

***GUIDE TO
JAPANESE
GOVERNMENT
BONDS
2004***



Introduction

Japanese Government Bonds (JGBs) are the securities the government issues for financing purposes. The government pays the bondholder interests on the securities and repays the principal amount at maturity. As a financial instrument traded on the market with high levels of credit and liquidity, JGBs play the central role in Japan's financial and securities markets.

In recent years, JGBs have been issued on a large scale, bringing the outstanding debt to enormous amounts. Thus, debt management policies have become increasingly significant, in order to secure stable and smooth financing and curb the mid-to-long term financing costs against such a backdrop.

While designed to be an easy-to-understand guide to the types of JGBs and their issuance methods, this booklet also outlines the basic thinking behind, and means for, our debt management policies and the challenge that lies ahead.

Toward the end of this booklet, you'll find the appendices useful as reference to JGBs.

Contents

I . Government Debt Management Policies	04
I-1. Significance of Government Debt Management Policies	04
I-2. Initiatives in Recent Years and Challenge That Lies Ahead	04
I-2-1. Market-oriented JGB issuance plan	04
I-2-2. Initiatives for stable financing and market liquidity	04
I-2-3. Diversification of bonds and bondholders	05
I-2-4. Appropriate debt management	05
I-2-5. Dialogue with market participants	05
I-2-6. Market infrastructure building	06
[Box 1 Change in JGB issue amount]	06
II . JGB Issuance	07
II-1. Types of JGBs	07
[Box 2 JGBs for Individual Investors]	09
[Box 3 Inflation-Indexed bonds]	10
II-2. Methods of Issuance	11
II-2-1. Offering for the market	11
[Box 4 Syndicate underwriting]	14
[Box 5 "JGB Market Special Participants" (provisional) scheme]	14
II-2-2. Offering for the public sector	16
II-3. Dialogue with the Market	17
II-3-1. The Meeting on JGB Market	17
II-3-2. The Meeting of JGB Investors	18
II-3-3. Introduction of the Advisory Committee and other measures	18
III . Secondary Market for Government Bonds	19
III-1. Mechanism of the Secondary Market	19
III-1-1. Transactions on exchange and OTC transactions	20
III-1-2. Settlement period	20
III-1-3. Delivery and settlement of funds	20
III-1-4. Improvements of market practices	21
III-2. Government Bond Futures and Lending Markets	21
III-2-1. Government bond futures	21
III-2-2. Bond lending and bond <i>gensaki</i> transactions	22
[Box 6 STRIPS]	23
[Box 7 WI transactions]	24
IV . Regulatory Framework for Government Bonds	25
IV-1. Government Bond-related Legal Systems	25
IV-1-1. Legal status of issuance	25
IV-1-2. Other laws	26
IV-2. Settlement System	27
[Box 8 New JGB book-entry transfer system]	28

IV-3. Taxation of Government Bonds	28
IV-3-1. Individuals and corporations	28
IV-3-2. Nonresident individuals and foreign corporations	29
[Box 9 Recent tax-related initiatives]	31
IV-4. Debt Management Systems	32
IV-4-1. Mechanism of redemption	32
IV-4-2. Buy-back program	35
IV-5. Government Bond Administration	35
IV-5-1. Items the Bank of Japan handles	35
IV-5-2. The Bank of Japan government bond network system	36
IV-6. Other Types of Debt	36
IV-6-1. Financing bills (FBs)	36
IV-6-2. Subsidy bonds	36
IV-6-3. Subscription/contribution bonds	37
IV-6-4. Government bonds issued to Deposit Insurance Corporation	37
IV-6-5. Government bonds converted from Japanese National Railways Settlement	37
Corporation bonds and the like	
IV-6-6. Borrowing	38
IV-6-7. Government-guaranteed debts	39
V. Appendices	41
1. Planned Issue Amount of Government Bonds and Government-guaranteed Bonds for FY2004	
2. Key Points for FY2004 JGB Issuance	
3. Mechanism of Government Bond Issuance	
4. Changes in Issue Amount of Government Bonds	
5. Chronology of Debt Management Policies in Postwar Japan	
6. Changes in Issue Amount of Government Bonds (in the Market)	
7. Years-to-maturity Structure of Straight Government Bonds (FY2004 Initial Budget Basis)	
8. Changes in Outstanding Amounts of Government Bonds, Borrowing and Government-guaranteed Debts	
9. Breakdown of the Outstanding Balance of Straight Government Bonds by Remaining Years to Maturity	
10. Auction Results for Financing Bills (FBs)	
11. Auction Results for Government Bonds by Maturity	
12. Sales of JGBs for Individual Investors	
13. Breakdown of Government Bond Holders	
14. 10-year JGB Yield	
15. Tax Exemption Scheme for Nonresidents	

I. Government Debt Management Policies

This chapter outlines the basic thinking behind our debt management policies and gives an overview of each policy.

I-1. Significance of Government Debt Management Policies

From the viewpoint of the debt issuing authority, debt management policies are the collective term that includes various policies in areas that range from government bond issuance and digestion, to distribution and redemption.

Given our country's unprecedentedly severe fiscal situation, large-scale JGB issuance is expected to last. It is thus essential to strengthen our debt management policies aiming to secure stable, low-cost financing, which is the foundation for smooth fiscal management.

When implementing debt management policies in the future, we must take appropriate measures in a comprehensive style to address a number of challenges, such as securing stable financing in the age of large-scale JGB issuance; maintaining and increasing the JGB market liquidity; and appropriately managing a large amount of outstanding JGBs.

In this context, we announced in December 2003 the "Forthcoming Developments in Debt Management Policies"—a package of measures we have taken recently or those in the pipeline. Some of these measures are outlined below.

I-2. Initiatives in Recent Years and Challenge That Lies Ahead

Debt management policies have two major objectives— *a.* to secure smooth and stable financing; and *b.* to curb financing costs over many years.

With this in mind, the Ministry of Finance has implemented in recent years various policies and measures shown below. For more details, please see Chapter II and V.

I-2-1. Market-oriented JGB issuance plan

In FY2004, the total issue amount of JGBs is to be around 162 trillion yen, of which approximately 115 trillion yen will be issued in the market.

In designing the issuance plan for each fiscal year, we try to maintain an appropriate balance among different maturity zones—short-, medium-, long- and super-long-term—in response to market trends and needs, while taking into account correlations between the financing cost and risks associated with interest rates and refunding, in addition to the future redemption profile.

By announcing the maturity-by-maturity issue amount for the coming fiscal year in the bond issuance plan we publish every December, and also by periodically announcing the auction calendar for three months ahead, we try to secure market predictability. Even during a fiscal year, by listening to market participants, we respond to market needs and trends,—for example, increasing the issue amount of a maturity zone with particularly strong investor demand.

I-2-2. Initiatives for stable financing and market liquidity

We will introduce a system with functions similar to the primary dealer system¹ already in use in a number of major foreign countries. Provisionally named the "JGB Market Special Participants" (hereinafter called "JGB Market Special Participants") scheme, it will be phased in in October 2004 to promote stable financing as well as maintaining and improving market liquidity.

We will thus establish a new, market participants-driven framework with well-functioned market mechanism for stable absorption of JGBs as a whole.

I-2-3. Diversification of bonds and bondholders

We also try to bring extra stability to the primary and secondary markets for JGBs by diversifying the JGB line-up in response to various investor needs, and by diversifying the bondholder base.

As part of such initiatives, we launched in March 2004 the Inflation-Indexed bond—a security of which the principal amount changes as it is linked to the consumer price index. This instrument is expected to satisfy the need of investors who want to avert a future inflationary risk. While about 100 billion yen of Inflation-Indexed bonds was issued in FY2003, we plan to issue a total of 600 billion yen for FY2004—300 billion yen per issue and twice a year.

Regarding JGBs for Individual Investors launched in March 2003, their issue amount for FY2004 will be increased to 2.1 trillion yen—1.6 trillion yen via private financial institutions; 0.5 trillion yen via post offices—based on the sales performance so far. The launch of a new type of JGBs for Individual Investors is now being considered.

To promote diversification of bondholders from the taxation point of view, we have implemented a number of measures, such as the introduction and expansion of a tax exemption measure for the interest on JGBs held by nonresident individuals and other foreign investors, as well as the withholding tax exemption for the interest on JGBs held by certain non-financial corporations. In addition, effective as of FY2004, the redemption profit on TBs and FBs held by foreign corporations via global custodians can also be exempted from withholding tax.

I-2-4. Appropriate debt management

The amount of outstanding JGBs ² is expected to reach 483 trillion yen by the end of FY2004. Thus, it is essential for us to manage the debt efficiently by identifying risks associated with refunding and interest rate fluctuations, while maintaining liquidity of these outstanding bonds.

To smooth the annual redemption amount, hence the issue amount of refunding bonds, we have implemented buy-backs on a regular basis since January 2003. In FY2004, the Bank of Japan will also join the counterparties of our buy-back operations. Furthermore, in conjunction with the phase-in launch of the "JGB Market Special Participants" scheme in October 2004, we will implement "Liquidity Supply Auctions" (provisional name) and will also make proactive use of the buy-back program for new purposes.

For efficient management of the enormous amount of outstanding JGBs, it is also indispensable to strengthen our capacity to analyze various risks, such as refunding risks and interest rate risks. In this context, a new system for appropriate debt management will be developed and preparations for the FY2005 launch of interest rate swaps are already underway.

I-2-5. Dialogue with market participants

We have continued to listen to market participants through such regular and open discussions as the Meeting on JGB Market and the Meeting of JGB Investors, to exchange opinions with them and to identify market needs.

In conjunction with the launch of the "JGB Market Special Participants" scheme, we will establish the "Advisory Committee" (provisional name) to exchange opinions with non-governmental experts with insight into public debt management policies.

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1. The primary dealer system—already in place in the USA, UK, France, Spain, Italy and other countries—is a system to secure stable financing and market liquidity by designating a certain number of market participants who meet specific criteria, such as proactive participation in government bond auctions, as primary dealers. The debt issuing authority usually entitles them to special capacities, such as the capacity to take part in buy-back auctions.
 2. The sum of new financial resource bonds (ie, construction bonds and special deficit-financing bonds) and refunding bonds, but Fiscal Loan Fund Special Account bonds are not included.

Additionally, we will also start publishing the "Debt Management Report" (provisional name) for greater transparency and disclosure³ of debt management policies. The report will be designed to provide an overview of the whole public debt and our debt management policies.

I-2-6. Market infrastructure building

Market infrastructure building is also indispensable to reduce settlement risks on the debt market and to increase market liquidity. This is where the Ministry of Finance and market participants should join hands.

So far, a new transfer settlement system, launched in January 2003, has made JGBs fully paperless. This was followed by the February 2004 launch of "JGB transaction prior to the auction". Measures in the pipeline include the May 2005 launch of clearing operations of the Japan Government Bond Clearing Corporation, which was established in October 2003.

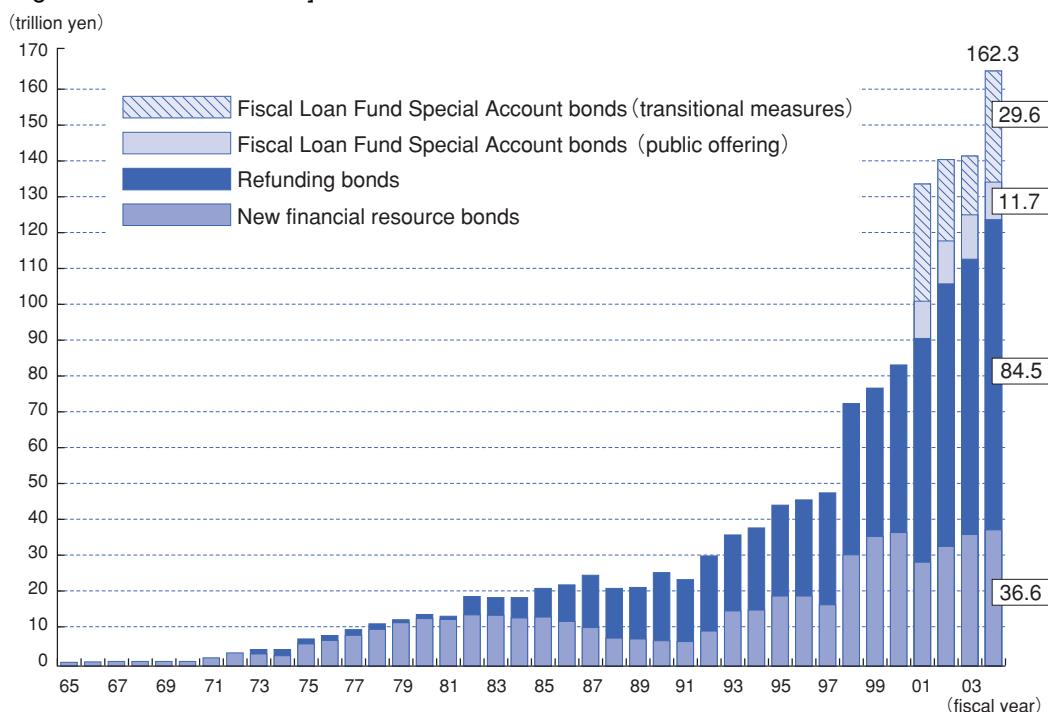
Furthermore, to establish an even more competitive and efficient market for government bonds, the syndicate underwriting system, used for 10-year fixed-rate coupon-bearing bonds, has been under review, and as a result the ratio of auctions has been increased gradually.

[Box 1 Change in JGB issue amount]

The JGB issue amount has been on the increase in recent years. While the JGB issue amount often refers to that of new financial resource bonds (=construction bonds + special deficit-financing bonds), securities the government issues also include refunding bonds and Fiscal Loan Fund Special Account bonds.

As the diagram shows, the total issue amount of these government bonds has increased at a dramatic pace particularly in the last several years. While new financial resource bonds have been hovering between 30 and 40 trillion yen since FY1998, the total issue amount of JGBs, including refunding bonds, had increased from 70 to over 80 trillion yen during a period between FY1998 and FY2000. The FY2001 launch of Fiscal Loan Fund Special Account bonds pushed up the figure to over 130 trillion yen in that fiscal year. In FY2004, the total sum is expected to reach approximately 162 trillion yen, due in part to the increased issue amount of refunding bonds.

[Change in JGB issue amount]



3. At the web site of the Ministry of Finance, you'll find the latest debt-related information that ranges from auction announcements and results to FAQ and statistics. We also publish a newsletter on JGBs on a quarterly basis.

II. JGB Issuance

There are different types of JGBs, and their methods of issuance vary. What follows is an overview of types of bonds and their issuance methods.

II-1. Types of JGBs

Government bonds are the securities the government issues. The government pays the bondholder interests on the securities and repays the principal amount (ie, redemption). Interest is payable on a semiannual basis and the principal amount is redeemed at maturity.

The JGBs currently issued can be classified into six categories—short-term (6-month and 1-year Treasury bills); medium-term (2-year and 5-year bonds); long-term (10-year bonds); super-long-term (15-year, 20-year and 30-year bonds); JGBs for Individual Investors; and Inflation-Indexed bonds.

The short-term JGBs are all discount bonds, meaning that they are issued at prices lower than the face value. No interest payments are made but at maturity the principal amounts are redeemed at face.

On the other hand, all medium-, long-, and super-long-term JGBs—except for the 15-year floating-rate bonds—are the bonds with fixed-rate coupons. With fixed-rate coupon-bearing bonds, the interest calculated by the coupon rate determined at the time of issuance is paid on a semiannual basis until the security matures when the principal is redeemed at face value.

The 15-year floating-rate bonds and the JGBs for Individual Investors feature a coupon rate that varies according to certain rules. The Inflation-Indexed bond is a security of which the principal amount is linked to the consumer price index.

For the basic description of each bond, see Fig. 1. For the planned issue amount of each JGB for FY2004, see Fig. 2.

In the past, there used to be some other types of JGBs. But after the August 1988 issue of 3-year fixed-rate bonds, the September 2000 issue of 5-year discount bonds, the February 2001 issue of 4-year fixed-rate bonds, the March 2001 issue of 6-year fixed-rate bonds, and the November 2002 issue of 3-year discount bonds, these bonds have never been issued.

[Fig. 1 Types of JGBs]

Maturity	Short-term (TBs)	Medium-term	Long-term	Super-long-term
	6-month, 1-year	2-year, 5-year	10-year	15-year floating-rate
Type of issue	Discount bonds	Coupon-bearing bonds		
Min. face value unit	¥10,000,000	¥50,000	¥50,000	¥100,000
Issuance method	Public offering BOJ switch	Public offering Postal Savings (OTC sale) Fiscal Loan Fund Special Account bond (transitional measures)	Syndicate underwriting Postal Saving (OTC sale) Fiscal Loan Fund switch Fiscal Loan Fund Special Account bond (transitional measures)	Public offering
Auction method	Competitive price auction	Competitive price auction & noncompetitive auction	Competitive price auction & noncompetitive auction	Dutch-style yield auction*2
Transfer	Restricted*1	Not restricted	Not restricted	Not restricted
Recent frequency of issue	Monthly each	Monthly each	Monthly	Bimonthly(odd months)

Maturity	Super-long-term	JGBs for Individual Investors	Inflation-Indexed bonds
	20-year	30-year	10-year floating-rate 10-year
Type of issue	Coupon-bearing bonds		
Min. face value unit	¥50,000	¥50,000	¥10,000 ¥100,000
Issuance method	Public offering Fiscal Loan Fund Special Account bond (transitional measures)	Public offering	Handling of public offering Public offering
Auction method	competitive price auction	Dutch-style yield auction	— Dutch-style yield auction*3
Transfer	Not restricted	Not restricted	Restricted*1 Restricted*1
Recent frequency of issue	Monthly	Quarterly	Quarterly Biannually

*1 TBs are transferrable only to corporations (including trustees of certain trusts). JGBs for Individual Investors are transferrable only to individuals. For transfer restrictions on Inflation-Indexed bonds, see Box 3.

*2 Reference rate used for 15-year floating-rate bonds is linked to the interest on 10-year fixed-rate bonds— α

*3 In reopenings, the conventional price auction will be applied.

While the JGBs are classified by funding purposes into construction bonds, special deficit-financing bonds, refunding bonds, and Fiscal Loan Fund Special Account bonds, as financial products they are no different from each other when it comes to holdings and transactions. For legal descriptions of JGBs, see Chapter IV titled "Regulatory Framework for Government Bonds."

[Fig. 2 Planned JGB issuance for FY2004]

[Classification by funding purposes]

(billion yen)

	Planned issuance for FY2003 initial budget (a)	Planned issuance for FY2004 initial budget (b)	(b) - (a)
New financial resource bonds	36,445.0	36,590.0	145.0
Construction bonds	6,420.0	6,500.0	80.0
Special deficit-financing bonds	30,025.0	30,090.0	65.0
Refunding bonds	74,967.8	84,450.7	9,482.9
Fiscal Loan Fund Special Account bonds	30,010.0	41,300.0	11,290.0
(public offering)	(11,460.0)	(11,700.0)	(240.0)
(transitional measures)	(18,550.0)	(29,600.0)	(11,050.0)
Total	141,422.8	162,340.7	20,917.9

[Classification by issuance methods and maturity]

	Planned issuance for FY2003 initial budget (a)	Planned issuance for FY2004 initial budget (b)	(b) - (a)
30-year bonds	1,600.0	2,000.0	400.0
20-year bonds	4,800.0	6,900.0	2,100.0
15-year bonds	5,500.0	6,000.0	500.0
10-year bonds	22,800.0	22,800.0	—
5-year bonds	22,800.0	22,900.0	100.0
2-year bonds	20,960.0	19,250.5	-1,709.5
Treasury bills	34,170.9	34,170.9	—
Inflation-indexed bonds	100.0	600.0	500.0
Total amount in the market (excluding Treasury bills)	112,730.9 (78,560.0)	114,621.4 (80,450.5)	1,890.5 (1,890.5)
Postal Savings	2,100.0	2,300.0	200.0
Bank of Japan	6,441.9	13,219.3	6,777.4
Fiscal Loan Fund	400.0	1,000.0	600.0
Fiscal Loan Fund Special Account bonds (transitional measures)	18,550.0	29,600.0	11,050.0
Postal Savings	9,960.0	19,700.0	9,740.0
Pension Reserves	5,650.0	7,500.0	1,850.0
Postal Life Insurance	2,940.0	2,400.0	-540.0
Total amount in public sector	27,491.9	46,119.3	18,627.4
JGBs for Individual Investors	1,200.0	1,600.0	400.0
Total	141,422.8	162,340.7	20,917.9

Notes 1: Figures may not sum up to the total because of rounding.

2: The amount of buy-backs was approximately 1,000.0 billion yen in FY2003, and will be approximately 2,000.0 billion yen in FY2004.

3: Figure in "Bank of Japan" in "Planned issuance for FY2004 initial budget" includes 400.0 billion yen of refunding bonds to be issued for the same amount of buy-backs from the Bank of Japan.

4: Figure in "Fiscal Loan Fund" indicates the amount of refunding bonds to be issued for the same amount of buy-backs from the Fiscal Loan Fund.

5: 20-year bond issuance in FY2003 was increased by 600.0 billion yen, to meet requests from market participants. (2-year bond issuance was reduced by the same amount.)

6: The issue amount of JGBs for Individual Investors in FY2003 exceeded its initially planned amount (1,200.0 billion yen in "Planned issuance for FY2003 initial budget").

7: For new financial resource bonds in the FY2003 supplementary budget, the construction bond issuance was increased by 273.0 billion yen and the special deficit-financing bond issuance was reduced by 273.0 billion yen from its initially planned amount shown in "Planned issuance for FY2003 initial budget".

[Box 2 JGBs for Individual Investors]

To secure smooth and stable financing at a time when large-scale JGB issuance is expected to continue, it is essential to diversify the bondholder composition. In this context, we must promote JGB holdings by individuals, because compared with JGB holdings by financial institutions, individual investors account for a much smaller share.

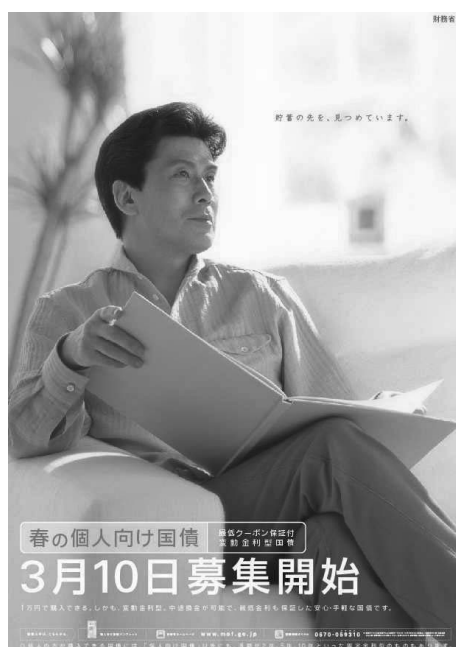
Generally, individual investors tend to be relatively stable, long-term bondholders. Thus, to further diversify the bondholder composition with particular emphasis on individuals should add to market stability and smooth financing. For these reasons, the Ministry launched in March 2003 the JGBs specifically designed for individual investors.

This instrument, which only individuals are allowed to hold, is designed to be attractive to individuals in more ways than one. First, it has a 10-year maturity. Second, the unit face value one can purchase is 10,000 yen, so individuals can purchase easily. Third, it is a floating-rate bond of which interest fluctuates semiannually according to the interest rates on 10-year fixed-rate JGBs newly issued. Fourth, even when the market rate of interest declines due to economic and other factors, a minimum 0.05% coupon is guaranteed. Fifth, one year after the issuance it can be redeemed. And finally, it is available at most financial institutions, such as securities companies and banks, and post offices.

JGBs for Individual Investors are issued on a quarterly basis—most likely on the 10th day of April, July, October and January—and each application period starts during the first half of March, June, September and December.

Along with other conventional JGBs, it is issued and managed fully paperless in exclusive accounts for JGBs at financial institutions or post offices.

[Ad/poster of JGBs for Individual Investors]



[Box 3 Inflation-Indexed bonds]

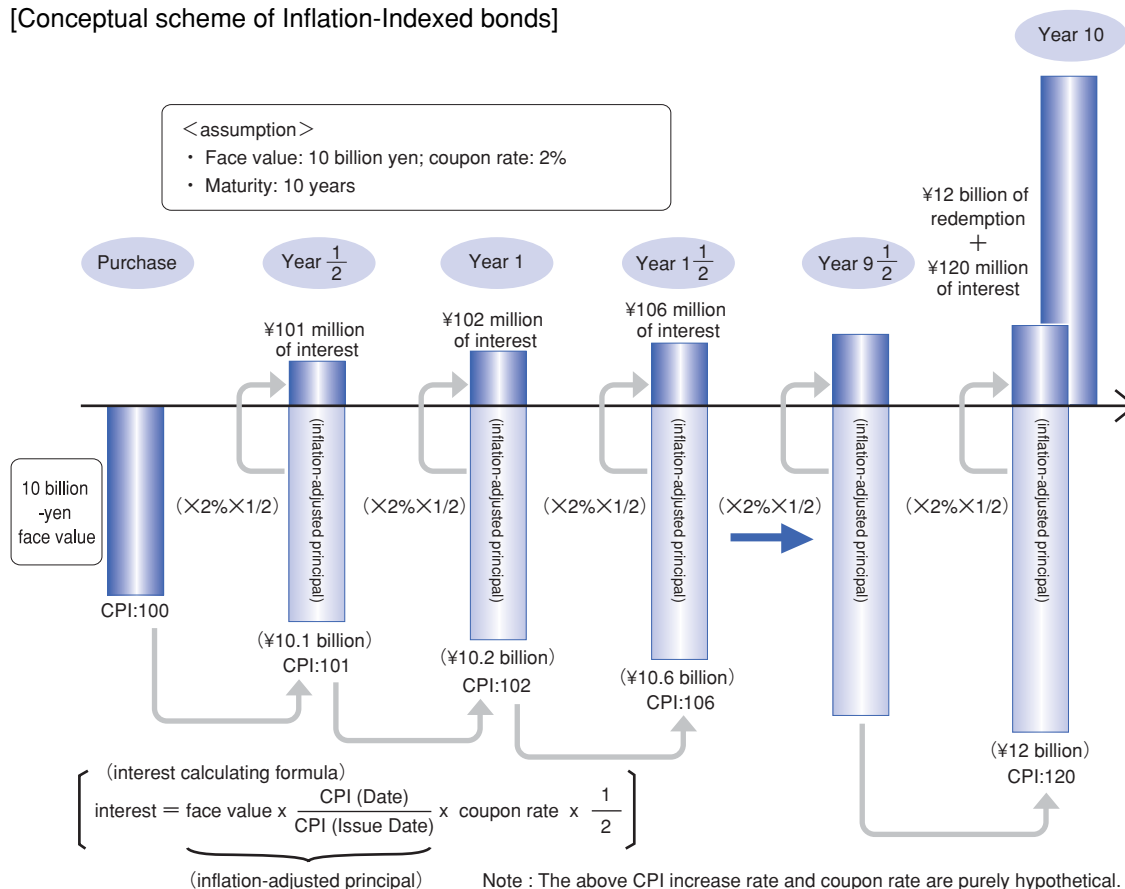
Inflation-Indexed bond, introduced in March 2004, is the government bond of which principal amount varies as it is linked to the consumer price index—ie, CPI excluding fresh food. While this new instrument meets the needs of investors who want to avert inflationary risks, it can also serve as a means of observing the expected inflation rate on the market.

With conventional fixed-rate coupon-bearing JGBs, the principal at the time of issuance remains unchanged till redemption, and the interest amount remains the same for biannual interest payment. On the contrary, with Inflation-Indexed bond, the principal amount varies as it is linked to the CPI. So if the CPI increases after issue, the principal amount also increases according to the rate of inflation, and vice versa, and at maturity they are redeemed at the adjusted principal amount (hereinafter called "inflation-adjusted principal amount"). And interest amount is calculated by multiplying the inflation-adjusted principal amount at the time of interest payment by the pre-fixed coupon rate, so it also changes according to the rate of inflation.

Inflation-adjusted principal amount is calculated by multiplying face value by indexation coefficient. Indexation coefficient, which indicates the level of fluctuation from the time of issuance, is calculated by dividing Ref index for the day by Ref index at the time of issuance (specifically, the 10th day of the issue month).

Additionally, since Inflation-Indexed bond holdings are limited to financial institutions in Japan and foreign governments and the like, individuals, non-financial corporations and foreign investors are not allowed to hold them.

[Conceptual scheme of Inflation-Indexed bonds]



II-2. Methods of Issuance

When issuing JGBs, there are basically two methods—offering for the market and offering for the public sector—as you'll see below. The parenthesized figure after each heading shows the planned issue amount for FY2004 in that category of issuance method.

II-2-1. Offering for the market (—114.6 trillion yen)

While offering for the market can be further divided into public offering auction and syndicate underwriting, in practice JGBs are issued primarily in the former method and on market-based issue terms.

① Public offering auction (91.8 trillion yen)

Public offering auction ⁴ is a method in which each auction participant submits a bidding price (or yield) and bidding amount in response to the issue terms (eg, issue amount, maturity, coupon rate) presented by the Ministry, and the issue price and amount will then be determined based on the bids. Currently, this method applies to all government bonds, except for 10-year fixed-rate coupon-bearing bonds.

In auction, the issuing authority starts selling first to the highest price bidder and in descending order (or to the lowest yield bidder in ascending order) till the cumulative total reaches the planned issue amount.

In Japan, the auction method varies by type of security. One is the conventional method by which each winning bidder purchases the security at his bidding price; and the other is the Dutch-style auction method by which all winning bidders pay the same price regardless of their original bid.

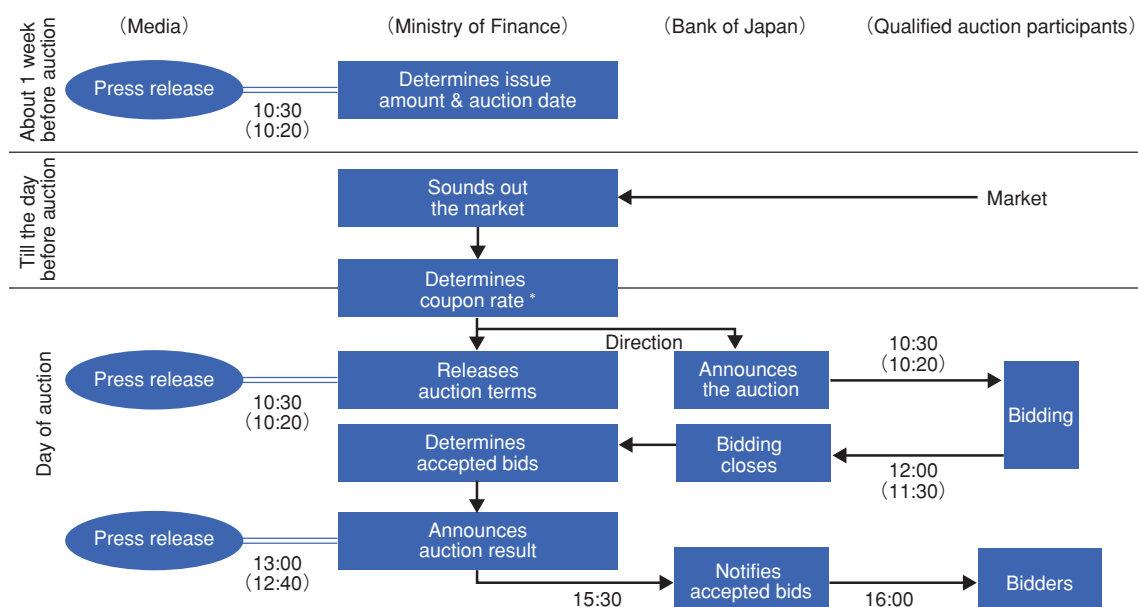
When issuing 2-year and 5-year fixed-rate coupon-bearing bonds, approximately 10% of the planned issue amount is put aside for noncompetitive auctions, in which each bidder bids within a certain limit of subscription. (The price offered in the noncompetitive auction equals to the weighted average accepted price in the competitive price auction.) This approach is one that takes into account small and medium auction participants who tend to submit a smaller bid than their larger counterparts. The noncompetitive auction method also applies to the 10-year fixed-rate coupon-bearing bonds underwritten by a syndicate.

Furthermore, to increase government bond liquidity, the Ministry also started implementing the immediate reopening rule for March 2001 issues. Reopening is to offer additional amounts of outstanding issues. Thus, a reopened issue will always have the same coupon rate and principal/interest payment dates as the original issue. Under immediate reopening rule, any additional JGB issued in a qualified reopening will be considered, upon issuance, part of the original issue. Also, under the new rule, a reopened issue will generate accrued interest.⁵

4. Two types of auctions are currently used to sell JGBs—price-basis auction and yield-basis auction. Except for 15-year floating-rate bonds, 30-year fixed-rate bonds, and Inflation-Indexed bonds—which are offered via Dutch-style yield auctions, all the other JGBs are offered via the conventional price auctions.

5. Six-month interest will be paid in full to bondholders at the first interest payment even when the bondholding period will amount to less than six months at the time of first interest payment. To make the necessary adjustment, bondholders are required to pay at the time of purchase accrued interest (ie, the interest for the period calculated by subtracting the actual bondholding period from six months).

[Fig. 3 Auction procedures for public offering auction]



* TBs and FBs don't bear coupons. As to JGBs offered via Dutch-style auctions, the coupon rate will be determined based on auction results.

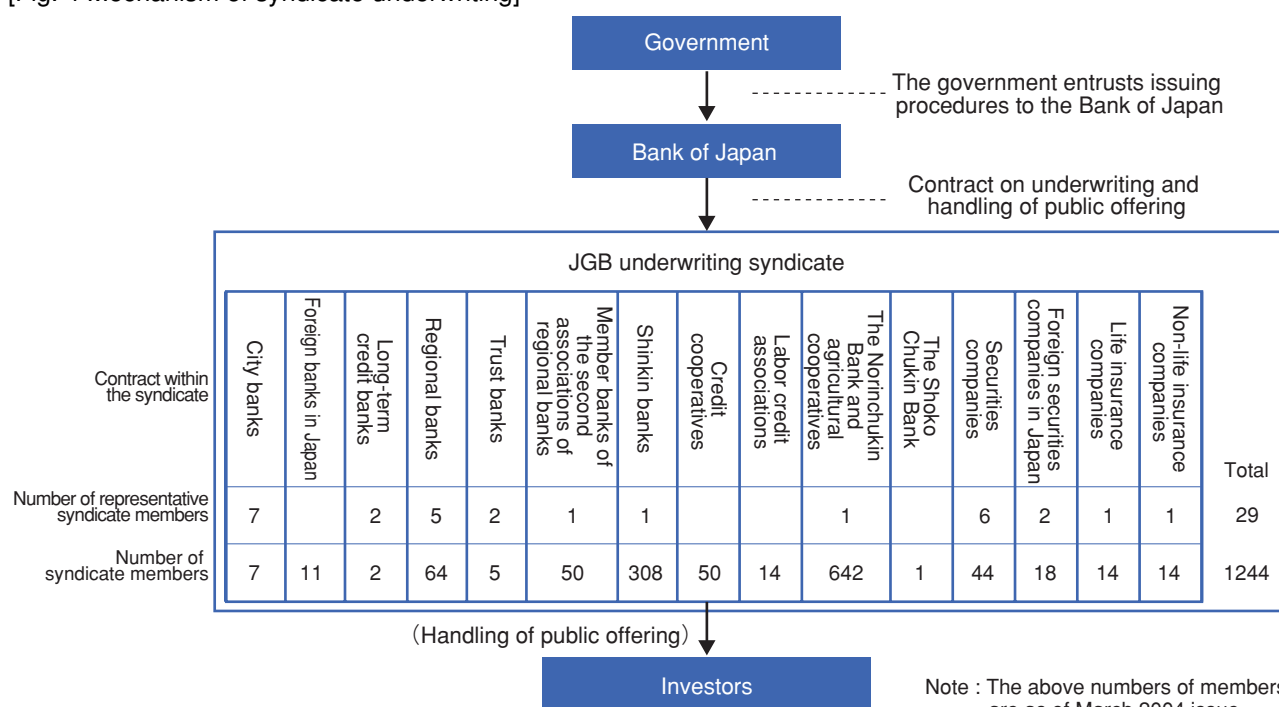
Note : Time in parenthesis refers to the time for TBs and FBs.

② Syndicate underwriting (22.8 trillion yen)

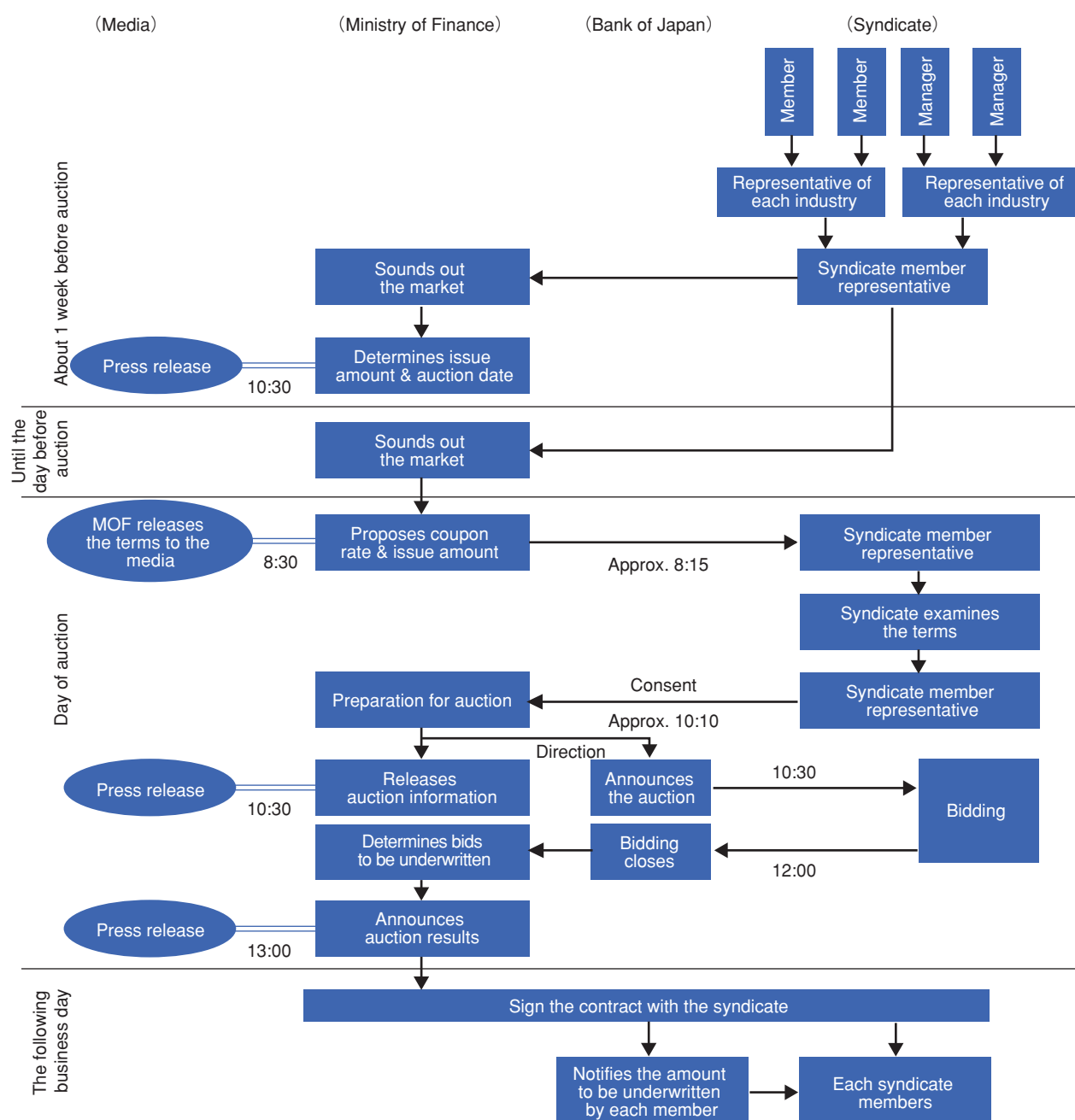
The syndicate underwriting system is a means (for the government) to conclude a contract for the handling of public offering and underwriting of government bonds with a group established for that purpose or a means to guarantee to fully digest the amount of government bonds issued. Currently, only 10-year fixed-rate coupon-bearing bonds are issued via the syndicate underwriting system.

Specifically, each time 10-year fixed-rate coupon-bearing bond is issued, 85% of the issue is distributed to syndicate members via competitive price auction and noncompetitive auction, while the remaining 15% is distributed to syndicate members at a fixed share and at the weighted average accepted price in the competitive price auction. If syndicate members fail to subscribe the full amount, they must take responsibility for underwriting the remaining bonds according to the share fixed by the syndicate.

[Fig. 4 Mechanism of syndicate underwriting]



[Fig. 5 Auction procedures for 10-year fixed-rate coupon-bearing bonds]



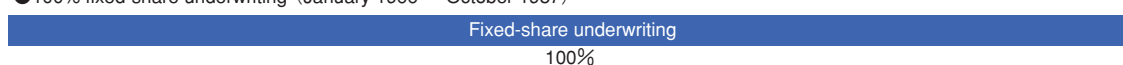
[Box 4 Syndicate underwriting]

Syndicate underwriting system, introduced in 1966, has played a key role in stable financing and development of the secondary market while guaranteeing full subscription. However, as the JGB market developed, underside of the syndicate underwriting system came under the spotlight. This is also because the issue amount of JGBs not subject to syndicate underwriting was on the rise. Thus, it became necessary to review the system to make the JGB market more competitive and efficient.

Against such a backdrop, the Ministry gradually raised the auctioning share of 10-year fixed-rate coupon-bearing bonds. After hitting 85% in May 2004, the share leveled off. Underwriting commissions were also reduced from 0.39 yen to 0.23 yen (per face value of 100 yen) at the same time.

[Changes in syndicate underwriting share]

- 100% fixed-share underwriting (January 1966 — October 1987)



- Auction on an underwriting basis* (November 1978 — March 1989)



- Partially competitive auction (April 1989 — September 1990)



- Expansion of auction share (October 1990 — March 2002)



- Expansion of auction share (April 2002)



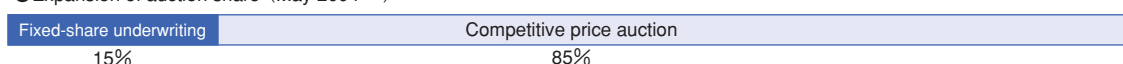
- Expansion of auction share (May 2002 — April 2003)



- Expansion of auction share (May 2003 — April 2004)



- Expansion of auction share (May 2004 —)



* In November 1987, the Ministry launched a new auction method for 10-year bonds, allowing syndicate members to bid for the additional underwriting amount. Till then, syndicate underwriting used to be entirely based on a predetermined fixed share for each syndicate member. Under the new system, however, while 80% of the issue amount continued to be distributed by the old method, the remaining 20% were offered to syndicate members on an underwriting basis — ie, allowing only those who wish to underwrite additional bonds to bid within a certain amount.

[Box 5 "JGB Market Special Participants" (provisional) scheme]

The so-called "primary dealer" system had been in place in major Western countries as a scheme to promote stable financing as well as to maintain and improve debt market liquidity. In Japan, too, at a time when large-scale JGB issuance is expected to continue, we will also phase in a new scheme based on the primary dealer system in October 2004. Under the scheme—the "JGB Market Special Participants" (provisional) Scheme—the Ministry grants entitlements to certain auction participants when they carry out responsibilities essential to debt management policies. The entitlements include the participation in regular meetings with the Ministry to exchange opinions on debt management policies. At this moment, the outline of this scheme is expected to be as follows.

The basic outline of the management of the "JGB Market Special Participant" (provisional) Scheme

Handout of the 33rd round of the Meeting on JGB Market held on 31 March 2004

1. Responsibilities of Special Participants

(1) Bidding responsibility:

In each and every auction, the Special Participants shall bid for an adequate amount (at least 3% of planned issue amount) at reasonable prices and in a competitive and highly-motivated manner.

(2) Purchasing responsibility:

The Special Participants shall achieve a certain purchasing and underwriting share of planned total issue amount (1% in principle) in each of the super-long-term, long-term, medium-term, and short-term zones in the preceding two quarters.

(3) Liquidity improving/maintaining responsibility:

The Special Participants shall supply the JGB market with sufficient liquidity.

(4) Transaction trend reporting responsibility:

The Special Participants shall report to the Ministry the trends on the outright bond transactions, bond futures transactions, OTC option transactions, yen interest rate swap transactions and the like.

2. Entitlements of Special Participants

(1) Participation in regular meetings:

The Special Participants can take part in overall meetings (the Meeting of the JGB Market Special Participants) to exchange opinions on debt management policies and other issues concerning management of the scheme. They can also participate in off-line meetings with the Ministry and exchange opinions. In principle, both meetings are held on a quarterly basis.

(2) Participation in buy-back auctions:

The Special Participants can take part in buy-back auctions implemented by the Ministry.

(3) Stripping and reconstruction operation of STRIPS:

The Special Participants can apply for stripping and reconstruction of STRIPS.

(4) Participation in Non-price Competitive Auction I (provisional) and Non-price Competitive Auction II (provisional) for JGB Market Special Participants:

At JGB auctions implemented by the Ministry, the Special Participants can take part not only in competitive price auctions but also in Non-price Competitive Auction I (provisional) and Non-price Competitive Auction II (provisional) for JGB Market Special Participants. In these auctions, offering will be made on a preferential basis up to the purchasing limit preset for each Special Participant at the weighed average accepted price at a competitive price auction.

(5) Participation in interest rate swap transactions:

The Special Participants can become preferential counterparties for the interest rate swap transactions implemented by the Ministry.

(6) Participation in Liquidity Supply Auctions:

The Special Participants can take part in Liquidity Supply Auctions implemented by the Ministry to maintain and improve market liquidity. When the JGB market liquidity declines due to such factors as extreme supply-demand stringency on certain issues, and thus may not function properly, these auctions are implemented.

II-2-2. Offering for the public sector (—46.1 trillion yen)

As with issuing in the market, offering for the public sector is a method of issuing government bonds.

① Postal Savings—Handling of public offering at post offices (2.3 trillion yen)

Over-the-counter (OTC) sales of JGBs at post offices began in 1988 for broad-based marketing of the securities. At first, post offices handled only the public offering of 2-year, 5-year, and 10-year fixed-rate coupon-bearing JGBs. The product line-up was joined in FY2002 by JGBs for Individual Investors.

Regarding 2-year, 5-year, and 10-year fixed-rate coupon-bearing JGBs, when the amount subscribed falls short of the total amount offered at post offices, the law requires Japan Post to acquire the remainder.

② Bank of Japan switch—Underwriting by BOJ to roll over maturing bonds (13.2 trillion yen)

While Article 5 of the Public Finance Law prohibits the Bank of Japan from underwriting government bonds, 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 "switch underwriting" or "roll-over underwriting").

Through its market operations, the BOJ holds a large amount of government bonds. If the BOJ tried to redeem its JGB holdings in cash, the Ministry of Finance would be required to issue refunding bonds in the market to raise the fund needed for redemption. A massive issuance of refunding bonds in the market, however, 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 roundaboutness, the BOJ is exceptionally allowed to underwrite only up to the amount necessary to roll over its maturing bonds.

Of the total amount the BOJ will underwrite for switch purposes during FY2004, 400 billion yen is to be for the refunding bonds needed for the Ministry to implement buy-backs⁶ from the BOJ.

③ Fiscal Loan Fund Special Account bonds—transitional measures—Direct underwriting by Postal Savings and Pension Reserves (29.6 trillion yen)

Regarding the Fiscal Loan Fund Special Account, the 2001 reform of the Fiscal Investment and Loan Program (FILP) ended the compulsory deposit system of Postal Savings and Pension Reserves to the Trust Fund Bureau, requiring the account to raise funds by issuing Fiscal Loan Fund Special Account bonds (so-called "FILP bonds")⁷.

However, taking into account the temporary impact of the reform, the Ministry took transitional measures to avoid an abrupt surge in the issue amount of FILP bonds in the market. These measures allow Postal Savings and Pension Reserves to directly underwrite a portion of FILP bonds for a period of seven years (FY2001-2007).

④ Fiscal Loan Fund switch—Underwriting of refunding bonds by Fiscal Loan Fund (1 trillion yen)

The Fiscal Loan Fund is among the counterparties of the buy-back program of government bonds. Thus, the refunding bonds for buying government bonds back from the Fiscal Loan Fund are underwritten by the Fiscal Loan Fund.

★

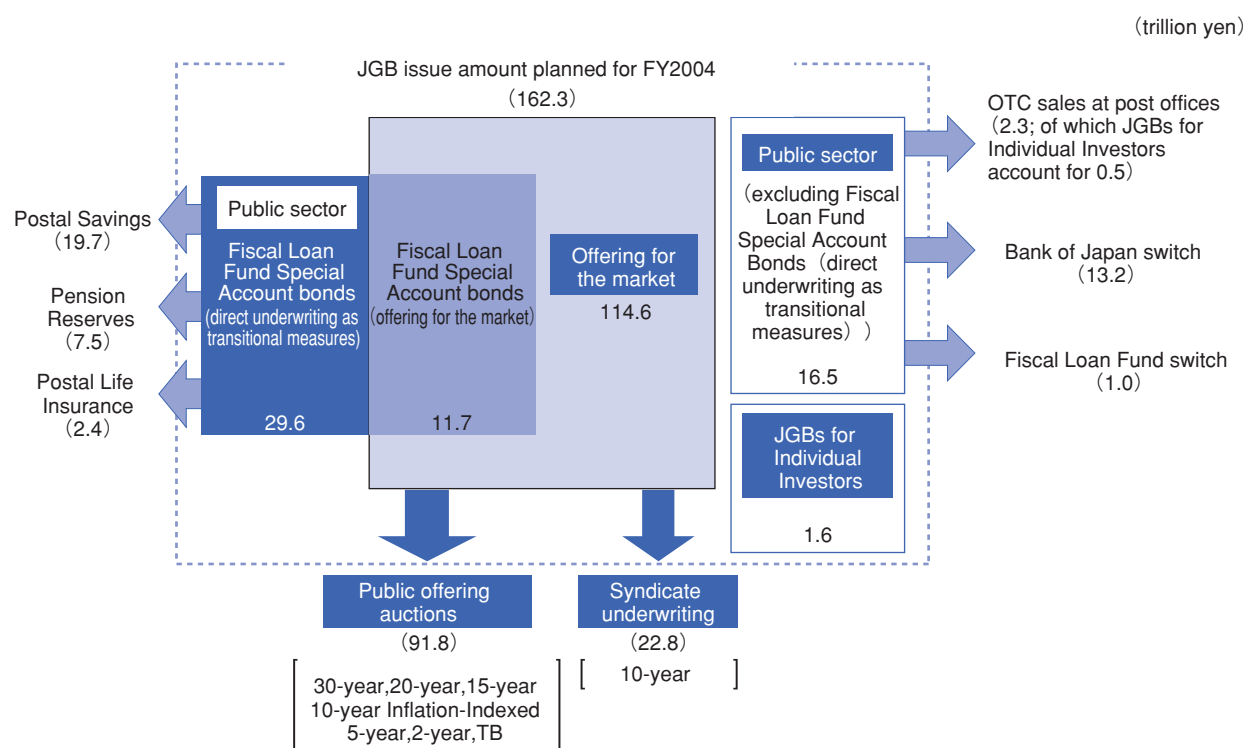
In addition to all this, JGBs for Individual Investors are also issued via handling by the private sector financial institutions of public offering. (1.6 trillion yen)

Fig. 6 shows how the issue amount planned for FY2004 will be allocated to various methods of issuance.

6. See IV-4-2. Buy-back program.

7. See IV-1-1-4. Fiscal Loan Fund Special Account bonds.

[Fig. 6 JGB issue amount by methods of issuance]



II-3. Dialogue with the Market

Debt management policies must remain tuned to the market. Thus, the Ministry of Finance exchanges opinions with market participants and investors to follow-up on market trends and their needs through regular and open dialogue with the market. The Meeting on JGB Market and the Meeting of JGB Investors are two such venues for dialogue.

The minutes of these meetings are published on the web site of the Ministry of Finance.

II-3-1. The Meeting on JGB Market

To improve the JGB market and to ensure stable and smooth financing, the Ministry has hosted the Meeting on JGB Market about 10 times a year since September 2000. This meeting consists primarily of market participants.

Membership of the meeting is subject to review biannually (in April and October) according to certain criteria⁸.

8. To achieve certain purchasing/underwriting shares across the yield curve (1% for the medium-, long-, and super-long-term zones, and 0.5% for the short-term zone) in the preceding six months.

[Fig. 7 Members of the Meeting on JGB Market (as of April 2004)]

1. Market participants	
<ul style="list-style-type: none"> • Barclays Capital Japan Limited Tokyo Branch • BNP PARIBAS Securities (Japan) Limited, Tokyo Branch • CREDIT SUISSE FIRST BOSTON SECURITIES (JAPAN) LIMITED • Daiwa Securities SMBC Co. Ltd. • Deutsche Securities Limited, Tokyo Branch • Dresdner Kleinwort Wasserstein (Japan) Limited, Tokyo Branch • Goldman Sachs (Japan) Ltd. • J.P. Morgan Securities Asia Pte. Limited • Lehman Brothers Japan Inc. • Merrill Lynch Japan Securities Co., Ltd. 	<ul style="list-style-type: none"> • Mitsubishi Securities Co., Ltd. • Mizuho Bank, Ltd. • Mizuho Corporate Bank, Ltd. • Mizuho Securities Co., Ltd. • Morgan Stanley Japan Limited (Tokyo Branch) • Nikko Citigroup Limited • NOMURA SECURITIES CO., LTD. • Shinko Securities Co., Ltd. • Sumitomo Mitsui Banking Corporation • The Bank of Tokyo-Mitsubishi, Ltd. • UBS Securities Japan Ltd • UFJ Bank Limited • UFJ Tsubasa Securities Co., Ltd.
2. Scholars	
<ul style="list-style-type: none"> • Hideki Kanda (Professor of Law, Graduate School of Law and Politics, University of Tokyo) • Minoru Nakazato (Professor of Law, Graduate School of Law and Politics, University of Tokyo) • Naoyuki Yoshino (Professor of Economics, Keio University) • Toshiki Tomita (Executive Fellow, Nomura Research Institute, Ltd) • Yuri Okina (Chief Senior Economist, Economics Department, The Japan Research Institute, Limited) 	

II-3-2. The Meeting of JGB Investors

The Ministry has hosted the Meeting of JGB Investors since April 2002, to exchange opinions directly with JGB investors on a continuous basis. This meeting, held about four times a year, consists of major institutional investors such as banks and life insurance companies.

[Fig. 8 Members of the Meeting of JGB Investors (as of April 2004)]

1. Investors
<ul style="list-style-type: none"> • Nippon Life Insurance Company • Shinkin Central Bank • Sumitomo Mitsui Banking Corporation • The Bank of Yokohama, Ltd. • The Chuo Mitsui Trust and Banking Company, Limited • The National Mutual Insurance Federation of Agricultural Cooperatives • The Norinchukin Bank • The Tokio Marine and Fire Insurance Co., Ltd. • The Yachiyo Bank, Limited
2. Scholars
<ul style="list-style-type: none"> • Hideki Kanda (Professor of Law, Graduate School of Law and Politics, University of Tokyo) • Minoru Nakazato (Professor of Law, Graduate School of Law and Politics, University of Tokyo) • Naoyuki Yoshino (Professor of Economics, Keio University) • Toshiki Tomita (Executive Fellow, Nomura Research Institute, Ltd) • Yuri Okina (Chief Senior Economist, Economics Department, The Japan Research Institute, Limited)

II-3-3. Introduction of the Advisory Committee and other measures

In conjunction with the October 2004 launch of the JGB Market Special Participants scheme, the Ministry will establish the “Advisory Committee” (provisional) and exchange opinions with non-governmental experts with insight into public debt management policies and the like.

In addition, publication of the “Debt Management Report” (provisional) will also be launched, to increase transparency of debt management policies. The report will be designed to provide an overview of the whole public debt and debt management policies.

III. Secondary Market for Government Bonds

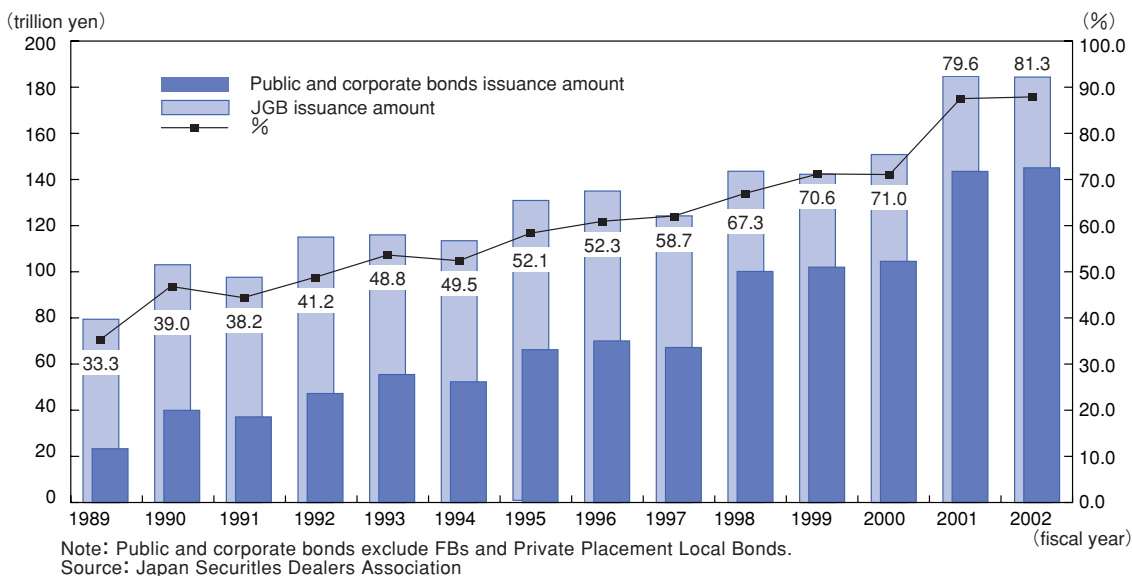
By definition, government bonds are a means for government financing. But, at the same time, they are financial products being traded on the ever changing financial and security markets. Government bonds play a pivotal role in the bond market. So, to ensure their smooth transactions, it is indispensable for us to have a transparent JGB market as well as a vibrant and diverse secondary market.

This chapter outlines how JGBs are distributed on the market, while inviting you to take a closer look at the secondary market for JGBs.

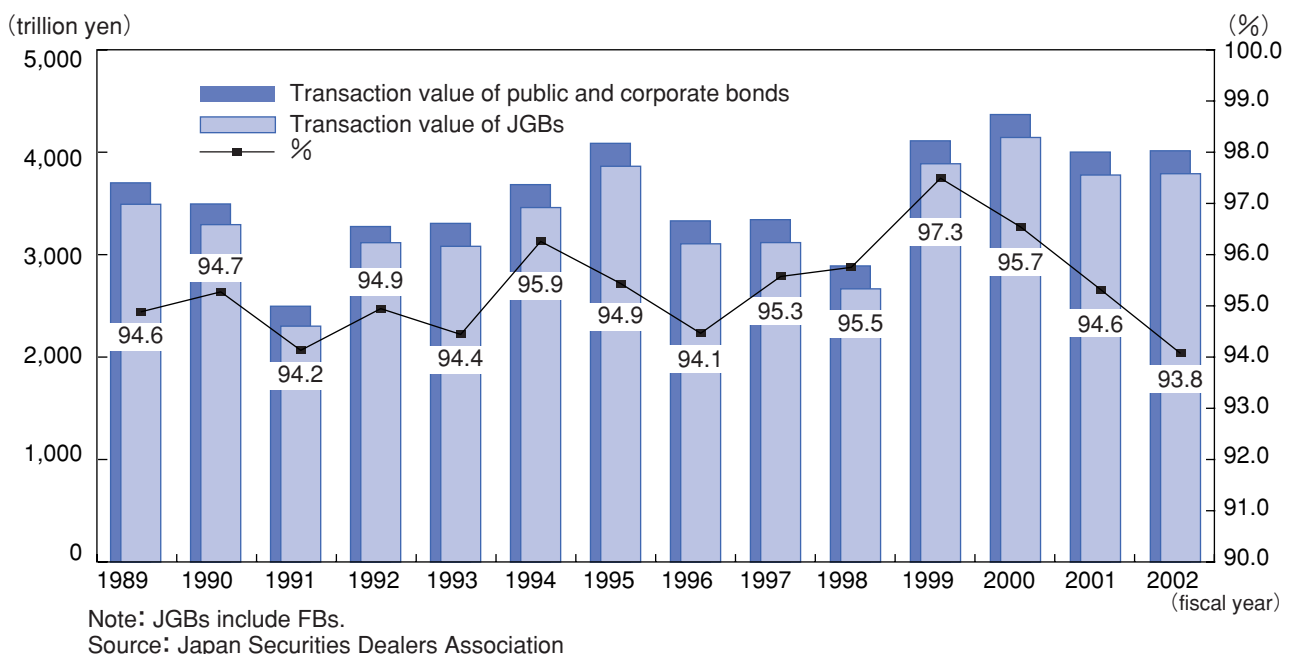
III-1. Mechanism of the Secondary Market

JGBs traded on the market account for approximately 80% of the bond market on an annual issue amount basis. In terms of transaction value, the figure goes up to 95% of the total bond transactions. Government bonds thus hold an essential position in Japan's financial and security markets.

[Fig. 9 JGB share in total issue amount of bonds]



[Fig. 10 JGB share in total transaction value of bonds]



III-1-1. Transactions on exchange and OTC transactions

The secondary bond market can be divided into transaction on exchange—transactions that take place on exchange—and OTC transaction—transactions that are made over the counter, for example, at securities companies.

OTC is a predominant transaction method for bonds. Here are the reasons. Unlike with equities, it is more difficult to close the bond deal you want on exchange, because bonds have so many issues that their transactions and procedures tend to be cumbersome and bond transactions per se are complex.

Currently, 2-year, 5-year, 10-year, 20-year, and 30-year fixed-rate JGBs are listed on the Stock Exchange in Tokyo, Osaka and Nagoya, and their daily transaction volume is published.

In the OTC market, in principle, price is arrived at through negotiation between the parties concerned. However, in order to ensure fair and smooth OTC bond transactions, the Fair Business Practice Regulations by the Japan Securities Dealers Association require each securities company to maintain the fairness of the transaction by acting at a proper price according to a set of internal rules. Furthermore, to improve the price announcing function of the OTC market, the Association publishes reference prices for OTC bond transactions on every business day, based on the reports from its member securities companies and other financial institutions.

[Case of Tokyo Stock Exchange]

Transaction category	Regular transactions	Special transactions
Trading hours	13:00-13:30 (9:30-10:00 on half-day trading)	9:00-11:00 / 12:30-15:00 (9:00-11:00 on half-day trading)
Trading unit	50,000 yen in par value	
Minimum fluctuation	0.01 yen per 100 yen in par value	0.01 yen per 100 yen in par value or 0.001%
Trading with conditions	Not permitted	Permitted (all or none, trading unit, non-taxable accrued interest, etc.)
Price ceiling	None	

Source: Tokyo Stock Exchange

III-1-2. Settlement period

The period between a given transaction of JGBs and its settlement has been "T+3"—meaning the settlement is made on the third business day reckoning from the day after the transaction—now since 1997.

Efforts are being made by market participants to shorten the settlement period. Already in January 2003, a new transfer settlement system was launched (see Box 8), and preparations are also being made for the start of operation of the Japan Government Bond Clearing Corporation, which was established in October 2003.

III-1-3. Delivery and settlement of funds

For delivery of JGBs and settlement of the funds, the Bank of Japan Financial Network System (hereinafter the BOJ-NET⁹) is used. Under the BOJ-NET, the Delivery Versus Payment (DVP) settlement¹⁰ has been introduced to minimize settlement risks.

Further, in January 2001, the Bank of Japan made a changeover from the designated-time settlement system¹¹ to the new RTGS system¹², making real-time gross settlement the only mode for its settlement system, in order to reduce the systemic risk¹³ inherent in designated-time net settlement.

9. For details, see IV-5-2. The Bank of Japan government bond network system.

10. DVP is a link between a securities transfer system and a funds transfer system that ensures that delivery occurs if, and only if, payment occurs, and vice versa.

11. A net-settlement system in which each participant's net position (the sum of the value of all the payments it has received less the sum of the value of the payments it has made) is calculated and settled at a particular point of time.

12. The RTGS (Real Time Gross Settlement) is a system in which funds and securities are transferred and settled on a transaction-by-transaction basis, ie, "gross" basis, unlike in designated-time net settlement where each payment was interrelated with other payments settled at the same settlement time through the netting process. As a result, the systemic risk has been significantly reduced.

13. The risk of systemic disruptions posed to other financial systems, and ultimately to the entire financial systems, through a chain of settlement failures or delays in settlement.

III-1-4. Improvements of market practices

The 2001 launch of the RTGS system prompted the introduction of a number of trade practices that were already in place in major securities markets abroad. Ranging from cutoff time and reversal time¹⁴ to fail rule and bilateral netting, these trade practices contributed to transaction/settlement efficiency or facilitation.

With the fail rule, a failure to deliver securities on the scheduled settlement date is referred to as a "fail," not as a default, and therefore, in principle, the exercise of right of cancellation or receive/payment of delinquency charges is avoided. To avert a prolonged fail, however, the Japan Securities Dealers Association set forth three means¹⁵ from which to choose—a) delivery and receipt of securities equivalent to the original securities as a substitute; b) execution of reversing trade; and c) execution of a buy-in.¹⁶

III-2. Government Bond Futures and Lending Markets

III-2-1. Government bond futures

Government bond futures represent a contract to trade a bond—either buying or selling—at a set point in the future for an agreed price. The contract is standardized, as government bond futures are traded exclusively on exchange on the assumption that an unspecified number of investors take part.

In government bond futures, JGBs actually issued are not traded. Trading is made, instead, on fictitious JGBs of which interest rates and maturities are "standardized" by Stock Exchange.

All futures contracts may be settled either by offsetting or by delivery. For example, during a certain period trading participants can always make an offsetting order for net settlement. Or, you can opt for delivering JGBs on the delivery date of the contract month. Given the fictitious nature, however, JGBs in deliverable grade will be delivered.

For the outline of government bond futures market, see Fig. 11.

[Fig. 11 Structure of the government bond futures market]

Segment	Medium-term government bond futures	Long-term government bond futures	Super-long-term government bond futures
Target issue	Standardized 3%, 5-year JGB	Standardized 6%, 10-year JGB	Standardized 6%, 20-year JGB
Contract months	March, June, September, December (maximum of 9 months)		
Delivery date	20th day of each contract month (extended to the first business day after the settlement date when it falls on a holiday)		
Last day of trading	7th business day prior to each delivery date. The trading day in a new contract month begins on the next business day following the last trading day.		
Trading hours	9:00~11:00 12:30~15:00 15:30~18:00		9:00~11:00 12:30~15:00
Trading unit	100 million yen face value		
Minimum fluctuation	0.01 yen on 100 yen (1/100 point per 100 points)		
Daily price limit	±2 yen from the closing price on the previous day		±3 yen from the closing price on the previous day
Deliverable grade	Coupon-bearing bonds with 4 years or more but less than 5 years and 3 months to maturity	Coupon-bearing bonds with 7 years or more but less than 11 years to maturity	Coupon-bearing bonds with 15 years or more but less than 21 years to maturity

Notes 1: In the event where the "expansion rule" is applied as a temporary measure, the daily price limit of 5-year/10-year and that of 20-year JGB futures will be set at ±3 yen and ±4.5 yen respectively.

2: TSE has decided to halt trading on new contract months for 20-year JGB futures beginning with the December 2002 contract.

3: Inter-month spread transactions of 5- and 10-year JGB futures are listed as a means to facilitate the simultaneous transaction of two contract months.

Source : Tokyo Stock Exchange

14. Cutoff time is a deadline for settlement that market participants set prior to 4.30 p.m., the ending time of BOJ-NET, to recognize fails. The current cutoff time is 3.30 p.m.. One hour that follows is called reversal time, and is used for corrections of settlement.

15. "Rules Concerning the Reduction of Fails in Securities Delivery" (Unified practices No. 4, the Japan Securities Dealers Association)

16. A buy-in is a mechanism in which a recipient of securities buys the equivalent securities on the market, and asks the counterparty to pay for the cost, thus completing the settlement.

III-2-2. Bond lending and bond *gensaki* transactions

Bond lending transactions—or the so-called *repo* transactions—are the transactions in which JGBs are borrowed with cash as collateral, and after a certain period of time, the lender receives the delivery of the equivalent amount of equivalent securities and repays the cash collateral to the borrower.

For the first several years after the 1989 launch of bond lending, however, a major part of bond lending in Japan used to be unsecured lending, as there were restrictions on interest on collateral. Once these restrictions were removed (1995), due to concerns over credit risk and also to prepare for the launch of a rolling settlement method, secured lending with cash collateral took over as the mainstream of bond lending.

On the other hand, bond *gensaki* transactions (ie, bond transactions with repurchase or resale agreements), that emerged as bond issuing market reopened after World War II, used to be the principal means of fund raising. However, as *gensaki* transactions were made subject to securities transaction tax (1953), and also as a number of new short-term financial products entered the stage one after another in the late 1970s and 80s—eg, certificates of deposit, commercial papers, and large-sum time deposits—the focus of fund raising shifted to other means, such as *repo* transactions. The arena for bond *gensaki* transactions was thus scaled back primarily to TBs and FBs that are exempted from securities transaction tax.

Though securities transaction tax was abolished in 1999 to help revitalize the security market, bond *gensaki* transactions remained flagging because unlike *repo* transactions, *gensaki* transactions were ill equipped with risk management methods.

However, the same year, the Subcouncil on the Internationalization of Yen at the Council on Foreign Exchange and Other Transactions recommended that Japan's *repo* market, based on a unique system for cash-collateralized lending and borrowing, should be replaced by a globally standardized type of transactions.¹⁷ In response to this recommendation, a new type of bond *gensaki* transactions, with a built-in mechanism for risk management, was launched in April 2001. In the future, the bond *gensaki* transactions are expected to play a pivotal role in the short-term money market, and to enjoy greater presence not only in cross-border transactions with nonresidents but also in domestic transactions.

17. "Internationalization of the Yen for the 21st Century: Japan's Response to Changes in Global Economic and Financial Environments" — recommendation by Council on Foreign Exchange and Other Transactions, 20 April 1999

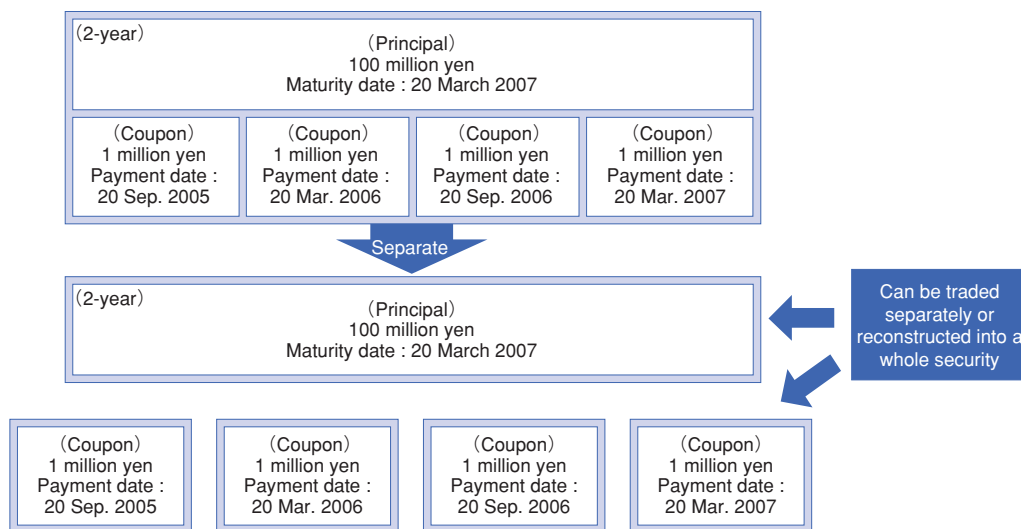
[Box 6 STRIPS]

STRIPS (Separate Trading of Registered Interest and Principal of Securities) are type of coupon-bearing government bonds of which coupons and principal are separated and traded separately, or can be reconstructed into a whole security. While STRIPS have long been in place in the U.S. and some European countries, it was introduced into Japan in January 2003 to meet the need of investors who want the separation of principal and interest components. The new instrument* is also expected to enhance arbitrage function between discount bonds and coupon-bearing bonds, thus adding to the efficiency of the JGB market.

The diagram below should give you an idea how STRIPS works. Let's suppose 2-year fixed-rate coupon-bearing JGB with a face value of 100 million yen (coupon rate: 2%; maturity date: 20 March 2007) is issued in March 2005. This means that one million yen of interest payment will be made biannually for a total of four times. Thus, when a bondholding securities company strips the security (ie, separates the security's principal and interest components) the original security will be broken down into a principal-only book-entry transfer JGB worth 100 million yen and four coupon-only book-entry transfer JGBs, each with a face value of one million yen. Thus, in the end, a total of five JGBs, each with a different maturity, can be sold independently from each other, to meet diversified investor needs.

State of stripping of STRIPS is published at the Ministry's web site on a regular basis.

<Conceptual diagram on STRIPS>



* In Japan, government bonds of which principal and interest components can be separated are called the "strippable book-entry securities." All coupon-bearing bonds issued in January 2003 and thereafter—except for 15-year floating-rate bonds, JGBs for Individual Investors, and Inflation-Indexed bonds—are strippable. Only corporations (including trustees of certain trusts) can hold STRIPS. Institutions that can apply for stripping and reconstruction of STRIPS must be financial institutions that meet the member selection criteria for the Meeting on JGB Market.

[Box 7 WI transactions]

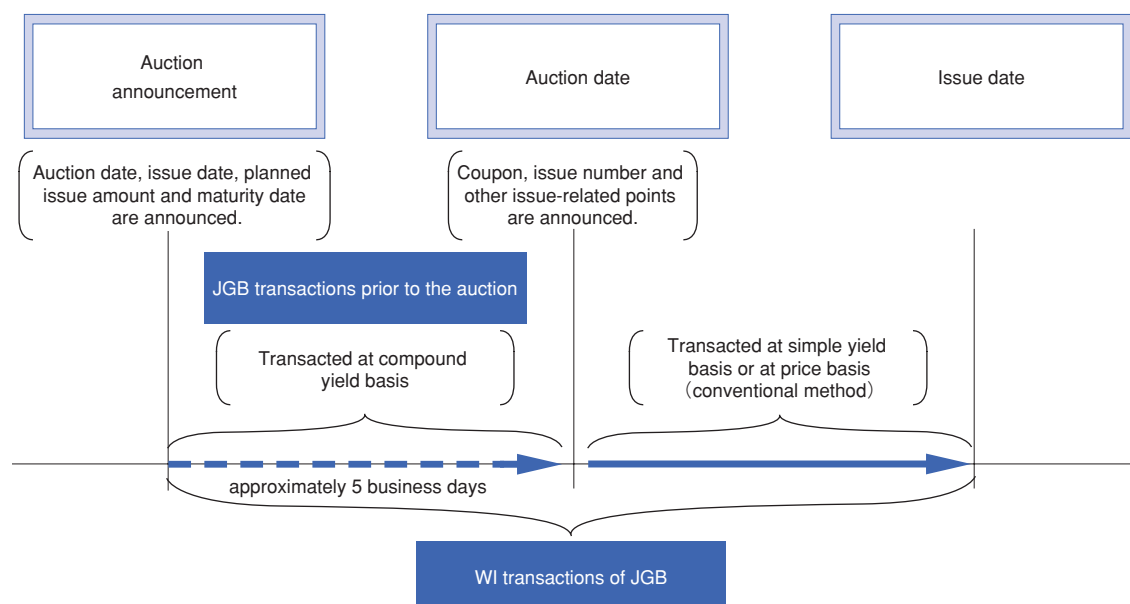
The WI (When-Issued) transaction is a transaction made during a period between an auction announcement (in principle, a week before the auction) and the day of issuance.

In Japan, while a transaction made during a period between an auction and the day of issuance had existed, trading prior to the auction—the type of trading popular in overseas markets—had been absent.

Consequently, a study was made primarily among market participants on trading practices for smooth implementation of JGB transaction prior to the auction. The result of this study was compiled into the "Guideline for When-Issued Transactions of Japanese Government Bonds" of the Japan Securities Dealers Association, and this led to the 23 February 2004 launch of JGB transaction prior to the auction in Japan.

The Ministry of Finance hopes that this will make it easier for market participants to keep up on market trends, while adding to smoother pricing for new JGB issues hence smoother financing.

<Conceptual diagram on WI transactions>



IV. Regulatory Framework for Government Bonds

The regulatory framework and legislations for government bonds is wide-ranging. Basic knowledge of the framework is essential to understand the scheme of government bonds from issuance to redemption. This section outlines this framework.

IV-1. Government Bond-related Legal Systems

IV-1-1. Legal status of issuance

The government issues all government bonds based on the provisions of laws, and government bonds are classified into four types—construction bonds, special deficit-financing bonds, refunding bonds and Fiscal Loan Fund Special Account bonds (FILP bonds)—according to which law a given issue is based on.

Among these four types of issuance, issuance of construction bonds and special deficit-financing bonds are equivalent for the government to taking on new debt, and are thus subject to Diet approval (Article 85 of the Constitution).

IV-1-1-1. Construction bonds (Proviso to Article 4 (1) of the Public Finance Law)

Article 4 of the Public Finance Law prescribes that annual government expenditure has to be covered in principle by annual government revenue generated from other than government bonds or loans. But as an exception, the Article also 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 Article 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. When intending to get approval for this ceiling amount, the government is obliged to submit to the Diet a redemption plan that specifies the redemption amount, redemption methods and redemption dates for each fiscal year.

IV-1-1-2. Special deficit-financing bonds (Special law enacted for each fiscal year)

When estimating a shortage of government revenue despite the issuance of construction bonds, the government can issue government bonds based on special law to raise money for the purpose of other than public works and those. Given their nature, these bonds are 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 general account budget. The government is also required to submit a redemption plan to the Diet for reference.

Special deficit-financing bond issuance must be made on exceptional cases. Therefore, the government has to minimize the issue amount as much as possible within the amount approved by the Diet, while taking into account the state of tax and other revenues. 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 issue amount of special deficit-financing bonds until the end of May in the next fiscal year—which is the deadline for collecting the tax revenue for the fiscal year.

IV-1-1-3. Refunding bonds (Article 5 and 5-2 of the Special Account Law of the Government Debt Consolidation Fund)

Pursuant to Article 5 and 5-2 of the Special Account Law of the Government Debt Consolidation Fund, the government is allowed to issue refunding bonds to secure funds for consolidation or redemption of government bonds.

In the issuance of refunding bonds, the government is not required to seek Diet approval for the maximum issuance amount. This is because, unlike in the case of new financial resource bonds 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.

In addition, in order to mitigate the impact of a redemption rush and to enable flexible issuance in response to financial conditions, the government is also allowed to front-load the issuance of refunding bonds. However, this front-loading must be made within the maximum issuance amount stipulated in the general provisions of the special account budget.

IV-1-1-4. Fiscal Loan Fund Special Account bonds (Article 11 of the Special Account Law of the Fiscal Loan Fund)

Along with the 2001 reform of the Fiscal Investment and Loan Program (FILP), the government started issuance of the Fiscal Loan Special Account bonds (so-called "FILP bonds") to raise funds for the investment of the Fiscal Loan Fund.

As with other types of government bonds, this security is issued against the credit of the government, and its maximum issuance amount requires Diet approval.

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 and the interest payments on the FILP bonds are covered through the recovery of Fiscal Loan Fund loans to special public corporations and the like. Therefore, when publishing outstanding debts, FILP bonds are treated differently from straight bonds. Also in the System of National Accounts (SNA), which is the global standard of economic indicators, FILP bonds are not classified as debts of the general government.

All these four types of government bonds are the bonds of which issuance revenues are reported as government revenues. Other types of bonds¹⁸ include FBs, subsidy bonds, and subscription/contribution bonds.

IV-1-2. Other laws

IV-1-2-1. Government bond administration (Law Concerning Government Bonds)

The Law Concerning Government Bonds stipulates basic matters that range from government bond issuance to administrative procedures regarding the outstanding issues.

Provisions in the law can be classified into the following five categories:

- a. The Minister of Finance decides the terms of issuance and other government bond issuance-related matters; and matters necessary for principal and interest payments, certificates and registration.
- b. The BOJ is entrusted with JGB-related administrative tasks.
- c. Registration of government bonds
- d. Relief measures for damaged or lost bearer government bonds
- e. Extinctive prescription of government bonds

Where there is no stipulation in this law, the Civil Law, the Commercial Law, or general principles, such as trade practices, will apply.

Specific procedures regarding issuance and redemption of government bonds are prescribed in the Regulations on Government Bonds, the Ordinance on Government Bond Issuance, the Bank of Japan Regulations on the Administrative Treatment of Government Bonds, and the Ordinance on Special Treatment Procedures at the Bank of Japan for Principal and Interest Payments on Government Bonds.

18. For details, see IV-6. Other Types of Debt.

IV-1-2-2. Government bond redemption, etc. (The Special Account Law of the Government Debt Consolidation Fund)

For principal and interest payments on government bonds, the Government Debt Consolidation Fund (GDCF) established under the Special Account Law of the Government Debt Consolidation Fund will be drawn upon. This law prescribes the following:

- a. Establishment of the GDCF for the purpose of redemption of government bonds, including borrowing
- b. Transfer to the resources for redemption and the method of transfer
- c. Issuance of refunding bonds for consolidation or redemption of government bonds
- d. Sequential carry-over of debt redemption expenditures

IV-2. Settlement System

In Japan, there used to be three ways from which to choose to hold government bonds.

1. Holding the physical security in bearer form
2. Holding the security via the registration system: The physical security is not issued. Instead, JGB holders register their names and addresses, and the security's name and face value in the registration book kept by the BOJ.
3. Holding the security via the book-entry transfer system: JGB holders deposit JGBs with financial institutions which then redeposit their customers' JGBs together with their own with the BOJ. JGB transactions are settled by book-entry on the JGB accounts at the BOJ and at financial institutions that participate in the system.

However, with the first two methods, it became increasingly difficult to cope with large-scale JGB transactions or their settlement in a prompt and flexible manner. The book-entry transfer system was not perfect, either. Thus, fundamental review of the settlement systems became necessary. There was also a growing recognition that it was imperative to have a safer and more efficient settlement system. After all, it is an integral part of our institutional infrastructure that could well affect the international competitiveness of Japan's securities market.

All this culminated in the Settlement System Reform Laws in June 2002. The legislation paved the way to a unified settlement system that makes corporate bonds and JGBs fully paperless, and to a clearing institution for safer and more efficient settlement. Then in January 2003, the Law Concerning Book-Entry Transfer of Corporate Bonds, Etc. came into effect, to make a changeover to a new book-entry transfer system, thus making JGBs fully paperless ¹⁹.

19. Even prior to this legislation, almost 99% of the outstanding JGBs used to be held under the book-entry transfer system. But, since January 2003, 100% of new issues have been dematerialized.

[Box 8 New JGB book-entry transfer system]

January 2003 saw the launch of a new JGB book-entry transfer system. As stipulated in the laws, under the new system, all government bonds issued thereafter have been fully paperless and managed only by the records kept in transfer accounts.

Thus, currently, JGB transactions are made between the transfer accounts, which each bondholder opens at financial institutions, by changing the records in those accounts via the BOJ-NET.

Here's what "fully paperless" means. A JGB certificate is no longer required at any stage during the life of a JGB, from issuance to redemption. When you purchase a government bond, you don't receive a physical certificate. The purchase will only appear in your transfer account as an increase in the balance. Likewise, when you sell it, it shows in your transfer account as a decrease in the balance. The outstanding amount of JGBs you hold can always be confirmed by checking the balance statement issued by the financial institution that manages your transfer account.

Because the new JGB book-entry transfer system is fully paperless, benefits abound. The risk of loss or forgery of the certificate is totally eliminated. The JGB transaction can be made faster and more efficiently. The state of transactions is always clear. Besides, you no longer have to worry about forgetting about receiving the payments of interests or principal.

While bondholders, who had held registered JGBs or physical certificates prior to January 2003, may keep holding those JGBs as they are, book-entry transfer JGBs held under the new JGB book-entry transfer system cannot be converted to JGB certificates, or to registered JGBs.

Furthermore, the Japan Government Bond Clearing Corporation, which market participants jointly established in October 2003 to operate netting balance clearance among a number of market participants, is expected to start operating in around May 2005.

IV-3. Taxation of Government Bonds

The taxation of JGBs varies depending on the bondholder—eg, an individual, a domestic corporation, a financial institution, a nonresident individual, a foreign corporation—and on the types of bond.

In order to secure smooth and stable financing at a time when large-scale JGB issuance is expected to continue, it is essential to have a deep and diverse investor base. To that end, various tax exemption schemes, including providing tax exemption measures for interest, are offered to investors under certain conditions. To promote JGB holdings, the tax exemption schemes are offered not only to domestic financial institutions and corporations, but also to nonresident individuals and foreign corporations.

IV-3-1. Individuals and corporations (except IV-3-2)

IV-3-1-1. Coupon-bearing bonds

The tax is imposed on the biannual interest income generated from coupon-bearing bonds. The tax amounts to 20% (15% income tax and 5% local tax) of the interest income and is withheld at the time the interest is paid. Designated financial institutions, such as banks and securities companies, and non-financial domestic companies capitalized at 100 million yen or more may be exempted from the withholding tax imposed on the interest income.

As to coupon-bearing bonds held by financial institutions or other corporations, their interest income and *hakko sakin* (capital gain incurred from bond redemption) are counted as profit and corporate taxes and "*Hojinzei-war*" local taxes (the prefectural/municipal-level taxation which is calculated by multiplying corporate taxes by a certain rate) are imposed. (If taxes are withheld, the portion that corresponds to the principal holding period can be deducted from the corporate taxes. Tax-exempt corporations are exempted from taxation.)

Certain tax breaks called "*Maruyu*" and "*Tokubetsu-Maruyu*" tax free saving schemes which provide an exemption on the JGB interest income, are offered to elderly persons (65 years and older) and to disabled persons and certain other individuals. However, since January 2003, these tax breaks for the elderly have been gradually phased out.

IV-3-1-2. TBs and FBs

TBs and FBs are discount bonds that are issued at a price that is less than the face value of the bond. At redemption, the difference between the redemption price and the issuing price is the redemption profit for the bondholders.

While generally redemption profits are subject to income tax, since TBs and FBs may only be held by corporations, tax withholding at the time of issuance will not be withheld on the redemption profit: Only corporate taxes and local taxes are imposed on the redemption profit.

IV-3-1-3. STRIPS

Only corporations may be holders of STRIPS (principal-only book-entry transfer JGBs and coupon-only book-entry transfer JGBs). Incomes generated from the transfer of STRIPS and the difference between the book value of the bond and its redemption payments or interest payments are deemed profit and corporate taxes and local taxes are imposed thereon.

IV-3-2. Nonresident individuals and foreign corporations

IV-3-2-1. Coupon-bearing bonds

Interest income from coupon-bearing bonds held by nonresident individuals or foreign corporations that, in either case, have a permanent establishment in Japan is generally subject to a separate and uniform withholding tax of 15%. Regarding foreign corporations with a permanent establishment in Japan, the portion of the income tax withheld that corresponds to the JGB holding period may be deducted from their corporate taxes.

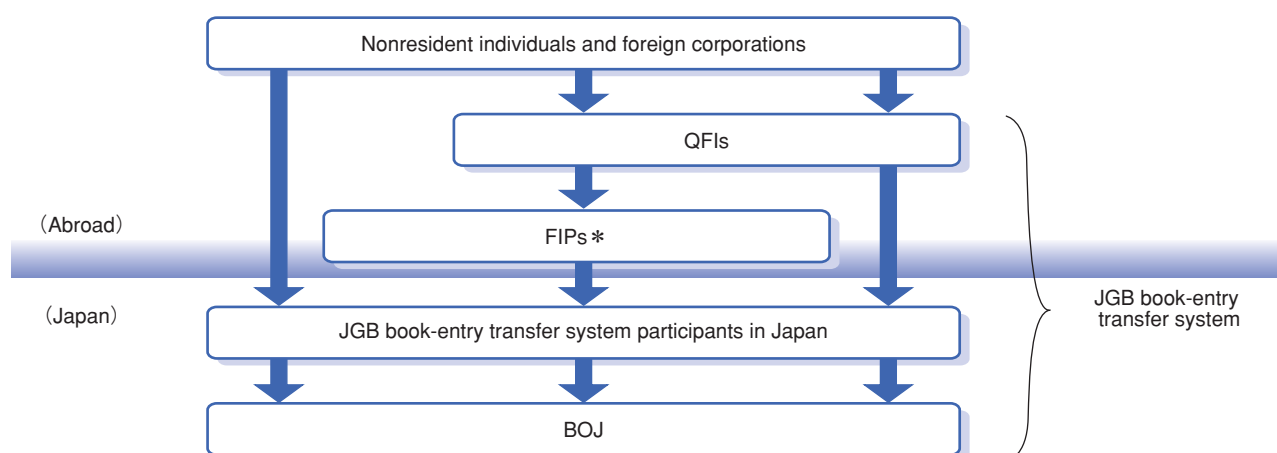
If a nonresident individual or foreign corporation does not have a permanent establishment in Japan, interest income from coupon-bearing bonds is generally subject to the 15% withholding tax. In this case, however, if there is a tax treaty in effect between Japan and the country of residence of the nonresident individual or where the foreign corporation is located, and if the maximum tax rate permitted under the treaty is lower than 15%, the withholding tax rate in Japan will be decreased to comply the treaty.

- Tax exemption measures related to interest on book-entry transfer JGBs held by nonresident individuals or foreign corporations

Interest on book-entry transfer JGBs held by nonresident individuals or foreign corporations will be exempt from income tax, if the nonresident individual or foreign corporation deposits them in a transfer account at a JGB book-entry transfer system participant in Japan or in a transfer account with a qualified foreign intermediary (QFI) ²⁰, and the Application Form for Withholding Tax Exemption and the Statement of the Holding Period is submitted to the District Director of the Nihombashi Tax Office. The exemption is granted only for the portion of interest that corresponds to the JGB holding period.

For foreign investment trusts that are not juridical persons, the interest on book-entry transfer JGBs held by nonresident individuals or foreign corporations, who are trustees of those trusts, will be exempted from taxation if the foreign investment trust satisfies certain requirements.

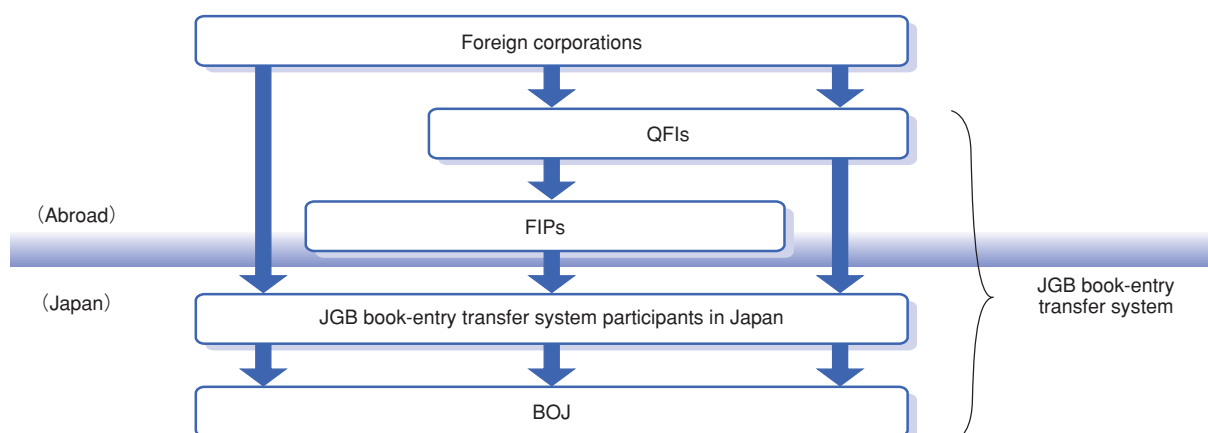
20. Qualified foreign intermediary (QFI) is a foreign financial institution, such as a global custodian, that (i) has been designated an account management institution pursuant to the Law Concerning Book-Entry Transfer of Corporate Bonds, Etc., that (ii) has been approved by the BOJ as a foreign indirect participant (FIP) in the JGB book-entry transfer system, and that (iii) has been approved by the District Director of the Nihombashi Tax Office as an institution of a country that has concluded a tax treaty providing for the exchange of information with Japan.



* The tax exemptions apply also to cases where a QFI holds the JGBs in a transfer account with a JGB book-entry transfer system participant in Japan via other foreign financial institutions, etc., that participate in the JGB book-entry transfer system (FIP). The same apply to TBs and FBs (see IV-3-2-2).

IV-3-2-2. TBs and FBs

Only corporations may hold TBs and FBs. A foreign corporation is exempted from withholding tax at the time of issuance if the TBs or FBs are held in a transfer account with a JGB book-entry transfer system participant in Japan. As of April 2004, this withholding tax exemption is also applicable if the TBs or FBs are held in a transfer account with a QFI.



IV-3-2-3. STRIPS

When a foreign corporation holds STRIPS (principal-only book-entry transfer JGBs and coupon-only book-entry transfer JGBs) in transfer accounts with JGB book-entry transfer system participants in Japan or with QFIs, income generated from the holding or transfer of those STRIPS are exempted from income tax, only if the Application Form for Withholding Tax Exemption and the Statement of the Holding Period have been submitted to the District Director of the Kojimachi Tax Office.

IV-3-2-4. Tax exemption measures related to interests on bond *gensaki* transactions effected by foreign financial institutions

Loan interest which foreign financial institutions, central banks of foreign countries and international organizations receive from specified financial institutions in Japan (from among designated financial institutions, (i) financial institutions to which the provisions of the Law Concerning Close-Out Netting of Special Financial Transactions Effected by Financial Institutions apply and (ii) the Bank of Japan) on certain transactions executed under repurchase or resale agreements (ie, bond *gensaki* transactions) between them is exempted from Japanese taxes, when the Application Form for Withholding Tax Exemption has been submitted to the District Director of the tax office in the appropriate tax jurisdiction.

[Box 9 Recent tax-related initiatives]

In the wake of continued large-scale JGB issuance, the tax systems concerning JGB holdings have been reviewed as part of the effort to correct the financial institution-dominant JGB holding structure and to promote further diversification of JGB holders.

The tax system revision in recent years can be summed up as follows.

① FY1999

- Tax exemption measures related to interest on coupon-bearing JGBs held by nonresident individuals or foreign corporations: Specifically, the exemption applies to the interest received on JGBs directly deposited in transfer accounts at a JGB book-entry transfer system participant in Japan.
- Withholding tax exemption for redemption profit on TBs and FBs held by foreign corporations: Specifically, the exemption applies to the redemption profit received on TBs and FBs directly deposited in transfer accounts at a JGB book-entry transfer system participant in Japan.

② FY2000

- Expansion of tax exemption measures related to accrued interest on reopened bonds: Specifically, the exemption applies to the accrued interest on reopened bonds to be repaid to the national treasury.

③ FY2001

- Expansion of tax exemption measures related to interest on coupon-bearing JGBs held by nonresident individuals or foreign corporations: Specifically, the tax exemption is expanded to cover also the interest received on coupon-bearing JGBs that nonresident individuals or foreign corporations hold in transfer accounts with qualified foreign intermediaries (QFIs).

④ FY2002

- Expansion of tax exemption measures related to interest on JGBs held by foreign investment trusts: Specifically, the tax exemption is expanded to cover the interest on JGBs held by non-juridical foreign investment trusts that are publicly offered but not offered in Japan.
- Tax exemption measures related to interest received by foreign financial institutions on bond *gensaki* transactions: Specifically, under certain conditions, the exemption applies to the interest generated from cross-border bond *gensaki* transactions of JGBs package-registered.
- Development of tax systems with an introduction of STRIPS: STRIPS-related tax systems are developed in light of the limitation that only corporations can hold principal-only book-entry transfer JGBs and coupon-only book-entry transfer JGBs.
- Development of tax systems with launch of a new book-entry transfer system: Specifically, measures necessitated by the launch of a new book-entry transfer system are undertaken.

⑤ FY2003

- Withholding tax exemption for interest on JGBs held by non-financial domestic companies: Specifically, the exemption applies to the interest received on JGBs held by non-financial domestic companies capitalized at 100 million yen or more.
- Withholding tax exemption for interest on JGBs held by JGB Clearing Corporation: Specifically, the exemption applies to the interest received on JGBs held by JGB Clearing Corporation.

⑥ FY2004

- Expansion of withholding tax exemption for redemption profit on TBs and FBs held by foreign corporations: Specifically, the exemption is expanded to cover also the redemption profit received on TBs and FBs that foreign corporations hold in transfer accounts with QFIs.
- Extension of the validity of the tax exemption measures related to interest received by foreign financial institutions on bond *gensaki* transactions: The applicable period of the tax exemption measures related to the interest on bond *gensaki* transactions is extended by 2 years (till March 31, 2006).

IV-4. Debt Management Systems

Amid continuing large-scale JGB issuance and ever increasing amounts of Japan's outstanding debt, the significance of debt management policies, particularly for outstanding debts, is greater than ever. Redemption system is certainly an integral part of those policies. It is to redeem the government bonds according to certain rules. Recently, the Ministry of Finance has begun to work on debt management more proactively, for example, by using buy-back operations to level JGB issuance and redemption amounts to prepare for the redemption rush in FY2008.

IV-4-1. Mechanism of redemption

IV-4-1-1. Government bond redemption

Government bond redemption is to retire debt by repaying its principal amount to bondholders.

Redemption can be divided into two types according to the timing of redemption—advance redemption and redemption at maturity. While redemption at maturity is to pay back the principal at a maturity date pre-fixed at issuance, advance redemption is to repay the principal at a certain date before the maturity date.

In Japan, however, advance redemption has never been practiced.²¹ This is to secure the product stability of JGBs and to ensure smooth financing.

Advance redemption resembles the buy-back program in that government debts will resolve in the end, but differs in methods.

IV-4-1-2. Redemption system

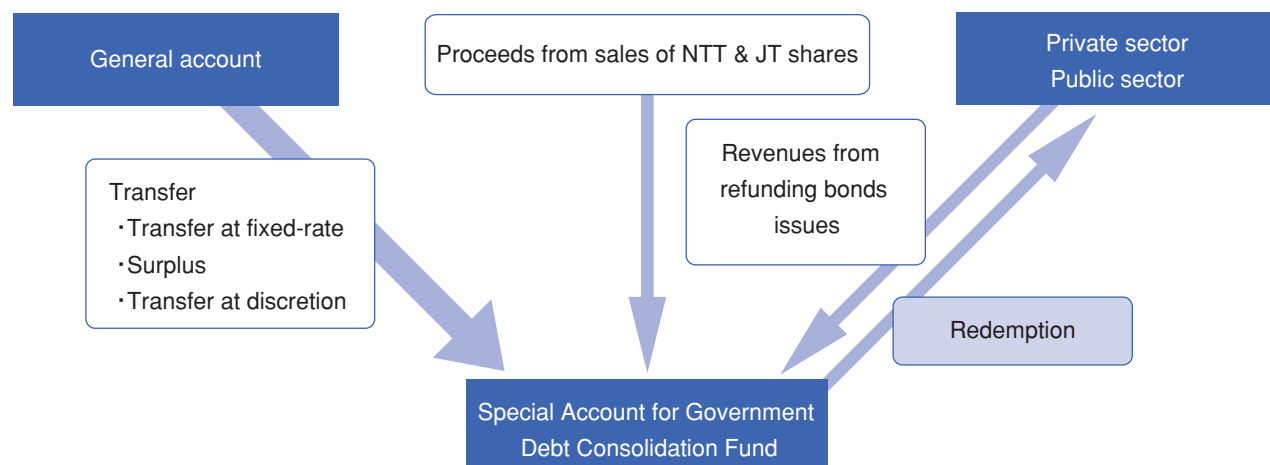
All the government bonds issued to fund a shortfall in the general account of the national budget are repaid through the Government Debt Consolidation Fund (GDCF).

To ensure stable redemption, redemption funds are transferred from the general account to the GDCF based on certain rules.

In addition, revenues from refunding bonds, issued through the Special Account for the Government Debt Consolidation Fund, are posted to the GDCF. Moreover, the proceeds from the sales of NTT shares and other government-owned shares credited to the Special Account for the Government Debt Consolidation Fund in 1985 are also funneled into the GDCF.

Simply put, fiscal resources for government bond redemption are all funneled through the GDCF—from reception and accumulation to disbursements.

[Fig. 12 Mechanism of redemption]



21. As to the government bonds issued before December 1998, each certificate carried a note saying that the government can redeem the bond before maturity. But, this has never been practiced.

IV-4-1-3. Fiscal resources for redemption

There are four ways to transfer fiscal resources for government bond redemption from the general account to the GDCF.

- (a) **Fixed-rate transfer** (1.6% of total government bond outstanding as of the beginning of the previous fiscal year):

Pursuant to Article 2 (2) of the Special Account Law of the Government Debt Consolidation Fund, the amount equal to 1.6%²² of total government bond outstanding in face value—excl. FBs, borrowing, temporary borrowing, subsidy bonds and subscription/contribution bonds²³—as of the beginning of the previous fiscal year is transferred from the general account to the GDCF.

When calculating the outstanding amount of discount bonds, their issue price is used as the face value. As to the difference between the issue price and the face value (ie, equivalent to redemption profit), the difference divided by the number of years to maturity is transferred to the GDCF every fiscal year.

- (b) **Special transfer on tax reduction-related special deficit-financing bonds:**

Tax reduction-related special deficit-financing bonds were issued during the period of FY1994 to FY1996 to make up for the decline in tax revenues due to a series of advanced income tax cuts in the wake of tax reform.

Given the nature of these issues, early redemption was deemed essential. Accordingly, while the redemption period for ordinary government bonds is 60 years, these special deficit-financing bonds are supposed to be redeemed in 20 years—one third of the normal redemption period.

Specifically, during the period of FY1998 to FY2017, one-thirtieth part of the balance that subtracts the amount of issues to make up for the loss caused by the abolition of automobile consumption tax and special corporation surtax from the total issue amount of tax reduction-related special deficit-financing bonds is to be transferred to the GDCF every fiscal year, in addition to the fixed-rate transfer.

- (c) **Transfer of a budgetary surplus** (A minimum of half of the surplus in the general account as a result of the settlement of the fiscal year):

Pursuant to Article 6 (1) of the Public Finance Law, when surplus is generated in the general account as a result of the settlement, at least half the surplus must be transferred to the GDCF and be used for bond redemption or repayment of borrowing within two years from the said fiscal year in which the surplus was generated.

- (d) **Direct budget transfer** (A discretionary transfer from the general account budget when necessary):

To ensure smooth redemption of government bonds, in addition to the above transfers, Article 2-3 of the Special Account Law of the Government Debt Consolidation Fund prescribes that a discretionary transfer be made as needed from the general account budget to the GDCF.

IV-4-1-4. Issuance of refunding bonds

Refunding bonds are the government bonds issued through the Special Account for the Government Debt Consolidation Fund to raise funds to redeem outstanding JGBs. Revenues from issuing refunding bonds are directly posted to the GDCF.

Unlike new financial resource bonds, the ceiling issue amount of refunding bonds is not subject to Diet approval in the form of budget. In practice, however, the issue amount is calculated based on the amount of debt maturing regularly according to the “60-year redemption rule.”

It should be noted that issuance of refunding bonds does not necessarily correspond to the maturity date of specific issues. Refunding bonds are issued in a flexible manner within each fiscal year. Front-loading of refunding bond issuance that corresponds to the redemption due next fiscal year is also possible within the amount approved by the Diet.

22. For details, see IV-4-1-5. 60-year redemption rule.

23. For these securities, see IV-6. Other Types of Debt.

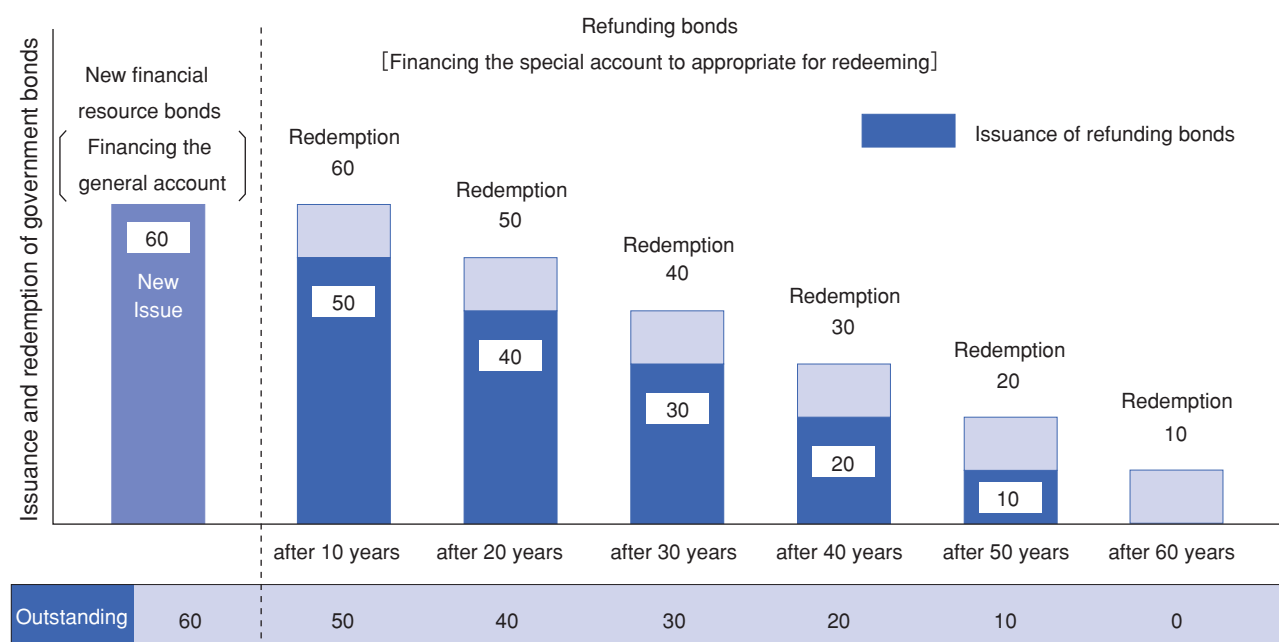
IV-4-1-5. 60-year redemption rule

Cash needed for redemption are allocated from the GDCF and the revenues from issuing refunding bonds. The ratios of these resources are determined based on the so-called “60-year redemption rule,” which means redeeming government bonds 60 years after issuance. The rule stands on the fact that the average economic depreciation period of the assets purchased by the construction bonds is about 60 years. Deriving from this rule is the 1.6% ratio for fixed-rate transfer for each fiscal year, which is about equivalent to one-sixtieth.

Fig. 13 gives you an idea about how the 60-year redemption rule works. Suppose you issue 60 billion yen of debt in fixed-rate coupon-bearing 10-year bonds, at maturity (ie, 10 years from now) you will redeem 10 billion of them in cash—equivalent to 1/6 of 60 billion yen—while issuing refunding bonds to cover the remaining 50 billion yen.

Assuming that these refunding bonds will also be issued in fixed-rate coupon-bearing 10-year bonds, then you will redeem 10 billion in cash—1/6 of the initial issue amount of 60 billion yen—in another 10 years. At this point, the amount of outstanding debt will be 40 billion yen. Repeat this for four more times. Then, you’ll be able to complete the cash redemption in 60 years from the first issuance.

[Fig. 13 Redemption via refunding bonds —“60-year redemption rule”]



Before, unlike construction bonds, special deficit-financing bonds didn’t accompany the issuance of refunding bonds. Yet in FY1985, we started to apply the 60-year rule also to special deficit-financing bonds.

This was because a large-scale redemption of special deficit-financing bonds was imminent at the time, and if we had redeemed the entire amount in cash in a severe fiscal situation, a drastic cut in expenditures and a substantial increase in burden would have had been inevitable, thus giving adverse effects on national economy and people’s lives.

In the context of steady promotion of fiscal reform, however, it is essential to try to reduce the outstanding debt as quickly as possible, regardless of the 60-year rule. As to the tax reduction-related special deficit-financing bonds issued during the period of FY1994 to FY1996, redemption is to be completed in 20 years.

IV-4-1-6. Proceeds from sales of NTT and JT shares

NTT and JT shares, of which the government gained possession in FY1985, are the shared possession of the nation. Thus, the proceeds from sales of those shares must be used as resources to redeem government bonds, which are the shared debt of the nation.

With that recognition, the Special Account Law of the Government Debt Consolidation Fund was amended

in FY1985 to allow the Special Account for the Government Debt Consolidation Fund to possess and sell the legally salable shares. It was also decided to allocate both the proceeds from sales and dividends on the shares the Fund holds to the resources for government bond redemption.

IV-4-1-7. Proceeds from allocation

The GDCF can manage government bonds by either possessing them by itself or by depositing them to the Fiscal Loan Fund. We pursue efficient allocation of these government bonds, while taking into account the need to secure adequate levels of liquidity in order to ensure smooth implementation of large-scale redemption and refunding.

Proceeds from the allocation are credited to the Special Account for the Government Debt Consolidation Fund to be included in its revenues.

IV-4-1-8. Government debt-related expenditures

The amount of government debt-related expenditures in general account budget for FY 2004 (initial) is estimated at 17,568.6 billion yen. It consists of 8,641.8 billion yen for redemption of the national debt, 8,734.2 billion yen for interest payments and discounts, and 192.6 billion yen for administrative expenses.

IV-4-2. Buy-back program

The buy-back program is a scheme for the government to retire debt by buying back outstanding unmatured bonds.

The buy-back program is similar to advance redemption in that both are meant to retire debt before maturity. But, there is a difference. With advance redemption, the debt is repaid in principle at face value in complete disregard of the will of bondholders. With the buy-back program, the debt is bought back only from the bondholders willing to take part in the deal.

Before, the buy-back program used to be implemented on very limited occasions, such as when an heir pays government bonds as the tax in kind pursuant to the Accessions Tax Law, or when the deposit a candidate set aside pursuant to the Public Office Election Law has to be confiscated upon losing an election.

Since January 2003, however, we have implemented the buy-back program on JGBs to mature in FY2008. This is to level redemption at maturity, thus leveling the annual issue amount of government bonds. By the end of FY2003, or March 2004, we have implemented approximately 1.25 trillion yen of buy-backs. For FY2004, buy-backs are expected to reach approximately two trillion yen.

Furthermore, in the "Forthcoming Developments in Debt Management Policies" published on December 3, 2003, the Ministry of Finance advocated proactive use of the buy-back program for new purposes. Buying back low-liquidity issues from the market to increase liquidity of the secondary market as a whole will be one example. Adjusting remaining years-to-maturity via buy-backs will be another.

IV-5. Government Bond Administration

IV-5-1. Items the Bank of Japan handles

The Ministry of Finance entrusts the Bank of Japan with most of the government bond-related administrative tasks, such as issuance and redemption. Specifically, those administrative tasks include the following.

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

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

IV-5-2. The Bank of Japan government bond network system

The Bank of Japan Financial Network System, commonly known as the BOJ-NET, is an online computer network system that connects the central bank and other financial institutions. The BOJ-NET has been developed to make administrative procedures/operations more efficient and paperless.

To be precise, the BOJ-NET consists of two systems: the BOJ-NET Funds Transfer System; and the BOJ-NET JGB Services.

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

- Notification of offering (the BOJ to auction participants/syndicate members)
- Bidding (bidders to the BOJ)
- Report to the Ministry of Finance on total bidding
- Notification of accepted/allocated bids (the BOJ to bidders)
- Issue and payment (the BOJ to purchasers/purchasers to the BOJ)

IV-6. Other Types of Debt

IV-6-1. Financing bills (FBs)

Financing bills (FBs) are short-term government securities the government is allowed to issue by statute to cover the shortage of funds either in general account or special accounts.

Currently, six special accounts, in addition to general account, are permitted to issue FBs. Recent examples of FBs are Treasury Financing Bills (general account), Foreign Exchange Fund Bills (Foreign Exchange Fund Special Account), Food Financing Bills (Foodstuff Control Special Account); and Petroleum Financing Bills (Special Account for Petroleum and the More Sophisticated Structure of Demand and Supply of Energy Policies). In the secondary market, however, these and other FBs are traded as products bearing the same name—"Financing bills".

FBs are the discount bonds with the same features as TBs, and the maturity is 13 weeks (3 months) in principle.

Depending on the financing need of each account, issue amount is determined, and FBs are offered almost every week through conventional price auctions.

IV-6-2. Subsidy bonds

Subsidy bonds are the government securities issued in place of provision of cash. Accordingly, issuance of subsidy bonds does not generate revenues.

Subsidy bonds are currently issued to the bereaved families of the war dead or those who suffered physical or spiritual damage in World War II and those who were repatriated after the war, in lieu of the condolence money and other compensations in cash.

In the context of leveling fiscal spending, redemption of these bonds is made over a period of several years on an installment payment basis.

Also, given the nature of these bonds that the recipients of redemption money are limited, subsidy bonds are offered as name bonds, and in principle their transfer and attachment are prohibited.

IV-6-3. Subscription/contribution bonds

Subscription/contribution bonds²⁴ are kinds of subsidy bonds, and are issued to pay the subscription or contribution in whole or in part to international institutions, in lieu of the amount to be paid in the currency. Thus, these securities are non-interest bearing, non-transferable, and payable on demand—whenever the institution concerned needs the currency and requests for encashment, the cash should be paid to the institution.

Currently, we have a total of 17 outstanding issues of subscription or contribution bonds issued to twelve institutions, including the IMF. As prescribed in the articles of agreement for each institution, using government bonds to make a payment to an international institution is permitted only when the institution concerned does not require currency for the time being for the conduct of its operations.

Domestically, the Accession Measures Laws for each international institution provide a legal base for the issuance of these subscription/contribution bonds.

IV-6-4. Government bonds issued to Deposit Insurance Corporation

Government bonds issued to Deposit Insurance Corporation are non-interest bearing bonds offered to Deposit Insurance Corporation with the aim of protecting depositors in the wake of a series of failures of financial institutions and of stabilizing the financial system in the event of a financial crisis. As the security is payable on demand, whenever Deposit Insurance Corporation demands for redemption in whole or in part, the government must redeem (ie, encash) the security.

In FY1997, following the amendments in the Deposit Insurance Law and the enactment of the Law Concerning Emergency Measures for the Stabilization of the Functions of the Financial System, two new accounts were established at Deposit Insurance Corporation—the Special Operations Account and the Financial Crisis Management Account. Government bonds issued to allocate for these accounts amounted to 10 trillion yen—7 trillion yen of government bonds for the Special Operations Fund and 3 trillion yen of government bonds for the Financial Crisis Management Fund at Deposit Insurance Corporation.

In FY1998, the Law Concerning Emergency Measures for the Revitalization of the Functions of the Financial System was enacted to replace the Law Concerning Emergency Measures for the Stabilization of the Functions of the Financial System. As a result, the Financial Crisis Management Account was abrogated and the 3 trillion yen of granted government bonds held in this account were returned to the government.

In FY2000, the government bonds granted to Deposit Insurance Corporation (Special Operations Account) increased by 6 trillion yen, to promote further stabilization of the functions of the financial system and appropriate resolution of failed financial institutions.

When the Special Operations Account was abrogated at the end of FY2002, the outstanding debt that remained to be redeemed stood at 2.5674 trillion yen. But, the entire amount was returned to the government pursuant to Article 20-2 of supplementary provision to the Deposit Insurance Law. Currently, therefore, there are no outstanding government bonds issued to Deposit Insurance Corporation.

IV-6-5. Government bonds converted from Japanese National Railways Settlement Corporation bonds and the like

IV-6-5-1. Government bonds converted from Japanese National Railways Settlement Corporation bonds

The outstanding Japanese National Railways Settlement Corporation bonds stood at approximately 3.0035 trillion yen as of the end of FY1997. The general account inherited and converted them into government bonds pursuant to Article 2 (1) of the Law Concerning the Special Measures to Be Urgently Implemented in FY1997 to Mitigate the Debt Burden on the Japanese National Railways Settlement Corporation.

24. While the difference between subscription bonds and contribution bonds is not so clear, usually the former is issued when Japan becomes a shareholder of international institution and acquires the shareholder's rights (eg, voting right), and the latter is issued to contribute to the replenishment of a special fund (ie, financial resources for interest-free, long-term lending) established within the international institution.

In addition, the Law Concerning the Resolution of Debts of the Japanese National Railways Settlement Corporation was enacted in FY1998. Under the law, the government's general account inherited approximately 9.2714 trillion yen—a portion of the debts of the Japanese National Railways Settlement Corporation—and converted them into government bonds on October 22, 1998.

IV-6-5-2. Government bonds converted from Japan National Oil bonds

Pursuant to Article 10(2) and 12(2) of supplementary provision to the Law Concerning the Abolishment of the Japan National Oil Law and the Metal Mining Agency of Japan Law, the Special Account for Petroleum and the More Sophisticated Structure of Demand and Supply of Energy Policies inherited on two occasions—April 1, 2003 and February 1, 2004—the Japan National Oil bonds totaling approximately 340 billion yen and converted them into government bonds.

IV-6-5-3. Government bonds converted from Honshu-Shikoku Bridge Authority bonds

Pursuant to Article 2(1) of the Law Concerning the Special Measures to Be Urgently Implemented in FY2003 to Mitigate the Debt Burden on the Honshu-Shikoku Bridge Authority, the general account inherited on May 12, 2003 the Honshu-Shikoku Bridge Authority bonds totaling approximately 1.1235 trillion yen and converted them into government bonds.

IV-6-6. Borrowing

Government borrowing refers to the funds mainly the special account borrows from the Fiscal Loan Fund or private sector financial institutions pursuant to each Special Account Law.

Generally, when the debt's maturity extends across the fiscal year in which the borrowing is made, the term "borrowing" is used and when the maturity date comes before the end of the fiscal year in which the borrowing is made, the debt is called "temporary borrowing."

The maximum amount of account-to-account borrowing for each fiscal year must be provided under the general provisions of budget for each account, which is subject to Diet approval each fiscal year.

The debts inherited from the former Japanese National Railways and the former Japanese National Railways Settlement Corporation account for the majority of the borrowing in the general account.

IV-6-6-1. Financing via special account borrowing

When each special account borrows funds from private sector financial institutions, the terms of borrowing are determined according to the method of borrowing—an auction method or loan syndicate method.

When each special account borrows funds from the Fiscal Loan Fund, the terms of lending are determined based on the open market rate.

IV-6-6-2. Method of auctions for special account private borrowing

When private borrowing (ie, borrowing certificates from private financial institutions) is done at one of the three special accounts—the Special Account for the Allotment of Local Allocation Tax and Local Transfer Tax, Special Account for Petroleum and the More Sophisticated Structure of Demand and Supply of Energy Policies, or Special Account for National Forest Service—the Ministry of Finance holds computerized auctions. The Ministry of Finance handles all these auction procedures, while making adjustments with JGB and other auction schedule. Interest rates on the borrowing are determined via the conventional auction method.

IV-6-7. Government-guaranteed debts

Government-guaranteed debts mean that when government-affiliated agencies or local municipal entities issue bonds or raise funds via borrowing, the government guarantees their principals and interest payments.

The purpose of government guarantee is to ensure stable, low-cost, long-term financing for government-affiliated agencies or other entities by leveraging the creditworthiness of the government.

IV-6-7-1. Types of government-guaranteed debts

Government-guaranteed debts can be classified into the following three types according to the modality of the object of guarantee.

- Government-guaranteed bonds: Bonds issued in Japan by government-affiliated agencies and of which principal and interest payments are guaranteed by the government.
- Government-guaranteed foreign bonds: Bonds issued by government-affiliated agencies or local municipal entities in overseas markets and of which principal and interest payments are guaranteed by the government.
- Government-guaranteed borrowing: Borrowing made by government-affiliated agencies in Japan and of which principal and interest payments are guaranteed by the government.

With regard to government-guaranteed bonds and government-guaranteed borrowing, the establishment law for each government-affiliated agency or the entity in question serves the legal foundation for government guarantee. The legal foundation in issuing government-guaranteed foreign bonds, on the other hand, lies among other things in the Law Concerning Special Measures Relative to Introduction of Foreign Capital from the International Bank for Reconstruction and Development, Etc.

In addition to such authorization by laws, the maximum amount of government guarantee for each agency/entity must be provided under the general provisions of general account budget, which is subject to Diet approval each fiscal year.

[Fig. 14 Issue amount of government-guaranteed bonds planned for FY2004]

(billion yen)

Classification by maturity	Planned issuance for FY2003 initial budget (a)	Planned issuance for FY2004 initial budget (b)	
			(b) – (a)
10-year bonds	2,916.2	3,509.6	593.4
7-year bonds	700.0	1,250.0	550.0
6-year bonds	170.0	140.0	–30.0
4-year bonds	1,974.9	2,300.0	325.1
2-year bonds	1,440.0	1,800.0	360.0
Total	7,201.1	8,999.6	1,798.5

Note : The above figures do not include issues of government-guaranteed foreign bonds.

IV-6-7-2. Issuance of government-guaranteed bonds

In principle, government-guaranteed bonds are offered via underwriting. Underwriters handle the public offering of government-guaranteed bonds to unspecified number of investors. When the amount subscribed falls short of the total amount offered, the underwriters must acquire the remainder.

For the issuance of 10-year government-guaranteed bonds, a syndicate, of which members range from a number of financial institutions to securities companies, is formed for each issuing body. An issuing body and its syndicate negotiate the terms of issuance based on the existing issues of government-guaranteed bonds, while taking into account various factors in a comprehensive manner. The factors include the actual situation of

government-guaranteed bond distribution, the spread with government bonds, and overall trends in the bond market.

The terms of issuance for bonds with other maturities are determined via yield auctions an issuing body holds each time to identify the terms of issuance as well as the syndicate members.

Because of government guarantee, government-guaranteed bonds have the creditworthiness equivalent to that of government bonds, and the lowest level of yield next to JGBs.

IV-6-7-3. Issuance of government-guaranteed foreign bonds

In recent years, government-guaranteed foreign bonds are issued primarily in the euro market or the global market. The currencies often used are US dollars, euros, and yen.

IV-6-7-4. Government-guaranteed borrowing

Unlike government-guaranteed bonds designed to raise funds from unspecified number of investors, government-guaranteed borrowing is a scheme in which each borrowing body borrows funds from specific private financial institutions via loan agreement with government guarantee.

Terms of borrowing are decided either through negotiations between each borrowing body and private financial institutions or through auctions.

V. Appendices

1. Planned Issue Amount of Government Bonds and Government-guaranteed Bonds for FY2004

1. Government bonds

[Classification by funding purpose]

(billion yen)

	Planned issuance for FY2003 initial budget (a)	Planned issuance for FY2004 initial budget (b)	(b) – (a)
New financial resource bonds	36,445.0	36,590.0	145.0
Construction bonds	6,420.0	6,500.0	80.0
Special deficit-financing bonds	30,025.0	30,090.0	65.0
Refunding bonds	74,967.8	84,450.7	9,482.9
Fiscal Loan Fund Special Account bonds	30,010.0	41,300.0	11,290.0
(public offering)	(11,460.0)	(11,700.0)	(240.0)
(transitional measures)	(18,550.0)	(29,600.0)	(11,050.0)
Total	141,422.8	162,340.7	20,917.9

[Classification by issuance methods and maturity]

	Planned Issuance for FY2003 Initial Budget (a)	Planned Issuance for FY2004 Initial Budget (b)	(b) – (a)
30-year bonds	1,600.0	2,000.0	400.0
20-year bonds	4,800.0	6,900.0	2,100.0
15-year bonds	5,500.0	6,000.0	500.0
10-year bonds	22,800.0	22,800.0	—
5-year bonds	22,800.0	22,900.0	100.0
2-year bonds	20,960.0	19,250.5	–1,709.5
Treasury bills	34,170.9	34,170.9	—
Inflation-Indexed bonds	100.0	600.0	500.0
Total amount in the market (excluding Treasury bills)	112,730.9 (78,560.0)	114,621.4 (80,450.5)	1,890.5 (1,890.5)
Postal Savings	2,100.0	2,300.0	200.0
Bank of Japan	6,441.9	13,219.3	6,777.4
Fiscal Loan Fund	400.0	1,000.0	600.0
Fiscal Loan Fund Special Account bonds (transitional measures)	18,550.0	29,600.0	11,050.0
Postal Savings	9,960.0	19,700.0	9,740.0
Pension Reserves	5,650.0	7,500.0	1,850.0
Postal Life Insurance	2,940.0	2,400.0	–540.0
Total amount in public sector	27,491.9	46,119.3	18,627.4
JGBs for Individual Investors	1,200.0	1,600.0	400.0
Total	141,422.8	162,340.7	20,917.9

Notes 1: Figures may not sum up to the total because of rounding.

2: The amount of buy-backs was approximately 1,000.0 billion yen in FY2003, and will be approximately 2,000.0 billion yen in FY2004.

3: Figure in "Bank of Japan" in "Planned issuance for FY2004 initial budget" includes 400.0 billion yen of refunding bonds to be issued for the same amount of buy-backs from the Bank of Japan.

4: Figure in "Fiscal Loan Fund" indicates the amount of refunding bonds to be issued for the same amount of buy-backs from the Fiscal Loan Fund.

5: 20-year bond issuance in FY2003 was increased by 600.0 billion yen, to meet requests from market participants. (2-year bond issuance was reduced by the same amount.)

6: The issue amount of JGBs for Individual Investors in FY2003 exceeded its initially planned amount (1,200.0 billion yen in "Planned issuance for FY2003 initial budget").

7: For new financial resource bonds in the FY2003 supplementary budget, the construction bonds issuance was increased by 273.0 billion yen and the special deficit-financing bond issuance was reduced by 273.0 billion yen from its initially planned amount shown in "Planned issuance for FY2003 initial budget".

2. Government-guaranteed bonds

Classification by maturity	Planned issuance for FY2003 initial budget (a)	Planned issuance for FY2004 initial budget (b)	(b) – (a)
10-year bonds	2,916.2	3,509.6	593.4
7-year bonds	700.0	1,250.0	550.0
6-year bonds	170.0	140.0	–30.0
4-year bonds	1,974.9	2,300.0	325.1
2-year bonds	1,440.0	1,800.0	360.0
Total	7,201.1	8,999.6	1,798.5

Note : The above figures do not include issues of government-guaranteed foreign bonds.

2.Key Points for FY2004 JGB Issuance

(published on 24 December 2003)

Basic Philosophy of Debt Management Policies

- 1) To ensure smooth and stable financing
- 2) To curb financing cost in the long-term



<1. The issuance plan reflecting market needs and trends>

- For FY2004, the total amount of JGBs issuance will be approximately 162 trillion yen, of which approximately 115 trillion yen will be issued in the market (for FY2003 initial budget, approximately 141 trillion yen and 113 trillion yen, respectively). On the basis of issue date in FY2004, the issue amount in the market will be 118 trillion yen.
- This plan is designed to be well-balanced among different maturity zones — short-term, medium-term, long-term and super-long-term, reflecting market needs and trends. And we also take into consideration financing cost and risks on interest rate fluctuation and refunding, and future redemption profile.
 - Issuance of some maturity zones will increase to meet requests from market participants: 2.0 trillion yen in 30-year bonds, 6.9 trillion yen in 20-year bonds, 6.0 trillion yen in 15-year floating-rate bonds, 22.9 trillion yen in 5-year bonds and 0.6 trillion yen in Inflation-Indexed bonds.
 - The average maturity of JGBs to be issued in the market in this plan will be 6 years and 2 months — 6 months longer than 5 years and 8 months (ie. the initial budget figure for FY2003).

<2. Stable financing and improvement of the JGB market liquidity>

- The "JGB Market Special Participants" (provisional) system will be phased in October 2004, such as primary dealer systems, which have been broadly introduced in major foreign countries as a scheme for stable financing and improving bond market liquidity.
 - Auction participants who will fulfill the responsibilities for bidding and purchasing in JGB auctions, as well as improving JGB market liquidity, will be gradually qualified to do stripping and reconstructing operations of STRIPS and to participate in buy-back auctions, "Non-competitive Auctions" (provisional), "Fixed-rate Auctions" (provisional) and "Liquidity Supply Auctions" (provisional)
 - The "JGB Market Special Participants" (provisional) system will be a new stable financing scheme for all JGBs, not limited to 10-year bonds, supported by highly-motivated market participants and well-functioned market mechanism.

<3. Enrichment of JGB instruments and Diversification of JGB holders>

- In March 2004, Inflation-Indexed bonds will be introduced to meet requests from market participants, and also as a measure to observe expected inflation rate (biannually issued by approximately 300 billion yen in FY2004).
- To promote JGB holdings by households, the issue amount of JGBs for Individual Investors will be increased (to approximately 1.6 trillion yen in FY2004).
- To encourage JGB holdings by foreign investors, and to diversify the composition of JGB holders, nonresident corporations who hold TBs/FBs via global custodians will be newly exempt from withholding tax on profits from those redemption in FY2004 and thereafter.

<4. Efficient management of outstanding debt>

- The amount of buy-back program will be increased to approximately 2 trillion yen in FY2004 (this program has been implemented in order to smooth the annual amount of redemption, hence the amount of refunding bond issuance, so that we can be prepared for the large-scale redemption of 10-year bonds in FY2008). The Bank of Japan will also become the counterparty of buy-backs in FY2004. (In FY2003, the amount of buy-back program will be approximately 1 trillion yen, from the market and the Fiscal Loan Fund.)
- A system for efficient management of outstanding debt will be developed, including preparation for introducing interest rate swaps.

<5. Dialogue with market participants>

- Regular and open discussion with market participants and efforts to follow-up market trends and investors needs will be continued, mainly through the "Meeting on JGB Market" (or meetings with the "JGB Market Special Participants" (provisional) after its introduction) and the "Meeting with JGB Investors".
- We will establish the "Advisory Committee" (provisional) — a forum where we can exchange the opinions with nongovernmental members with insight into public debt management policies, with introducing the "JGB Market Special Participants" (provisional) system.
- Publication of the "Debt Management Report" (provisional) will be launched by mid-2004, to increase transparency of debt management policies. The report will be designed to provide an overview of the whole public debt and debt management policies.

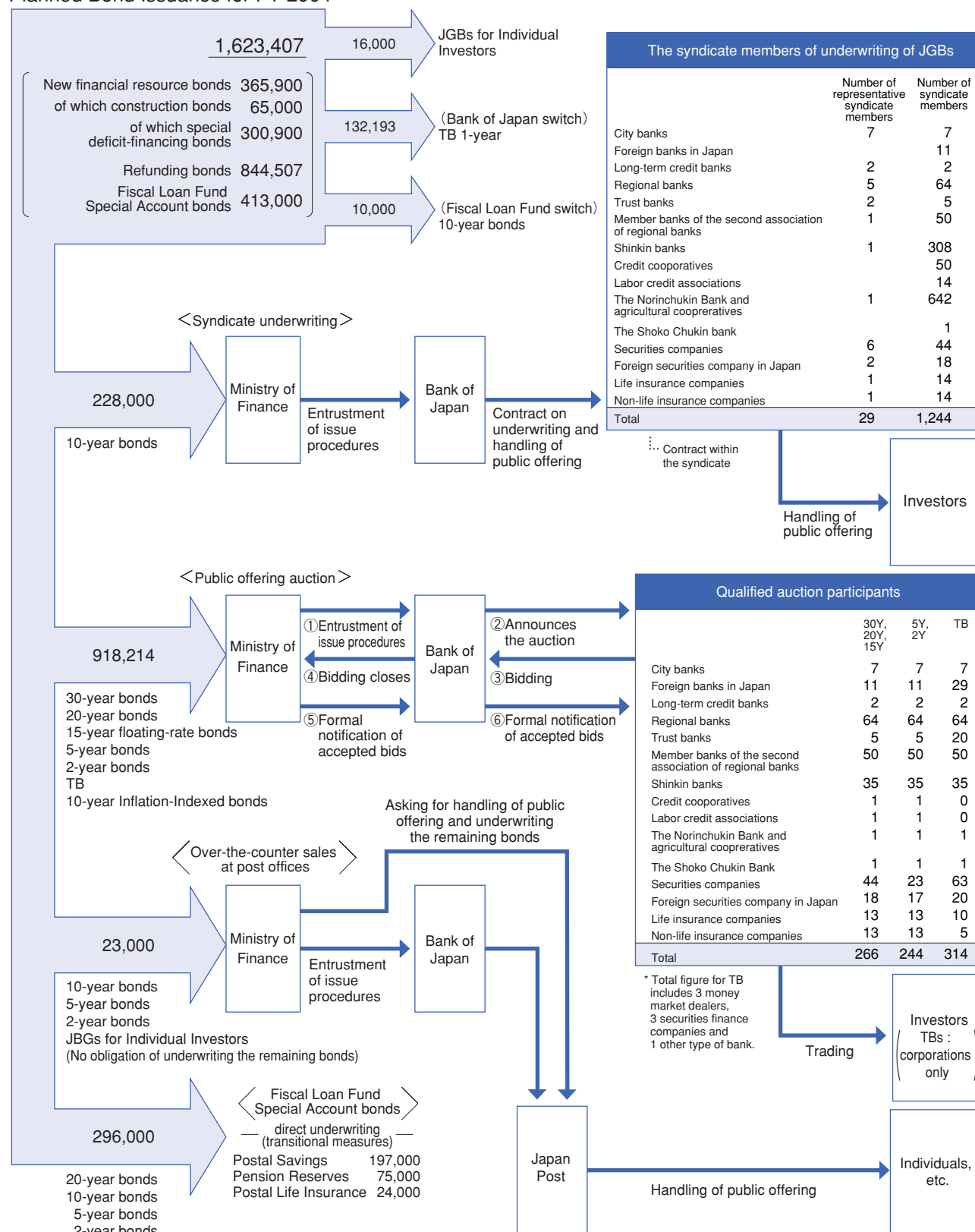
<6. Improvement of market infrastructure>

- When Issued (WI) tradings will start in February 2004, to ensure further smooth issuance of JGBs.
- We will cooperate with organizations concerned for the start of operations of JGB Clearing Corporation during FY2004.
- To make JGB market more competitive and efficient, review on the syndicate underwriting system will be continued.

3.Mechanism of Government Bond Issuance (Planned Bond Issuance for FY2004)

(As of March 2004, 100 million yen)

Planned Bond Issuance for FY 2004



4. Changes in Issue Amount of Government Bonds

(100 million yen)

FY	Issue amount					Bond dependency ratio	Outstanding (A)	(A) GDP	National debt service (Initial) (B)	(B) General account total
	New financial resource bonds			Refunding bonds	Total					
	Construction bonds	Special deficit- financing bonds								
1947 ~ 1964	In the period of balanced budget, there hadn't been JGBs issued.									
1965	1,972	-	1,972	-	1,972	% 5.3	2,000	% 0.6	220	% 0.6
1966	6,656	6,656	-	-	6,656	14.9	8,750	2.2	489	1.1
1967	7,094	7,094	-	-	7,094	13.9	15,950	3.4	1,153	2.3
1968	4,621	4,621	-	-	4,621	7.8	20,544	3.7	2,013	3.5
1969	4,126	4,126	-	-	4,126	6.0	24,634	3.8	2,788	4.1
1970	3,472	3,472	-	-	3,472	4.2	28,112	3.7	2,909	3.7
1971	11,871	11,871	-	-	11,871	12.4	39,521	4.8	3,193	3.4
1972	19,500	19,500	-	-	19,500	16.3	58,186	6.0	4,554	4.0
1973	17,662	17,662	-	5,958	23,620	12.0	75,504	6.5	7,045	4.9
1974	21,600	21,600	-	6,358	27,958	11.3	96,584	7.0	8,622	5.0
1975	52,805	31,900	20,905	4,156	56,961	25.3	149,731	9.8	10,394	4.9
1976	71,982	37,250	34,732	3,712	75,694	29.4	220,767	12.9	16,647	6.9
1977	95,612	50,280	45,333	3,128	98,741	32.9	319,024	16.8	23,487	8.2
1978	106,740	63,300	43,440	6,326	113,066	31.3	426,158	20.4	32,227	9.4
1979	134,720	71,330	63,390	-	134,720	34.7	562,513	25.0	40,784	10.6
1980	141,702	69,550	72,152	2,903	144,605	32.6	705,098	28.6	53,104	12.5
1981	128,999	70,399	58,600	8,952	137,951	27.5	822,734	31.4	66,542	14.2
1982	140,447	70,360	70,087	32,727	173,175	29.7	964,822	35.1	78,299	15.8
1983	134,863	68,099	66,765	45,145	180,009	26.6	1,096,947	38.3	81,925	16.3
1984	127,813	64,099	63,714	53,603	181,417	24.8	1,216,936	39.7	91,551	18.1
1985	123,080	63,030	60,050	89,573	212,653	23.2	1,344,314	41.1	102,242	19.5
1986	112,549	62,489	50,060	114,886	227,435	21.0	1,451,267	42.4	113,195	20.9
1987	94,181	68,800	25,382	154,490	248,672	16.3	1,518,093	42.2	113,335	20.9
1988	71,525	61,960	9,565	139,461	210,986	11.6	1,567,803	40.5	115,120	20.3
1989	66,385	64,300	2,085	150,798	217,183	10.1	1,609,100	38.8	116,649	19.3
1990	73,120	63,432	(9,689)	186,532	259,652	10.6	1,663,379	37.0	142,886	21.6
1991	67,300	67,300	-	188,757	256,057	9.5	1,716,473	36.3	160,360	22.8
1992	95,360	95,360	-	214,969	310,329	13.5	1,783,681	36.9	164,473	22.8
1993	161,740	161,740	-	218,129	379,869	21.5	1,925,393	40.1	154,423	21.3
1994	164,900	123,457	<33,337> [8,106]	228,817	393,717	22.4	2,066,046	42.1	143,602	19.6
1995	212,470	164,401	<28,511> 19,558	253,767	466,238	28.0	2,251,847	45.0	132,213	18.6
1996	217,483	107,070	<18,796> 91,617	265,524	483,007	27.6	2,446,581	47.6	163,752	21.8
1997	184,580	99,400	85,180	314,320	498,900	23.5	2,579,875	49.6	168,023	21.7
1998	340,000	170,500	169,500	424,310	764,310	40.3	2,952,491	57.6	172,628	22.2
1999	375,136	131,660	243,476	400,844	775,979	42.1	3,316,687	65.3	198,319	24.2
2000	330,040	111,380	218,660	532,697	862,737	36.9	3,675,547	71.6	219,653	25.8
2001	300,000	90,760	209,240	593,296	893,296	35.4	3,924,341	78.3	171,705	20.8
2002	349,680	91,480	258,200	696,155	1,045,835	41.8	4,210,991	84.6	166,712	20.5
2003	364,450	66,930	297,520	749,678	1,114,128	44.6	4,594,360	92.3	167,981	20.5
2004	365,900	65,000	300,900	844,507	1,210,407	44.6	4,826,336	96.4	175,685	21.4

Notes1 : FY2003 and FY2004 estimates.

2 : The figures in () indicate ad-hoc deficit-financing bonds, < > are tax reduction-related special deficit-financing bonds,

[] are earthquake disaster-related special deficit-financing bonds.

5. Chronology of Debt Management Policies in Postwar Japan

FY	Debt management policy	FY	Debt management policy
	In the period of balanced budget, there hadn't been JGBs issued.	1998	Apr. 1998 Launch of noncompetitive auction of mid-term JGBs
1965	Jan. 1966 The first issuance of JGBs (7-year) via syndicate underwriting		Jan. 1999 Elimination of the advance redemption provision
	Mar. 1966 Starting JGB underwriting by Trust Fund Bureau of the MOF		Mar. 1999 Starts of advance publication of auction schedule quarterly and issue amount one week prior to each auction date
1968	Apr. 1968 Introduction of "Tokubetsu-Maruyu" tax-free saving system	1999	Apr. 1999 Launch of public offering auction of TBs (1-year)
	May. 1968 Establishment of the JGB redemption system		Introducing of withholding tax exemption measures for redemption profit on TBs/FBs held by foreign corporations
1971	Jan. 1972 Extending the maturity of JGBs to 10 years		Sep. 1999 Launch of public offering auction of 30-year JGBs
1976	Jan. 1977 Launch of issuing discount JGBs (5-year)		Introducing tax exemption measures for interest on JGBs held by nonresident individuals or foreign corporations
1977	Apr. 1977 Start of trading JGBs held by financial institutions (ie, banks etc.) in the market		Feb. 2000 Introduction of 5-year coupon-bearing JGBs
1978	Jun. 1978 Launch of public offering auction of 3-year JGBs	2000	Apr. 2000 Advanced announcement time of auction results by 30 minutes to 14:00
1979	Jun. 1979 Launch of public offering auction of 2-year JGBs		Jun. 2000 Launch of public offering auction of 15-year floating-rate JGBs
	Jan. 1980 Start of offering the Medium-Term Government Securities Fund		Sep. 2000 Establishment of the Meeting on JGB Market
1980	Jun. 1980 Launch of public offering auction of 4-year JGBs		Nov. 2000 Launch of public offering auction of 3-year discount JGBs
1981	Sep. 1981 Launch of private offering of 6-year JGBs		Mar. 2001 Introduction of new reopening rule
1982	Feb. 1983 Launch of private offering of floating-rate JGBs (15-year)	2001	Apr. 2001 Expansion of tax exemption measures for interest on JGBs held by nonresident individuals or foreign corporations
1983	Apr. 1983 Start of handling of JGB public offering by financial institutions		May. 2001 Advanced announcement time of auction results by 30 minutes to 13:30
	Sep. 1983 Launch of private offering of 20-year JGBs		Jun. 2001 Reducing the tick size for bid price on TB/FB auctions (from 0.005 yen to 0.001 yen for TBs; from 0.001 yen to 0.0005 yen for FBs)
1984	Jun. 1984 Start of dealing JGBs by financial institutions (ie, banks etc.)		Oct. 2001 Start of monthly publication of auction schedule 3 months ahead
1985	Jun. 1985 Amendment of the Special Account Law of the Government Debt Consolidation Fund (GDCF)	2002	Apr. 2002 Expansion of tax exemption measures for interest on JGBs held by foreign investment trusts
	1. Issuance of short-term JGBs and front-loading of refunding bonds		Apr. 2002 Establishment of the Meeting of JGB Investors
	2. Transferring NTT and JT shares to GDCF		May. 2002 Increasing the ratio of competitive auction for 10-year JGBs (from 60% to 75%)
	Oct. 1985 Starting JGB futures contracts		May. 2002 Reduced syndicate underwriting commission for 10-year JGBs (from 0.63 to 0.39 per 100 yen)
	Feb. 1986 Launch of public offering auction of short-term JGBs		May. 2002 Advanced announcement time of auction results by 30 minutes to 13:00
1986	Oct. 1986 Introduction of syndicate underwriting of 20-year JGBs		Jun. 2002 Diet approval of the Settlement System Reform Law
1987	Sep. 1987 Launch of public offering auction of 20-year JGBs		Jan. 2003 Increased issue amount of 30-year JGBs
	Nov. 1987 Introduction of auction on an underwriting basis for 20% of 10-year JGB issuance		Jan. 2003 Earlier implementation of TB/FB offering
1988	Apr. 1988 Start of handling of JGB public offering by post offices		Jan. 2003 Shortening the term between auction and issuance for 10-year JGBs
1989	Apr. 1989 Introducing partial competitive auction to 10-year JGBs		Jan. 2003 Launch of new JGB book-entry transfer system
1990	Oct. 1990 Expansion of the ratio of competitive auction on 10-year JGBs (40% to 60%)		Jan. 2003 Introduction of STRIPS
1991	Apr. 1991 Start of publishing the auction result of 10-year JGB on the same day		Feb. 2003 Launch of implementation of buy-backs
1992	Apr. 1992 Start of repayment of the withholding tax for redemption profits of TBs/FBs held by foreign corporations		Mar. 2003 Introduction of JGBs for Individual Investors
1993	Jan. 1994 Expansion of applicable limit of "Maruyu" tax-free saving system	2003	Apr. 2003 Withholding tax exemption for interest on JGBs held by non-financial domestic companies capitalized at 100 million yen or more
	Feb. 1994 Launch of public offering auction of 6-year JGBs		May. 2003 Increasing the ratio of competitive auction for 10-year JGBs (from 75% to 80%)
1996	Apr. 1996 Start of quarterly implementation of auction of 20-year JGBs		Oct. 2003 Increased issue amount of 20-year JGBs
			Dec. 2003 Publication of "Forthcoming Development in Debt Management Policies"
			Dec. 2003 Publication of the MOF plan of "JGB Market Special Participants" (provisional) system
			Feb. 2004 Launch of JGB transactions prior to the auction
			Mar. 2004 Introduction of Inflation-Indexed bonds

6.Changes in Issue Amount of Government Bonds (in the Market)

(billion yen,%)

	30-year bonds	20-year bonds	15-year floating-rate bonds	10-year bonds	6-year bonds	5-year bonds	5-year discount bonds	4-year bonds	3-year discount bonds	2-year bonds	Treasury bills	10-year Inflation-Indexed bonds	Total	Average maturity
FY1989	-	902.1	-	7,313.6	-	-	300.0	-	-	1,394.5	5,293.6	-	15,203.9	6Y 5M
share	-	5.9	-	48.1	-	-	2.0	-	-	9.2	34.8	-	100.0	
FY1990	-	1,024.3	-	8,551.1	-	-	200.0	-	-	1,539.1	8,386.1	-	19,700.7	5Y 9M
share	-	5.2	-	43.4	-	-	1.0	-	-	7.8	42.6	-	100.0	
FY1991	-	935.4	-	8,998.9	-	-	200.0	-	-	1,296.4	8,964.4	-	20,395.1	5Y 8M
share	-	4.6	-	44.1	-	-	1.0	-	-	6.4	44.0	-	100.0	
FY1992	-	999.1	-	9,700.0	-	-	200.0	-	-	1,506.6	9,505.9	-	21,911.5	5Y 8M
share	-	4.6	-	44.3	-	-	0.9	-	-	6.9	43.4	-	100.0	
FY1993	-	1,300.0	-	11,168.6	200.0	-	200.0	2,596.2	-	1,470.5	10,016.2	-	26,951.5	5Y 10M
share	-	4.8	-	41.4	0.7	-	0.7	9.6	-	5.5	37.2	-	100.0	
FY1994	-	1,455.3	-	12,200.0	1,500.0	-	200.0	3,483.7	-	1,600.0	10,960.4	-	31,399.4	5Y 10M
share	-	4.6	-	38.9	4.8	-	0.6	11.1	-	5.1	34.9	-	100.0	
FY1995	-	1,508.3	-	13,000.0	3,700.0	-	200.0	3,641.7	-	2,156.1	12,063.8	-	36,269.9	5Y 8M
share	-	4.2	-	35.8	10.2	-	0.6	10.0	-	5.9	33.3	-	100.0	
FY1996	-	2,000.0	-	12,800.0	2,662.7	-	200.0	1,800.4	-	1,080.2	12,500.1	-	33,043.4	6Y 0M
share	-	6.1	-	38.7	8.1	-	0.6	5.4	-	3.3	37.8	-	100.0	
FY1997	-	1,690.0	-	13,231.0	2,800.0	-	200.0	2,710.0	-	1,320.0	12,802.6	-	34,753.6	5Y 10M
share	-	4.9	-	38.1	8.1	-	0.6	7.8	-	3.8	36.8	-	100.0	
FY1998	-	2,400.0	-	18,100.0	5,200.0	-	200.0	5,100.0	-	2,690.0	17,007.6	-	50,697.6	5Y 10M
share	-	4.7	-	35.7	10.3	-	0.4	10.1	-	5.3	33.5	-	100.0	
FY1999	493.1	2,400.0	-	15,113.0	5,100.0	2,600.1	200.0	5,100.0	-	8,897.3	26,979.4	-	66,882.8	4Y 9M
share	0.7	3.6	-	22.6	7.6	3.9	0.3	7.6	-	13.3	40.3	-	100.0	
FY2000	690.3	2,400.0	2,798.0	16,300.0	2,509.4	9,403.0	120.0	2,780.8	293.1	13,193.9	29,566.0	-	80,054.6	5Y 0M
share	0.9	3.0	3.5	20.4	3.1	11.7	0.1	3.5	0.4	16.5	36.9	-	100.0	
FY2001	595.0	3,200.0	3,603.7	20,400.0	-	19,623.4	-	-	593.5	16,800.0	27,594.3	-	92,409.7	5Y 4M
share	0.6	3.5	3.9	22.1	-	21.2	-	-	0.6	18.2	29.9	-	100.0	
FY2002	896.3	4,250.0	5,600.0	21,548.7	-	22,750.1	-	-	396.6	20,785.2	30,995.8	-	107,222.8	5Y 6M
share	0.8	4.0	5.2	20.1	-	21.2	-	-	0.4	19.4	28.9	-	100.0	
FY2003 (Supplementary budget)	1,600.0	5,400.0	5,500.0	22,800.0	-	22,800.0	-	-	-	20,360.0	34,170.9	100.0	112,730.9	5Y 9M
share	1.4	4.8	4.9	20.2	-	20.2	-	-	-	18.1	30.3	0.1	100.0	
FY2004 (Initial budget)	2,000.0	6,900.0	6,000.0	22,800.0	-	22,900.0	-	-	-	19,250.5	34,170.9	600.0	114,621.4	6Y 2M
share	1.7	6.0	5.2	19.9	-	20.0	-	-	-	16.8	29.8	0.5	100.0	

7.Years-to-maturity Structure of Straight Government Bonds

<FY 2004 Initial Budget Basis>

(billion yen)

FY	Redemption amount	FY	Redemption amount
2005	110,351.9	2021	2,103.3
2006	60,588.8	2022	3,290.6
2007	51,149.9	2023	5,908.9
2008	56,394.6	2024	2,800.0
2009	39,086.3	2025	-
2010	20,953.5	2026	-
2011	20,452.6	2027	-
2012	22,309.4	2028	-
2013	20,681.3	2029	499.4
2014	25,034.0	2030	699.7
2015	4,843.6	2031	297.2
2016	6,193.3	2032	896.8
2017	7,688.2	2033	908.5
2018	8,912.0	2034	1,600.0
2019	6,198.0	2035	-
2020	2,791.8	Total	482,633.6

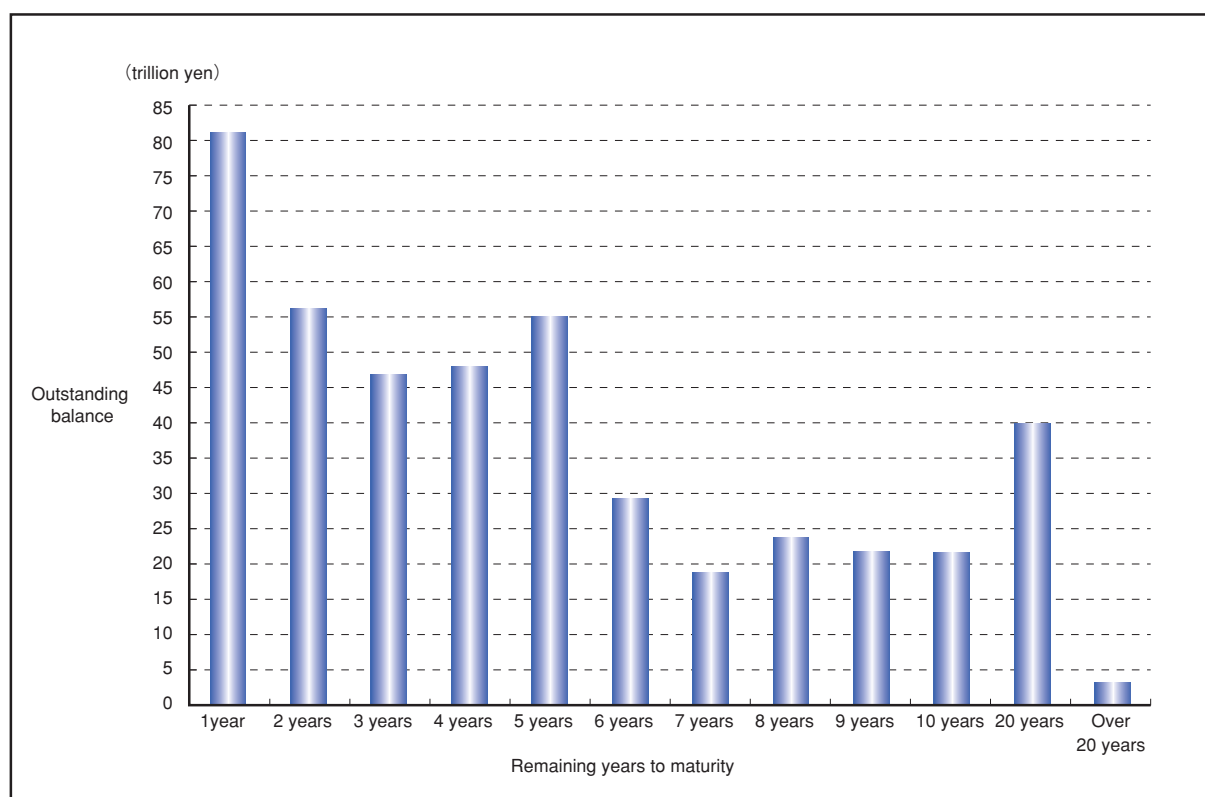
8.Changes in Outstanding Amounts of Government Bonds, Borrowing and Government-guaranteed Debts

(billion yen, end of month)

Category	Mar.1997	Mar.1998	Mar.1999	Mar.2000	Mar.2001	Mar.2002	Mar.2003	Dec.2003
Government bonds	247,462.3	273,907.0	310,740.2	343,133.6	380,654.6	448,162.5	504,253.6	539,816.9
Straight bonds	244,658.1	257,987.5	295,249.1	331,668.7	367,554.7	392,434.1	421,099.1	444,694.6
Long-term (10 years or more)	203,198.4	215,009.2	242,743.3	247,605.6	257,011.3	266,723.8	279,793.0	287,474.3
Medium-term (from 2 to 6 years)	28,341.1	29,552.1	34,884.7	50,507.5	77,171.5	93,143.8	106,938.4	117,812.8
Short-term (one year or less)	13,118.6	13,426.2	17,621.1	33,555.7	33,371.9	32,566.5	34,367.8	39,407.5
Fiscal Loan Fund Special Account bonds						43,760.5	75,564.4	87,164.4
Long-term (10 years or more)						16,818.0	29,431.0	37,199.0
Medium-term (from 2 to 6 years)						26,942.5	46,133.4	49,965.4
Subsidy bonds	612.1	717.1	654.2	553.5	451.8	345.5	238.4	209.2
Subscription/Contribution bonds	2,192.2	2,198.9	2,969.4	2,845.3	2,554.5	2,267.3	2,142.4	2,135.5
Government bonds issued to Deposit Insurance Corporation	—	10,000.0	5,800.8	2,209.9	4,583.4	3,945.2	—	—
Government bonds converted from Japanese National Railways Settlement Corporation bonds	—	3,003.5	6,066.7	5,856.2	5,510.3	5,410.0	5,209.2	5,613.2
Borrowing	77,067.2	83,564.1	97,035.3	105,643.2	110,092.9	109,546.3	107,020.5	59,969.0
Long-term (over one year)				73,568.1	69,902.0	64,904.7	58,314.7	10,088.9
Short-term (one year or less)				32,075.2	40,190.8	44,641.6	48,705.8	49,880.1
Financial bills	30,639.0	37,266.0	29,779.0	44,193.0	47,638.8	49,603.4	57,486.4	70,335.3
Total	355,168.5	394,737.0	437,554.5	492,969.8	538,386.3	607,312.2	668,760.5	670,121.2

Government-guaranteed debts				52,086.9	57,756.5	58,653.9	58,585.6	58,678.8
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9. Breakdown of the Outstanding Balance of Straight Government Bonds by Remaining Years to Maturity (As of the end of December 2003)



(billion yen)

Remaining years to maturity	Outstanding balance of straight government bonds	Share
1 year or less	81,098.2	18.2%
More than 1 year but less than or equal to 2 years	56,503.5	12.7%
More than 2 years but less than or equal to 3 years	47,258.0	10.6%
More than 3 years but less than or equal to 4 years	47,377.9	10.7%
More than 4 years but less than or equal to 5 years	54,996.6	12.4%
More than 5 years but less than or equal to 6 years	29,166.9	6.6%
More than 6 years but less than or equal to 7 years	18,899.8	4.3%
More than 7 years but less than or equal to 8 years	23,902.5	5.4%
More than 8 years but less than or equal to 9 years	21,445.9	4.8%
More than 9 years but less than or equal to 10 years	21,118.6	4.7%
More than 10 years but less than or equal to 20 years	39,885.1	9.0%
More than 20 years	3,041.6	0.7%
Total	444,694.6	100.0%

Average remaining years to maturity : 5years

10. Auction Results for Financing Bills (FBs) (April 2002 - March 2004)

(billion yen)

Issue No.	Auction date	Issue date	Maturity date	Amounts of bids accepted	Amounts of competitive bids	Yield at the average price
165	4.2.2002	4.5.2002	6.4.2002	1,999.17	856,108.65	0.0029%
166	4.8.2002	4.11.2002	7.8.2002	3,281.71	506,802.90	0.0020%
167	4.10.2002	4.15.2002	7.15.2002	3,440.87	683,901.79	0.0039%
168	4.12.2002	4.17.2002	6.4.2002	1,999.49	1,582,219.70	0.0037%
169	4.17.2002	4.22.2002	7.22.2002	3,577.65	1,697,158.11	0.0019%
170	4.24.2002	4.30.2002	7.29.2002	3,434.82	560,662.89	0.0020%
171	4.30.2002	5.7.2002	8.5.2002	3,376.94	550,107.87	0.0020%
172	5.8.2002	5.13.2002	8.12.2002	3,364.90	181,703.00	0.0039%
173	5.15.2002	5.20.2002	8.19.2002	3,468.93	436,719.97	0.0039%
174	5.22.2002	5.27.2002	8.26.2002	3,391.89	615,431.89	0.0039%
175	5.29.2002	6.3.2002	9.2.2002	3,048.55	827,798.88	0.0055%
176	6.5.2002	6.10.2002	9.9.2002	3,548.77	523,581.99	0.0059%
177	6.11.2002	6.14.2002	8.2.2002	1,999.77	268,715.80	0.0109%
178	6.12.2002	6.17.2002	9.17.2002	3,548.66	531,745.48	0.0117%
179	6.19.2002	6.24.2002	9.24.2002	3,648.54	479,704.98	0.0117%
180	6.26.2002	7.1.2002	9.30.2002	3,648.88	757,889.96	0.0079%
181	7.3.2002	7.8.2002	10.7.2002	3,748.89	258,996.99	0.0059%
182	7.10.2002	7.15.2002	10.15.2002	3,848.75	208,852.00	0.0074%
183	7.17.2002	7.22.2002	10.21.2002	3,948.63	285,116.99	0.0079%
184	7.24.2002	7.29.2002	10.28.2002	3,945.79	377,975.98	0.0079%
185	7.31.2002	8.5.2002	11.5.2002	3,555.94	698,180.98	0.0039%
186	8.6.2002	8.12.2002	11.11.2002	3,283.93	799,196.98	0.0019%
187	8.14.2002	8.19.2002	11.18.2002	2,998.73	695,154.88	0.0019%
188	8.21.2002	8.26.2002	11.25.2002	2,992.30	857,810.98	0.0019%
189	8.28.2002	9.2.2002	12.2.2002	2,999.42	1,314,530.84	0.0019%
190	9.4.2002	9.9.2002	12.9.2002	2,498.24	1,965,363.49	0.0015%
191	9.11.2002	9.17.2002	12.16.2002	2,498.29	1,905,827.99	0.0012%
192	9.18.2002	9.24.2002	12.24.2002	2,497.67	2,078,033.88	0.0011%
193	9.25.2002	9.30.2002	12.26.2002	2,463.76	238,679.99	0.0020%
194	10.2.2002	10.7.2002	12.30.2002	1,991.81	1,064,300.74	0.0021%
195	10.9.2002	10.15.2002	1.14.2003	2,464.72	1,380,004.64	0.0019%
196	10.16.2002	10.21.2002	1.20.2003	2,448.35	990,734.87	0.0019%
197	10.23.2002	10.28.2002	1.27.2003	3,145.87	10,472.00	0.0091%
198	10.30.2002	11.5.2002	2.3.2003	2,507.86	51,624.00	0.0108%
199	11.6.2002	11.11.2002	2.10.2003	2,689.60	444,672.00	0.0047%
200	11.13.2002	11.18.2002	2.17.2003	3,020.77	784,584.99	0.0059%
201	11.20.2002	11.25.2002	2.24.2003	2,025.92	121,820.99	0.0138%
202	11.27.2002	12.2.2002	3.3.2003	2,518.84	163,405.99	0.0115%
203	12.4.2002	12.9.2002	3.10.2003	2,041.77	145,931.89	0.0150%
204	12.11.2002	12.16.2002	3.17.2003	2,870.92	391,834.48	0.0039%
205	12.18.2002	12.24.2002	3.24.2003	2,737.72	247,113.50	0.0020%
206	12.20.2002	12.26.2002	3.27.2003	2,017.94	49,088.50	0.0019%
207	12.25.2002	12.30.2002	4.7.2003	1,976.89	9,848.00	0.0055%
208	1.8.2003	1.14.2003	4.14.2003	2,802.91	715,744.56	0.0020%
209	1.15.2003	1.20.2003	4.21.2003	3,069.66	371,904.00	0.0019%
210	1.22.2003	1.27.2003	4.28.2003	3,389.64	519,345.99	0.0039%
211	1.29.2003	2.3.2003	5.6.2003	3,747.41	1,498,313.71	0.0015%
212	2.5.2003	2.10.2003	5.12.2003	3,840.24	1,680,473.71	0.0015%
213	2.12.2003	2.17.2003	5.19.2003	3,841.59	1,361,719.64	0.0019%
214	2.19.2003	2.24.2003	5.26.2003	3,840.92	1,401,975.73	0.0015%
215	2.26.2003	3.3.2003	6.2.2003	3,839.28	1,562,629.43	0.0015%
216	3.5.2003	3.10.2003	6.9.2003	3,848.09	1,155,135.35	0.0031%
217	3.12.2003	3.17.2003	6.16.2003	3,849.83	240,276.59	0.0075%
218	3.18.2003	3.24.2003	6.23.2003	3,636.93	120,447.99	0.0079%
219	3.24.2003	3.27.2003	6.30.2003	3,057.88	9,404.74	0.0155%
220	4.2.2003	4.7.2003	7.7.2003	2,520.84	122,619.99	0.0103%
221	4.3.2003	4.8.2003	6.4.2003	1,999.85	216,226.99	0.0094%
222	4.9.2003	4.14.2003	7.14.2003	3,718.74	220,466.59	0.0162%
223	4.10.2003	4.15.2003	6.4.2003	1,999.81	153,499.99	0.0178%
224	4.16.2003	4.21.2003	7.22.2003	3,848.90	118,319.79	0.0117%
225	4.23.2003	4.28.2003	7.28.2003	3,454.67	417,129.18	0.0115%
226	4.30.2003	5.6.2003	8.4.2003	3,530.92	145,817.00	0.0120%
227	5.7.2003	5.12.2003	8.11.2003	3,845.51	672,695.97	0.0079%
228	5.14.2003	5.19.2003	8.18.2003	3,842.90	733,271.97	0.0059%
229	5.21.2003	5.26.2003	8.25.2003	3,839.55	742,910.87	0.0059%
230	5.28.2003	6.2.2003	9.1.2003	3,847.84	158,070.00	0.0119%
231	6.4.2003	6.9.2003	9.8.2003	3,848.79	174,574.99	0.0079%
232	6.11.2003	6.16.2003	9.16.2003	3,848.48	633,882.48	0.0051%
233	6.18.2003	6.23.2003	9.22.2003	3,840.96	862,271.86	0.0059%
234	6.19.2003	6.24.2003	9.3.2003	1,999.88	431,497.98	0.0060%
235	6.25.2003	6.30.2003	9.29.2003	3,344.66	618,780.08	0.0071%
236	7.2.2003	7.7.2003	10.6.2003	3,942.90	30,306.00	0.0099%
237	7.9.2003	7.14.2003	10.14.2003	3,944.93	10,764.00	0.0113%
238	7.16.2003	7.22.2003	10.20.2003	3,946.90	10,680.50	0.0140%
239	7.23.2003	7.28.2003	10.27.2003	3,937.89	25,028.20	0.0115%
240	7.30.2003	8.4.2003	11.4.2003	3,940.90	50,235.00	0.0058%
241	8.6.2003	8.11.2003	11.10.2003	3,942.82	367,314.99	0.0039%
242	8.13.2003	8.18.2003	11.17.2003	3,942.89	101,540.00	0.0059%
243	8.20.2003	8.25.2003	11.25.2003	3,942.88	6,007.50	0.0176%
244	8.27.2003	9.1.2003	12.1.2003	3,946.95	8,272.20	0.0234%
245	9.3.2003	9.8.2003	12.8.2003	3,942.93	9,625.50	0.0218%
246	9.10.2003	9.16.2003	12.15.2003	3,935.90	13,913.30	0.0200%
247	9.17.2003	9.22.2003	12.22.2003	3,944.97	7,460.29	0.0301%
248	9.24.2003	9.29.2003	12.29.2003	3,347.95	8,174.50	0.0341%
249	10.1.2003	10.6.2003	1.13.2004	3,944.84	11,129.00	0.0237%
250	10.8.2003	10.14.2003	1.19.2004	3,904.87	14,377.10	0.0182%
251	10.15.2003	10.20.2003	1.26.2004	3,945.84	53,866.00	0.0176%
252	10.22.2003	10.27.2003	2.2.2004	3,887.94	196,869.19	0.0129%
253	10.29.2003	11.4.2003	2.9.2004	3,943.89	92,255.00	0.0070%
254	11.5.2003	11.10.2003	2.16.2004	3,940.58	373,543.29	0.0047%
255	11.12.2003	11.17.2003	2.23.2004	3,940.84	102,892.30	0.0055%
256	11.19.2003	11.25.2003	3.1.2004	3,938.33	661,538.88	0.0044%
257	11.26.2003	12.1.2003	3.8.2004	4,247.91	21,878.60	0.0051%
258	12.3.2003	12.8.2003	3.15.2004	4,242.47	478,552.69	0.0058%
259	12.10.2003	12.15.2003	3.22.2004	4,248.92	738,918.86	0.0036%
260	12.17.2003	12.22.2003	3.29.2004	4,244.87	377,498.88	0.0018%
261	12.24.2003	12.29.2003	4.7.2004	3,644.90	94,025.10	0.0032%
262	1.7.2004	1.13.2004	4.12.2004	4,248.80	712,167.97	0.0020%
263	1.14.2004	1.19.2004	4.19.2004	4,240.66	279,926.10	0.0055%
264	1.21.2004	1.26.2004	4.26.2004	4,245.79	161,455.00	0.0063%
265	1.28.2004	2.2.2004	5.6.2004	4,746.51	395,402.69	0.0053%
266	2.4.2004	2.9.2004	5.12.2004	4,744.53	771,931.96	0.0031%
267	2.10.2004	2.16.2004	5.17.2004	4,745.51	599,009.97	0.0035%
268	2.18.2004	2.23.2004	5.24.2004	4,745.59	827,101.85	0.0035%
269	2.25.2004	3.1.2004	5.31.2004	5,147.28	812,019.84	0.0055%
270	3.3.2004	3.8.2004	6.7.2004	5,147.74	281,480.99	0.0099%
271	3.10.2004	3.15.2004	6.14.2004	5,146.89	353,798.49	0.0115%
272	3.17.2004	3.22.2004	6.21.2004	5,144.92	99,725.00	0.0142%
273	3.24.2004	3.29.2004	6.28.2004	4,447.05	97,009.10	0.0122%

11. Auction Results for Government Bonds by Maturity

11-1. Treasury Bills (TBs) (January 2001 – March 2004)

Issue number	Type	Auction date	Issue date	Maturity date	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Average price (yen)	Yield at the average price (%)	Yield at the lowest price (%)
272	6M	1.9.2001	1.12.2001	7.10.2001	2,200.00	5,680.50	2,199.85	99.792	0.422	0.426
273	1Y	1.16.2001	1.22.2001	1.21.2002	1,400.00	3,311.00	1,399.95	99.666	0.334	0.346
274	6M	2.6.2001	2.13.2001	8.10.2001	2,000.00	9,179.20	1,999.76	99.844	0.317	0.326
275	1Y	2.15.2001	2.20.2001	2.20.2002	1,300.00	3,694.50	1,299.86	99.773	0.226	0.229
276	6M	3.6.2001	3.12.2001	9.10.2001	2,000.00	6,330.00	1,999.84	99.950	0.097	0.099
277	1Y	3.15.2001	3.21.2001	3.20.2002	1,500.00	5,505.00	1,544.50	99.930	0.069	0.070
278	6M	4.5.2001	4.10.2001	10.10.2001	2,000.00	12,133.00	1,999.78	99.975	0.047	0.049
279	1Y	4.17.2001	4.20.2001	4.22.2002	1,200.00	13,670.00	1,199.87	99.962	0.037	0.039
280	6M	5.8.2001	5.11.2001	11.12.2001	2,000.00	20,724.30	1,999.74	99.990	0.019	0.019
281	1Y	5.15.2001	5.21.2001	5.20.2002	1,200.00	22,041.00	1,199.75	99.990	0.009	0.010
282	6M	6.5.2001	6.11.2001	12.10.2001	2,000.00	22,748.00	1,999.81	99.997	0.005	0.005
283	1Y	6.14.2001	6.20.2001	6.20.2002	1,200.00	7,361.10	1,199.93	99.991	0.008	0.008
284	6M	7.5.2001	7.10.2001	1.11.2002	2,000.00	9,998.50	1,999.83	99.991	0.017	0.019
285	1Y	7.16.2001	7.23.2001	7.22.2002	1,200.00	4,595.50	1,199.94	99.978	0.022	0.024
286	6M	8.7.2001	8.10.2001	2.12.2002	2,000.00	4,771.70	1,999.89	99.983	0.032	0.033
287	1Y	8.13.2001	8.20.2001	8.20.2002	1,200.00	3,532.50	1,199.91	99.968	0.031	0.031
288	6M	9.4.2001	9.10.2001	3.11.2002	2,000.00	11,893.50	1,999.87	99.996	0.007	0.007
289	1Y	9.17.2001	9.20.2001	9.20.2002	1,200.00	3,844.00	1,199.90	99.993	0.006	0.006
290	6M	10.4.2001	10.10.2001	4.10.2002	2,000.00	7,061.50	1,999.89	99.996	0.007	0.007
291	1Y	10.16.2001	10.22.2001	10.21.2002	1,200.00	3,577.50	1,199.91	99.986	0.013	0.014
292	6M	11.6.2001	11.12.2001	5.10.2002	2,000.00	9,828.07	1,999.89	99.994	0.012	0.012
293	1Y	11.15.2001	11.20.2001	11.20.2002	1,200.00	4,170.77	1,199.91	99.982	0.017	0.017
294	6M	12.4.2001	12.10.2001	6.10.2002	2,000.00	3,250.50	1,999.89	99.986	0.027	0.029
295	1Y	12.17.2001	12.20.2001	12.20.2002	1,200.00	2,983.00	1,199.92	99.961	0.038	0.038
296	6M	1.8.2002	1.11.2002	7.10.2002	2,100.00	5,731.00	2,099.90	99.994	0.011	0.014
297	1Y	1.15.2002	1.21.2002	1.20.2003	1,500.00	4,938.00	1,499.94	99.992	0.007	0.008
298	6M	2.5.2002	2.12.2002	8.12.2002	2,100.00	298,902.00	2,099.62	99.999	0.002	0.002
299	1Y	2.15.2002	2.20.2002	2.20.2003	1,500.00	474,300.00	1,499.89	99.998	0.001	0.001
300	6M	3.5.2002	3.11.2002	9.10.2002	2,100.00	353,828.60	2,099.81	99.999	0.001	0.001
301	1Y	3.15.2002	3.20.2002	3.20.2003	1,500.00	1,317,024.97	1,499.41	99.998	0.001	0.001
302	6M	4.5.2002	4.10.2002	10.10.2002	2,100.00	1,006,735.88	2,099.80	99.999	0.001	0.001
303	1Y	4.16.2002	4.22.2002	4.21.2003	1,500.00	534,387.88	1,499.60	99.998	0.002	0.002
304	6M	5.7.2002	5.10.2002	11.11.2002	2,100.00	1,087,806.92	2,099.02	99.998	0.003	0.003
305	1Y	5.14.2002	5.20.2002	5.20.2003	1,500.00	50,934.00	1,499.91	99.996	0.003	0.003
306	6M	6.4.2002	6.10.2002	12.10.2002	2,100.00	309,816.69	2,099.79	99.997	0.005	0.005
307	1Y	6.17.2002	6.20.2002	6.20.2003	1,500.00	141,850.99	1,499.94	99.992	0.007	0.007
308	6M	7.5.2002	7.10.2002	2.10.2003	2,100.00	153,040.49	2,099.94	99.997	0.005	0.005
309	1Y	7.16.2002	7.22.2002	7.22.2003	1,500.00	153,330.99	1,499.87	99.994	0.005	0.005
310	6M	8.7.2002	8.12.2002	2.10.2003	2,100.00	770,850.88	2,099.77	99.999	0.001	0.001
311	1Y	8.15.2002	8.20.2002	8.20.2003	1,500.00	315,865.89	1,499.98	99.999	0.000	0.000
312	6M	9.5.2002	9.10.2002	3.10.2003	2,100.00	1,538,544.12	2,099.04	99.999	0.002	0.002
313	1Y	9.17.2002	9.20.2002	9.22.2003	1,500.00	1,291,426.73	1,499.84	99.998	0.0012	0.0019
314	6M	10.7.2002	10.10.2002	4.10.2003	2,100.00	913,986.27	2,099.93	99.999	0.0019	0.0019
315	1Y	10.15.2002	10.21.2002	10.20.2003	1,500.00	164,556.99	1,499.84	99.996	0.0038	0.0040
316	6M	11.5.2002	11.11.2002	5.12.2003	2,100.00	210,319.99	2,099.69	99.997	0.0055	0.0059
317	1Y	11.15.2002	11.20.2002	11.20.2003	1,500.00	7,192.50	1,499.96	99.979	0.0205	0.0219
318	6M	12.5.2002	12.10.2002	6.10.2003	2,100.00	145,542.99	2,099.93	99.993	0.0137	0.0139
319	1Y	12.17.2002	12.20.2002	12.22.2003	1,500.00	5,919.50	1,499.96	99.994	0.0059	0.0059
320	6M	1.7.2003	1.10.2003	7.10.2003	2,100.00	101,004.00	2,099.86	99.998	0.0040	0.0040
321	1Y	1.14.2003	1.20.2003	1.20.2004	1,500.00	11,294.00	1,499.88	99.992	0.0075	0.0079
322	6M	2.4.2003	2.10.2003	8.11.2003	2,100.00	960,831.95	2,099.33	99.999	0.0019	0.0019
323	1Y	2.17.2003	2.20.2003	2.20.2004	1,500.00	105,371.00	1,499.90	99.996	0.0038	0.0039
324	6M	3.4.2003	3.10.2003	9.10.2003	2,300.00	115,639.99	2,299.92	99.998	0.0039	0.0039
325	1Y	3.17.2003	3.20.2003	3.22.2004	1,700.00	5,254.50	1,699.92	99.990	0.0092	0.0098
326	6M	4.7.2003	4.10.2003	10.10.2003	2,300.00	12,584.30	2,299.93	99.992	0.0140	0.0158
327	1Y	4.15.2003	4.21.2003	4.20.2004	1,700.00	106,245.49	1,699.90	99.989	0.0101	0.0109
328	6M	5.6.2003	5.12.2003	11.10.2003	2,300.00	308,735.99	2,299.87	99.995	0.0097	0.0099
329	1Y	5.15.2003	5.20.2003	5.20.2004	1,700.00	192,041.99	1,699.86	99.991	0.0086	0.0089
330	6M	6.5.2003	6.10.2003	12.10.2003	2,300.00	180,300.99	2,299.93	99.996	0.0079	0.0079
331	1Y	6.17.2003	6.20.2003	6.21.2004	1,700.00	30,618.50	1,699.90	99.990	0.0095	0.0099
332	6M	7.7.2003	7.10.2003	1.13.2004	2,300.00	4,562.50	2,299.96	99.991	0.0161	0.0194
333	1Y	7.15.2003	7.22.2003	7.20.2004	1,700.00	3,781.00	1,699.96	99.975	0.0241	0.0260
334	6M	8.5.2003	8.11.2003	2.10.2004	2,300.00	55,205.00	2,299.93	99.996	0.0077	0.0079
335	1Y	8.15.2003	8.20.2003	8.20.2004	1,700.00	32,650.00	1,699.96	99.982	0.0172	0.0208
336	6M	9.5.2003	9.10.2003	3.10.2004	2,300.00	6,843.50	2,299.92	99.985	0.0299	0.0319
337	1Y	9.16.2003	9.22.2003	9.21.2004	1,700.00	3,464.50	1,699.99	99.955	0.0448	0.0508
338	6M	10.7.2003	10.10.2003	4.12.2004	2,300.00	6,933.00	2,299.97	99.983	0.0319	0.0333
339	1Y	10.14.2003	10.20.2003	10.20.2004	1,700.00	5,157.00	1,699.94	99.959	0.0401	0.0417
340	6M	11.4.2003	11.10.2003	5.13.2004	2,300.00	13,634.00	2,299.92	99.990	0.0192	0.0196
341	1Y	11.17.2003	11.20.2003	11.22.2004	1,700.00	5,232.00	1,699.95	99.982	0.0175	0.0178
342	6M	12.5.2003	12.10.2003	6.10.2004	2,300.00	121,979.99	2,299.83	99.995	0.0083	0.0099
343	1Y	12.16.2003	12.22.2003	12.20.2004	1,700.00	6,606.00	1,699.87	99.986	0.0140	0.0140
344	6M	1.6.2004	1.13.2004	7.12.2004	2,300.00	403,399.99	2,299.89	99.997	0.0050	0.0060
345	1Y	1.15.2004	1.20.2004	1.20.2005	1,700.00	6,090.00	1,699.89	99.980	0.0193	0.0198
346	6M	2.5.2004	2.10.2004	8.10.2004	2,300.00	226,051.28	2,299.79	99.997	0.0057	0.0059
347	1Y	2.17.2004	2.20.2004	2.21.2005	1,700.00	7,610.00	1,699.89	99.987	0.0124	0.0128
348	6M	3.5.2004	3.10.2004	9.10.2004	2,300.00	253,545.00	2,299.90	99.992	0.0149	0.0157
349	1Y	3.16.2004	3.22.2004	3.22.2005	1,700.00	105,990.99	1,699.97	99.976	0.0230	0.0239

11-2. 2-year (January 2001 – March 2004)

Issue number	Auction date	Issue date	Maturity date	Nominal coupon (%)	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Average price (yen)	Yield at the average price (%)	Yield at the lowest price (%)
180	12.21.2000	1.22.2001	1.20.2003	0.6	1,400.0	3,721.7	1,375.2	100.10	0.549	0.554
181	2.8.2001	2.26.2001	2.20.2003	0.4	1,400.0	4,516.9	1,370.7	100.06	0.369	0.374
182	3.1.2001	3.21.2001	3.20.2003	0.2	1,400.0	3,858.5	1,383.1	100.05	0.174	0.179
183	3.27.2001	4.20.2001	4.21.2003	0.1	1,400.0	2,465.7	1,389.6	99.93	0.135	0.145
184	4.26.2001	5.21.2001	5.20.2003	0.1	1,400.0	3,826.7	1,387.1	99.99	0.105	0.110
185	5.24.2001	6.25.2001	6.20.2003	0.1	1,400.0	5,873.0	1,388.0	100.07	0.064	0.069
186	6.26.2001	7.23.2001	7.22.2003	0.1	1,400.0	4,306.9	1,389.0	100.06	0.069	0.074
187	7.26.2001	8.20.2001	8.20.2003	0.1	1,400.0	4,882.6	1,390.0	100.01	0.094	0.094
188	8.23.2001	9.20.2001	9.22.2003	0.1	1,400.0	4,931.9	1,388.9	99.99	0.104	0.104
189	10.2.2001	10.22.2001	10.20.2003	0.1	1,400.0	4,903.2	1,387.0	100.02	0.089	0.089
190	10.25.2001	11.20.2001	11.20.2003	0.1	1,400.0	9,379.9	1,386.4	100.03	0.084	0.084
191	11.27.2001	12.20.2001	12.22.2003	0.1	1,400.0	6,927.1	1,384.8	100.01	0.095	0.095
192	12.21.2001	1.21.2002	1.20.2004	0.1	1,400.0	5,614.2	1,381.5	100.05	0.074	0.079
193	1.31.2002	2.20.2002	2.20.2004	0.1	1,400.0	4,916.6	1,375.0	100.08	0.059	0.064
194	2.26.2002	3.20.2002	3.22.2004	0.1	1,400.0	4,104.4	1,378.3	100.02	0.090	0.095
195	4.2.2002	4.22.2002	4.20.2004	0.1	1,600.0	9,663.5	1,574.1	100.09	0.054	0.054
196	4.25.2002	5.20.2002	5.20.2004	0.1	1,600.0	8,857.6	1,575.9	100.08	0.059	0.059
197	5.28.2002	6.20.2002	6.21.2004	0.1	1,600.0	15,096.5	1,576.9	100.07	0.065	0.065
198	6.27.2002	7.22.2002	7.20.2004	0.1	1,600.0	22,012.4	1,578.0	100.08	0.059	0.059
199	7.25.2002	8.20.2002	8.20.2004	0.1	1,600.0	31,894.7	1,578.8	100.12	0.039	0.044
200	8.27.2002	9.20.2002	9.21.2004	0.1	1,600.0	13,072.8	1,588.5	100.17	0.015	0.015
201	10.1.2002	10.21.2002	10.20.2004	0.1	1,600.0	15,765.4	1,588.2	100.10	0.049	0.049
202	10.31.2002	11.20.2002	11.22.2004	0.1	1,600.0	19,556.2	1,588.0	100.13	0.035	0.035
203	11.26.2002	12.20.2002	12.20.2004	0.1	1,600.0	9,931.1	1,586.0	100.09	0.054	0.054
204	12.26.2002	1.20.2003	1.20.2005	0.1	1,600.0	8,593.4	1,585.3	100.10	0.049	0.049
205	1.30.2003	2.20.2003	2.20.2005	0.1	1,600.0	20,406.9	1,587.6	100.12	0.039	0.039
206	2.27.2003	3.20.2003	3.20.2005	0.1	1,800.0	5,833.2	1,789.8	100.10	0.049	0.049
207	3.25.2003	4.21.2003	4.20.2005	0.1	1,800.0	8,776.5	1,791.2	100.08	0.059	0.059
208	4.24.2003	5.20.2003	5.20.2005	0.1	1,800.0	68,377.1	1,788.9	100.09	0.054	0.054
209	5.29.2003	6.20.2003	6.20.2005	0.1	1,800.0	205,169.1	1,788.8	100.12	0.039	0.039
210	6.26.2003	7.22.2003	7.20.2005	0.1	1,800.0	49,161.1	1,790.0	100.08	0.059	0.059
211	7.31.2003	8.20.2003	8.20.2005	0.1	1,800.0	47,487.8	1,789.6	100.05	0.074	0.074
212	8.28.2003	9.22.2003	9.20.2005	0.2	1,800.0	16,409.2	1,790.3	100.03	0.184	0.189
213	9.25.2003	10.20.2003	10.20.2005	0.1	1,700.0	4,525.0	1,689.0	99.92	0.140	0.150
214	10.30.2003	11.20.2003	11.20.2005	0.1	1,700.0	5,586.2	1,687.4	99.92	0.140	0.140
215	11.27.2003	12.22.2003	12.20.2005	0.1	1,700.0	4,486.2	1,687.5	99.88	0.160	0.165
216	12.25.2003	1.20.2004	1.20.2006	0.1	1,700.0	21,864.0	1,685.3	99.93	0.135	0.140
217	1.29.2004	2.20.2004	2.20.2006	0.1	1,700.0	185,054.6	1,685.4	100.06	0.069	0.074
218	2.26.2004	3.22.2004	3.20.2006	0.1	1,700.0	106,796.1	1,687.2	100.07	0.064	0.064

11-3. 5-year (January 2001 – March 2004)

Issue number	Auction date	Issue date	Maturity date	Nominal coupon (%)	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Average price (yen)	Yield at the average price (%)	Yield at the lowest price (%)
10	1.12.2001	1.30.2001	3.20.2006	0.9	1,100.0	2,043.6	1,083.5	99.98	0.904	0.910
10	2.1.2001	2.20.2001	3.20.2006	0.9	1,100.0	2,238.6	1,084.8	100.08	0.883	0.887
11	2.27.2001	3.21.2001	3.20.2006	0.7	1,100.0	2,836.6	1,086.0	100.02	0.695	0.697
11	3.29.2001	4.20.2001	3.20.2006	0.7	1,500.0	3,037.3	1,485.8	100.33	0.630	0.634
12	5.9.2001	5.25.2001	3.20.2006	0.5	1,500.0	2,982.3	1,481.5	99.91	0.519	0.521
13	5.29.2001	6.25.2001	6.20.2006	0.5	1,500.0	4,186.9	1,482.0	100.17	0.465	0.469
14	6.29.2001	7.23.2001	6.20.2006	0.4	1,600.0	3,178.0	1,582.0	100.21	0.356	0.358
13	7.31.2001	8.20.2001	6.20.2006	0.5	1,600.0	2,629.0	1,585.0	100.26	0.445	0.447
15	8.28.2001	9.20.2001	9.20.2006	0.5	1,600.0	2,586.9	1,583.6	99.93	0.514	0.518
15	10.5.2001	10.22.2001	9.20.2006	0.5	1,600.0	3,569.2	1,585.3	100.11	0.477	0.479
14	10.30.2001	11.20.2001	6.20.2006	0.4	1,600.0	2,450.9	1,583.7	99.89	0.424	0.428
16	11.30.2001	12.20.2001	12.20.2006	0.6	1,800.0	3,114.0	1,778.9	100.21	0.556	0.558
17	1.11.2002	1.25.2002	12.20.2006	0.5	1,800.0	4,005.4	1,773.8	99.83	0.535	0.537
16	2.7.2002	2.20.2002	12.20.2006	0.6	1,800.0	2,102.7	1,778.4	99.90	0.621	0.632
18	3.1.2002	3.20.2002	3.20.2007	0.7	1,800.0	3,252.8	1,777.2	100.22	0.654	0.658
19	4.4.2002	4.22.2002	3.20.2007	0.5	1,900.0	3,624.5	1,872.3	99.96	0.508	0.510
19	5.8.2002	5.20.2002	3.20.2007	0.5	1,900.0	3,782.7	1,875.1	100.04	0.491	0.491
20	6.6.2002	6.20.2002	6.20.2007	0.5	1,900.0	4,483.0	1,872.3	100.00	0.500	0.502
20	7.4.2002	7.22.2002	6.20.2007	0.5	1,900.0	3,418.2	1,876.5	100.31	0.435	0.437
21	8.1.2002	8.20.2002	6.20.2007	0.4	1,900.0	5,097.4	1,878.0	100.04	0.391	0.393
22	9.3.2002	9.20.2002	9.20.2007	0.3	1,900.0	3,287.1	1,878.1	99.96	0.308	0.310
22	10.3.2002	10.21.2002	9.20.2007	0.3	1,900.0	5,978.2	1,881.3	99.92	0.316	0.318
22	11.7.2002	11.20.2002	9.20.2007	0.3	1,900.0	5,300.2	1,883.0	100.07	0.285	0.285
23	12.3.2002	12.20.2002	12.20.2007	0.3	1,900.0	5,073.2	1,878.9	99.90	0.320	0.322
24	1.16.2003	1.30.2003	12.20.2007	0.3	1,800.0	4,116.4	1,779.2	100.15	0.268	0.270
24	2.13.2003	2.25.2003	12.20.2007	0.3	1,800.0	5,418.5	1,783.3	100.06	0.287	0.289
25	3.11.2003	3.25.2003	3.20.2008	0.3	1,900.0	6,094.0	1,880.7	100.23	0.253	0.255
25	4.10.2003	4.25.2003	3.20.2008	0.3	1,900.0	7,621.4	1,885.8	100.22	0.254	0.256
26	5.15.2003	5.30.2003	3.20.2008	0.2	1,900.0	8,892.2	1,881.0	100.04	0.191	0.193
27	6.10.2003	6.25.2003	6.20.2008	0.2	1,900.0	6,464.0	1,881.7	100.23	0.153	0.155
28	7.8.2003	7.22.2003	6.20.2008	0.5	1,900.0	4,666.9	1,884.7	100.05	0.489	0.497
29	8.12.2003	8.25.2003	6.20.2008	0.3	1,900.0	5,009.9	1,883.7	99.97	0.306	0.310
30	9.9.2003	9.25.2003	9.20.2008	0.8	1,900.0	3,522.0	1,885.5	99.84	0.833	0.841
31	10.9.2003	10.27.2003	9.20.2008	0.6	1,900.0	5,906.8	1,881.9	100.19	0.560	0.564
32	11.11.2003	11.25.2003	9.20.2008	0.7	1,900.0	4,774.2	1,883.0	100.07	0.685	0.689
33	12.9.2003	12.25.2003	12.20.2008	0.6	1,900.0	5,116.7	1,886.5	99.89	0.622	0.624
33	1.15.2004	1.30.2004	12.20.2008	0.6	1,900.0	5,117.4	1,882.6	100.29	0.539	0.541
34	2.10.2004	2.25.2004	12.20.2008	0.5	1,900.0	4,967.3	1,882.9	100.11	0.476	0.478
35	3.9.2004	3.25.2004	3.20.2009	0.6	1,900.0	4,918.8	1,884.7	100.06	0.587	0.589

11-4. 10-year (January 2001 – March 2004)

Issue number	Auction date	Issue date	Maturity date	Nominal coupon (%)	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Average price (yen)	Yield at the average price (%)	Yield at the lowest price (%)
227	1.10.2001	1.25.2001	3.21.2011	1.6	1,600.0	1,826.9	946.1	100.83	1.504	1.507
228	1.30.2001	2.20.2001	3.21.2011	1.5	1,600.0	1,870.1	946.1	100.73	1.416	1.420
229	2.21.2001	3.21.2001	3.21.2011	1.4	1,600.0	2,254.6	946.1	100.62	1.329	1.332
230	3.22.2001	4.20.2001	3.21.2011	1.1	1,700.0	1,966.3	1,005.2	100.66	1.027	1.028
229	4.24.2001	5.21.2001	3.21.2011	1.4	1,700.0	1,681.0	1,005.2	101.24	1.260	1.264
231	5.22.2001	6.20.2001	6.20.2011	1.3	1,700.0	2,731.2	1,005.1	100.28	1.268	1.271
232	6.21.2001	7.23.2001	6.20.2011	1.2	1,700.0	3,787.1	1,005.2	100.68	1.124	1.127
233	7.24.2001	8.20.2001	6.20.2011	1.4	1,700.0	2,542.4	1,005.2	100.84	1.305	1.309
234	8.21.2001	9.20.2001	9.20.2011	1.4	1,700.0	1,899.9	1,005.0	100.47	1.346	1.348
234	9.20.2001	10.22.2001	9.20.2011	1.4	1,700.0	1,684.1	1,005.1	100.60	1.332	1.337
234	10.23.2001	11.20.2001	9.20.2011	1.4	1,700.0	5,451.9	1,005.1	100.92	1.296	1.298
235	11.21.2001	12.20.2001	12.20.2011	1.4	1,700.0	7,108.8	1,005.1	100.78	1.311	1.315
235	1.9.2002	1.25.2002	12.20.2011	1.4	1,700.0	11,409.1	1,005.3	100.75	1.315	1.315
236	1.29.2002	2.20.2002	12.20.2011	1.5	1,700.0	1,627.7	1,005.4	101.07	1.378	1.380
237	2.21.2002	3.20.2002	3.20.2012	1.5	1,700.0	2,032.9	1,005.4	100.04	1.495	1.500
237	3.20.2002	4.22.2002	3.20.2012	1.5	1,800.0	3,942.5	1,105.5	100.88	1.399	1.403
238	4.23.2002	5.20.2002	3.20.2012	1.4	1,800.0	3,092.9	1,328.6	100.17	1.380	1.382
239	5.22.2002	6.20.2002	6.20.2012	1.4	1,800.0	13,460.3	1,328.1	100.30	1.365	1.365
240	6.25.2002	7.22.2002	6.20.2012	1.3	1,800.0	12,556.2	1,328.5	100.09	1.289	1.294
240	7.23.2002	8.20.2002	6.20.2012	1.3	1,800.0	3,612.3	1,328.4	100.52	1.241	1.243
241	8.21.2002	9.20.2002	9.20.2012	1.3	1,800.0	3,454.1	1,328.5	100.52	1.241	1.243
242	9.20.2002	10.21.2002	9.20.2012	1.2	1,800.0	1,185.2	1,185.2	99.98	1.202	1.261
243	10.22.2002	11.20.2002	9.20.2012	1.1	1,800.0	4,443.0	1,329.0	100.64	1.029	1.033
244	11.21.2002	12.20.2002	12.20.2012	1.0	1,800.0	3,887.0	1,328.7	99.93	1.007	1.011
245	1.9.2003	1.30.2003	12.20.2012	0.9	1,800.0	24,714.6	1,328.7	100.47	0.849	0.851
246	2.4.2003	2.20.2003	12.20.2012	0.8	1,800.0	3,013.8	1,329.0	99.92	0.808	0.843
247	3.4.2003	3.20.2003	3.20.2013	0.8	1,800.0	4,438.1	1,329.0	100.39	0.758	0.762
248	4.3.2003	4.21.2003	3.20.2013	0.7	1,900.0	4,694.5	1,401.8	100.67	0.628	0.630
249	5.8.2003	5.26.2003	3.20.2013	0.6	1,900.0	5,165.1	1,495.7	100.49	0.548	0.552
250	6.3.2003	6.20.2003	6.20.2013	0.5	1,900.0	4,721.7	1,495.7	100.28	0.470	0.473
251	7.3.2003	7.22.2003	6.20.2013	0.9	1,900.0	2,514.9	1,494.7	99.40	0.965	1.065
252	8.5.2003	8.20.2003	6.20.2013	1.0	1,900.0	3,973.1	1,495.8	100.15	0.983	0.994
253	9.2.2003	9.22.2003	9.20.2013	1.6	1,900.0	4,634.0	1,495.8	100.71	1.518	1.530
254	10.2.2003	10.20.2003	9.20.2013	1.4	1,900.0	3,508.2	1,495.6	99.71	1.433	1.451
255	11.6.2003	11.20.2003	9.20.2013	1.5	1,900.0	22,993.2	1,495.7	99.90	1.511	1.528
256	12.2.2003	12.22.2003	12.20.2013	1.4	1,900.0	3,682.2	1,495.6	100.17	1.380	1.388
256	1.8.2004	1.26.2004	12.20.2013	1.4	1,900.0	3,778.6	1,495.6	100.70	1.320	1.326
257	2.3.2004	2.20.2004	12.20.2013	1.3	1,900.0	3,936.6	1,496.0	100.32	1.263	1.266
258	3.2.2004	3.22.2004	3.20.2014	1.3	1,900.0	2,975.1	1,495.4	99.92	1.309	1.356

11-5. 10-year Inflation-Indexed (March 2004)

Issue number	Auction date	Issue date	Maturity date	Nominal coupon (%)	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Lowest price (yen)	Yield at the lowest price (%)
1	3.4.2004	3.10.2004	3.10.2014	1.2	100.0	484.4	99.8	99.11	1.295

11-6. 15-year Floating-rate (January 2001 – March 2004)

Issue number	Auction date	Issue date	Maturity date	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Initial reference rate (%)	The spread from the reference rate (%)
11	3.13.2001	3.21.2001	3.21.2016	800.0	2,130.0	799.2	1.40	-0.89
12	5.31.2001	6.25.2001	6.20.2016	800.0	1,836.3	799.8	1.34	-0.94
13	9.6.2001	9.20.2001	9.20.2016	800.0	2,831.2	799.4	1.42	-0.99
14	12.11.2001	12.20.2001	12.20.2016	1,000.0	2,552.8	998.6	1.38	-0.98
15	3.12.2002	3.20.2002	3.20.2017	1,000.0	2,659.8	999.1	1.56	-0.99
16	5.10.2002	5.20.2002	5.22.2017	900.0	3,402.0	899.1	1.42	-1.00
17	7.9.2002	7.22.2002	7.20.2017	900.0	3,159.4	899.1	1.33	-1.03
18	9.10.2002	9.20.2002	9.20.2017	900.0	1,993.7	899.7	1.29	-0.95
19	11.14.2002	11.20.2002	11.20.2017	900.0	3,426.0	899.2	1.07	-0.86
20	1.23.2003	1.30.2003	1.20.2018	900.0	3,604.6	898.9	0.89	-0.75
21	3.19.2003	3.25.2003	3.20.2018	1,000.0	3,350.5	998.5	0.80	-0.70
22	5.22.2003	5.30.2003	5.20.2018	1,000.0	3,011.3	999.0	0.59	-0.55
23	7.15.2003	7.22.2003	7.20.2018	1,000.0	2,800.4	999.1	1.01	-0.61
24	9.11.2003	9.22.2003	9.20.2018	1,000.0	3,145.3	999.0	1.57	-0.57
25	11.18.2003	11.25.2003	11.20.2018	1,000.0	3,183.3	998.8	1.55	-0.69
26	1.20.2004	1.26.2004	1.20.2019	1,000.0	3,377.1	999.1	1.37	-0.75
27	3.11.2004	3.22.2004	3.20.2019	1,000.0	4,689.7	999.2	1.35	-0.83

11-7. 20-year (January 2001 – March 2004)

Issue number	Auction date	Issue date	Maturity date	Nominal coupon (%)	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Average price (yen)	Yield at the average price (%)	Yield at the lowest price (%)
49	1.17.2001	1.25.2001	3.22.2021	2.1	600.0	1,007.5	599.3	99.33	2.147	2.160
50	4.3.2001	4.20.2001	3.22.2021	1.9	500.0	1,279.2	499.2	101.18	1.819	1.821
50	6.12.2001	6.20.2001	3.22.2021	1.9	500.0	829.4	499.4	100.84	1.842	1.844
51	8.2.2001	8.20.2001	6.21.2021	2.0	500.0	691.0	499.0	99.30	2.049	2.060
52	10.10.2001	10.22.2001	9.21.2021	2.1	500.0	876.3	498.8	100.89	2.037	2.043
53	12.6.2001	12.20.2001	12.20.2021	2.1	600.0	1,083.8	599.3	100.13	2.090	2.096
54	2.13.2002	2.20.2002	12.20.2021	2.2	600.0	1,139.0	599.4	100.16	2.188	2.214
55	4.9.2002	4.22.2002	3.21.2022	2.0	700.0	1,356.5	699.2	99.29	2.050	2.060
56	6.13.2002	6.20.2002	6.20.2022	2.0	700.0	1,421.6	699.4	99.53	2.033	2.038
57	8.6.2002	8.20.2002	6.20.2022	1.9	700.0	1,157.5	699.1	99.20	1.955	1.963
58	10.8.2002	10.21.2002	9.20.2022	1.9	700.0	1,456.8	699.1	100.11	1.892	1.900
59	12.12.2002	12.20.2002	12.20.2022	1.7	700.0	1,498.7	699.1	100.70	1.653	1.656
60	2.20.2003	2.25.2003	12.20.2022	1.4	700.0	1,462.1	699.4	99.16	1.454	1.471
61	4.17.2003	4.25.2003	3.20.2023	1.0	800.0	1,981.8	798.9	99.40	1.036	1.042
62	6.17.2003	6.20.2003	6.20.2023	0.8	800.0	1,558.3	798.8	100.20	0.788	0.791
63	8.19.2003	8.25.2003	6.20.2023	1.8	800.0	1,295.1	799.3	99.99	1.800	1.813
64	10.21.2003	10.27.2003	9.20.2023	1.9	500.0	832.4	499.9	99.98	1.901	1.920
64	11.20.2003	11.26.2003	9.20.2023	1.9	500.0	1,160.4	499.3	100.90	1.838	1.844
65	12.18.2003	12.25.2003	12.20.2023	1.9	500.0	1,162.6	499.2	100.55	1.862	1.869
65	1.22.2004	1.30.2004	12.20.2023	1.9	500.0	1,521.6	498.9	100.39	1.873	1.879
66	2.17.2004	2.25.2004	12.20.2023	1.8	500.0	1,194.5	499.0	99.62	1.826	1.830
67	3.18.2004	3.25.2004	3.20.2024	1.9	500.0	1,325.9	499.3	99.55	1.931	1.938

11-8. 30-year (January 2001 – March 2004)

Issue number	Auction date	Issue date	Maturity date	Nominal coupon (%)	Offering amount (billion yen)	Amount of competitive bids (billion yen)	Amount of bids accepted (billion yen)	Lowest price (yen)	Yield at the lowest price (%)
5	5.16.2001	5.25.2001	5.20.2031	2.2	300.0	759.1	299.9	98.70	2.260
6	11.8.2001	11.20.2001	11.20.2031	2.4	300.0	565.4	299.6	99.79	2.410
7	5.15.2002	5.20.2002	5.20.2032	2.3	300.0	1,828.8	299.6	99.14	2.340
8	11.12.2002	11.20.2002	11.22.2032	1.8	300.0	840.5	299.7	100.00	1.800
9	1.21.2003	1.30.2003	12.20.2032	1.4	300.0	644.8	299.6	100.00	1.400
10	5.20.2003	5.26.2003	3.20.2033	1.1	400.0	1,092.6	399.8	99.37	1.125
11	7.24.2003	7.30.2003	6.20.2033	1.7	400.0	792.1	399.3	98.84	1.750
12	11.13.2003	11.20.2003	9.20.2033	2.1	400.0	1,042.2	400.7	99.34	2.130
13	2.24.2004	2.27.2004	12.20.2033	2.0	400.0	637.9	399.5	98.23	2.080

12.Sales of JGBs for Individual Investors

		F Y 2 0 0 2	F Y 2 0 0 3			
Issue number		1	2	3	4	5
Issue conditions	Flotation term	3-21 Feb.2003	12-26 Mar. 2003	12-27 Jun. 2003	10-29 Sep. 2003	10-25 Dec. 2003
	Issue date	10 Mar. 2003	10 Apr. 2003	10 Jul. 2003	10 Oct. 2003	13 Jan. 2004
	Initial coupon (Reference rate)	0.09% (0.89%)	0.05% (0.80%)	0.05% (0.51%)	0.77% (1.57%)	0.62% (1.42%)
	Second coupon (Reference rate)	0.23% (1.03%)	0.77% (1.57%)	0.62% (1.42%)	0.55% (1.35%)	To be determined in June 2004
	Third coupon (Reference rate)	0.51% (1.31%)	0.55% (1.35%)	To be determined in June 2004	To be determined in September 2004	To be determined in December 2004
Financial institutions	Number of institutions	392	437	676	692	694
	Sales (billion yen)	333.6	274.0	221.4	777.2	1,295.6
Post offices	Sales (billion yen)	49.9	74.6	58.8	165.9	99.5
Total (billion yen)		383.5	348.6	280.2	943.2	1,395.1

(billion yen)

		F Y 2 0 0 2	F Y 2 0 0 3
Planned issue amount	Financial institutions	300.0	1,200.0
	Post offices	50.0	300.0
	Total	350.0	1,500.0
Result	Financial institutions	333.6	2,568.3
	Post offices	49.9	398.8
	Total	383.5	2,967.1

13. Breakdown of Government Bond Holders

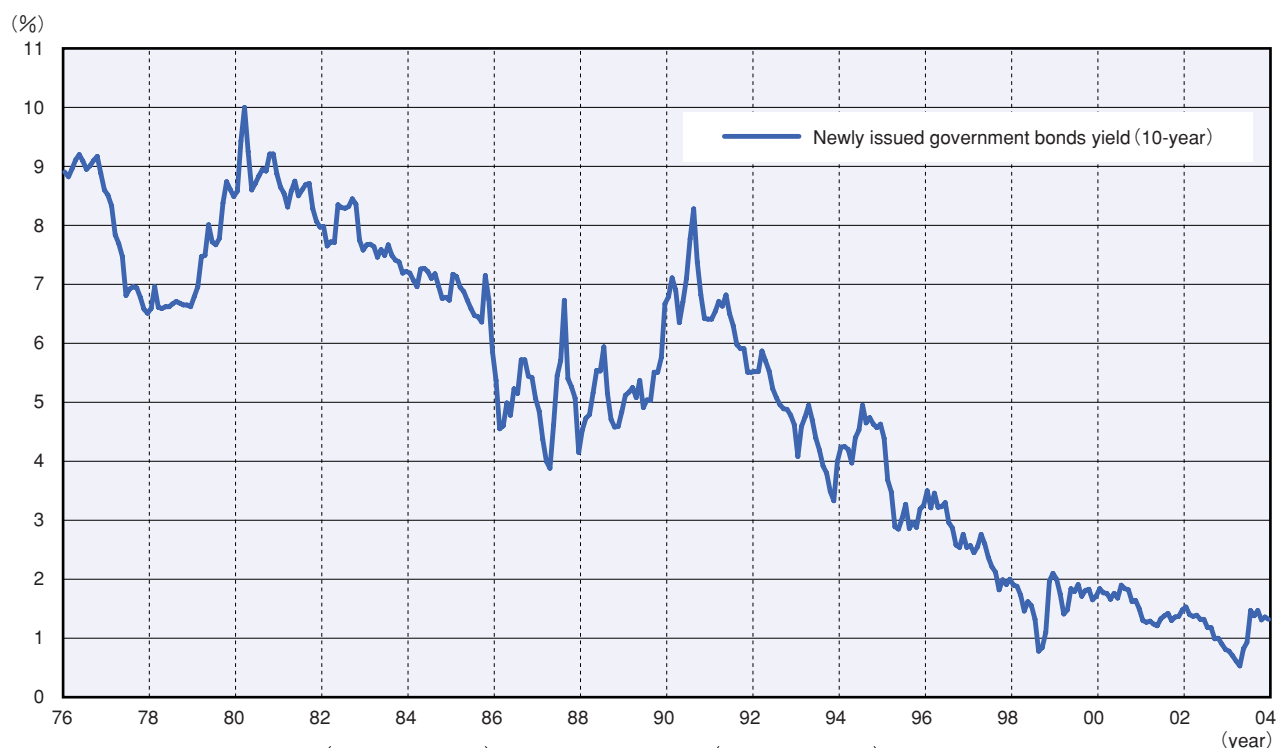
(100 million yen, end of month)

	March 1998		March 1999		March 2000		March 2001		March 2002		March 2003		December 2003 (Provisional)	
		share		share		share		share		share		share		share
General government	1,164,827	38.9%	1,393,233	41.1%	1,467,117	40.0%	1,445,542	35.3%	1,919,259	40.9%	2,251,455	41.8%	2,359,487	42.5%
Fiscal Loan Fund ※	695,195	23.2%	827,129	24.4%	798,979	21.8%	772,659	18.9%	709,136	15.1%	657,276	12.2%	553,188	10.0%
Postal Savings	231,723	7.7%	270,630	8.0%	284,631	7.8%	261,640	6.4%	540,674	11.5%	757,062	14.1%	858,725	15.5%
Postal Life Insurance	136,836	4.6%	184,740	5.4%	264,781	7.2%	294,862	7.2%	397,184	8.5%	506,115	9.4%	533,166	9.6%
Central bank	346,926	11.6%	386,097	11.4%	435,454	11.9%	475,313	11.6%	699,797	14.9%	810,702	15.0%	832,300	15.0%
Financial institutions	1,105,732	36.9%	1,160,445	34.2%	1,323,727	36.1%	1,582,330	38.7%	1,540,033	32.8%	1,731,303	32.1%	1,832,642	33.0%
Domestically licensed banks	377,950	12.6%	395,391	11.7%	501,551	13.7%	636,230	15.6%	542,072	11.6%	618,963	11.5%	635,571	11.5%
Private life insurance companies	177,788	5.9%	184,446	5.4%	205,913	5.6%	216,381	5.3%	240,343	5.1%	277,326	5.1%	279,972	5.0%
Private nonlife insurance companies	7,955	0.3%	9,803	0.3%	11,271	0.3%	12,642	0.3%	17,030	0.4%	26,840	0.5%	30,347	0.5%
Securities investment trusts	31,123	1.0%	40,127	1.2%	96,431	2.6%	119,960	2.9%	85,804	1.8%	89,382	1.7%	80,209	1.4%
Overseas	183,642	6.1%	274,692	8.1%	186,822	5.1%	245,043	6.0%	168,123	3.6%	191,236	3.6%	168,692	3.0%
Securities companies	21,192	0.7%	1,955	0.1%	14,946	0.4%	71,413	1.7%	86,076	1.8%	116,532	2.2%	68,007	1.2%
Households	81,234	2.7%	72,829	2.1%	66,294	1.8%	101,398	2.5%	123,808	2.6%	126,825	2.4%	133,796	2.4%
Private nonprofit institutions serving households	58,157	1.9%	58,313	1.7%	71,513	2.0%	36,555	0.9%	55,994	1.2%	53,259	1.0%	62,972	1.1%
Nonfinancial corporations	3,780	0.1%	3,435	0.1%	4,475	0.1%	12,173	0.3%	13,154	0.3%	16,097	0.3%	7,192	0.1%
Total	2,996,613	100.0%	3,391,126	100.0%	3,666,779	100.0%	4,089,727	100.0%	4,692,048	100.0%	5,386,791	100.0%	5,545,297	100.0%

※ The data before March 2001 is on Trust Fund Bureau.

Source : Bank of Japan

14. 10-year JGB Yield



Source : Tokyo Stock Exchange (- November 1998) , Japan Bond Trading Co. (December 1998 -)

15. Tax Exemption Scheme for Nonresidents

Tax Exemption Measures for Interest on Book-Entry Transfer JGBs Held by Nonresident Individuals or Foreign Corporations

Requirements for tax exemption

(Beneficiaries)	Nonresident individuals or foreign corporations
(Holding method)	Holding in transfer account at a JGB book-entry transfer system participant in Japan or in transfer account with qualified foreign intermediary (QFI* ¹).
(Object of tax exemption)	The portion of the bond's interest that corresponds to its JGB holding period.* ²
(Requirements)	<p>A nonresident individual or foreign corporation is required to submit the "Application Form for Withholding Tax Exemption" and the "Statement of the Holding Period" to the District Director of the Nihombashi Tax Office:</p> <ol style="list-style-type: none"> ① when the entry of the nonresident individual or foreign corporation is made in the transfer account at a JGB book-entry transfer system participant in Japan, through the participant and the BOJ; ② when the entry of the nonresident individual or foreign corporation is made in the transfer account with a QFI, through the QFI*³, its sub-custodian and the BOJ.

*1 A QFI is a foreign financial institution, such as a global custodian, that:

- Has been given the designation pursuant to the provisions of Article 44 (1) (15) of the Law Concerning Book-Entry Transfer of Corporate Bonds, Etc.;
- Has been approved by the BOJ as a foreign indirect participant (FIP) in the JGB book-entry transfer system, and;
- Has been approved by the District Director of the Nihombashi Tax Office as an institution of a country that has concluded a tax treaty providing for the exchange of information with Japan.

*2 The portion of the bond's interest that corresponds to its JGB holding period shall refer to the following:

- Where the first day of the holding of a book-entry transfer JGB by a nonresident individual or foreign corporation falls on a day prior to the first day of the calculation period for interest accrual on the book-entry transfer JGB: the amount of interest corresponding to the calculation period for interest on the book-entry transfer JGB;
- Where the first day of the holding of a book-entry transfer JGB by a nonresident individual or foreign corporation falls either on the first day or on a day after the first day of the calculation period for interest accrual on the book-entry transfer JGB: the amount derived by multiplying the amount of interest corresponding to the calculation period for interest on the book-entry transfer JGB by the number of days holding the book-entry transfer JGB, divided by the number of days of the interest calculation period.

*3 The QFI and FIP that participate in the JGB book-entry transfer system when the entry of the QFI is made in the JGB holder's transfer account with a sub-custodian in Japan via FIP such as other foreign financial institutions, etc.

Nonresident individuals or foreign corporations who are trustee of a foreign investment trust that is not a juridical person will be exempted from taxation only if the trust satisfies the following requirements:

- (1) The foreign investment trust is a securities investment trust or public/corporate bond management investment trust (limited to those prescribed in the Japanese tax laws);
- (2) The offer for subscription of beneficiary certificates for the establishment of the foreign investment trust is made outside Japan pursuant to laws and regulations equivalent to the provisions of Article 2 (3) (1) of the Securities and Exchange Law (to solicit the subscription from 50 or more investors (excluding the cases involving the solicitation of only qualified institutional investors)), and in addition, the prospectus for the foreign investment trust and other documents similar thereto contain statements to the effect that the solicitation for the subscription is equivalent to solicitation made pursuant to the same provision; and
- (3) The offer for subscription of beneficiary certificates for the establishment of foreign investment trust has not been made in Japan.

Procedures

The documents below must be submitted according to the filing timing (shown in the right column) to a JGB book-entry transfer system participant in Japan or the specified foreign branch of a QFI, which shall be a branch or office located in a country that has concluded a tax treaty providing for the exchange of information with Japan.

Documents	Filing timing
<p>"Application Form for Withholding Tax Exemption"</p> <p>※Required to show an identification document at the same time. (See the endnote.)</p>	<p>When the applicant first intends to be exempted from the taxation at an account opened with a JGB book-entry transfer system participant in Japan or a specified foreign branch of a QFI.</p>
<p>"Statement of the Holding Period"</p> <p>※The nonresident individual or foreign corporation is deemed to submit the Statement of the Holding Period when:</p> <ul style="list-style-type: none"> • The JGB book-entry transfer system participant in Japan or a QFI of which the entry of such nonresident individual or foreign corporation is made in the transfer account, prepares and submits the Statement of the Holding Period. 	<p>At least one day before the interest payment date of the book-entry transfer JGB.</p>
<p>"Application Form for Change"</p> <p>※Required when the applicant changes its name or address after submitting the Application Form for Withholding Tax Exemption.</p> <p>※Required to show an identification document at the same time. (See the endnote.)</p>	<p>At least one day before the first interest payment date of the book-entry transfer JGB after the change is effected.</p>

(Reference) Application Form for Withholding Tax Exemption

振替国債の利子課税の特例に関する非課税適用申告書 Application Form for Withholding Tax Exemption based on the Special Taxation Measures Law Article 5-2, paragraph 1	
平成 年 月 日 Date	
日本橋税務署長殿 To: The District Director of Nihombashi Tax Office	
フリガナ 住所等 Address of the applicant (注1) (Note1)	
フリガナ 氏名又は名称 Name of the applicant	
適格外国証券投資信託の名称 (注2) Name of the eligible collective investment scheme (Note2)	
<p>下記の特定振替機関等又は適格外国仲介業者から振替記載等を受けている振替国債の利子につき租税特別措置法第5条の2第1項の規定の適用を受けたいので、この旨申告します。 We hereby file for tax-exemption based on the Special Taxation Measures Law Article 5-2, paragraph 1 and the relevant regulations thereunder, with regard to Japanese Government Bonds deposited in the Bank of Japan Book-entry System through a Sub-custodian or Qualified Foreign Intermediary(QFI) stated as below.</p>	
特定振替機関等の営業所等又は 適格外国仲介業者の特定国外営業所等 の名称及び所在地 Name and Address of the Sub-custodian or specified foreign branch of the QFI	<div style="border: 1px solid black; padding: 5px;"> 適格外国仲介業者の特定国外営業所等 (の長) による署名 及び受理日付 Signature of the qualified person at the QFI's specified foreign branch and Date of receipt by it </div>
納税管理人の氏名及び住所 Name of Address of the applicant's tax agent (if any)	
摘要 (注3) Remarks (Note3)	<div style="display: flex;"> <div style="width: 50%; border: 1px solid black; padding: 5px;"> 特定国外営業所等が確認した確認書類の名称 Name of the ID Document by which the QFI's specified foreign branch identified the applicant </div> <div style="width: 50%; border: 1px solid black; padding: 5px;"> 特定振替機関等の受理日付 Date of receipt by the Sub-custodian </div> </div>

- (注1) 提出をする者が非居住者である場合には、当該非居住者の（日本国外の）住所地又は居所地。
提出をする者が外国法人である場合には、当該外国法人の（日本国外の）本店又は主たる事務所の所在地。
- (注2) 提出をする者が適格外国証券投資信託の受託者である場合は、適格外国証券投資信託の名称を記載する。更に、「摘要」欄に組成地及び募集が行われた国及び地域を記載する。
- (注3) 提出をする者が日本国内に居所又は P E（恒久的施設）を有する非居住者である場合には「住所等」欄には居所地又は P E の所在地を、「摘要」欄に（日本国外の）住所地又は居所地を記載する。
提出をする者が日本国内に P E（恒久的施設）を有する外国法人である場合には「住所等」欄には P E の所在地を、「摘要」欄に（日本国外の）外国法人の本店又は主たる事務所の所在地を記載する。
- (Note1) In the case where an applicant is a nonresident individual, the domicile or residence (outside Japan) of the nonresident individual.
In the case where an applicant is a foreign corporation, the place (outside Japan) of the head office or the main office of the foreign corporation is to be filled in.
- (Note2) In the case where the applicant is the trustee of an eligible collective investment scheme, the name of the collective investment scheme.
In addition, information on the countries/territories where the collective investment scheme is established and publicly offered/marketed is to be filled in "Remarks".
- (Note3) In the case where an applicant is a nonresident which has his/her residence or permanent establishment in Japan, the address of his/her residence or permanent establishment is to be filled in "Address of the applicant", and the domicile or residence (outside Japan) of the nonresident individual is to be filled in "Remarks".
In the case where an applicant is a foreign corporation which has its permanent establishment in Japan, the address of its permanent establishment is to be filled in "Address of the applicant", and the place (outside Japan) of the head office or the main office of the foreign corporation is to be filled in "Remarks".

※The Application Form for Withholding Tax Exemption and other documents can be downloaded from the web site of the Ministry of Finance.

Tax Exemption Measures for Principal-Only Book-Entry Transfer JGBs and Coupon-Only Book-Entry Transfer JGBs (STRIPS)^{*1} Held by Foreign Corporations

Requirements for tax exemption

(Beneficiaries)	Foreign corporations (Nonresident individuals are not allowed to hold STRIPS)
(Holding method)	Holding in transfer accounts in a JGB book-entry transfer system participant in Japan or in transfer accounts with a qualified foreign intermediary (QFI)
(Object of tax exemption)	Income generated from the holding or transfer of STRIPS
(Requirements)	<p>A foreign corporation is required to submit the "Application Form for Withholding Tax Exemption" and the "Statement of the Holding Period" to the District Director of the competent tax office for such foreign corporation (the District Director of the Kojimachi Tax Office if such foreign corporation has no permanent establishment in Japan):</p> <ol style="list-style-type: none"> ① when the entry of the foreign corporation is made in the transfer account at a JGB book-entry transfer system participant in Japan, through the participant and the BOJ; or ② when the entry of the foreign corporation is made in the transfer account with a QFI^{*2}, through the QFI^{*2}, its sub-custodian and the BOJ.

*1 Principal-only book-entry transfer JGBs and coupon-only book-entry transfer JGBs are hereinafter collectively referred to as "STRIPS" (Separate Trading of Registered Interest and Principal of Securities).

*2 The QFI and FIP that participate in the JGB book-entry transfer system when the entry of the QFI is made in the JGB holder's transfer account with a sub-custodian in Japan via FIP such as other foreign financial institutions, etc.

Procedures

The documents below must be submitted according to the filing timing (shown in the right column) to a JGB book-entry transfer system participant in Japan or the specified foreign branch of a QFI.

Documents	Filing timing
<p>"Application Form for Withholding Tax Exemption"</p> <p>※ Required to show an identification document at the same time. (See the endnote.)</p>	When the applicant first intends to be exempted from the taxation at an account opened with a JGB book-entry transfer system participant in Japan or a specified foreign branch of a QFI.
<p>"Statement of the Holding Period"</p> <p>※ The foreign corporation is deemed to submit the Statement of the Holding Period when:</p> <ul style="list-style-type: none"> • The JGB book-entry transfer system participant in Japan or a QFI of which the entry of such foreign corporation is made in the transfer account, prepares and submits the Statement of the Holding Period. 	Within two months from the day after the closing date of each business year.
<p>"Application Form for Change"</p> <p>※ Required when the applicant changes its name or the address of its head office or principal office after submitting the Application Form for Withholding Tax Exemption.</p> <p>※ Required to show an identification document at the same time. (See the endnote.)</p>	Within two months from the day after the closing date of the business year during which the change is effected.

Tax Exemption Measures for Interests on Bond *Gensaki* Transactions Effected by Foreign Financial Institutions

Requirements for tax exemption

(Beneficiaries)	Foreign financial institutions and the like* ¹
(Object of tax exemption)	Specified interest* ² generated from a certain type of JGB transactions executed under repurchase or resale agreements (hereinafter referred to as the "bond <i>gensaki</i> transactions") between foreign financial institutions and specified financial institutions and the like* ³ in Japan.
(Requirements)	A foreign financial institution and the like is required to submit the "Application Form for Withholding Tax Exemption" via the specified financial institution and the like in Japan to the District Director of the competent tax office in the tax jurisdiction (in the case that the designation is given under Article 18(2) of the Corporate Income Tax Law, the tax payment location so designated) where the branch or office of the specified financial institution that deals with the payment procedure of specified interest is located.

*1 "Foreign financial institutions and the like" refers to the following foreign corporations:

- Foreign corporations that engage in banking business, securities business or insurance business in foreign countries pursuant to the laws thereof (excluding specified affiliated companies of domestic companies trading JGBs) **;
- Central banks of foreign countries; or
- International organizations established through international arrangements;

** Provided that a foreign financial institution that receives a payment of specified interest falls under any classifications for foreign corporations noted below, the tax exemption is not applicable (the judgment as to whether a foreign financial institution falls under the provisions prescribed below will be made based on the then current situation both upon filing the Application Form for Withholding Tax Exemption and upon the end of the business year immediately prior to the business year during which occurs the day before the day when the foreign financial institution is to receive the payment of specified interest after filing of the Application Form for Tax Exemption).

- (1) Foreign corporations deemed to be foreign controlling shareholders etc. of domestic companies trading JGBs under the thin capital taxation system (excluding corporations in foreign countries that have concluded tax treaties with Japan),
- (2) Foreign corporations regarded as specified foreign subsidiaries etc. of resident individuals or domestic corporations under the consolidated taxation system for specified foreign subsidiaries etc., or
- (3) Foreign corporations that are not taxed on specified interest on bond *gensaki* transactions in their home countries (excluding cases where taxes are levied on the sales operations outside their home countries).

*2 "Specified interest" is the interest on loans paid by specified financial institutions for bond *gensaki* transactions (excluding the interest on loans deriving from the business conducted by foreign financial institutions in Japan).

*3 "Specified financial institutions and the like" refers to the following domestic financial institutions:

- From among financial institutions prescribed in Article 8(1) of the Special Taxation Measures Law and securities firms, etc., prescribed in Article 8(2) of the same law, corporations having sales operations in Japan and falling under the category of "financial institutions, etc." prescribed in Article 2(2) of the Law Concerning Close-Out Netting Settlement of Special Financial Transactions Effected by Financial Institutions, or
- The BOJ

Procedures

The documents below must be submitted according to the filing timing (shown in the right column) to the foreign financial institutions.

Documents	Filing timing
<p>"Application Form for Withholding Tax Exemption"</p> <p>※ Required to show an identification document at the same time. (See the endnote.)</p>	At least one day before the applicant receives the specified interest for the first time.
<p>"Application Form for Change"</p> <p>※ Required when the applicant changes its name or address after submitting the Application Form for Withholding Tax Exemption.</p> <p>※ Required to show an identification document at the same time. (See the endnote.)</p>	At least one day before the applicant receives specified interest for the first time after such change is effected from the specified financial institution that has submitted the "Application Form for Withholding Tax Exemption" on behalf of the applicant.

< Bond *gensaki* transactions >

Requirements:

- The period from the date of bond transfer or purchase in bond *gensaki* transactions until the date of repurchase or resale does not exceed 6 months;
- The contract includes a provision for the Close-out Netting prescribed in Article 3 of the Law Concerning Close-Out Netting of Special Financial Transactions Effected by Financial Institutions; and
- The market price of the bond, used for bond *gensaki* transactions, on the contract date is equal to or higher than the price agreed upon for the transaction;

Bond eligible for bond *gensaki* transactions:

- Book-entry transfer JGBs prescribed in Article 88 of the Law Concerning Book-Entry Transfer of Corporate Bonds, Etc.;
- Bonds issued or guaranteed by foreign governments or local government of foreign countries;
- Bonds issued or guaranteed by foreign government agencies and international organizations; and
- Bonds issued by specific banking institutions of the OECD member countries except for Japan.

Validity:

The tax exemptions apply to the specified interest on bond *gensaki* transactions commenced during the period between April 1, 2002 and March 31, 2006.

Withholding Tax Exemption for Redemption Profit on TBs and FBs

Requirements for tax exemption

(Beneficiaries)	Corporations* ¹ (Individuals are not allowed to hold TBs or FBs)
(Holding method)	Holding in a transfer account at a JGB book-entry transfer system participant in Japan or in a transfer account with qualified foreign intermediary (QFI)
(Object of tax exemption)	Redemption profit on TBs and FBs
(Requirements)	A corporation is required to submit the "Notification" when the entry of the applicant is first made in the transfer account for TBs or FBs.* ²

*1 Includes the trustee of a trust in which individuals are not entitled to the profits on the TBs or FBs that constitute the trust asset, or the trust prescribed in Article 13(1) Proviso of the Income Tax Law.

*2 Submission of the "Notification" is not required when a corporation has already submitted the "Application Form for Withholding Tax Exemption." (For information on the "Application Form for Withholding Tax Exemption," refer to the "Tax Exemption Measures for Interest on Book-Entry Transfer JGBs Held by Nonresident Individuals or Foreign Corporations" or the "Tax Exemption Measures for Principal-Only Book-Entry Transfer JGBs and Coupon-Only Book-Entry Transfer JGBs Held by Foreign Corporations.")

Procedures

The documents below must be submitted according to the filing timing (shown in the right column) to a JGB book-entry transfer system participant in Japan or the specified foreign branch of a QFI.

Documents	Filing timing
<p>"Notification"</p> <p>※Required to show an identification document at the same time. (See the endnote.)</p>	<p>When the entry of the applicant is first made in the transfer account for the TB or FB.</p>

Endnote: "Identification Document"

"Identification document" means one of the documents listed below:

<Nonresident individual>

1. Foreign resident registration card; photocopy of the ledger of the foreign resident registration; or the certificate of entry in the foreign resident registration ledger*
2. Receipt for the national or local tax payment; or tax payment certificate**
3. Receipt for social insurance premium payment**
4. Document issued by the government and other public offices and the like*

<Foreign corporation>

1. Certified full copy of family register or certified extract copy of family register*
2. Certificate of a seal impression*
3. Receipt for the national or local tax payment; or tax payment certificate**
4. Receipt for the social insurance premium payment**
5. Document issued by the government and other public offices and the like*

* Must have been issued within six months preceding the date of its submission.

** Must bear a receipt date stamp or issuance date stamp and that date must be within six months preceding the date of its submission.