Minutes of the Meeting of JGB Investors

(72nd Round)

・Date: Friday, November 24, 2017 (9:55 p.m. to 11:15 p.m.)
・Place: Special Conference Room 3, Ministry of Finance
・Gist of the Proceedings

1. **JGB Issuance Plan for FY2018**

▶The Financial Bureau gave the following explanations about the JGB Issuance Plan for FY2018:

(Introduction of the discussions held in the Advisory Council on Government Debt Management (held on Oct. 18))

・In the Advisory Council held last month, the floor was opened to comments after an issue was posed by the debt management office regarding the government bond management policy. First of all, using the excerpts from the explanatory materials from the council, we will introduce the debt management office's awareness of the issue.

※Regarding the debt management office's explanation at the Advisory Council on Government Debt Management, please refer to the minutes of the Advisory Council on Government Debt Management. (Attachment)

・As shown on page 22, regarding the outline, consensus was reached regarding the need to "discern medium to long term demand trends and implement issuance of more stable and transparent government bonds." Moreover, it was pointed out that changes in the government bond holding structure may change in the future and that it is important to grasp the change of the government bond holding structure.

・On the other hand, as mentioned on page 23, opinions were divided regarding demand trends according to the duration of the bond. Based on the possibility for changes in demand by the investors as a result of demographic changes, some indicated that the customary policy of increasing super long-term bonds and decreasing medium to short-term bonds should be reviewed, while others expressed their opinions regarding the significance of continuous demand for super long-term bonds and continuous long-term debts.

・In addition, regarding Liquidity Enhancement Auctions, many were of the positive opinion that flexibility in the issuance of government bonds according to the market environment can be attained.

（Regarding the JGB Issuance Plan for FY2018）

・Regarding the JGB Issuance Plan for this fiscal year, the funding was 8.2 trillion yen less than the previous year. However, due to the reduction of 5.0 trillion yen in the public sector (the Bank of Japan(BOJ) rollover), decrease in the market issuance volume was restrained. However, as a result, the BOJ rollover amount has become 3 trillion yen and it is difficult to do the same in the next fiscal year.

Additionally, the funding for the next fiscal year is dependent on the results of budget compilation, but according to the trial calculation using the figures from the medium to long-term estimate by the Cabinet Office, the total of newly-issued bonds and refunding bonds is expected to be approximately 3 trillion yen less than the present fiscal year.

･Another point that requires consideration according to the debt management office is the integration method of the plan.

Page 27 shows the comparison of the estimate and revenue performance balance at the time of planning with regard to the JGB Issuance Plan for FY2016. There are aspects which cannot be helped, such as reduction in government bond issuance due to changes in income and revenue. However, “JGB Market Issuance” which indicates government issuance from ordinary bidding exceeded 2.7 trillion yen, and as a result thereof, there was a downturn in the “adjustment between fiscal years,” in other words, becoming a factor for the increase in the issuance of front-loading issuance of refunding bonds.

This is due to the fact that the JGB Market Issuance amount was integrated with the prerequisite of issuance at par. In the JGB Issuance Plan for FY2018 plan, from the optimization aspect of the estimate, it is necessary for the JGB Market Issuance amount to be integrated taking into consideration the issuance at a price above per value so as to suppress the upward swing of revenue performance.

(Introduction of Discussions held at the Meeting for JGB Market Special Participants (held on Nov. 22))

･We discussed the term structure of plans for next fiscal year at JGB Market Special Participants held two days ago. We will introduce the main opinions of the attendees.

- Regarding all terms, if there is some room for a reduction and the overall issuance amount can be reduced, it would be appropriate to make a balanced reduction in each term.
- In addition to the reduction of 20-Year Bonds that have been made 2 years in a row, as there is a need for a wide range of investors even with current level of interest rates, the reduction of 40-Year and 30-Year Bonds of the super long-term zone should be prioritized.
- Concerning the short - to - medium - term zone, in comparison with the strong demand of bonds shorter than 2 Year Bonds, 5-Year Bonds have much room for a reduction.
- Maintaining current issuance for Inflation-Indexed Bonds is appropriate from the perspective of market development.
- As a market maker, the increase of Liquidity Enhancement Auctions is desirable even if this means a bigger cutback for current bonds.

▸Summarized below are the views and opinions presented by the attendees:

･Globally, and especially in the United States, we understand that there is a trend towards reductions of the issuance amount for the super long-term zone. On the other hand, concerning the issue of interest rates, we think that the demand for the super long-term zone is strong. Although the super long-term is not our investment outlet, we think the increase of issuance amount in this zone is necessary for an interest rate environment where yield can only be expected in longer terms.

・For financial institutions, the psychological resistance is strong towards investing in super long-term zones and it seems unlikely that they will actively invest in the future.

・We would like interest rates for short - to long - term zones, which is our main investment outlet terms, to increase. Therefore, we would like the reduction of the super long-term zone if the debt management office reduces the total issuance amount.

・Although we would like the medium - to long - term zone to be our main investment outlet, as this is not possible due to the low interest rates, we are expanding our interest outlet to terms around 20 years. Therefore, we want to maintain the current issuance amount for 20-Year Bonds. We think that there is room for reduction concerning longer bonds such as the 30 and 40-Year Bonds.

・Regarding every term, we agree that reductions should be made from the overall issuance amount in a balanced manner. For super long-term zones, the reduction of 20- and 30-Year Bonds is desirable.

・As the purchase motive for end-investors has declined concerning 5-Year Bonds of the medium-term zone, there is room for reductions in the overall balance. When making reductions in the super long-term zone, we would like reductions to be made mainly to 30-Year Bonds instead of the 20-Year Bonds. In addition, we suggest restoring the original issuance amount of 40-Year Bonds which was increased in September last year. Concerning Liquidity Enhancement Auctions, increasing the issuance amount is desirable when considering its purpose as well as the current market environment.

・As 2-Year Bonds as well as 5-Year Bonds are not included in our investment outlet due to deep negative interest rates, we think the issuance amount should be reduced. For 40-Year Bonds also, we would like to make a reduction as there is limited demand. From the viewpoint of improving the liquidity of off-the-run bonds as well as gaining investment opportunities outside auctions for current bonds, despite investment opportunities being limited overall, we strongly desire an increase in Liquidity Enhancement Auctions.

・As the duration of our debt is extremely long, we would like to continue to invest in the super long-term zone. JGBs are the only option for yen-denominated bonds as corporate bonds in the super long-term zone have not yet developed. Therefore, despite reducing the overall issuance amount, we would like some increase in the super long-term zone. By doing so, corporate bonds may also grow over time. Additionally, from the perspective of making the yield curve smooth, it is desirable to increase Liquidity Enhancement Auctions and improve the supply-demand balance of individual issues.

・Although sales of new yen-denominated products have unmistakably slowed down, the gap between assets and debt duration still remains in the industry as a whole. Activities to fill this gap have temporarily stopped as the interest rates in recent years are too low. However, this situation must not be left indefinitely and the gap should be filled to a certain extent. Additionally, if interest rates rise, there are plans to reapply funds, currently used for foreign bonds and other risk assets, toward JGBs. Hence, as there is a demand for 30-Year and 40-Year Bonds, we would like to maintain the current issuance amount and avoid any reductions as much as possible. However, if it is necessary to reduce the overall issuance amount, it would be best to make a balanced reduction in each term.

・Although we understand the direction towards reducing the overall issuance amount, there is still a continuous need to adjust the asset and debt duration, and as there is also a continuous demand in the super long-term zone, we would like to request that the current issuance amount be maintained and reductions to 30-Year Bonds, which is the main zone we invest in, be avoided as much as possible.

・While new contracts have decreased on the liability side, there is still a demand in the super long-term zone. Also, we do not think it is right to try too hard to shift towards foreign bonds even if yen interest rates are declining. Therefore, if interest rates are normalized, we definitely plan to return to JGBs. Even in cases where reductions are necessary in the super long-term zone, we want to maintain the issuance amount of 40-Year Bonds, in which the duration is easy to control.

・As our investment outlet is limited to the super long-term zone due to interest rates for bonds up to 10 years being negative or close to zero, management will become difficult if the interest-rate level of the super long-term is greatly reduced. Additionally, as interest rates of the longer terms are related to the discount rate of pension liabilities, we think that the discount rate will be impacted if long-term interest rates are greatly reduced. Regarding Liquidity Enhancement Auctions, as we feel the bid-offer spread of off-the-run issues is extremely wide making it difficult to conduct transactions, we would like to request an increase in the issuance amount.

・If there is a need to reduce a reasonable amount from the total issuance amount, we would like the reduction to be made in an even manner concerning all terms. As 20-Year Bonds of the super long-term zone have a relatively great investment appeal and a broad investor base, it would be best to maintain the current issuance amount in order to ensure liquidity. Regarding 10-Year Bonds, as changes in issuance amount would cause little impact due to it being under direct control by the BOJ, it would be relatively easy to make a reduction. Although there are concerns that the reduction of 10-Year Bonds may cause a decline in liquidity of the cheapest issues, this can be solved by increasing Liquidity Enhancement Auctions in the zone for bonds with the 5 - 15.5 - remaining - year zone.

・Reductions for 5-, 10-, and 20-Year Bonds are feasible. On the other hand, we think it is best to maintain the current issuance amount for 30- and 40-Year Bonds.

In foreign markets such as the United States and Germany, interest rates for 30-Year Bonds are the benchmark for super long-term zones. While deciding the issuance amount is important for a stable issuance, it is also important to improve liquidity in terms that are set as an interest-rate index and to develop the market. When considering the market conditions for JGBs, instead of reducing 30-Year Bonds, we think it is important to develop the stability and liquidity of the term in order to have many participants, including international investors, actively buy and sell. Also, we request the increase of the Liquidity Enhancement Auctions.

・As the issuance amount must be reduced to some extent, we think it should be reduced in a basically even manner for all terms. Concerning 40-Year Bonds, as the yield curve of this fiscal year has somewhat steepened due to the increase in issuance amount, it has the most room for reductions. On the other hand, it is best not to make reductions for 20-Year bonds as investors can secure a certain amount of yield despite it being under the yield curve control. Regarding the short-term zone, while the purchase amount of T-Bills by the BOJ has significantly decreased, there continues to be a strong demand among foreign investors. However, considering that the demand by foreign investors is focused on 3-month and 6-month T-Bills over 1-year T-Bills, we think that the 1-year T-Bills can allow for a reduction.

2. Latest JGB market situation and outlook for future investments

▶Summarized below are the views and opinions presented by the attendees:

・Based on the current interest-rate environment, although there is an idea to want to increase yen investments, we invest on foreign investments. The trend of internationally diversified investments we have made so far has remained the same.

Although interest income increases if the term of the interest outlet is extended, as there is IRRBB also, it is difficult to make investments by extending it to the super long-term zone. Therefore, it will be difficult to encourage yen-denominated bonds investments until the interest rates of zones shorter than 10 years are restored.

JGB investments that measure up to the collateral are currently not being made. However, if redemption of JGB holdings progress in the future, we think that investment demand as a collateral will grow in the zone of bonds with shorter than remaining 2 years to maturity.

・The amount invested in foreign government bond index funds is slowly increasing, and investments are slowly shifting overseas while choosing interest-rate risks over credit risks.

・Due to the decline in investment returns along with the yen interest rates, we are in a situation where we need to make foreign investments. However, considering IRRBB, even if it is a foreign investment, measures to control duration as well as credit are necessary.

・The redemption of our JGB holdings has progressed, and although we have used a part of this redemption amount towards foreign investments, such investments are not our main investment outlet, but rather a part of our diversified investments. In addition, while investments of JGBs are currently made mainly in 10 to 20-Year Bonds, we would like to focus on the short - to- medium - term zone if its interest rates recover.

・In situations where the balance sheet of central banks in each country is being reduced, it is necessary to pay attention to how the global money flow is changing. Despite slight differences in each country, the labor market has recently become tight, and whether the increase in inflation rate will become apparent or not will be the topic of discussion until the next fiscal year. Therefore, it is necessary to pay attention to whether signs of a change will appear in current situations such as the flattening pressure, which has become strong on a global scale, as well as interest rates that continue at a relatively low level.

Additionally, with the progress of the redemption of JGBs purchased previously, we think that the demand for short-term bonds as a collateral will increase to a certain degree.

・We recognize that the downgrade of JGBs due to the growing budget deficits is the biggest risk factor in the medium – to - long - term.

In addition, the current situation of low interest rates have made yen investments extremely difficult, while it has also become difficult to make any big moves. If the interest-rate level improves correspondingly, we would like to actively invest in the medium-term zone, considering the duration of the liability side.

As there is a certain level of collateral demand for JGBs, in view of the costs, we are basically investing in the zone for bonds with shorter than remaining 2 years to maturity.

・As we are currently promoting internationally diversified investments, even if interest rates were to fluctuate slightly, we would basically avoid making any major changes to our direction by simply adjusting the investment amount of each asset. However, from the perspective of ALM, we would like to actively invest in 5-Year Bonds if its interest rates improved.

・As our liability side is yen-denominated, we basically would like to ensure a stable yearly yen interest income. In this regard, due to low yen interest rates, we have increased investments in currency-hedged foreign bonds as an alternative. However, the investment appeal of currency-hedged foreign bonds has weakened with the recent increase in hedge costs while yen bonds have become comparatively attractive.

In the long run, interest rates, including that of the super long-term zone, will likely rise dramatically due to the normalization of financial policies of the BOJ, and in order to avoid an excessive increase of the interest rates, we are prudently making diversified investments in JGBs as well as currency-hedged foreign bonds.

Our only investment outlet in the super long-term zone is JGBs, and although the issuance of corporate bonds has recently begun, it remains undeveloped. In the future, as a part of the investor base, we would like to contribute to the liquidity and development of the market.

・Although we are currently taking a temporary risk and using our assets for foreign bonds and risk assets, considering ALM, if the yen-denominated interest rates increase, we would like to shift towards yen-denominated assets with fixed interest rates.

Moreover, transactions are not made frequently as held-to-maturity bonds and policy-reserve-matching bonds are purchased in the super long-term zone. In addition, the holding ratio of the BOJ has increased, contributing to the decline in liquidity.

・As our liability side is yen-denominated, ensuring a stable and definite income from yen-denominated interest rates is fundamental when considering investments. Therefore, for the time being, we think there will continue to be a need for purchases of super long-term bonds.

・Foreign investments, where the liability side is yen-denominated, involve taking credit risks as well as exchange risks. As this is not a sound situation in the long run, if yen interest rates increase, we would like to shift towards yen-denominated assets.
Additionally, as the only choice of bonds with a maturity of 30 or 40 years are JGBs, we would like the market, including that of corporate bonds, to have more depth.

・Regarding asset allocation of bonds and shares, if share prices or yen interest rates increase considerably and bonds become cheaper than shares, we will increase the bond ratio.
In addition, regarding the relationship between yen-denominated bond and foreign bonds, although we have more currency-hedged foreign bonds due to yen-denominated bond being relatively expensive, if yen interest rates show a considerable increase in the future, we will gradually extend the duration of yen-denominated bond.

・There is a shift towards currency-hedged foreign bonds instead of yen-denominated bond. While there are investors who shifted to currency-hedged foreign bonds at an early stage, there are investors who continued to invest in yen-denominated bonds and only started shifting towards foreign bonds after investment became too difficult. Considering the emotional aspect, as both investors mentioned above made the shift by overcoming the burden of taking risks, even if the yen interest rate increases somewhat, we are concerned that assets once shifted overseas will not return.

・Regarding asset allocation between the United States, Europe, and Japan, due to the currently limited earning opportunity of the yen, we have no choice but to decrease the ratio of yen-denominated assets. Due to the yield curve of yen-denominated bonds being flat while the volatility remains low, it is hard for its profit to rise.

・Among global investment outlets, we have reduced the quantity of interest-rate risks considering the extremely low interest-rate level of yen bonds as well as the difficulty of additional monetary easing measures by the BOJ in the future. On the other hand, for investors who hold dollar-denominated assets, there is an investment demand for T-Bills to compensate for basis swaps.

・Amidst a large amount of money being poured into the market, the Debt Management Policy has a major significance. Although the prices are basically decided by the market, we should constantly consider what countermeasures can be taken for extreme movements.

・Investors are also worried about the delay in the attainment of a primary balance positive. With a new target being set by next year, we hope that fiscal discipline will be adhered to.

・The stability of the JGB market is important. Therefore, we should use these meetings to discuss matters such as which term to issue and the current situation of JGB market liquidity.

(Attachment)

Minutes of the Advisory Council on Government Debt Management
(45rd Round)

1. **Date: Wednesday, October 18, 2017 (10:00 a.m. to 11:30 a.m.)**

2. **Place: Ministry of Finance Special Conference Room 3**

3. **Gist of the Proceedings:**
    1. Current Debt Management Policy
        ・Current Debt Management Policy (Material①)
        ・Reference Material (Material②)
        ・Member Yoshino's Opinion (Material③)
    2. Shortening JGB Settlement Cycles (report)
        ・Shortening JGB Settlement Cycles (Material④)

1. Current Debt Management Policy

▶ The MOF explained current debt management policy as follows.

(JGB issuance based on medium- to long-term (mid-long) market demands)

▪ Traditionally, the basic objectives of the debt management policy have been -"Implement secure and smooth issuance of JGBs" and -"Minimize medium to long term financing costs." In order to achieve them, the MOF aims to promote dialogue with the market and issues JGBs based on market demand. Although market demand-based issuance is important, excessive response to temporary demands may raise funding costs by harming predictability for market participants or causing distortions of the market. Therefore, it is important to aim at "more stable and predictable issuance of JGBs" considering medium-to-long term market demand.

▪ In this regard, the MOF analyzed expected supply and demand trends of JGBs in the mid-long term as follows. On the supply side, to reduce the interest rate risks in the future, the annual issuance amount of super-long-term bonds has increased in recent years, while that of short- and medium-term bonds has decreased under the low interest rate environment. As a result, the outstanding amount of super-long-term bonds has increased significantly and that of medium- and long-term bonds has increased slightly.

- If the current JGB maturity composition will keep unchanged, a considerable amount of super-long-term issuance would be supplied to the market over time, despite netting out of the redemption. On the other hand, the redemption amount of medium- and long-term bonds tends to exceed the issuance amount.

- On the demand side, the MOF analyzed investment trends in JGBs by banks, the main investors for short- and medium-term bonds, and by life insurance companies, the main investors for super-long-term bonds.

- Looking at banks, deposit inflows have increased under the quantitative easing policy. Meanwhile, loans have not increased drastically and the deposit ratio declined. Amid these circumstances, banks declined JGB holdings, resulting in an increase in their outstanding amount of the BOJ current deposit. Supply and demand of medium-and-long term JGB have balanced in recent years, while the outstanding amount of those term bonds have only slightly increased, as the main investors, which are the banks, have declined their JGB holding amount.

- However, JGB holdings of banks have seemed to stop declining. It has been pointed out that there is a limit to the decline of JGB holdings, due to collateral demand and other factors. It is important to understand how banks' asset composition changes, upon considering supply and demand of future medium-and-long-term zones.

- Additionally, both city and local banks have been seeking yields since 2014, increasing their possession of super-long-term bonds supported the supply and demand balance of super-long-term bonds. However, city banks have anticipated the interest rate risk regulations on bank accounts and are starting to lower their super-long-term bonds holdings, which local banks may also follow, one year later.

- Looking at life insurance companies, since 2008, increased JGB holdings, while replacing medium-and-long-term bonds of those short residual terms with super-long-term bonds.

- Behind the increase in outstanding amount of super-long term bonds in recent years, life insurance companies, the main investors of those term bonds, have supported that, by replacing their medium-and-long-term bonds with super -long-term bonds.

- However, since the past two to three years, the increase in JGB holdings and replacement of super-long-term bonds, which have both supported the increase in outstanding amount of super-long-term bonds have taken a break. In case they proceed the maturity matching of asset and liability under the low interest rate environment, negative spread may be fixed. In other words, if interest rates increases, there is a possibility of resuming replacement of their assets for lengthening the average maturity. However, in connection with the liability side, it is also necessary to hold a certain amount of JGBs with short residual terms. It is important to determine how the liability side of life insurance companies changes to consider the future supply and demand balance of super- long-term bonds.

- Annualized premium income of life insurance companies is growing smoothly. On the other hand, income and expenditures deducting insurance and other expenses are making progress at around 7 to 8 trillion yen. In addition, the FSA analyzed in its previous year's "Progress and Assessment of the Strategic Directions and Priorities" that core group of insurance subscriber, who are in their 30s and 40s, will decrease in numbers and may shorten the insurance premium volume or may switch the needs from whole life insurance to medical and nursing care security, due to the changes in future population composition. The liability side of life insurance companies may change hereafter, both in qualitative and quantitative ways.

- Thus, in recent years, life insurance companies increased their super-long-term bond holdings, while banks decreased JGB holdings, which resulted to the demand for super-long-term bonds to be on the same trend as the supply side in a significantly increased outstanding amount. However, this structure may change hereafter.

- To aim at "more stable and predictable issuance of JGBs," it is important to determine the change in market demand in the mid-long term and set the JGB maturity composition consistent with the change.

(Increasing liquidity of JGB market)

- Liquidity of the JGB Market is another important issue. According to the BOJ's "Bond Market Survey," the JGB market function continues to be evaluated as low (or not very high).

- Also, the supply-demand balance of specific JGB issues may become tightened. The supply-demand balance of some JGB issues may be unbalanced, as one of the causes of this is that the BOJ purchases issues broadly including off-the-run issues by market operations, while the MOF mainly supplies on-the-run issues by auctions.

- The MOF has focused on conducting "Auctions for Enhanced-liquidity," to supply off-the-run issues that are short of liquidity structurally or due to rising demand. The annual issuance amount of this auction has increased in recent years, and the scope of eligible issues has expanded. With regard to "Auctions for Enhanced-liquidity," issuance amounts of each zone are determined in every quarter, in response to the market environment, based on discussions with market participants. It is considered that this flexible measure will become more important to enhance the market liquidity by the MOF.

▶ Summary of opinions and such from the members (put together by the MOF) are as follows.

- Arguments on monetary policy's tapering may be premature at the present stage, but FRB and ECB have already stepped toward tapering, which Japan should always bear in mind that tapering will come at any timing. The current financial market situation is being paralyzed, due to the BOJ's QQE and yield curve control, however, Japan will experience second phase of interest rate liberalization and commercialization, in a different meaning of that in the 1980s, upon QQE tapering.
  As being explained by the MOF, JGB's holdings structure may change dynamically in the future, such as financial institutions being controlled by IRRBB. Hence, it is important to discuss how to deal with such changes on an occasion like the Advisory Council on Government Debt Management. In addition, a framework enabling the MOF, the BOJ and the market to prepare as one is required in order to tackle any contingent situations.

- Increase in super-long-term bonds are remarkable in the future estimation of outstanding amount of JGB by maturity types in material①, but there are various viewpoints of the actual situation. For example, this may show a different aspect, if you see material②, where analyzed by remaining maturity.
  There are redemption funds, besides insuring income and expenditures, regarding operating capital of life insurance companies, so the scale of operation seems to be similar to annualized premium.
  In addition, it is obvious that demand for products with a savings component is expected to increase, while that of products providing protection of life insurance companies is expected to decrease as stated in the FSA's analysis, under the aging society with declining population. However, there are whole life type products in products with a savings component, and a different form of investment demand may

appear, if the mortality rate continuously declines. Therefore, it is not always the case that liability duration will be shortening on a large scale. Moreover, the current structure of life insurance companies is that liability duration is longer than that of assets, and there is a certain demand for super-long-term bonds, under the current low interest environment, from the point of view to fill the duration gaps, as interest rate risk will actualize if interest rate tends to decline.

- It can be estimated that the BOJ's JGB holdings ratio will exceed 50% in 2019 with the current BOJ's JGBs purchasing pace. Considering that the holdings ratio of central banks in postwar foreign countries was around 20% at the most, the situation of current Japan has been unprecedented. Therefore, it is necessary to consider at a level different from that of conventional on how to tackle future monetary policy, if drastically changed.
  Although this matter is supposed to be considered at each financial institution level, we should deal this matter in this meeting as well.

- BOJ Governor Kuroda stated that liquidity of JGB market seems to be rather improving at an interview after the monetary policy meeting on September 21. Please explain the point of his statement.

  → (Explanation by the BOJ) BOJ is hearing opinions, concerning a reduction in liquidity from market participants. On the other hand, some of the various indicators of liquidities, which our bank is referring to, seem to be rather improving. The statement has been made with intention that BOJ will observe indicators closely, as the sense of market participants and the actual data may diverge, along with conversing with market participants properly, based on these facts.

- Until recently, there had been some advantages to lengthen the average maturity of government debt, to control refunding risks for government, and also to fulfill demands of investors seeking higher yield. However, the presence of foreign investors and HFT (High Frequency Trading) have increased in recent years, as opposed to domestic demand which is expected to decline hereafter under the declining population. The time to change the debt management policy towards well-balanced issuance is expected to come.
  In addition, what is important as the debt management policy toward the normalization of monetary policy is to restore fiscal consolidation. Not only is the market function being paralyzed, but also tone on emphasizing fiscal discipline has been reduced in current days, which seems to be a serious issue.

- There is no sense of discomfort on the analysis that banks started to retain their holding amount of JGBs for collateral use, but it should be noted that collateral demand of the bank, including cross currency repos are mainly covered by JGBs with terms less than 2-year, and there are few cases covered by 5-year bonds.
  In addition, trades in the current JGB's holdings structure, where more than 90% is held by domestic investors, tends to lean to one-way, so "globalization" of JGBs should be promoted from the point of view to enhance holdings ratio of foreigners.
  Moreover, JGB's reuse value may raise and can be covered stably by foreign investors by solving challenges, such as settlement cycles and how to deal as eligible collateral.

- Issuance amount of refunding bonds, which is currently showing a declining trend, is expected to increase after 5 or 10 years. The banks may still be available to purchase a certain amount under IRRBB control, but there will be no option but to rely on foreign investors, that supposed to require certain additional returns, to cover the issuance amount at tapering phase.
  In addition, new approach is required to create demands, if funds gathered to life insurance companies are expected to decrease, due to changes in population composition. Individuals have funds after all, so promoting JGB holdings in retail market may be worth considering.

- I agree to the MOF's explanation that predictability in the JGB market is very important. The ECB and the FRB are making efforts, such as to announce the principles in advance to enhance predictability. It is necessary that Japan strives to enhance predictability as well.

- This may be a bit unreasonable argument, but the status quo is that the BOJ is purchasing most of the JGBs issued by the MOF with its current deposit as capital, which is nothing but circulating funds within the same government. Thus, even if lengthening the average maturity is promoted, the situation of the average maturity is not sought, seeing as a whole government including the BOJ.
  Since life insurance companies currently have strength to cover super-long-term bonds, increasing super-long-term bonds issuance, while promoting fiscal consolidation is rather preferable.

- I totally agree to the MOF's policy that issuance by regular auctions at calendar base should be made stably, while using the Liquidity Enhancement Auctions to deal with the market environment changes.
  Even if the interest rate returns to the original level with it, consideration should be

made, taking into account that there are some sectors which do not return to the JGB demand, as a result of environment changes, including introduction of IRRBB.
Demand survey that seizes the structural changes of each investor group, such as foreign and individual investors and pension funds is required.
In addition, although it was mentioned to aim "investment rather than saving", low risk and low return products to be provided to individuals are no longer available with the current low interest rate environment. It is necessary to consider the way of taking risks of individuals and what kind of products can be sold.

- It is important to discuss the debt management policy from a mid-long-term perspective, as the MOF explained. It may appear to be contradictory but at the same time, it is also important to secure flexibility to continue stable issuance. For the flexibility, it was mentioned that active use of Liquidity Enhancement Auctions continues to be favorable.
  Fundamental risk of JGB market is fiscal confidence. It is important to achieve fiscal consolidation when the BOJ step towards tapering in the future. Even if the achievement time of fiscal consolidation target is to be changed, it is necessary to maintain the policy of achievement itself and to show concreate ways to achieve the target clearly.

- It is important to discuss government's debt duration policy considering the market when Japan defeat deflation and the BOJ's monetary policy is to change.
  Since improvement in productivity is required to achieve fiscal consolidation, effects on productivity with the duration policy need also be considered. For example, capital efficiency needs to be enhanced, if the interest rate increases, so increase in interest rate may have positive impact on labor productivity in the present situation.
  In addition, there were many opinions in today's discussion that lengthening the average maturity may currently possible, but it has to be shortened in due course. Since I have been receiving more inquiries on Japan's fiscal discipline from foreign investors, regarding this point, policy of lengthening the average maturity of government's debt needs to be reviewed from now, if it is to be shortened in the future.

- JGB is acting as a benchmark role for private corporate bonds and such, in a way acting as public goods, by meeting various needs of investors, while being issued all over the yield curve. Assistant Treasury Secretary Gensler of the US had mentioned "the promotion of efficient capital markets" ,in addition to "sound cash management" and "achieving the (medium to long term) lowest cost financing for the taxpayers" listed on P2 of Material①, as the basic targets of the debt management policy from this sort of point of view.

In addition, in a situation where concerned opinion on public finance is not reflected into interest rate, the meaning to conduct lengthening the average maturity of government's debt should be considered. It could be seized as a signal that the government has abandoned fiscal consolidation if lengthening the average maturity of government's debt is opportunistically conducted under current low interest rate.

2. Shortening JGB Settlement Cycles (report)

▶ In conclusion, the MOF explained the Shortening JGB Settlement Cycles as follows.

- We will briefly report the results of review on shortening JGB settlement cycles, as explained in the last meeting of the Advisory Council (May).

- First, we will explain the environment of this examination. This has been reviewed, following the request to shorten JGB settlement cycles from the point of view to reduce settlement risk, regarding JGB which term from auction to issuance is being long, as shown in P1 of Material④.

- This review is planned to be implemented from May 2018 to coincide with the review in the secondary market of JGB, as shown in the upper right part of the figure in P3. Specific system design, as shown in the thick frame, is to issue 5-to-30 year bonds, which are issued in March, June, September and December, at T+1 in accordance with the principle. That is to issue them on the next business day of the auction, 2-year bonds will be issued on the first day of the following month of the auction, based on the setting condition of the current auction.

- The MOF would like to implement the shortening JGB settlement cycles smoothly in cooperation with market participants.