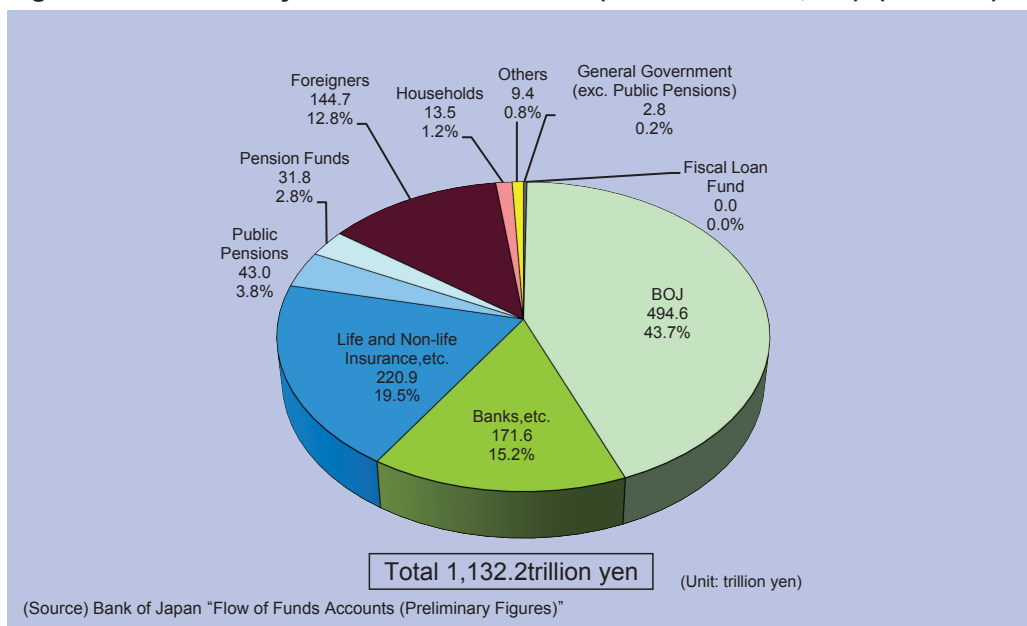


4 Diversification of JGB Investor Base

At present, the outstanding amount of JGBs is enormous. Therefore, it has become an important issue to ensure the stable issuance of JGBs by diversifying the investor base.

Specifically, diverse investors' JGB holding based on various investment needs is expected to stabilize the market by preventing transactions from going in a single direction even if market conditions change. Therefore, the MOF has made efforts to promote JGB holdings not only by domestic institutional investors such as banks and life insurance companies but also by retail investors and foreign investors.

Fig.1-18 Breakdown by JGB and T-Bill Holders (December 2019, QE) (①~④)



① "T-Bill" is the sum of "Treasury Bills (TBs)" and "Financial Bills (FBs)" with a maturity of 1 year or less and TBs and FBs have been jointly issued since February 2009.

② "JGBs" in the figures represent the outstanding balance of JGBs (including FILP bonds) excluding TBs maturing within one year or less.

③ "Banks, etc." includes "Japan Post Bank", "Securities investment trust" and "Securities Companies."

④ "Life and Non-life insurance" includes "Japan Post Insurance."

Fig.1-19 Breakdown by JGB Holders (December 2019, QE)

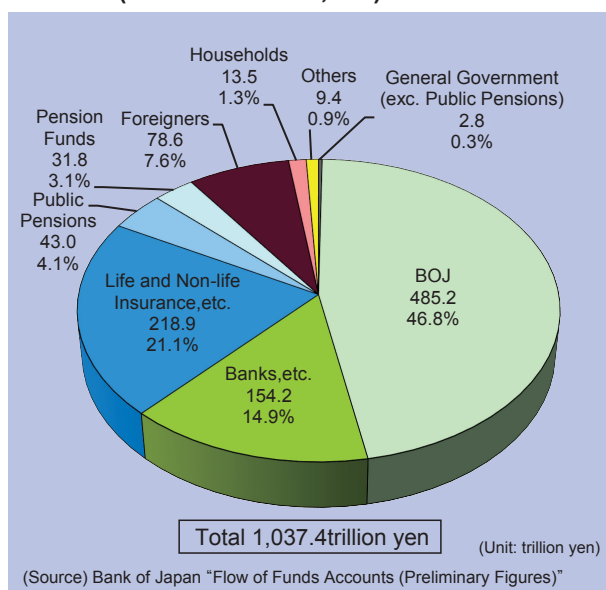
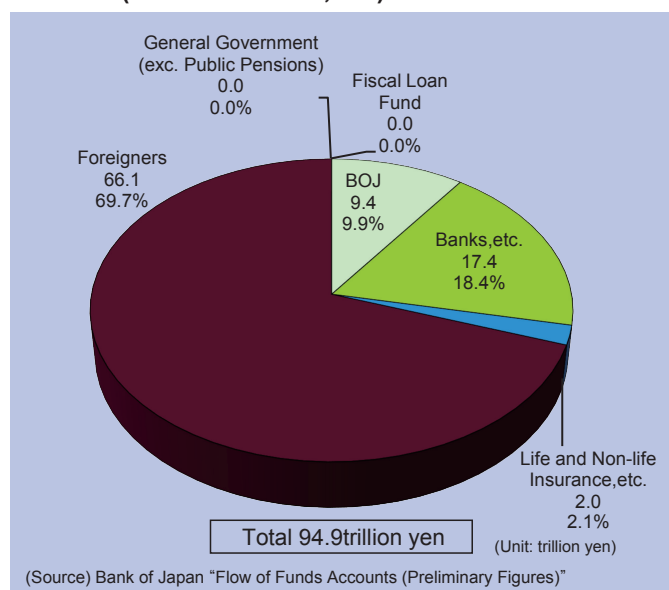


Fig.1-20 Breakdown by T-Bill Holders (December 2019, QE)



(1) JGB Holdings by Retail Investors

Ref: II Chapter 1 1(3)
“Methods of Issuance”
(P43)

To promote JGB sales to retail investors, the government introduced 10-Year Floating-Rate Bonds for Retail Investors in March 2003, 5-Year Fixed-Rate Bonds for Retail Investors in January 2006 and 3-Year Fixed-Rate Bonds for Retail Investors in July 2010, and launched the new Over-The-Counter (OTC) sales system in October 2007.

As sales to retail investors slackened later due to falling interest rates with households’ JGB ownership declining, however, the government has continuously promoted public relations activities to improve citizens’ understanding of JGBs for Retail Investors and implemented the following sales promotion measures:

- Revisions of the rate-setting formula for JGBs for Retail Investors (10-Year Floating Rate JGBs) (July 2011)
- Unification of the conditions for redemption before maturity (April 2012)
- Introduction of monthly subscription and issuance for 10-Year Floating-Rate and 5-Year Fixed-Rate Bonds for Retail Investors in addition to 3-Year Fixed-Rate Bonds (from December 2013)
- Revision of first interest payment adjustments for JGBs for Retail Investors (May 2016)

To promote retail investors’ long-term holdings of JGBs, we plan to revise the fees the MOF pays to intermediaries for JGBs to be offered from September 2020 (🔗).

While returns on other financial instruments remained low, the FY2019 issuance amount for JGBs for Retail Investors, for which the minimum interest rate of 0.05% is guaranteed, totaled 5.2 trillion yen. Households’ JGB ownership has ceased to decline, leveling in recent years.

🔗 Reducing the bond sales fee (3-Year Fixed-Rate: 0.08 yen per 100 yen nominal par; 5-Year Fixed-Rate: 0.11 yen per 100 yen nominal par; 10-Year Floating-Rate: 0.14 yen per 100 yen nominal par), and paying 2/10,000 of the balance of the participant account as the management fee upon payment of interest on JGBs for Retail Investors from the sale in October 2020 (offered in September 2020).

Fig.1-21 Household JGB Holdings Trend

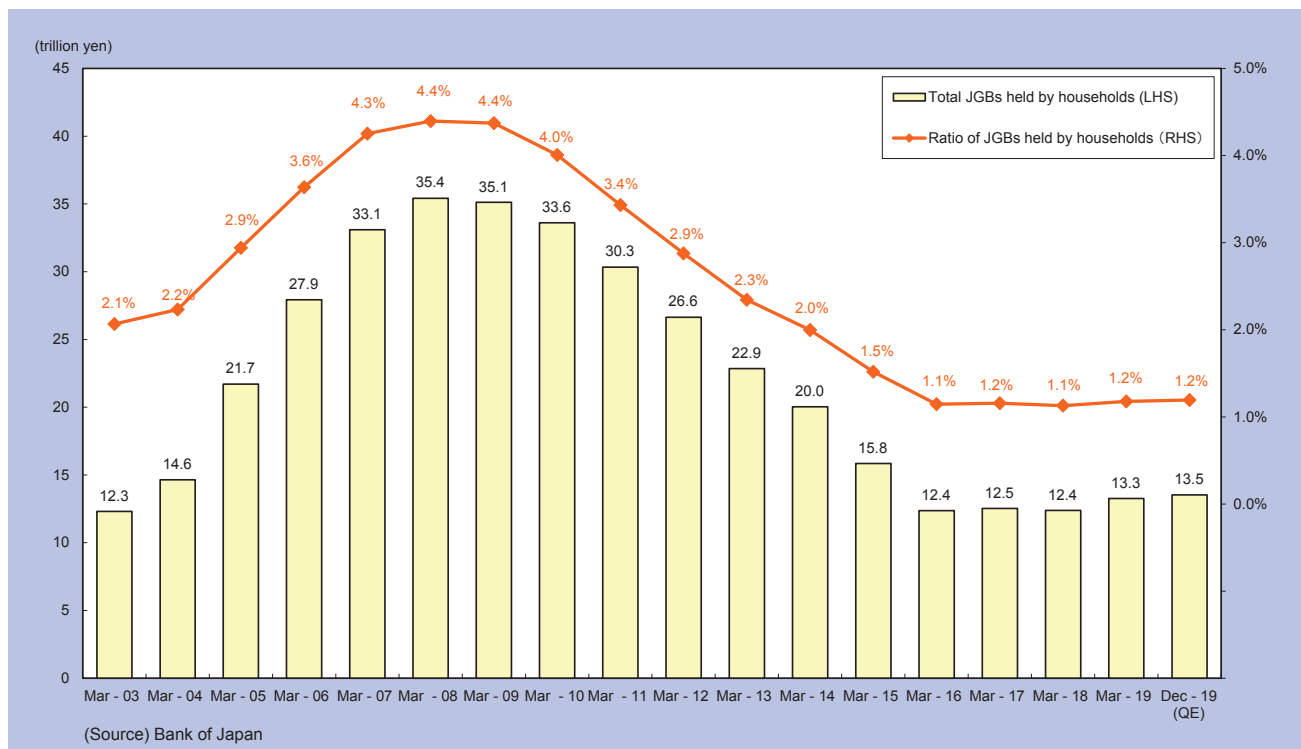


Fig.1-22 Issuance and Redemption of JGBs for Retail Investors

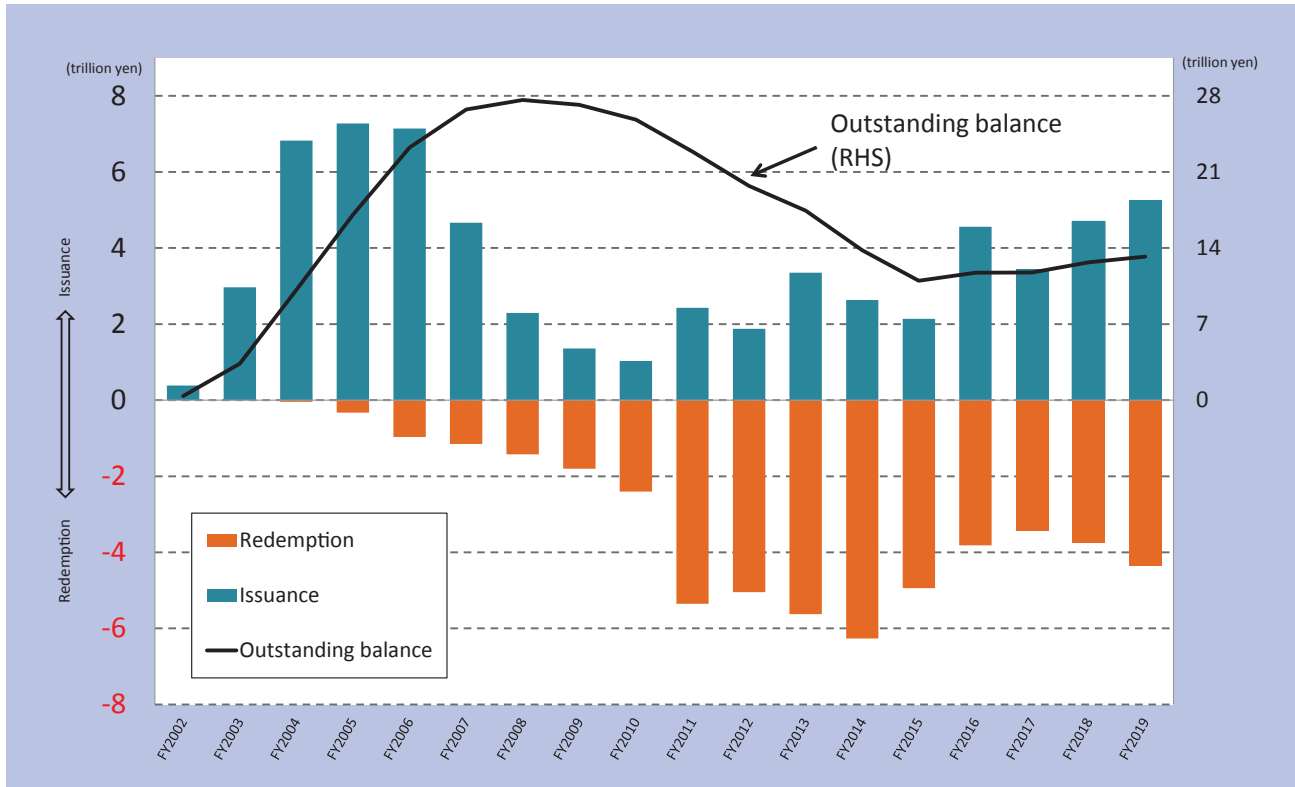
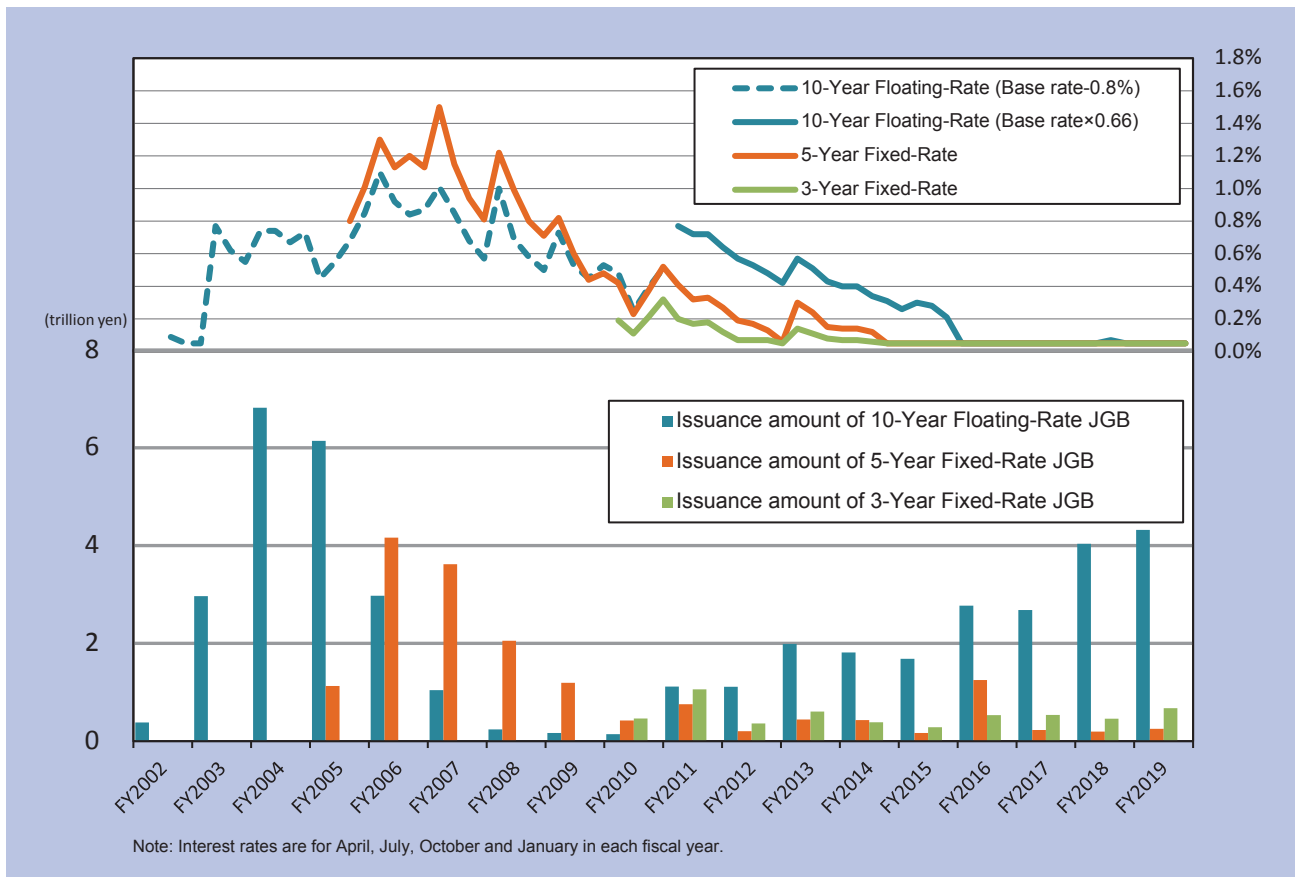


Fig.1-23 Outstanding JGBs for Retail Investors



(2) JGB Holdings by Foreign Investors

A. Foreign Investors' Presence

The status of JGB holdings by foreign investors can be found in the “Flow-of-Funds Accounts” published by the BOJ on a quarterly basis (Fig. 1-24).

Foreign investors reduced their JGB holdings due to a credit squeeze accompanying the financial crisis after the 2008 Lehman Shock. Their holdings of JGBs plunged from 8.5% (at the end of September 2008) to 5.6% (at the end of March 2010). Later, however, their demand for JGBs, deemed a safe asset, emerged due to global investment funds' inflow into the JGB market on the back of major countries' monetary easing and the so-called “flight to quality” under the European sovereign debt crisis amid a global economic recovery trend.

Foreign investors temporarily reduced JGB holdings as JGB volatility headed higher just after the BOJ's decision at its Monetary Policy Meeting in April 2013 to introduce the Quantitative and Qualitative Monetary Easing policy. Nevertheless, foreign investors' JGB holdings turned upward as JGB yields remained stable at low levels due to destabilization factors in emerging and other foreign countries.

As JGBs have looked attractive to foreign investors due to the low yen fundraising costs on the back of the tightening dollar supply-demand balance in recent years, their JGB holdings have followed an uptrend. At the end of December 2019, foreign investors' share of outstanding JGBs totaled 144.7 trillion yen or 12.8%.

Foreign investors' JGB investment has featured a focus on short-term issues. At the end of December 2019, they held 7.6% of outstanding JGBs (excluding T-Bills) and 69.7% of T-Bills (Fig. 1-25). Foreign investors also feature their active trading on the secondary market. Their share of secondary market transactions at the end of December 2019 reached 38.7% for spot trading and 60.2% for futures trading (Fig. 1-26). Foreign investors' presence on the secondary market is greater than indicated by their JGB holdings and should be kept under close watch.

Fig.1-24 JGB Holdings by Foreign Investors

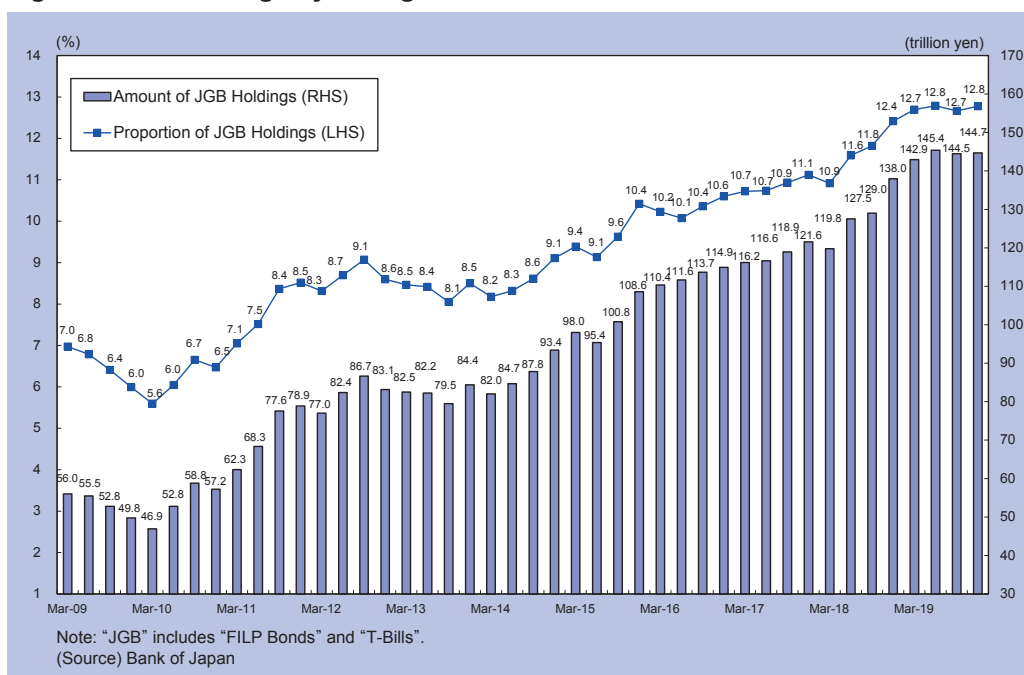


Fig.1-25 JGB Holdings by Foreign Investors (including T-Bills)

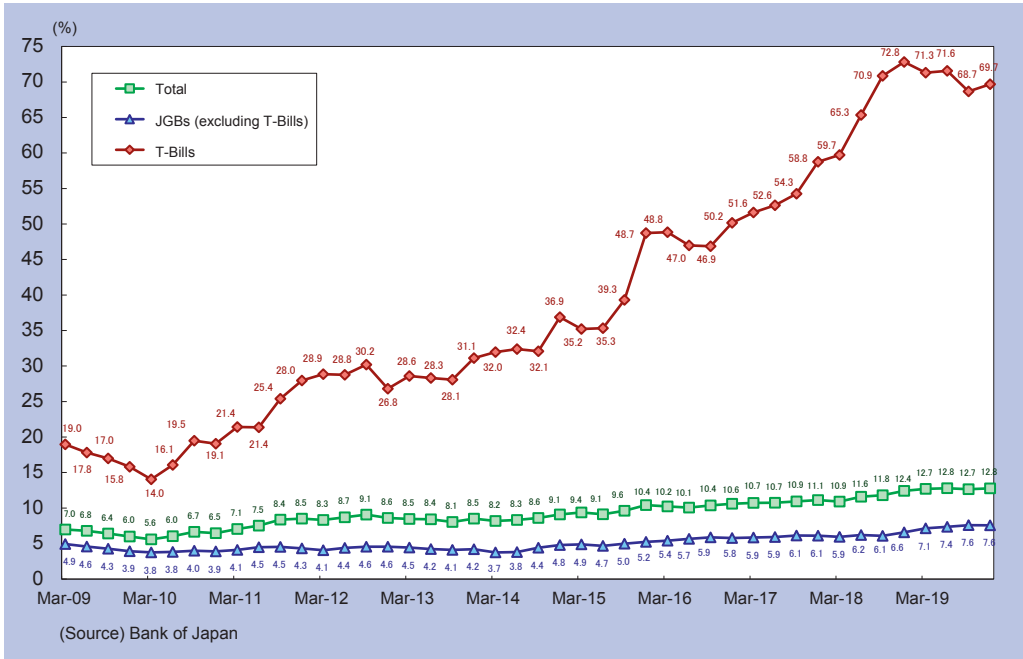
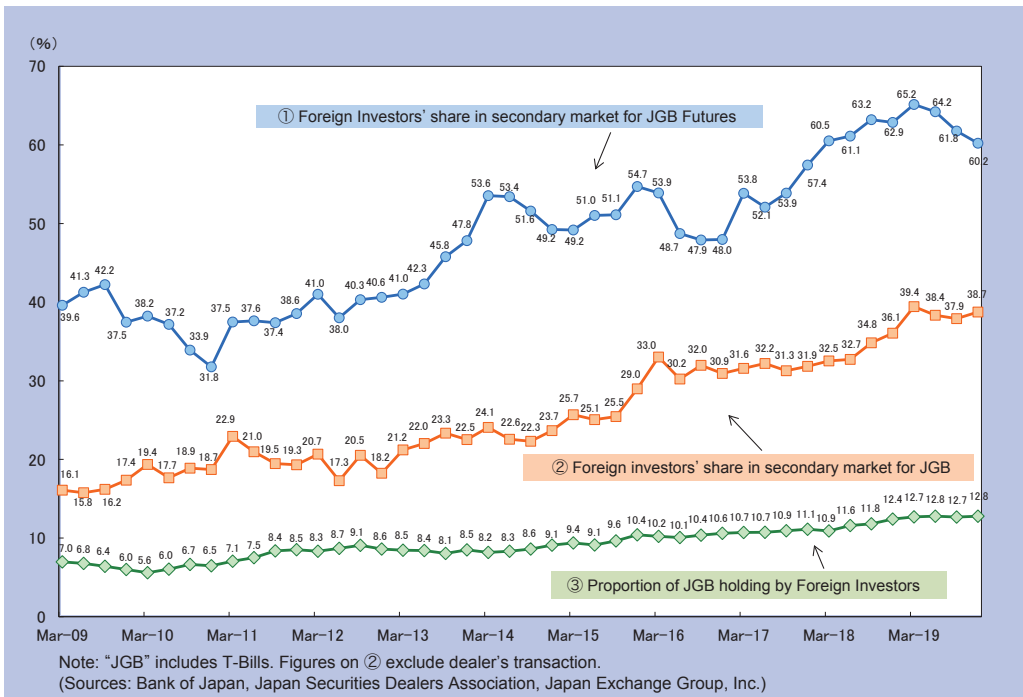


Fig.1-26 JGB Holdings and Trading by Foreign Investors



B. Breaking down Foreign Investors

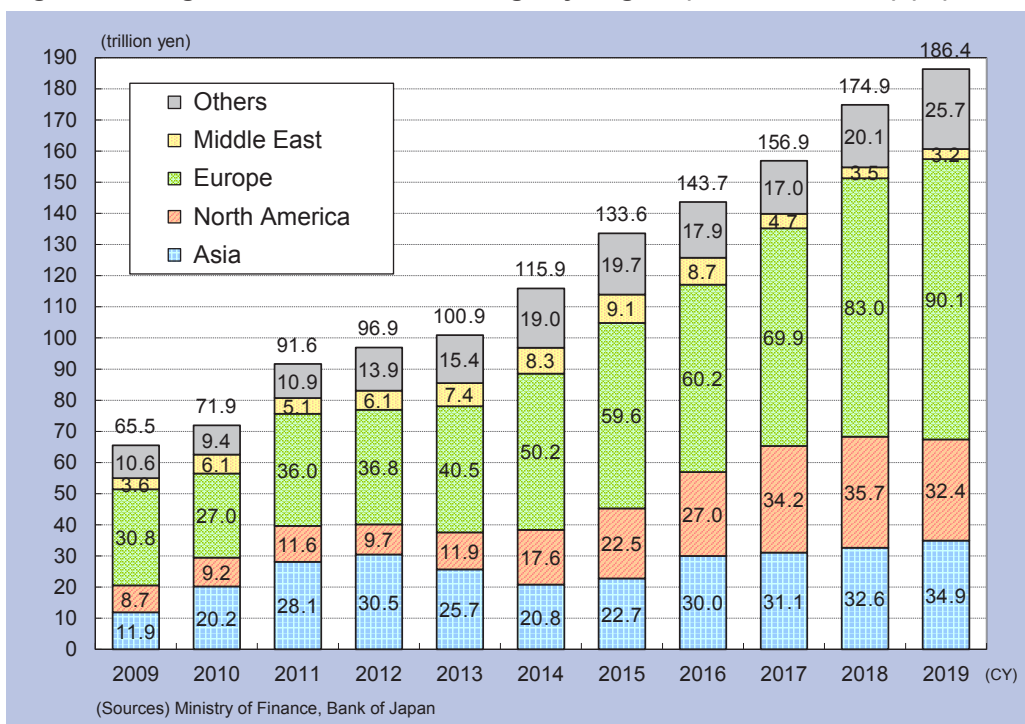
There are various foreign investors including “real money” institutional investors such as central banks managing foreign exchange reserves, international financial institutions, pension funds, life insurance companies and asset management firms, as well as hedge funds.

Generally, it is said that institutional investors like central banks, pension funds and life insurance companies give greater priority to safety, liquidity and stable long-term holdings, on the other hand, hedge funds mainly invest in relatively short-term period utilizing derivatives and so on. However, some “real money” institutional investors conduct relatively short-term

investment, while some hedge funds implement relatively long-term investment. As shown above, there are variety of investment styles. Recently, a wide range of foreign investors have intensified investment in short- to medium-term JGBs by taking advantage of basis swaps.

As for a region-by-region breakdown of foreign investors, the Ministry of Finance and the BOJ release a nationality-by-nationality breakdown of foreign investors' Japanese bond holdings including JGBs in the balance of payments statistics (Regional Portfolio Investment and Financial Derivatives Position (Liabilities)). According to the balance of payments statistics, JGB and other Japanese bond holdings total (1) 90.1 trillion yen in Europe, (2) 34.9 trillion yen in Asia, (3) 32.4 trillion yen in North America, (4) 12.1 trillion yen in Central and South America and (5) 3.2 trillion yen in the Middle East (Fig. 1-27). A country-by-country breakdown of Japanese bonds held overseas indicates that the five largest holders of these bonds are (1) the U.S. with 31.3 trillion yen, (2) Belgium with 28.5 trillion yen, (3) Luxembourg with 26.0 trillion yen, (4) China with 16.1 trillion yen, and (5) the U.K. with 12.2 trillion yen.

Fig.1-27 Foreign Investors' Bond Holdings by Region (Custodian Base) (🔗)

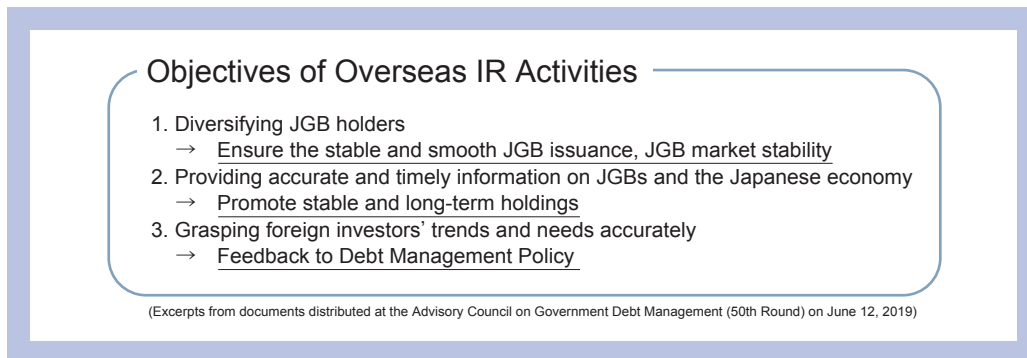


🔗 In addition to JGBs, all of the bonds issued by residents in Japan such as Local Government Bonds and corporate bonds are included. Given that the balance of payments statistics provide a country-by-country breakdown of Japanese bond holders including custodians (financial institutions that take custody of and manage securities including shares and bonds), we must take note of the fact that the breakdown does not necessarily give a region-by-region breakdown of final investors.

C. Overseas Investor Relations (IR) Efforts

Since 2005, the Ministry of Finance has made efforts to enhance relations with foreign investors in JGBs. The activities aim to diversify the JGB investor base, including foreign investors, for the purpose of stabilizing the JGB market and provide accurate information on a timely basis that meets investors' needs for the purpose of encouraging them to hold JGBs longer and more stably (Fig. 1-28).

Fig.1-28 Objectives of Overseas IR Activities



The Ministry of Finance established the Office of Debt Management and JGB Investor Relations at the Debt Management Policy Division of the Financial Bureau in July 2014 to enhance information arrangements to implement more effective and efficient IR activities in cooperation with research and analysis divisions.

In overseas IR activities, we provide various types of investors with information meeting their needs in a fine-tuned manner. For example, we frequently discuss practical topics such as macroeconomic trends, various government policy measures, JGB issuance plans and JGB market trends.

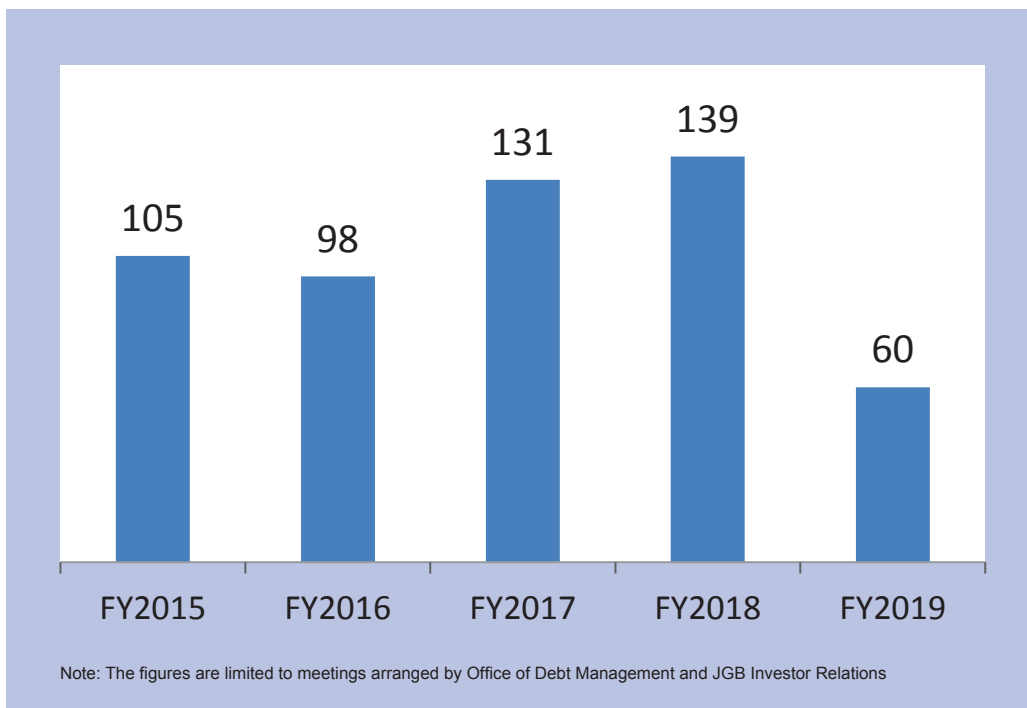
We have adopted overseas IR activity methods fulfilling investors' needs, based on trends of overseas investors and market environment changes as well as opinions at such forums as the Advisory Council on Government Debt Management. Initially, we mainly sponsored seminars for large numbers of investors at various locations to improve foreign investors' awareness of JGBs. In response to improvements in foreign investors' awareness of JGBs through seminars, we have enhanced not only seminars but also direct visits to investors in recent years. Our direct talks with foreign investors allow us to grasp and respond to their needs in a fine-tuned manner, to promote their understanding of JGBs and the Japanese economy and to build close relations with them.

In FY2019, we visited New York, London, Singapore and other cities where many foreign investors are located. In view of the expanding COVID-19 pandemic, however, we were unable to conduct overseas IR activities from February. As a result, we sent a total of four overseas IR missions in the year covering 11 cities in eight countries in North America, Europe and Asia. Mission members had meetings with local investors and made speeches before them. Over recent years, given that Asian investors' investment in Japanese bonds has increased, we have participated in the Regional Forum on Investment Management of Foreign Exchange Reserves (hosted by the Asian Development Bank), a meeting of foreign exchange reserve investment managers, to proactively explain about JGBs to central banks and other investors in the Asia Pacific region. We have also visited various investors including asset management firms and pension funds (Fig. 1-29). Furthermore, we have proactively made lectures at seminars for invited foreign investors and held direct talks with foreign investors visiting Japan. In response to improvements in investors' awareness of JGBs through our IR activities, we have received visits by investors whom IR mission members had the meetings in the past. We will consider calling on foreign investors while watching the pandemic conditions.

The MOF has taken advantage of accumulated experiences with these IR activities over more than 10 years to implement more effective and efficient IR activities based on the PDCA (plan-do-check-act) cycle. For example, we thoroughly implement a flow of procedures in which we sort out information on matters of interest to investors and their investment trends in preparation for direct talks with foreign investors. Even after direct talks, relevant MOF officials share information to build better relations with investors and promote our understanding.

Through these IR activities, we have received various questions and opinions from foreign investors. These opinions are reflected in our debt management and other policies and used effectively. We have also established a question-and-answer column in the “JGB Newsletter” (English version) in an effort to develop better communications with investors.

Fig.1-29 Number of Foreign Investors Subjected to Overseas Interviews



In this way, the overseas IR activities play a role in directly providing investors with accurate information on Japanese government debt management and economic policies while responding to wide-ranging and deep needs for information not only on JGBs but also on the economy and fiscal situation.