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Guidelines on Eligible Collateral

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The Bank of Japan is the central bank of Japan.



Monetary Policy

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Guidelines on Eligible Collateral

日本語

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1. Purpose

These Guidelines prescribe the principles concerning collateral eligible for the Bank's provision of credit related to currency and monetary control. They are intended to ensure the appropriateness and to enhance the efficiency in the treatment of eligible collateral and the transparency of the Bank's business operations, by setting forth the standard categories and prices of collateral as well as eligibility standards thereof, which currently vary depending on the type of credit.

2. Principles Concerning Eligible Collateral

Eligibility of collateral shall be based on the following principles.

(1) Maintaining the Soundness of the Bank's Assets

With a view to maintaining the soundness of the Bank's assets, the Bank shall only accept collateral with sufficient creditworthiness and marketability. Moreover, there should be no obstacles to Bank's exercising of its rights including the security interest.

(2) Ensuring Smooth Business Operations of the Bank and Efficient Use of Collateral

The Bank shall give proper consideration to smooth operations of its business and efficient use of collateral.

(3) Utilizing Market Information

To utilize market mechanism, the Bank shall make effective use of market information, such as ratings by rating agencies in assessing the eligibility of collateral, market prices in calculating collateral prices, and public information in evaluating the creditworthiness of corporate bonds, dematerialized commercial paper issued by domestic corporations, dematerialized commercial paper issued by foreign corporations with guarantees, bills drawn by companies, commercial paper (excluding asset-backed commercial paper and commercial paper issued by real estate investment corporations), electronically recorded monetary claims on companies, loans on deeds to companies (hereinafter collectively referred to as "corporate debt obligations"), asset-backed securities, dematerialized asset-backed commercial paper, asset-backed commercial paper, bonds issued by real estate investment corporations, dematerialized commercial paper issued by real estate investment corporations, bills drawn by real estate investment corporations, commercial paper issued by real estate investment corporations, electronically recorded monetary claims on real estate investment corporations, and loans on deeds to real estate investment corporations.

3. Categories and Prices of Collateral

(1) Categories of Collateral

The categories of eligible collateral shall be as set forth in the [Table](#).

(2) Prices of Collateral

The prices of eligible collateral, according to its residual maturity, shall be calculated by multiplying market prices, face values, or outstanding principal balances by the margins calculated through (a) to (c) below.

- (a) The margins for collateral whose market price can be obtained shall be calculated based on historical market price fluctuations over the period of time necessary for the Bank to exercise its rights including the security interest on it.
- (b) The margins for collateral whose market price cannot be obtained shall be calculated based on theoretical price fluctuations over the period of time necessary for the Bank to exercise its rights including the security interest on it.
- (c) The margins calculated in (a) and (b) shall be adjusted when necessary to ensure consistency in the margin table as a whole in light of creditworthiness and marketability of the collateral.

(3) Frequency of Review

The categories and prices of eligible collateral prescribed in (1) and (2) shall be reviewed annually, in principle, in light of financial market conditions, and be amended when necessary.

4. Eligibility Standards for Collateral and Procedures for Eligibility Assessment

(1) General Eligibility Standards for Collateral

General eligibility standards for collateral shall be as follows:

(a) Creditworthiness

Repayment of principal and interest should be judged as certain by the Bank in light of various factors concerning the obligor, including its financial conditions and ratings by rating agencies, if any.

(b) Marketability

In light of transaction practices and other factors in financial markets, the realization of collateral should be conducted without difficulty.

(c) Other Eligibility Standards

- i) Collateral should be denominated in the Japanese Yen.
- ii) Collateral should be issued in Japan.
- iii) Collateral should be governed by Japanese law.

iv) In addition to i), ii), and iii), there should be no obstacles to Bank's exercising of its rights including the security interest.

(2) Eligible Standards for Each Category of Collateral

Eligible standards concerning creditworthiness and marketability of each category of collateral shall be as set forth in the [Table](#).

(3) Procedures for Eligibility Assessment

As for collateral other than government bonds (excluding treasury bills), treasury discount bills (treasury bills and financing bills), government-guaranteed bonds, and municipal bonds issued through public offering, the Bank shall assess the eligibility upon request of a financial institution that maintains a current account with the Bank (such institution hereinafter referred to as the "counterpart financial institution"). In the case of corporate debt obligations, the creditworthiness of obligors shall be evaluated in accordance with Guidelines on Credit Ratings of Companies (Policy Board Decision on October 13, 2000).

5. Debt Obligations Issued by Counterpart Financial Institutions and Their Affiliates

(1) Debt Obligations Issued by Counterpart Financial Institutions

Debt obligations issued by counterpart financial institutions (excluding those guaranteed by the government) and those guaranteed by counterpart financial institutions (excluding those deemed eligible without such guarantee) shall be ineligible; provided, however, that the foregoing shall not apply to debt obligations secured by eligible collateral in a manner the Bank deems appropriate, and to debt obligations for which the counterpart financial institution has become the obligor as the endorser of the bill.

(2) Debt Obligations Issued by Affiliates of Counterpart Financial Institutions

- (a) Debt obligations of a company whose main business is to manage and effectively control other companies, including one or more counterpart financial institutions (hereinafter referred to as the "holding company") and those guaranteed by any holding company (excluding those deemed eligible without such guarantee) shall be ineligible.
- (b) Debt obligations issued or guaranteed by a company which the Bank considers as having a close relationship with one or more counterpart financial institutions in light of effective control and influence (excluding those deemed eligible without such guarantee) shall not be accepted as collateral for the Bank's credit extended to that counterpart financial institution.

6. Exception

When the Bank specifically deems it necessary for its business operations, it may make exceptions to the Guidelines set forth in paragraphs 3., 4., and 5.

Table : Eligibility Standards for Each Category of Collateral

Government Bonds (including Floating-Rate Bonds, STRIPS, and Inflation-Indexed Bonds, but excluding Treasury Bills)

Ordinary government bonds (except for government bonds specifically designed for individual investors), Fiscal Investment and Loan Program (FILP) bonds, and converted government bonds.

Treasury Discount Bills (Treasury Bills and Financing Bills)

All treasury discount bills are eligible.

Government-Guaranteed Bonds Municipal Bonds

Publicly-offered bonds. Privately-placed bonds deemed to be as marketable as publicly-offered bonds can be eligible.

Government-Guaranteed Dematerialized Commercial Paper

Government-guaranteed dematerialized commercial paper satisfying the following requirements:

- (1) That issued by domestic corporations or that deemed to have similar characteristics.
- (2) That with an original maturity of up to 1 year.

FILP Agency Bonds

Publicly-offered bonds satisfying the following requirements:

- (1) Bonds (excluding government-guaranteed bonds) issued by FILP Agencies or other public corporations which are deemed to have similar characteristics;
- (2) Rated A or higher by at least two rating agencies which the Bank considers to be appropriate (hereinafter referred to as "eligible rating agencies").

Corporate Bonds

Publicly-offered straight bonds which are deemed eligible in light of creditworthiness and other relevant factors such as being rated A or higher by an eligible rating agency.

Dematerialized Commercial Paper Issued by Domestic Corporations Bills Drawn by Companies Commercial Paper (excluding Asset-Backed Commercial Paper and Commercial Paper Issued by Real Estate Investment Corporations)

Dematerialized commercial paper issued by domestic corporations, Bills, and Commercial paper satisfying the following requirements:

- (1) Those deemed appropriate in light of relevant conditions including the creditworthiness of an obligor;
- (2) Those with an original maturity of up to 1 year.

Dematerialized Commercial Paper Issued by Foreign Corporations with Guarantees

Dematerialized commercial paper issued by foreign corporations with guarantees satisfying the following requirements:

- (1) That deemed appropriate in light of relevant conditions including the creditworthiness of a guarantor;
- (2) That with an original maturity of up to 1 year.

Asset-Backed Securities

Publicly-offered securities satisfying the following requirements:

- (1) Creditworthiness of specific assets, etc.

Receivables from specific assets (which constitute original sources for paying principal and interest of asset-backed securities) should be deemed sufficient to pay the principal and interest of asset-backed securities, in light of the creditworthiness of specific assets and any supplementary means to enhance their creditworthiness.

- (2) Structure of asset-backed securities

The structure of asset-backed securities should be deemed sufficient to satisfy the relevant requirements including the followings.

- (a) True sale

If specific assets are transferred from originators to such persons as special purpose companies (hereinafter referred to as "SPC"), such transfer should be one that is deemed valid even in insolvency proceedings such as bankruptcy proceedings of originators.

- (b) Bankruptcy-remoteness

Necessary measures should be taken to prevent insolvency proceedings or the dissolution of SPCs, including measures to restrict the power of originators, etc, to file bankruptcy petitions against SPCs.

- (c) Alternative measures for the collection of receivables from specific assets

If the collection of receivables from specific assets is conducted by those other than an SPC, alternative measures should be prepared for cases when collection cannot be conducted because of insolvency proceedings such as bankruptcy proceedings against those conducting collection.

(3) Rating of asset-backed securities

Securities should be rated AAA by an eligible rating agency.

Dematerialized Asset-Backed Commercial Paper Asset-Backed Commercial Paper

Dematerialized asset-backed commercial paper and Asset-backed commercial paper (hereinafter referred to as "ABCP") satisfying the following requirements:

(1) Creditworthiness of specific assets, etc.

Receivables from specific assets (which constitute original sources for repayment) should be deemed sufficient for repayment, in light of the creditworthiness of specific assets and any supplementary means to enhance their creditworthiness.

(2) Structure of ABCP

The structure of ABCP should be deemed sufficient to satisfy the relevant requirements including the followings.

(a) True sale

If specific assets are transferred from sellers to such persons as SPCs, such transfer should be one that is deemed valid even in insolvency proceedings such as bankruptcy proceedings of sellers.

(b) Bankruptcy-remoteness

Necessary measures should be taken to prevent insolvency proceedings or the dissolution of SPCs, including measures to restrict the power of sellers, etc, to file bankruptcy petitions against SPCs.

(c) Measures for the collection of receivables from specific assets

If the collection of receivables from specific assets is conducted by those other than an SPC, necessary measures should be prepared for cases when collection cannot be conducted because of insolvency proceedings such as bankruptcy proceedings against those conducting collection.

(3) Rating of ABCP

ABCP should be rated a-1 by an eligible rating agency.

(4) Original maturity

An original maturity of ABCP should be no longer than 1 year.

Bonds Issued by Real Estate Investment Corporations

Bonds issued by real estate investment corporations satisfying the following requirements:

(1) Publicly-offered bonds issued by investment corporations which are deemed eligible in light of creditworthiness and other relevant factors such as being rated AA or higher by an eligible rating agency (when bonds are guaranteed by other companies, factors regarding the creditworthiness of the companies such as being rated A or higher would also be taken into account. The same criteria will be applied to all debt of real estate investment corporations).

(2) Principal investment objects of debtor investment corporations should be real estate, a leasehold of real estate, superficies of real estate, asset-backed securities backed by these assets or real estate-related assets which are deemed corresponding to these assets.

Dematerialized Commercial Paper Issued by Real Estate Investment Corporations Bills Drawn by Real Estate Investment Corporations Commercial Paper Issued by Real Estate Investment Corporations

Dematerialized commercial paper issued by real estate investment corporations, bills drawn by real estate investment corporations, and commercial paper issued by real estate investment corporations satisfying the following requirements:

- (1) Those deemed appropriate in light of creditworthiness of debtor investment corporations and other relevant factors.
- (2) Principal investment objects of debtor investment corporations should be real estate, a leasehold of real estate, superficies of real estate, asset-backed securities backed by these assets or real estate-related assets which are deemed corresponding to these assets.
- (3) Those with an original maturity of up to 1 year.

Foreign Government Bonds International Financial Institution Bonds

Bonds satisfying the following requirements:

- (1) Publicly offered;
- (2) Rated AA or higher by at least two eligible rating agencies.

Electronically Recorded Monetary Claims on Companies

Electronically recorded monetary claims satisfying the following requirements:

- (1) Those for which electronic records are made by electronic monetary claim recording institutions which the Bank considers appropriate (hereinafter referred to as "eligible recording institutions").
- (2) Those satisfying either of the following requirements:
 - (a) Electronically recorded monetary claims which the Bank considers as having similar functioning to bills in light of sanctions against nonpayment and other relevant factors (hereinafter referred to as "bill-like electronically recorded monetary claims") satisfying the following requirements:
 - i) Those deemed appropriate in light of relevant conditions including the creditworthiness of an obligor;
 - ii) Those with an original maturity of up to 1 year.
 - (b) Those other than bill-like electronically recorded monetary claims satisfying the following requirements:
 - i) Those deemed appropriate in light of creditworthiness of the debtor corporation and other relevant factors, including the fact that the corporation is rated A or higher by an eligible rating agency.
 - ii) Those with a residual maturity of up to 10 years (those with maturity date falling in the same month of the tenth year are included).

Electronically Recorded Monetary Claims on Real Estate Investment Corporations

Electronically recorded monetary claims satisfying the following requirements:

- (1) Those for which electronic records are made by eligible recording institutions.
- (2) Those satisfying either of the following requirements:
 - (a) Bill-like electronically recorded monetary claims satisfying the following requirements:
 - i) Those deemed appropriate in light of creditworthiness of debtor investment corporations and other relevant factors.
 - ii) Those with an original maturity of up to 1 year.
 - (b) Those other than bill-like electronically recorded monetary claims satisfying the following requirements:
 - i) Those deemed appropriate in light of creditworthiness of debtor investment corporations and other relevant factors such as being rated AA or higher by an eligible rating agency.
 - ii) Those with a residual maturity of up to 10 years (those with a maturity date falling in the same month of the tenth year are included).
- (3) Principal investment objects of debtor investment corporations should be real estate, a leasehold of real estate, superficies of real estate, asset-backed securities backed by these assets or real estate-related assets which are deemed corresponding to these assets.

Electronically Recorded Monetary Claims on the Government (including Government's Special Accounts)

Electronically Recorded Monetary Claims with Government Guarantees

Electronically recorded monetary claims satisfying the following requirements:

- (1) Those for which electronic records are made by eligible recording institutions.
- (2) Those deemed appropriate in light of the method of determining lending conditions, such as the auction procedures, and other relevant factors.
- (3) Those with a residual maturity of up to 10 years (those with maturity date falling in the same month of the tenth year are included).

Electronically Recorded Monetary Claims on Municipal Governments

Electronically recorded monetary claims satisfying the following requirements:

- (1) Those for which electronic records are made by eligible recording institutions.
- (2) Those deemed appropriate in light of the method of determining lending conditions, such as the auction procedures, debtor's issuance record of publicly-offered bonds, and other relevant factors.
- (3) Those with a residual maturity of up to 10 years (those with a maturity date falling in the same month of the tenth year are included).

Loans on Deeds to Companies

Loans on deeds satisfying the following requirements:

- (1) Loans on deeds to be deemed appropriate in light of creditworthiness of the debtor corporation and other relevant factors, including the fact that the corporation is rated A or higher by an eligible rating agency.
- (2) Loans on deeds with a residual maturity of up to 10 years (those with maturity date falling in the same month of the tenth year are included).

Loans on Deeds to Real Estate Investment Corporations

Loans on Deeds to real estate investment corporations satisfying the following requirements:

- (1) Those deemed appropriate in light of creditworthiness of debtor investment corporations and other relevant factors such as being rated AA or higher by an eligible rating agency.
- (2) Principal investment objects of debtor investment corporations should be real estate, a leasehold of real estate, superficies of real estate, asset-backed securities backed by these assets or real estate-related assets which are deemed corresponding to these assets.
- (3) Loans on deeds with a residual maturity of up to 10 years (those with a maturity date falling in the same month of the tenth year are included).

Loans on Deeds to the Government (including Government's Special Accounts) Loans on Deeds with Government Guarantees

Loans on deeds satisfying the following requirements:

- (1) Loans on deeds to be deemed appropriate in light of the method of determining lending conditions, such as the auction procedures, and other relevant factors.
- (2) Loans on deeds with a residual maturity of up to 10 years (those with maturity date falling in the same month of the tenth year are included).

Loans on Deeds to Municipal Governments

Loans on deeds satisfying the following requirements:

- (1) Loans on deeds to be deemed appropriate in light of the method of determining lending conditions, such as the auction procedures, debtor's issuance record of publicly-offered bonds, and other relevant factors.
- (2) Loans on deeds with a residual maturity of up to 10 years (those with a maturity date falling in the same month of the tenth year are included).