

(Tentative Translation)

JSDA Guideline for When-Issued Transactions of Japanese Government Bonds

October 2003 Version

Japan Securities Dealers Association

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I. General

1. Purpose

The Japanese government bond market has been mirroring active implementation of various market reforms recently, including the dematerialization of Japanese Government Bonds (hereinafter referred to as “JGBs”) pursuant to the enforcement of the “Law Concerning the Establishment of Related Laws for Improvement of the Securities Market through Reform of the Securities Settlement System, etc.” in January 2003, and the diversification of issue type and the reduction of underwriting ratio by the JGB underwriting syndicate group to secure smooth and stable absorption amidst large scale issuances. In addition, the “Future Vision on the Financial System and Administration” (Report prepared by the Future Vision Round Table Meeting on the Japanese Version of the Financial System and Administration) published in July 2002 suggested that necessary deliberations should be made to introduce so-called When-Issued (“WI”) transactions of JGBs.

Amidst these developments, the Ministry of Finance requested Japan Securities Dealers Association (JSDA) that market participants should take the principal role in deliberating and implementing the market practices required to prepare a favorable environment for adopting WI transactions and thereby to facilitate smoother subscription at JGB auctions. In response to this request, JSDA formed a “Study group for Market Practices of WI Transactions” directly under the Fixed Income and New Business Committee in November 2002, and this Study group had actively deliberated the nature and substance of market practices. Incidentally, we gave special consideration not to change the current market practices, which had been already developed by market participants for JGB transactions between the auction and the issue date (first settlement date).

Based on the consensus of the Study group, JSDA produced the “Guideline for When-Issued Transactions of Japanese Government Bonds” (“Guideline”) prescribing market practices with which market participants are to comply, in order to ensure the smooth introduction of WI transactions. We hope that the Guideline will be widely accepted and applied as established market practices by market participants, and thereby contribute to the smooth introduction of WI transactions of JGBs. Please note that the Guideline will not impose any restrictions on the statutory rights of market participants.

2. Enforcement

The Guideline will take effect on February 23, 2004.

*This Guideline will be reviewed and revised from time to time when necessary.

II. Guideline for When-Issued Transactions of Japanese Government Bonds

1. Definitions and Legal Perspective

(1) Definitions

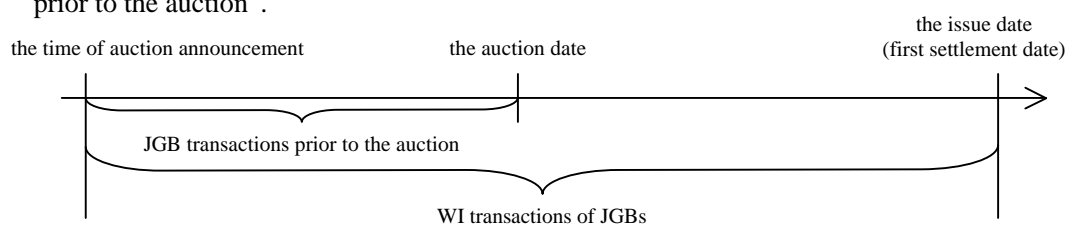
(a) WI transactions of JGBs (JGB transactions before an issue date (first settlement date))

“WI transactions of JGBs” represent JGB transactions executed by market participants (mainly JSDA member firms) for a set period of days before the issue date under the condition precedent that the relevant JGB shall be issued on the originally planned issue date, and settled on or after the issue date. The WI transactions should be commenced from the time when the probability of issuance of the relevant JGB becomes considerably high (that is, when the Ministry of Finance announces the expected auction date of the relevant JGB, expected issue date, expected issue amount and expected maturity date (“auction announcement”), and when the terms thereof are clarified).

(b) JGB transactions prior to the auction

Among WI transactions of JGBs, “JGB transactions prior to the auction” represents JGB transactions subject to an issuance of which an auction announcement is made by the Ministry of Finance, and executed by market participants with the conditions precedent during the period from the time of the auction announcement to the time of official release of the serial number and coupon rate of the relevant JGB on the auction date.

However, even if the serial number and coupon rate are known before the auction date, the transactions executed prior to the auction date shall be deemed as “JGB transactions prior to the auction”.



(2) Legal Perspective of WI transactions of JGBs

“WI transactions of JGBs” can be interpreted as legal action subject to the conditions precedent prescribed in Article 127, Paragraph 1 of the Civil Law, where contracts are concluded prior to the issue date, with conditions precedent that the relevant JGB shall be issued on the scheduled issue date. In other words, they are transactions effected prior to the issue date of the relevant JGB, with conditions precedent that the relevant JGB shall be issued on the originally planned issue date (completion of the issuance of JGB), and are transactions that the parties involved have agreed upon the settlement of the relevant JGB after the completion of the issuance on the originally planned issue date.

Please note that “WI transactions of JGBs” that JSDA member firms conduct as a part of their businesses are trading of the securities under the Securities and Exchange Law, and shall be executed in compliance with the procedures as prescribed in the Law.

2. Market Practices for JGB transactions prior to the auction

(1) Eligible JGBs

Among JGBs issued through auctions, JGBs eligible for transactions prior to the auction shall be, in principle, the JGBs for which the expected auction date, expected issue date, expected issue amount and expected maturity date are announced by the Ministry of Finance prior to the auction date.

(2) Execution Methods

JGB transactions prior to the auction shall be executed in the following manners:

- (a) For the fixed coupon JGBs, transactions shall be concluded on a semi-annual compound yield basis.
- (b) For the floating-rate JGBs, transactions shall be concluded with the spread from the reference rate (spread).

Please note that the execution method for the discount JGBs, such as Treasury Bills, etc, shall be in accordance with the market practices for transactions on and after the auction date.

(3) Fixing Methods, etc. of a traded price

In the case mentioned in (2) (a) and (b) above, a traded price shall be determined by the following manner:

- (a) When a contract is formed on a semi annual compound yield or a spread etc. and a traded price is fixed after the auction, the traded price shall be calculated in accordance with the formula described in the Appendix immediately after the official release of the coupon rate or spread , and such a traded price must be confirmed promptly by the seller and the buyer.
- (b) The contract date (trade date) is not the date when the traded price is fixed, but the date when the transaction is initially concluded.

(4) Change of an Execution Method on the auction date

For the interest-bearing JGBs eligible for JGB transactions prior to the auction, an execution method mentioned in (2) (a) and (b) above should be changed, in principle, to a simple yield basis or a price basis at the time when the serial number and coupon rate or spread are released on the auction day,

(5) Transactions Statements

Transactions statements and other statutory books shall be prepared and kept in accordance with the relevant laws and regulations.

(6) Timing of Settlement

The traded JGBs shall be settled on the originally planned issue date in principle.

However, this does not preclude the separate agreement between parties to the transaction.

3. Market Practices for WI transactions of JGBs after the auction

The execution methods of WI transactions after the auction should be provided in the same manner as those of JGB secondary transactions on and after the issue date.

4. Procedures in the case of postponement etc. of the JGB auction or issuance

(1) Procedures in the case of cancellation or postponement of the issuance

When the issuance of JGB is cancelled or postponed, the contracts of WI transactions shall be deemed to be cancelled because the condition precedent prescribing the issuance on the originally planned date is not finally attained at that time.

However, this does not preclude the separate agreement between parties to the transaction.

(2) Procedures in the case of cancellation of the auction

When the Ministry of Finance announces the cancellation of the JGB auction and in addition that the issuance will not be implemented on the originally planned date, the contracts of the JGB transactions prior to the auction shall be deemed to be cancelled because the condition precedent prescribing the issuance on the originally planned date is not finally attained at that time.

(3) Procedures in the case of postponement of the auction

In case the Ministry of Finance announces the postponement of the JGB auction and does not hold the auction by one business day prior to the originally planned issue date, the contracts of the JGB transactions prior to the auction shall be deemed to be cancelled because such condition precedent prescribing the issuance on the originally planned date could not be fulfilled at that time.

However, this does not preclude the separate agreement between parties to the transaction.

(4) Procedures in the case of a reopening of the JGB ^(Note 1)

Once the Ministry of Finance announces a reopening of the JGB, even if the issuance of the new JGB is cancelled or postponed afterwards, the condition precedent shall be deemed to be accomplished on and as of the originally planned issue date (completion of the issuance) and the settlement shall be carried out by the existing relevant JGB based on the contents of contracts of the WI transactions.

However, this does not preclude the separate agreement between parties to the transaction.

(Supplementary Provision)

Establishment of the Guideline: July 31, 2003.

Amendment of the Guideline: October 28, 2003.

Enforcement of the Guideline: February 23, 2004.

^(Note 1) Reopening refers to the method of JGB issuance that the Ministry of Finance additionally issues the exact same JGB as an existing one.

Fixed Coupon Japanese Government Bonds

$$P = \frac{\frac{C}{2}}{\left(1 + \frac{r}{200}\right)^{\frac{2F}{365}}} + \frac{C \times 100}{r} \times \left\{ \frac{1}{\left(1 + \frac{r}{200}\right)^{\frac{2F}{365}}} - \frac{1}{\left(1 + \frac{r}{200}\right)^{\frac{2F}{365} + N - 1}} \right\}$$

$$+ \frac{100}{\left(1 + \frac{r}{200}\right)^{\frac{2F}{365} + N - 1}} - \frac{C}{2} \times \frac{2A}{365}$$

P : Price

C : Nominal Coupon Rate (In % on Annual Basis)

r : Semi Annual Compound Yield (%)

A : Days from the First Accrual Date to the Issue Date

N : Number of Interest Payments to the Maturity Date

F : 182.5 - A

In the calculation process, each calculation results shall be rounded to ten (10) decimal places.

P shall be rounded down to three (3) decimal places.

Floating Rate Japanese Government Bonds

$$P = \frac{\frac{K - f}{2}}{\left(1 + \frac{K - t}{200}\right)^{\frac{2F}{365}}} + \frac{(K - f) \times 100}{K - t} \times \left\{ \frac{1}{\left(1 + \frac{K - t}{200}\right)^{\frac{2F}{365}}} - \frac{1}{\left(1 + \frac{K - t}{200}\right)^{\frac{2F}{365} + N - 1}} \right\}$$

$$+ \frac{100}{\left(1 + \frac{K - t}{200}\right)^{\frac{2F}{365} + N - 1}} - \frac{K - f}{2} \times \frac{2A}{365}$$

P : Price

K : Reference Rate (% , Calculated from the Result of the Latest 10-Year JGB Auction by the Issuer)

f : " " fixed through the Auction (%)

t : " " traded between counterparts in WI Transaction (%)

A : Days from the First Accrual Date to the Issue Date (Days)

N : Number of Interest Payments to the Maturity Date

F : 182.5 - A

In the calculation process, each calculation results shall be rounded to ten (10) decimal places.

P shall be rounded down to three (3) decimal places. However, In case of $f = t$, P shall be 100.