

How to save the economy as an irresponsible central bank

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Addendum: Japan's experience in 2003-2006---the records

In trying to escape from the “liquidity trap”, even the Bank of Japan (BOJ) did not go as far as “helicopter money”, electronic version or otherwise. It stopped at outright purchases of “asset backed securities” issued by private corporations through financial institutions and the measure was terminated in 2006. What follows is a selection of the relevant sections of the minutes of its Monetary Policy Meeting on 10 and 11 June 2003. But who knows, Bernanke might be tempted or forced to outdo the BOJ in his bid to be a record holder.

“Minutes of the Monetary Policy Meeting

on June 10 and 11, 2003

(English translation prepared by the Bank's staff based on the Japanese original)

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The Chairman's Policy Proposal on the Guideline for Market Operations:

The guideline for money market operations in the intermeeting period ahead will be as follows, and will be made public by the attached statement (see [Attachment 1](#)).

The Bank of Japan will conduct money market operations, aiming at the outstanding balance of current accounts held at the Bank at around 27 to 30 trillion yen.

Should there be a risk of financial market instability, such as a surge in liquidity demand, the Bank will provide more liquidity irrespective of the above target.

Votes for the proposal: Mr. T. Fukui, Mr. T. Muto, Mr. K. Iwata, Mr. K. Ueda, Mr. T. Taya, Ms. M. Suda, Mr. S. Nakahara, Mr. H. Haru, and Mr. T. Fukuma.

Votes against the proposal: None.

The Chairman's Policy Proposal on Outright Purchases of ABSs:

1. As a result of examination in line with "Examination of Possible Purchase of Asset-Backed Securities" (Policy Board Decision on April 8, 2003), the Bank has decided to purchase ABSs in accordance with the attached statement, "Outline of the Outright Purchase Scheme for Asset-Backed Securities," and will work on necessary arrangements so that the new scheme is put in place by the end of July 2003 (see [attachments 2 and 3](#)).
2. A public statement concerning the above proposal will be decided separately.
3. A summary of comments received from market participants and the Bank's response to them will be made public.
4. The Governor will decide on the content of the release prescribed in item 3 above.

Votes for the proposal: Mr. T. Fukui, Mr. T. Muto, Mr. K. Iwata, Mr. K. Ueda, Mr. T. Taya, Ms. M. Suda, Mr. S. Nakahara, Mr. H. Haru, and Mr. T. Fukuma.
Votes against the proposal: None.

June 11, 2003
Bank of Japan

Purchases of Asset-Backed Securities

1. At the Monetary Policy Meeting (MPM) held today, the Bank of Japan decided the outline of the scheme for outright purchases of asset-backed securities (ABSs) as shown in [Attachment 3](#). Based on the outline, the Bank will work on necessary arrangements so that the new scheme be put in place by end-July 2003. The Bank has reached today's decision after it continued to examine the possible purchases of ABSs since the MPM held on April 7-8, taking account of comments received from market participants.

2. ABSs are expected to contribute to promoting smooth corporate financing by reducing credit risks through their diversification as well as by reallocating credit risks to investors with various risk preferences. **The Bank judged that it can play an important role in encouraging the development of the ABS market by directly taking credit risks through purchases of ABSs as a temporary measure.** By encouraging the development of the ABS market through **this unprecedented scheme** for a central bank, the Bank could strengthen the transmission mechanism of monetary easing against the background of banks' weak financial intermediary function.

3. In designing the scheme, due attention was paid so that the Bank's purchase would contribute to sound development of the ABS market, without distorting market mechanism. In order to make this scheme most effective, the Bank purchases various types of ABSs as eligible assets, including those with relatively higher credit risk. The Bank purchases ABSs with a broad range of underlying assets, including loans and receivables, if they are deemed to contribute to smooth financing of small and medium-sized enterprises. The Bank sets the maximum amount outstanding of purchases at one trillion yen for the time being in order to give maximum support to the development of the ABS market while maintaining the financial soundness of the Bank.

4. The improvement of the market infrastructure is essential for further development of ABSs. The Bank will continue to make efforts in order to improve the infrastructure of the ABS market in cooperation with market participants, taking their comments into account. The Bank will work together with relevant authorities and government financial institutions for supporting the effort of market participants.

Attachment 3

Outline of the Outright Purchase Scheme for Asset-Backed Securities

1. Eligible assets to be purchased

(1) Types of eligible assets

- **Asset-backed securities (publicly-offered)**
- **Synthetic-type securities (publicly-offered credit-link notes)**
- **Asset-backed commercial paper (including dematerialized commercial paper)**

(2) Eligibility criteria

[1] Characteristics of securities

- Securities shall be denominated in Japanese yen.
- Securities shall be issued in Japan.
- Securities shall be governed by Japanese law.

[2] Underlying assets

- Underlying assets* shall be those deemed to contribute to smooth financing of small and medium-sized enterprises. The eligible assets shall not be limited to loans or receivables.

* In the case of synthetic-type securities, "underlying assets" mean pools of assets whose credit risk is transferred by financial transactions such as credit derivatives.

- 50 % or more of the value of underlying assets shall be composed of assets related to small and medium-sized enterprises (i.e. enterprises with capital of less than 1 billion yen).
- When underlying assets are pools of bank loans, their borrowers shall be those classified as "normal" based on the FSA's examination manual through banks' self-assessment of loan portfolio.

[3] Creditworthiness

(a) **Asset-backed securities and synthetic-type securities**

- **Securities** shall be rated **BB or higher** by all rating agencies (minimum of two ratings).
- Original maturities shall be **up to three years**.
- Proceeds raised through the issuance of **synthetic-type securities** shall be invested in pools of financial assets deemed appropriate by the Bank in terms of their marketability and creditworthiness (e.g. JGBs).

(b) **Asset-backed commercial paper**

- **Commercial paper** shall be **rated a-1** by at least two rating agencies.
- Original maturities shall be **up to one year**.
- Asset-backed commercial paper fully supported by the financial institutions that have current accounts with the Bank may also be eligible (as prescribed in the temporary rules for eligible collateral).

2. Purchasing procedures

(1) Asset-backed securities and synthetic-type securities

- After an initial public offering is closed, the Bank will purchase the requested amount of the securities from the selected counterparties at their request. Purchase prices shall be decided based on those applied for the public offering.
- **Eligible counterparties shall be selected in advance from the financial institutions that have current accounts with the Bank's Head Office**, mainly based on their creditworthiness.

(2) Asset-backed commercial paper

- The Bank purchases eligible commercial paper through competitive auctions.
- **Eligible counterparties shall be selected in advance from those for the purchase operations of commercial paper with repurchase agreements.**

3. Maximum amount of purchases

(1) Total amount outstanding

- For the time being, the maximum amount outstanding of the Bank's purchases shall be 1 trillion yen.

(2) Limit per issue

- For asset-backed securities and synthetic-type securities, the amount purchased by the Bank shall not exceed 50% of each tranche of an issue.

4. Others

- **This purchase scheme shall be valid until end-March 2006.**
- The outline mentioned above, including the range of asset-backed securities to be purchased, the purchasing procedures, and the maximum amount of purchases, shall be reviewed and changed, if necessary, depending on factors such as development of the asset-backed securities market as well as the financial soundness of the Bank. ”

(Emphases added.)

<http://www.boj.or.jp/en/type/release/teiki/giji/g030611.htm>

Modified in January 2004:

<http://www.boj.or.jp/en/type/release/zuiji/kako03/mok0401a.htm>

Terminated in March 2006:

<http://www.boj.or.jp/en/type/release/teiki/giji/g060309.htm>

Records can be traced from the minutes posted on the BOJ website.