# 2 Primary Market for Government Bonds

Government bonds issued to cover expenditure needs are issued in various forms, depending on their legal basis and marketability. This section explains how government bonds are issued.

## (1) Types of JGBs

Government bonds are the securities issued by the central government. The central government pays the bondholders interest 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 FY2025 can be classified into seven 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); Japan Climate Transition Bonds (5-Year and 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, Japan Climate Transition Bonds and JGBs for Retail Investors (3-Year Fixed-Rate, 5-Year Fixed-Rate) are the bonds with fixed-rate coupons. With fixed-rate interest-bearing government 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) are JGBs with coupon rates that vary over time according to certain rules.

### Fig. 2-7 Types of JGBs

| Maturity | Short-term 6-Month, 1-Year | Medium-term 2-Year, 5-Year | Long-term 10-Year |
|---|---|---|---|
| Type of issue | Discount bonds | Interest-bearing government bonds | |
| Min. face value unit | 50,000 yen | 50,000 yen | |
| Issuance method | Public offering | Public offering<br>OTC sales<br>(making offerings and accepting subscriptions) | |
| Auction method | Price-competitive auction/<br>Conventional-style auction | Price-competitive auction/<br>Conventional-style auction | |
| Non-price Competitive Auction | Non-Price Competitive Auction I | Non-Competitive Auction<br>Non-Price Competitive Auction I<br>Non-Price Competitive Auction II | |
| Transfer restrictions | Unrestricted | Unrestricted | |

| Maturity | Super long-term 20-Year | Super long-term 30-Year | Super long-term 40-Year | Inflation-Indexed Bonds 10-Year | Japan Climate Transition Bonds 5-Year, 10-Year | JGBs for Retail Investors 3-Year Fixed-Rate, 5-Year Fixed-Rate, 10-Year Floating-Rate |
|---|---|---|---|---|---|---|
| Type of issue | Interest-bearing government bonds | | | | | |
| Min. face value unit | 50,000 yen | | | 100,000 yen | 50,000 yen | 10,000 yen |
| Issuance method | Public offering | | | Public offering | Public offering | OTC sales<br>(making offerings and accepting subscriptions) |
| Auction method | Price-competitive auction/<br>Conventional-style auction | | Yield-competitive auction/<br>Dutch-style auction | Price-competitive auction/<br>Dutch-style auction | Yield-competitive auction/<br>Dutch-style auction | — |
| Non-price Competitive Auction | Non-Price Competitive Auction I<br>Non-Price Competitive Auction II | | Non-Price Competitive Auction II | —(Note 1) | — | — |
| Transfer restrictions | Unrestricted | | | Unrestricted | Unrestricted | Restricted (Note 2) |

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

☞① The lower limit of the coupon rate was reduced from 0.1% to 0.005% for issues to be placed from FY2021.

☞② In the case where the period of time between an issue date and the first interest payment date falls short of six months, accrued interest is generated. The accrued interest is an amount representing interest for the period of time where a JGB purchaser does not hold a JGB (six months minus the period of time where the purchaser actually holds the JGB). It is paid by the JGB purchaser upon JGB issuance for adjustment.

☞③ Japan's Inflation-Indexed Bonds are indexed to the consumer price index (excluding perishables).

☞④ The indexation coefficient measures how much the CPI changed after an issue date.

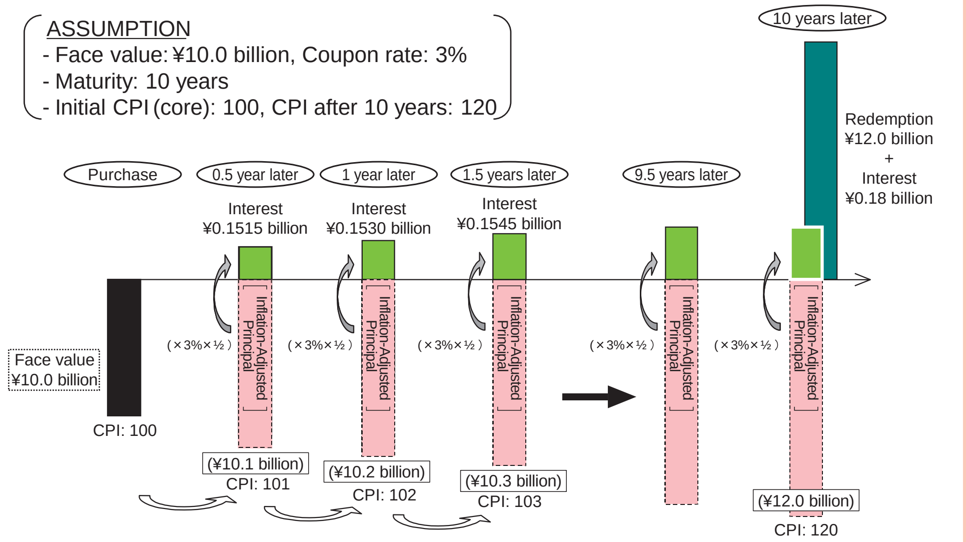
☞ 15 Year Floating-Rate Bonds are JGBs with coupon rates that vary over time according to certain rules. However, issuance of these bonds has been suspended since their issuance in May 2008, and their redemption ended in May 2023.

### (Reference 1) Inflation-Indexed Bonds

The Inflation-Indexed Bonds (JGBi) are bonds whose principal (and relevant interests) fluctuates in line with the core consumer price index (Fig. 2-8). 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. 2-9).

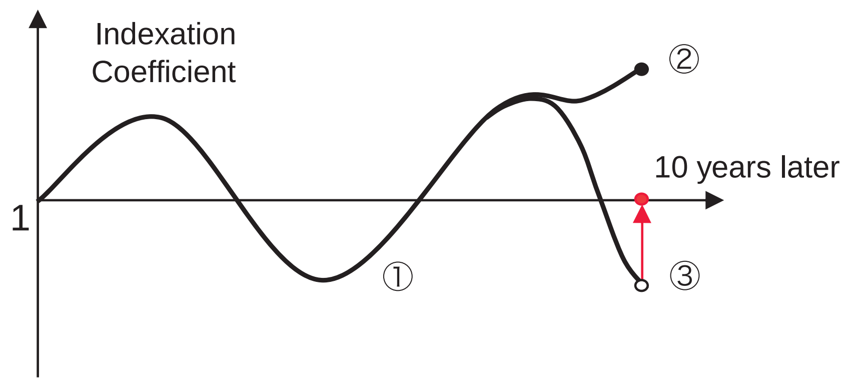
The development of the JGBi market has remained a key to address market environment changes after overcoming deflation and to diversify JGB products.

**Fig. 2-8 Conceptual Scheme of Inflation-Indexed Bonds**




Note: The above CPI increase rate is purely hypothetical.

**Fig. 2-9 Deflation Floor (Conceptual Diagram)**



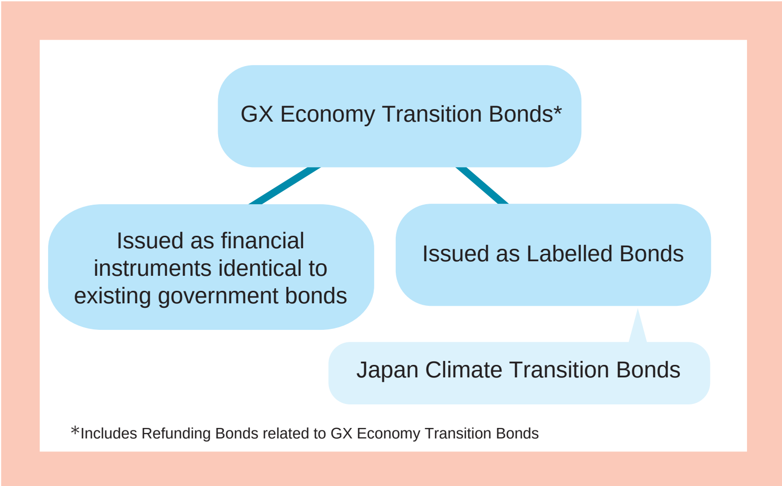

①In cases where the indexation coefficient is below 1, the inflation-adjusted principal will fall below its face value.
②In cases where the indexation coefficient at maturity is above 1, the principal and the interest will be paid based on the inflation-adjusted principal per se.
③In cases where the indexation coefficient at maturity is below 1, the principal will be redeemed at its face value.
Note: The Deflation Floor has no effect on interests during the maturing period or at maturity.

## (Reference 2) Japan Climate Transition Bonds

### a. Issuance of labelled bonds

GX Economy Transition Bonds and their Refunding Bonds are not limited to be issued as financial instruments identical to existing government bonds (including Construction Bonds, Special Deficit-Financing Bonds, and Reconstruction Bonds). Starting from February 2024, they are issued as “Japan Climate Transition Bonds”, the world’s first transition bonds by sovereign issuer based on the Japan Climate Transition Bond Framework (hereafter referred to as the Framework) that have been certified by second party opinion from external reviewers for compliance with international standards. (Fig. 2-10).

**Fig. 2-10 Issuance of GX Economy Transition Bonds**




### b. Overview of the Framework

The Framework describes details such as the issuer's transition strategy, the use of proceeds, the process for project evaluation and selection, the management of proceeds, and post-issuance reporting. It was first published in November 2023 and has currently being updated (as of May 2025) based on the GX2040 Vision, Seventh Strategic Energy Plan, and Plan for Global Warming Countermeasures, which were approved by the Cabinet in February 2025, and Amendment of GX Promotion Act enacted in May 2025, etc.

Use of proceeds: Typical use of proceeds are cited such as promoting the spread of energy-efficient appliances, floating offshore wind, perovskite, development and introduction of innovative technologies such as hydrogen reduction for steelmaking, and conversion to Carbon-Recycling production systems.

Reporting: After issuance, (1) allocation reporting (summarizing the allocation of proceeds to GX budget projects) and (2) impact reporting (summarizing environmental improvement effects and case studies etc.) will be reported on an annual basis.

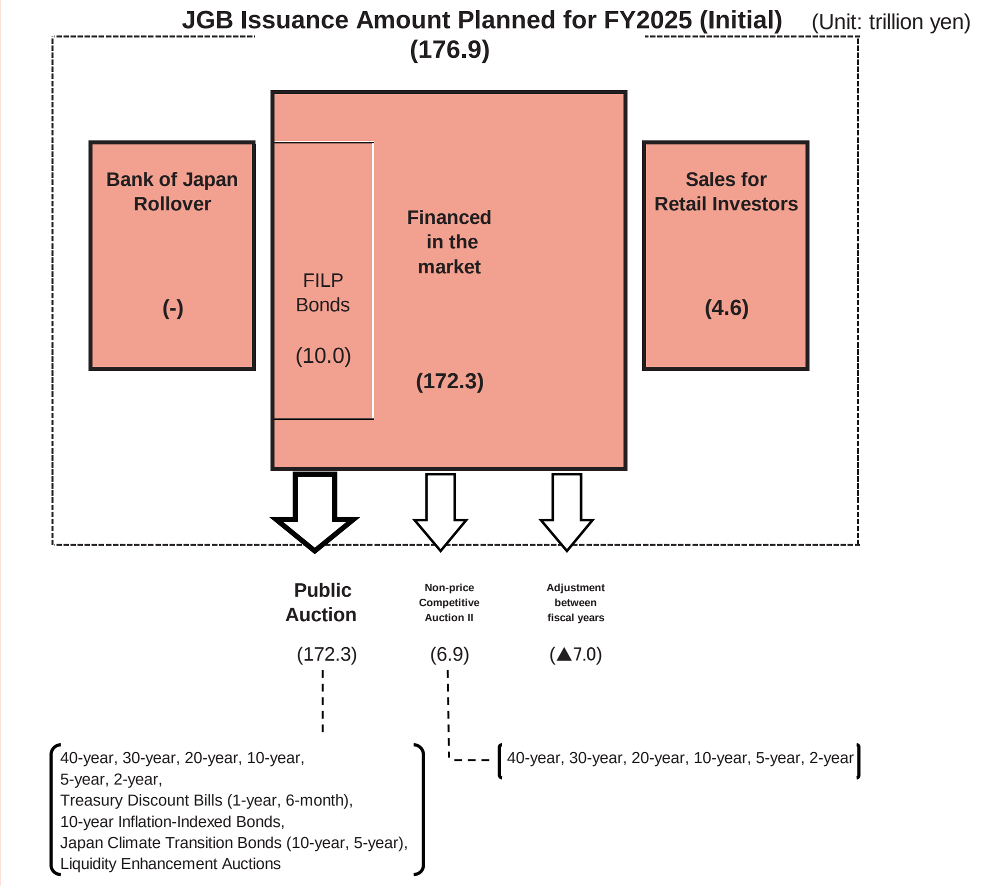
The issuance for item (1) for the bonds issued in fiscal year 2023 was published in December 2024.

Regarding (2), the initial report will be published within two years from the issuance, as it may take some time to determine the effects and impacts of the projects

## (2) 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.

**Fig. 2-11 JGB Issuance Amount Planned for FY2025 (Initial) (by Methods of Issuance)**




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

### A. Offering to the market

JGBs are principally issued in public auctions 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).

☞① Auction participants are designated according to Article 5, paragraph (2) of the Ordinance of the Ministry of Finance on Issuance, etc. of National Government Bonds. As of April 1, 2025, there were 220 auction participants.

☞② No coupon rate of new 40-Year and Japan Climate Transition Bonds is given in advance as it is determined based on the result of yield competitive auction.

☞③ The price-competitive auction / conventional-style auction are used for all JGB issues excluding the 40-year Bonds and Japan Climate Transition Bonds subject to the yield-competitive Dutch auction and the Inflation-Indexed Bonds subject to the price-competitive Dutch auction.

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 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 (☞).

☞The ceiling amount to bid is not applied to the Shinkin Central Bank, the Shinkumi Federation Bank, the Rokinren Bank and the Norinchukin Bank.

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 25% 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. Inflation-Indexed Bonds 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 competitive auction by the conventional method 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, Japan Climate Transition Bonds and Treasury Discount Bills are not subject to Non-Price Competitive Auction II.

☞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.

### 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 redemption date and the coupon rate for the new issue are the same as those for the outstanding issue. (☞①).

From the viewpoint of securing market supply of each issue, 5, 10, 20, 30, and 40-Year Bonds and Inflation-Indexed Bonds in FY2025 are subject to the following rule, which is more advanced than the immediate reopening rule.

The 5-Year Bonds will be integrated into four issues unless the gap between the coupon rate of the issue with the same maturity and the market interest rate on the auction day is more than 0.10%. The 10-Year Bonds will be integrated into four issues unless the gap between the coupon rate of the issue with the same maturity and the market interest rate on the auction day is more than 0.30%. 20-Year and 30-Year bonds are issued through reopenings with four issues per year in principle. The 40-Year Bonds are issued through reopenings with one issue (May, July, September, November, January and March issuances as May bonds) per year in principle. Inflation-Indexed Bonds are issued through reopenings with one issue (May, August, November and February issuances as May bonds) per year in principle. (☞②) .

☞① As redemption 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 2(4) "Principal/Coupon Payment Corresponding to Days of Issuance in FY2025" (P131)).

☞② Regarding Japan Climate Transition Bonds in FY2025, all of them will be issued as new bonds.

## B. JGBs and sales system for Retail Investors

Ref: Part I, 3 (1) "JGB Holdings by Retail Investors" (P31)

### 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 handling and distribution by their handling institutions comprised of securities companies, banks, and other financial institutions as well as post offices (about 890 institutions). The handling institutions are commissioned by the government to accept purchase applications and to sell this type of JGBs to retail investors. Handling institutions are paid a commission by the government corresponding to the handled issuance amounts (☞②).

☞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's account at the time of interest payment on this type of JGBs as an account management fee.

### 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 engage in subscription-based OTC sales of JGBs in a manner previously exclusive to post offices. This development allows retail investors to purchase JGBs easily and almost always at

**Fig. 2-12 Comparison of JGBs for Retail Investors and New Over-The-Counter (OTC) Sales System**

| | JGBs for Retail Investors | | | New OTC JGBs | | |
|---|---|---|---|---|---|---|
| | 10-Year Floating-Rate | 5-Year Fixed-Rate | 3-Year Fixed-Rate | 10-Year Marketable Fixed-Rate Bonds | 5-Year Marketable Fixed-Rate Bonds | 2-Year Marketable Fixed-Rate Bonds |
| Maturity | 10-year | 5-year | 3-year | 10-year | 5-year | 2-year |
| Frequency of issuance | Monthly (12 times per year) | | | Monthly (12 times per year) | | |
| Purchase units/purchase value limits | Minimum purchase of 10 thousand yen in 10 thousand yen units/No upper limit | | | Minimum purchase of 50 thousand yen in 50 thousand yen units/Maximum value of 300 million yen per individual application | | |
| Sales price | 100 yen per 100 yen of face value (the price remains constant during redemption and at maturity) | | | Determined by MOF for each issue. (It is possible to sell at any time on the market. However, the price may change if the bonds are sold before maturity.) | | |
| Purchasers | Limited to retail investors | | | No restrictions (can also be purchased by corporate entities or condominium associations etc.,). | | |
| Interest rate | Floating-rate | Fixed-rate | | Fixed-rate | | |
| Minimum interest rate | Present (0.05%) | | | Absent | | |
| Redemption before maturity | Once one year has elapsed since issuance, redemption before maturity due to government buy-back shall be possible at any time (there is no principal loss risk). The two interest payments are deducted immediately preceding redemption (pre-tax) x0.79685. | | | Can be sold at any time on the market (however, because the price at time of sale shall be the market price at that time, loss/profit shall occur on sales (there is a principal loss risk). Furthermore, there is no scheme for the government to buy-back these bonds before maturity.) | | |
| Introduction (1st issuance) | March, 2003 | January, 2006 | July, 2010 | October, 2007 | | |

**Fig. 2-13 Major Improvements in Features of JGBs for Retail Investors**

| Implementation timing | Improvements |
|---|---|
| March 2003 | 10-Year Floating-Rate Bonds launched |
| January 2006 | 5-Year Fixed-Rate Bonds launched |
| October 2007 | New OTC sales system introduced |
| July 2010 | 3-Year Fixed-Rate Bonds launched |
| July 2011 | Interest rate-setting formula revised for 10-Year Floating-Rate Bonds (Standard rate – 0.80% → Standard rate x 0.66) |
| April 2012 | Period changed for a ban on pre-maturity redemption of 5-Year Fixed-Rate Bonds (2 years → 1 year) |
| December 2013 | Monthly subscription and issuance launched for 10-Year Floating-Rate and 5-Year Fixed-Rate Bonds |
| May 2016 | First interest rate adjustment amount revised |

numerous financial institutions. 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 570 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 for a certain period of time, they are not required to purchase any unsold JGBs.

### C. Offering to the public sector (Bank of Japan Rollover)

While Article 5 of the “Public Finance Act” prohibits the BOJ from underwriting government bonds, a proviso to the Article allows the BOJ to extend credit to the government, up to an amount authorized by the Diet, in exceptional cases. In practice, such cases are limited to underwriting of Refunding Bonds within the amount of JGBs that are held by the BOJ and have reached maturity (often referred to as “Bank of Japan Rollover”).

Through its market operations, the BOJ holds a large amount of government bonds. If the BOJ tried to have its JGB holdings redeemed in cash, the MOF would be required to issue Refunding Bonds in the market to raise the fund needed for redemption. In this case, it could invite a fund shortage in the private sector, thus obliging the BOJ to provide the private sector with funds by purchasing a substantial amount of the Refunding Bonds from private sector. To avoid such roundabout, the BOJ is exceptionally allowed to underwrite only up to the amount necessary to roll over its maturing bonds.

In terms of Debt Management Policy, the amount of BOJ rollover allow 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.

## (3) 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 above-mentioned purposes 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 (☞①).
- Purchasing responsibility:
  The Special Participants shall purchase at least a specified share of the total issuance amount (☞②) (0.5% for short-term zone; and 1% for other zones) for each of the following zones: short-term, medium-term, long-term, and super long-term zone in auctions for any two consecutive 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.

☞①Rate of bidding responsibility is calculated by the formula shown below (any fraction less than one rounded up to the nearest whole number).

Rate of bidding responsibility (%) = 100/n
"n" is the number of the Special Participants

☞②The total issuance amount in JGB auctions (excludes issuance amount through Non-Price Competitive Auction II and Liquidity Enhancement Auctions).

### 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 (Non-Price Competitive Auction II) in auctions for the preceding two quarters.
- 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.

Ref: Chapter 1 3 (6) "STRIPS" (P78)

## 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 Transaction was introduced.(☞①).
- March 2006: JGB 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%" (☞②).
- 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%" (☞②).
- 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%."
- April 2024: The maximum issuance amount for Non-Price Competitive Auction I was raised from "20% of the total planned issuance amount" to "25% of the amount."

☞① An interest rate swap transaction is a transaction in which different types of interest payments (e.g. floating-rate and fixed-rate) are exchanged for a specific period of time. The MOF introduced interest rate swap transaction in connection with JGBs since February 2006, following the amendment of the "Act for the Special Account for the GDCF" in June 2002. No new transactions have been implemented since the second half of FY2009.

☞② 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).

## (4) Government Bond Administration

### A. Government Bond Operations Handled by the Bank of Japan

The government does not directly undertake JGB-related administrative work, such as issuance and redemption but delegates most of those to BOJ based on Article 1, paragraph (2) of the "Act on National Government Bonds." This delegated work is as follows (☞).

- Issuance: The BOJ receives bids 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 interest 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 (☞①) 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," JGBs are paperless. JGB transfers are done in the form of transfers on accounts managed by the transfer institution (the BOJ) (☞②).

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)
- Aggregating bids and reporting to the MOF on their status
- Notification of accepted/allocated bids (from the BOJ to bidders)
- Issuance and payment (from the BOJ to successful bidders / from successful bidders to the BOJ)

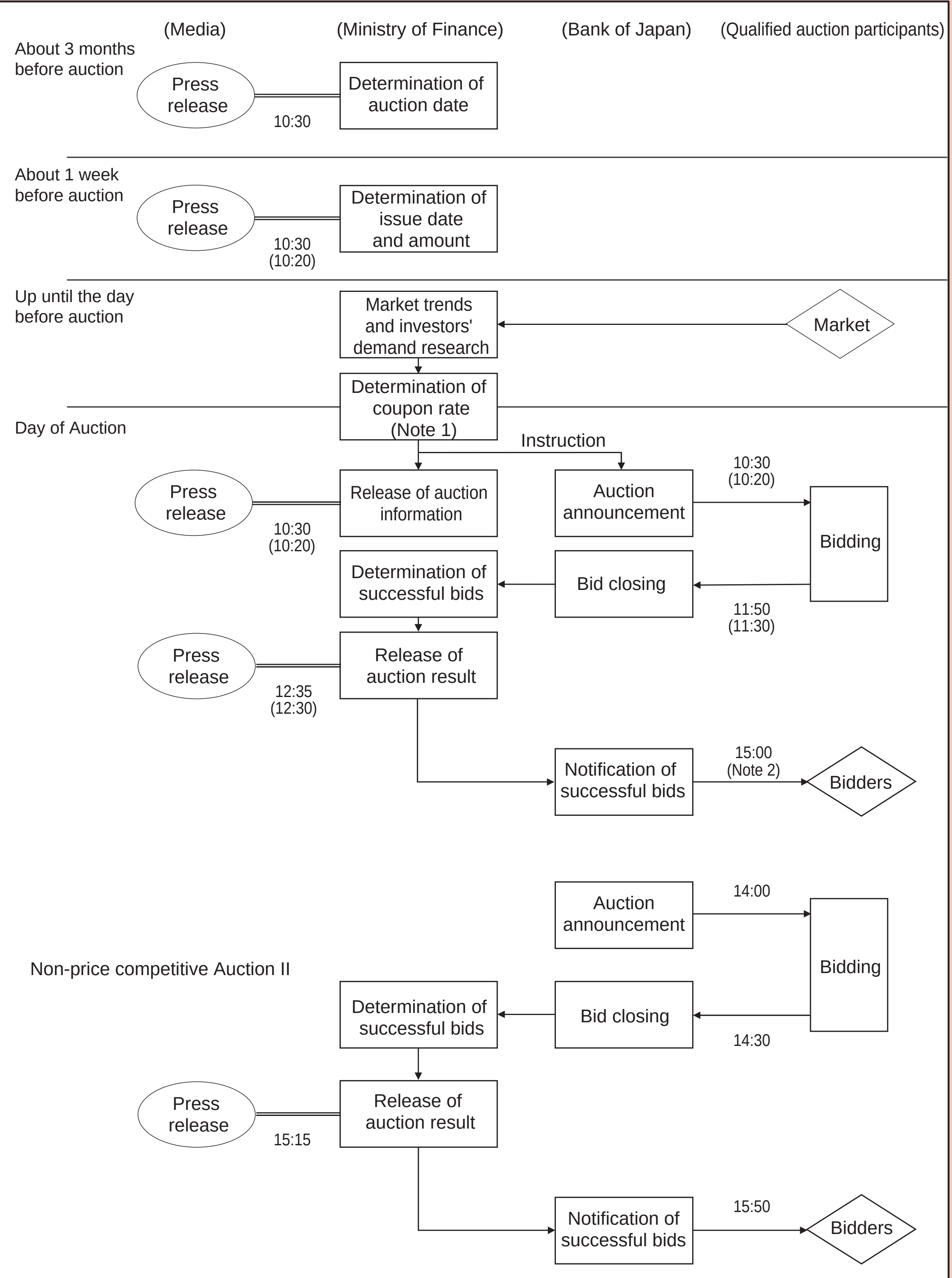
☞The BOJ provides these government bond-related services through its head office and branches, and through agent financial institutions.

☞①The BOJ-NET includes the BOJ-NET current account system as a fund settlement system and the BOJ-NET JGB Services as a JGB settlement system.

☞②JGBs for this mechanism are called Book-entry transfer JGBs, representing those whose ownership is determined by descriptions or records in book-entry accounts as provided by "the Act on Book-Entry Transfer of Corporate Bonds and Shares" (JGB certificates are not issued.).

## C. Auction Procedures for Public Offering Auction

**Fig. 2-14 Auction Procedures for Public Offering Auction**




Note 1: Treasury Discount Bills are issued at a discount so they 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 Bonds and Japan Climate Transition Bonds is offered, the coupon rate is determined according to the yield-competitive auction result.
Note 2: Successful bids from the Liquidity Enhancement Auction are notified at 14:30.
Note 3: Times in parenthesis refer to the times for Treasury Discount Bills.
Note 4: Non-Price Competitive Auction II is not conducted for Inflation-Indexed Bonds, Japan Climate Transion Bonds and Treasury Discount Bills.

## D. Shortening of Settlement Cycles in Primary JGB Market

Ref: Chapter1 2(3)C "Shortening of settlement periods" (P74)

In line with the shortening of the settlement cycle to T+1 for the secondary JGB market, the JGB settlement cycle (between auction and issue date) was shortened from T+2 to T+1 in principle for auctions as from May 1, 2018.
At the same time, the JGB settlement cycle for interest-bearing bonds(5-to 30-Year Bonds) issued in massive redemption months (March, June, September and December) and a 2-Year Bonds issued every month were shortened.

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

Although the issue date of interest-bearing bonds (5- to 30-year) JGB in massive redemption months (March, June, September, and December) 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 after the auction, as of May 1, 2018.

### ② Monthly 2-year JGB issue

Although issue date of the monthly 2-year JGB 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. The interest payment and redemption dates were also changed to the first day of each month.