CHAPTER V

New Issues of Bonds in the Primary Market

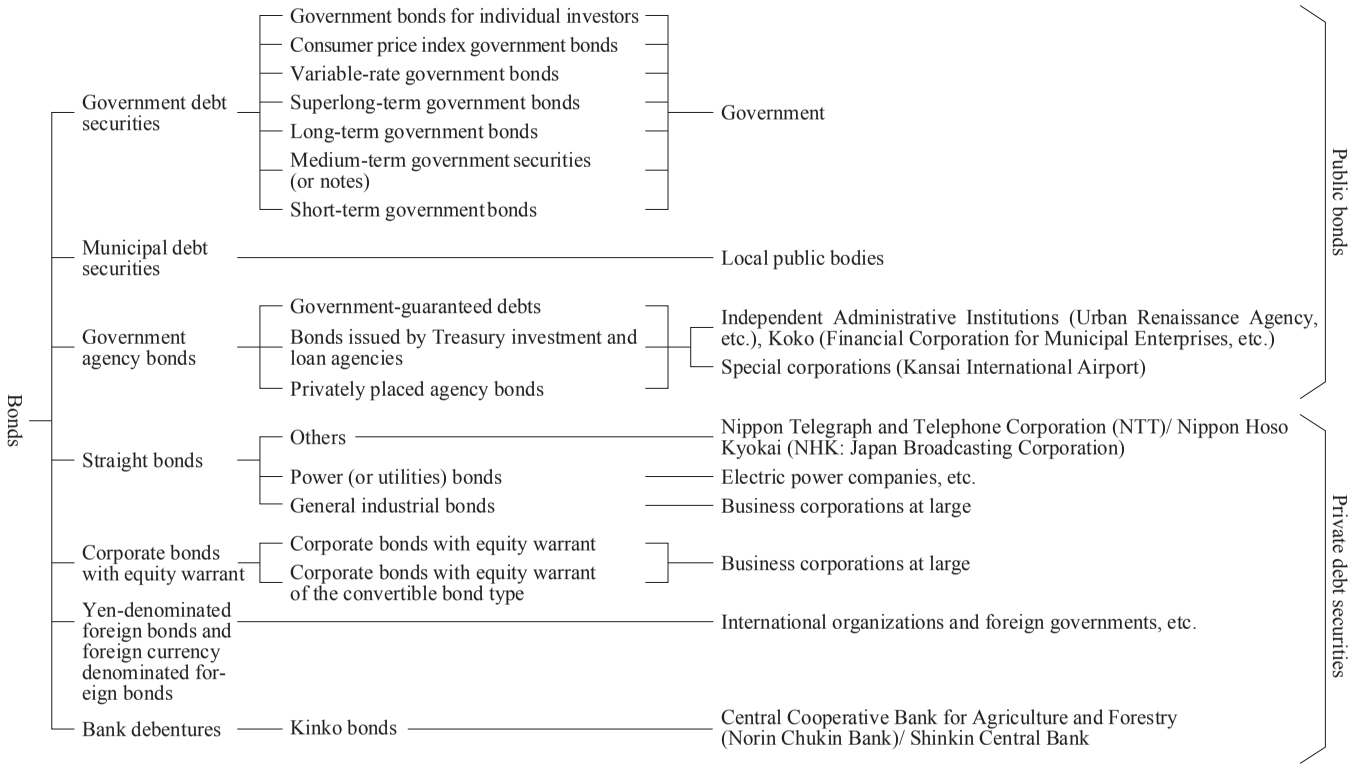
1. Types of Bonds

The term "bonds" generally refers to debt securities issued by governments and other public entities as well as by private companies. The issuance of bonds is a means of direct financing, through which the issuer raises funds, but, unlike equity financing, the issuer has an obligation to repay the principal at maturity. Bonds are classified by type of issuer into government bonds, municipal bonds, government agency bonds, bank debentures, corporate bonds (industrial bonds), and foreign bonds.

Government bonds are bonds issued by the national government, and they are classified as short-term bills (maturing in one year or less), medium-term notes (maturing in two to five years), long-term bonds (maturing in 10 years), or super long-term bonds (maturing in ten years or more) to distinguish an issue's term to maturity. Issuance of 10-year government bonds for individual investors (variable rate) was introduced in fiscal 2002. In January 2003, issuance began of bonds designated by the Finance Minister as STRIPS bonds, whereby the principal and interest portions can be traded separately as book-entry transfer JGBs. In addition, the government started issuing 10-year CPI (consumer price index)-linked bonds, 5-year bonds for individua investors, 40-year fixed-rate bonds, and 3-year bonds for individual investors in fiscal 2003, 2005, 2007, and 2010 respectively.

Municipal bonds can be roughly divided by type of funds into "public sector funds" and "private sector funds." The former are raised through fiscal loan funds and Japan Finance Organization for Municipalities, while the latter are raised in the public market or underwritten by banks and other financial institutions. Among these funds, the funds raised in public markets are divided into nationally placed municipal bonds, jointly offered municipal bonds, and municipal bonds targeting local residents (mini-local bonds). While the municipal bonds underwritten by banks and other financial institutions are called bank underwritten bonds, they come in two types, funds borrowed on deeds from banks and other financial institutions or debt securities issued in the market. Government agency bonds are debt securities issued by

Chart V-1. Types of Bonds



Note: Local government bonds represent debt issued under local government laws and fiscal policies. However, only those publicly placed or underwritten by banks or other financial institutions based on the issue of debt securities are included in public bonds.

various government-affiliated entities, such as independent administrative agencies. Agency issues with a government guarantee are categorized as government-guaranteed bonds. On the other hand, non-guaranteed government agency bonds can be further divided into Fiscal Investment and Loan Program (FILP) agency bonds (publicly placed bonds) and privately placed bonds directly underwritten by certain financial institutions. The three categories of debt securities mentioned above are sometimes collectively called "public bonds."

Bank debentures are debt securities issued by certain banking institutions under special laws and mainly consist of 5-year interest-bearing and 1-year discount debentures. As bank debentures and government agency bonds fall within the category of "debentures issued by a juridical person under a special Act" stipulated in Article 2, paragraph 1, item (iii) of the FIEA, they are sometimes called "special bonds" (*tokushusai*). Corporate bonds are those issued by private-sector companies and are also known as industrial bonds. In addition to non-financial enterprises, banks and consumer finance companies may also issue corporate bonds. Foreign bonds are defined as debt securities issued in Japan by foreign governments and companies (non-residents). Those denominated in yen, in particular, are separately classified as yen-denominated foreign bonds.

2. Status of Bond Issuance

The total amount of bond issuance in fiscal 2024 was ¥213 trillion, continuing the downward trend that began in 2020. If we look at the breakdown of issuance by type, total government bond issuance in fiscal 2024 was ¥185.3 trillion, accounting for about 87% of total bond issuance. Although lower than the ¥221.4 trillion recorded in fiscal 2020, issuance remained at a high level as government spending continued to expand owing to economic stimulus measures introduced after the COVID-19 pandemic, measures to cushion soaring energy prices following Russia's invasion of Ukraine in 2022, and responses to rising inflation. Compared with the pre-COVID-19 period, the composition of issuance shows a particularly heavy reliance on treasury bills.

Government bond issuance in fiscal 2024 can be broken down into super long-term government bonds (¥36.9 trillion), long-term government bonds (¥37.5 trillion), medium-term government bonds (¥62.9 trillion) and treasury bills (¥40.8 trillion). In addition, under the "Act on the Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure," which was enacted in May 2023, new government bonds known as "Decarbonized Growth-Oriented Economic Structure Transition Bonds (GX Economic Transition Bonds)" were issued for a total amount of ¥15.4 trillion in

Table V-1. The Value of Bonds Issued

(¥1 billion)

	Total of bonds		Government bonds		Of which, Interest-bearing government bonds		Of which, 10-year interest-bearing government bond		Of which, 5-year interest-bearing government bond		Of which, 4・2-year interest-bearing government bond		Of which, Short-term discount government bonds		Of which, Government bonds for individual investors	
FY	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount
2000	5,386	148,356	78	105,392	10	5,894	9	18,019	9	11,755	17	20,015	24	42,841	0	0
2001	4,651	181,531	68	144,493	11	7,392	8	20,600	7	20,425	12	19,663	24	39,596	0	0
2002	9,608	181,109	73	147,298	15	10,589	10	21,800	7	22,979	12	20,731	24	43,595	1	384
2003	13,827	196,008	79	157,797	17	12,986	11	23,000	10	23,189	12	22,185	24	47,998	4	2,967
2004	19,252	223,796	79	185,101	18	16,753	10	23,000	9	25,007	12	21,742	24	47,195	4	6,821
2005	24,485	221,001	84	180,692	20	19,579	9	23,100	10	25,718	12	22,338	24	41,907	5	7,271
2006	19,433	204,033	79	170,432	17	19,331	8	23,959	9	26,038	12	22,789	22	36,799	8	7,138
2007	12,926	173,003	63	136,504	13	17,343	5	23,533	7	25,773	12	22,041	14	22,796	8	4,662
2008	2,140	156,867	68	123,867	12	16,787	9	24,354	11	25,039	12	23,126	14	21,000	8	2,293
2009	1,507	188,807	63	156,023	11	23,141	7	28,880	7	29,621	12	29,397	18	32,899	8	1,360
2010	1,601	192,981	67	160,411	12	25,926	7	30,856	7	30,288	12	33,001	12	29,999	17	1,028
2011	1,500	196,954	72	167,283	12	26,136	8	31,360	8	31,036	12	34,514	12	29,999	20	2,426
2012	1,436	204,091	73	174,957	12	28,068	7	31,872	6	32,421	12	34,008	12	29,999	24	1,875
2013	1,458	210,040	72	180,171	10	29,349	5	33,727	8	35,216	12	36,176	12	29,999	24	3,349
2014	1,397	204,622	82	176,065	9	31,776	5	33,607	6	35,158	12	33,177	12	26,700	36	2,633
2015	1,280	199,414	78	173,670	9	34,787	4	35,519	4	32,128	12	30,766	12	25,800	36	2,137
2016	1,377	197,142	78	168,001	9	33,040	4	35,172	4	30,878	12	29,654	12	25,000	36	4,556
2017	1,409	183,344	78	155,903	9	33,172	4	33,029	4	29,336	12	28,360	12	23,800	36	3,449
2018	1,478	177,678	74	148,696	7	31,686	3	33,275	3	26,115	12	27,109	12	21,600	36	4,693
2019	1,527	174,176	78	142,985	9	30,956	4	30,195	4	25,343	12	25,775	12	21,600	36	5,248
2020	1,544	253,242	90	221,416	9	34,701	4	35,347	4	30,003	12	34,442	24	80,899	36	3,029
2021	1,421	244,546	88	215,409	9	37,638	4	36,639	4	31,307	12	37,227	22	66,899	36	2,973
2022	1,323	238,044	86	213,029	9	36,779	4	37,320	6	32,773	12	36,491	18	63,100	36	3,418
2023	1,354	228,177	92	200,671	9	37,078	5	38,436	11	33,985	12	36,069	18	48,700	36	3,403
2024	1,380	212,978	90	185,340	9	36,939	5	37,547	12	29,886	12	32,967	15	40,800	36	4,494

Source: Japan Securities Dealers Association.

	Municipal debt securities		Government-guaranteed debts		Bonds issued by Treasury investment and loan agencies		Straight bonds		Asset backed corporate bonds		Corporate bonds with equity warrant of the convertible bond type		Bank debentures		Yen-denominated non-resident bonds	
FY	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount	No. of issues	Issue Amount
2000	86	2,269	67	5,141	1	50	367	7,637	140	342	18	283	696	21,043	89	2,618
2001	90	2,225	55	4,315	24	731	333	8,172	127	394	17	283	755	16,867	41	1,308
2002	151	2,837	55	4,446	63	2,565	312	7,318	85	517	13	205	666	12,023	30	671
2003	226	4,621	95	6,898	86	2,663	353	6,993	82	200	9	77	667	9,271	39	943
2004	262	5,660	94	8,752	105	3,019	307	5,895	46	187	19	191	598	7,960	45	1,677
2005	312	6,189	94	7,002	115	4,722	335	6,904	28	354	13	113	563	8,756	47	1,592
2006	334	5,860	77	4,301	101	4,399	335	6,830	25	143	10	495	496	6,730	25	798
2007	365	5,721	79	4,298	125	4,941	425	9,401	5	153	3	30	407	6,505	78	2,647
2008	375	6,346	69	4,752	123	4,159	313	9,605	8	181	1	150	384	5,517	58	2,082
2009	418	7,361	78	4,667	164	4,735	388	10,300	2	100	3	249	347	4,180	40	1,192
2010	412	7,482	64	4,197	172	5,063	459	9,933	2	120	3	78	352	3,777	70	1,919
2011	394	6,663	61	3,331	212	5,735	394	8,277	5	200	2	33	284	3,438	76	1,994
2012	392	6,577	71	4,722	206	5,312	416	8,152	4	200	3	29	220	3,000	51	1,142
2013	421	7,069	69	5,060	212	4,678	462	8,142	1	50	10	77	121	2,618	90	2,174
2014	407	6,943	68	4,220	199	3,997	439	8,715	1	60	5	37	121	2,499	75	2,086
2015	406	6,772	68	3,146	212	4,489	348	6,941	1	50	4	166	91	2,365	72	1,816
2016	360	6,249	79	3,107	184	4,857	546	11,413	2	100	5	55	76	1,738	47	1,622
2017	362	6,101	82	3,956	210	4,814	560	10,063	2	100	1	10	76	1,330	38	1,067
2018	373	6,312	77	3,104	231	5,020	583	10,452	3	270	2	16	76	1,446	59	2,362
2019	371	6,450	49	1,803	233	4,962	704	15,759	0	0	12	9	40	1,116	40	1,092
2020	375	6,991	36	1,419	281	6,297	692	15,613	0	0	6	23	40	1,016	24	467
2021	373	7,240	30	1,129	206	4,114	646	14,860	0	0	4	13	40	989	34	792
2022	339	5,527	33	948	201	3,529	579	12,895	0	0	3	3	40	1,003	42	1,111
2023	355	5,518	57	1,962	181	2,868	560	14,779	0	0	5	23	40	857	64	1,499
2024	356	5,370	71	2,091	164	2,471	588	15,333	0	0	4	21	40	810	67	1,541

Note: From April 2019 onwards, the figures for general bonds other than JGBs are based on statistical data from the Japan Securities Depository Center (JASDEC).
Source: Japan Securities Dealers Association.

fiscal 2023 and ¥14 trillion in fiscal 2024.

Local government bond issuance totaled ¥5.4 trillion in fiscal 2024. This is basically due to the deterioration in the fiscal position of local governments, resulting in the introduction of publicly offered municipal bonds targeting local residents in fiscal 2001 and publicly offered joint municipal bonds in fiscal 2003.

Issuance of straight corporate bonds has been on an increasing trend since fiscal 2016, with both the number of corporate bond issues and the value of bonds issued remaining at high levels in recent years. Corporate bond issuance was boosted by large-scale issues amid the decline in long-term interest rates in 2019 and by further monetary easing in response to the COVID-19 pandemic in 2020. In fiscal 2024, 588 issues totaling ¥15.3 trillion were issued.

The total amount of bank debentures issued in fiscal 2024 (all interest-bearing) stood at ¥0.8 trillion, continuing to decline from the ¥43 trillion recorded in fiscal 1995. The backdrop to the decline includes the virtual disappearance of the long-term credit banks that had acted as suppliers of long-term capital to industry, the discontinuation of bank debenture issues by Bank of Tokyo-Mitsubishi (now the Bank of Mitsubishi-Tokyo UFJ) in March 2002, followed by Mizuho Corporate Bank (excluding debentures for asset building purposes) in March 2007 and Aozora Bank in September 2011. Among government agency bonds, issuance of government-guaranteed bonds in fiscal 2024 was ¥2 trillion and issuance of FILP agency bonds was ¥2.5 trillion. Back in fiscal 2000, the Government Housing Loan Corporation issued its first ¥50 billion FILP agency bond, following the reform of the fiscal investment and loan program. Since then, FILP agency bond issuance has grown considerably. The amount of yen-denominated foreign bonds was ¥1.5 trillion in fiscal 2024.

3. Methods of Issuing Public Bonds

Government securities are issued in the public market or directly to individual investors or underwritten by the public sector. This section deals with the former two methods of issuance.

When issued in the market, government bonds are primarily sold through public auctions based on competitive bidding on price (or on yield), as the method of underwriting by syndicates was discontinued in fiscal 2006. In accordance with the terms of offering set forth by the Ministry of Finance, auction participants submit their bid prices and amounts, and they are then aggregated to determine the issue price and amount. Depending on the type of securities to be auctioned, the issue price is set either in a conventional auc-

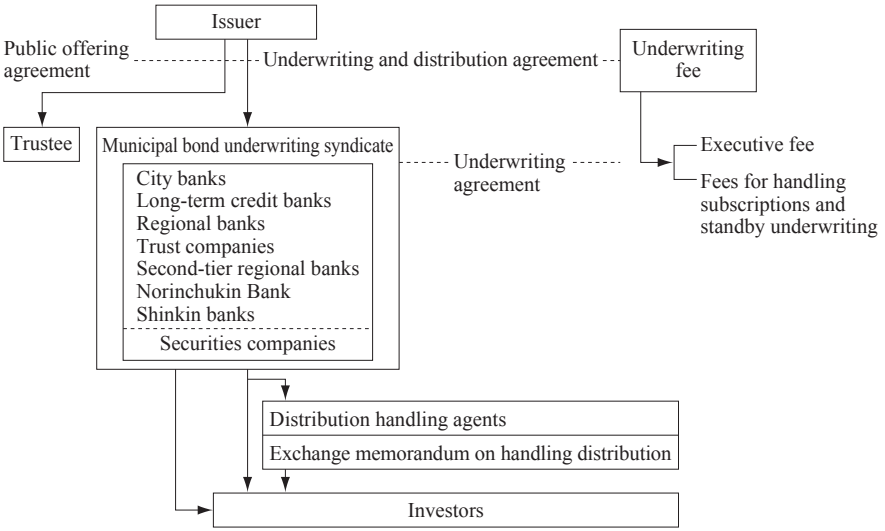
Table V-2. Categories of Government Securities

Maturity	Short-term government bonds		Medium-term government bonds	Long-term government bonds
	6 months	1-year	2-year, 5-year	10-year
Type of issue	Discount government bonds		Interest-bearing government bonds	
Minimum denomination	¥50,000		¥50,000	
Issuance method	Public auction		Public auction OTC sales (based on subscriptions to offering)	
Auction method	Price-competitive bidding Conventional style		Price-competitive bidding Conventional style	
Noncompetitive bidding, etc.	Non-price competitive auctions I		Non-competitive bidding Non-price competitive auctions I Non-price competitive auctions II	
Transfer restriction	No		No	

Maturity	Super long-term government bonds			Inflation-indexed government bonds	Climate transition bonds	Individual investor government bonds
	20-year	30-year	40-year	10-year	5-year, 10-year	3-year, 5-year fixed; 10-year floating
Type of issue	Interest-bearing government bonds					
Minimum denomination	¥50,000			¥100,000	¥50,000	¥10,000
Issuance method	Public auction			Public auction	Public auction	OTC sales (based on subscriptions to offering)
Auction method	Price-competitive bidding Conventional style		Yield-competitive bidding / Dutch auction	Competitive bidding / Dutch auction	Yield-competitive bidding / Dutch auction	–
Noncompetitive bidding, etc.	Non-price competitive auctions I Non-price competitive auctions II		Non-price competitive auctions II	– (Note 1)	–	–
Transfer restriction	No			No	No	Yes (Note 2)

Notes: 1. Type II non-price competitive auctions for inflation-indexed government bonds have been discontinued since May 2020.
2. Government bonds for individuals, including trustees of trusts, are transferable only to individuals.
Source: The Ministry of Finance, *Debt Management Report* 2025, p.49.

Chart V-2. Organization of Underwriting Publicly Offered Municipal Bonds at a Glance



Source: Japan Local Government Bond Association.

tion, where bonds are issued to successful bidders at their respective bid prices, or in a Dutch auction, where the issue price (yield) is set at the lowest price (highest yield) among accepted bids. Other than competitive bidding, two-, five-, and 10-year fixed rate government bonds are also offered through a noncompetitive bidding process that facilitates small- and medium-sized bidders and through Non-price Competitive Auctions I and II reserved for special participants (19 companies are designated since December 27, 2023). Private financial institutions handle subscriptions for individuals in offering government bonds for individuals and in offering two-, five-, and 10-year fixed rate government bonds under the new over-the-counter sales approach.

To issue municipal bonds, a local public body must prepare a budget plan that defines the use of proceeds from the proposed bond issue and obtains the approval of the local assembly. The actual issuance is also subject to consultation with the Minister of Internal Affairs and Communications (MIC) or the governor of the prefecture concerned (local bond consultation system). Even when the issuer is authorized to issue a municipal bond, the proceeds of such bonds can be used only for authorized projects - to finance a publicly run corporation, for equity contributions and loans, and to roll over maturing debts, etc. As of October 2025, 41 prefectures and 20 cities (“designated cities”) that have been designated by an ordinance of the Ministry of Internal

Affairs and Communications have issued municipal bonds through public offerings. In most cases, the issuer negotiates the terms of issue with the underwriting syndicate that handles its public offering, under which the underwriting syndicate buys up whatever bonds remain unsold after the public offering. Joint offered public municipal bonds on the primary market (municipal bonds jointly issued by 36 local public bodies) in and after fiscal 2003 are also handled by underwriting syndicates, but with municipal bonds targeted at local residents introduced in March 2002 local financial institutions are generally commissioned to handle the administration for underwriting and subscription. In November 2023, the joint issuance of bonds to fund decarbonization projects was also started.

The issuance of government-guaranteed bonds is planned as part of the Fiscal Investment and Loan Program, and annual ceilings on the issue amount must be approved by the Diet. They are issued by way of either an underwriting syndicate or issued by separate and individual bidding by competing underwriters. In the former method, the terms of issue are determined based on the results of recent government bond monthly competitive bidding. In the latter, both the terms of issue and the lead underwriter are determined through competitive bidding. FILP agency bonds are also issued as interest-bearing bonds, and in issuing them, the issuing agency usually selects a lead managing underwriter who, in turn, forms an underwriting syndicate.

4. Methods of Issuing Corporate Bonds

The issuance of straight bonds was historically subject to strict regulations, and the corporate bond trustee system was the cornerstone of these regulations. Against the backdrop of the main bank system in Japan at the time, banks had an extremely strong influence on individual corporate straight bond issues under the corporate bond trustee system. Even in the overall corporate bond primary market, banks had a greater voice than securities companies. However, as the role played by the corporate bond trustee system declined in the 1980s, the Commercial Code was amended in 1993 to drastically change the system. This marked a major step forward in the deregulation of issuance of corporate bonds.

The issuing corporation appoints managing underwriters and other underwriters that together constitute an underwriting syndicate, a bond manager or a fiscal agent, and providers of other relevant services and obtains a preliminary credit rating. When preparations are completed, the underwriting syndicate, under the leadership of the lead underwriter, conducts pre-marketing in order to build a book for the bonds. Based on this, the issue terms of the bonds are finalized and the offering begins. The bookbuilding method is one

Table V-3. Major examples of SDG bond (ESG bond) issuance in 2025 (as of the end of October 2025)

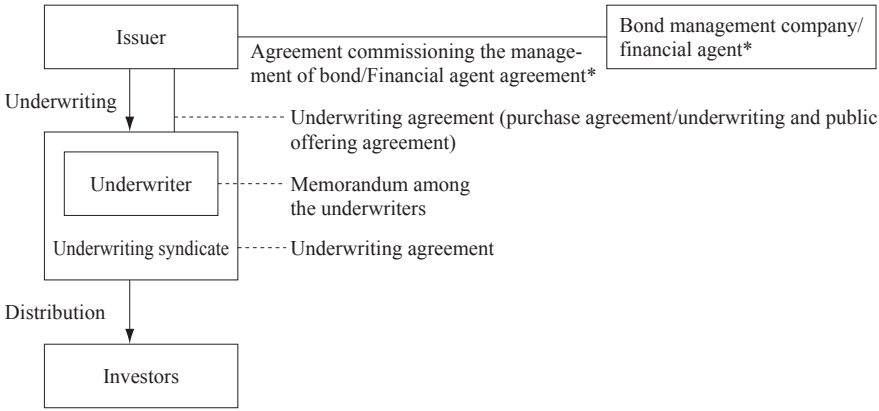
Date of setting of terms	Issuer	Amount issued	Interest rate	Term	Credit rating	ESG bond categories
May 23	Mitsui Fudosan	¥50 billion	1.38%	5-year	AA (JCR) AA − (R&I)	Green
May 23	Mitsui Fudosan	¥50 billion	2.11%	10-year	AA (JCR) AA − (R&I)	Green
May 30	Tokyo Tatemono	¥50 billion	2.66%	37-year	BBB + (JCR)	Sustainability
July 18	Nipro	¥50 billion	3.07%	35-year	BBB (JCR) BBB − (R&I)	Social
March 7	Tokyu Fudosan Holdings	¥40 billion	2.21%	35-year	A − (JCR)	Green
April 24	Dai Nippon Printing	¥40 billion	1.25%	5-year	AA − (R&I)	SLB
February 28	Mazda	¥35 billion	1.86%	7-year	A − (JCR)	Transition Social
May 23	Kirin Holdings	¥30 billion	1.41%	5-year	A + (R&I)	Social
June 11	Nomura Real Estate Holdings	¥27 billion	1.43%	5-year	A (R&I) A + (JCR)	Green
February 6	Hanshin Expressway	¥25 billion	0.94%	3-year	AA + (R&I) AAA (JCR)	Sustainability
April 4	Kansai Electric Power	¥25 billion	1.77%	10.1-year	AA (JCR) AA − (R&I) A3 (Moody's)	Transition

Note: SLB: Sustainability-linked bond.
Source: ESG Bond Information Platform.

under which the lead underwriter asks syndicate member companies to gauge investors' interest in the bonds and then decides on the issue terms on the basis of the findings of that survey. Previously, many issuers employed "spread pricing", a method under which investors' appetite in an issue is measured in terms of a spread over the yield of a government bond or an interest rate swap with the same maturity date, to set the interest rate. However, after the introduction of negative interest rate policy by the Bank of Japan in January 2016, so-called "absolute value pricing" has become an established practice, whereby investor demand is projected based on an absolute yield figure.

In terms of issuer ratings, the majority of issuers continue to issue bonds with high ratings; only a small proportion of bonds have low ratings, which is a characteristic of Japan. The reason can be attributed to the fact that major institutional investors limit their investment in corporate bonds to issues with

Chart V-3. Mechanism of Underwriting Corporate Bonds



Note: *The issuer signs this agreement with a trustee company in the case of a mortgage bond.
Source: Daiwa Securities Co., *Saiken no joshiki*.

ratings of A or higher.

Issuance of SDG bonds (ESG bonds) by domestic companies is also required to comply with issuance guidelines and standards set by ICMA (International Capital Markets Association), the Financial Services Agency and the Ministry of the Environment, along with having a positive assessment by external organizations and a high credit rating. Issuance volume has been on a downward trend since reaching a peak in 2023.

Bond-type class shares are legally classified as shares without voting rights or conversion rights to common stock (preferred shares), but their overall characteristics are similar to corporate bonds. In 2023, SoftBank's bond-type class shares issued to individual investors became the first of their kind in Japan to be listed on the Tokyo Stock Exchange Prime Market. Subsequently, bond-type class shares issued by Infroneer Holdings were listed on the Prime Market in August 2024, followed by a second issue by SoftBank in October 2024 and an issue by Zensho Holdings in October 2025.

5. Credit-Rating Agencies and Rating of Bonds

Credit rating is a classification of credit risk, indicated by a rating symbol based on measurement of the certainty of payment of the principal of, and interest on, a bond, and it is ordinarily given by a credit-rating agency specializing in rating credit. Originally, the system developed in the bond market of

Table V-4. Definitions of Credit-Rating Symbols

Rating and Investment Information, Inc. (R&I)	
Credit Rating	Definition
AAA	Highest creditworthiness supported by many excellent factors.
AA	Very high creditworthiness supported by some excellent factors.
A	High creditworthiness supported by a few excellent factors.
BBB	Creditworthiness is sufficient, though some factors require attention in times of major environmental changes.
BB	Creditworthiness is sufficient for the time being, though some factors require due attention in times of environmental changes.
B	Creditworthiness is questionable and some factors require constant attention.
CCC	Creditworthiness is highly questionable and a financial obligation of an issuer is likely to default.
CC	All of the financial obligations of an issuer are likely to default.
C	R&I believes that all of the financial obligations of an issuer are in default.

Japan Credit Rating Agency, Ltd. (JCR)	
Credit Rating	Definition
AAA	The highest capacity of the obligor to honor its obligation to its financial commitment.
AA	A very high capacity to honor its obligation to its financial commitment.
A	A high capacity to honor its obligation to its financial commitment.
BBB	An adequate capacity to honor its obligation to its financial commitment. However, this capacity is more likely to diminish in the future than in the cases of the higher rating categories.
BB	Although the capacity to honor the financial commitment on the obligation is not considered problematic at present, this capacity may not persist in the future.
B	A low capacity to honor its obligation to its financial commitment, giving cause for concern.
CCC	There are factors of uncertainty that the obligation to financial commitment will be honored, and a possibility of default.
CC	A high default risk.
C	A very high default risk.
LD	JCR has determinedthat, while the issuer has not fulfilled its obligations in accordance with the terms, it has fulfilled its obligations as agreed with respect to other debts.
D	In default.

Moody's Investor Service	
Credit Rating	Definition
Aaa	Obligations rated "Aaa" are judged to be of the highest quality, subject to the lowest level of credit risk.
Aa	Obligations rated "Aa" are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated "A" are considered upper-medium grade and are subject to low credit risk.
Baa	Obligations rated "Baa" are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.
Ba	Obligations rated "Ba" are judged to be speculative elements and are subject to substantial credit risk.
B	Obligations rated "B" are considered speculative and are subject to high credit risk.
Caa	Obligations rated "Caa" are judged to be speculative of poor standing and are subject to very high credit risk.
Ca	Obligations rated "Ca" are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated "C" are the lowest rated class and are typically in default, with little prospect for recovery of principal or interest.

Standard & Poor's	
Credit Rating	Definition
AAA	An obligation rated "AAA" has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its obligation to its financial commitment is extremely strong.
AA	An obligation rated "AA" differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its obligation to its financial commitment is very strong.
A	An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its obligation to its financial commitment is still strong.
BBB	An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its obligation to its financial commitment.
BB	An obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertaintes or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its obligation to its financial commitment.
B	An obligation rated "B" is more vulnerable to nonpayment than obligations rated "BB," but the obligor currently has the capacity to meet its obligation to its financial commitment. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its obligation to its financial commitment.
CCC	An obligation rated "CCC" is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its obligation to its financial commitment. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its obligation to its financial commitment.
CC	An obligation rated "CC" is currently highly vulnerable to nonpayment. The "CC" rating is used when a default has not yet occurred, but Standard & Poor's expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated "C" is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared to obligations that are rated higher.
D	An obligation rated "D" is in default or in breach of an imputed promise. For non-hybrid capital instruments, the "D" rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the state period or 30 calendar days. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to "D" if it is subject to distressed exchange offer.

the United States and is believed to have taken root during the Depression of the 1930s. It was introduced to Japan in the 1980s, and today, obtaining a credit rating has become a general practice among issuers of corporate bonds.

In assigning a credit rating to a given bond issue, a credit-rating agency investigates and verifies whether the bond is secured, whether it is subject to financial covenants, and its seniority or subordination relative to other liabilities; analyzes the issuer's financial position and business; determines its capacity to pay the principal of, and interest on, the proposed bond; and assigns a rating symbol on the basis of the findings of such investigations. Normally, any debt security with an AAA rating indicates that its issuer has the highest credit standing and is virtually free from the uncertainties of paying the principal of and interest on the obligation. The creditworthiness of a bond declines as its rating goes down, in order, from AAA to AA, A, and BBB, and a bond with any of these four ratings is called an investment-grade bond. Bonds with a credit rating of BB, B, CCC, CC, or C are called "junk bonds." As these bonds carry high credit risk, their issuer offers a high yield to attract buyers. Thus they are called "high-yield bonds," and their primary market has become well-established in the United States and Europe. This type of junk bond primary market did not exist in Japan because of a policy that excluded bonds that did not meet the eligibility standards from the market. However, today no such regulations restrict the issuance of junk bonds because the eligibility standards were abolished in 1996. Nevertheless, very few BBB-rated bonds have been offered in the market despite being an investment-grade category; with the exception of a BB-rated issue (by AIFUL) in 2019.

Designated credit-rating agencies now include both domestic players, such as Rating and Investment Information (R&I) and the Japan Credit Rating Agency (JCR), and global agencies, such as Standard & Poor's and Moody's and Fitch. In Japan, the new credit rating agency registration system replaced the conventional system based on the Act for Partial Amendment of the Financial Instruments and Exchange Act enforced in April 2010. Further, in recent years, municipal bonds and FILP agency bonds have also been assigned ratings.

The U.S. subprime mortgage crisis raised severe doubts over the way ratings were given. To begin with, credit-rating agencies were criticized because they tended to give generous ratings based on the fact that their source of income was rating fees collected from issuers. At the same time, ratings were acknowledged as merely a reference indicator. Currently, however, ratings are used in various financial regulations and policies. Credit-rating agencies today operate under a global registration system under administrative supervision.

6. Corporate Bond Management

A drastic reform of the conventional corporate bond trustee system was carried out by an amendment of the Commercial Code in June 1993 to clarify the basic functions of the current corporate bond manager system. Under this amendment, the conventional name "bond trustee company" was changed to "bond management company." In addition, (1) the establishment of a bond management company was made mandatory, in principle, and the eligibility for becoming one was restricted to banks, trust companies, and companies that have received a license under the Mortgage Bond Trust Law; (2) services to be provided by a bond management company were restricted to the management of outstanding bonds; and (3) the powers, duties, and liabilities of the bond management company were clarified. Put another way, the back-office services provided by the trust company at the time a bond is offered will not become the core services of the bond management company, and the services to be provided by the bond management company after a bond is issued are restricted to bond management.

As a result of the amendment, the potential for a bond trustee company to be involved in the issuance of corporate bonds of individual issuers has been legally removed, and the power of the conventional bond trustee system regulating individual issuers has thus come to an end. The amendment has resulted in the following changes: (1) The fee previously collected by the trustee bank was renamed the "bond management fee," and was reduced; (2) by instituting exceptional provisions with respect to the mandatory establishment of a bond management company (this applies when the face value of a bond certificate is in excess of ¥100 million), issuers can appoint a fiscal agent in lieu of a bond management company, and use of just a fiscal agent is now commonplace.

Under the New Companies Act enforced in May 2005, a bond management company is now known as a "bond manager," and its liabilities and powers have been expanded. More specifically, (1) under the former Commercial Code, the term "management of corporate bond" referred only to the exercise of power legally granted to the bond management company and did not include the exercise of power based on an agreement, etc., entrusting the management of bonds (contractual power); under the new Companies Act, however, the exercise of the contractual power is included in "management of bonds" and the bond manager owes the duty of fairness and the duty of due care of a prudent manager; (2) when the agreement entrusting the management of bonds contains a provision to that effect, the bond manager may act in relation to filing a lawsuit and taking bankruptcy or rehabilitation proceedings for all of the bonds without obtaining a resolution at the bondhold-

Table V-5. Appointment, Power, and Liability of the Bond Manager under the Companies Act

Item	Contents	Article
Appointment and Power		
When a bond manager has to be appointed	A corporation issuing a corporate bond must appoint a bond manager. However, when the face value of a bond certificate is in excess of ¥100 million, and in such other cases as may be prescribed by an ordinance of the Ministry of Justice as one which poses no threat to the protection of bondholders, the issuer need not appoint a bond manager.	Article 702 of the New Companies Act
Qualifications for becoming a bond manager	Banks, trust companies, and equivalent financial institutions	Article 703
Matters entrusted	The bond manager will be entrusted to receive payments, to preserve rights of claim, and to take other steps necessary for the management of bonds on behalf of bondholders.	Article 702 of the New Companies Act
Duty of the bond manager	The bond manager must perform the administration of bonds in a fair and sincere manner on behalf of the bondholders (“duty of fairness”). The bond manager must manage the bonds with due care of a prudent manager to the bondholders (“duty of due care of a prudent manager”).	Article 704
Power of the bond manager	The bond manager has the authority do all judicial and non-judicial acts on behalf of bondholders that are necessary to receive payments relating to the bonds or to preserve the realization of claims relating to the bonds. When the bond manager deems it necessary to take such steps, the bond manager may, with the permission of the court, investigate the status of the business and assets of the bond-issuing company.	Paragraphs 1 and 4 of Article 705
Special regulation on the power of the bond manager	When the bond manager plans to take the steps described below, it must obtain a resolution of a bondholders' meeting. (1) With respect to all of the bonds, granting extension for the payment of those bonds, or releasing, or settling liability arising from the failure to perform the obligations of those bonds (2) With respect to all of the bonds, prosecuting lawsuits, or proceeding with bankruptcy procedures, rehabilitation procedures, reorganization procedures or procedures regarding special liquidation (“lawsuit” includes court-mediated settlement) Under the Act, the bond manager has the power to take these actions without a resolution of a bondholders' meeting if the bond management agreement so prescribes.	Paragraphs 1 and 2 of Article 706 Item (viii), Article 676
Power of the bond manager in taking steps for the protection of creditors	When a bondholder wants to object to any action taken by the issuer, he/she must obtain a resolution of a bondholders' meeting, in principle, but the bond manager can express its objection on behalf of bondholders. This, however, shall not apply in cases where there is a provision to the contrary in the contract entrusting bond management.	Paragraghs 1 and 2, Article 740
Liability		
Liability (damages)	When the bond manager takes an action in violation of the Companies Act or any resolution of the bondholders' meeting, it is jointly and severally liable for damages incurred by bondholders.	Paragraph 1 of Article 710
Statutory special liability (damages)	(1) When the bond manager has received from the issuer of a bond collateral for the obligation represented by such a bond or when the issuer has taken an action extinguishing such obligation within three months prior to a default on the redemption of, or on the payment of interest on, the bond, or the suspension of payment by its issuer (2) When the bond manager has received from the issuer collateral for the obligation or repayment with respect to the credit of the bond manager (3) When the bond manager transfers its credit to a company controlling, or controlled by, such bond manager, or to another company that has a special relationship with the bond manager (4) When a bond manager who has a credit to the issuer of the bond concludes an agreement with the issuer authorizing it to dispose of the property of the issuer for the purpose of offsetting such credit, or when the bond manager concludes an agreement to take over any obligations of any company that owes a debt to the issuer. (5) When a bond manager that owes a debt to the issuer offsets such debt by taking over a credit to the issuer.	Paragraph 2 of Article 710
Exemption of debt	The bond manager is exempt from debt when it has not been derelict in its management of the bond, or when it is established that any loss caused to the bondholders is not blamable to an action taken by the bond manager.	Proviso to Paragraph 2 of Article 710
Resignation of the bond manager and its liability	(1) The bond manager may resign with the consent of the bond issuer and the bondholders' meeting. (However, the bond manager must appoint in advance a successor who will take over the administration of the bonds.) (2) In case the bond manager has an unavoidable reason to resign, it may resign with permission of the competent court. (3) The bond manager may resign based of the causes prescribed in the agreement entrusting the management of the bonds. (However, such agreement must have a provision designating a succeeding bond manager that will take over the job.) *) A bond manager that resigns after the issuer has defaulted on the redemption of the bond or on the payment of interest on such bond, or that has resigned for reasons prescribed in the agreement commissioning the management of the bond within three months prior thereto, is not exempted from liability to pay damages under Paragraph 2 of Article 710.	Article 711 Article 712

Source: Compiled from the data drawn from Akihiro Sato, *Shinkaishaho de kawatta kaisha no shikumi* (The Changed Company System under the New Companies Act), Nihon Horei, 2005, pp. 179 and 181.

ers' meeting; and (3) in taking steps to protect the creditors in the case of a capital reduction or a merger, the bond manager may, in principle, object to such a capital reduction or merger without obtaining a resolution of the bondholders' meeting. However, the stringent obligations, responsibilities, and qualification requirements increased the cost of appointing a bond manager, contributing to a rise in the number of bonds issued without one.

The revised Companies Act, which came into effect in March 2021, introduced the assistant bond manager system, under which assistant bond managers provide support for administrative procedures relating to corporate bonds and the preservation of claims. The system is applicable to bonds for which no bond manager is established, and financial institutions as well as lawyers and law firms familiar with bankruptcy affairs can take on these responsibilities.

7. Corporate Bonds with Subscription Rights/Warrants and Structured Bonds

Subscription rights/warrants give their issuer an obligation to either issue new shares or transfer shares in its treasury at a predetermined price to the rights/warrants holder upon the exercise of their rights/warrants within a prescribed period.

Corporate bonds with subscription rights/warrants are divided into those that in effect correspond to convertible bonds and those with undetachable warrants. Corporate bonds with subscription rights/warrants correspond to the former and refer to bonds (1) from which the rights cannot be detached or separately transferred, (2) whose issue value is equal to the amount of money payable upon the exercise of the rights, and (3) for which the exercise of the subscription rights/warrants is always based on the contribution in kind of the corporate bonds (debt equity swap). Except in the case of a stock split, the conversion price is fixed at the time of its issue. In certain cases, however, the conversion price of rights may be revised downward when the price of the underlying stock falls. In these cases, bonds issued under the condition that the conversion price can be adjusted downward with a frequency of one or more times every six months are called "corporate bonds with subscription rights/warrants with adjustable conversion price (MSCBs: moving strike convertible bonds)." Because of market concerns about this type of "death spiral" financing, however, few of these bonds have been issued recently. On the other hand, since corporate bonds issued with detachable warrants are viewed as a concurrent offering of corporate bonds and equity warrants, only those with undetachable warrants are included in the definition of "corporate bonds with subscription rights/warrants." In such cases, the money paid upon

Table V-6. Kinds of Structured Bonds

[Variable Cash Flow Bonds]

Step-up Bond: A bond issued initially with a coupon rate that is lower than the going rate then prevailing and that rises after the lapse of a certain period. By its very nature, the issuer often issues such a bond with a call option.

Step-down Bond: A bond issued initially with a coupon rate that is higher than the going rate then prevailing and that declines after the lapse of a certain period.

Deep-Discount Bond: This bond carries an interest rate lower than the going rate throughout its life, but it is issued at an under-par price to help its holders make up for the lower coupon by a redemption gain.

Reverse Floater Bond: The coupon rate of this bond falls when the interest rate rises, and the coupon rate rises when the interest rate declines. This is a kind of derivative bond using interest rate swap.

[Index Bonds]

Stock, interest rate, or bond-index-linked bond: These are bonds whose redemption principal is linked to the Nikkei average, whose coupon rate is linked to the Nikkei average, whose coupon rate is linked to the interest swap rate, or whose redemption principal is linked to the Japanese government bond futures price.

Exchange Rate Index Bond: Most of these dual-currency bonds are divided into those with a principal and coupon in yen that are redeemable in a foreign currency and into reverse dual-currency bonds with a principal and coupon redeemable in yen that carry a coupon in a foreign currency. As the amount of principal is normally larger than the coupon, dual-currency bonds carry a larger risk of exchange rate fluctuation.

[Bonds with Options]

Exchangeable Bonds (EB): Issuers of this bond may at their discretion pay redemptions with a pre-fixed number of shares of another company. For the purchaser, this means the sale of a put option, and under this arrangement, the coupon increases by as much as the option premium.

Other Bonds with Options: Included in this kind are callable bonds (the issuer can call the bond in advance of its maturity at the discretion of the issuer); puttable bonds (its holder can demand redemption in advance of its maturity); and knock-in, dual-currency bonds (a dual-currency bond with an exchange-rate option).

Source: Compiled on the basis of the data drawn from the website of Hephaistos Investment Research (http://hephaistos.fc2web.com/bond_guide/shikumi_sai.html) (Japanese) and the website of The Central Council for Financial Services Information.

the exercise of subscription rights/warrants should be paid separately, and the bond remains outstanding.

"Structured bond" is the name popularly given to a bond structured with derivatives. In recent years, various types of structured bonds have been issued. The derivative elements embedded in structured bonds include equities, interest rates, exchange rates and credit risk. The Nikkei 225 Index-linked Bond is a form of structured bond, which incorporates Nikkei 225 options trading, a form of derivative component exposed to equities-related risks. In general, when the Nikkei 225 index rises, returns improve; but when it falls, the option is exercised, causing a loss, and the bond price falls below its par

value. A corporate bond with a clause to convert it into shares of another company (“exchangeable bond” or EB) is a bond that incorporates a stock option of the target company. In general, when the stock price of the underlying company rises, the return increases as the holder acquires the option premium, but when the price of the stock falls, the option is exercised, and the holder has to accept delivery of the shares at the predetermined price, resulting in a loss. Inappropriate sales of structured bonds by some financial institutions have become a social issue, and the Japan Securities Dealers Association has imposed self-regulation on investment solicitation and customer management since July 2023.

8. Issuance of Bonds for Individuals

As outlined in Chapter 1, the total financial assets held by Japanese households have continued to grow steadily. However, comparing with other countries, cash and deposits still account for a relatively high proportion of household financial assets, while the share of securities remains comparatively low. However, a closer look at the breakdown reveals an increasing trend in stock ownership, driven by the benefits of the new NISA program launched in January 2024 and a strong stock market. By contrast, household bond holdings remain at a low level. One factor behind this trend is the protracted zero-interest-rate policy, as well as the limited availability of bond-type financial products for individual investors. One issue regarding the management of Japanese households’ financial assets is the extremely low level of bond-type financial assets which bridge the gap between savings and stock investments. For example, in the United States, money market funds (MMFs) are recognized as an alternative to deposits, and as of the end of March 2025, they accounted for 3.6% of total financial assets held by households (including NPOs). In addition, Treasury securities account for 2% and municipal bonds for about 1.5%, highlighting the significant role that bond-type securities play in the asset management of U.S. households. In March 2024, Japan also ended its zero-interest-rate policy, marking a return to a positive interest-rate environment. Bonds are expected to play an increasingly important role in household asset management going forward.

The most representative bonds available to individual investors in Japan are interest-bearing government bonds for individual investors. The first, a 10-year floating-rate bond, was introduced in March 2003 to promote individual investment in Japanese government bonds. This was followed by the introduction of a five-year fixed-rate bond in January 2006 and a three-year fixed-rate bond in July 2010. Interest-bearing Japanese government bonds for individual investors have the following features: (1) a minimum interest rate

Table V-7. Three Types of Retail Government Bonds

	Fixed-rate, 3-year maturity	Fixed-rate, 5-year maturity	10-year floating-rate bond
Interest rate type	Fixed interest rate	Fixed interest rate	Variable interest rate
Method of setting interest rates	Benchmark rate − 0.03% (Note 1)	Benchmark rate − 0.05% (Note 1)	Benchmark rate × 0.66 (Note 2)
Lower bound of interest rates	0.05% (annual rate)		
Receipt of interest	Twice a year, every six months		
Unit purchase price	Starting at ¥10,000, in increments of ¥10,000		
Redemption amount	¥100 per ¥100 face value (same for early redemption)		
Early redemption	Early redemption is possible at any time after one year has elapsed since issuance. (The amount equivalent to each of the last two interest payments, after tax, multiplied by 0.79685 is deducted) (Note 3)		
Frequency of issuance	Every month (12 times a year)		

Notes: 1. The benchmark interest rate is the estimated yield on 5-year or 3-year fixed-rate government bonds, calculated based on prevailing market yields as of two business days prior to the start of the subscription period.
2. The benchmark interest rate is the average successful bid yield in the last auction of 10-year fixed-rate government bonds up to the month before the start date of the interest calculation period (for the initial interest rate, the last auction up to the start date of the offering period).
3. The reason why the amounts equivalent to the interest (before tax) for the two most recent periods are multiplied by 0.79685 is that a tax of 20.315% is withheld when interest on government bonds is received.

Source: Ministry of Finance website.

Table V-8. Value of Interest-Bearing Government Bonds Issued to Individuals

(¥1 billion)

Fiscal year	2002	2004	2005	2008	2010	2012	2014	2016	2018	2020	2021	2022	2023	2024	2025
3-year fixed-rate	−	−	−	−	462.0	361.0	385.4	533.9	461.0	692.6	523.1	451.1	238.3	569.2	537.1
5-year fixed rate	−	−	1,128.5	2,051.9	422.1	204.2	432.8	1,251.0	196.0	205.7	230.2	257.5	621.9	1,302.4	1,590.1
10-year floating rate	383.5	6,821.0	6,142.7	241.0	143.7	1,111.2	1,814.4	2,770.7	4,035.7	2,130.7	2,219.5	2,709.8	2,543.2	2,622.2	1,112.8
Total	383.5	6,821.0	7,271.2	2,292.9	1,027.8	1,676.4	2,632.6	4,555.6	4,692.7	3,029.0	2,972.8	3,418.4	3,403.5	4,493.8	3,240.0

Notes: 1. As of the end of October fiscal 2025, a total of ¥4.6 trillion was scheduled to be issued.
2. Issued as reconstruction bonds from January 2012 to June 2013.
3. The figures for the 10-year floating-rate bonds in fiscal 2012 include the issuance value of Reconstruction Support Government Bonds for individuals (including those issued in the following fiscal year).

Source: Ministry of Finance, "Debt Management Report 2025".

Table V-9. Major Retail Corporate Bonds Issued in 2025

Month of issuance	Issuer	Amount issued	Interest rate	Term	Rating
March	Mazda	¥35 billion	1.86%	7-year	A − (JCR)
May	SoftBank Group	¥600 billion	3.34%	5-year	A (JCR)
June	SBI Holdings	¥170 billion	1.885%	4-year	A − (R&I)
June	Rakuten Card	¥80 billion	1.68%	1-year	BBB + (R&I), A − (JCR)
July	Mitsubishi UFJ Financial Group	¥69 billion	2.389%	10-year	AA − (R&I), AA − (JCR)
July	Kintetsu GH	¥25 billion	1.568%	5-year	BBB + (R&A), A − (JCR)
July	Keio Corporation	¥10 billion	1.38%	5-year	AA (JCR)
August	Rakuten Group	¥130 billion	2.336%	3-year	A − (JCR)

of 0.05%; (2) a minimum purchase amount of ¥10,000; and (3) after one year from the date of issue, they may be redeemed through the government's buy-back program at ¥100 per ¥100 of face value (with no risk of principal loss). These bonds are sold through authorized distributors, including securities firms, banks, and post offices. Issuance exceeded ¥7 trillion in fiscal 2005, but had fallen to around ¥1 trillion by fiscal 2010. Issuance has since recovered to over ¥4 trillion.

Issuance of corporate bonds to individual investors has been on the rise in recent years. According to I-N Information Systems, corporate bonds for individual investors totaling nearly ¥3 trillion were issued in 2024. The one-year retail corporate bond issued by Pan Pacific International Holdings in August 2025 attracted attention as a digital bond. Issued on the Securitize platform using distributed ledger technology, the bond pays interest at a rate of 1%, consisting of 0.3% in cash and 0.7% in points redeemable at the company's retail stores.