and issuing them in their own issues will add a premium. Whether or not they will be included in indices is also an important issue, but we believe that we have no choice but to invest in them.

・Considering our portfolio, We have no strong demand for these bonds as the maximum maturity is likely to be 20 years or less and we expect that there will be a reasonable amount of greenium.

・Even though external certification is obtained, if the greenium is not attached due to low liquidity, then we believe that the debt management office should consider the question of where the significance of issuing them in their own issues and whether it is consistent with the objectiveness of the debt management policy.

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