Minutes of the Meeting of JGB Investors
(82nd Round)

1. Date: Tuesday, March 24, 2020
2. Place: Held in writing
3. Gist of Proceedings:

1. Reopening and auction methods of nominal interest-bearing bonds in FY2020

▶ The Financial Bureau gave the following explanation about reopening and auction methods of nominal interest-bearing bonds in FY2020.

・ The reopening and auction methods of nominal interest-bearing bonds for the following fiscal year are discussed at this meeting in March every year and will be decided based on opinions from the participants. Today, we would like to hear your opinions on the proposal of the Financial Bureau regarding the reopening and auction methods of nominal interest-bearing bonds in FY2020 which are presented in page 3.

・ Since FY2015, the reopening method of 10-Year Bonds has not been changed, in which reopening is applied when the redemption date of the new issue is same as the previous issue and the gap between the coupon rate and the market yield on the auction date is not wider than about 30 bps.

Since most of the opinions were supportive of the current method when we heard opinions from market participants in advance, we suggest maintaining the current method of reopening regarding the 10-Year Bonds in FY2020.

・ Since the vast majority of the participants support the current method of reopening 20-Year, 30-Year, and 40-Year Bonds, we suggest reopening those bonds in principle in FY2020, building up four issues of 20-Year Bonds and 30-Year Bonds and one issue of 40-Year Bonds.

・ Regarding the auction method for 40-Year Bonds, we had believed it appropriate to continue maintaining the Dutch-style method (single-yield auction method) because the market for the 40-Year Bonds is not mature enough with a limited investor base and lower liquidity compared to other term bonds.

・ When we heard opinions from participants about the auction method for 40-Year Bonds in advance, some of them supported changing the method to the conventional method (multiple-price auction method) because the investor base has been expanding, with a stable demand expected, and there is a discontinuity observed in the price formation before and after the auction.

・ On the other hand, others supported the Dutch-style method since the low yield of 40-Year Bonds has been restraining the improvement of the liquidity and the price of 40-Year Bonds easily fluctuates because it locates at the end of the yield curve.

Furthermore, some argued that the Dutch-style method should be maintained because temporary imbalance of supply and demand has caused longer price-tail at the auctions.

・ In addition, in interviews before and after the bonds auction during periods of high volatility, it has been heard that the Dutch-style method provided market participants with a certain level of reassurance.

・ As mentioned above, certain number of participants supported the transition to the conventional method. However, the majority of them supported the continuation of the Dutch-style method.

・ We recognize that the market for 40-Year Bonds has not been matured enough. Although liquidity of 40-Year Bonds has been gradually increasing, the current trade volume of 40-Year Bonds have not surpassed that of 30-Year Bonds when the auction method transitioned from Dutch-style method to the conventional method.

・ Under these opinions and circumstances, as shown in page 4, we suggest maintaining the Dutch-style method in FY2020 for the aim of stable issuance, when the issuance amount of 40-Year Bonds will be increased.

・ Further, many of the participants agreed to this proposal at the Meeting of JGB Market Special Participants yesterday.

・ We would like to hear your opinions on the matter again. The reopening and auction methods of nominal interest-bearing bonds for FY2020 will be decided based on the meeting today.

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

・It is desirable to continue with the current reopening method from the perspective of ensuring the amount of outstanding JGBs and improving liquidity.

While the market liquidity of 40-Year Bonds has been gradually improving, the investor base is still limited compared to other bonds and their price fluctuations tend to be large because they are located at the end of the yield curve. Therefore, we support the current Dutch-style method from the perspective of a stable issuance of JGBs.

・ We agree to the proposal of the Financial Bureau. It is appropriate to maintain the current method from the perspective of maintaining the liquidity of the secondary market and repo market in consideration of the scale of Outright Purchase of JGBs by the Bank of Japan (BOJ).

In addition, it is appropriate to maintain the current Dutch-style method for 40-Year Bonds in consideration of an increase in the issuance amount in FY2020 and the current unstable market environment in order to contribute to a stable issuance.

・ We support the proposal of the Financial Bureau. It is appropriate to maintain the current method from the perspective of maintaining the liquidity of the secondary market and repo market under the current monetary policy.

・There is no particular problem since the current method has not caused any adverse effect on the liquidity of the secondary market and repo market.

・ We agree to the proposal of the Financial Bureau regarding the reopening method for 10- to 40-Year Bonds.

We also agree to the proposal of the Financial Bureau regarding the auction method of 40-Year Bonds. Given the low liquidity of 40-Year Bonds and the limited investor base, the Dutch-style method will continue to be desirable for a stable issuance. In the meantime, if the deviation of the results of auctions by the Dutch-style method from the market rate is observed more often, reflecting the current high demand for the purchase of 40-Year Bonds, there would be a room to consider transitioning to the conventional method as a part of the revision of the JGB Issuance Plan, including a revision in the middle of the fiscal year.

・ We agree to the proposal of the Financial Bureau. Although the reopening should be applied to 10-Year Bonds in principle, there is no particular problem in maintaining the status quo when considering the current environment.

・ We support applying the reopening to 10-Year Bonds to build up 4 issues in the similar way as other term bonds. Although a deviation of more than 30 bps is not likely to happen under the current monetary policy of the BOJ, in the case that the reopening was not applied, a disparity in liquidity would be generated among issues by the proceeding of the Outright Purchase of JGBs by the BOJ, distorting the market. Therefore, the reopening to build up four issues a year is preferable.

In addition, although the investor base for 40-Year Bonds is gradually expanding, it has been still limited. If the conventional method is introduced to 40-Year Bonds auctions, there will be a divergence in the bidding stance among securities companies which can verify investor demand and which cannot. It would be a burden for securities companies because the price-tail of the auctions are likely to be long and the duration of the bond is long. Therefore, we support the Dutch-style method.

・ Reopening should be applied to 10-Year Bonds in principal to secure a certain outstanding amount of each issue in the secondary market even in the event of a sudden change in interest rates, in addition to the perspective of consistency with 20-, 30- and 40-Year Bonds. The current method should be maintained for those bonds.

・ We have no objections to the proposal of the Financial Bureau regarding 10-Year Bonds.

It is desirable to set coupons in accordance with the actual market yield under certain conditions for 20- and 30-Year Bonds in the same manner as 10-Year Bonds to maintain the demand of investors when a sudden change in interest rates occurs.

We suggest that multiple issues of 40-Year Bonds should be produced per year because the necessity of elaborating interest rate risk management has been growing, especially when having a debt structure in the super long-term zone. In addition, it is desirable to continue with the Dutch-style method for the purposes of a stable issuance.

・ We support maintaining the status quo for the reopening method for 10- to 40-Year Bonds.

It is desirable that the auction method of 40-Year Bonds be transitioned into the conventional method. Considering that the market for 40-Year Bonds has developed significantly in more than ten years since they were introduced, it is a good time for them to be transitioned into the conventional method in the same manner as the other term bonds.

・ Although the interest rate volatility has been rising, it is appropriate to maintain the current reopening and auction methods in order to ensure liquidity. The balance of supply and demand tends to tighten due to the Outright Purchase of JGBs by the BOJ under the current monetary policy and trades are concentrated on on-the-run issues when interest rates fluctuate. On the other hand, in view of an improvement in liquidity and the expansion of the investor base, the auction method for 40-Year Bonds should be transitioned into the conventional method.

・ We support the proposal of the Financial Bureau to maintain the current reopening method of nominal interest-bearing bonds to improve liquidity of each issue.

The auction method for 40-Year Bonds should be transitioned into the conventional method since they tend to be auctioned at prices higher than those of the market rate.

2. Issuance amount of Inflation-Indexed Bonds in the April - June 2020 quarter

▶ The Financial Bureau gave the following explanation about the issuance amount of Inflation-Indexed Bonds in the April - June 2020 quarter:

・ As shown on page 6, the JGB Issuance Plan for FY2020 announces issuance of Inflation-Indexed Bonds four times a year for the amount of ¥400 billion per each time while stating that "the issuance amount 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." Also, as shown on page 7, it is stipulated about Buy-Back Auctions that "detailed methods will be determined by considering market circumstances based on discussions with market participants." Therefore, we would like to hear your opinions about the amounts of issuance and Buy-Back in the April-June quarter at today's meeting.

・ In the January-March quarter, as shown on page 8, we conducted an auction of issuance for the amount of ¥400 billion in February and decided to conduct Buy-Back Auctions for the amount of ¥20 billion every month. As shown on page 9, the result of the auction of issuance in February was comparable with those of past auctions.

The results of the Buy-Back Auctions and Outright Purchase of JGBs by the BOJ are shown on page 10. Although there was a fluctuation in the bid-to-cover ratio in the Buy-Back Auctions conducted by March 4, the results were generally in line with market conditions. On the other hand, the Outright Purchase of JGBs by the BOJ have been resulting in significantly lower prices compared to the closing price of the prior day.

・ The situation of the secondary market is shown on pages 11 to 13. The graphs on page 11 and 12 show a significant deviation in movements from the trend, which is happening globally.

Page 13 shows detailed movements. The BEI had been moving in a stable manner until New Year holidays at around 0.2%. However, the BEI fell nearly to zero since February when the risk-off sentiment was strengthened due to the spread of COVID-19 infection. The interest rates on Inflation-Indexed Bonds could not keep up with the fall in interest rates on nominal bonds.

Thereafter, with the further spread of COVID-19 infection and the decline of crude oil prices, the BEI in Europe and the United States fell sharply, followed by the sharp fall of the BEI in Japan, which stands currently at around -0.15%.

・ Under such circumstances, we asked for opinions from the participants in advance and found that many have been supporting reducing the issuance amount of Inflation-Indexed Bonds for the April-June quarter or increase the Buy-Back amount significantly since the balance of supply and demand has deteriorated. Inflation-Indexed Bonds were sold globally with the decline of crude oil prices and the risk-off sentiment due to the spread of COVID-19 infection.

In addition, many have been supporting the cancellation of the Non-price Competitive Auction II for Inflation-Indexed Bonds. There were opinions that the cancellation has a limited effect on the market in view of the supply and demand environment. Also, there were opinions that additional issuance at the Non-price Competitive Auction II in large amounts would adversely affect the market sentiment and its cancellation would contribute to an improvement in the balance of supply and demand.

・ In this situation, as shown on page 14, we are considering conducting an additional Buy-Back ¥300 billion in March. The method will be competitive auction with an upper limit set on the maximum purchase price spread. The upper limit level of the purchase price will be ¥100 while the specific value will be officially announced at the time of the offer. However, the purchase price for some issues will not be exactly ¥100 because the standard price differs for each issue. Further, the time of publication of results will be changed from the usual 12:35 to 14:00 for processing.

For the April-June quarter, we are considering issuing Inflation-Indexed Bonds in the amount of ¥300 billion, which is reduced by ¥100 billion from the previous quarter, and carrying out Buy-back Auctions in the amount of ¥50 billion every month.

In FY2020, we are considering adopting the reopening and the Dutch-style method for 1 issue per year, in the same manner as in FY2019. The Non-price Competitive Auction II will not be conducted for the time being. Regarding the cancellation of the Non-price Competitive Auction II, necessary amendments will be made in April for the “Principal Terms and Conditions for JGB Market Special Participants Scheme”, as shown on page 15.

We will keep a close watch on the market environment and other factors and take appropriate responses flexibly according to the situation.

・ Further, many of the participants agreed to this proposal at the Meeting of JGB Market Special

Participants yesterday.

・ This is the overall explanation of the market situation for Inflation-Indexed Bonds and the proposal.

We believe that the development of the Inflation-Indexed Bonds market is an important issue in debt management policy. We would like to hear your opinions again as it will be decided following the discussion at today's meeting as to the additional Buy-Back in March 2020, the issuance amount in the April-June quarter and the adoption of the reopening method in FY2020.

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

・ It is appropriate to reduce the issuance amount to ¥300 billion since the BEI has continued to be in the negative range recently. Once the issuance is suspended, it will be difficult to resume it. Since it is difficult to sell Inflation-Indexed Bonds in the secondary market, it is desirable to hold Buy-Back Auctions from the viewpoint of ensuring a means for their sale.

・ In view of the situation that the BEI is currently in the negative range and a growing concern over the global economic downturn associated with the COVID-19 infection as well as the domestic price trends, the demand for investment in the future is likely to decrease. Therefore, it is appropriate to reduce the issuance amount and increase the amount of Buy-Back.

・ We agree to the proposal of the Financial Bureau to reduce the issuance amount and increase the amount of Buy-Back.

・ The BEI has fallen sharply, affected by a sharp drop in crude oil prices and other factors, causing an imbalance in supply and demand. In the Outright Purchase of JGBs by the BOJ held on March 18 in which the BOJ increased its amount, there were bids for over ¥200 billion, and the situation has not been normalized yet. The Financial Bureau should support the balance in supply and demand by the reduction of issuance amount and the implementation of Buy-Back in order to stabilize the Inflation-Indexed Bonds market.

・ Currently, the BEI has continued to be unstable, having fallen into the negative range. Under the circumstances, although issuance should be continued from the perspective of developing Inflation-Indexed Bonds, it is appropriate to reduce the issuance amount and increase of the amount of Buy-Back to support the unstable conditions of the balance of supply and demand.

In addition, we have no objection to the cancellation of the Non-price Competitive Auction II.

・ It is desirable that the issue amount be ¥ 300 billion for each auction and the amount of Buy-Back be ¥50 billion every month. It is necessary to improve the balance of supply and demand by reducing the issuance amount and increasing the amount of Buy-Back in view of the sharp decline in market liquidity and a price decrease below the floor value. The additional Buy-Back in March will contribute to psychological improvement by removing the fear of a sharp price drop caused by a small amount of sale.

・ We agree to the proposal of the Financial Bureau. Currently, Inflation-Indexed Bonds have been globally sold for the purposes of risk reduction. Since the market size of Japanese Inflation-Indexed Bonds is small, the BEI has fallen into the below zero range. The reduction of the issuance amount responding to the extreme fluctuations will contribute to an improvement in stability of Inflation-Indexed Bonds market. On the other hand, from the perspective of an investor, a sharp drop of the price is considered to be an opportunity for investment, which can attract new demand. Since an excessive intervention in the market by the Financial Bureau may impair the long-term development of the market of Inflation-Indexed Bonds, we request the Financial Bureau to maintain effective communication with the markets. Further, it is vitally important that the Financial Bureau continue to show the attitude of actively developing the market of Inflation-Indexed Bonds to the market.

・ The BEI has been stuck at a low level and the price of Inflation-Indexed Bonds is relatively low. We agree to the proposal of the Financial Bureau, including the proposal of an additional Buy-Back in March.

For the July-September quarter onwards, the matter should be discussed flexibly in view of the market environment.

・ We neither handle Inflation-Indexed Bonds nor plan to make investment in them. However, due to a significant decrease in liquidity of the JGB market and a reduction in risk tolerance of foreign investors, the current market environment is very similar to that at the time of the Global Financial Crisis when the issuance of Inflation-Indexed Bonds was suspended. Therefore, it is desirable that measures to relax the supply and demand tension be implemented, such as the reduction of the issuance amount and an increase of the amount of Buy-Back, until the market environment recovers.

・ Regarding Inflation-Indexed Bonds, it is desirable that the auction method and the issuance amount be flexibly in accordance with the market environment, in addition to the viewpoint of ensuring the continuity of indicators such as the BEI, which may serve as a premise for various policy decisions.

・ Inflation-Indexed Bonds tend to fluctuate significantly when economic conditions change. This may be attributed to the high percentage of foreign investors in addition to the expectations for inflation. In addition, even if the price falls below ¥100, Japanese investors are unlikely to buy them because they have to record a capital loss as Inflation-Indexed Bonds are classified as risk products. Therefore, there is a room for improvement in the system to build such a mechanism wherein fall of prices of Inflation-Indexed Bonds attracts demand from investors.

3. Liquidity Enhancement Auctions in the April-June 2020 quarter

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auctions in the April-June 2020 quarter:

・ As shown on page 17, the JGB Issuance Plan for FY2020 states the following about Liquidity Enhancement Auctions:

(1) while it is assumed that a total of ¥11.4 trillion will be issued in a year, including ¥3.0 trillion and ¥2.4 trillion with remaining maturities of 15.5 - 39 years and with remaining maturities of 1-5 years, respectively, in the same manner as in FY2019, and ¥6.0 trillion with remaining maturities of 5-15.5 years, a reduction of ¥1.2 trillion from FY2019, and

(2) “the issuance amount and its allocation among each zone 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.”

Accordingly, we would like to hear your opinions about the amount of issuance for each zone for the April-June quarter.

・ As shown on page 18, as assumed in the FY2019 JGB Issuance Plan, we have issued ¥400 billion in January and March (odd-numbered months of) with the remaining maturities of 1 - 5 years, ¥600 billion every month with the remaining maturities of 5-15.5 years and ¥500 billion in February (even numbered month) with the remaining maturities of 15.5 - 39 years in the January-march quarter.

・ The results of the recent Liquidity Enhancement Auctions are shown on pages 19-21, where the result of the tomorrow’s auction for the remaining maturities of 1-5 years zone has not been reflected. The results have been generally stable in each zone thus far. However, the auction for the remaining maturities of 5-15.5 years zone held on March 16 resulted in a long price-tail due to the recent increase in volatility.

・ Under these circumstances, we asked opinions from market participants about the Liquidity Enhancement Auctions for the April-June quarter in advance. Many of the opinions supported reducing the issuance amount by ¥100 billion every month for the remaining maturities of 5-15.5 years in FY2020 and maintaining the current issuance amount for the other zones.

・ Our proposal for the issuance amount for each zone in the April-June quarter is shown on page 22. We are considering issuing ¥400 billion in the May (odd-numbered month) for the remaining maturities of 1-5 years zone, ¥500 billion every month, by reducing ¥100 for each auction, for the remaining maturities of 5-15.5 years zone, and ¥500 billion in April and June (even-numbered months) for the remaining maturities of 15.5 - 39 years zone.

・ Further, many of the participants agreed to this proposal at the Meeting of JGB Market Special Participants yesterday.

・ We would like to hear your opinions once again and we will decide the issuance amount for each zone of Liquidity Enhancement Auctions in the April-June quarter, following the discussions at today’s meeting.

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

・The results of the Liquidity Enhancement Auctions in the remaining maturities of 5-15.5 years zone this month showed a long price-tail due to the rise in volatility. Also, the proposal was discussed and supported by the market participants at the Meeting of JGB Investors last year. Therefore, the amount reduction in this zone is appropriate.

・ The desirable allocation of the issuance amount is ¥400 billion in May in the remaining maturities of 1-5 years zone, ¥500 billion every month from April to June in the remaining maturities of 5-15.5 years zone, and ¥500 billion in April and June in the remaining maturities of 15.5-39 years zone. We have no objection to the proposal of the Financial Bureau. Although some issues have been showing a peculiar movement in the repo rate, it is not concentrated on a specific zone.

・ We have no objection to the proposal of the Financial Bureau. Based on the discussion at the

Meeting of JGB Investors last year, the reduction in the issuance amount in the remaining maturities of 5-15.5 years zone was determined in the JGB Issuance Plan for FY2020, in which issuance amounts for the other two zones will be unchanged.

・ We have no objection to the proposal of the Financial Bureau in which issuance of bonds with a longer duration is planned in April because demand of fund is expected to rise when entering the new fiscal year.

・ Although there was a long tail in the Liquidity Enhancement Auctions on March 16, the auctions were held when the volatility was high, and the results does not show an excessive tightening of supply and demand. Although the repo-rates of some issues are low, the issuance amount in the remaining maturities of 5-15.5 years can be reduced.

・ Investors with a super long-term liability structure have a strong demand of purchasing JGBs based on the remaining maturity from the perspective of ALM and ERM. It is desirable to increase the market volume through Liquidity Enhancement Auctions for the super long-term bonds with relatively low market volume and high transaction costs. Therefore, we request an increase in the issuance amount in the super long-term zone.

・ It is desirable to increase the issuance amount to ¥550 billion per auction in the remaining maturities of 15.5–39 years zone. Super-long term bonds with a positive interest rate meet various needs of investors, including the ALM purpose. The balance of supply and demand will be increasingly tight in the future.

・ The investment needs of life insurance companies in the super long-term zone have been strong for the preparation for the introduction of economic value-based solvency regulations. Therefore, it is desirable to increase the supply amount of off-the-run issues in the super long-term zone.

・We agree to the proposal of the Financial Bureau to reduce the issuance amount in the remaining maturities of 5-15.5 years, considering the fact that the liquidity of cheapest-to-deliver issues has been improved relatively by the relaxation of requirements for the Securities Lending Facility by the BOJ. The investment needs of life insurance companies for JGBs in the super long-term zone are high for lengthening the duration of assets for ALM purposes. In addition, the investment needs of other investors in the super long-term zone have increased from the perspective of hunting for yield when the long-term interest rate is nearly zero. Therefore, the liquidity of the super long-term zone will remain extremely low. The spread of the interest rates between the 30-

Year Bonds and 40-Year Bonds is extremely narrow and there are days on which the interest rate on 40-Year Bonds is lower than the interest rate on 30-Year Bonds, which indicates a strong demand for the 40-Year Bonds. The fact that many investors buy the 40-year Bonds for the purpose of long-term holding have been causing a flattening of the yield curve as a whole. From these perspectives, there is a room for increasing the amount in the remaining maturities of 15.5-39 years zone in the future.

・ We request the Financial Bureau to issue off-the-run issues in the remaining maturities of 20 years and longer in a concentrate manner because the liquidity of the off-the-run issues with long-term maturity, which has a strong demand from investors, is low and they are difficult to buy. We suggest that ¥500 billion is allocated to the remaining maturities of 15.5-39 years zone, ¥100 billion to the remaining maturities of 15.5-20 years zone and ¥400 billion to the remaining maturities of 20 years and longer zone. In addition, we would like to request that the reduction in the amount of Liquidity Enhancement Auctions for the April-June quarter be cancelled in order to respond to market fluctuations due to the spread of COVID-19 and a decline in liquidity due to a significant increase in the Outright Purchase of JGBs by the BOJ in the short term.

4. Latest JGB market situation and outlook for future investments

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

・ Although the long-term interest rate has entered into the positive range again, there are few securities companies and investors that can actively take positions due to a seasonal factor of the end of the fiscal year, leading to the prolonging high volatility situation. With the start of the new fiscal year in April, the rise in interest rates will be restrained as more investors will start taking position. We will consider buying JGBs with positive interest rates while weighing the risks and benefits.

・ The market liquidity has dropped significantly due to reduced risk tolerance of investors caused by the spread of COVID-19 infection and the reduced correlation among assets. In addition, the high volatility situation is expected to continue as the market is wary of an increase in JGB issuance as a result of the formulation of large-scale supplementary budgets. There is a corresponding demand for JGBs with positive interest rates for collateral purposes by banks with foreign currency demand. We will continue investments while considering various regulations.

・ The market liquidity and the risk tolerance of investors have fallen significantly. It will take a while for the market to restore some degree of stability. Under these situation, we will keep the stance of buying 10-Year Bonds with positive interest rates in the future. In addition, we will keep the same stance regarding government-guaranteed bonds and local government bonds with middle-term maturities that have positive interest rates.

・ The markets all over the world are undergoing significant fluctuations due to the spread of COVID-19 infection. In the JGB market, although the interest rates have risen slightly because of the Yield Curve Control policy, they have stayed within a limited range. We will continue to buy a certain amount of long-term and super long-term bonds from the perspective of controlling interest-rate risk.

・ Due to the turmoil in the global financial markets caused by the global spread of COVID-19 infection, the liquidity of the JGB market has dropped significantly, making it difficult for investors to make transactions normally. However, due to the policy responses of governments and central banks, the financial market is expected to regain stability over time and the low interest rate environment will continue worldwide thereafter.

・ The Outright Purchases of JGBs by the BOJ, which have been conducted actively currently, have contributed to restrain the sale of bonds for liquidation and to stabilize the changes in prices of relatively expensive JGB futures and a subsequent rise in interest rates. Although it is fiscal measures are expected to be implemented globally in response to the spread of COVID-19 infection, an increase in the issuance amount of government bonds is unlikely to cause a significant global rise in interest rates because of aggressive monetary easing measures in each country. Once the volatility gets lower, interest rates will be basically low and stable.

・ A concern over a global recession due to the spread of COVID-19 infection has been growing while it is expected for each country to increase the issuance amount of government bonds associated with the large-scale fiscal expenditure. In addition, investors have been reducing their risks in their assets. Due to these factors, the interest rates have been largely fluctuating globally. The volatility of JGBs is also high and the fluctuations of interest rates is expected to continue for the time being. Under the uncertain global economic situation, we will watch risk asset prices and trends of overseas interest rates carefully. Also, we will invest in JGBs with the expectation of the extension of the Yield Curve Control policy by the BOJ, carefully watching the interest rate levels.

・ The liquidity of the global financial market, including the JGB market, has sharply dropped due to the spread of COVID-19 infection. The debt management policy of each country has becoming increasingly important ever. In the future, we will determine our investment policy in consideration of the debt management policy and financial and monetary policy of each country.

・ With the spread of COVID-19 infection, there is a heightened concern over a global recession and there is a heightened uncertainty in the future. In addition, the high volatility situation has been continuing while global liquidity has fallen and the risk tolerance of investors and the liquidity have dropped significantly in the JGB market as well. For the time being, we will watch the effect of the COVID-19 on the real economy and market liquidity carefully. Also, we will invest in JGBs carefully when they become relatively cheap, considering the portfolio situation under the Yield Curve Control policy by the BOJ.

・The risk-off sentiment is evident in the markets with the spread of COVID-19 infection and many investors worldwide have been very passive about making investments, leading to a significant drop in the market liquidity. Therefore, the interest rates of JGBs are likely to remain significantly fluctuate according to the headlines. Even under such circumstances, JGB investments will be continued from the perspective of ALM or ERM. However, when there is no improvement in the market environment, including the current ultra low interest rates, we will be obliged to review capital allocation for maintaining and improving the profitability of portfolios in order to respond to the trust placed by contractors.

・The liquidity of JGBs is currently very low in the midst of the market uncertainty due to the spread of COVID-19 infection since the end of February. This is also attributed to a reduced risk tolerance of securities companies and other investors amidst the rise in the volatility of interest rate swaps and JGB futures. The decline of the liquidity of super long-term bonds is conspicuous. Bids and offers are either scarce or limited in their amount in the super long-term zone. However, despite the reduced liquidity, the demand for 40-Year Bonds continues to be strong. It has been causing the situation where the interest rate on 40-Year Bonds is sometimes lower than the interest rate on 30-Year Bonds. It is highly probable that the low liquidity of super long-term bonds will continue because of hunting for yield and needs of life insurance companies to lengthen the duration of their liability for ALM purposes. Although the situation does not allow us to make a full-scale investment at the current interest rate levels, we plan to make a certain level of investment in JGBs in FY2020 to purchase super long-term bonds for ALM.

・ The liquidity of the JGB market has been falling due to the significant increase in volatility of risk assets and the collapse of trading based on relative values in each country's bond market. As the liquidity of the short-term financial market is sufficient and a financial crisis has been avoided, abnormal values in various indicators is likely to subside in the coming weeks or months. However, interest rates are unlikely to rise in the mid- to long-term in consideration of the structural demographic structure even after the spread of COVID-19 infection has subsided. Considering the global low interest rate situation and the prolonged monetary easing by the BOJ, the balance of supply and demand for super long-term bonds will continue to be tight due to a growing base of domestic investors for ALM purposes, in addition to the demand from overseas investors. We will continue to buy and hold JGBs in the future while watching the market trends carefully.

・ The unstable environment is likely to continue for the time being, where the liquidity is very low, a distortion of bond prices among issues and sectors is high and the repo market is unstable. We will continue to restrain investments and will resume investments after the liquidity recovered.

・ The liquidity of JGBs has been falling due to split operations and a reduced risk tolerance of investors and securities companies. Since there is a reverse correlation between bond and stock prices currently, the market might appear to be in a normal situation. However, there is a concern that stocks and bonds will be sold in a panic situation. We would like to request that the JGB Issuance Plan will be flexibly modified at such a time of crisis.

・By the subsequent measures implemented by the FRB, the financial and capital markets have begun to move toward the normalization with the US dollar LIBOR rate and long-term US interest rates falling and gold prices rising.

・ More frequent dialogues between the Financial Bureau and the market might be required to stabilize the market and facilitate smooth issuance of JGBs in the case the issuance amount of JGBs increases largely with the large-scale financial expenditures aiming to prevent the spread of the infection and support social and economic activities, paying close attention to the global spread of the new coronavirus infection and the resulting impact on the economic activities of each country.

5. Matters explained by the Financial Bureau

▶ The Financial Bureau gave the following explanation:

・ First, the Financial Bureau informs you of the lowering of the lower limit of the coupon rate of interest-bearing bonds.

The Financial Bureau plans to lower the lower limit of the coupon rate of interest-bearing JGBs from 0.1% in the JGB Issuance Plan for FY2020. It has been decided that the lower limit of the coupon rate will be set at 0.005% in view of the system adjustment.

The Financial Bureau aims at its implementation after October this year while taking into consideration the preparation status of each company.

・ Next, the Financial Bureau informs you of the revision of the frequency of publications, including the "State of Stripping of STRIPS" and others.

Currently, the Financial Bureau publishes the "State of Stripping of STRIPS," the "Changes in the Outstanding Amount of STRIPS (Principal-only Book-entry Transfer JGBs)," and the "Changes in the Outstanding Amount of STRIPS (Coupon-only Book-entry Transfer JGBs)" around the 10th of each month. In recent years, however, there has been no significant change in the separation status.

In light of such a situation, the Financial Bureau asked in advance for opinions on the change of the frequency of publications from the current "monthly" to "quarterly," and many of them agreed to the revision by saying that there is no problem in reducing the number of frequencies of publications in consideration of the current interest rate environment and customer needs, and there is no effect on the market and actual business.

Based on these opinions, the Financial Bureau will change the frequency of publication quarterly after the publication in April 2020 (for March results) onwards. The Financial Bureau will consider revising the frequency of publication in the event of a situation where large changes in the outstanding amount are observed continuously.

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