

January 16, 2025  
Financial Markets Department  
Bank of Japan

Treatment of the Reduction in the Amount of the Cheapest-to-Deliver Issues  
Repurchased by the Bank of Japan under the Securities Lending Facility

The Bank of Japan announced in October 2024 that it would continue to implement the relaxation of the terms and conditions for the Securities Lending Facility (SLF) for the cheapest-to-deliver (CTD) issues<sup>1</sup> for the time being, given that the Japanese government bond (JGB) issues of which the Bank holds a significant share would become the CTD. The Bank also clarified that it would accept in principle counterparties' requests to reduce the amount of the CTD issues repurchased by the Bank under the SLF, if the reduction was deemed to contribute to improving the liquidity of the JGB market.<sup>2</sup>

Thereafter, the Bank has implemented several times the reduction in the amount of the CTD issues, such as 10-year JGB #366, repurchased by the Bank under the SLF, in accordance with counterparties' requests. Under these circumstances, the amount outstanding of the CTD issues in the market<sup>3</sup> has increased somewhat, and the supply and demand conditions of these issues seem to have eased somewhat compared to a while ago.

Meanwhile, with the increased use of the reduction in the repurchase amount, the Bank has received inquiries about the criteria for how it judges, upon a counterparty's request, whether the reduction contributes to improving the liquidity of the JGB market. Regarding this point, given that the measures for the reduction in the repurchase amount were introduced with the aim of easing concerns over the delivery of JGBs on the final settlement day of JGB futures, the Bank will mainly take into account the amount outstanding of the CTD issues in the market when it judges whether the reduction contributes to improving the liquidity of the JGB market. Specifically, in light of the level of JGB futures positions on the last trading day in the past, the Bank will accept counterparties' requests in principle until the amount outstanding of each of the CTD

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<sup>1</sup> The first and second CTD issues of 10-year JGB futures in the nearest two contract months.

<sup>2</sup> For further details, please refer to "Continuation of the Relaxation of the Terms and Conditions for the Securities Lending Facility for the Cheapest-to-Deliver Issues" published on October 16, 2024.

<sup>3</sup> The amount outstanding in the market is defined as the amount outstanding issued by the government minus the amount outstanding held by the Bank.

issues in the market recovers to about 1.2 trillion yen.

Furthermore, the Bank recognizes that the degree of improvement in the liquidity of the JGB market depends not only on the size of the amount outstanding in the market but on developments in market conditions, and thus it will continue to closely monitor the situation of sales and purchases, as well as lending, of the CTD issues in the JGB cash and repo markets and take measures as necessary.

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