

Principal Terms and Conditions for JGB Market Special Participants Scheme

Section 1 Purpose

The Minister of Finance has designated persons that play an important role in the Japanese Government Bond (JGB) markets (primary and secondary markets), cooperate in the formulation and implementation of JGB management policies, and have special responsibilities and entitlements regarding the JGB markets as “JGB Market Special Participants” (hereinafter referred to as “Special Participants”). The Minister of Finance has introduced the JGB Market Special Participants Scheme in which Special Participants, the Ministry of Finance (hereinafter referred to as the “MOF”), and others aim at facilitating stable issuance of JGBs and maintaining and enhancing the liquidity, efficiency, competitiveness, transparency, and stability of the JGB markets.

These terms and conditions clarify operating policies including responsibilities, entitlements, and assessment of Special Participants, so that this scheme works smoothly and effectively.

Section 2 Designation of JGB Market Special Participants

1 Standards for Designation

The Minister of Finance, based on Article 5, Paragraph 2 of the Ministerial Ordinance on Issuance, etc. of National Government Bonds (Ordinance of the Ministry of Finance No.30 of 1982; hereinafter referred to as “Ordinance on Issuance”) and Case Providing the Standards Set Forth by the Minister of Finance Prescribed in Article 5, Paragraph 2 of the Ministerial Ordinance on Issuance, etc. of National Government Bonds (Public Notice of the Ministry of Finance No.313 of July 2004), shall designate a person, among auction participants prescribed in Article 5, Paragraph 3 (1) of the Ordinance on Issuance and auction participants prescribed in Article 5, Paragraph 3 (1) of Ordinance on Handling of Government Financing Affairs (Ordinance of the Ministry of Finance No.6 of 1999; hereinafter referred to as “Ordinance on Handling”), that satisfies each of standards listed in (1) to (4), as a Special Participant, upon application:

- (1) The applicant has bid for an amount equal to or greater than the planned issuance amount (meaning the planned issuance amount offered by the MOF in each auction for JGBs; the same shall apply hereinafter) multiplied by the rate of bidding responsibility (calculated by the formula shown below, with any fraction less than one rounded up to the nearest whole number; the same shall apply hereinafter) at reasonable prices in each of auctions (except Non-Price Competitive Auctions II for JGB Market Special Participants set forth in Paragraph 5 of Section 4 (hereinafter referred to as “Non-Price Competitive Auctions II”); the same shall apply hereinafter) for all JGBs

(including Treasury Discount Bills; the same shall apply hereinafter) issued by the method of an auction in and after the first day of the quarter before the last.

$$\text{Rate of bidding responsibility (\%)} = \frac{100}{n}$$

“n” is the number of Special Participants. In Paragraph 1 of Section 2, “n” is “n” as of the first day of the quarter before last.

- (2) For all JGBs issued by the method of an auction during the two most recent quarters of the day of application, the applicant has made successful bids so that the ratio of the total amount of its JGB purchases (meaning the total amount of purchases at auctions for relevant JGBs excluding Non-Price Competitive Auctions II and Auctions for Enhanced-Liquidity set forth in Paragraph 6 of Section 4; the same shall apply hereinafter) in each of four categories listed below to the total issuance amount of JGBs in each of the said categories (meaning the total amount of issuance of relevant JGBs by the method of an auction; the same shall apply hereinafter) is equal to or more than each ratio prescribed below.
 - i. Super long-term bonds (40-Year Bonds, 30-Year Bonds, and 20-Year Bonds): 1%
 - ii. Long-term bonds (10-Year Bonds and 10-Year Inflation-Indexed Bonds): 1%
 - iii. Medium-term bonds (5-Year Bonds and 2-Year Bonds): 1%
 - iv. Short-term bonds (Treasury Discount Bills): 0.5%
- (3) The applicant is expected to be able to provide sufficient liquidity in the secondary market of JGBs.
- (4) The applicant is expected to be able to reliably provide the MOF with sufficient information that is necessary to formulate and implement the JGB management policies of the MOF such as developments of the secondary market of JGBs and others.

2 Procedures for Designation

- (1) Applicants wishing to be newly designated as a Special Participant shall submit an application form for designation of Special Participants (hereinafter referred to as the “application form”) to the MOF. The application form may be submitted at any time.
- (2) Where the applicant who submitted the application form satisfies each of the standards listed in Paragraph 1, the MOF shall designate, within one month after the application form is accepted, the applicant as a Special Participant, notify the Special Participant of that effect, and publicly announce the trade name or name. Where the applicant who submitted the application form does not satisfy the relevant standards, etc., the MOF shall notify the applicant that the MOF does not designate the applicant as a Special Participant.
- (3) The MOF shall grant the applicant entitlements of Special Participants listed in Section 4 (hereinafter referred to as the “Special Entitlements”) within one month after the public announcement set forth in (2) is made. The amount of time before the Special Entitlements are granted may differ for each of the Special Entitlements depending on the amount of time required

for necessary preparations, etc.

- (4) Where the MOF receives an application form from an applicant who were previously excluded from Special Participants under Paragraph 2 (2) vi. of Section 5, the MOF shall designate the applicant as a Special Participant where the applicant satisfies each of the standards listed in Paragraph 1.

Section 3 Responsibilities of JGB Market Special Participants

Special Participants shall cooperate in the formulation and implementation of JGB management policies and comply with the following matters:

1 Bidding Responsibility and Purchasing Responsibility in the Primary Market

(1) Bidding Responsibility

- i. Special Participants shall bid for an adequate amount equal to or more than the amount obtained by multiplying the planned issuance amount by the rate of bidding responsibility at reasonable prices in each of auctions for all JGBs; provided, however, that the MOF shall not accept a bid whose price significantly differs from the market price and is not considered a reasonable price.
- ii. The rate of bidding responsibility may change due to the calculation of the rate of bidding responsibility, considering the change in the Special Participants. In that case, each Special Participant shall be notified of the new rate of bidding responsibility with consideration of the change within one month after the announcement of the change.
- iii. The new rate of bidding responsibility shall be applied to all JGBs issued in the month following the month in which the MOF notifies each Special Participant.

(2) Purchasing Responsibility

For all JGBs issued by the method of an auction during the two most recent quarters, Special Participants shall make successful bids so that the ratio of the total amount of their JGB purchases in each of four categories listed below to the total issuance amount of JGBs in each of the said categories is equal to or more than each ratio prescribed below:

- i. Super long-term bonds (40-Year Bonds, 30-Year Bonds, and 20-Year Bonds): 1%
- ii. Long-term bonds (10-Year Bonds and 10-Year Inflation-Indexed Bonds): 1%
- iii. Medium-term bonds (5-Year Bonds and 2-Year Bonds): 1%
- iv. Short-term bonds (Treasury Discount Bills): 0.5%

2 Responsibility in the Secondary Market

Special Participants shall provide sufficient liquidity in the secondary market of JGBs.

The MOF shall judge whether each Special Participant provides sufficient liquidity in the secondary market of JGBs or not, taking into account the amounts of outright transactions of JGBs and the situation regarding the presentation of transaction prices in the secondary market of JGBs and bond futures transaction amounts of each Special Participant, etc., based on information submitted by each

Special Participant, information provided by market participants other than Special Participants, and others.

3 Provision of Information to the Ministry of Finance

- (1) Special Participants shall provide every week information on the developments of their transactions such as JGB outright transactions, bond futures transactions, over-the-counter option transactions, yen-denominated interest rate swap transactions, and so on.
- (2) On the day before auction date of JGBs, Special Participants shall provide information on the developments of the secondary market of JGBs, their planned bid amounts and purchase amounts, and so on. In addition, Special Participants shall provide information on the developments of pre-auction transactions of JGBs as of 3:00 p.m. on the day before auction date of the JGBs by 5:00 p.m. of the same day.
- (3) In addition to (1) and (2), Special Participants shall provide, as needed, information on daily developments of the secondary market of JGBs and their opinions about formulation and implementation of JGB management policies of the MOF, as well as necessary information and others upon request of the MOF.

4 Others

Special Participants shall notify in writing to the MOF of the name(s), position(s), job role(s), and contact information of person(s) supervising and taking responsibility for all conducts performed as a Special Participant, including compliance with the matters listed in Paragraph 1 to 3 (hereinafter referred to as “supervising manager(s)”) and person(s) in charge of each conduct as a Special Participant under instructions and others from the supervising manager(s) (hereinafter referred to as “person(s) in charge”). In case of changes to supervising manager(s) or person(s) in charge, such changes shall be notified to the MOF in writing without delay.

Section 4 Special Entitlements of JGB Market Special Participants

Special Participants shall be granted the following Special Entitlements:

1 Entitlement to Participate in the Meetings of JGB Market Special Participants

Special Participants may participate in meetings with Special Participants held quarterly in principle by the MOF (hereinafter referred to as the “Meetings of JGB Market Special Participants”) and exchange opinions, etc. with the MOF regarding the following matters and others:

- (1) JGB issuance plans for each fiscal year
- (2) Modalities of JGB issuance for each quarter
- (3) Modalities of interest rate swap transactions implemented by the MOF
- (4) Developments of demand for JGBs
- (5) State of marketability of JGBs

- (6) Developments of the secondary market of JGBs
- (7) Other issues regarding JGB management policies of the MOF

2 Entitlement to Participate in Auctions for Buy-backs

Special Participants may participate in Auctions for Buy-backs prescribed in Article 3, Paragraph 1 of the Ministerial Ordinance on Buy-backs of National Government Bonds (Ordinance of the Ministry of Finance No.2 of 2003) as a participant of Auctions for Buy-backs prescribed in the said paragraph; provided, however, that this shall not apply to persons who could not perform a concluded contract.

3 Entitlement to Apply for Separating and Integrating Principal and Interest Components of Strippable Book-entry Securities

As a person prescribed in Article 4, Paragraph 1 of the Ministerial Ordinance on Designation, etc. of STRIPS Bonds (Ordinance of the Ministry of Finance No.66 of 2002), Special Participants may apply for separating and integrating principal and interest components of strippable book-entry securities.

4 Entitlement to Participate in Non-Price Competitive Auctions I for JGB Market Special Participants, etc.

In addition to Price-Competitive Auctions, Special Participants may participate in Non-Price Competitive Auctions I for JGB Market Special Participants (meaning auctions prescribed in Article 5, Paragraph 8 (4) of Ordinance on Issuance and Article 5, Paragraph 8 (2) of Ordinance on Handling) that are conducted as follows:

(1) Maximum amount of issuance

The maximum amount of issuance through Non-Price Competitive Auction I shall be 20% of the planned issuance amount of the JGB.

(2) Issue price

The issue price at Non-Price Competitive Auction I shall be the weighted average price at Price-Competitive Auction of the JGB.

(3) Maximum amount of bidding

i. Special Participants may bid for up to the maximum amounts of bidding that the MOF sets for each of Special Participants.

ii. The maximum amount of bidding for each Special Participant shall be the amount obtained by multiplying the maximum amount of issuance through Non-Price Competitive Auction I by the Reference Purchasing Coefficient for each Special Participant (amount less than 100 million yen shall be discarded).

(4) Reference Purchasing Coefficient

i. After all auctions for JGBs to be issued in each quarter are conducted, the MOF shall calculate the ratio (rounded up to the second decimal place on a percentage basis) of the sum of values obtained by multiplying the total purchase amounts of each Special Participant for all JGBs that are issued and to be issued during that quarter or the preceding quarter (limited to the total

purchase amounts at Price-Competitive Auctions; the same shall apply in i.) by duration publicly announced by the MOF (hereinafter referred to as “duration-equivalent values”) to the sum of duration-equivalent values of the total purchase amounts of all Special Participants as the Reference Purchasing Coefficient.

- ii. The MOF shall notify the Reference Purchasing Coefficient calculated by i. to each Special Participant within one month.
- iii. In case of changes in Special Participants, the MOF shall notify each Special Participant of the new Reference Purchasing Coefficient that the MOF calculates taking into account the changes within one month after publicly announcing the changes.
- iv. The Reference Purchasing Coefficient set forth in ii. and iii. shall be applied from Non-Price Competitive Auction I conducted in the month following the month when the Reference Purchasing Coefficient is notified to each Special Participant by the MOF.

(5) Auction schedule

Non-Price Competitive Auction I shall be conducted simultaneously with Price-Competitive Auction and Non-Competitive Auction (Offer: 10:30 a.m., Deadline: 11:50 a.m., Announcement of auction result: 12:35 p.m. However, for Treasury Discount Bills, Offer: 10:20 a.m., Deadline: 11:30 a.m., Announcement of auction result: 12:30 p.m.).

Bids accepted at Non-Price Competitive Auction I shall be notified to each Special Participant at 3:00 p.m. on the same day.

(6) Method for determining bids accepted

The MOF shall accept bids within the scope of the maximum amount of bidding set for each Special Participant.

Where the total amount of bids accepted falls short of the maximum amount of issuance through Non-Price Competitive Auction I as a result of determining bids accepted, the amount of such shortfall shall be allocated to the amount of issuance through Price-Competitive Auction.

(7) JGBs not eligible for Non-Price Competitive Auctions I

JGBs issued through Dutch-Style Yield-Competitive Auctions and Dutch-Style Price-Competitive Auctions shall not be eligible for Non-Price Competitive Auctions I.

5 Entitlement to Participate in Non-Price Competitive Auctions II for JGB Market Special Participants, etc.

In addition to Price-Competitive Auctions and Non-Price Competitive Auctions I or Yield-Competitive Auctions, Special Participants may participate in Non-Price Competitive Auctions II for JGB Market Special Participants (meaning auctions prescribed in Article 5, Paragraph 8 (5) of Ordinance on Issuance) that are conducted as follows:

(1) Issue price

The issue price at Non-Price Competitive Auction II shall be the weighted average price at Price-Competitive Auction of the JGB (for JGBs issued through Dutch-Style Yield-Competitive Auctions, the issue price of the JGB).

- (2) Maximum amount of bidding
 - i. Each Special Participant may bid for up to the maximum amount of bidding that the MOF sets for each of Special Participants.
 - ii. The maximum amount of bidding for each Special Participant shall be the amount (amount less than 100 million yen shall be discarded) obtained by multiplying the planned issuance amount of the JGB by the Reference Bidding Coefficient for each Special Participant or the amount (amount less than 100 million yen shall be discarded) equal to 10% of the sum of purchase amounts of each Special Participant through Price-Competitive Auction and Non-Price Competitive Auction I (provided, however, that in case of Yield-Competitive Auctions, the purchase amount), whichever is smaller.
- (3) Reference Bidding Coefficient
 - i. After all auctions for JGBs to be issued in each quarter are conducted, the MOF shall calculate, for JGBs that have the same names as those that are issued and to be issued during that quarter or the preceding quarter, the simple average (rounded up to the second decimal place on a percentage basis) of the ratios (rounded up to the second decimal place on a percentage basis, but not exceeding 100%) of the bid amount of each Special Participant (excluding bids whose prices are not considered reasonable prices by the MOF in accordance with Paragraph 1 (1) of Section 3) in Price-Competitive Auction and Non-Price Competitive Auction I or Yield-Competitive Auction to the planned issuance amount in each auction, as the Reference Bidding Coefficient; provided, however, that in case no auction is held for a JGB that has the same name as the relevant JGB during the relevant and preceding quarter, then the last figure calculated before the relevant quarter shall be deemed to be the Reference Bidding Coefficient.
 - ii. The MOF shall notify the Reference Bidding Coefficient calculated by i. to each Special Participant within one month.
 - iii. The Reference Bidding Coefficient shall be applied from Non-Price Competitive Auction II conducted in the month following the month when the Reference Bidding Coefficient is notified to each Special Participant by the MOF.
- (4) Auction schedule

Non-Price Competitive Auction II shall be conducted on the same day as when Price-Competitive Auction and Non-Competitive Auction or Yield-Competitive Auction are conducted (Offer: 2:00 p.m., Deadline: 2:30 p.m., Announcement of auction result: 3:15 p.m.) .

Bids accepted at Non-Price Competitive Auction II shall be notified to each Special Participant at 3:50 p.m. on the same day.
- (5) Method for determining bids accepted

The MOF shall accept bids within the scope of the maximum amount of bidding set for each Special Participant.
- (6) JGBs not eligible for Non-Price Competitive Auctions II

10-Year Inflation-Indexed Bonds and Treasury Discount Bills shall not be eligible for Non-Price Competitive Auctions II.

6 Entitlement to Participate in Auctions for Enhanced-Liquidity

Special Participants may participate in Auctions for Enhanced-Liquidity conducted for the purpose of maintaining and enhancing the liquidity of the JGB market, etc. from the perspective of avoiding a situation in which a decline in the liquidity of the secondary market of JGBs due to a significant tightening of the demand and supply balance of specific issues and other factors leads to the impairment of the function of the JGB markets.

Auctions for Enhanced-Liquidity shall be conducted by the “Method of Conducting Auctions for Enhanced-Liquidity” that the MOF determines in advance.

7 Entitlement to Participate Preferentially in Interest Rate Swap Transactions

Special Participants may become preferential counterparties for interest rate swap transactions that the MOF conducts as prescribed in the Ministerial Ordinance on Interest Rate Swap Transactions of National Government Bonds (Ordinance of the Ministry of Finance No.72 of 2005).

Section 5 Monitoring and Assessment of JGB Market Special Participants, etc.

1 Monitoring and Assessment

- (1) The MOF shall monitor and assess the situation of compliance with the matters listed in Section 3 by each Special Participant based on the situation of each JGB auction, information provided with the MOF by each Special Participant, information provided by market participants other than Special Participants, exchanges of opinions with each Special Participant, and so on.
- (2) The MOF shall have interviews individually with each Special Participant, etc. and notify the following matters and others, quarterly in principle (provided, however, that in case of ii e. once a year).
 - i. The situation of compliance with the matters listed in Section 3 by the Special Participant during the two most recent quarters
 - ii. The ranking of the Special Participant among Special Participants regarding the sum of duration-equivalent values of the total purchase amounts of all JGBs issued by the method of an auction during the two most recent quarters and the ranking of the sum of total purchase amounts of JGBs issued by the method of an auction during the two most recent quarters (provided, however, that in case of e. during the previous year) in each of five categories listed below:
 - a. Super long-term bonds (40-Year Bonds, 30-Year Bonds, and 20-Year Bonds)
 - b. Long-term bonds (10-Year Bonds and 10-Year Inflation-Indexed Bonds)
 - c. Medium-term bonds (5-Year Bonds and 2-Year Bonds)
 - d. Short-term bonds (Treasury Discount Bills)
 - e. Long-term bonds (10-Year Inflation-Indexed Bonds)
- (3) The MOF shall publicly announce on a quarterly basis the trade names or names and the top ten Special Participants regarding the total purchase amounts set forth in (2) ii; provided, however, that the MOF shall publicly announce on a yearly basis the trade names or names and the rankings of the

top five Special Participants regarding the total purchase amounts set forth in (2) ii e.

2 Exclusion from JGB Market Special Participants, etc.

- (1) Where a Special Participant is in violation or runs the risk of being in violation of the matters listed in Section 3, the MOF shall notify the Special Participant of that effect.
- (2) After the notification set forth in (1), the MOF may take one or several measures listed below depending on the matter, frequency, and amount of time of the violation by the Special Participant; provided, however, that in case there are extenuating circumstances that the violation is caused by a system failure, etc., the MOF shall not take the measures.
 - i. Suspension of participation in the Meetings of JGB Market Special Participants
 - ii. Suspension of participation in Auctions for Buy-backs
 - iii. Suspension of new application for separating and integrating principal and interest components of strippable book-entry securities
 - iv. Suspension of participation in Non-Price Competitive Auctions I, Non-Price Competitive Auctions II, and Auctions for Enhanced-Liquidity
 - v. Suspension of new interest rate swap transactions
 - vi. Exclusion from Special Participants
- (3) Where the MOF takes measures set forth in (2), the MOF shall notify the Special Participant of the fact of the violation of the matter(s) listed in Section 3 and the contents of the measures, and as needed, publicly announce these.
- (4) Where the MOF takes the measure of exclusion from Special Participants set forth in (2) vi., the MOF shall publicly announce its trade name or name.

Section 6 Others

1 Effective Date

These principal terms and conditions shall become effective on July 9, 2004.

2 Revisions of the Principal Terms and Conditions, etc.

After the effective date, the MOF shall, as deemed necessary taking into account situations regarding the operation of the JGB Market Special Participants Scheme, etc., revise these principal terms and conditions and publicly announce the revised principal terms and conditions without delay.

3 Treatment of Entitlements of Special Participants in Case of Merger, Transfer of Business, or Divestiture

Where a Special Participant implements a merger, transfers its business (limited to a business regarding JGBs), or succeeds to a business due to a divestiture, the MOF shall consider individually the treatment of the entitlements of the Special Participant taking into account the contents and others.

4 Others

Where the application of matters prescribed in these principal terms and conditions is judged to be inappropriate due to unforeseeable circumstances, etc., the MOF shall operate the scheme taking into account the said unforeseeable circumstances and others.

Section 7 Transitional Measures regarding Standards for Designation, etc.

- 1 Treasury Bills and Financing Bills issued by auctions conducted before January 2009 shall be regarded as Treasury Discount Bills in applying matters prescribed in these principal terms and conditions regarding the standards for designation of JGB Market Special Participants set forth in Paragraph 1 (1) and (2) of Section 2; purchasing responsibility of JGB Market Special Participants set forth in Paragraph 1 (2) of Section 3; and monitoring and assessment of JGB Market Special Participants set forth in Paragraph 1 of Section 5.
- 2 Regarding application of the standard for designation of JGB Market Special Participants set forth in Paragraph 1 (1) of Section 2, during the period between June 27, 2017 and September 30, 2017 the applicant has bid for amount equal to 4% or more of the planned issuance amount in each auctions for all JGBs issued by the method of an auction in and after the first day of the quarter before the last of the day of application, and during the period between October 1, 2017 and December 31, 2017 the applicant has bid for amount equal to 4% or more of the planned issuance amount in each auctions for all JGBs issued by the method of an auction between April 1, 2017 and June 30, 2017 and 5% or more of the planned issuance amount in each auctions for all JGBs between July 1, 2017 and September 30, 2017.
- 3 Regarding the Reference Bidding Coefficient for Non-Price Competitive Auction II for JGB Market Special Participants set forth in Paragraph 5 (3) of Section 4, during the period between June 27, 2017 and September 30, 2017 the MOF shall calculate the simple average of the ratios of the bid amount of each Special Participant to the planned issuance amount during the two most recent quarters (hereinafter referred to as the “Average Ratio of Bid Amount”) minus 4%, and during the period between October 1, 2017 and December 31, 2017 the MOF calculate the simple average of the Average Ratio of Bid Amount of JGBs issued between April 1, 2017 and June 30 of the same minus 4% and the Average Ratio of Bid Amount of JGBs issued between July 1, 2017 and September 30, 2017 minus 5%, as the Reference Bidding Coefficient.
- 4 The rate of bidding responsibility specified in Paragraph 1 (1) of Section 2 and Paragraph 1 (1) of Section 3 shall be calculated according to the number of Special Participants as of March 31, 2022. The MOF will notify each Special Participant of the rate and apply it to all JGBs issued on or after April 1, 2022.