

## Minutes of the Second Round of the "Bond Market Group" Meetings

### 1. Outline

(1) Date	Commercial banks group (22 firms)	December 10 at 4:00 pm
	Securities firms group (25 firms)	December 10 at 6:00 pm
	Buy-side group (19 firms)	December 11 at 4:00 pm

(2) Place           The Head Office of the Bank of Japan

### (3) Participants

- Persons in charge of bond market issues in financial institutions, participating in the "Bond Market Survey"
- Director-General of the Financial Markets Department, Head of Coordination and Market Analysis Division, Head of Market Operations Division, Head of Market Infrastructure Division

### 2. Views provided by participants

The Bank explained to each group (1) the results of the "Bond Market Survey," (2) liquidity in the JGB market, and (3) recent developments in the financial markets and market operations. The Bank also exchanged views with participants on these topics.

Views provided by participants are as follows.

#### Bond Market Survey

- As shown in the results of the November 2015 survey, we have the impression that the functioning of the JGB market has slightly decreased compared with that seen at the previous August 2015 survey.
- The market environment has not changed much since the expansion of QQE last year and our firm is able to make dealings with expected prices and dealing

lots. We do not have the impression that the functioning of the JGB market has worsened rapidly.

- Some investors seem to be giving up purchases of JGBs with expected dealing lots due to decrease of JGBs in the market.
- Operational knowledge of trading practices and relevant administrative infrastructures have been maintained, from transactions of JGBs for collateral management and for repos.
- Interest rate level is most important when investors judge the functioning of the JGB market. In this sense, JGBs have been less attractive as an investment option.

#### Liquidity in the JGB market

- Degree of risk-tolerance among securities firms, who are the major players in the JGB market, has decreased due to financial regulations, which seems to be increasing the latent vulnerability of markets.
- We have concerns about whether the JGB market will maintain its function properly under stressed market conditions.
- Whether the JGB futures market is providing effective hedging tools is another important measure to evaluate the functioning of the JGB market.
- While we are intentionally restraining purchases of JGBs for the moment, we are concerned whether we would be able to procure them with no difficulty when we need to expand JGB holdings to respond to financial regulations.

#### Financial Market Developments

- Further decline in long-term JGB yields is unlikely, considering the interest rate paid by the Bank on excess reserves remaining at 0.1% and the term premium being positive.
- It is possible that long-term JGB yields will decline further, if the Bank's outright JGB purchases continue while the amount of newly issued JGBs decreases.
- Super-long-term JGBs are still attractive to invest in, as they can generate profits by rolling down the relatively steep JGB yield curve.

- When discussing bond investment, the Bank's outright purchases of JGBs have become the main topic.
- A number of buy-side investors have integrated JGB divisions with foreign bond divisions after the Lehman Crisis. As a result, it has become easier to switch funds between domestic bonds and foreign bonds.
- We are cautious about discontinuous increase in interest rates, should another downgrading of JGBs occur. We are also concerned that foreign investors may show decrease in preference for JGBs as collateral for derivative transactions with Japanese financial institutions.

#### The Bank's Operations

- Since the number of Bank's operations has increased, our firm remains concerned of making errors when submitting offers.
- The Bank's Securities Lending Facility (SLF) has become more useful, mainly due to the relaxation in its conditions. The imbalances of supply and demand among different JGB issues seem to have been adjusted.
- Further relaxation in the conditions of SLF may contribute to easing market participants' concern on liquidity conditions in the JGB market.

#### Dialogue with Market Participants

- In addition to normal times, it would be beneficial to exchange views for maintaining market functioning under stressed market conditions at this kind of meetings.
- It would be helpful if the Bank could dialogue with market participants carefully and well ahead of time, when the Bank deems to change the direction of the monetary easing framework in the future.