JGBs for financing fiscal expenditure are issued in various types, depending on their applicable legal grounds and bond features. This section explains how JGBs are issued.

(1) JGBs by Legal Grounds of Issuance

JGBs can be divided into two main categories: General Bonds, and Fiscal Investment and Loan Program Bonds (FILP Bonds). While the government mainly relies on tax revenue to redeem General Bonds, the redemption and the interest payments on FILP Bonds are covered by the collection of Fiscal Loan receivable. However, both General Bonds and FILP Bonds are jointly issued as JGBs with the same interest rate and maturity. They are the same financial instruments and are treated in the same manner on the market as well.

A. General Bonds

General Bonds consist of Construction Bonds, Special Deficit-Financing Bonds, Reconstruction Bonds and Refunding Bonds. Construction Bonds and Special Deficit-Financing Bonds are issued under the General Account and the revenue from their issuance is reported as the government revenue of the General Account.

On the other hand, Reconstruction Bonds are issued under the Special Account for Reconstruction from the Great East Japan Earthquake and Refunding Bonds under the Special Account of Government Debt Consolidation Fund and the revenue from their issuance is reported as the government revenue of each Special Account.

a. Construction Bonds

Article 4, paragraph (1) of the “Public Finance Act” prescribes that annual government expenditure has to be covered in principle by annual government revenue generated from other than government bonds or borrowings. But as an exception, a proviso of the Article allows the government to raise money through bond issuance or borrowings for the purpose of public works, capital subscription or lending. Bonds governed by this proviso of Article 4, paragraph (1) are called "Construction Bonds."

The Article prescribes that the government can issue Construction Bonds within the amount approved by the Diet, and the ceiling amount is provided under the general provisions of the General Account budget (☞).
b. Special Deficit-Financing Bonds
When estimating a shortage of government revenue despite the issuance of Construction Bonds, the government can issue government bonds based on a special act (☞①) to raise money for the purpose of other than public works and the like. These bonds are generally called “Special Deficit-Financing Bonds.”
As is the case with Construction Bonds, the government can issue Special Deficit-Financing Bonds within the amount approved by the Diet and the ceiling amount is provided under the general provisions of the General Account budget (☞②).
Special Deficit-Financing Bond issuance must be made on exceptional cases. Therefore, the government has to minimize the issuance amount as much as possible within the amount approved by the Diet, while taking into account the state of tax and other revenues (☞③).

c. Reconstruction Bonds
To recover from the Great East Japan Earthquake disasters, the government is supposed to issue Reconstruction Bonds from FY2011 to FY2025 in accordance with the “Act on Special Measures concerning the securing of financial resources to execute measures necessary for recovery from the Great East Japan Earthquake (Reconstruction Funding Act).” While necessary financial resources will be financed with revenues of Special Taxes for Reconstruction, the government will issue Reconstruction Bonds as bridging finance until these revenues are receivable to the government.
The government may issue these Reconstruction Bonds within the amount as approved by the Diet. The ceiling amount is provided under the general provisions of the Special Account budget from FY2012 onwards.

d. Refunding Bonds
As for General Bonds, Refunding Bonds are issued in order to raise funds for refunding part of matured JGBs. Among General Bonds, as for Construction Bonds and Special Deficit-Financing Bonds, the issuance amount of Refunding Bonds is determined basically in accordance with the 60-year redemption rule. As for Reconstruction Bonds, Refunding Bonds are issued depending on the amount of the revenue from Special Taxes for Reconstruction and profit from sales of stocks in each year (☞).
Refunding Bonds are the JGBs issued through the Special Account for the Government Debt Consolidation Fund (GDCF). Revenues from Refunding Bonds are directly posted to the fund.
In the issuance of Refunding Bonds, the government is not required to seek the Diet approval for the maximum issuance amount. This is because unlike in the case of bonds issued to secure new revenue resources, such as Construction Bonds and Special Deficit-Financing Bonds, issuing Refunding Bonds does not lead to an increase in the total amount of outstanding debt.

(Reference) Front-loading issuance of Refunding Bonds
As massive bonds redemption at maturity is expected to continue, the government is allowed to front-load the issuance of Refunding Bonds in order to mitigate the impact of concentration of bonds redemption at maturity, to control substantial volatility of JGB market issuance in each fiscal year and to enable flexible issuance of them in response to
financial conditions and so on. Front-loading issuance of Refunding Bonds can be made within the upper limit approved by the Diet in accordance with Article 47, Paragraph (1) of the “Act on Special Accounts.” The limit is provided in the general provisions of the Special Account budget in each fiscal year. The gap between “the amount of the front-loading issuance of Refunding Bonds that had been scheduled in the previous fiscal year for this fiscal year” and “those that are scheduled front-loading in this fiscal year for the next fiscal year” can be used as part of this fiscal year’s financial resources under the government debt management policy. This is called “adjustment between fiscal years (☞)” in terms of issuance type in the JGB Issuance Plan.

☞ The adjustment includes the difference in the amount of issuance in the accounting adjustment term between the current and the previous fiscal years besides that of front-loading-issuance of Refunding Bonds. In the accounting adjustment term, which means a period from April to June, some of Deficit-Financing or Reconstruction Bonds for the previous fiscal year can be issued.
B. Fiscal Investment and Loan Program Bonds (FILP Bonds)

Since the FY2001 reform of the FILP (Fiscal Investment and Loan Program) that abolished the requirement for all postal savings and pension fund reserves to be deposited at the Fiscal Loan Fund, the government has issued Fiscal Investment and Loan Program Bonds (so-called FILP Bonds) to raise financial resources as necessary for the Fiscal Loan Fund. FILP Bonds are issued integrally with General Bonds based on the credit of the government and treated as the same financial instrument as General Bonds. As is the case with other types of JGBs, FILP Bonds are issued up to the amount approved by the Diet. The FILP Bond issuance ceiling is provided under the general provisions of the Special Account Budget (Article 62, paragraph (2) of the “Act on Special Accounts”) (☞①). Revenues from the FILP Bonds issuance are allotted to the annual revenue for the Special Account for the Fiscal Investment and Loan Program (FILP Special Account).

However, the FILP Bonds are different from Construction Bonds and Special Deficit-Financing Bonds on one account. While future taxes will be used to redeem Construction Bonds and Special Deficit-Financing Bonds, the redemption on the FILP Bonds are covered by the collection of Fiscal Loan receivable. Therefore, when publishing outstanding debt, FILP Bonds are treated differently from General Bonds (☞②).

Fig. 2-2 FILP Fund Flow Since FILP Reform (image)
(2) Types of JGBs

Government bonds are the securities issued by the central government. The central government pays the bondholders interests on the securities on a semiannual basis except for short-term bonds, and redeems the principal amount at maturity (i.e., redemption). The JGBs planned to be issued in FY2022 can be classified into six categories: short-term (6-Month and 1-Year Bonds); medium-term (2-Year and 5-Year Bonds); long-term (10-Year Bonds); super long-term (20-Year, 30-Year and 40-Year Bonds); Inflation-Indexed Bonds (10-Year Bonds); and JGBs for Retail Investors (3-Year Fixed-Rate, 5-Year Fixed-Rate and 10-Year Floating-Rate Bonds).

The short-term JGBs are all discount bonds, which are accompanied by no interest payment during their duration to maturity and redeemed at face value at maturity.

On the other hand, all medium-, long-, super long-term bonds and JGBs for Retail Investors (3-Year Fixed-Rate, 5-Year Fixed-Rate) are the bonds with fixed-rate coupons. With fixed-rate coupon-bearing bonds, the interest calculated by the coupon rate (☞①) determined at the time of issuance (☞②) is paid on a semiannual basis until the security matures and the principal is redeemed at face value.

Inflation-Indexed Bonds (JGBi) are securities whose principal amounts are linked to the consumer price index (CPI) (☞③). Thus, although their coupon rates are fixed, the interest payment also fluctuates. The principal amount of JGBi will be guaranteed at maturity (deflation floor). In case where the indexation coefficient (☞④) falls below 1 at maturity, the principal amount for the JGBi will be redeemed at the face value.

JGBs for Retail Investors (10-Year Floating-Rate) and 15-Year Floating-Rate Bonds are JGBs with coupon rates that vary over time according to certain rules. New issuance has been put on hold for the 15-Year Floating-Rate Bonds, however.

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Short-term</th>
<th>Medium-term</th>
<th>Long-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of issue</td>
<td>Discount bonds</td>
<td>Coupon-bearing bonds</td>
<td></td>
</tr>
<tr>
<td>Min. face value unit</td>
<td>50,000 yen</td>
<td>50,000 yen</td>
<td></td>
</tr>
<tr>
<td>Issuance method</td>
<td>Public offering</td>
<td>Public offering</td>
<td>Public offering (making offerings and accepting subscriptions)</td>
</tr>
<tr>
<td>Auction method</td>
<td>Price-competitive auction/ Conventional-style auction</td>
<td>Price-competitive auction/ Conventional-style auction</td>
<td>Price-competitive auction/ Conventional-style auction</td>
</tr>
<tr>
<td>Non-price Competitive Auction</td>
<td>Non-Price Competitive Auction</td>
<td>Non-Price Competitive Auction</td>
<td>Non-Price Competitive Auction</td>
</tr>
<tr>
<td>Transfer</td>
<td>Not restricted</td>
<td>Not restricted</td>
<td></td>
</tr>
<tr>
<td>Frequency of issue (FY2022)</td>
<td>Monthly each</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Super long-term</th>
<th>Inflation-indexed Bonds</th>
<th>Floating-Rate Bonds</th>
<th>JGBs for Retail Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of issue</td>
<td>Coupon-bearing bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Min. face value unit</td>
<td>50,000 yen</td>
<td>100,000 yen</td>
<td>10,000 yen</td>
<td></td>
</tr>
<tr>
<td>Issuance method</td>
<td>Public offering</td>
<td>Public offering</td>
<td>—</td>
<td>OTC sales (making offerings and accepting subscriptions)</td>
</tr>
<tr>
<td>Auction method</td>
<td>Price-competitive auction/ Conventional-style auction</td>
<td>Telephone auction</td>
<td>Price-competitive auction</td>
<td>Phone-style auction</td>
</tr>
<tr>
<td>Non-price Competitive Auction</td>
<td>Non-Price Competitive Auction</td>
<td>Non-Price Competitive Auction</td>
<td>Non-Price Competitive Auction</td>
<td></td>
</tr>
<tr>
<td>Transfer</td>
<td>Not restricted</td>
<td>Not restricted</td>
<td>—</td>
<td>Restricted (Note 3)</td>
</tr>
<tr>
<td>Frequency of issue (FY2022)</td>
<td>Monthly each</td>
<td>6 times</td>
<td>4 times</td>
<td>Monthly each</td>
</tr>
</tbody>
</table>

(Note 1) Issuance of 15-Year Floating-Rate Bonds has been suspended since May 2008.
(Note 2) Non-Price Competitive Auction II of Inflation-Indexed Bonds has been suspended since May 2020.
(Note 3) JGBs for Retail Investors can be transferred only to retail investors (including certain trust custodians).
(Reference) Inflation-Indexed Bonds

The Inflation-Indexed Bonds (JGBi) are bonds whose principals (and relevant interests) fluctuate in line with the core consumer price index (Fig. 2-4). The government began to issue JGBi in March 2004 and suspended their issuance in October 2008 due to a sharp demand decline accompanying the global financial crisis and other changes. In October 2013, the government resumed JGBi issuance with the principal guarantee upon maturity (Fig. 2-5).

The development of JGBi market has remained a key to address market environment changes after overcoming deflation and to diversify JGB products.

Fig. 2-4 Conceptual scheme of Inflation-Indexed Bonds

ASSUMPTION
- Face value: ¥100 million, Coupon rate: 3%
- Maturity: 10 years
- Initial CPI (core): 100, CPI after 10 years: 120

Note: The above CPI increase rate is purely hypothetical.

Fig. 2-5 Deflation Floor (Conceptual Diagram)

1. In case where the indexation coefficient is below 1, the inflation-adjusted principal will fall below its face value.
2. In case where the indexation coefficient at maturity is above 1, the principal and the interest will be paid based on the inflation-adjusted principal per se.
3. In case where the indexation coefficient at maturity is below 1, the principal will be redeemed at its face value.

Note: Deflation floor has no effect on interests during the maturing period or at maturity.
(3) Methods of Issuance

Methods of issuing JGBs are basically divided into three: offerings to the market, sales to retail investors, and offerings to the public sector.

A. Offering to the market

JGBs are principally issued in public offering on market-based issue terms.

a. Auction method

① Price/yield-competitive auction

Price/yield-competitive auction is a method in which each auction participant (☞①) submits a bidding price (or yield) and bidding amount in response to the issue terms (e.g., issuance amount, maturity, coupon rate (☞②)) presented by the MOF, and the issuance price and amount will then be determined based on the bids.

In this type of auction, the issuing authority starts selling first to the highest price bidder in descending order (or to the lowest yield bidder in ascending order) till the cumulative total reaches the planned issuance amount. In Japan, the auction method varies by type of security. One is the conventional (multiple price) method by which each winning bidder purchases the security at one's bidding price; and the other is the Dutch-style (single price/yield) method by which all winning bidders pay the lowest accepted bid price regardless of their original bid prices (or yields) (☞③).

② Non-competitive auction

Besides competitive auction, 2-Year, 5-Year and 10-Year Bonds are also issued through non-competitive auction. This approach is to take into account small and medium market participants who tend to submit a smaller bid than their larger counterparts. Biddings for non-competitive auction are offered at the same time as for the price-competitive auction, and the price offered equals to the weighted average accepted price of the price competitive auction. One can bid for either the price competitive auction or for the non-price-competitive auction.

The maximum issuance amount is 10% of the planned issuance amount. Each participant is permitted to bid up to 1 billion yen (☞).

③ Non-Price Competitive Auction I & II

Non-Price Competitive Auction I is an auction in which biddings are offered at the same time as for the price-competitive auction. The maximum issuance amount is set at 20% of the total planned issuance amount and the price offered is equal to the weighted average accepted price of the price-competitive auction. Only the JGB Market Special Participants are eligible to bid in this auction. Each participant is allowed to bid up to the amount set based on the result of its successful bids during the preceding two quarters. 40-year or JGBi issues are not subject to Non-Price Competitive Auction I.

Non-Price Competitive Auction II is an auction carried out after the competitive auction is finished. The price offered is equal to the weighted average accepted price in the price-competitive auction or issuance price in Dutch-style competitive auction. Only the JGB...
Market Special Participants are eligible to bid in this auction. Each participant is allowed to bid up to the amount set based on the result of its bids during the preceding two quarters (☞). Inflation-Indexed Bonds and short-term JGB issues are not subject to Non-Price Competitive Auction II.

b. Reopening rule

In March 2001, the immediate reopening rule was introduced for the purpose of the enhancement of JGB liquidity, etc. The rule treats a new JGB issue as an addition to an outstanding issue immediately from the issuance day, in principle, if the principal and interest payment dates and the coupon rate for the new issue are the same as those for the outstanding issue. 5-Year Bonds issues are subject to the rule (☞).

From the viewpoint of securing market supply of each issue, 10, 20, 30 and 40-year issues in FY2022 are subjected to the following rule, which is more advanced than the immediate reopening rule. The 10-Year Bonds will be integrated into four issues (integrating April, May and June issues in 2022 into the April 2022 issue, July, August and September issues into the July 2022 issue, October, November and December issues into the October 2022 issue, and January, February and March issues in 2023 into the January 2023 issue) unless interest rates fluctuate wildly (the market yield on an auction day for a new issue deviates from the coupon on the previous issue with the same maturity date by more than 30 basis points). The reopening rule will also be used in principle to integrate 20-Year and 30-Year Bonds each into four issues. The 40-Year Bonds (May, July, September, November and March issues) will be integrated into one issue (May issue). In principle, JGBi issues (May, August, November and February issues) will be integrated into one issue (May issue).

B. JGBs and sales system for Retail Investors

a. JGBs for Retail Investors

In March 2003, issuance was started on 10-Year Floating-Rate Bonds for Retail Investors (☞①) in order to promote JGB holdings among individuals. Moreover, in order to respond to retail investors’ various needs and to promote further sales, the government has been improving product features by introducing 5-Year Fixed-Rate and 3-Year Fixed-Rate Bonds.

Issuance of JGBs for Retail Investors rests on their handling and distribution by their handling institutions comprised of securities companies, banks, and other financial institutions as well as post offices (about 950 institutions). The handling institutions are commissioned by the government to accept purchase applications and to sell JGBs to retail investors. Handling institutions are paid a commission by the government corresponding to the handled issuance amounts. (☞②)

b. New Over-The-Counter (OTC) sales system for selling marketable JGBs

In addition to JGBs for Retail Investors, in October 2007 a new OTC sales system for marketable JGBs was introduced in order to increase retail investors purchase opportunities with regard to JGBs (2-Year, 5-Year, and 10-Year Bonds).

With regard to this new OTC sales system, it allows private financial institutions to

☞ Each participant is allowed to bid up to 10% of one’s total successful bids in the competitive auction and Non-Price Competitive Auction I.

☞ As principal and interest payment dates for 2-Year Bonds differ from auction to auction, 2-Year Bonds are not effectively subjected to the reopening rule (Ref: III Chapter 1 1(5) “Principal/ Coupon Payment Corresponding to Days of Issuance in FY2022” (P112)).

☞① JGBs for Retail Investors are designed not to lose principal. The minimum interest rate of 0.05% is set to prevent the rate from falling to zero or becoming negative.

☞② For JGBs for Retail Investors from the October 2020 issue (offered in September 2020), the government cuts the sales commission (to 0.08 yen per 100 yen nominal par for 3-Year Fixed-Rate Bonds, to 0.11 yen for 5-Year Fixed-Rate Bonds and to 0.14 yen for 10-Year Floating-Rate Bonds) and pays 0.02% of the balance of the participant account as an account management fee upon interest payments.
engage in subscription-based OTC sales of JGBs in a manner previously exclusive to post offices. This development allows retail investors to purchase JGBs via financial institutions with whom they are familiar, it also allows them to purchase JGBs in a manner that is essentially ongoing. Depending on market yield conditions, however, the acceptance of subscriptions may be suspended.

As with JGBs for Retail Investors, for the new OTC sales system, the government has commissioned financial institutions (about 630 institutions) to conduct subscriptions and sales of JGBs. Note that while these financial institutions are required to accept subscription and sell JGBs at prices defined by the MOF within a defined period, they are not required to purchase any unsold JGBs.

**Fig. 2-7 Major Improvements in Features of JGBs for Retail Investors**

<table>
<thead>
<tr>
<th>Implementation timing</th>
<th>Improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2003</td>
<td>10-Year Floating-Rate Bonds launched</td>
</tr>
<tr>
<td>January 2006</td>
<td>5-Year Fixed-Rate Bonds launched</td>
</tr>
<tr>
<td>October 2007</td>
<td>New OTC sales system introduced</td>
</tr>
<tr>
<td>July 2010</td>
<td>3-Year Fixed-Rate Bonds launched</td>
</tr>
<tr>
<td>July 2011</td>
<td>Interest rate-setting formula revised for 10-Year Floating-Rate Bonds (Standard rate -&gt; 0.80% Standard rate x 0.66)</td>
</tr>
<tr>
<td>April 2012</td>
<td>Period changed for a ban on pre-maturity redemption of 5-Year Fixed-Rate Bonds (2 years -&gt; 1 year)</td>
</tr>
<tr>
<td>December 2013</td>
<td>Monthly subscription and issuance launched for 10-Year Floating-Rate and 5-Year Fixed-Rate Bonds</td>
</tr>
<tr>
<td>May 2016</td>
<td>First interest payment adjustments revised</td>
</tr>
</tbody>
</table>
C. Offering to the public sector (Bank of Japan Rollover)

In the Bank of Japan rollover, the BOJ underwrites Refunding Bonds instead of asking the government to redeem part of JGBs that mature after being purchased by the central bank in the market.

While Article 5 of the “Public Finance Act” prohibits the BOJ from underwriting government bonds, the abovementioned BOJ rollover is an exception that is allowed up to an amount authorized by the Diet under a proviso to the Article. Every fiscal year, the MOF requests the BOJ rollover that the central bank accepts after confirming that the rollover will cause no problem with monetary policy.

An increase in the BOJ rollover can reduce the amount of JGBs issued through usual auctions in the market, allowing the MOF to level the effects of fluctuations in the annual JGB redemption amount and fiscal demand on fluctuations in the amount of JGB market issuance through usual auctions. Therefore, the MOF decides on the BOJ rollover request amount based on the annual JGB Issuance Plan, etc.

**Fig. 2-8 JGB Issuance Amount by Methods of Issuance**

![Diagram showing JGB issuance amount by methods of issuance](image)

- **Bank of Japan Rollover**: (2.2) trillion yen
- **FILP Bonds**: (25.0) trillion yen
- **Financed in the market**: (209.9) trillion yen
- **Sales for Retail Investors**: (2.9) trillion yen
- **Public Offering**: (198.6) trillion yen
- **Non-price Competitive Auction II and others**: (8.3) trillion yen
- **Adjustment between fiscal years**: (3.0) trillion yen

40-year, 30-year, 20-year, 10-year, 5-year, 2-year, Treasury Discount Bills (1-year, 6-month), 10-year Inflation-Indexed Bonds, Liquidity Enhancement Auctions

Note: figures may not sum up to the total because of rounding.
(4) JGB Market Special Participants Scheme

Amid expectations that JGB issuance in large volumes will continue, the “JGB Market Special Participants Scheme” was introduced in Japan in October 2004 to promote the market’s stable absorption of JGBs and to maintain and enhance the liquidity of the JGB market. This scheme is designed based on the so-called “Primary Dealer System” introduced in major European countries and the U.S. To achieve the abovementioned purpose of the scheme, the MOF grants special entitlements to certain auction participants who carry out responsibilities essential to debt management policies, such as active participation in JGB auctions. The following is an outline of the scheme.

A. Responsibilities of JGB Market Special Participants

- Bidding responsibility:
  In every auction, the Special Participants shall bid for an adequate amount (at least the planned issuance amount multiplied by the rate of bidding responsibility(☞)) at reasonable prices.
- Purchasing responsibility:
  The Special Participants shall purchase and underwrite at least a specified share of the planned total issue amount (0.5% for short-term zone; and 1% for other zones) in each of the super long-term, long-term, medium-term and short-term zones in auctions for the preceding two quarters.
- Responsibility in the secondary market:
  The Special Participants shall provide sufficient liquidity to the JGB secondary market.
- Provision of Information:
  The Special Participants shall provide information on JGB markets and related transactions to the MOF.

B. Entitlements of JGB Market Special Participants

- Entitlement to participate in the Meeting of JGB Market Special Participants:
  The Special Participants may participate in the Meeting of JGB Market Special Participants to exchange opinions with the MOF.
- Entitlement to participate in Non-Price Competitive Auctions I & II:
  The Special Participants may participate in Non-Price Competitive Auction I held concurrently with a normal competitive auction and in Non-Price Competitive Auction II held after a normal competitive auction. These auctions enable Special Participants to obtain JGBs at the weighted average accepted price in a competitive auction (or at the issuance price in a Dutch-style auction) up to the maximum amount preset for each Special Participant on the basis of the amount of past successful bids (Non-Price Competitive Auction I) and past bids as a whole (Non-Price Competitive Auction II).
- Entitlement to participate in Liquidity Enhancement Auctions:
  The Special Participants may participate in Liquidity Enhancement Auctions that are designed to maintain and enhance the liquidity of the JGB market.
- Entitlement to participate in Auctions for Buy-backs:
  The Special Participants may participate in Auctions for Buy-backs.
- Entitlement to apply for the separating and integrating STRIPS Bonds:
  The Special Participants may apply for the separation and integration of STRIPS Bonds.

☞ Rate of bidding responsibility is calculated by the formula shown below (any fraction less than one rounded up to the nearest whole number).

\[
\text{Rate of bidding responsibility} \left( \% \right) = \frac{100}{n}
\]

\(n\) is the number of the Special Participants
C. History of the Scheme

- October 2004: JGB Market Special Participants Scheme was introduced, including designation of Special Participants, holding the first round of Meeting of JGB Market Special Participants and launch of Non-Price Competitive Auction II.
- April 2005: Non-Price Competitive Auction I was launched.
- January 2006: Interest rate swap transactions started.
- March 2006: The government bond syndicate underwriting system was abolished.
- April 2006: Liquidity Enhancement Auction was launched.
- January 2009: The maximum bid for Non-Price Competitive Auction II was raised from “10% of one’s total successful bids” to “15%” (☞).
- April 2015: The maximum amount of bidding by each auction participant was reduced from “100% of the planned issuance amount” to “50% of the amount” and the minimum bidding responsibility amount was raised from “3% of the planned issuance amount” to “4% of the amount.”
- July 2017: The maximum issuance amount for Non-Price Competitive Auction I was raised from “10% of the total planned issuance amount” to “20% of the amount” and the minimum bidding responsibility amount from “4% of the planned issuance amount” to “5% of the amount.”
- January 2020: The maximum bid for Non-Price Competitive Auction II was lowered from “15% of one’s total successful bids” to “10%” (☞).
- April 2020: Non-Price Competitive Auction II for the Inflation-Indexed Bonds was canceled.
- March 2022: The bidding responsibility amount was changed from “at least 5% of the planned issuance amount” to “at least 100/n% of the amount.”

☞ The maximum amount of bidding would not exceed the amount obtained by multiplying the planned issuance amount by the Reference Bidding Coefficient for each Special Participant (amount less than 100 million yen shall be discarded).
(5) Government Bond Administration

A. Items the Bank of Japan handles

The government does not directly undertake the government bond-related administrative tasks, such as issuance and redemption, but entrusts the BOJ with most of those tasks based on Article 1, paragraph (2) of the “Act on National Government Bonds.” Those administrative tasks entrusted to the BOJ are as follows (☞).

- Issuance: The BOJ accepts bids from bidders in auctions, notifies amounts of successful bids, collects payments, issues the securities, and receives and handles revenues.
- Redemption/interest payment: The BOJ pays a principal and interests on JGBs, and receives and handles funds to be used for redemption, and makes their disbursement.

B. The Bank of Japan government bond network system

The BOJ operates the Bank of Japan Financial Network System (BOJ-NET) JGB Services (☞) to efficiently and safely implement JGB issuance, redemption and other administrative tasks as explained above and the settlement of JGB transactions with its customer financial institutions.

Banks, securities companies, money market brokers, insurance companies, etc. participate in the BOJ-NET JGB Services that implement JGB issuance, redemption and other administrative tasks online.

Under the “Act on Book-Entry Transfer of Corporate Bonds and Shares,” at present, JGBs traded between financial institutions are paperless. JGB transfers are done in the form of transfers on accounts managed by the transfer institution (the BOJ) (☞).

The BOJ-NET JGB Services allow the following procedures to be completed online:

- Notification of offering (from the BOJ to auction participants)
- Bidding (from bidders to the BOJ)
- Counting the number of bidding and reporting to the MOF on total bidding
- Notification of accepted/allocated bids (from the BOJ to bidders)
- Issuance and payment (from the BOJ to purchasers / from purchasers to the BOJ)
C. Auction Procedures for Public Offering Auction

Fig. 2-9 Auction Procedures for Public Offering Auction

About 3 months before auction:
- Press release
- Determination of auction date

About 1 week before auction:
- Press release
- Determination of issue date and amount

Till the day before auction:
- Market trends and investors’ demand research
- Determination of coupon rate (Note 1)

Day of Auction:
- Press release
- Auction announcement
- Release of the auction information
- Determination of successful bids
- Release of the auction result
- Notification of the successful bids

Non-Price Competitive Auction II:
- Press release
- Determination of successful bids
- Release of the auction result
- Notification of the successful bids

Note 1: Treasury Discount Bills are discount bills that do not carry any coupon rate. No procedure to determine coupon rates is required for reopening and liquidity enhancement auctions for interest-bearing bonds. When a new issuance of 40-Year JGB is offered, a coupon rate is fixed according to the yield-competitive auction result.

Note 2: Successful bids in a Liquidity Enhancement Auction are notified at 14:30.

Note 3: Time in parenthesis refers to the time for Treasury Discount Bills.

Note 4: Non-Price Competitive Auction II is not conducted for Inflation-Indexed Bonds and Treasury Discount Bills.
D. Shortening of Settlement Cycles in Primary JGB Market

In a manner to meet the shortening of the settlement cycle to T+1 for the secondary JGB market, Japan shortened the settlement cycle (between auction and issuance dates) from T+2 to T+1 in principle for auctions as from May 1, 2018.

At the same time, Japan shortened settlement cycles for coupon-bearing issues (5- to 30-year issues) coming in massive JGB redemption months (March, June, September and December) and a 2-year issue every month.

① Coupon-bearing (5- to 30-year) JGB Issues in Massive Redemption Months

For coupon-bearing (5- to 30-year) JGB issues coming in massive JGB redemption months (March, June, September and December) for which issuance dates had been unified into the 20th day of each month (the next business day if the 20th day fell on a holiday) irrespective of auction dates, settlement cycles were shortened to T+1, with their issuance set to come on the next business day of the auction, as from May 1, 2018.

② Monthly 2-year JGB issue

For a 2-year JGB issue coming every month for which an issuance date had been set at the 15th day (the next business day if the 15th day fell on a holiday) of a month after an auction month irrespective of the auction date, the issuance date was set at the first day (the next business day if the first day falls on a holiday) of a month after an auction month as from May 1, 2018. Interest payment and redemption dates were also changed to the first day of each month.