

Japan Finance Organization for Municipalities (Management Account)

http://www.jfm.go.jp/

1. Summary of operations implemented using FILP funds

Management and collection of existing loans and contingent businesses succeeded from Japan Finance Corporation for Municipal Enterprises. FILP is limited to refinancing of already-issued government-guaranteed bonds which is necessary for smooth operations.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
100.0	6,719.9

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*	-500.2	-100.2	+400.0
3. Opportunity cost of capital investments, etc.	-57.1	-372.5	-315.4
Total (1+2+3=policy cost(A))	-557.3	-472.7	+84.6
Analysis period (years)	19 years	18 years	-1 year

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
(A) Policy cost (previously cited)	-557.3	-472.7	+84.6
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	-	-	-
2) Policy cost expected to be newly accrued during the analysis period	-557.3	-472.7	+84.6
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*	-500.2	-100.2	+400.0
Opportunity cost of surplus, etc.	-57.1	-372.5	-315.4
Opportunity cost of capital investments, etc.	-	-	-

(5) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

(A) Policy cost (previously cited)	Case for raising lending and fundraising rates by 1 %	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*			3. Opportunity cost of capital investments, etc.		
-472.7	-307.7	+165.0	-	-	-	+0.5	-	-	-	+164.5	

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2018	FY2019	Simple fluctuation
		Simple comparison (before adjustment)	-557.3	-472.7
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)	Real fluctuation (2-1)
		-444.0	-475.2	-31.2

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in cost due to increase in prepayments (+4.9 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to finalization of FY2017 results and revision of FY2018 projections (-20.6 billion yen)

- Others (decrease in opportunity cost due to analysis period shortening) (-15.5 billion yen)

(4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2019 (previously cited)	-472.7
1) Prepayments	19.5
2) Loan losses	-
3) Others (including profit spread)	-492.2

(Note) Components in each column may not add up to the total because of rounding.

* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

4. Outline of estimation and project prospect employed in the analysis

- 1) The management account of JFM does not offer any loan.
- 2) The analysis period continues until all loans will be recovered in full in addition to the loans that have been already provided.
- 3) Grant-in-aid from the Government is not estimated.
- 4) Bad debts are not estimated since the FSA's "Inspection Manual for Deposit-taking Institutions" says that due from local governments "are not subject to allowances since they are considered to be without collection risk or value impairment risk."
- 5) As specified in Article 14 of the Supplementary Provisions of the Japan Finance Organization for Municipalities Act, up to 900 billion yen (including 100 billion yen planned initially in FY2017) as part of its reserve for interest rate volatility will have to be paid to the national government in three years from FY2017 to FY2019 to secure the total local allocation tax amount.
After 400 billion yen was paid to the national government each in FY2017 and FY2018, 100 billion yen is planned to be paid for FY2019.
- 6) JFM is planned to pay up to 1.5 billion yen to the government from its reserve for interest rate volatility in six years from FY2018 to FY2023 to secure financial resources for relief compensation for pre-maturity redemption of local government debt regarding water and sewage concessions.
JFM paid about 0.06 billion yen in FY2018 and is planned to pay an amount of money according to the pre-maturity redemption progress in FY2019.
- 7) As specified in the Article 13, Paragraph 10, Supplementary Provision of the Japan Finance Organization for Municipalities Act, residual assets in abolition of the management account shall be returned to the national treasury.

5. Reasons for granting of subsidies, mechanism and underlying laws

- 1) Grant-in-aid from the Government is not estimated.
- 2) There is a provision regarding the belonging to national treasury in the Japan Finance Organization for Municipalities Act (Act No. 64 of 2007).

(Underlying laws and regulations) Supplementary Provision of the Japan Finance Organization for Municipalities Act

Article 13: 10.

JFM shall, when its management operations for the Predecessor ends, abolish the management account without delay. When abolishing the management account, if there are remaining assets after discharging liabilities, those assets shall belong to the national treasury.

Article 14:

Regardless of the provisions of Paragraph 6 of the preceding article, the Minister for Internal Affairs and Communications and the Minister of Finance shall, based on the financial condition of JFM, when JFM's work is smoothly implemented, if total amount of the management account reserve for interest rate volatility and reserve funds provided in Paragraph 8 of this article is higher than the amount which is required for smooth operation of the asset management operations of the Predecessor in the future, a certain amount specified in Ministry Ordinance of Internal Affairs and Communications or Ministry Ordinance of Finance to belong to the national treasury.

6. Special remarks

- 1) As specified in the Article 9, Supplementary Provision of the Japan Finance Organization for Municipalities Act, Japan Finance Corporation for Municipal Enterprises ("JFCME") was dissolved on 1 October 2008 and Japan Finance Organization for Municipal Enterprises ("JFOME") succeeded to all rights and obligations of JFCME except assets to be handed to the Government. Upon its dissolution, investment by the government was all repaid to the government.
- 2) By the enforcement of the Act on the Partial Revision of the Local Allocation Tax Act (Act No. 10 of 2009), JFOME was reorganized into JFM on 1 June 2009.

(Reference) Outcome and social and economic benefits of operations

Since JFM (management account) does not offer any new loans, outcome and social and economic benefits of operations on assets inherited from JFCME are as follows:

1) Financing of JFCME

• Financing from FY1957 to FY2008 (aggregate amount)

General loans:	333,902 cases	45,489.4 billion yen
Public corporation loans:	1,848 cases	524.5 billion yen
Commissioned loans:	60,559 cases	707.7 billion yen

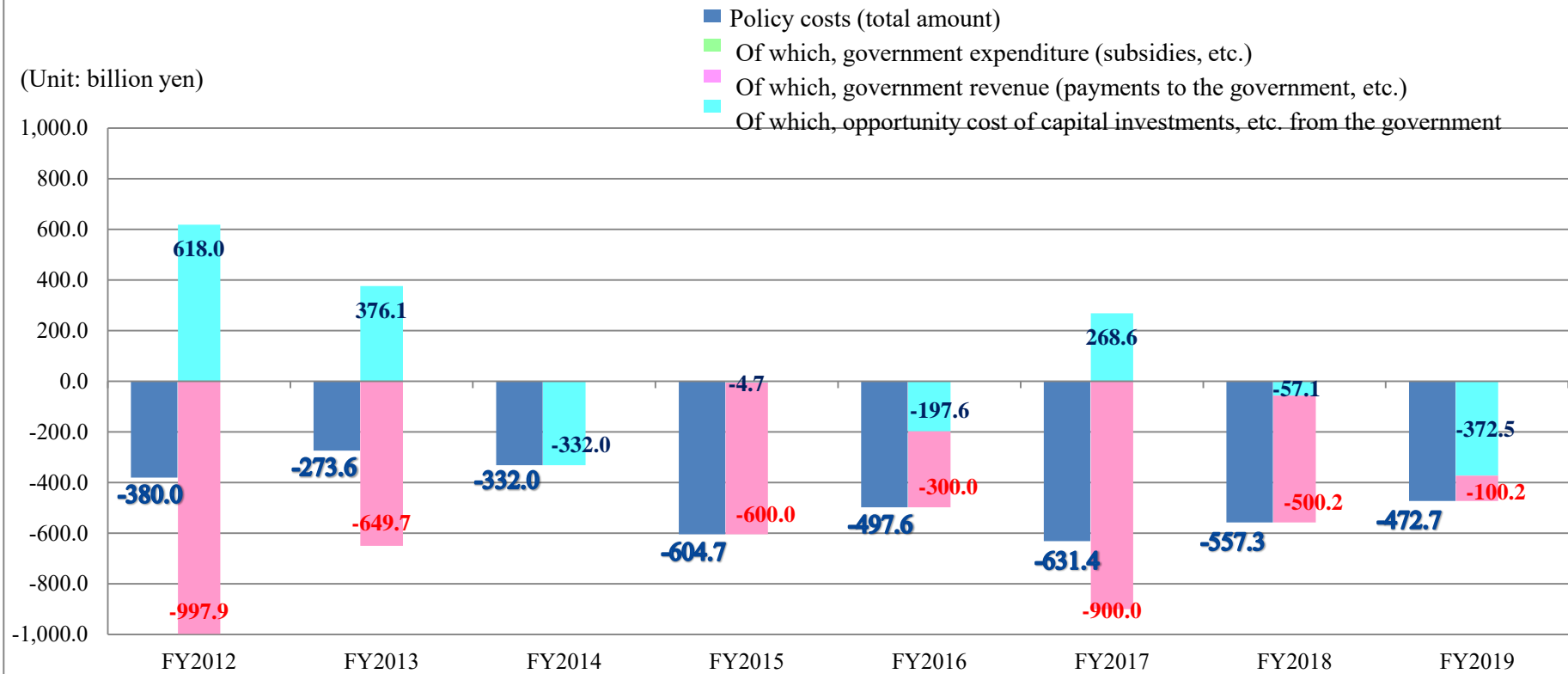
*Figures in FY2008 are half-year accounts as of the end of September 2008.

2) Conditions of main projects for which funds are provided (FY1970-FY2008)

- Rate of diffusion of water supply systems: 80.7% → 97.5%
- Rate of diffusion of sewerage systems: 15.6% → 72.7%
- Number of passengers transported by public subway systems: 1,022 mil. → 2,936 mil.

(Reference) Changes in Policy Costs by Component

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Notes 1. Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

2. JFM was established in August 2008. (commenced operations in October 2008)

3. From FY2008 to FY2011, no policy cost was incurred because there was no capital investment from the government during the analysis period and no ministerial ordinance regarding payment to the national treasury was developed.

(Points)

- Policy costs in each fiscal year book payments to the national treasury pursuant to Article 14 of the Supplementary Provision of the Japan Finance Organization for Municipalities Act and belong to the national treasury of remaining assets pursuant to Article 13, Paragraph 10 of the Supplementary Provision of the Act, resulting in the generation of negative policy costs.

- Negative policy costs increased temporarily in FY2017 as the FY2017 fiscal measures for local governments ordered JFM to pay up to 900 billion yen to the government in three years from FY2017 to FY2019. After 400 billion yen was paid each in FY2017 and FY2018, however, negative policy costs declined in FY2018 and FY2019.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)	Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
(Assets)				(Liabilities and equity)			
Loans	23,768,240	23,511,369	23,427,679	Bonds	20,284,521	20,196,048	19,939,513
Securities and cash and bank deposits	917,768	909,639	773,823	Borrowed money	159,500	125,500	194,500
Cash collateral paid for financial instruments	56,277	25,317	22,857	Cash collateral received for financial instruments	12,260	104,019	41,460
Other assets	9,783	8,212	7,417	Other liabilities	6,693	5,724	5,201
Tangible fixed assets and intangible fixed assets	3,761	5,019	5,069	Reserve for bonuses	58	-	-
				Reserve for directors' bonuses	8	-	-
				Reserves for retirement benefits	48	-	-
				Reserve for directors' retirement benefits	24	-	-
				Fund for lending rate rededuction	920,288	920,288	920,288
				Basic fund for lending rate rededuction	920,288	920,288	920,288
				Capitalized fund for lending rate rededuction	-	-	-
				Reserve under special law, etc.	3,105,003	2,820,727	2,821,827
				Reserve for interest-rate volatility	2,200,000	2,200,000	2,200,000
				Management account reserve for interest rate volatility	870,453	591,857	604,822
				Reserve for interest rate reduction	34,550	28,869	17,005
				(Total liabilities)	24,488,402	24,172,306	23,922,788
				Local government investment	16,602	16,602	16,602
				Retained earnings	191,891	212,136	234,117
				Reserve fund for general account	191,891	212,136	234,117
				Valuation translation adjustments and others	5,269	4,846	5,529
				Reserve fund for management account	53,666	53,666	57,809
				(Total equity)	267,428	287,250	314,057
Total assets	24,755,830	24,459,556	24,236,845	Total liabilities and equity	24,755,830	24,459,556	24,236,845

Notes 1. Components may not add up to the total because of rounding.

2. Although only management account is eligible for FILP, above figures show entire corporation figures including accounts for operations other than management operation for corporation claims.

3. Figures in FY2018 contain the additional amount by the supplementary budget. Figures in FY2019 are based on the initial budget.

Income Statement

(Unit: million yen)

Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)
Ordinary income	347,476	316,784	287,815
Profit from fund operation	343,305	313,678	284,614
Revenue from service transactions, etc.	98	93	87
Other operating income	46	-	-
Other income	4,026	3,012	3,113
Contributions from funds for lending rate reduction	4,012	3,000	3,100
Other ordinary income	15	12	13
Ordinary expenses	195,500	180,113	163,418
Fund-raising expenses	187,970	173,046	156,902
Expenses for service transactions, etc.	300	285	285
Other operating expenses	3,934	2,987	2,760
Business expenses	3,295	3,795	3,471
Other ordinary expenses	-	-	-
Ordinary profit	151,976	136,671	124,396
Extraordinary profits	626,467	405,889	105,549
Reversal of management account reserve for interest rate volatility	620,000	400,209	100,184
Reversal of reserve for interest rate reduction	6,467	5,681	5,364
Extraordinary loss	752,332	522,021	208,327
Provision for reserve fund for interest-rate volatility	220,000	-	-
Provision for management account reserve for interest rate volatility	132,332	121,813	108,143
Payments to national treasury	400,000	400,209	100,184
Net profit	26,112	20,539	21,618

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