Minutes of the Meeting of JGB Market Special Participants
(103rd Round)

1. Date: Wednesday, March 22, 2023, 4:00 p.m. - 5:10 p.m.
2. Place: Special Conference Room 3 at the Ministry of Finance
3. Contents:

1. Reopening rule and auction methods of fixed-rate coupon-bearing bonds in FY2023

▶ The Financial Bureau gave the following explanation about the reopening rule and auction methods of fixed-rate coupon-bearing bonds in FY2023:

・The reopening rule and auction methods of fixed-rate coupon-bearing bonds for the following fiscal year are discussed in March of every year at this meeting, and a decision is based on the opinions of the participants. Today, we would like to hear your opinions regarding the reopening rule and auction methods of fixed-rate coupon-bearing bonds in FY2023.

・Since FY2015, we have kept the reopening rule for 10-year Bonds in each case where bonds having the same redemption dates are issued and the difference between the coupon rate of its new issue and its market yield on the auction date is less than around 30 bps.
When we heard opinions from participants in advance in this regard, we learned that many of the participants support the current method. However, some participants shared the opinion that 10-year Bonds should also be reopened with four issues in principle in order to ensure liquidity by issues even when interest rates rise rapidly.
Since we are of the opinion that bond market liquidity can be enhanced by reopening the bonds in normal times while leaving room to stimulate demand of investors as a new issue bond in the event of a large market fluctuation, we are considering maintaining the current method in FY2023 as well.

・Regarding the reopening rule of 20-year Bonds, 30-year Bonds, and 40-year Bonds, we reopened four issues of 20-year Bonds and 30-year Bonds, and one issue of 40-year Bonds in FY2022.
We heard opinions from participants in advance in this regard and learned that all of the participants support the current method.
Therefore, we are considering maintaining the current method also in FY2023 from the perspective of enhancing bond market liquidity.

・In addition, with regard to the 5-year Bonds that the immediate reopening rule is currently applied to, some participants were of the opinion that they should follow the same reopening rule such as the 10-year Bonds or 20-year Bonds, 30-year Bonds, and 40-year Bonds from the perspective of market liquidity. However, many of participants expressed the opinion that it is appropriate to maintain the current issuance method.

・Next, regarding the auction method of 40-year Bonds, we continued with the yield-based uniform competitive auction based on the view that the yield-based uniform competitive auction should be adopted in view of the increase in the size of issuance in FY2022 and among other opinions, the opinion is that there is still less liquidity comparable to other maturities.

・When we asked for opinions from participants in advance about the auction method of 40-year Bonds in FY2023, we found that some participants expressed the desire to shift the auction method to the discriminatory price auction from the perspective of market maturity based on the size of issuance increase in FY2022 as well. While most participants recognize the need to shift to discriminatory price auctions in the future, they expressed a desire to keep the yield-based uniform competitive auction as the yield-based uniform competitive auction brings a strong sense of security in the current market environment where there is high volatility.

・In view of these opinions, we consider it desirable to aim at stable issuance by maintaining the yield-based uniform competitive auction as shown on page 3 in FY2023 as well.

・With regard to auction methods for bonds other than 40-year Bonds, although some participants expressed a desire the uniform price auctions or to raise limit on Non-Price Competitive Auction I because of the high-volatility market environment as well 40-year Bond, many participants were of the view it is appropriate to maintain the current issuance method.

・Taking these opinions into consideration, the proposals of the Financial Bureau for the reopening rule and auction method in FY2023 are shown on page 3. The reopening rule of fixed-rate coupon-bearing bonds and auction method in FY2023 will be comprehensively reviewed in consideration of the discussions in this meeting today and we will hear your opinions on the matter again.

▶ Summarized below are the views and opinions expressed by the attendees.

・Given that the Bank of Japan (BOJ) holds more than 100% of 10-year bonds issue relative to the outstanding amount, we consider it desirable, in principle, to reopen issuance from the perspective of securing liquidity as long as large-scale JGB purchases by BOJ continue.

・We basically think that uniform price auction is better for all maturities. There is also the viewpoint of market volatility, but we arrived at the conclusion that uniform price auction is better when considering how to increase overseas investors' participation in auctions. From the standpoint of overseas investors, Japanese government bond auctions do not overlap with either the New York or London time zones, and in the case of discriminatory price auctions, it is basically difficult to bid if one does not watch the market closely. Therefore, there are currently extremely high barriers to participating in the bidding itself. In the case of uniform price auctions, it is very easy for overseas investors to deposit bids without having to watch the market closely. In particular, US investors have a very strong affinity for bidding through the uniform price auction method with compound interest, so we believe that uniform price auction can be expected to increase demand for bidding among overseas investors.

・At present, we believe that the current issuance method is desirable. However, as there are not only changes to monetary policy in the future, but also situations in which interest rates fluctuate significantly due to ongoing market turmoil, we believe there is room for considering the same yield-based uniform competitive auction for 20-year Bonds and 30-year Bonds as for 40-year Bonds in such situations.

・With regard to the reopening rules, although the fluctuation range of interest rates is widening, we understand that the current rule is appropriate and support maintaining the status quo for all maturities. It is important to ensure a certain level of liquidity, and we consider it desirable to avoid constantly issuing single issues.

・Concerning the auction method for 40-year Bonds, we support discriminatory price auctions. Even as issuance size increases gradually, the market is stable. Even if we take into consideration that about 15 years have passed since the start of issuance, we believe that it may be good to adopt the same issuance manner as for other maturities.

・We consider it desirable to reopen issues for 10-year Bonds in principle. From the standpoint of providing liquidity to the market, and from the viewpoint of securing market liquidity in anticipation of future revisions to monetary policy by BOJ, we feel that reopening issues is desirable in principle to eliminate single issue issuance as far as possible.

・Similarly for the 5-year Bonds, we believe that reopening issues is desirable in principle. For some reason, reopening was adopted for the 5-year Bond auction this time despite the fact that the coupon was a marked distance level from the current market conditions. Since it should be issued with 0.1% coupons based on the current market conditions, it is likely that certain considerations were given. However, if we adopt reopening issuance in principle, it will eliminate situations such as what happened with the 5-year Bond auction this time. Moreover, we believe that reopening issues is desirable in principle for 5-year Bonds as well, in consideration of liquidity.

・With regard to the issuance method for 40-year Bonds, it has always been our stance that we should shift to discriminatory price auctions, and this view remains unchanged even now. However, we also feel that we may have missed the timing for making this transition. In consideration of the growing market volatility in recent times, we believe there is no other option but to use yield-based uniform competitive auctions this time.

・Regarding issuance methods, we would prefer to continue with the current reopening rule to secure liquidity amidst the continued large-scale purchases of JGBs by BOJ.

・For 5-year Bonds, from the perspective of maintaining the same liquidity as for 10-year Bonds, we would prefer issuing by reopening rule if the gap between prevailing market yield and the coupon does not exceed 0.30%.

・As for the auction method for 40-year Bonds, we consider it necessary to discuss making the shift to discriminatory price auctions in the future. While the number of investors is growing at present, liquidity is inferior in comparison with other maturities, so we consider it appropriate to continue using yield-based uniform competitive auctions in the next fiscal year in consideration of the sense of security when bidding against the backdrop of the current market volatility.

・With regard to the reopening rules, we support maintaining the status quo for 10-year Bonds. Although we acknowledge reopening issues if the gap between prevailing market yield and the coupon is below 0.30%, we recognize the general assumption that reopening issuance will basically take place under the current conditions, including before QQE, etc. We also recognize that, at the time, there were investors who were of the view that issuance with a book value of close to 100 yen would be preferable to a reopening issue in principle. Therefore, we feel that the status quo should be maintained if this view remains unchanged. With regard to ultra-long-term bonds, we prefer to apply the reopening rule in principle.

・As for the auction method, we would prefer uniform price auctions for 40-year Bonds. We would also prefer uniform price auctions for other maturities where possible. If that is difficult to achieve, we feel that it would be better to increase the maximum issuance size for Non-price competitive auction I. Uniform price auctions have an advantage in that they provide greater ease in receiving average orders from overseas from a medium- to long-term perspective, and not only due to overseas volatility. The historical backdrop for the shift to uniform price auctions in the US in the 1990s is that, in the case of discriminatory price auctions, major traders had historically committed the unfair act of buying bonds at high prices and exhausting it. While we are not saying that such unfair acts are taking place today, we consider that it is preferable to shift to uniform price auctions from the perspective of compliance.

・We believe that the current issuance and reopening methods are desirable. The outstanding amounts of 10-year Bonds in circulation are decreasing, and if concerns about market liquidity were to arise due to changes in the market environment in the future, we think that it may be preferable to secure liquidity such as by expanding for Enhanced Liquidity Auctions.

2. Issuance size of Inflation-Indexed Bonds in the April-June 2023 quarter

▶ The Financial Bureau gave the following explanation about the issuance size of Inflation-Indexed Bonds in the April-June 2023 quarter:

・As shown on page 5, according to the JGB Issuance Plan for FY2023, it is stipulated that there will be issuance of Inflation-Indexed Bonds four times a year at a size of 250 billion yen each time, while it is stated that “the size of issuance may be adjusted in a flexible manner in response to market circumstances and demands of investors which will be determined based on discussions with market participants.” In addition, as shown on page 6, it is stipulated about Buy-back Auctions that “Buy-back Auctions in FY2023 is planned to be implemented based on market conditions and through discussions with market participants.” Today, we would like to hear your opinions about the size of issuance in the April-June quarter.

・In the January-March quarter, as shown on page 7, while we conducted an auction of issuance at a size of 250 billion yen in February, we decided to implement Buy-back Auctions at 20 billion yen every month based on market conditions and through discussions with market participants. The results of the auction of issuance and of Buy-back Auctions are shown in pages 8 and 9, respectively.

・The situation of the secondary market is shown on pages 10 and 11. Based on changes over the last six months, although BEI had declined at times, BEI of on-the-run issues is currently continuing to hover around the level of 70bps.

・Under such circumstances, we asked for participant’s opinions in advance. Some participants expressed their desire to increase the size of Buy-back Auctions amidst the current market instability, but most participants would prefer that both the size of issuance and the size of Buy-back Auctions for the April-June quarter remain unchanged, as demand and supply are currently balanced.

・The proposals of the Financial Bureau based on these circumstances and the opinions of participants are shown on page 12. Regarding the April-June quarter of FY2023, as in the January-March quarter, we are considering a Buy-back Auction of 20 billion yen each month while having a single issuance auction of 250 billion yen.

・With regard to the target issues for Buy-back Auctions, we would like to include all the issues, including on-the-run issues, as well as for FY2022.

・Regarding the reopening rule and auction method for Inflation-Indexed Bonds in FY2023, we are considering reopening with one issue per year and auctions using the price uniform price auction the same as in FY2022.

・As stated above, we explained the situation about the Inflation-Indexed Bonds market and our proposal based thereon.
We will make a comprehensive decision based on the contents of today’s meeting on the size of issuance in the April-June quarter and the adoption of the issuance auction method in FY2023, and we will again listen to participant opinions.
We consider the development of an Inflation-Indexed Bond market is an important issue for our Debt Management Policy, and we will continue to undertake careful considerations and decisions going forward, while bearing in mind the auction result and market conditions as well as your opinions.

▶ Summarized below are the views and opinions submitted by the attendees.

・We support the proposals. As we cannot expect the investor base to expand at present and there are no changes in movements to close the position of existing bonds, we prefer to maintain the current size of issuance and size of Buy-back Auctions.

・We propose increasing the size of Buy-back Auctions by 10 billion yen each time and temporarily in the size of 30 billion yen every month. With regard to Inflation-Indexed Bonds, moves to sell continue to be predominant among both domestic and overseas investors over our counters, in response to the slight easing of global concerns about inflation, observations of revisions to the monetary policy by BOJ, and recent turmoil in the financial markets. Liquidity is also deteriorating significantly in this environment. Although it was explained that BEI is stabilizing, we are starting to see a moderately large divergence in situations where CPI is relatively low and stable, and in situations where current CPI is rising. Although major market crashes such as during the Lehman Shock or the COVID-19 pandemic have not emerged for now, if risk reduction movements were to accelerate under these conditions of low liquidity, we believe that such major crashes can happen any time. While the debt management office is probably considering flexible responses in such a case, we believe that the observation of policy revisions by BOJ will continued even after the current financial system risks and credit risks have been dispelled, and that it will be a little difficult to see liquidity improvements as compared to other JGBs. In consideration of this, we think it may be worthwhile to consider temporarily increasing the size of Buy-back Auctions at this timing by 10 billion yen, as a preventive measure, so as to clarify our commitment to Inflation-Indexed Bonds.

・Basically, we agree with the proposals. With regard to Inflation-Indexed Bonds, there are little offer and bid on the boards of Japan Bond Trading Co., Ltd. and the auctions basically show no signs of an expanding investor base. Japan's BEI fell after the policy revisions by BOJ at the end of last year, but ultimately moved in tandem with overseas BEI, so it is likely that few people are investing based on prices in Japan. As there is a strong sense that they are being used as a regulating valve overseas, we feel that there are issues in the medium- to long-term. On the other hand, if we were to increase the size of Buy-back Auctions at this point, purchases would exceed supply. Hence, we do not feel that there is a need to go that far even from the viewpoint of demand and supply.

・The result of Outright Purchase of JGBs by BOJ and Buy-back Auctions have gradually implied strong demand, and there is also the possibility that investors' positions are being adjusted since November last year. Therefore, we think it would be good to maintain the status quo for now, check if there are any new developments in the new fiscal year, then consider the size of issuance and size of Buy-back Auctions.

3. Issuance size of Liquidity Enhancement Auctions in the April-June quarter 2023

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auction Size for the April-June 2023 quarter:

・As shown on page 14, according to the FY2023 JGB Issuance Plan regarding Liquidity Enhancement Auctions,

① while it is assumed that a total of 12.0 trillion yen will be issued for the year comprising 3.0 trillion yen with remaining maturities in the 1 to 5 years zone, 6.0 trillion yen with remaining maturities in the 5 to 15.5 years zone, and 3.0 trillion yen with remaining maturities in the 15.5 to 39 years zone, which is the same as in FY2022, and

② finally, "the details will be flexibly adjusted in view of the market environment and investment demands."

Today, in response to this plan, we would like to hear participant's opinions regarding the size of issuance for each maturity zone for the April-June quarter.

・As shown on page 15, in the same manner as assumed in the FY2022 JGB Issuance Plan, we decided to issue bonds with remaining maturities of the 1 to 5 years zone in the size of 500 billion yen in the odd-numbered months of January and March, bonds with remaining maturities of 5 to 15.5 years zone in the size of 500 billion yen every month, and bonds with remaining maturities of 15.5 to 39 years zone in the size of 500 billion yen in the even numbered month of February in the January-March quarter. These results are as shown on pages 16 to 18.

・In these circumstances, we asked for the opinions of participants about the Liquidity Enhancement Auctions for the April-June quarter in advance. Some participants felt that it is appropriate to increase the size for each zone as there are several issues with tight supply and demand, and there were also participants who prefer changing the zone classifications or narrowing down the target issues. However, most participants were of the view that it is appropriate to maintain the current size of issues at the current point in time.

・In response to this, we prepared the proposal of the issuance size for each maturity zone in the FY2023 April-June quarter, as shown on page 19. For remaining maturities of the 1 to 5 years zone, we are contemplating the idea of issuing bonds in the size of 500 billion yen in the odd-numbered month of May, for bonds with remaining maturities of 5 to 15.5 years zone in the size of 500 billion yen every month, and for bonds with remaining maturities of 15.5 to 39 years zone in the size of 500 billion yen in the even numbered months of April and June.

・Regarding the issuance size for each maturity zone for Liquidity Enhancement Auctions for the

April-June quarter, we will make a comprehensive decision based on the contents of today's meeting, and we will ask your opinions again.

▶ Summarized below are the views and opinions submitted by the attendees.

・While it is difficult to move the size of issues between each zone because there are demands of each zone respectively, we believe that it may be possible to improve the tightening demand and supply by slightly changing the auction method. Specifically, we wish to propose implementing auctions by narrowing down the target issues.

・As for the format of Liquidity Enhancement Auctions, partly due to the fact that bidding is based on the closing price of the previous day, and particularly in the current situation of high market volatility with the yield curve continuing to move intensely throughout the day, the shape of the yield curve is prioritized. Therefore, we believe that the issues and volumes to be issued may not necessarily be optimal in light of market supply and demand. Although the BOJ is responding proactively, if the distortion of the yield curve and the decline of the price discovery function become prolonged, there is a possibility that it will lead to a decline in the credibility of Japanese government bonds as an investment target. Moreover, if issues with a more significant tightening of demand and supply are prioritized for issuance, we believe it would also be desirable from the standpoint of the debt management office, in the sense of reducing issuance costs.

・Therefore, by conducting questionnaires on the target issues for Liquidity Enhancement Auctions in advance, such as one week to one month before the auction, at a time that is not likely to be influenced by short-term market trends, and narrowing down the number of target issues to a relatively small number, such as 10 or 20 issues, we believe that it can be possible to alleviate, to a certain degree, the problem of successful bids being dependent on the shape of the yield curve. On the other hand, if the number of target issues is narrowed down, opportunities for the additional issuance of issues that are not included as targets will be lost, so there is room for debate from the perspective of fairness. However, we believe it is worth considering this from the viewpoint of efficient operation of Liquidity Enhancement Auctions.

・We support the proposal. With regard to the issuance zones and allocation of issuance size, as well as the method for selecting issues, we think that it is good to maintain the status quo. Firstly, concerning the issuance size for each zone, demand and supply have been balanced since the increase in bonds with remaining maturities of 1 to 5 years zone from 400 billion yen last year. We do not anticipate factors causing tight supply and demand in the next fiscal year, so we feel that it will be good to maintain the status quo.

・Issues that have been issued for bonds with remaining maturities of 1 to 5 years zone are greatly impacted by the yield curve on the day, but the lower quotations are supported by demand for issues with tight supply and demand through large-scale purchases of JGBs by the BOJ, and are issued in a stable manner. There is significant room for accepting in the zone as a whole, and we believe that it will be good to maintain the status quo.

・For bonds with remaining maturities of 15.5 to 39 years zone, we believe that the increase in the size of the Outright Purchase of JGBs by the BOJ and factors related to the end of the fiscal period, among other reasons, are behind the recent positive turn of demand and supply as well as the favorable results observed as compared to the first half of the year. After April 2023, demand related to the end of the fiscal period is highly likely to stabilize, so we think that it will be good to maintain the status quo.

・For the target issues, from the perspective of fairness, we think that it is not necessary to limit them in advance, and that it is desirable to solicit demand widely.

・We think that it is good to increase the size of bonds with remaining maturities of 5 to 15.5 years zone by 100 billion yen to 600 billion yen per auction, and to reduce the size of bonds with remaining maturities of the 15.5 to 39 years zone by 150 billion yen to 350 billion yen per auction. Last year, the ratio of Liquidity Enhancement Auctions for the ultra-long-term zone was low, and as the demand for life insurance will clearly fall from April, we believe it would be better to achieve supply and demand balance by increasing the issuance size of bonds with remaining maturities of 5 to 15.5 years zone, for which there is high demand for additional issuance.

・For classifications and target issues, we believe that the candidates for additional issuance should be narrowed down, so that issues that really need to be issued additionally due to tight supply and demand, are more likely to be issued additionally. Under the current rules, there are many cases where issues that should be additionally issued are not because the closing price on the previous day was too low or the shape of the yield curve on the day had affected the issue considerably. Therefore, we think that it is better to find out beforehand which issues investors wish to bid in the auctions through a survey, and narrow down the number of issues to about 10.

・We believe that the demands in the current market and the total issuance size are generally in line with each other. We are observing some situations of tightening supply and demand for bonds with remaining maturities of 1 to 5 years zone. In this sense, it is conceivable to increase the issuance size for bonds with remaining maturities of 1 to 5 years zone by 100 billion yen from 500 billion yen to 600 billion yen every other month, while keeping the annual total issuance size at around 12 trillion yen.

・We think that it may be a good idea to increase the number of maturities classifications if possible. In recent years, especially for some maturities in the ultra-long-term zone, the supply and demand disparity between each issue has widened significantly, and we often see this continue for a fairly long period of time. We believe that one of the major roles of Liquidity Enhancement Auctions is to resolve such situations and facilitate market-making. Liquidity Enhancement Auctions for bonds with remaining maturities of 15.5 to 39 years zone are relatively infrequent, taking place once every two months, but offer a wide range of maturities. Therefore, if the matching between the shape of yield curve and demands of issues is not done effectively, it may result in a situation where issues with tight supply and demand are not covered properly and have to be carried over for two months. We believe that one of the ways of resolving this problem is to take the approach of further subdividing the maturity classifications to create a situation in which issues with tight supply and demand can be purchased more easily. Specifically, the maturities which is the target of the Outright Purchase of JGBs by BOJ are subdivided more finely than those of the Liquidity Enhancement Auctions. we think that although they do not need to be exactly the same, this is one of the approaches to consider while looking at this area.

・Regarding the next fiscal year, we agree with the proposal. As for bonds with remaining maturities of 5 to 15.5 years zone, when the interest rate for 10-year on-the-run issues persisted at 0.5%, Liquidity Enhancement Auction competed with BOJ's Fixed-Rate Purchase Operation which has the same auction format. In particular, on the day when interest rates rose over the previous day and a Liquidity Enhancement Auction was held, it became impossible to purchase the desired issues with the anticipated results. This situation continued. While the situation was eased somewhat by moving the 10-year interest rate away from 0.5%, the fundamental problem has not been resolved. Therefore, we strongly support the proposal from The Meeting of JGB Market Special Participants to the debt management office, to select issues through a questionnaire beforehand in order to avoid a situation in which it is impossible to purchase the desired issues with the anticipated results. Demand and supply for bonds with remaining maturities of 15.5 to 39 years zone are currently at a very good level. On the other hand, although auction results have continued to be favorable over the past few times, there are personal concerns that bidding stance of investors will become more cautious in the next fiscal year as the ratio of overseas investors is particularly high in this zone, such as investors who have been caught up in the short squeeze for three on-the-run issues of 10-year Bonds, and investors who have been caught up in the recent turmoil in the financial markets. From the insertion of a statement about flexible response to the situation with regard to Liquidity Enhancement Auctions, we feel that it would also be good to respond swiftly when such worrying situations arise, or the respond flexibly such as by moving the issuance size for bonds with remaining maturities of 15.5 to 39 years zone to bonds with remaining maturities of 1 to 5 years zone.

・We agree with the proposal. Due to the large-scale purchases of JGBs by BOJ, there are issues with tight supply and demand. However, in response to market fluctuations and BOJ's responses, a certain degree of short covering has taken place, so bidding has ended with solid results in all zones. Provided that the size of issuance for Liquidity Enhancement Auctions being predetermined, we believe that making changes by increasing of some zones and decreasing of others will not make a difference to the tightening of supply and demand in each zone. Therefore, we do not think it is a problem to maintain the status quo.

4. GX Economy Transition Bonds

▶ Summarized below are the views and opinions submitted by the attendees.

・If the auction format is selected as the issuance method, issuance can be carried out very smoothly by following the flow of existing JGB auctions. In addition, the difficulty of issuance is relatively easy from the viewpoint of system investment and the sustainability of the issuance method. On the other hand, in the case of the underwriting method, it is necessary to overcome many issues, including the question of when to shift to the auction method for issuance. Therefore, in consideration of the time constraints and other factors, we believe that the auction method currently has fewer problems that need to be resolved than the underwriting method.
・On the other hand, the underwriting method offers the advantage of stable first issuance as it is possible to issue the bonds after properly ascertaining the demand, so we feel that it is extremely difficult to strike a balance between the two.
・With regard to the maturity period of the bonds , we are aware that it will be a choice from among predetermined fund redemption periods based on the policy. Among these, while a long maturity period would be good if we were to consider greenium, an excessive imbalance may make it difficult to attract a wide range of investors and lead to concerns that demand will not stabilize. Therefore, we think it is better to focus on 10-year Bonds or 20-year Bonds at the beginning to cover multiple investor bases.
・We think that the preparatory period is dependent on the issuance method. The ability to use existing systems is a factor that has significant impact, and the timeline for response is likely to change depending on how soon the decision is made on the issuance method.
・If, for example, there are JGB Market Special Participants whose systems are not made compatible in time for the issuance, there are also technical issues such as the handling of bidding obligations, we believe there will be a need to conduct a review of whether or not system compatibility is possible in advance.

・Finally, with regard to external certification, considering the issuance situation overseas, as most countries have obtained certification, we believe it is vital to obtain proper certification from the viewpoint of attracting a wide range of investors.

・Concerning the maturity period of the bonds, if we are considering issuing bonds with a maturity of 20 years or less, this will be somewhat too short to make it an investment target for life insurance companies, so we will probably have to explore the investor base in the future. In addition, since it is a new bond, it is still unclear how much greenium will be generated or how much liquidity it will be. Under these circumstances, if the auction method is applied for the first issuance, we are worried that the auction result may be poor depending on the situation. If that were the case, we think it would be a good idea to implement a managing underwriter/underwriting method for the first issuance, which will enable us to effectively explore the needs of investors. When there is a certain degree of visibility on the market conditions, we can then shift to the auction method. We believe that this is a smooth response method.
・It will be possible to respond if, hypothetically, there is a need to issue new maturities from the perspective of fund objectives. If there are no such restrictions, we think it will also be possible to respond with one issue for 20-year Bonds, one issue for 10-year Bonds, or a combination of 10-year Bonds and 20-year Bonds.

・If the issuance is implemented through the auction method, it is currently not possible to participate in the bidding if investors who are willing to bid are not found. Since we do not know how liquid the bond will be, if the issuance is implemented through the auction method, it will be difficult to participate in bidding without first taking considerable time to carefully examine the demand of investors. For this reason, we believe the first issuance will be issued more smoothly through the underwriting method.
・As for the maturity period of the bond, we think it is better to start from 10 years, which is the most common issuance maturity.

・We think that it will be good to issue the bond by using a managing underwriter. In consideration of the fact that decarbonization is a global effort, we think it will be possible to strengthen the focus of market participants by incorporating universal elements for the issuance method as well. This is the strongest reason.
・When we looked into the issuance situation for green government bonds at our company's overseas bases, we found that many were issued as independent issues. We also observed many cases where syndication is utilized, enabling the issuer to capture who had placed the orders through book-building, as well as cases where issuers aim to achieve stable issuance and generate

green premiums through strategic allocation to green investors who have greater demand for such bonds. We think that Japan can also consider such initiatives.

・Of course, we understand that there are practical difficulties and disadvantages in the aspects of cost and liquidity, as well as the fact that it has been a considerably long time since the issuance by syndication has been used as a method for issuing bonds in the JGB market. However, if green government bonds are issued under the same terms of regular JGBs, and if they will be adopted by the target of Outright Purchase of JGBs by BOJ, we believe it will be possible to mitigate concerns which participants have the difficulty of purchasing such bonds because they are not targeted under Outright Purchase of JGBs by BOJ, for example.

・With regard to maturities, we think it is better to issue maturities that can be expected to attract participation from a wide range of investors, such as 20-year bonds.

・The greatest concern is that, while the issuance of GX Economy Transition Bonds is attracting attention, there are problems caused by the adoption of the auction method, such as the degree of risk tolerance, and auction result may be poor. We believe that such concerns may be avoided through the syndication method.

・Furthermore, we think that presenting schemes that are eventually redeemed through carbon pricing, could provide a good opportunity for indirectly conveying the government's commitment to domestic and overseas market participants who have expressed concerns about the setbacks in fiscal reconstruction and expansion of debt.

・With regard to the issuance method, we prefer issuing GX Economy Transition Bonds alone instead of issuing under the multiple legal grounds. Some investors have a target investment ratio for ESG bonds, and if the bonds are issued on multiple legal grounds, it may not be clear what percentage of the bonds fall under GX Economy Transition Bonds, which may in turn lead to a decline in the demands of such investors. In order to meet the requests of such investors, we consider it desirable to issue GX Economy Transition Bonds alone.

・With regard to maturities, there are strong demand for green bonds and ESG bonds among investors in various types of business, and we believe that demand will be strong regardless of the maturity of the issue, from medium-term zones to ultra-long-term zones. However, we think it will be difficult to issue bonds in multiple maturities in view that the size of issuance in the first year is small, at 1.6 trillion yen. In that case, we think it will be better to consider other maturities especially 10-year bonds, which are in demand by all investors.

・As for the issuing method, we think that the underwriting method, rather than the auction method, provides greater security as it is easier to grasp investors' demand and perspectives beforehand.

5. Latest JGB market situation and outlook in the future

▶ Summarized below are the views and opinions submitted by the attendees.

・Having thought that things are currently difficult with the short squeeze on 10-year on-the-run issues, a major new theme was added with the financial instability overseas. Perhaps FRB will decide to raise the policy interest rate by 25bps in line with the market majority. Personally, however, thinking about the future, there is a strong possibility that raising policy interest rates to fight inflation will continue going forward for both the FRB and the ECB, we believe that this is at odds with the risk of the re-expansion of financial instability.

・Under this environment, BOJ welcomes the assumption of office by two new Deputy Governors this week as well as new Governor, Kazuo Ueda, next month. In response to this new regime, many of us who are involved in the JGB markets expect the yield curve control policy to be revised or abolished, but there is no doubt that the financial instability overseas will have a certain impact on that. It is possible that if interest rate in Europe and the U.S. fall, this will help the BOJ revise its policy, but if the financial instability intensifies and the FRB turns toward rates cuts, it is likely that BOJ will also run out of options. Therefore, we consider that the market environment will be one of the most highly uncertain we have ever experienced from the beginning of next fiscal year.

・Regarding the recent JGB market, we are aware that Japan's movements have been considerably prominent when compared with other countries. We recognize that the expectation of changes in the BOJ's monetary policy have been strongly incorporated into the market. Therefore, as there was significant short covering, we understand that it has contributed to such a range of prices.

・As for the future, the most important points are, of course, how far will the global risk-off trend spread, and on top of that, what will the real economy be like. Based on these, there are expectations that Japan's inflation rate cannot possibly return to zero all at once in the long-term, but rather, will continue to move at a higher rate than before. Based on these expectations, we believe that the market environment will be relatively difficult for interest rates to fall.

・While excessive movements such as in recent market are confused us, it is highly desirable for a market to experience movements. In recent months, we feel that the JGB market is got attention by domestic and foreign market participants again.

・However, there were some events that were a little hard to understand, such as the asymmetry of information, and sudden changes in rules, such as recent coupon setting for 5-year Bond auctions.

・In the future, we think that it will be extremely important to clarify the rules in order to maintain a high level of interest in the market.

・Japan’s monetary policy continues to attract strong interest from domestic and foreign investors. At our over-the-counter, new investors have been participating over the past few months. While we certainly do not know what the external environment will be like, short covering rather than confident buying will be the leading trend at least for the present, and we believe that viewpoints based on the assumption of the re-expansion and abolishment of the yield curve control range within the year will remain strong.

・As also shown in the Bond Market Survey, under the current environment where liquidity remains at a low level, it is possibility that the JGBs may be sold at a very rapid pace if interest rates rise. We think that it is highly likely that the current situation will continue with regard to curve distortions and differences between individual issues. For this reason, although we are already receiving various forms of support, we hope that the debt management office will create an environment that facilitates market-making.

・In response to the decision to maintain the status quo of the monetary policy at BOJ’s Monetary Policy Meeting in March, investors trading in the short-term who had anticipated the policy revision bought back the JGBs. In addition, yen interest rates also fell further in the wake of a sharp decline in U.S. and European interest rates accompanying the heightened risk-off sentiments triggered by the financial instability in the US.

・After the expansion of the yield curve control range at the Monetary Policy Meeting in December last year, there has been partial consensus in the market that BOJ will implement further policy modifications in the near future under its new regime starting in April, such as the further expansion or abolishment of the yield curve control range. Therefore, even when interest rates in Europe and U.S. were declined, the yen interest rate did not follow suit with such a sharp decline but maintained its equilibrium. However, in response to recent developments, we feel that the market is also changing its view of the BOJ.

・With regard to the future outlook, there is the viewpoint that interest rates will rise as a result of active trading in anticipation of modifications in the yield curve control again under the new BOJ regime starting from April. On the other hand, we believe that yen interest rates will fluctuate with volatility remaining high, affected by the end of the interest rate hike phase in the U.S. and Europe or the start of an early interest rate cut phase, and by factors such as the decline in interest rates due to risk-off and so on.

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