

Overview of Local Government Bonds in Japan

and about Japan Local Government bond Association



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Introduction

Japanese local governments, including prefectures, municipalities (cities, towns and villages), Tokyo's special wards and local government cooperatives, are empowered by Article 230 of the Local Autonomy Law to borrow. Their borrowing or debt, excluding those repaid within one fiscal year, is called "chiho-sai," which is usually

translated as "local government bonds," including not only publicly offered bonds but also loans taken out by securities. Tax exemption measures for non-residents will start on January 1, 2008, which are currently applied only to JGB.

Purposes of Local Government Bonds

In principle, local governments issue bonds to finance payments types of which are stipulated in Article 5 of the Local Finance Law. Such payments include:

- Operating "public enterprises" such as transport, gas, water supply and sewerage;
- Investments and loans;
- Renewal relief works;
- Constructing public facilities such as schools, nurseries, other educational or welfare facilities, and fire facilities; and
- Developing road, river, port and other public infrastructures.

In addition, other statutory provisions enable local governments to issue bonds for specific purposes. For example:

- "Depopulation Areas Special Measure Bonds," based on the Law on Special Measures to Boost Depopulated Areas;
- "Municipal Merger Special Measure Bonds," based on the Law on Special Measures to Promote Municipal

Merger;

- "Evacuation Facility Development Bonds," based on the Law on Special Measures concerning Active Volcanoes; and
- "Mining Pollution Relief Work Bonds," based on the Local Finance Law.

Furthermore, as part of the national government's financial measures, exceptional local bonds have been issued to ensure that sufficient revenue sources are available to local governments. For example:

- "Tax-Reduction Supplementary Bonds," based on the Local Finance Special Measures Law;
- "Retirement Allowance Bonds," based on the Law on Special Measures to Promote Local Finance Rehabilitation;
- "Revenue Shortfall Bonds," based on the Basic Law on Disaster Relief Measures; and
- "Temporary Financial Measures Bonds," based on the Local Finance Law.

Procedure for Issuing Local Bonds

A local government's plan to issue bonds must be included in its draft budget, which is subject to its Assembly's approval (Local Autonomy Law). The plan must indicate proposed bonds' specifics, including:

- Purpose for which the bond is issued;
- Maximum amount to be borrowed;

- Manner of borrowing [usually either by publicly offering bonds or by contracting loans by securities];
- Upper limit of interest rate [The limit is set taking into consideration financial market conditions.]; and
- Method of repayment.

Sources of Funds for Local Bonds

Local bonds are underwritten by the following fund sources:

- Government funds (the Fiscal Loan funds and Japan Post funds);
- Japan Finance Corporation for Municipal Enterprises (JFM) funds; and
- Private sector funds (loans from banks and other financial institutions and publicly offered bonds) Some local governments issue bonds also in overseas markets.

their bonds jointly under a "Joint Local Government Bond" scheme based on the Local Public Finance Law. Recent years have also seen an increasing number of prefectures and municipalities issue "Residential Local Government Bonds," which are targeted at individual and corporate investors, with an aim to diversify fund sources for their bonds.

From Jan. 2008, in Japan, interests on local bonds owned by non-residents are exempt from income and other taxes.

While in principle, each local government issues its bonds individually, a group of local governments may issue

Creditworthiness of Local Bonds

Japanese local governments are statutorily authorized to levy their own taxes. This taxing power serves as collateral for the principal and interest payments of their bonds.

Furthermore, at the macro level, estimated principal and interest payments of local bonds are included in the Local Public Finance Program, which is annually prepared by the Ministries of Internal Affairs and Communications and Finance and submitted to the Diet for its approval. Consequently, those payments are counted in the calculation of local allocation tax grants, which effectively ensures each local government revenue source to repay its debts.

Although Japan's bankruptcy statutes are not applied to local governments, there exists a local finance rehabilitation scheme, under which the

national government directly oversees budget and other financial management of local governments with deficit exceeding a specified level. Local governments which have been placed under direct national supervision are not allowed to issue bonds except those explicitly included in their financial rehabilitation plan and approved by the Ministry of Internal Affairs and Communications (the Law on Special Measures to Promote Local Finance Rehabilitation).

Restrictions are also imposed on borrowing by local governments in the following financial conditions:

- Local governments with high debt service ratio ; and
- Local governments levying an ordinary tax at a rate lower than a statutory standard rate (the Local Finance Law).

Japan Local Government Bond Association

Our Mission

Japan Local Government Bond Association started operation on April 16, 1979, its establishment having been authorized by the Minister of Home Affairs (now titled the Minister of Internal Affairs and Communications). Our mission is to contribute to ensuring local governments' smooth and efficient financial management and thereby to

enhancing their resident's wellbeing. To achieve this goal, we have been cooperating with local governments nationwide in conducting various initiatives, which are designed to help improve their bond management and secure their stable financing.

Our Activities

1 Research and Study

We research and study the issues concerning local government bond marketing and management. For each research project, we invite practitioners, academics and experts from both the local government and financial sectors to establish a committee, which carries out the research into the chosen subject and based on its results, publishes the committee's recommendations. For example, recommendation have been made in recent times on:

- IR (Investor Relations) strategies for promoting local government bonds;
- Introduction of publicly offered super long tenure local government bonds;
- Creation of "Residential Local Government Bonds";
- Creation of "Joint Local Government Bonds"; and

- Guidelines for local government bond management. Many of these recommendations have been put into practice and helped produce significant results in enhancing marketability of local government bonds.

In relation to the above-mentioned "Joint Local Government Bonds," our Association handles contract and other bond issuing procedures on behalf of the 28 local governments participating in the joint scheme.

We also advise interested local governments on preparations and procedures for issuing "Residential Local Government Bonds."

2 Information Services

We provide information and produce publications for local governments, banks, securities firms and other interested organizations on the latest on local government bonds. These information services include;

- Issuing "Local Government Bond Monthly Journal";
- Publishing "Local Government Bond Information for Municipalities" and other printed information materials;

- Administering 'ISIN (International Securities Identification Numbering)' services for Japanese local government bonds; and
- Disseminating the latest information on local government bonds through various channels including the Internet.

3 Seminars and Training Programs

We organize seminars on local government bond management by inviting experts in the fields of local public finance and the financial market. We also support local governments' capacity building efforts to better their bond issuance and other financial management as well as their governance in general. These programs include;

- Organizing seminars on the themes relating to local government bonds, finance and policies;

- Supporting local governments' IR activities for promoting their bonds;
- Arranging speakers for seminars and meetings organized by local governments or other organizations; and
- Organizing overseas study missions into other countries' local government bond management.
- Coordinating projects aiming to help local governments issue publicly offered bonds.

4 Public Education

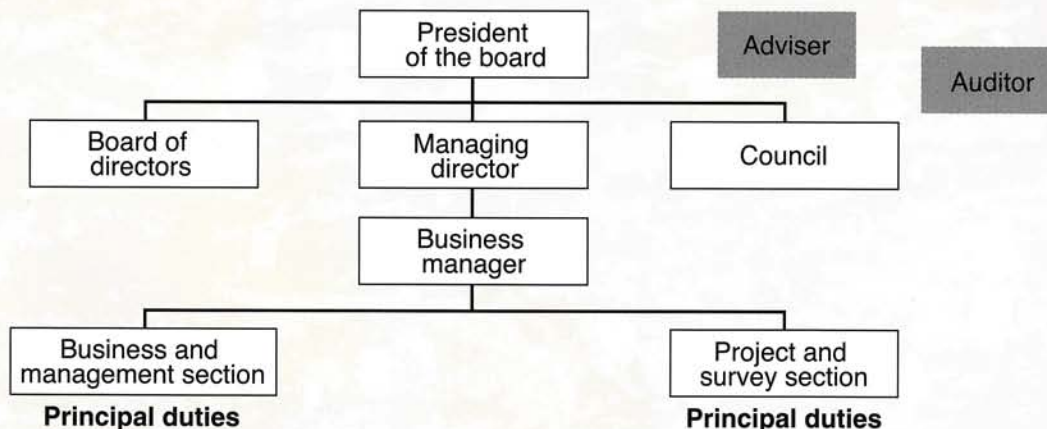
We produce and distribute posters, leaflets and other public information materials with an aim to help deepen the general public's and related organizations' understanding of the important role played by local government bonds in financing wide-ranging local government projects which

are essential for improving people's quality of life. We also publish English brochures for overseas practitioners and researchers interested in Japan's local government bond system and its operation.

Our Members



Our Organization



- Principal duties**
1. Business planning and budgeting
 2. Overall coordination of basic work and operations
 3. Miscellaneous work, such as officers' meetings, general affairs, and personnel

- Principal duties**
1. Collection and dissemination of information concerning local government bonds
 2. Basic and specialized investigation and research concerning local government bonds
 3. Research into the local government bond systems and operations of foreign countries
 4. Undertaking of requested surveys and research; holding of lectures and workshops
 5. Publicity and advertising; editing and publication of periodical and other materials