

## JGB Insight

### JGB issuance plan after the 2nd supplementary budget and BOJ purchase outlook

- ✓ The second supplementary budget increases calendar-based JGB market issuance by Y59.5 trillion vs. the first supplementary budget.
- ✓ Annual 6M TB issuance of Y45.6 trillion is somewhat surprising, but the issuance increase in other maturities is largely in line with the market consensus.
- ✓ Although Japan will likely compile additional supplementary budgets, a further increase in calendar-based JGB market issuance is less likely.
- ✓ We think the BOJ may revise its offer ranges and also its number of offers per month upwards when it releases its Outline of Purchases for June and July.

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#### Additional spending under the general budget will total Y31.9 trillion, and additional revenue will come only from issuing public debt

The government approved a draft second supplementary budget for FY20 at an unscheduled Cabinet Office meeting in the evening on May 27. The additional spending under the general budget, which includes about Y31.8 trillion of spending on covid-19 pandemic relief, a transfer to the Government Debt Consolidation Fund of Y96.3 billion and a Y2billion reduction in MD expense, will total about Y31.9 trillion. The additional revenue to fund that spending will all come from issuing public debt: roughly Y9.3 trillion of construction bonds and Y22.6 trillion of deficit-financing bonds. The first supplementary budget for FY20 had already set a new record as the largest single supplementary budget, and this second one brings the total supplementary budget for the fiscal year to a record-high, as well. The initial budget for FY20 was already a record-high Y102 trillion, and to this will be added a record-high supplementary budget (Chart 1).

#### Calendar-based JGB market issuance will increase by Y59.5 trillion relative to the level of issuance after the first supplementary budget

The second supplementary budget will change the JGB issuance plan (Table 1) and bring total JGB issuance to Y253.3 trillion, increased by Y64.7 trillion from the first supplementary budget. By types of JGBs based on legal grounds, in addition to increases in construction bonds and special deficit bonds, FILP bonds will increase substantially by Y32.8 trillion relative to after the first supplementary budget. FILP bonds are not "general bonds" and not counted in the national debt.

By types of bonds based on financing methods, the calendar-based JGB market issuance will increase (relative to the level resulting from the first supplementary budget) by about Y59.5 trillion, Non-price Competitive Auction II will increase about Y1 trillion, and annual adjustments related to front-loaded issuance will increase about Y4 trillion. We expect the second supplementary budget to put total front-loaded issuance at over Y20 trillion.

#### Because the issuance increase by maturity was largely in line with the last-minute market consensus, the JGB market's initial reaction was limited

Tables 2 and 3 show the increase in calendar-based market issuance by maturity, which grabs strong market attention. The Y35.6 trillion increase (relative to after the first supplementary budget) in the issuance of 6-month treasury discount bills to a total of Y45.6 trillion for the year was somewhat surprising, while the increase in other maturities seems to be largely in line with the recent market consensus. At this point (as of 18:00 JST on 27 May), although other markets have reacted favorably to the large supplementary budget, with stock futures rising sharply and the USD/JPY increasing, the JGB market's reaction has been limited.

#### Although Japan will likely compile additional supplementary budgets with a high probability, further increase in calendar-based JGB market issuance has become significantly less likely

After first lifting its state of emergency on 39 prefectures and later on three more prefectures of the Kinki region, the Japanese government did so for the five remaining prefectures, including Tokyo, on May 25. Following Europe and the US, Japan is also cautiously and quickly resuming those social and economic activities that had been shut down because of the Covid-19 pandemic. Worries about a second wave of infections, however, remain strong, making us difficult to be optimistic about a V-shaped economic recovery. Amid lingering concerns about the direction of the economy, Japan will likely compile additional supplementary budgets with a high probability, expecting a decline in tax revenues as well.

Nevertheless, given that this latest supplementary budget includes about Y10 trillion of discretionary reserves and that there are still over Y20 trillion of front-loaded JGBs, we think the likelihood of additional increases in calendar-based JGB market issuance from future supplementary budgets has declined substantially.

**Table 1: FY2020 JGB Issuance Plant**

<Breakdown by Legal Grounds>						<Breakdown by Financing Methods>					
	FY2020 (Initial)	FY2020 (1st Supplementary Budget)	FY2020 (2nd Supplementary Budget)				FY2020 (Initial)	FY2020 (1st Supplementary Budget)	FY2020 (2nd Supplementary Budget)		
	(a)	(b)	(c)	(c) - (a)	(c) - (b)		(a)	(b)	(a)	(c) - (a)	(c) - (b)
Newly-issued Bonds	32,556.2	58,247.6	90,158.9	57,602.7	31,911.4	JGB Market Issuance (Calendar Base)	128,800.0	152,800.0	212,300.0	83,500.0	59,500.0
Construction Bonds	7,110.0	9,439.0	18,738.0	11,628.0	9,299.0	Non-Price Competitive Auction II, etc.	7,988.4	9,054.0	10,062.0	2,073.6	1,008.0
Special Deficit-Financing Bonds	25,446.2	48,808.6	71,420.9	45,974.7	22,612.4	Adjustment between fiscal years	9,673.7	19,699.5	23,902.8	14,229.1	4,203.4
Reconstruction Bonds	924.1	924.1	924.1	-	-	Subtotal Financed in the Market	146,462.1	181,553.5	246,264.8	99,802.7	64,711.4
FILP Bonds	12,000.0	21,400.0	54,200.0	42,200.0	32,800.0	Sales for Households	4,800.0	4,800.0	4,800.0	-	-
Refunding Bonds	107,981.8	107,981.8	107,981.8	-	-	BOJ Rollover	2,200.0	2,200.0	2,200.0	-	-
For matured Reconstruction Bonds	1,693.2	1,693.2	1,693.2	-	-	Total	153,462.1	188,553.5	253,264.8	99,802.7	64,711.4
<b>Total</b>	<b>153,462.1</b>	<b>188,553.5</b>	<b>253,264.8</b>	<b>99,802.7</b>	<b>64,711.4</b>						

\* Buy-back program in FY2020 is planned to be implemented based on market conditions and through discussions with market participants.  
 \* The maximum amount of front-loading issuance of Refunding Bonds in FY2020 is 43 trillion yen.

(Note 1) Figures may not sum up to the total because of rounding.

(Note 2) "JGB Market Issuance (Calendar Base)" refers to JGBs issued at face value by scheduled auctions from April to next March (normal auctions).

(Note 3) Non-price competitive auction II is an additional issuance for JGB Market Special Participants after the normal auction (the amount assignable to each Market Special Participant does not exceed 10% of the amount awarded to it in the normal auction), and the price for the additional issuance is equal to the weighted average accepted price in the normal auction. The amount of the non-price competitive auction II is calculated by multiplying the amount of "JGB Market Issuance (Calendar Base)" (40-Year, 30-Year, 20-Year, 10-Year, 5-Year and 2-Year Bonds) by 7% (the amount reflects the impact of reduction in the maximum issuance amount).

(Note 4) "Adjustment between fiscal years" refers to leveling-off of the issuance amount between fiscal years through front-loading issuance and deferred issuance in the accounting adjustment term.

Source: Ministry of Finance

**Table 2: Calendar-based JGB Market Issuance after Second Supplementary Budget (Yen trillions)**

	FY2020 initial			FY2020 after 1st supplementary budget				FY2020 after 2nd supplementary budget				
	per time	# of auctions per year	total <a>	per time	# of auctions per year	total <b>	<b>-<a>	per time	# of auctions per year	total <c>	<c>-<a>	<c>-<b>
40Y JGBs	0.5	× 6	= 3.0	0.5	× 6	= 3.0	-	0.5	× 6	= 3.0	-	-
30Y JGBs	0.7	× 12	= 8.4	0.7	× 3	= 2.1	0.9	0.7	× 3	= 2.1	1.8	0.9
				0.8	× 9	= 7.2		0.9	× 9	= 8.1		
20Y JGBs	0.9	× 12	= 10.8	0.9	× 3	= 2.7	0.9	0.9	× 3	= 2.7	2.7	1.8
				1.0	× 9	= 9.0		1.2	× 9	= 10.8		
10Y JGBs	2.1	× 12	= 25.2	2.1	× 3	= 6.3	1.8	2.1	× 3	= 6.3	4.5	2.7
				2.3	× 9	= 20.7		2.6	× 9	= 23.4		
5Y JGBs	1.9	× 12	= 22.8	1.9	× 3	= 5.7	1.8	1.9	× 3	= 5.7	5.4	3.6
				2.1	× 9	= 18.9		2.5	× 9	= 22.5		
2Y JGBs	2.0	× 12	= 24.0	2.0	× 3	= 6.0	3.6	2.0	× 3	= 6.0	9.0	5.4
				2.4	× 9	= 21.6		3.0	× 9	= 27.0		
1Y TBs	1.8	× 12	= 21.6	1.8	× 3	= 5.4	5.4	1.8	× 3	= 5.4	15.3	9.9
				2.4	× 9	= 21.6		3.5	× 9	= 31.5		
6M TBs	-					10.0	10.0			45.6	45.5	35.6
10Y JGBis	0.4	× 4	= 1.6	0.3	× 4	= 1.2	▲ 0.4	0.2	× 4	= 0.8	▲ 0.8	▲ 0.4
AEL	-		= 11.4	-		= 11.4	-	-		= 11.4	-	-
<b>TOTAL</b>			<b>128.8</b>			<b>152.8</b>	<b>24.0</b>			<b>212.3</b>	<b>83.5</b>	<b>59.5</b>

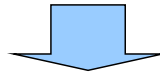
Source: Ministry of Finance

Table 3: Calendar-based JGB Market Issuance Schedule (Yen trillions)

&lt; FY2020 initial &gt;

(Yen trillions)

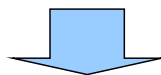
FY2020	6M TDB	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
May-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.4	0.90	11.2
Jun-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
Aug-20	-	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.00	10.8
Sep-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
<b>1H Total</b>	<b>-</b>	<b>10.8</b>	<b>12.0</b>	<b>11.4</b>	<b>12.6</b>	<b>5.4</b>	<b>4.2</b>	<b>1.5</b>	<b>0.8</b>	<b>5.7</b>	<b>64.4</b>
Oct-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Nov-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.4	0.90	11.2
Dec-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jan-21	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
Feb-21	-	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.00	10.8
Mar-21	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
<b>2H Total</b>	<b>-</b>	<b>10.8</b>	<b>12.0</b>	<b>11.4</b>	<b>12.6</b>	<b>5.4</b>	<b>4.2</b>	<b>1.5</b>	<b>0.8</b>	<b>5.70</b>	<b>64.4</b>
<b>TOTAL</b>	<b>-</b>	<b>21.6</b>	<b>24.0</b>	<b>22.8</b>	<b>25.2</b>	<b>10.8</b>	<b>8.4</b>	<b>3.0</b>	<b>1.6</b>	<b>11.4</b>	<b>128.8</b>



&lt; FY2020 after the first supplementary budget &gt;

(Yen trillions)

FY2020	6M TDB	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
May-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.3	0.90	11.1
Jun-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
Aug-20	-	2.4	2.4	2.1	2.3	1.0	0.8		0.3	1.00	12.3
Sep-20	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
<b>1H Total</b>	<b>-</b>	<b>12.6</b>	<b>13.2</b>	<b>12.0</b>	<b>13.2</b>	<b>5.7</b>	<b>4.5</b>	<b>1.5</b>	<b>0.6</b>	<b>5.7</b>	<b>69.0</b>
Oct-20	-	2.4	2.4	2.1	2.3	1.0	0.8			1.00	12.0
Nov-20	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5	0.3	0.90	12.7
Dec-20	-	2.4	2.4	2.1	2.3	1.0	0.8			1.00	12.0
Jan-21	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
Feb-21	-	2.4	2.4	2.1	2.3	1.0	0.8		0.3	1.00	12.3
Mar-21	10.0	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
<b>2H Total</b>	<b>-</b>	<b>14.4</b>	<b>14.4</b>	<b>12.6</b>	<b>13.8</b>	<b>6.0</b>	<b>4.8</b>	<b>1.5</b>	<b>0.6</b>	<b>5.70</b>	<b>73.8</b>
<b>TOTAL</b>	<b>10.0</b>	<b>27.0</b>	<b>27.6</b>	<b>24.6</b>	<b>27.0</b>	<b>11.7</b>	<b>9.3</b>	<b>3.0</b>	<b>1.2</b>	<b>11.4</b>	<b>152.8</b>
<b>Change v. initial budget</b>	<b>10.0</b>	<b>5.4</b>	<b>3.6</b>	<b>1.8</b>	<b>1.8</b>	<b>0.9</b>	<b>0.9</b>	<b>-</b>	<b>▲ 0.4</b>	<b>-</b>	<b>24.0</b>



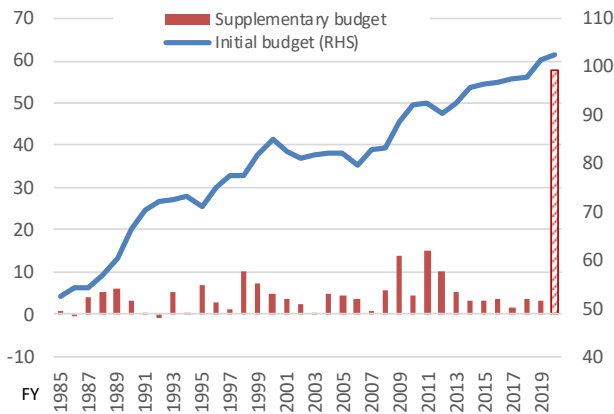
&lt; FY2020 after the second supplementary budget &gt;

(Yen trillions)

FY2020	6M TDB	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
May-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.2	0.90	11.0
Jun-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	-	3.5	3.0	2.5	2.6	1.2	0.9	0.5		0.90	15.1
Aug-20	-	3.5	3.0	2.5	2.6	1.2	0.9		0.2	1.00	14.9
Sep-20	-	3.5	3.0	2.5	2.6	1.2	0.9	0.5		0.90	15.1
<b>1H Total</b>	<b>-</b>	<b>15.9</b>	<b>15.0</b>	<b>13.2</b>	<b>14.1</b>	<b>6.3</b>	<b>4.8</b>	<b>1.5</b>	<b>0.4</b>	<b>5.7</b>	<b>76.9</b>
Oct-20	-	3.5	3.0	2.5	2.6	1.2	0.9			1.00	14.7
Nov-20	-	3.5	3.0	2.5	2.6	1.2	0.9	0.5	0.2	0.90	15.3
Dec-20	-	3.5	3.0	2.5	2.6	1.2	0.9			1.00	14.7
Jan-21	-	3.5	3.0	2.5	2.6	1.2	0.9	0.5		0.90	15.1
Feb-21	-	3.5	3.0	2.5	2.6	1.2	0.9		0.2	1.00	14.9
Mar-21	45.6	3.5	3.0	2.5	2.6	1.2	0.9	0.5		0.90	15.1
<b>2H Total</b>	<b>-</b>	<b>21.0</b>	<b>18.0</b>	<b>15.0</b>	<b>15.6</b>	<b>7.2</b>	<b>5.4</b>	<b>1.5</b>	<b>0.4</b>	<b>5.70</b>	<b>89.8</b>
<b>TOTAL</b>	<b>45.6</b>	<b>36.9</b>	<b>33.0</b>	<b>28.2</b>	<b>29.7</b>	<b>13.5</b>	<b>10.2</b>	<b>3.0</b>	<b>0.8</b>	<b>11.4</b>	<b>212.3</b>
<b>Change v. initial budget</b>	<b>45.6</b>	<b>15.3</b>	<b>9.0</b>	<b>5.4</b>	<b>4.5</b>	<b>2.7</b>	<b>1.8</b>	<b>-</b>	<b>▲ 0.8</b>	<b>-</b>	<b>83.5</b>
<b>Change v. 1st s.b.</b>	<b>35.6</b>	<b>9.9</b>	<b>5.4</b>	<b>3.6</b>	<b>2.7</b>	<b>1.8</b>	<b>0.9</b>	<b>-</b>	<b>▲ 0.4</b>	<b>-</b>	<b>59.5</b>

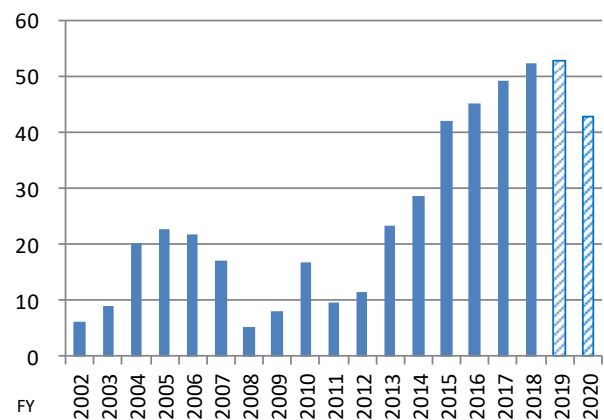
Source: Ministry of Finance

Chart 1: Initial and Supplementary Budget (Yen trillions)



Note: Total of 1<sup>st</sup> and 2<sup>nd</sup> supplementary budgets for FY2020  
Source: Ministry of Finance

Chart 2: Front-loaded Issuance (Yen trillions)



Note: Issuance limit for FY2019 and FY2020  
Source: Ministry of Finance

**June Outlook for BOJ purchasing operations: to begin increasing**

The BOJ will update its Outline of Outright Purchases of Japanese Government Securities (Outline of Purchases) for June on Friday, May 29. Because the amount of calendar-based JGB market issuance, including in each maturity zone, will increase substantially from July, we think the BOJ may step up its offer ranges across the June and July Outline of Purchases. This is because updates to its Outline of Purchases allow for automatic increases, irrespective of conditions affecting the bond market, interest rate levels, and the shape of the curve.

Looking at the June Outline of Purchases to start with, we expect it to leave its number of operations unchanged while increasing its offer amounts by Y20-30 billion in each maturity from over-1-year to 10-years, in think it could possibly increase the offer ranges if necessary.

We think it likely that, barring any rapid change in the market environment, the BOJ will leave its offer amounts in each zone unchanged from the previous operation for its buying operations scheduled for May 29, which target the over-3-year to 5-year, over-5-year to 10-year, and over-10-year to 25-year zones.

Table 4: BOJ Purchases etc. in May

(Yen billions)

	Offer size per operation		Number of Offers (per month)	Offer size in May	Offer size at the last operation in Apr.	Monthly Total exp. in May (a)	MOF issuance in May* (b)	(b)-(a)	[Ref.] April	
	Min	Mid								
<b>JGBs ex Linkers and Floaters</b>										
1 year and less	50	100	75	3	80	80	240	-	-	
Over 1 to 3 years	200	500	350	6	340	340	2,040	2,000	-40	60
Over 3 to 5 years	200	500	350	5	350	300	1,750	1,900	150	200
Over 5 to 10 years	200	550	375	5	370	370	1,850	2,100	250	330
Over 10 to 25 years	50	200	125	2	120	120	240	900	660	660
Over 25 years	0	50	25	2	30	30	60	1,200	1,140	640
Linkers	30	-	-	2	30	30	60	300	-	-
Floaters (in even month)	100	-	-	1	-	100	-	-	-	-
<b>TOTAL**:</b>						<b>6,240</b>	<b>8,400</b>	<b>2,160</b>		
<b>April:</b>						<b>5,950</b>	<b>7,600</b>	<b>1,650</b>		

(Note) "Offer size per operation" and "Number of offers (per month)" are as released by the BOJ on April 27 \* Excluding auction II and AEL \*\* Excluding JGB floaters

Source: Ministry of Finance, Bank of Japan, Daiwa Securities

## Explanatory Document of Unregistered Credit Ratings

In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

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Registered Credit Rating Agencies are subject to the following regulations:

- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

### ■ Credit Rating Agencies

#### [Standard & Poor's]

##### The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")

The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (<http://www.standardandpoors.co.jp/unregistered>) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

##### Assumptions, Significance and Limitations of Credit Ratings

Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of March 7th, 2017, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

#### [Moody's]

##### The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website ([https://www.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx)))

##### Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service's ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of April 16<sup>th</sup>, 2018, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Moody's Japan K.K. ([https://www.moody.com/pages/default\\_ja.aspx](https://www.moody.com/pages/default_ja.aspx))

#### [Fitch]

##### The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")

The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (<https://www.fitchratings.com/site/japan>)

##### Assumptions, Significance and Limitations of Credit Ratings

Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. Despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

For the details of assumption, purpose and restriction of credit ratings, please refer to "Definitions of ratings and other forms of opinion" on the website of Fitch Rating Japan Limited.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of September 27th, 2019, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Fitch Rating Japan Limited (<https://www.fitchratings.com/site/japan>)

February 2020



## **IMPORTANT**

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**Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.:** Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

### **Other Disclosures Concerning Individual Issues:**

- 1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies. As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.
- 2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITs: Daiwa Office Investment Corporation (8976), Nippon Healthcare Investment Corporation (3308), Japan Rental Housing Investments (8986).
- 3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.
- 4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.
- 5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).
- 6) NEC (6701): NOTICE REGARDING U.S. PERSONS: This report is not intended for distribution to or use by any person in the United States. Securities issued by NEC Corporation have been suspended from registration in the U.S. and are subject to an order of the U.S. Securities and Exchange Commission dated June 17, 2008, pursuant to Section 12(j) of the Securities Exchange Act of 1934. This document is not a recommendation or inducement of any purchase or sale of such securities by any person or entity located in the U.S. Daiwa Securities Co. Ltd. disclaims any responsibility to any such person with respect to the content of this document. Any U.S. person receiving a copy of this report should disregard it.

### **Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law**

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements\*\*.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

\*\* The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

**When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.**

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association