

3 Debt Management Systems

(1) Revenues and Expenditures for the Special Account for the GDCF (FY2019 Initial Budget)

Revenues			
	(Unit: million yen)		
	FY2018(Initial) (A)	FY2019(Initial) (B)	Changes (B) - (A)
Grant from Other Accounts	85,936,675	85,611,694	▲ 324,981
Grant from the General Account	23,300,979	23,507,241	206,262
Grant from Special Accounts	62,635,696	62,104,453	▲ 531,243
Local Allocation Tax and Local Transfer Tax	32,583,925	31,849,629	▲ 734,295
Forex Fund	492,384	494,453	2,069
FILP	13,768,167	14,291,418	523,251
Energy Projects	13,783,332	13,468,595	▲ 314,736
Pension	1,475,635	1,469,912	▲ 5,724
Stable Food Supply	139,125	133,478	▲ 5,647
Administration of National Forestry Management Debt	350,209	357,637	7,428
Motor Vehicles Safety	42,920	39,331	▲ 3,589
Grant from the Special Account for Reconstruction from the Great East Japan Earthquake or Other Accounts	98,291	32,030	▲ 66,261
Grant from Special Accounts	98,291	32,030	▲ 66,261
Reconstruction from the Great East Japan Earthquake	98,291	32,030	▲ 66,261
Tax	128,800	126,000	▲ 2,800
Revenues from JGBs	103,237,076	103,140,417	▲ 96,659
Revenues from JGBs	101,378,415	101,332,422	▲ 45,993
Revenues from Reconstruction-related Refunding Public Bonds	1,858,661	1,807,995	▲ 50,665
Revenues from Equity Sale Related to the Reconstruction from the Great East Japan Earthquake	1,493,412	1,474,920	▲ 18,493
Dividend Income Related to the Reconstruction from the Great East Japan Earthquake	50,450	50,450	—
Tokyo Metro	8,069	8,069	—
Japan Post	42,381	42,381	—
Investment Income	103,988	94,592	▲ 9,395
Interest Income	103,983	94,590	▲ 9,393
Sales/Redemption Profit	5	3	▲ 2
Investment Income Related to the Reconstruction from the Great East Japan Earthquake	2,444	2,391	▲ 53
Interest Income	2,444	2,391	▲ 53
Miscellaneous Income	169,542	182,861	13,319
Accrued Interest Receivable	166,367	180,306	13,939
Miscellaneous Income	3,175	2,555	▲ 620
Miscellaneous Income Related to the Reconstruction from the Great East Japan Earthquake	17	27	10
Accrued Interest Receivable	17	27	10
Total	191,220,694	190,715,382	▲ 505,312

Expenditures			
	(Unit: million yen)		
	FY2018(Initial) (A)	FY2019(Initial) (B)	Changes (B) - (A)
Government Debt Consolidation Expenditures	187,717,420	187,347,569	▲ 369,851
Certificate, etc., Production Cost	2	2	0
JGB Handling Fees	30,946	36,178	5,232
Compensations, Redemptions, and Refunds	823	823	—
Currency Exchange Gap Compensations	0	0	▲ 0
Sales/Redemption Gap Compensations	103,000	94,000	▲ 9,000
Debt Redemption Expenses	176,826,926	176,726,907	▲ 100,020
Public Bonds, etc., Redemption	127,947,691	128,913,222	965,531
Financed with the General Account	115,052,171	115,394,241	342,070
Financed with Special Accounts	12,895,520	13,518,981	623,461
Borrowings Redemption	42,805,586	42,556,985	▲ 248,601
Financed with the General Account	601,732	596,806	▲ 4,926
Financed with Special Accounts	42,203,854	41,960,179	▲ 243,675
Financing Bills Redemption	6,073,650	5,256,700	▲ 816,950
Interest and Discount Expenses	10,755,723	10,489,659	▲ 266,064
Interests on Public Bonds, etc.	10,071,984	9,806,443	▲ 265,541
Financed with the General Account	9,218,682	9,047,817	▲ 170,864
Financed with Special Accounts	853,302	758,626	▲ 94,676
Interests on Borrowings	115,340	109,943	▲ 5,397
Financed with the General Account	16,663	15,471	▲ 1,192
Financed with Special Accounts	98,677	94,472	▲ 4,205
Interests on Financing Bills	568,399	573,273	4,874
Financed with the General Account	60,000	60,000	—
Financed with Special Accounts	508,399	513,273	4,874
Reconstruction Bonds Consolidation Expenditures	3,503,275	3,367,813	▲ 135,461
JGB Handling Fees	340	305	▲ 35
Equity Sale Fees	25,626	25,914	288
Sales/Redemption Gap Compensations	2,437	2,386	▲ 52
Debt Redemption Expenses	3,440,337	3,307,451	▲ 132,886
Public Bonds, etc., Redemption	3,440,337	3,307,451	▲ 132,886
Financed with Special Accounts	3,440,337	3,307,451	▲ 132,886
Interest and Discount Expenses	34,534	31,757	▲ 2,777
Interests on Public Bonds, etc.	33,034	30,257	▲ 2,777
Financed with Special Accounts	33,034	30,257	▲ 2,777
Interests on Borrowings	1,500	1,500	—
Financed with Special Accounts	1,500	1,500	—
Total	191,220,694	190,715,382	▲ 505,312

Note 1: "Financed with the General Account" in "Government Debt Consolidation Expenditures" and "Financed with Special Accounts" in "Reconstruction Bonds Consolidation Expenditures" include GDCF's original revenue.
 Note 2: Figures may not sum up to the total because of rounding.

(2) Payment Status of Debt Redemption Expenses and Interest, Discount Expenses and so on of the Each Account (FY2019 Initial Budget, FY2017 Settlement of Accounts)

The GDCF Special Account centrally conducts accounting for redemption and interest payments for public bonds and borrowings, using fiscal transfers from the General Account and other special accounts.

A FY2019 Initial Budget

(Unit: million yen)

	Debt Redemption Expenses	Interest and Discount Expenses	Others	Total	Remarks
Grant from Other Accounts	75,393,893	10,181,634	36,168	85,611,694	
Grant from the General Account	14,658,033	8,815,262	33,946	23,507,241	The redemption and interest of public bonds and borrowings, Treasury Financing Bills discount expense, etc.
Grant from Special Accounts	60,735,860	1,366,371	2,222	62,104,453	
Local Allocation Tax and Local Transfer Tax	31,770,411	79,218	—	31,849,629	The redemption and interest of borrowings, and the interest of temporary borrowings
Forex Fund	—	493,690	763	494,453	The discount expense of Foreign Exchange Fund Financing Bills, etc.
FILP	13,518,981	770,996	1,441	14,291,418	The redemption and interest of FILP Bonds, the discount expense of Fiscal Loan Fund Financing Bills, etc.
Energy Projects	13,458,195	10,383	17	13,468,595	The redemption and interest of borrowings, the redemption and discount expense of Petroleum Financing Bills and Nuclear Damage Liability Facilitation Financing Bills, etc.
Pension	1,464,008	5,904	—	1,469,912	The redemption and interest of borrowings, and the interest of temporary borrowings
Stable Food Supply	132,190	1,286	1	133,478	The redemption and interest of borrowings, the redemption and discount expense of Food Financing Bills, etc.
Administration of National Forestry Management Debt	355,215	2,423	—	357,637	The redemption and interest of borrowings, and the interest of temporary borrowings
Motor Vehicles Safety	36,861	2,470	—	39,331	The redemption and interest of borrowings, and the interest of temporary borrowings
Grant from the Special Account for Reconstruction from the Great East Japan Earthquake or Other Accounts	—	31,725	305	32,030	
Grant from Special Accounts	—	31,725	305	32,030	
Reconstruction from the Great East Japan Earthquake	—	31,725	305	32,030	The interest of reconstruction bonds, the interest of temporary borrowings, etc.

Note: Figures may not sum up to the total because of rounding.

B FY2017 Settlement of Accounts

(Unit: million yen)

	Debt Redemption Expenses	Interest and Discount Expenses	Others	Total	Remarks
Grant from Other Accounts	71,281,975	8,717,028	23,267	80,022,270	
Grant from the General Account	14,557,500	7,940,383	22,133	22,520,016	The redemption and interest of public bonds and borrowings, etc.
Grant from Special Accounts	56,724,474	776,645	1,134	57,502,254	
Local Allocation Tax and Local Transfer Tax	32,417,295	841	—	32,418,136	The redemption and interest of borrowings, and the interest of temporary borrowings
Forex Fund	—	—	388	388	JGB handling fees
FILP	13,689,486	765,625	738	14,455,849	The redemption and interest of FILP Bonds, the interest of borrowings, etc.
Energy Projects	8,671,004	1,659	7	8,672,670	The redemption of Government Bonds issued to Nuclear Damage Compensation and Decommissioning Facilitation Corporation, the redemption and interest of borrowings, the redemption of Petroleum Financing Bills, etc.
Pension	1,469,772	147	—	1,469,919	The redemption and interest of borrowings, and the interest of temporary borrowings
Stable Food Supply	96,637	415	1	97,053	The redemption and interest of borrowings, the redemption of Food Financing Bills, etc.
Administration of National Forestry Management Debt	338,889	3,445	—	342,334	The redemption and interest of borrowings
Motor Vehicles Safety	41,391	4,514	—	45,904	The redemption and interest of borrowings
Grant from the Special Account for Reconstruction from the Great East Japan Earthquake or Other Accounts	55,355	5,809	171	61,335	
Grant from Special Accounts	55,355	5,809	171	61,335	
Reconstruction from the Great East Japan Earthquake	55,355	5,809	171	61,335	The redemption and interest of Reconstruction Bonds, etc.

Note: Figures may not sum up to the total because of rounding.

(3) Transfer of Redemption Sources, Redemption Amount, Outstanding Amount and Refunding Amount of the GDCF (FY2019 Initial Budget)

(Unit: billion yen)

	FY2017 (Actual)	FY2018 (Forecast)	FY2019 (Forecast)
<Transfer of Financial Resources for Redemption>			
JGBs (Financial Resources for Reconstruction Bond Redemption)	30,223.1 (1,541.4)	27,387.3 (131.9)	29,320.8 (1,499.5)
General Account	14,051.3	14,358.7	14,301.8
Special Accounts (Financial Resources for Reconstruction Bond Redemption)	14,685.4 (55.4)	12,959.0 (63.4)	13,519.0 (-)
Revenue from the Sales of Shares (Financial Resources for Reconstruction Bond Redemption)	1,398.5 (1,398.5)	- (-)	1,449.0 (1,449.0)
Investment Revenue, etc. (Financial Resources for Reconstruction Bond Redemption)	87.9 (87.6)	69.6 (68.5)	51.0 (50.4)
Borrowings	41,313.6	42,574.3	42,316.4
General Account	506.2	370.5	356.2
Special Accounts	40,807.4	42,203.9	41,960.2
Total	71,536.7	69,961.7	71,637.2
<Redemption Amount>			
JGBs	30,221.9	27,392.5	29,320.2
General Bonds	13,707.9	14,106.0	14,012.7
Subscription/ Contribution Bonds	1,283.1	259.0	289.1
FILP Bonds	13,689.5	12,895.5	13,519.0
Reconstruction Bond	1,541.4	131.9	1,499.5
Borrowings	41,313.6	42,574.3	42,316.4
Total	71,535.5	69,966.8	71,636.6
Outstanding Balance of GDCF at the End of FY (Financial Resources for Reconstruction Bond Redemption)	3,007.4 (-)	3,002.2 (-)	3,002.9 (-)

(Reference)

Refunding Bonds as Stipulated in Article 47(1) of the Act on Special Accounts	49,440.7	55,000.0	53,000.0
Outstanding Balance of GDCF at the End of FY Including Refunding Bonds as Stipulated in Article 47(1) of the Act on Special Accounts	52,448.1	58,002.2	56,002.9

Refunding Amount of JGBs	106,382.0	104,169.8	103,140.4
(Refunding Amount of Reconstruction Bonds)	(2,834.0)	(2,833.2)	(1,808.0)

Note 1: Expenses associated with share sales have been deducted from the revenue from share sales.

Note 2: Investment revenue etc. includes dividend revenue and carry-over from the previous year.

Note 3: Outstanding balance of GDCF at the end of FY does not include Refunding Bonds as stipulated in Article 47(1) of the Act on Special Accounts.

Note 4: Refunding Bonds as stipulated in Article 47(1) of the Act on Special Accounts for FY2018 (forecast) and FY2019 (forecast) are the limit of general provisions concerning the Budget.

Note 5: Figures may not sum up to the total because of rounding.

(4) GDCF Investment in JGBs

(Unit: trillion yen)

Category	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Treasury Discount Bills	10.7	22.9	12.0	12.8	17.2	17.1	-	-	-	-
Gensaki, etc.	8.7	7.4	9.3	9.3	8.9	14.4	0.1	0.3	0.3	0.2
Total	19.5	30.3	21.3	22.1	26.1	31.5	0.1	0.3	0.3	0.2

Note: Figures may not sum up to the total because of rounding.

(5) Budgetary Surplus of the Special Account of the GDCF

(Unit: billion yen)

	Budgetary Surplus	
		Outstanding Balance of GDCF
FY 2014	3,071.0	3,000.6
FY 2015	3,618.8	3,543.3
FY 2016	3,082.4	3,006.2
FY 2017	3,093.2	3,007.4
FY 2018	3,002.2	3,002.2
FY 2019	3,002.9	3,002.9

Note 1: Trends since FY2014 after the revision of the Act on Special Accounts.

Note 2: Data for FY2018 and FY2019 are based on the initial budget for FY2019.

(6) Results of Liquidity Enhancement Auctions in FY2018

	259th	260th	261st	262nd	263rd	264th	265th	266th	267th	268th	269th	270th
Auction Date	4/5/18	4/10/18	5/2/18	5/24/18	6/7/18	6/12/18	7/18/18	7/20/18	8/23/18	8/28/18	9/3/18	9/7/18
Amount of Competitive Bids (billion yen)	1,242.2	2,336.6	1,459.5	2,006.7	1,560.3	1,812.4	2,359.9	1,558.6	1,858.5	1,129.8	1,753.9	1,892.5
Amount of Bids Accepted (billion yen)	499.5	598.2	399.4	597.1	499.0	597.8	597.7	398.9	598.4	499.7	598.6	399.0
Average Accepted Spread (%)	0.002	▲0.002	▲0.008	▲0.008	0.001	▲0.003	▲0.003	▲0.003	▲0.003	▲0.001	0.012	▲0.006
Highest Accepted Spread (%)	0.008	0.000	▲0.006	▲0.007	0.003	▲0.002	▲0.001	▲0.001	▲0.002	0.005	0.014	▲0.005

	271st	272nd	273rd	274th	275th	276th	277th	278th	279th	280th	281st	282nd
Auction Date	10/4/18	10/23/18	11/8/18	11/22/18	12/6/18	12/21/18	1/18/19	1/22/19	2/21/19	2/26/19	3/14/19	3/22/19
Amount of Competitive Bids (billion yen)	918.7	1,750.9	2,267.6	1,547.8	1,044.2	1,864.9	2,090.8	2,211.8	2,008.0	990.2	1,596.9	1,763.6
Amount of Bids Accepted (billion yen)	499.7	598.5	398.7	597.9	499.8	598.1	598.2	399.0	596.1	499.4	598.8	399.6
Average Accepted Spread (%)	0.028	0.001	▲0.005	0.001	▲0.005	0.015	0.008	▲0.006	▲0.008	0.006	▲0.002	▲0.016
Highest Accepted Spread (%)	0.037	0.002	▲0.003	0.003	0.000	0.019	0.009	▲0.003	▲0.007	0.012	0.000	▲0.013

(7) Buy-back Results in FY2018

Inflation-Indexed Bonds

Auction Date	Amount of Bids Received (billion yen)	Amount of Bids Accepted (billion yen)	Average Accepted Spread (yen)	Highest Accepted Spread (yen)
4/11/18	111.6	20.1	▲ 0.082	▲ 0.06
6/20/18	164.7	20.2	▲ 0.114	▲ 0.08
8/17/18	94.8	20.0	▲ 0.036	0.04
10/12/18	102.6	20.1	▲ 0.133	▲ 0.11
12/17/18	156.4	20.0	▲ 0.363	▲ 0.33
2/20/19	129.9	20.1	▲ 0.035	▲ 0.02

(8) Buy-back Results

(On nominal basis, billion yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Maximum Limits)
From the Market	2,505.4	3,011.1	2,712.4	2,825.2	2,512.6	741.4	120.2	120.4	120.5	1,000.0
From Bank of Japan	—	410.2	350.4	200.0	200.0	—	—	—	—	—
Total	2,505.4	3,421.3	3,062.8	3,025.2	2,712.6	741.4	120.2	120.4	120.5	1,000.0

Note: Figures may not sum up to the total because of rounding.

(9) Various Councils

A. The Advisory Council on Government Debt Management

<Members>

Ayako Fujita	General Manager, Economic Research Department and Chief Economist, Nomura Asset Management Co., Ltd.
Hajime Takata	Vice-Chairman of the Institute, Executive Economist, Mizuho Research Institute Ltd.
Hidenori Suezawa	Assistant General Manager, Financial Market and Fiscal analyst Financial Market & Economic Research SMBC Nikko Securities Inc.
Iwao Matsumoto	Executive Officer, Sumitomo Life Insurance Company
Junko Koeda	Chief Economist, Policy Research Institute Ministry of Finance
Kazuto Uchida	Advisor to the President, MUFG Bank, Ltd.
Keito Shimbu	Chief Investment Officer, Senior Managing Director, Member of the Board, The Norinchukin Bank
Koji Shimamoto	President and Representative Director, Societe Generale Securities Japan Limited
Main Kohda	Author
(Chairperson) Naoki Tanaka	President of Center for International Public Policy Studies
Naoyuki Yoshino	Dean of Asian Development Bank Institute, Professor Emeritus, Keio University
Robert Alan Feldman	Senior Advisor, Morgan Stanley MUFG Securities Co., Ltd.
Takashi Yamada	Senior Managing Director, Daiwa Securities Co. Ltd.
Toshiki Tomita	Guest Scholar, Nomura Institute of Capital Markets Research
Yoko Takeda	General Manager, Chief Economist, Research Center for Policy and Economy, Mitsubishi Research Institute, Inc.
Yosuke Inaida	Senior Managing Director, Joint Head of Global Markets Japan, Nomura Securities Co., Ltd.
Yuri Okina	Chairperson, The Japan Research Institute, Limited

(17 members)

(Alphabetical order)

(As of June 12, 2019)

<Actual Achievement>

Date	Content
February 28, 2018 (46th Round)	<ul style="list-style-type: none"> • JGB issuance plan for FY2018 (report) • Current status and future trends of the JGB market <ul style="list-style-type: none"> (1) Financial and money market trends for 2018 (2) Consideration of the impact of Bank of Japan policy shifts as well as the JGB market consensus seen in survey results
June 15, 2018 (47th Round)	<ul style="list-style-type: none"> • Current state of Japan's bond market and investment environment • Points of future discussion on debt management policies • Overseas IR activities • Trends in the debt management policies of major foreign countries
October 22, 2018 (48th Round)	<ul style="list-style-type: none"> • Bank of Japan's monetary policy • Current debt management policy
March 8, 2019 (49th Round)	<ul style="list-style-type: none"> • FY2019 budget and JGB issuance plan (report) • Current state of the JGB market and future forecasts <ul style="list-style-type: none"> (1) Investment trends of life-insurance companies (2) The global financial and fiscal environments
June 12, 2019 (50th Round)	<ul style="list-style-type: none"> • Issuance result of Front-Loading Refunding Bonds as of the end of FY2018 • Cost at Risk Analysis of the government debt • Trends in the debt management policies of major foreign countries • Overseas IR activities

B. The Meeting of JGB Market Special Participants

<Members>

Barclays Securities Japan Limited
 BNP Paribas Securities (Japan) Limited
 Citigroup Global Markets Japan Inc.
 Credit Agricole Securities Asia B.V.
 Credit Suisse Securities (Japan) Limited
 Daiwa Securities Co. Ltd.
 Deutsche Securities Inc.
 Goldman Sachs Japan Co., Ltd.
 JPMorgan Securities Japan Co., Ltd.
 Merrill Lynch Japan Securities Co., Ltd.
 Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
 Mizuho Bank, Ltd.
 Mizuho Securities Co., Ltd.
 Morgan Stanley MUFG Securities Co., Ltd.
 Nomura Securities Co., Ltd.
 Okasan Securities Co., Ltd.
 SMBC Nikko Securities Inc.
 Societe Generale Securities Japan Limited
 Sumitomo Mitsui Banking Corporation
 Tokai Tokyo Securities Co., Ltd.
 UBS Securities Japan Co., Ltd.

(21 companies)
 (Alphabetical order)
 (As of July 15, 2016)

<Actual Achievement>

Date	Content
June 25, 2018 (76th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the July-September 2018 quarter • Liquidity Enhancement Auction for the July-September 2018 quarter • Latest JGB market situation and outlook for future
September 21, 2018 (77th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the October-December 2018 quarter • Liquidity Enhancement Auction for the October-December 2018 quarter • Latest JGB market situation and outlook for future
November 20, 2018 (78th Round)	<ul style="list-style-type: none"> • JGB Issuance Plan for FY2019 • Latest JGB market situation and outlook for future
December 13, 2018 (79th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the January-March 2019 quarter • Liquidity Enhancement Auction for the January-March 2019 quarter • FY2019 JGB Issuance Plan • Latest JGB market situation and outlook for future
March 22, 2019 (80th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the April-June 2019 quarter • Liquidity Enhancement Auction for the April-June 2019 quarter • Methods of reopening and auction methods of fixed-rate JGB issues • Latest JGB market situation and outlook for future

C. The Meeting of JGB Investors

<Members>

1. Investors

Capula Investment Management LLP
 Japan Post Bank Co., Ltd.
 Japan Post Insurance Co., Ltd.
 Mitsubishi UFJ Trust and Banking Corporation
 National Mutual Insurance Federation of Agricultural Cooperatives
 Nomura Asset Management Co., Ltd.
 Pension Fund Association
 PIMCO Japan Ltd
 Shinkin Central Bank
 Sumitomo Mitsui Banking Corporation
 The Bank of Fukuoka, Ltd.
 The Dai-ichi Life Insurance Company, Limited
 The Keiyo Bank, Ltd.
 The Norinchukin Bank
 Tokio Marine & Nichido Fire Insurance Co., Ltd.

(15 companies)
 (Alphabetical order)

2. Academics

Minoru Nakazato	Professor of Law, Graduate School of Law and Politics, University of Tokyo
(Chairperson) Naoyuki Yoshino	Dean of Asian Development Bank Institute, Professor Emeritus, Keio University
Toshiki Tomita	Guest Scholar, Nomura Institute of Capital Markets Research

(3 members)
 (Alphabetical order)
 (As of April 3, 2019)

<Actual Achievement>

Date	Content
June 26, 2018 (75th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the July-September 2018 quarter • Liquidity Enhancement Auction for the July-September 2018 quarter • Latest JGB market situation and outlook for future investment
September 25, 2018 (76th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the October-December 2018 quarter • Liquidity Enhancement Auction for the October-December 2018 quarter • Latest JGB market situation and outlook for future investment
November 21, 2018 (77th Round)	<ul style="list-style-type: none"> • JGB Issuance Plan for FY2019 • Latest JGB market situation and outlook for future investment
December 14, 2018 (78th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the January-March 2019 quarter • Liquidity Enhancement Auction for the January-March 2019 quarter • JGB Issuance Plan for FY2019 • Latest JGB market situation and outlook for future investment
March 25, 2019 (79th Round)	<ul style="list-style-type: none"> • Issuance amount of Inflation-Indexed Bonds in the April-June 2019 quarter • Liquidity Enhancement Auction for the April-June 2019 quarter • Methods of reopening and auction methods of fixed-rate JGB issues • Latest JGB market situation and outlook for future investment

D The Meeting of JGB Top Retailers

<Members>

Chuo Labour Bank	SMBC Nikko Securities Inc.
Daiwa Securities Co. Ltd.	Sumitomo Mitsui Banking Corporation
Japan Post Bank Co., Ltd.	Sumitomo Mitsui Trust Bank, Limited
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	The Chugoku Bank, Ltd.
Mizuho Bank, Ltd.	The Hiroshima Bank, Ltd.
Mizuho Securities Co., Ltd.	The Jojo Bank, Ltd.
MUFG Bank, Ltd.	The Keiyo Bank, Ltd.
Nomura Securities Co., Ltd.	The Saitamaken Shinkin Bank
North Pacific Bank, Ltd.	The Tama Shinkin Bank
The Saitama Credit Cooperative	

(19 companies)
(Alphabetical order)
(As of May 23, 2019)

<Actual Achievement>

Date	Content
March 25, 2014 (13th Round)	<ul style="list-style-type: none"> Explanation from the Financial Bureau regarding trends vis-à-vis the sale of JGBs for Retail Investors after monthly issuance (10-Year Floating-Rate and 5-Year Fixed-Rate) and promotions of JGB holdings by retail investors Exchange of opinions with regard to each contents
October 31, 2014 (14th Round)	<ul style="list-style-type: none"> Explanation from the Financial Bureau regarding trends vis-à-vis the sale of JGBs for Retail Investors after monthly issuance (10-Year Floating-Rate and 5-Year Fixed-Rate) and sales expansion of Inflation-Indexed JGBs to retail investors Exchange of opinions with regard to each contents
November 13, 2015 (15th Round)	<ul style="list-style-type: none"> Explanation from the Financial Bureau regarding trends vis-à-vis the sale of JGBs for Retail Investors, methods of public offering for newly introduced new over the counter sales systems of Inflation-Indexed JGBs, and changes in the system of new over the counter sales systems Exchange of opinions with regard to each contents
November 9, 2016 (16th Round)	<ul style="list-style-type: none"> Explanation from the Financial Bureau regarding trends vis-à-vis the sale of JGBs for Retail Investors, advertisement of JGBs for Retail Investors, and the treatment of Inflation-Indexed JGBs under the new over the counter sales systems Exchange of opinions with regard to each contents
February 19, 2018 (17th Round)	<ul style="list-style-type: none"> Explanation from the Financial Bureau regarding trends vis-à-vis the sale of JGBs for Retail Investors, recent investment behavior of retail investors, and advertisement of JGBs for Retail Investors Exchange of opinions with regard to each contents
May 30, 2019 (18th Round)	<ul style="list-style-type: none"> Explanation from the Financial Bureau regarding trends vis-à-vis the sale of JGBs for Retail Investors and advertisement of JGBs for Retail Investors Exchange of opinions with regard to each contents

(10) History of Postwar Debt Management Policy

FY	Debt Management Policy	Fiscal Policy, etc.
47 ~ 64		
65	66.1 Launching of Underwriting Syndicate (7-year) 66.3 Launching of underwriting by Trust Funds Bureau	The issuance of Revenue-Financing Bonds in the supplementary budget (Start of issuance of bonds)
66		Introduction of Construction Bonds
67		
68	68.4 Introduction of "Tokubetsu-Maruyu" tax free saving schemes 68.5 Formation of Redemption system	Background of tax revenue given by high-growth, Embarkation of reduction of dependence on bonds
69		
70		
71	72.1 Extension of term-to-maturity of JGBs (7 years → 10 years)	71.8 Nixon Shock
72		
73		First year of the welfare era 1973 energy crisis
74		A tax reduction by 2 trillion yen
75		75.12 Launching of the issuance of Special Deficit-Financing Bonds
76	77.1 Launching of auction for discount bonds (5-year)	Background of the current account surplus, proactive fiscal management Setting the goal (fiscal year 1980) of grow out of dependence on Special Deficit-Financing Bonds
77	77.4 Launching of securitization of JGBs which financial institutions acquired.	
78	78.6 Launching of auction for medium-term bonds (3-year)	For 7% growth that promised in Bonn summit proactive fiscal management
79	79.6 Launching of auction for medium-term bonds (2-year) 80.1 Launching of sales of Fund of medium-term JGB 80.2 Creation of a Book-Entry Transfer System	1979 energy crisis Locomotive theory
80	80.6 Launching of auction for medium-term bonds (4-year)	The first step toward fiscal reconstruction Setting the goal (fiscal year 1984) of grow out of dependence on Special Deficit-Financing Bonds
81	81.9 Direct issuance of 6-Year bonds	The global depression
82	83.2 Direct issuance of 15-Year Floating-Rate JGB	Setting of "Zero-Ceiling"
83	83.4 Launching of handling of offering of JGBs by financial institutions 83.9 Direct issuance of 20-Year bonds	Setting of "Minus-Ceiling" 83.9 Proclamation of the state of fiscal emergency Setting the goal (fiscal year 1990) of grow out of dependence on Special Deficit-Financing Bonds
84	84.6 Launching of dealing of JGBs by financial institutions	Promotion of fiscal reconstruction
85	85.6 Amendment of the law for the Act on GDCF Special Account ① Launching of issuance of short-term bonds, of Refunding Bonds (front-loading) ② Reversion of former NTT stocks etc. to the Account 85.10 Launching of transactions of JGB futures 86.2 Launching of auction for short-term bonds	
86	86.10 Launching of Underwriting Syndicate (20-year)	
87	87.9 Launching of auction for Fixed-rate bonds (20-year) 87.11 Introduction of system of underwriting auction for 10-Year Bonds	
88	88.4 Launching of handling offering of JGBs in post offices	Practical use of proceeds of the sale of NTT stocks
89	89.4 Introduction of partial auction system for 10-Year Bonds by Syndicate	Introduction of consumption tax
90	90.10 Extension of the ratio of bids by Syndicate (10-Year Bonds; 40% → 60%)	Grow out of dependence on Special Deficit-Financing Bonds Issuance of Ad-hoc Deficit-Financing Bonds
91	91.4 Same-day-announcement of auction results of 10-Year Bonds	
92	92.4 Tax exemption of profit from redemption for TB and FB owned by foreign corporations	
93	94.1 Extension of targets of "Maruyu" tax free saving schemes (350 million yen) 94.2 Launching of auction for fixed-rate bonds (6-year)	
94		6 trillion yen of tax reduction mainly on personal income tax Issuance of tax reduction-related Special Deficit-Financing Bonds Issuance of Special Deficit-Financing Bonds for Earthquake
95		Re-issuance of Special Deficit-Financing Bonds
96	96.4 Introduction of auction for 20-Year Bonds in every quarter of year 96.4 Launching of Japanese version of cash-secured bond lending transactions	Setting the goal of fiscal consolidation (Grow out of dependence on Special Deficit-Financing Bonds by fiscal year 2005)
97		Approval of the special treatment law regarding the promotion of fiscal reconstruction
98	98.4 Launching of non-competitive auction for medium-term JGB 99.1 Abolishment of the article pre-maturity redemption 99.3 Launching of prior announce of auction schedule and amount of issuance	Issuance of refunding bonds followed by the inheritance of long debt for "Kokutetsu" and of cumulative debt for National Forest Service Approval of the stop-law for special treatment law regarding the promotion of fiscal reconstruction
99	99.4 Launching of auction for T-Bill (1-year) 99.9 Launching of auction for fixed-rate bonds (30-year) 00.2 Introduction of fixed-rate bonds (5-year)	Over 6 trillion yen of permanent tax reduction for national and local government
00	00.6 Launching of auction for 15-Year Floating-Rate Bonds 00.9 Launching of holdings of Meeting of JGB Market 00.11 Launching of auction for discount bonds (3-year) 01.3 Introduction of the immediate reopening rule	
01	01.4 Introduction of new Gensaki transactions 01.10 Alteration of announcement of auction calendar (announce next 3 months)	Formation of the Koizumi Cabinet Launching of issuance of FILP Bonds
02	02.4 Launching of holdings of The Meeting of JGB Investors 02.5 Raising of the ratio of auction for Underwriting Syndicate (From 60% to 75%; applied since May 2002) 02.5 Reduction of the fee of Underwriting Syndicate (From .63 yen to .39 yen; applied since May 2002) 03.1 Introduction of a new Book-Entry Transfer System 03.1 Introduction of STRIPS 03.2 Launching of the auction for Buy-Back 03.3 Introduction of JGBs for Retail Investors	

FY	Debt Management Policy	Fiscal Policy, etc.
03	03.5 Raising of the ratio of competition auction in Syndicate (From 75% to 80%; applied since May 2003) 03.12 Announcement of "Forthcoming Development of Debt Management Policy" 04.2 Launching of WI transactions 04.3 Introduction of 10-Year Inflation-Index Bonds	
04	04.5 Raising of the ratio of competition auction in Syndicate (From 80% to 85%; applied since May 2004) 04.5 Reduction of the fee of Underwriting Syndicate (From .39 yen to .23 yen; applied since May 2004) 04.7 Reinforcement of Debt Management System (Establishment of Senior Director and Market Analyst Separation of the Debt Management Division into two Appointment of non-government persons etc.) 04.10 Introduction of JGB Market Special Participants Scheme (Designation of Special Participants Launching of Meeting of Special Participants Launching of the Non-Price Competitive Auction II) 04.11 Launching of holdings of Advisory Council on Government Debt Management 05.1 Launching of overseas IRs	
05	05.4 Launching of the Non-Price Competitive Auction I 05.4 Raising of the ratio of competition auction in Syndicate (From 85% to 90%; applied since April 2005) 05.7 Revision of rules related to auctions (Introduction of bid limitation for auction of bonds and FB Alteration of auction system for 15-Year Floating-Rate Bonds (conventional method)) 06.1 Introduction of new type of JGBs for Retail Investors (fixed-rate) 06.1 Extension of targets of Auction for Buy-Back (for all brands) 06.3 Abolishment of the government bond for Underwriting Syndicate	
06	06.4 Launching of Auction for Enhanced-Liquidity 06.12 Re-opening issuance in principle of 10-Year Inflation-Indexed Bonds and 30-Year bonds 07.1 Introduction of FB (6-Month) (transferred from TB (6-Month))	Transference by 12 trillion yen, from FILP Special Account to GDCF Special Account Formation of the Abe Cabinet
07	07.4 Execution of law regarding Special Accounts (legislation of rules of swapion transaction, etc.) 07.4 Alteration of auction system for 30-Year bonds (conventional method) 07.6 Launching of Meeting of JGB Top Retailers 07.9 Announcement of re-opening issuance in principle of 15-Year Floating-Rate Bonds 07.10 Introduction of New Over-The-Counter (OTC) Sales System 07.11 Launching of auction for fixed-rate bonds (40-year) 08.3 Introduction of Special Auctions for Enhanced-Liquidity	Formation of the Fukuda Cabinet Reduction of New Financial Resource Bonds in amount of 4.5 trillion yen, the largest reduction ever
08	08.4 Setting the issuance date of coupon-bearing bonds as T (auction date) + 3, in principle 08.4 Extension of targets of Auction for Enhanced-Liquidity (Coupon-bearing bonds from 6-year to 29-year except for 10-Year Inflation-Indexed Bonds and 15-Year Floating-Rate Bonds) 08.6 Launching of Buy-Back of STRIPS 08.8 Reduction of planned issuance amount of 15-Year Floating-Rate Bonds (four times per year → twice per year) 08.9,10 Reduction of planned issuance amount of 10-Year Inflation-Indexed Bonds (Suspension of issuance) 08.12 Reduction of planned issuance amount of 10-Year Inflation-Indexed Bonds and 15-Year Floating-Rate Bonds (Suspension of issuance; Feb. 2009), etc. 09.2 Launching of the issuance of T-Bills by the integration of TB and FB	Formation of the Aso Cabinet Transference by 7.2 trillion yen, from FILP Special Account to GDCF Special Account
09	09.4 Extension of total amount of Buy-Back from the market (3 → 4 trillion yen) (Centering on 10-Year Inflation-Indexed Bonds and 15-Year Floating-Rate Bonds) 09.7 Extension of targets of Auction for Enhanced-Liquidity (Coupon-bearing bonds from 5-year to 29-year) 10.1 Reduction of amount of Buy-Back of 10-Year Inflation-Indexed Bonds and 15-Year Floating-Rate Bonds (In terms of change from responding to the financial crisis to ordinary support) 10.3 Announcement of real interest rate (constant maturity basis) based on the daily JGB prices in the secondary market on the MOF website	Formation of the Hatoyama Cabinet
10	10.7 Issuance of JGBs for Retail Investors (3-year) since July (offered in June) 2010 10.12 Execution of Buy-Back whose resources are reduced from GDCF	Formation of the Kan Cabinet
11	11.7 Revisions of Rate-Setting Formula for JGBs for Retail Investors (10-Year Floating Rate) 12.1 Issuance of Reconstruction Bonds for Retail Investors since January 2012 (offered in December 2011)	Formation of the Noda Cabinet Issuance of Reconstruction Bonds
12	12.4 Issuance of Reconstruction Supporters' Bonds for Retail Investors since April 2012 (offered in March 2012) Setting the issuance date of JGB and T-Bill as T (auction date) + 2, in principle 13.1 Announcement of Reduction of the Issuance of Refunding Bonds by Using the Government Debt Consolidation Fund(GDCF)	Formation of the Abe Cabinet Issuance of Special Bonds for covering Public Pension Funding
13	13.7 Extension of targets of auctions for Enhanced-Liquidity (Coupon-bearing bonds from 5- to 39-year bonds) 13.10 Resumption of the issuance of inflation-indexed bonds 13.12 Launching the monthly offering and issuance of JGBs for retail investors (10-Year Floating Rate and 5-Year Fixed Rate) Announcement of re-opening issuance in principle of 20-year bonds	
14	14.5 Announcement of allowing Retail Investors to hold JGBi from January 2015 15.1 Launching of the purchase of JGBi by Retail Investors through direct negotiation	Consumption tax hike from 5% to 8%
15	15.4 Reduction of the Bidding upper limit for auction participants from "planned issuance amount" to "half of planned issuance amount" 15.4 Raising of the bidding responsibility for JGB market Special Participants from 3% or more of planned issuance amount to 4% or more	Achievement of the interim target of halving the primary deficit
16	16.4 Extension of targets of Auction for Enhanced-Liquidity (Coupon-bearing bonds from 1- to 39-year bonds)	
17	17.7 Raising of the upper issue limit for Non-Price Competitive Auction I from "10% of the planned issue amount" to "20%" 17.7 Raising of the minimum bidding responsibility amount for JGB market Special Participants from 4% of the planned issue amount to 5%	
18	18.5 Setting the issuance date of JGB and T-Bill as T (auction date) + 1, in principle	
19		

(11) Government Bond-related Legal Systems

A Legal basis of issuance

All JGBs are issued in accordance with applicable laws. Depending on legal grounds, JGBs are categorized into JGBs (Construction Bonds, Special Deficit-Financing Bonds, Reconstructions Bonds, Refunding Bonds and Fiscal Investment and Loan Program (FILP) Bonds), Financing Bills for financing temporary cash shortage of the national treasury, and Subsidy Bonds granted in place of cash payments.

According to Article 85 of the Japanese Constitution, the Diet approval is necessary when the central government intends to assume new liabilities.

a Public Finance Act, Art. 4(1), Proviso (Construction Bonds)

Proviso to Art. 4(1) of the Public Finance Act permits as an exception the ability to issue bonds and take out loans within amounts that correspond to public works expenditure, capital subscriptions, and lending. These expenditures, which are not consumptive, contribute to the asset formation of the state, normally with long-term benefits. Therefore, with regard to this type of expenditure, financial resource can be procured through public debt issuance or borrowing, and the understanding is that future generations can be required to share in the burden of debt service.

In other words, Art. 4(1) of the Public Finance Act rests on the concept of an equitable sharing of the financial burden across the generations, and is interpreted to stipulate a principle of sound fiscal policy such that public debt issuance and/or borrowing are permitted, limited to public works expenditure, etc.

However, debt and loan amounts must be within the scope allowed for by Diet approval, with the issuance ceiling amount provided in the general provisions of the general account budget.

Furthermore, Art. 4(2) provides that when this ceiling amount is put to a parliamentary vote, the government is obliged to submit to the Diet a redemption plan that shows the redemption amount for each fiscal year, the redemption method and the redemption periods.

b Special Law for Special Deficit-Financing Bonds (Special Deficit-Financing Bonds)

A special law for Special Deficit-Financing Bonds legislated in each fiscal year and the Act on Special Provisions concerning Issuance of Government Bonds to Secure Revenue Resources Necessary for Fiscal Management provide for “issuance in addition to the public debt issued pursuant to the proviso of Art. 4(1) of the Public Finance Act.” The purpose of this provision is to limit the issuance of Special Deficit-Financing Bonds to cases where, despite the issuance of Construction Bonds, a revenue shortfall is expected to arise.

These laws provide merely the authority to issue Special Deficit-Financing Bonds, but leave it to the general provisions of the general account budget to stipulate a specific issuance ceiling. The reason for this structure is that the applicable ceilings for the issuance of public debt each fiscal year are decided within the balance of total income and expenditure for the fiscal year in question. In this sense, since the ceiling amount for JGBs is inseparably linked to budgeted income and expenditure, it is considered most appropriate to have these matters stipulated in the general provisions of the general account budget and to hold a parliamentary debate and obtain a decision as part of wider income and expenditure considerations.

Moreover, as with Construction Bonds, when the issuance ceiling for Special Deficit-Financing Bonds requires Diet approval, a redemption plan must be submitted to the Diet for reference during the deliberations.

Issuance of Special Deficit-Financing Bonds is an exceptional measure. Actual issuance must be within the scope allowed for by Diet approval, must be made with consideration for the state of income sources such as tax revenues, and must be kept as low as possible. In this context, it is allowed to issue Special Deficit-Financing Bonds even during the accounting adjustment term. Specifically, the government is allowed to issue Special Deficit-Financing Bonds until the end of June in the next fiscal year, in order to adjust the issue amount of Special Deficit-Financing Bonds until the end of May in the next fiscal year: the deadline for collecting the tax revenue for the fiscal year.

In addition, the government must strive to expeditiously reduce Special Deficit-Financing Bonds.

c Act on Special Measures concerning the securing of financial resources to execute measures necessary for recovery from the Great East Japan Earthquake, Art 69(1) and (4) (Reconstruction Bonds)

Reconstruction Bonds are JGBs issued for raising necessary financial resources to cover reconstruction from the Great East Japan Earthquake from FY2011 to FY2020 in accordance with Paragraphs 1 and 4, Article 69 of the “Act on Special Measures concerning the securing of financial resources to execute measures necessary for recovery from the Great East Japan Earthquake.” Reconstruction Bonds were issued as a general account item in FY2011, but the government issued these bonds from FY2012 onward under the Special Account for Reconstruction from the Great East Japan Earthquake.

As with Construction Bonds and Special Deficit-Financing Bonds, Reconstruction Bonds may be issued within the upper limit as approved by the Diet and the ceiling amount is provided under the general provisions of the general account budget with regard to FY2011 and under the general provisions of the special account budget with regard to FY2012 and beyond. In addition, as with Special Deficit-financing Bonds, the accounting adjustment term issuance system is provided.

Reconstruction Bonds, including their Refunding Bonds, will be redeemed in FY2037 at the latest. Redemption of these bonds will be financed with revenues generated from the Special Taxes for Reconstruction, etc. from FY2012 to FY2037.

d Act on Special Accounts, Art. 46(1) and Art. 47(1) (Refunding Bonds)

Art. 46(1) of the Act on Special Accounts allows the government to issue Refunding Bonds up to the amount necessary for JGB adjustment or redemption without Diet approval of the issuance ceiling or submission of a redemption plan. The reason is that unlike new financial resource bonds such as Construction Bonds and Special Deficit-Financing Bonds, the issuance of Refunding Bonds does not entail an increase in the outstanding debt balance. Besides, since circumstances will require that the issuance of Refunding Bonds must occur promptly and flexibly in accordance with financial market conditions, the time constraints associated with the issuance of Refunding Bond do not allow for procedures such as the advance submission of redemption plans or advance Diet approval of issuance ceiling.

In addition, in order to enable flexible issuance in response to financial conditions, Art. 47(1) allows front-loaded issuance of Refunding Bonds. However, this front-loading is restricted to the ceiling amount stipulated in the general provisions of the special account budget approved in advance by the Diet.

e Act on Special Accounts, Art. 62(1) (FILP Bonds)

Along with the 2001 reform of the FILP, Art. 62(1) of the Act on Special Accounts permits the issuance of Fiscal Investment and Loan Program Bonds (so-called FILP Bonds), which is charged to the Fiscal Loan Fund account, in order to finance the Fiscal Loan Fund operations. According to Paragraph 2 of the same Article of the said Act, as the central government issues FILP Bonds backed by its credibility, an approval from the Diet is necessary on the bond issuance upper limit in a similar manner to other JGBs. Art. 62(3) stipulates that the expenditure schedule must be accompanied by a redemption plan.

In addition, Financing Bills are issued in accordance with Article 7 of the Public Finance Act or the “Act on Special Accounts”, etc. Subsidy Bonds are issued in line with their respective condolence money allowance legislations, and specific legislations, such as the Act on Nuclear Damage Compensation and Decommissioning Facilitation Corporation.

B Other laws

a Act on National Government Bonds (Basic matters of JGB)

The Act on National Government Bonds defines basic matters of JGBs. The Act on National Government Bonds stipulates, among others, the following matters:

- Matters related to bond issuance such as the conditions of JGB issuance, and necessary matters concerning debt service, securities certificates and registration are determined by the Minister of Finance

- Clerical tasks concerning JGBs are performed by the Bank of Japan
- Matters concerning the registration of JGBs
- Matters concerning restrictions on the transfer of JGBs
- Remedies in cases of the destruction or loss of JGB certificates
- Matters concerning the extinctive prescription of JGBs

In relation to matters not stipulated in this law, the Civil Code and the Commercial Code, as well as general rules such as transaction conventions, are applicable.

Specific procedures for the issuance and redemption of JGBs are stipulated in the Rules Concerning National Government Bonds; the Ordinance of the Ministry of Finance on Issuance, etc. of National Government Bonds; the Rules for the Handling of National Government Bonds in the Bank of Japan; and the Ordinance of the Ministry of Finance Concerning Special Handling Procedures of the Bank of Japan for the Payment, etc., of Principal and Interest of National Government Bonds, among others.

b Act on Special Accounts, Art. 38 through 49 (Redemption of JGBs, etc.)

The redemption of JGBs (payment of principal) and the payment of interest occur through the GDCF established by the Act on Special Accounts.

With regard to the GDCF, this act stipulates the following, among other matters.

- Matters concerning the establishment of the GDCF for the redemption of JGBs including borrowings
- Matters concerning redemption resource and transfer methods
- Matters concerning the issuance of JGBs (Refunding Bonds) for JGB consolidation and/or redemption
- Matters concerning the successive carry-over of debt redemption cost.