



MIC

Local Government Bond System and Market in Japan

**Ministry of Internal Affairs
and Communications**

October 2011



First of all, we would like to sincerely thank you for your country's support and messages of encouragement after the Great East Japan Earthquake.

We will continue our efforts to recover from the disaster with feeling a gratitude, and ask for your continuing support.

I Safety of Japanese LGB

II Attractiveness of Japanese LGB

III Action to the earthquake disaster (topic)

IV Appendix

I Safety of JLGB (Japan Local Government Bond)

1. Solid support of central government to the redemption
2. Check and control system by central government (and other)
3. Control of fiscal discipline

Principal and interest of JLGB have been fully paid without default (similar to JGB).

The risk-weight of JLGB is regarded as 0% in Basel Capital Accord (Basel II, domestic standard, standardized approach).

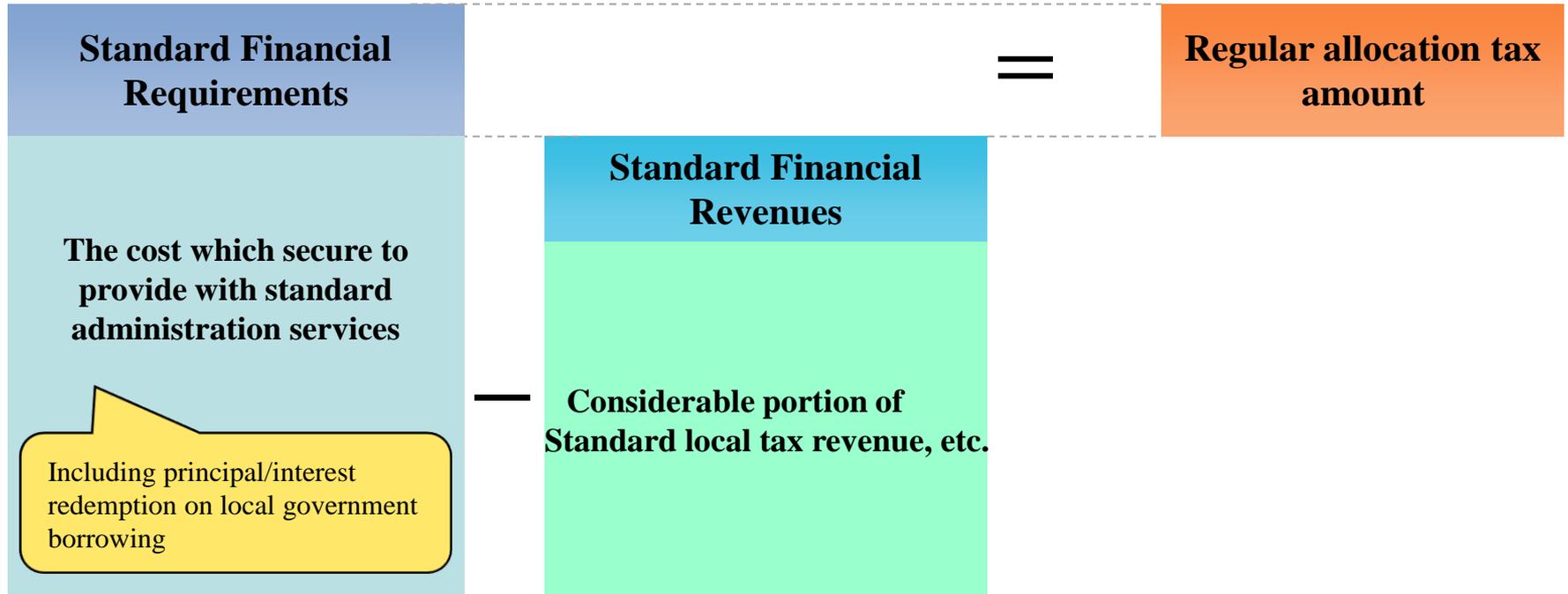


MIC I-1 Solid support of central government to the redemption

The Central Government basically secures revenue sources needed required for principal/interest redemption on local government bonds through the local public finance system.

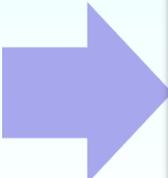
In particular, it is secured through calculating of local allocation tax which gives to LGs to provide basic social capital and standard administration services to inhabitants anywhere they live in Japan.

The local allocation tax system functions for about 60 years from 1954. The size of this system is around 17trillion Yen, by adding a considerable portion to the standard fiscal demand amount when calculating local allocation tax.



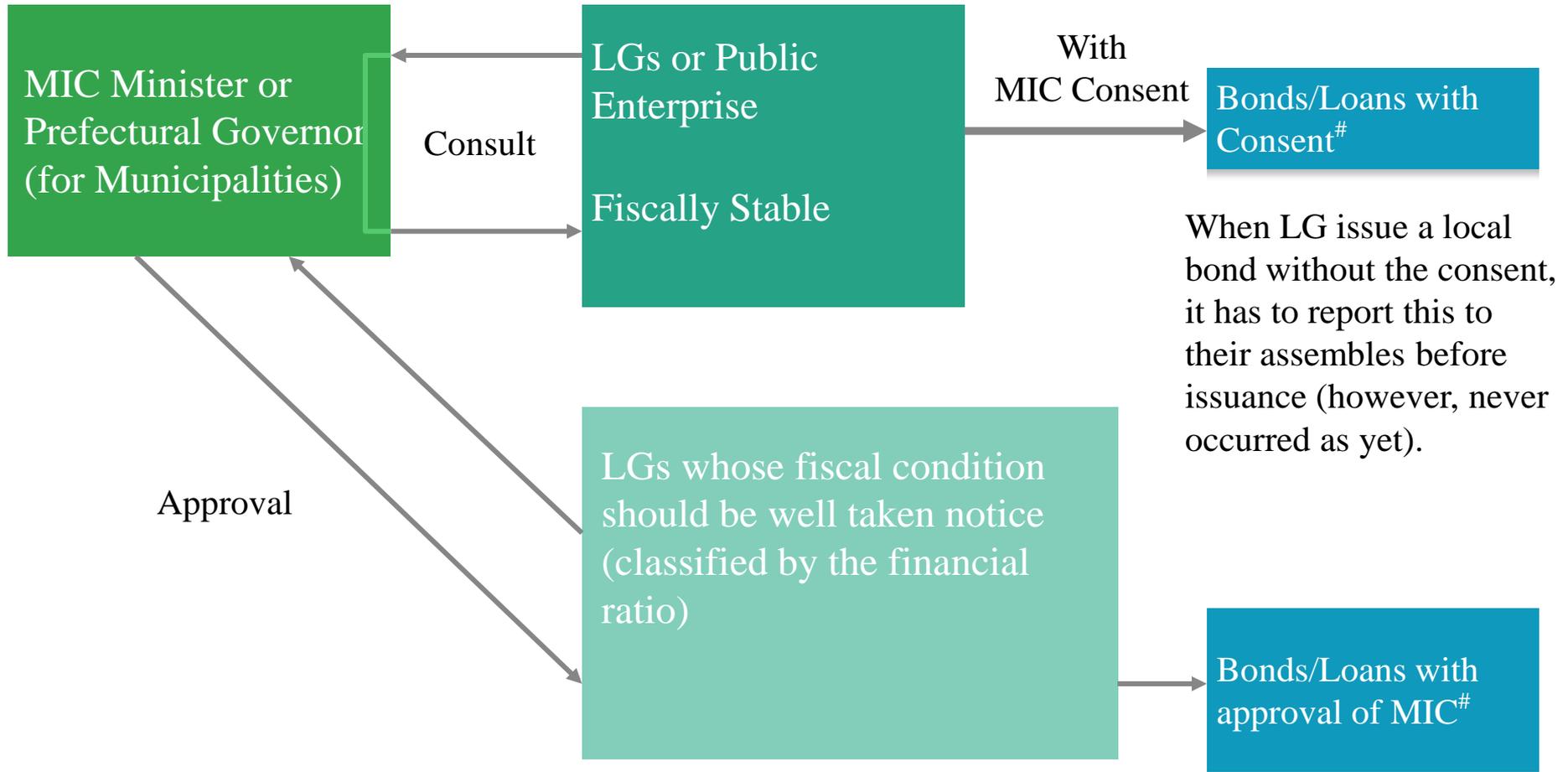
I-2 Check and control system by central government, etc. (1)

- LG has to consult with the Minister of MIC (or prefectural governor) at the time of issuance of LGB.
- LGB issuance without consent of the Minister MIC (or prefectural governor) is not eligible for public fund and is not local allocation tax system (LGs can borrow without the consent. However, the issuance of LGB without the consent has not occurred, as yet.
- In addition, LGs whose fiscal condition should be well taken notice have to obtain an approval of the central government in their issuance. Local government bond issuance without the approval shall not be issued in this case with LGs with relatively weak fiscal condition.

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- The central government(or prefecture)check all the local government borrowing as a rule.
 - The central government provides secure of redemption of it as a form of consent after the consultation.
 - Funding of LGs whose fiscal condition should be well taken notice is restricted.
(the number of LG necessary to approval: 307(total LGs : 1,727))



MIC I-2 Check and control system by central government, etc. (1)



Only the bonds/loans which obtained the consent or approval of MIC, LGs may borrow from the Government funds or JFM

I-3 Control of fiscal discipline (1)

- In Japan, a structure has been put into place to check the fiscal conditions of local governments through thorough disclosure of relevant information and to take measures for early-stage improvement of fiscal conditions before they seriously deteriorate.
- In these checks, local residents, local assemblies and auditors are to examine latent risks of not only local governments but also relevant local public corporations and third-sector companies.
- These examinations are designed to confirm both flow and stock indicators from the perspective of ensuring the medium- and long-term improvement of fiscal management.
- In addition, if the rehabilitation by local governments on their own is deemed difficult, the central government will play a role to ensure their rehabilitation.

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- The fiscal conditions of local governments are checked in detail in terms of both flow and stock.
 - The structure is designed to prevent unforeseen liabilities by checking the fiscal conditions of related entities as well.
 - As of the end of FY09, there were only 13 “local governments in the early fiscal improvement stage” and just one “local government in the fiscal rehabilitation stage” (out of a total of 1,727 local governments).

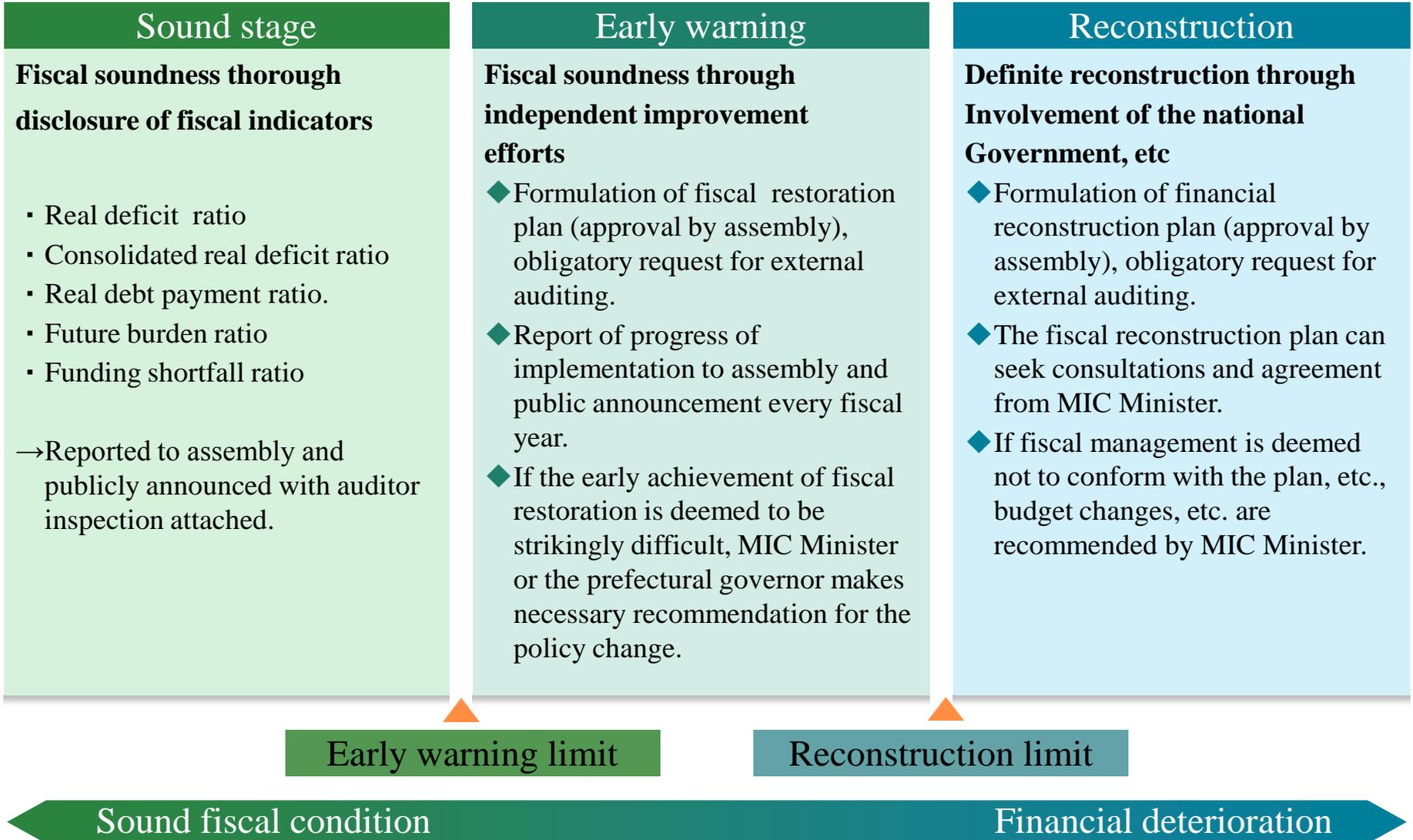


I-3 Control of fiscal discipline (2)

- ◆ LGs are required to report the following ratios every fiscal year after receiving an assessment by external auditor, to the local assembly, and disclose those to the public.

Fiscal indicator	Definition
1. Real deficit ratio	The ratio of deficit to the standard financial scale.
2. Consolidated real deficit ratio	The ratio of consolidated deficit in the all accounts to standard financial scale.
3. Real dept payment ratio	The ratio of debt payment by general revenue to standard financial scale.
4. Future burden ratio	The ratio of outstanding debt as well as contingent liabilities of public enterprises and government affiliates, to standard financial scale.
5. Funding Shortfall Ratio at Public Enterprises	The ratio obtained by dividing the previous fiscal year's shortfall in funds for each public enterprise, calculated in the manner specified by Cabinet Order, by the previous fiscal year's business scale calculated in the manner specified by Cabinet Order.

I-3 Control of fiscal discipline (3)



■ Opinions by the International Rating Agencies

RLGs are closely linked to the central government due to Japan's highly developed institutional framework for local governments, which includes effective monitoring of all RLG activities, a system of fiscal transfers that aims to reduce disparities among RLGs and ensure a national minimum level of services, and strong policies providing ongoing support for financially weak RLGs. The considerable level of oversight and supervision of RLGs exercised by the central government ensures that any credit issues at the RLG level are uncovered and addressed early.

A well-developed equalization system of transfers, or the Local Allocation Tax (LAT) system, makes certain that if any individual entity begins to experience fiscal difficulties related to declines in own source revenues, it will receive offsetting increases in LAT transfers. Under this program, it is unlikely that any RLG's overall income would fall to a level that would require emergency assistance.

(As of 25 August 2011, Moody's)

Passage of the Act on Assurance of Sound Financial Status of Local Governments in 2007 has, in our view, enhanced extraordinary central government support for LRGs by providing them with unequivocal permission to access central government funds when faced with a dire shortage of liquidity.

(As of 1 August 2011, S&P)

II Attractiveness of Japanese LGB

- ◆ Japanese LGBs have enjoyed stable distribution thanks to public awareness of their safety natures as well as the following attractive investment features

1. Provides diverse investment opportunities

- A steady increase in issuance size coupled with diversification of the term to maturity allows for the selection of bonds suited to investment needs

2. Attractiveness as the position similar to JGBs

- Established positioning as a core asset in the investment plans of investors who are focused on safe investing
- Under the turmoil condition in Financial crisis, LGB performed stably
- Most all of credit ratings of LGB are equivalent to that of JGB (Moody's, S&P)

3. Further advancement of commodity of LGB

- Issuance of Joint bond (2003~)
- Tax exemption measures for Nonresident investors (2008~)



MIC II-1 Offering diverse investment opportunities (1)

- ◆ Number of LGs successfully issue public offering bonds underpinned by a solid creditworthiness through Japanese local public finance system.



- ◆ 51 LGs issue public offering bond in FY 2011.
 - ▶ 32 prefectures (shown in black)
 - ▶ 19 designated cities (shown in red)

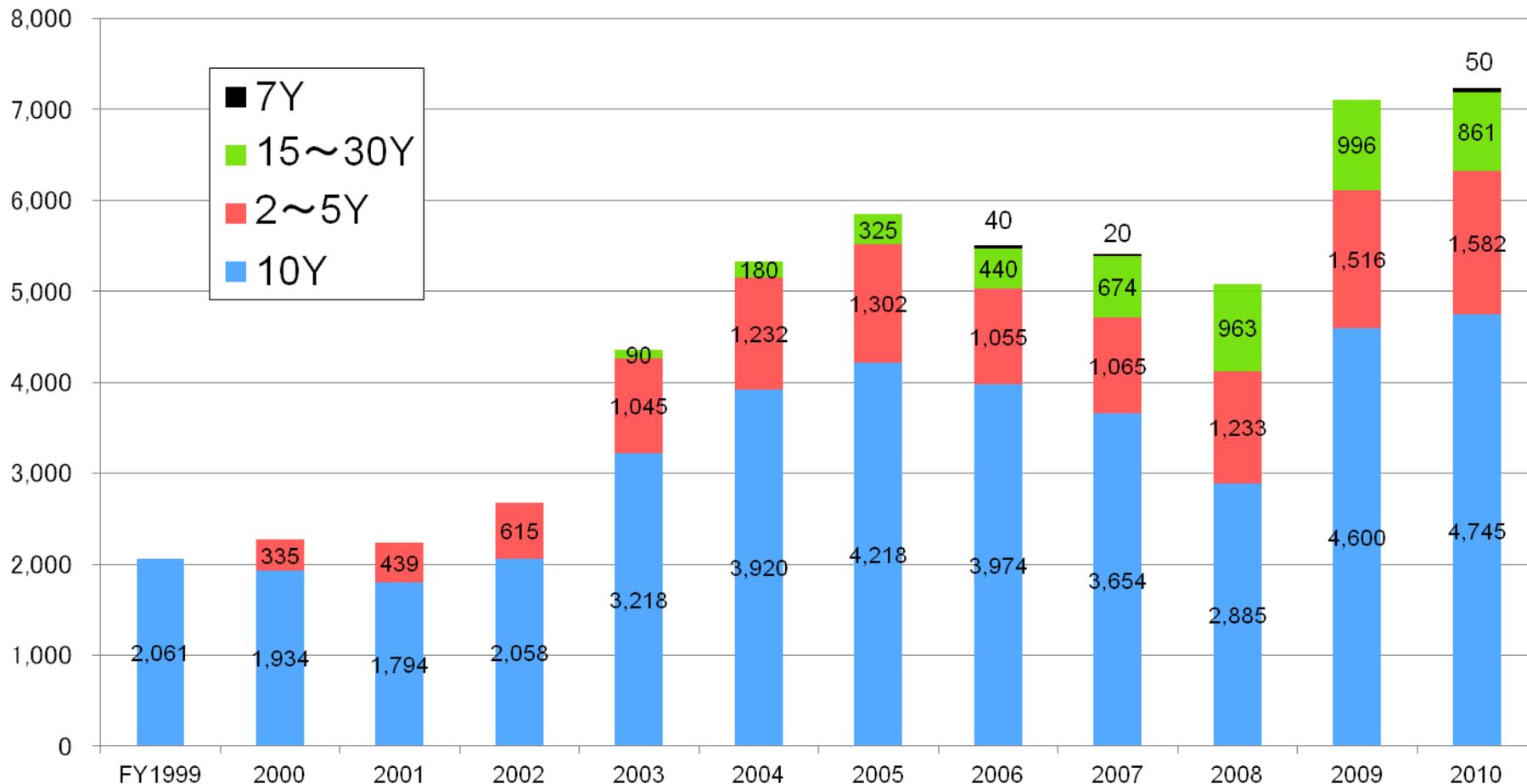
Source: Local Government Bond Association



MIC II-1 Offering diverse investment opportunities (2)

◆ Historical issuance amount of Public Offering LGB

(Unit: 100millions of YEN)

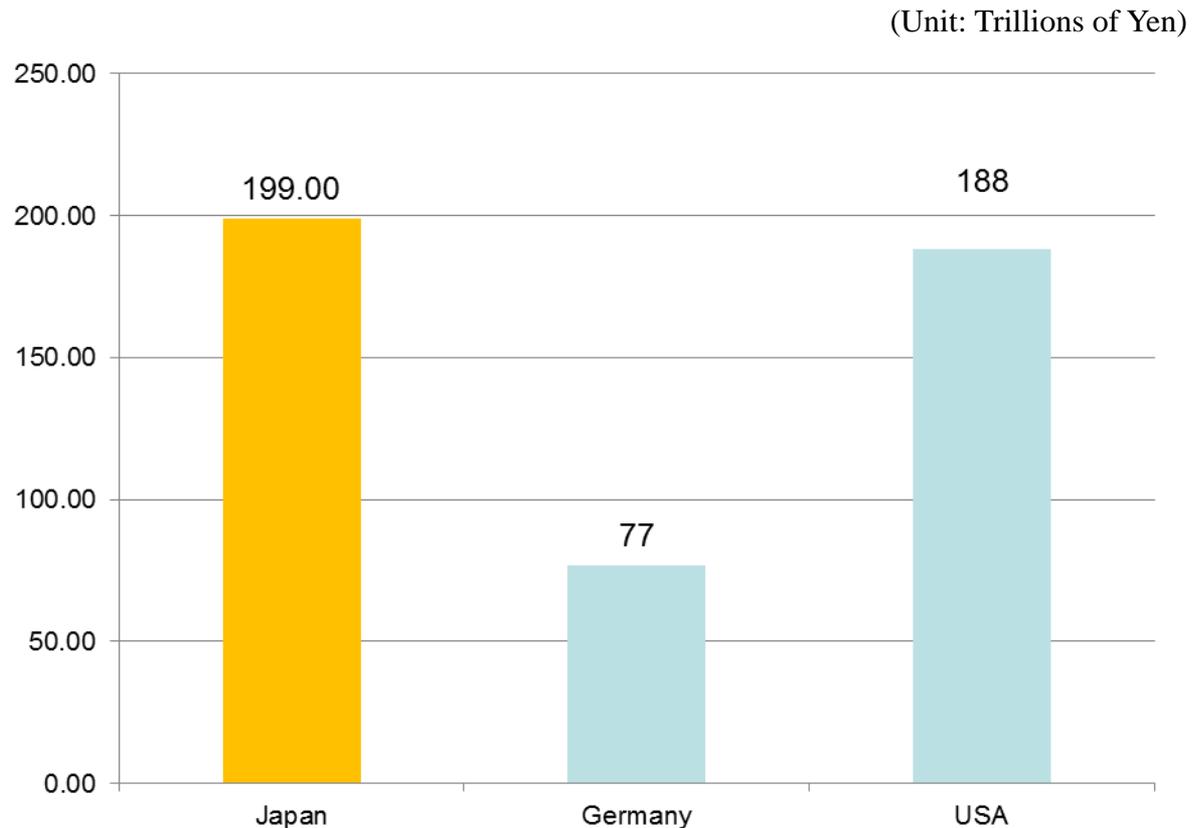




- ◆ Japan's Local Government debt outstanding has reached to 199trillion Yen (equivalent to about that of USA)

*calculated by exchange rate (Sep.26, 2011)

LGs' Debt Outstanding (2010) Japan/Germany/USA



II-2 Similar attractiveness of JGBs and LGBs (2)

- ◆ International rating agencies assign rating levels of Japanese LGs close to JGBs thanks to a solid LGB system.

Local Government	Ratings	
	Moody's	S&P
JGB(Central Government)	Aa3/Stable	AA-/Negative
Tokyo	-	AA-/Negative
Niigata Prefecture*	Aa3/Stable	-
Shizuoka Prefecture*	Aa3/Stable	-
Aichi Prefecture	-	AA-/Negative
Hiroshima Prefecture*	Aa3/Stable	-
Fukuoka Prefecture	Aa3/Stable	-
Sapporo City	Aa3/Stable	-
Chiba City*	-	A+/Stable
Yokohama City	-	AA-/Stable
Niigata City*	-	AA-/Stable
Shizuoka City*	Aa3/Stable	-
Hamamatsu City	Aa3/Stable	-
Nagoya City	Aa3/Stable	-
Kyoto City*	Aa3/Stable	A+/Stable
Osaka City*	Aa3/Stable	AA-/Negative
Sakai City	Aa3/Stable	-
Fukuoka City*	Aa3/Stable	-
Miyazaki City	-	A/Stable

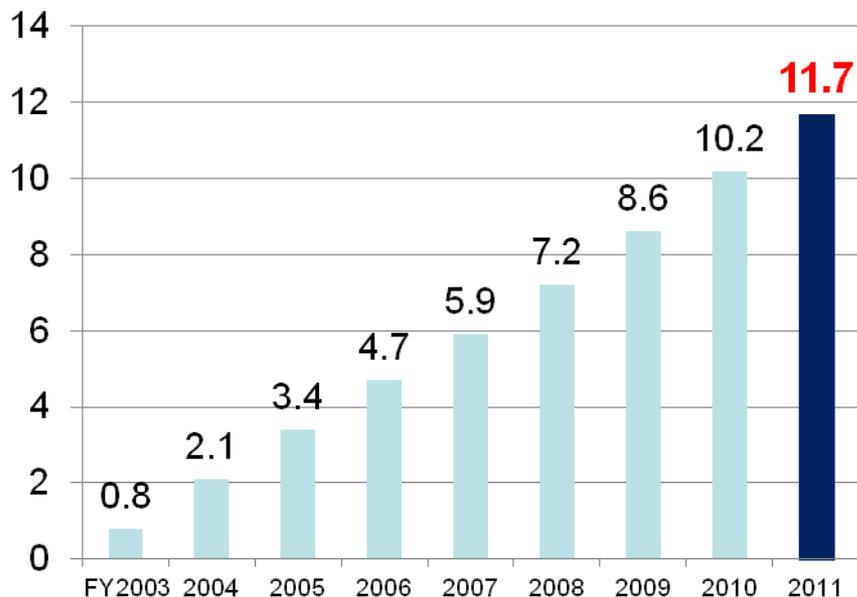
II-3 Further advancement of commodity of LGB

- ◆ Initiatives taken to enhance product attractiveness of LGB by issuance of Joint bond(2003~), tax exemption measures for nonresident investors(2007~),etc.

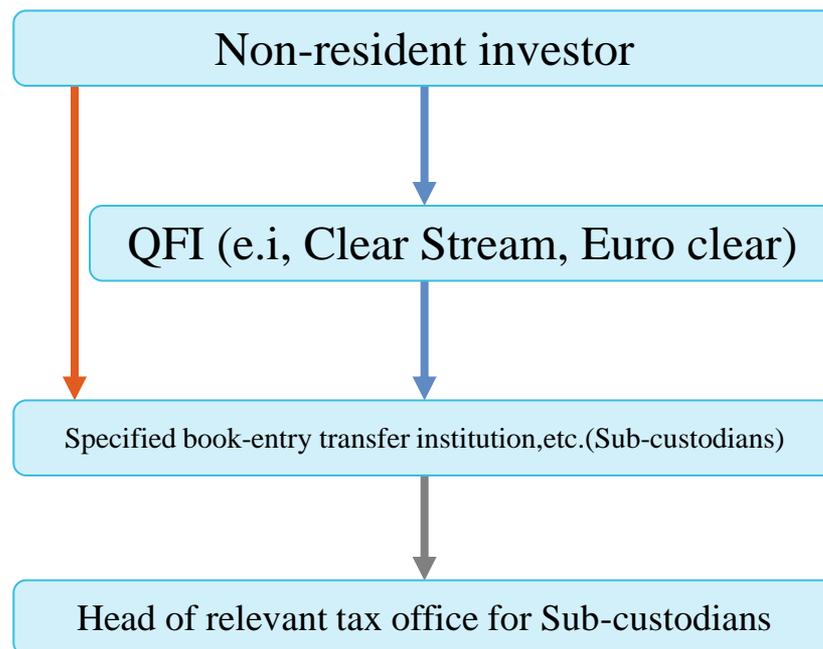
※Please refer to the presentation by Japan Local Government Bond Association

1) Market Size for Joint LGB (Total Outstanding)

(Unit: Trillions of YEN)



2) Procedure of tax exemption for nonresident



III Action to the earthquake disaster

Recovery and Reconstruction Expenditures of Great East Japan Earthquake

	Earthquake Damage	Recovery and Reconstruction Expenditures		
		(National and Local Expenditures)	Emergency Repairs and Recovery	Reconstruction
Great East Japan Earthquake	JPY 16.9 trillion (Cabinet Office estimate)	Minimum approx. JPY 19 trillion	Approx. JPY 10 trillion	Minimum approx. JPY 9 trillion
Great Hanshin-Awaji Earthquake	JPY 9.9 trillion (Hyogo Pref. estimate)	JPY 9.2 trillion (Estimate)	JPY 4.7 trillion (Estimate)	JPY 4.5 trillion (Estimate)

※ The financial cost of recovery and reconstruction shall largely be borne by the entire current generation, which will collectively share the financial burden so as not to leave it to future generations. Local financial resources for reconstruction will be secured through additional distribution of the local allocation tax and other measures to counter the burden on local government.

Supplementary Budget for FY2011

(Unit: 100Million of JPY)

Budget	Amount			Main Local Fiscal Measures
	Total	National Expenditure	Local Expenditure	
First	30,507	23,209	7,298	Recovery of various public facilities such as schools, hospitals and water supply and sewerage systems, temporary housing, rubble processing
Second	4,065	3,519	547	surface soil improvement at schools, daycare centers and city parks, etc.; and restoration of public fishery infrastructure, establishment of radioactivity examination facilities
Total	34,572	26,728	7,845	

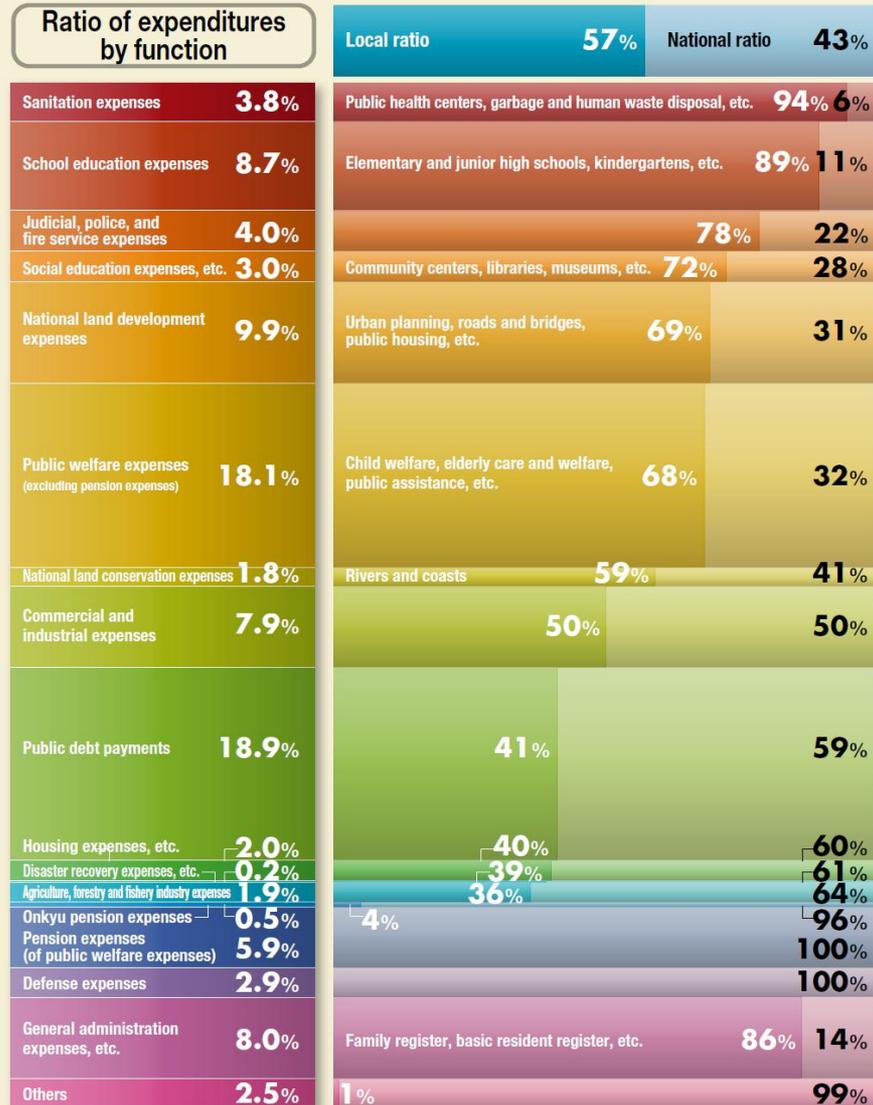
※ Financial resources for local expenditure of the supplementary budget for FY2011 caused by Great East Japan Earthquake is provided with local allocation tax and local loan borrowed by central government, etc. Moreover, LG can earn revenue by special local borrowing for local tax decreasing caused by Great East Japan Earthquake. The redemption of each local borrowings is supported almost 100% by local allocation tax.

We recommend JLGB as a safe asset and believe they would make a valuation addition to any investment portfolio on the basis of sovereign risk, financial stability and government backing.

Appendix

Functions of Japanese Local Governments

Ratio of National and Local Governments in Main Expenditures by Function (final expenditure base)



- ◆ Local governments have relatively large responsibilities & functions.
- ◆ The greatest portion of local government annual expenditures is directed toward supporting everyday public services: public health and sanitation, education, social education, and police and fire prevention.

Source: White Paper on Local Public Finance, 2009 by Ministry of Internal Affairs and Communications

The revenue of local governments

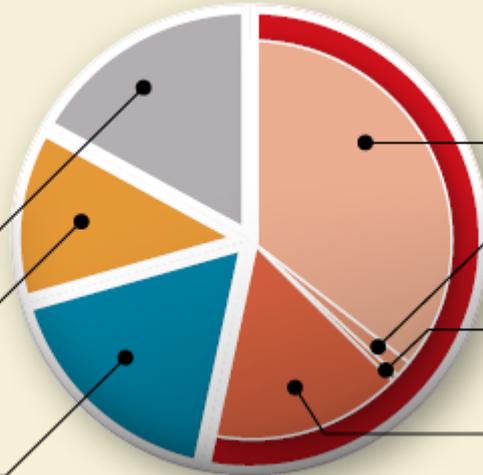
- ◆ The revenue of local governments comes mainly from local taxes, local allocation tax, national treasury disbursements, and local bonds.

< Revenue Breakdown (FY2008 settlement) >

Net total
¥98,365.7 billion

General revenue resources
¥52,761.8 billion (53.6%)

- Other revenue resources
 ¥16,442.6 billion (16.7%)
- Local bonds
 ¥12,396.0 billion (12.6%)
- National treasury disbursements
 ¥16,765.3 billion (17.0%)

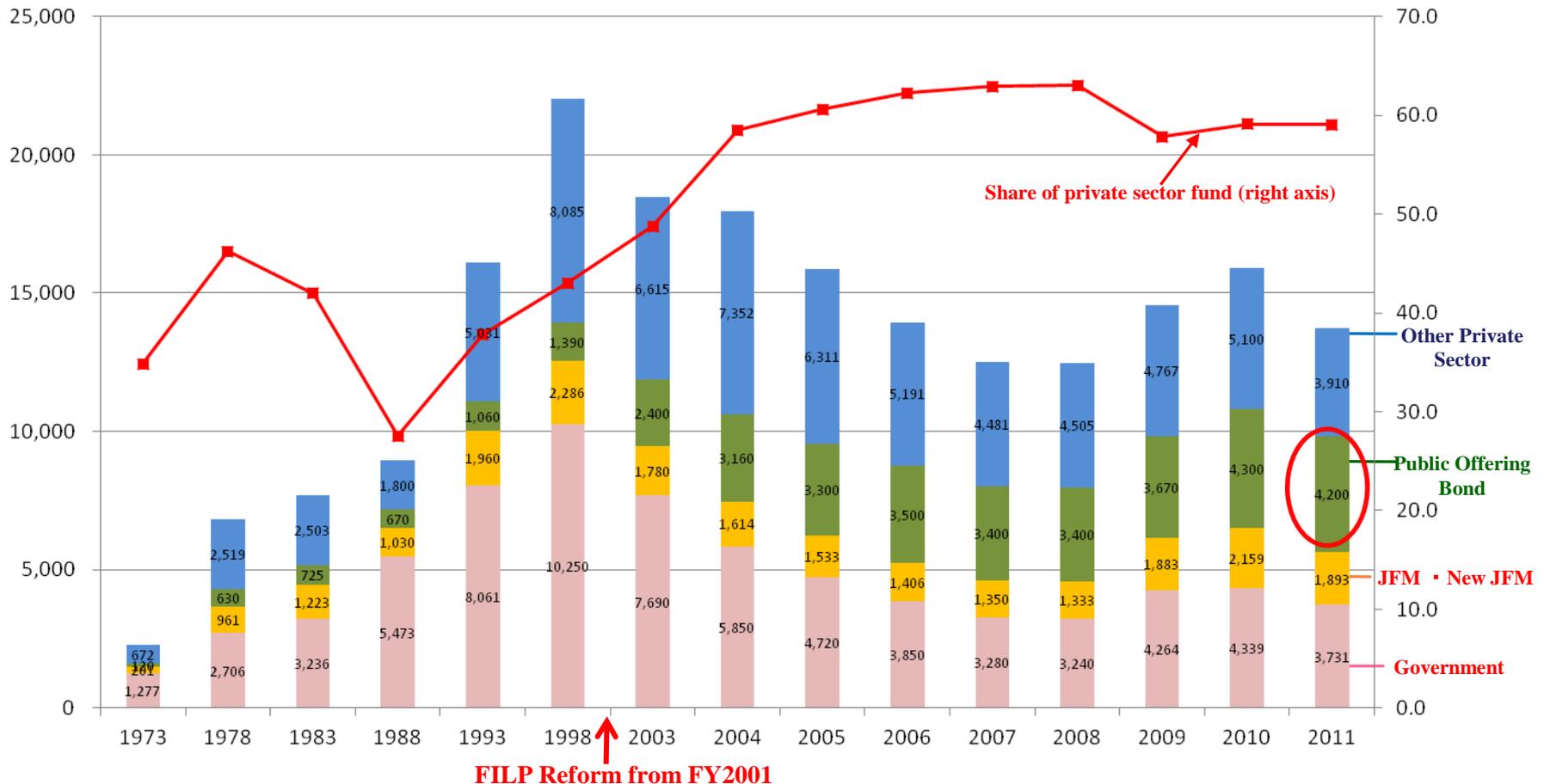


- Local taxes
 ¥35,183.0 billion (35.8%)
- Local transfer tax
 ¥1,296.6 billion (1.3%)
- Special local grants
 ¥462.0 billion (0.5%)
- Local allocation tax
 ¥15,820.2 billion (16.1%)

Historical changes of annual issue amount

- ◆ Reduction in government funding due to FILP (Fiscal Investment and Loan Program) Reform to minimize government funding role from FY2001.

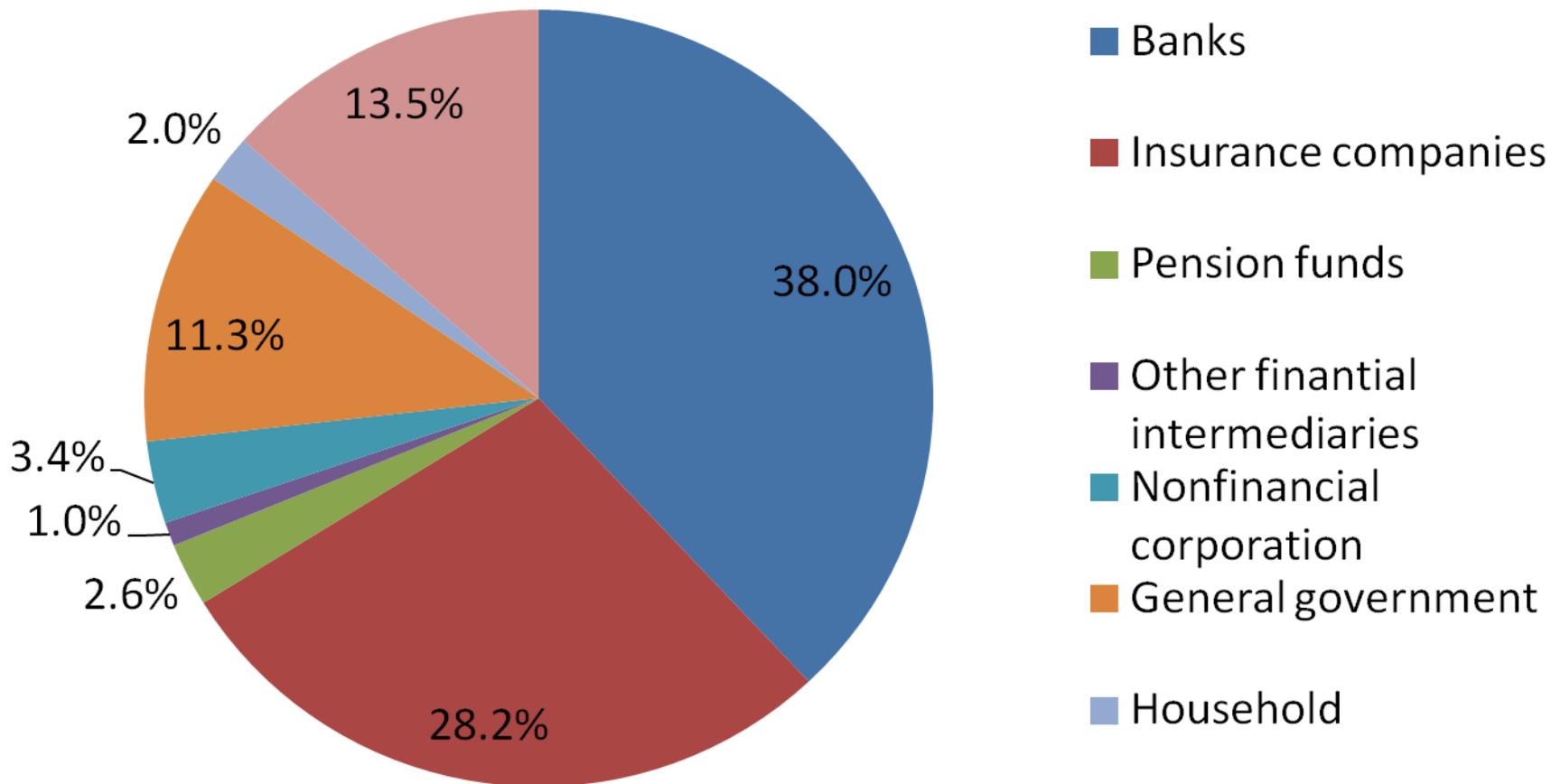
(Billions of yen)



Source: Ministry of Internal Affairs and Communications

※The above is the revised figures made by MIC

Distribution of JLGB holders (2011/March end)



Source: Bank of Japan “Flow of funds accounts”



Planned Issuance for Nationwide Public Offering LGBs in Fiscal-Year 2011

Local Government	Fiscal-Year 2011 (Unit: Hundred Million Yen)						Local Government	Fiscal-Year 2011 (Unit: Hundred Million Yen)					
	Total	3y or 5y or 7y	10y	20 or 30y	Joint-LGB	Other		Total	3y or 5y or 7y	10y	20 or 30y	Joint-LGB	Other
Hokkaido	3,400	1,200	1,400	-	800	-	Tokushima	350	-	100	-	250	-
Miyagi	800	300	-	-	500	-	Fukuoka	2,050	500	750	400	-	400
Fukushima	760	200	200	-	360	-	Nagasaki	100	-	100	-	-	-
Ibaraki	300	-	-	-	300	-	Kumamoto	500	100	100	-	300	-
Tochigi	100	-	100	-	-	-	Oita	300	-	100	-	200	-
Gunma	400	100	200	100	-	-	Kagoshima	800	100	-	-	700	-
Saitama	3,200	600	1,400	400	800	-	Sapporo City	1,300	300	300	100	300	300
Chiba	3,000	600	1,200	600	600	-	Sendai City	480	150	-	-	330	-
Tokyo	6,800	900	5,200	700	-	-	Saitama City	100	-	100	-	-	-
Kanagawa	3,600	1,000	1,400	600	600	-	Chiba City	600	-	200	-	300	100
Niigata	1,000	-	400	-	600	-	Yokohama City	1,800	200	1,000	200	-	400
Fukui	300	-	300	-	-	-	Kawasaki City	1,100	300	100	300	300	100
Yamanashi	200	-	200	-	-	-	Sagamihara City	150	-	150	-	-	-
Nagano	800	200	-	-	600	-	Niigata City	200	-	100	-	100	-
Gifu	300	-	100	-	200	-	Shizuoka City	200	-	100	-	100	-
Shizuoka	2,200	400	600	400	600	200	Hamamatsu City	100	-	100	-	-	-
Aichi	4,300	600	2,400	300	600	400	Nagoya City	1,200	100	800	200	-	100
Mie	200	-	100	-	100	-	Kyoto City	1,250	400	200	100	400	150
Shiga	100	-	100	-	-	-	Osaka City	2,900	500	1,000	300	800	300
Kyoto	1,800	400	400	200	700	100	Sakai City	200	-	100	100	-	-
Osaka	2,800	1,000	1,000	-	800	-	Kobe City	1,100	200	200	300	300	100
Hyogo	2,500	500	400	400	800	400	Okayama City	100	-	100	-	-	-
Nara	300	100	-	-	200	-	Hiroshima City	900	200	300	-	400	-
Shimane	400	200	200	-	-	-	Kita-Kyushu City	850	150	200	200	300	-
Okayama	350	-	200	-	150	-	Fukuoka City	1,520	500	260	200	370	190
Hiroshima	1,400	100	600	100	600	-	Total	61,460	12,100	24,560	6,200	15,360	3,240

※This is based on the figures of domestic bonds announced by Ministry of Internal Affairs and Communications in Apr 2011.

- ◆ JLGB system changed from approval system to consultation system in FY06 due to decentralization.

1. Consultation

LGs must consult with the Minister of Internal Affairs and Communications (prefectures and government designated cities) or the prefectural governor (in the case of municipalities) before debt issue.

2. Allocation of public funds for LGB with consent

Only LGB with consent by MIC Minister or the prefectural governor may borrow public funds [Government funds, JFM funds].

3. Debt payment for bonds with consent included in Local Allocation Tax system

Debt payment for LGBs with consent by MIC Minister or governors are included in Local Allocation Tax system by NG.

4. LG must report issuance of the bond without consent to its assembly

In order to issue the LGBs without the consent, the head of the local government must report it to the assembly.

5. Standard for consent by NG

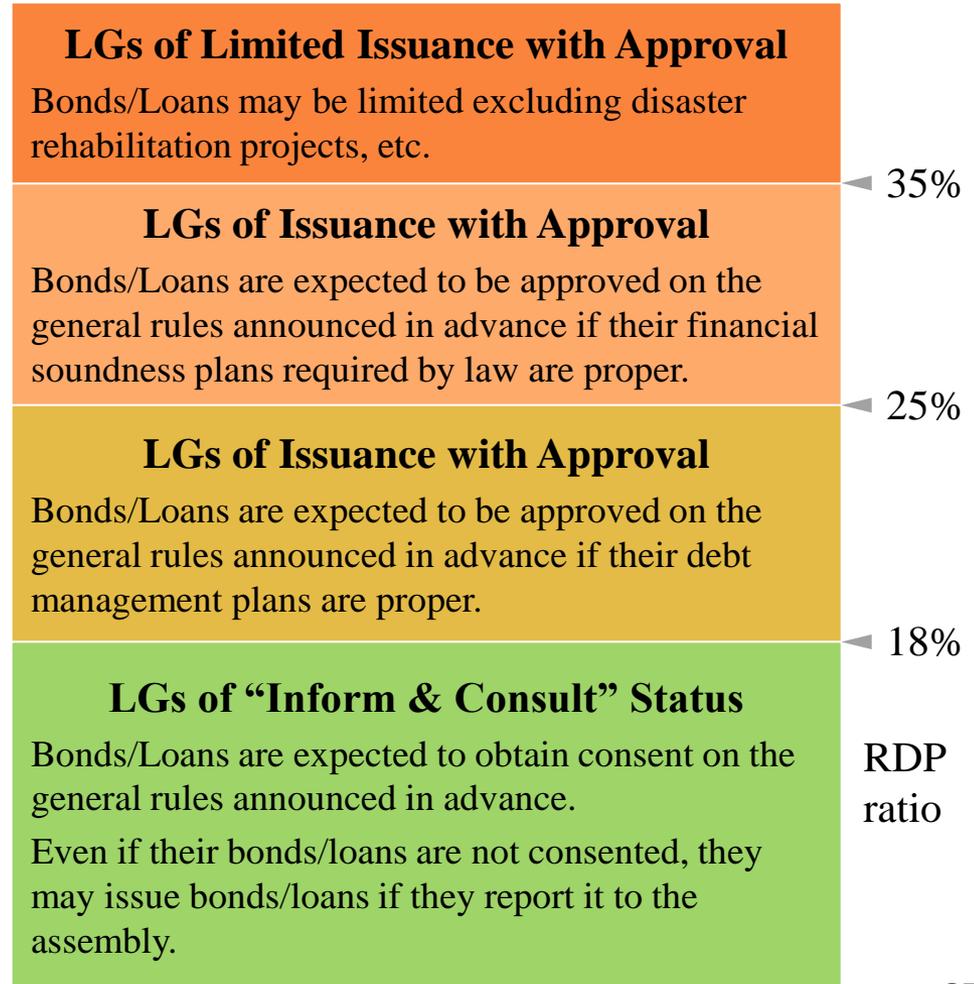
MIC Minister releases the standard for consent every fiscal year. Issuers in high deficit, issuers with high real-debt-payment-ratio, and public enterprises in high deficit, etc. must obtain the approval of issuance from the Minister or governors.

Consultation system for the issuance of LGB

- ◆ In order to secure fiscal soundness, local governments with higher real-debt-payment-ratio or higher deficit than a set limit are required to get approval for bond/loan issue instead of consultation.

Approval required if real-debt-payment-ratio is 18% or more

- ◆ Issuers with real-debt-payment-ratio between 18% ~ 25% must draft a debt management plan and obtain approval of the MIC minister, based upon general approval standard.
- ◆ Issuers with the ratio between 25% ~ 35% must draft a financial soundness plan required by law and obtain approval of the MIC minister, based upon general approval standard.
- ◆ Issuers with the ratio of 35% or more must draft a financial rebuilding plan and obtain approval of the MIC minister. Otherwise, Issuers are prohibited from debt issue excluding disaster rehabilitation projects, etc.

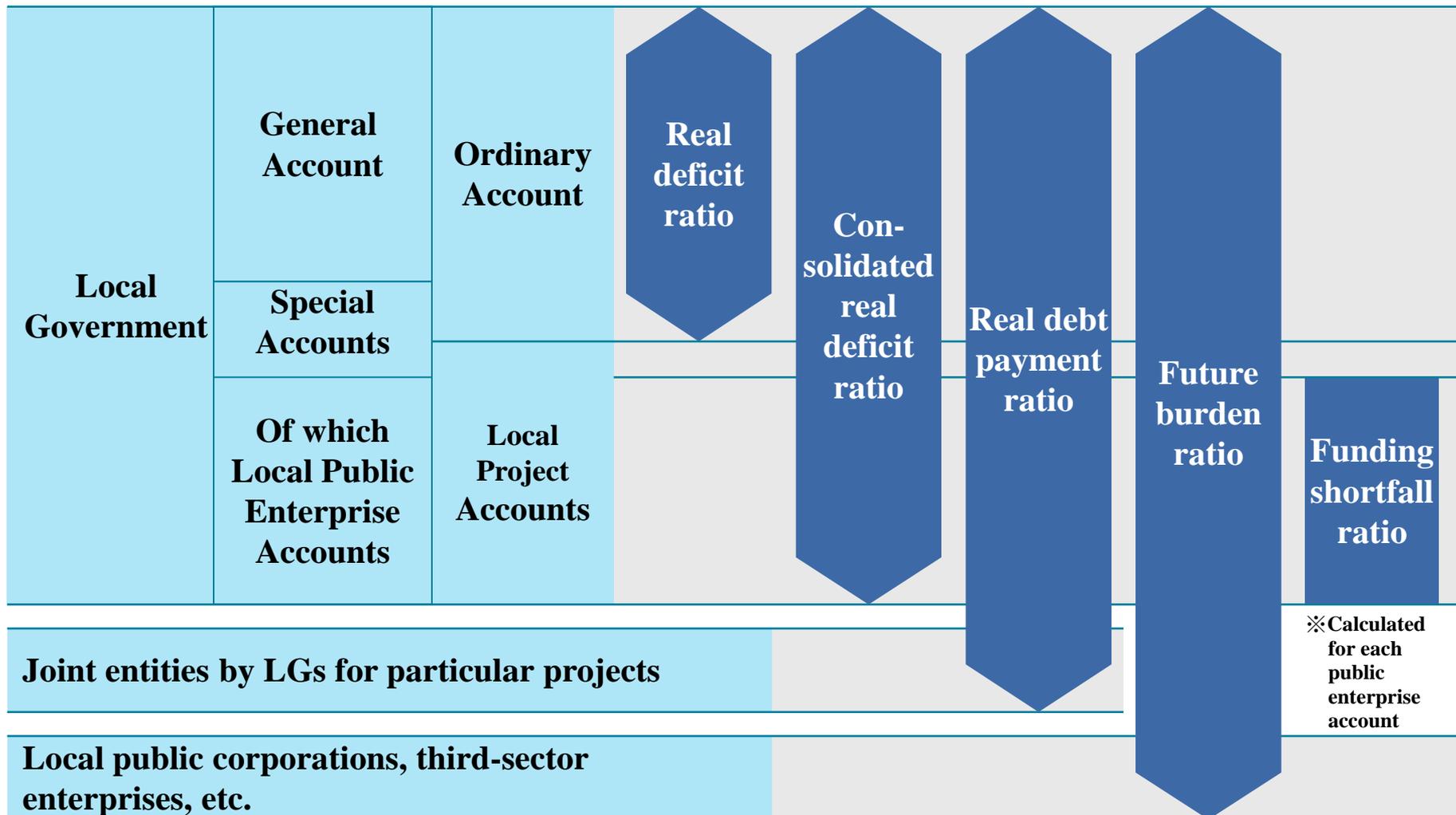


Limits for Early warning and reconstruction

	Early warning limit	Reconstruction limit
1. Real deficit ratio	Prefectures: 3.75%	Prefectures: 5%
	Municipalities, depending on fiscal size: 11.25 ~ 15%	Municipalities: 20%
2. Consolidated real deficit ratio	Prefectures 8.75%	Prefectures: 15%
	Municipalities, depending on Fiscal size: 16.25 ~ 20%	Municipalities: 30%
3. Real debt payment ratio	Prefectures, and Municipalities: 25%	Prefectures, Municipalities: 35%
4. Future burden ratio	Prefectures and government-designated cities: 400%	
	Municipalities: 350%	
Management Improvement limit		
5. Funding shortfall ratio at public enterprises	20%	



MIC Scope of fiscal indicators in the Law



List of QFI for LGB

1	Bank Sarasin & Co. Ltd	20	FIDEURAM BANK(LUXEMBOURG)S.A.	39	RBC Dexia Investor Services Bank S.A.
2	BANQUE PRIVEE EDMOND DE ROTHSCHILD EUROPE	21	HSBC Bank Plc	40	SIX SIS AG
3	BARCLAYS BANK PLC	22	HSBC Institutional Trust Services (Singapore) Limited	41	Skandinaviska Enskilda Banken AB (publ)
4	Barclays Capital Securities Limited	23	JP Morgan Bank(Suisse)SA	42	SOCIETE GENERALE
5	BNP Paribas Securities Services	24	JP Morgan Bank(Ireland) plc	43	Standard Chartered Bank (Hong Kong) Limited
6	BNY Mellon, National Association	25	JP Morgan Bank Luxembourg S.A.	44	STATE STREET AUSTRALIA LIMITED
7	BROWN BROTHERS HARRIMAN (LUXEMBOURG)S.C.A	26	JP Morgan Clearing Corp.	45	State Street Bank and Trust Company
8	BROWN BROTHERS HARRIMAN&CO.	27	JP Morgan Chase Bank, N.A.	46	State Street Bank GmbH
9	CACEIS Bank	28	KAS BANK N.V.	47	STATE STREET BANK LUXEMBOURG S.A.
10	CACEIS Bank Deutschland GmbH	29	KBL European Private Bankers S.A.	48	STATE STREET CUSTODIAL SERVICES (IRELAND) LIMITED
11	CACEIS Bank Luxembourg	30	Mitsubishi UFJ Securities International plc	49	State Street Trust Company Canada
12	Citibank, N.A.	31	Mizuho INTERNATIONAL PLC	50	State Street Trustees Limited
13	Citigroup Global Markets Inc.	32	Mizuho Trust & Banking (Luxembourg) S.A.	51	The Bank of New York Mellon
14	Clearstream Banking Aktiengesellschaft	33	Morgan Stanley & Co. International plc	52	The Bank of New York Mellon (SA/NV)
15	CLEARSTREAM BANKING S.A.	34	Morgan Stanley & Co. LLC	53	The Northern Trust Company
16	Deutsche Bank Aktiengesellschaft	35	Norddeutsche Landesbank Luxembourg S.A.	54	UBS AG
17	Dexia Banque Internationale a Luxembourg	36	Northern Trust (Guernsey) Limited	55	UBS Securities LLC
18	DnB NOR Bank ASA	37	Northern Trust Fiduciary Services (Ireland) Limited		
19	Euroclear Bank SA/NV	38	Northern Trust Global Services Limited		

Japan Local Government Bond Association Website

(<http://www.chihousai.or.jp/english/07/investor.html>)

English Publications on JLGBs

English Publications on JLGBs	
Presentation Materials	Local Government Bond System and Market in Japan
	Public Offering Joint Local Government Bond
	Japan Finance Organization for Municipalities
	Kawasaki City
Other issuers	Tokyo Metropolitan Government (TMG), Chiba Prefecture, Fukuoka Prefecture, Sapporo City,
	Kyoto City, Kobe City, Fukuoka City
White Paper	FY2009 Settlement White Paper on Local Public Finance, 2011
Laws and Ordinances	Law on the Fiscal Consolidation of Local Governments
	Local Autonomy Law
	Local Finance Law
	Local Allocation Tax Law
Others	Issue Outline of Joint Local Government Bond
	Terms and conditions of Tokyo Metropolitan Government Bond



Local Allocation Tax (LAT) system:

Securing standard public service for All LGs

Purpose

- ◆ To make up for imbalances between standard tax revenue and standard service cost.
- ◆ To ensure LGs' revenues to enable LGs to provide a standard public services for residents all over Japan.

Features

- ◆ The total local allocation tax available in any one year is tied to national tax revenues, and is a more stable form of income than other sources of subsidy. It has the additional benefit of being treated as part of local authorities' independent sources of income, and no restrictions are put on its use.
- ◆ Basics: Total amount is legally linked to the amount of five national taxes (32% of income tax and liquor tax, 34% of corporate tax, 29.5% of consumption tax, 25% of tobacco tax). If that is not enough to make up for all imbalances, national government needs to increase the amount or take other measures under the law.

Article 6, The Total Sum of Allocation Tax, Local Allocation Tax Law

- ◆ The allocation tax shall be equal to 32% of income tax and liquor tax revenue, 34% of corporation tax revenue, 29.5% of consumption tax revenue and 25% of tobacco excise revenue.
2. The total sum of allocation tax to be granted every fiscal year shall be calculated by summing up 32% each of the estimated revenues of income tax and liquor tax, 34% of corporation tax, and 29.5% of the estimated revenue of consumption tax, and 25% of the estimated revenue of tobacco excise, plus such portion of the allocation tax for the preceding fiscal years which has yet to be granted, or less such amount granted over and above the due amount in the preceding fiscal years.

Comparison of Great East Japan Earthquake with Great Hanshin-Awaji Earthquake (5-year Relief Period Comparison)

	Earthquake Damage	Recovery and Reconstruction Expenditures		
		(National and Local Expenditures)	Emergency Repairs and Recovery	Reconstruction
Great East Japan Earthquake	JPY 16.9 trillion (Cabinet Office estimate)	Minimum approx. JPY 19 trillion	Approx. JPY 10 trillion	Minimum approx. JPY 9 trillion
Great Hanshin-Awaji Earthquake	JPY 9.9 trillion (Hyogo Pref. estimate)	JPY 9.2 trillion (Estimate)	JPY 4.7 trillion (Estimate)	JPY 4.5 trillion (Estimate)

(Reference) Comparison of Great East Japan Earthquake with Great Hanshin-Awaji Earthquake

	Great East Japan Earthquake	Great Hanshin-Awaji Earthquake
Magnitude of earthquake	9.0	7.3
Number of prefectures affected by earthquake above level 6.0 on the Japanese scale	8 prefectures	1 prefecture
Tsunami	Massive waves seen in various regions (Maximum wave height: 9.3m or higher in Soma; 8.5m or higher in Miyako; and 8.0m or higher in Ofunato)	Observed wave height was a few dozen centimeters. No damage
Number of dead and missing	15,656 people were killed and 4,866 are still missing (as of August 2, 2011)	6,434 people were killed and 3 missing (as of May 19, 2006)
Number of houses damaged (completely destroyed)	110,848 houses (as of August 2, 2011)	104,906 houses
Number of municipalities to which Disaster Relief Act was applied	241 municipalities (10 prefectures) (Note) The data include 4 municipalities (2 prefectures) to which Disaster Relief Act was applied due to the North Nagano Earthquake.	25 municipalities (2 prefectures)

- ❑ Estimated aggregate size of recovery and reconstruction measures (national and local expenditures) during the intense reconstruction period (the coming 5 years): **Approximately JPY 19 trillion**

Countermeasures	Scale (National and Local Expenditures)
(1) Scale of rescue and recovery operations	Approximately JPY 10 trillion
- Disaster relief and livelihood restoration	Approximately JPY 4 trillion
- Debris removal and reconstruction of basic infrastructure, etc.	Approximately JPY 6 trillion
(2) Scale of reconstruction operations	At least JPY 9 trillion
- Infrastructure investment and facilitation of the enterprise for enhancing the provision of software for regional development	Approximately JPY 8 trillion
- Urgent disaster prevention and relief measures on a national scale	Approximately JPY 1 trillion
Total	At least JPY 19 trillion

- ❑ Estimated aggregate size of recovery and reconstruction measures over the next 10 years is at least around JPY 23 trillion.

(Note) In principle, the above estimated aggregate size of recovery and reconstruction measures does not include the costs to be borne by electric utilities pursuant to the Act on Compensation for Nuclear Damage and the Act to Establish a Nuclear Damage Compensation Facilitation Corporation.



Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake (Abstract) (1)

MIC (Developed by the Reconstruction Headquarters in response to the Great East Japan Earthquake on July 29, 2011)

4. Support for Reconstruction Incorporating All Resources (3) Scale of Projects and Securing Financial Resources

1) Scale of project

It is estimated that the budgetary scale of measures and projects (including the first and second supplementary budgets in fiscal 2011) expected to be implemented within the next five years (until the end of fiscal 2015), collectively dubbed the “intense reconstruction period,” will be approximately JPY 19 trillion at least, constituted by public expenditure by the national and local governments. The scale of recovery and reconstruction measures for the next 10 years (public expenditure by the national and local governments) is estimated to be at least approximately JPY 23 trillion.

The expenses to be borne by the relevant companies under the Act on Compensation for Nuclear Damage and a bill for the Act to Establish a Nuclear Damage Compensation Facilitation Corporation are not included in these estimates.

2) Basic concept for securing financial resources

The financial cost of recovery and reconstruction shall largely be borne by the entire current generation, which will collectively share the financial burden so as not to leave it to future generations.

3) Method of securing financial resources for recovery and reconstruction projects during the “intense reconstruction period”

In addition to the financial resources included in the first and second supplementary budgets in fiscal 2011, approximately JPY 13 trillion will be secured for recovery and reconstruction projects during the five years of the “intense reconstruction period” by reducing government expenditures, selling state-owned property, reviewing the special accounts and personnel costs of public servants, further increasing non-tax revenues and temporary taxation measures.

In regard to taxation measures, major taxes and the like will be examined from multiple perspectives. In addition, should there be agreement among the governing and opposition parties on the revision of the tax system for fiscal 2011, allocation of any increase in revenues resulting from this revision to fund recovery and reconstruction will be considered.



Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake (Abstract) (2)

MIC

(Developed by the Reconstruction Headquarters in response to the Great East Japan Earthquake on July 29, 2011)

4) Classification of plans to secure financial resources for recovery and reconstruction and its use

In regard to reconstruction bonds, which will be issued as a temporary means to retroactively finance earlier recovery and reconstruction, the details of their issuance will be duly considered and reconstruction bonds shall be managed in a manner distinct from existing national bonds. The term of redemption will be considered subsequently, taking into consideration the duration of the intense reconstruction period and the subsequent reconstruction period. Temporary taxation measures shall be taken within the term of redemption and the tax revenue generated by such measures shall be managed in a manner distinct from other types of revenue in order to clearly signal that it will be used solely to fund recovery and reconstruction, including redemption of reconstruction bonds, and not for other purposes.

5) Schedule

Based on the conditions described above, bills concerning the issuance of the reconstruction bonds and taxation measures shall be prepared and submitted to the Diet during the formulation of the third supplementary budget for fiscal 2011.

The concrete terms of taxation measures will be elaborated by the Tax Research Commission after August on the basis of these Guidelines. Multiple options, with combinations of concrete tax items, scale during each fiscal year and so forth, will be reported to the Reconstruction Headquarters in response to the Great East Japan Earthquake, then examined by the government, then finally determined by the Reconstruction Headquarters. Upon the determination of the Headquarters, consultation between the ruling and opposition parties will be entered into to reach a necessary consensus in conjunction with the fiscal 2011 tax reform.

Note: Examination by the Tax Research Commission will proceed with the temporary fixation of financial resources secured by expenditure reduction and increase of non-tax revenue of approximately JPY 3 trillion.

6) Securing local financial resources for reconstruction

In the process of recovery and reconstruction, local governments will be burdened with redemption of local governmental bonds and implementation of projects responding to specific situations in each region, even after the national subsidy measures. Bearing these conditions in mind, financial resources to implement measures and projects of at least JPY 19 trillion, consisting of public expenditures by the national and local governments, will be secured. In addition, local financial resources for reconstruction will be secured through additional distribution of the local allocation tax and other measures to counter the burden on local governments.

Measures for Local Projects against the Great East Japan Earthquake (Supplementary Budget for FY2011 [No.1])

(Unit: 100 Millions of JPY)

Category	Main Projects	Amount			Main Local Fiscal Measures
		Total	National Expenditure	Local Expenditure	
Eligible Issues	Disaster recovery projects (Recovery of various public facilities such as schools, hospitals and water supply and sewerage systems)	17,086	12,706	4,380	Disaster restoration bonds (appropriation ratio:100%); ordinary allocation tax will be granted regarding 95% of the principal and interest (redemption proceeds).
	Disaster relief projects (Temporary housing, etc.)	4,031	3,626	405	Disaster relief bonds (appropriation ratio:100%); ordinary allocation tax will be granted regarding 95% of the principal and interest (redemption proceeds). As for the rubble, special allocation tax measure will be adopted regarding the remaining 5% (100% granted in total).
	Post-disaster waste management projects (Rubble)	4,229	3,644	585	
	Others (Reinforcement of public educational facilities against earthquake, and other measures against disasters, etc.)	3,748	2,381	1,368	Supplementary budget bonds (appropriation ratio:100%); ordinary allocation tax will be granted regarding 100% of the principal and interest (80% for national debt service expenditure and 20% for unit costs).
	Subtotal	29,095	22,357	6,738	
Ineligible Issues	Compensation to be paid in case of natural disaster, etc.	1,412	852	560	Special allocation tax measure, etc. will be adopted.
Total		30,507	23,209	7,298	

Note: Other than those above, there are also special measures for local bonds under the Law on Special Financial Supports and Grants to Address the Great East Japan Earthquake to help devastated local governments address shrinking local tax revenues due to the catastrophe (deficit-financing bonds).

- i) Lack of fiscal revenues due to the reduction or payment exemption of local taxes, charges and fees, etc. as a result of the disaster: 100% appropriation of local bonds will be adopted. Ordinary allocation tax will be granted regarding 75% of principal and interest (redemption proceeds), and an up to 20% special allocation tax measure will be adopted according to the local public entity's financial strength.
- ii) Decrease in local tax revenues due to the revision of the Local Tax Act, etc. 100% appropriation of local bonds will be adopted. Ordinary allocation tax will be granted regarding 100% of principal and interest (redemption proceeds).

Measures for Local Projects against the Great East Japan Earthquake (Supplementary Budget for FY2011 [No.2])

(Unit: 100 Millions of JPY)

Category	Main Projects	Amount			Main Local Fiscal Measures
		Total	National Expenditure	Local Expenditure	
Eligible Issues	Disaster recovery projects (surface soil improvement at schools, daycare centers and city parks, etc.; and restoration of public fishery infrastructure)	492	378	114	Disaster restoration bonds (appropriation ratio:100%); ordinary allocation tax will be granted regarding 95% of the principal and interest (redemption proceeds). Note: In the case of agriculture, forestry and fishery facilities, 90% appropriation of local bonds will be adopted.
	Others (installation of air-conditioning facilities in schools and daycare centers; and establishment of radioactivity examination facilities)	82	41	41	Supplementary budget bonds (appropriation ratio:100%); ordinary allocation tax will be granted regarding 100% of the principal and interest (80% for national debt service expenditure and 20% for unit costs).
	Subtotal	574	419	155	
Ineligible Issues	Disaster recovery projects (assistance to private businesses)	149	100	50	Special allocation tax measure
	Support to natural disaster victims	3,342	3,000	342	Special allocation tax measure (100%)
	Total	4,065	3,519	547	

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