



MIC

**Local Government Bond System
and Market in Japan**

**Ministry of Internal Affairs
and Communications**

**JLGB European Road Show
October 2010**

I Executive Summary

II Market Overview

III Attractiveness

IV Credit Outlook

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Executive Summary

Japanese Local Government Bond – A Safe Investment

(1) Market Overview

- ◆ Similar credit status to JGB with strong national government support and check
- ◆ Second largest muni market in the world (\$2.3 trillion)
- ◆ Sharp increase of public offering (No. of issuers: 29 to 49 in 7 years, Issuance: Triple in 11 years)

(2) Attractiveness

- ◆ Stable spread range over JGB market with average pick up of 3 ~ 20 basis points
- ◆ Multiple Maturities available from 2, 3, 5, 7, 10, 15, 20 or 30 years
- ◆ Public Offering Joint Local Government Bond - High liquidity with \$1.6 billion issue monthly

(3) Credit Outlook

- ◆ Japanese local governments are supported by the central government:
 - Local Allocation Tax System, Consultation System, Fiscal Rehabilitation Law
- ◆ Increasing number of credit ratings, 12 entities by Moody's and 8 entities by S&P
- ◆ 0% BIS risk weight and No legal concept of bankruptcy and debt discharge in Japan

(4) Outreach efforts to foreign investors

- ◆ Tax Exemption for Interest Received by Non-Residents on Book-Entry Transfer System
- ◆ Enable to issue yen-denominated LGBs on overseas markets (Euroyen bonds)
- ◆ Regular overseas road show

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MIC Japan's Local Government System and Public Offering Bond

◆ 'Two-tier' system of local governments

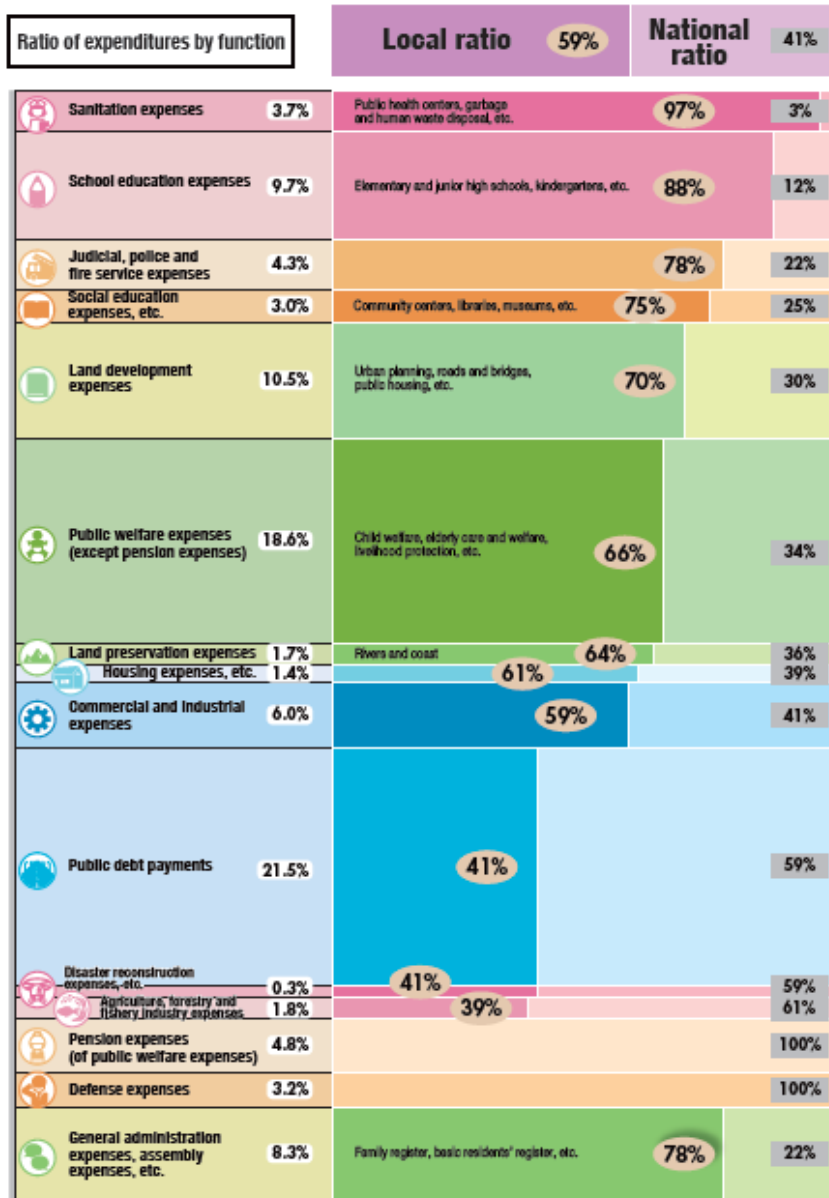
- ▶ 47 prefectures (including Tokyo Metropolis)
- ▶ 1,769 municipalities (cities, towns, and villages) as of Sep, 2010
(19 designated cities and 1,750 others)



- ◆ 49 LGs issue public offering bond in FY 2010.
 - ▶ 30 prefectures (shown in black)
 - ▶ 19 designated cities (shown in red)

Source: Local Government Bond Association

Functions of Japanese Local Governments



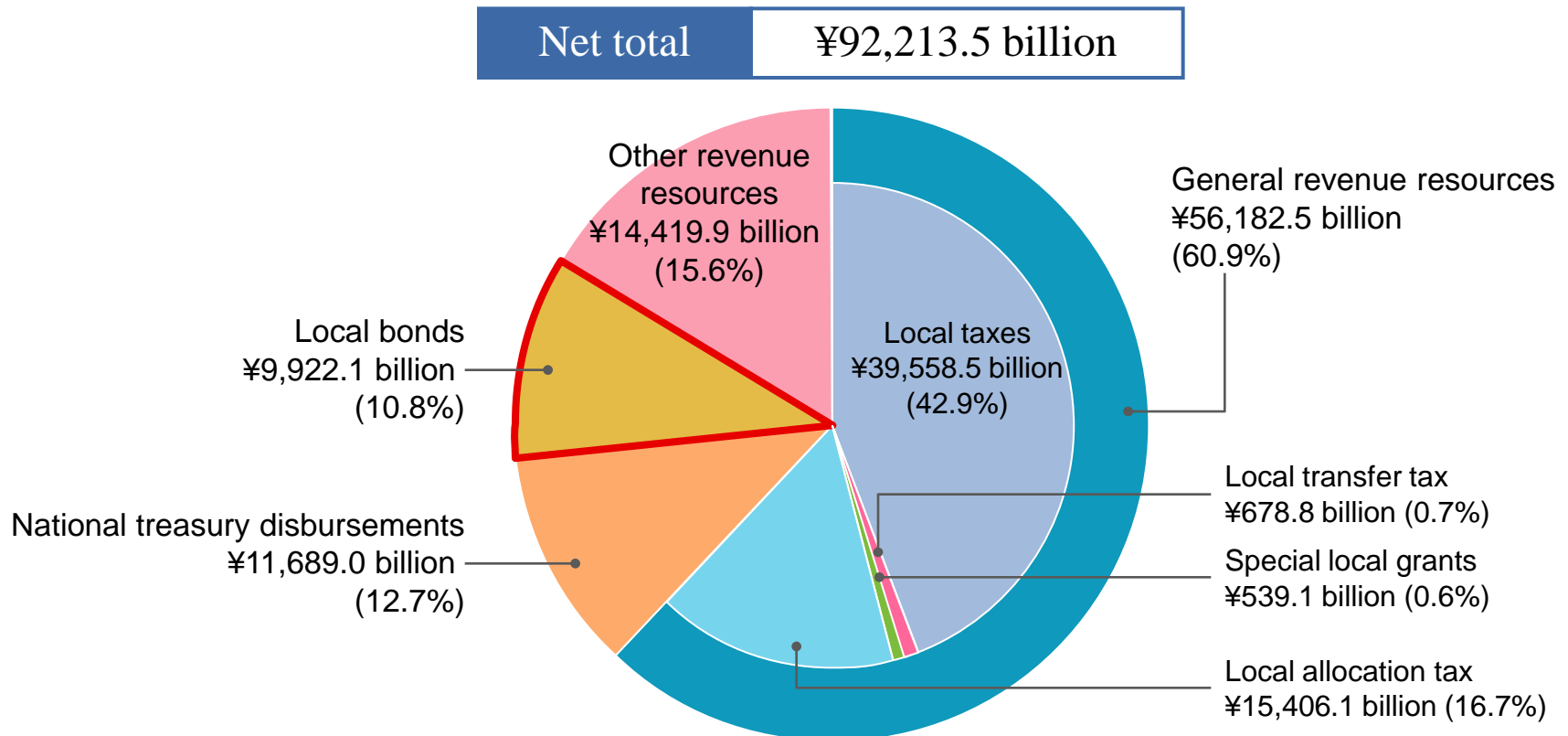
- ◆ Local governments have relatively large responsibilities & functions.
- ◆ The greatest portion of local government annual expenditures is directed toward supporting everyday public services: public health and sanitation, education, social education, and police and fire prevention.

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(LAT), national treasury disbursements, and local bonds.

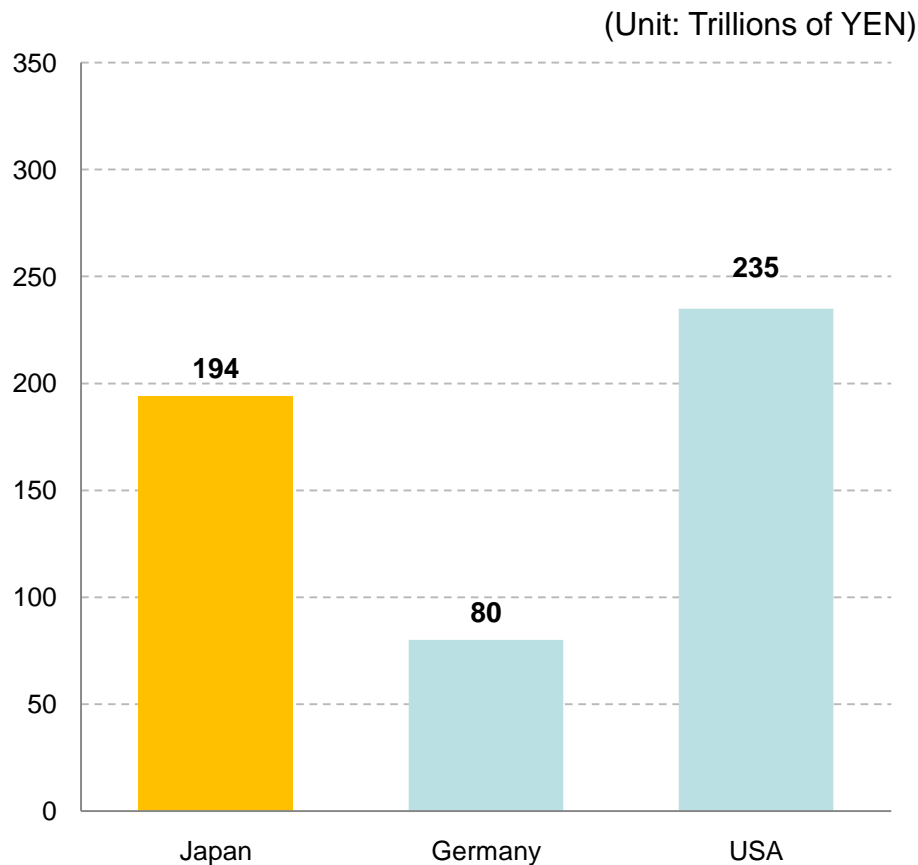
< Revenue Breakdown (FY2008 settlement) >



Second largest muni market in the world

- ◆ Japan's Local Government debt has ¥194 trillion (equivalent to about \$2.3 trillion) outstanding. Japan sits on second only to the U.S.

LGs' Debt Outstanding (2009) Japan/Germany/USA

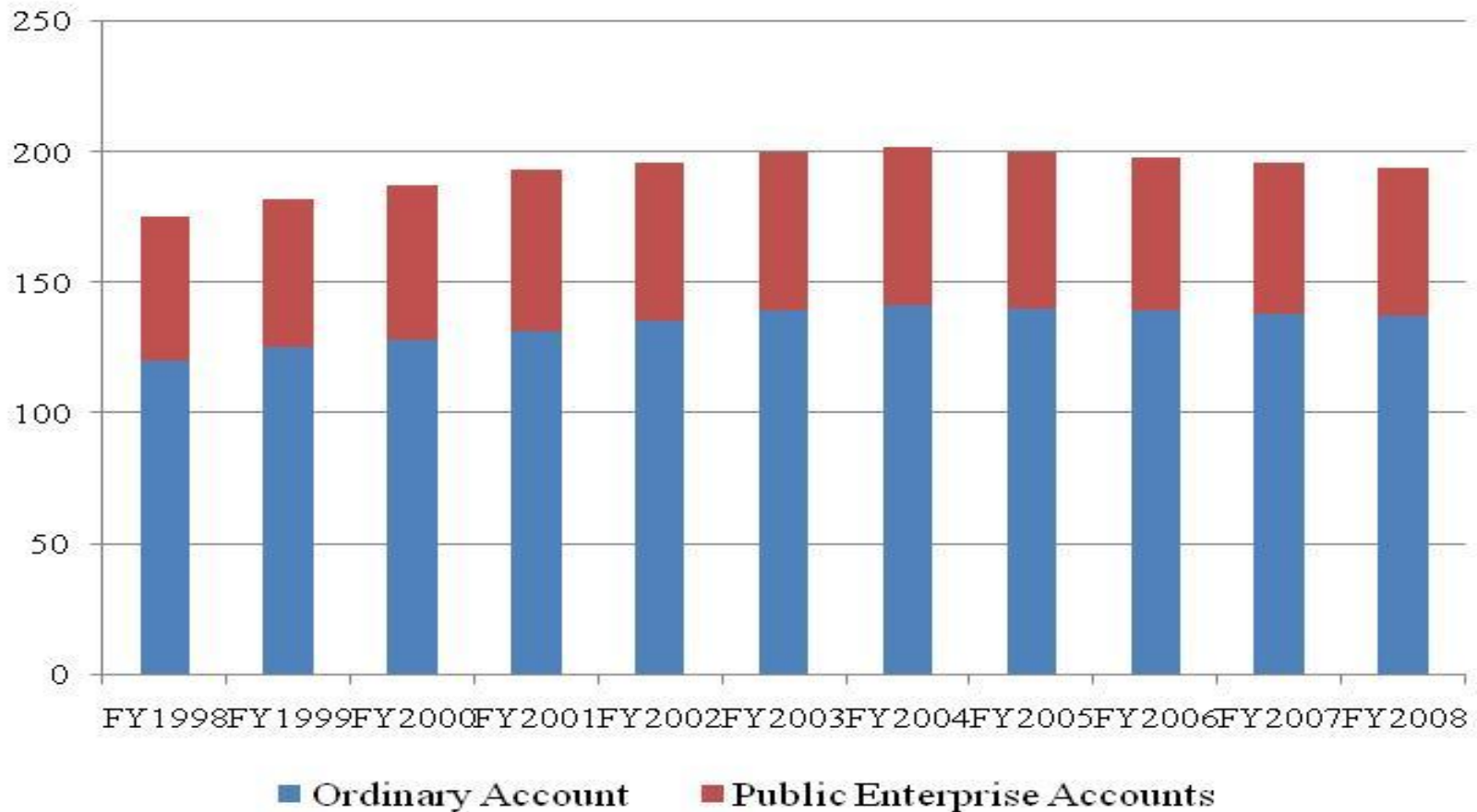


Source: Japan Local Government Bond Association, FRB, Bundesbank

Trends of JLGB outstanding(Total)

< Outstanding of Japan's Local Government debt >

(Trillion Yen)



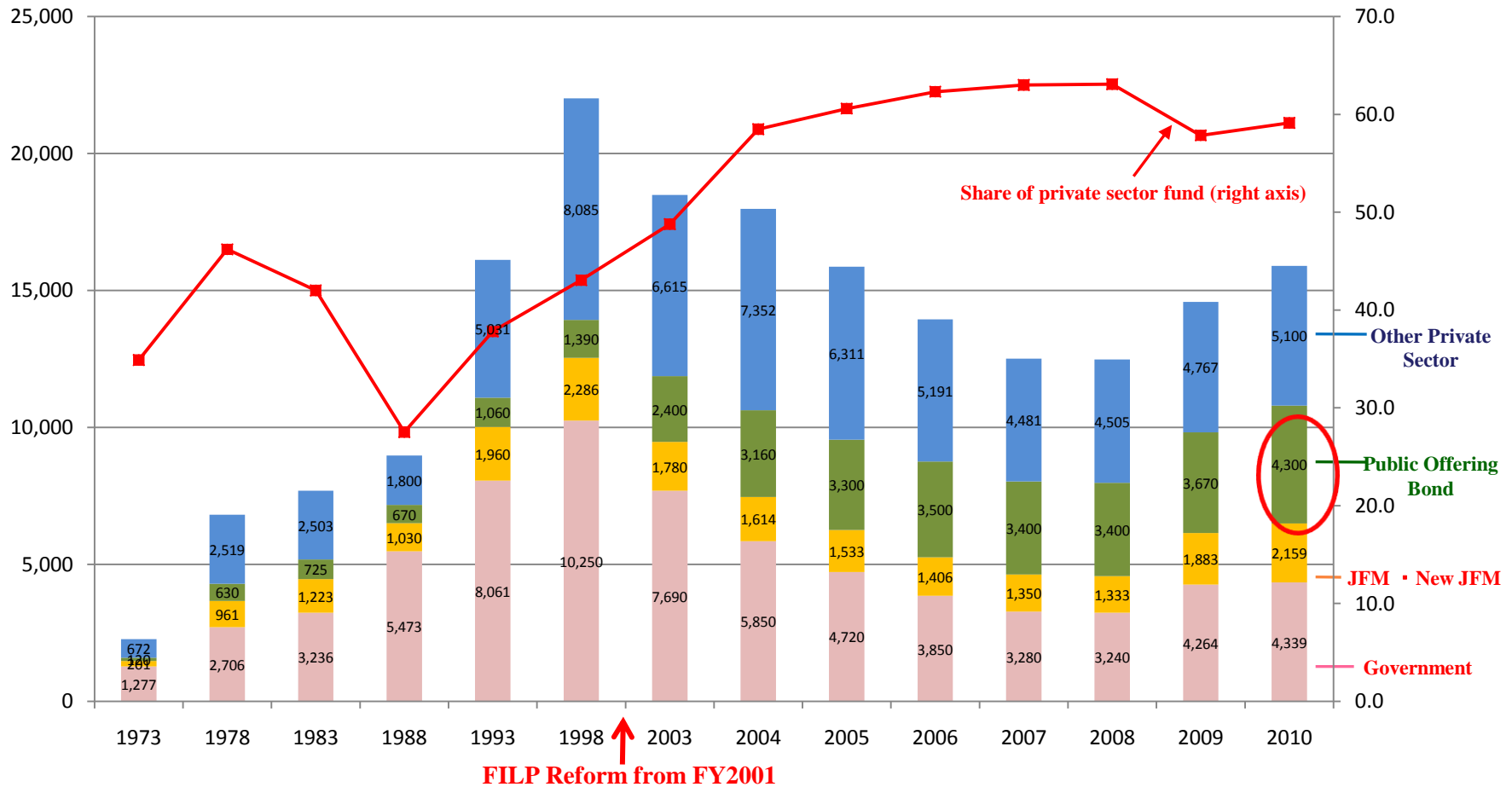
Funds for Local Government Bond/Loan

Category		Details
Private Funds	Private Placement	Most local governments borrow long-term money from financial institutions, such as commercial banks, Agricultural Co-operative Associations, and Insurance Companies .
	Public Offering	<p>A number of large local governments issue their bonds on the open market. At present, 49 local governments issue this kind of bond.</p> <ul style="list-style-type: none"> - The maturity is 2, 3, 5, 7, 10, 15, 20 and 30 years. - Redemption Method is bullet. - Setting Coupon is Fixed Rate.
Public Funds	Japan Finance Organization for Municipalities (JFM)	JFM lends money on attractive long-terms and low-interests to local governments. The major source of revenue for the JFM are its own bonds. JFM raises funds mainly in debt capital market.
	National Government Funds	Government funds consist mainly of Fiscal Loan Funds. Fiscal Loan Funds have been decreasing since the drastic reforms in Treasury Investment and Loan System in 2001.

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.

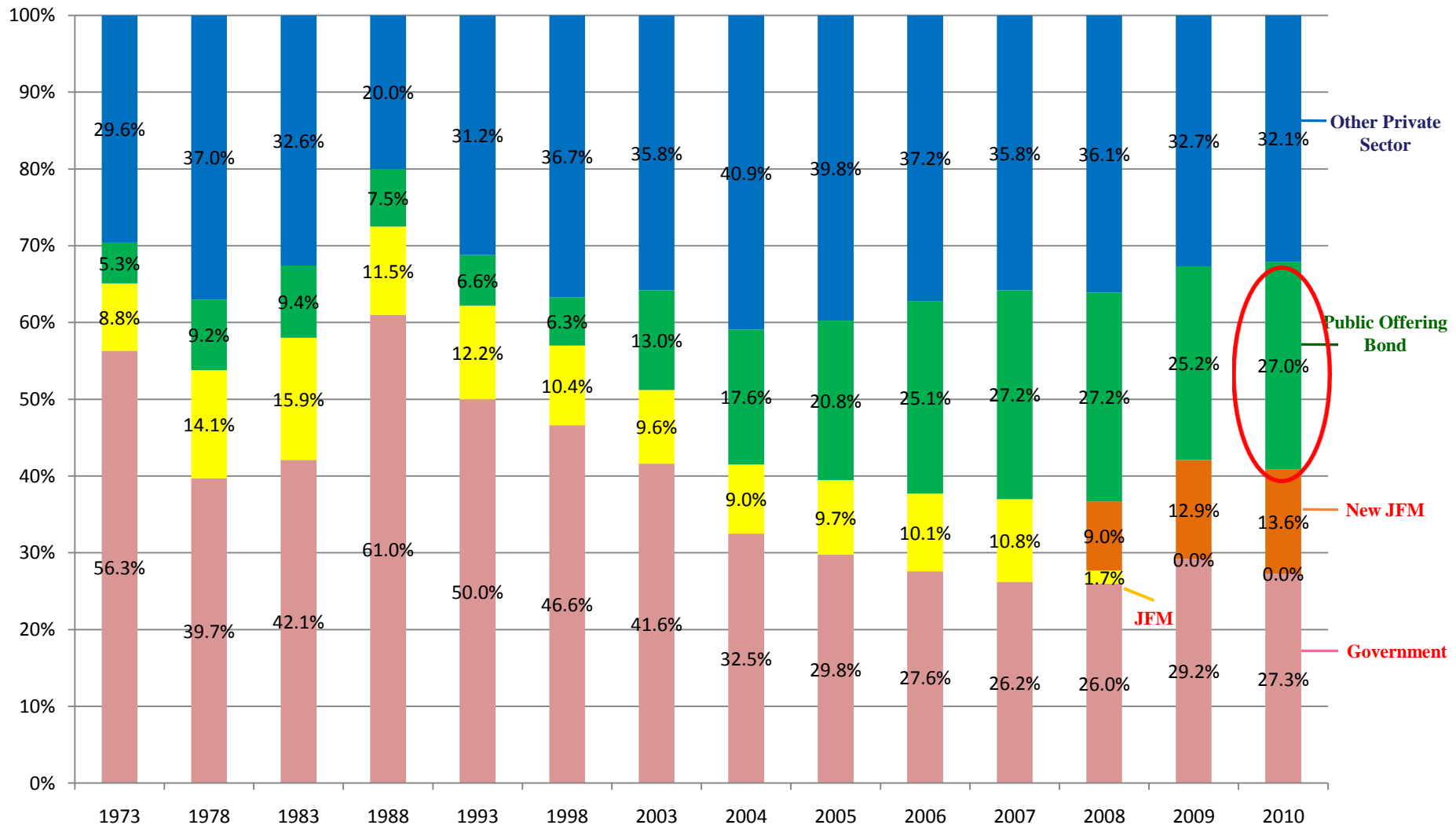
(Billions of yen)



Source: Ministry of Internal Affairs and Communications

※The above is the revised figures made by MIC

Composition of Funds of Local Government debt



Source: Ministry of Internal Affairs and Communications

※The above is the revised figures made by MIC

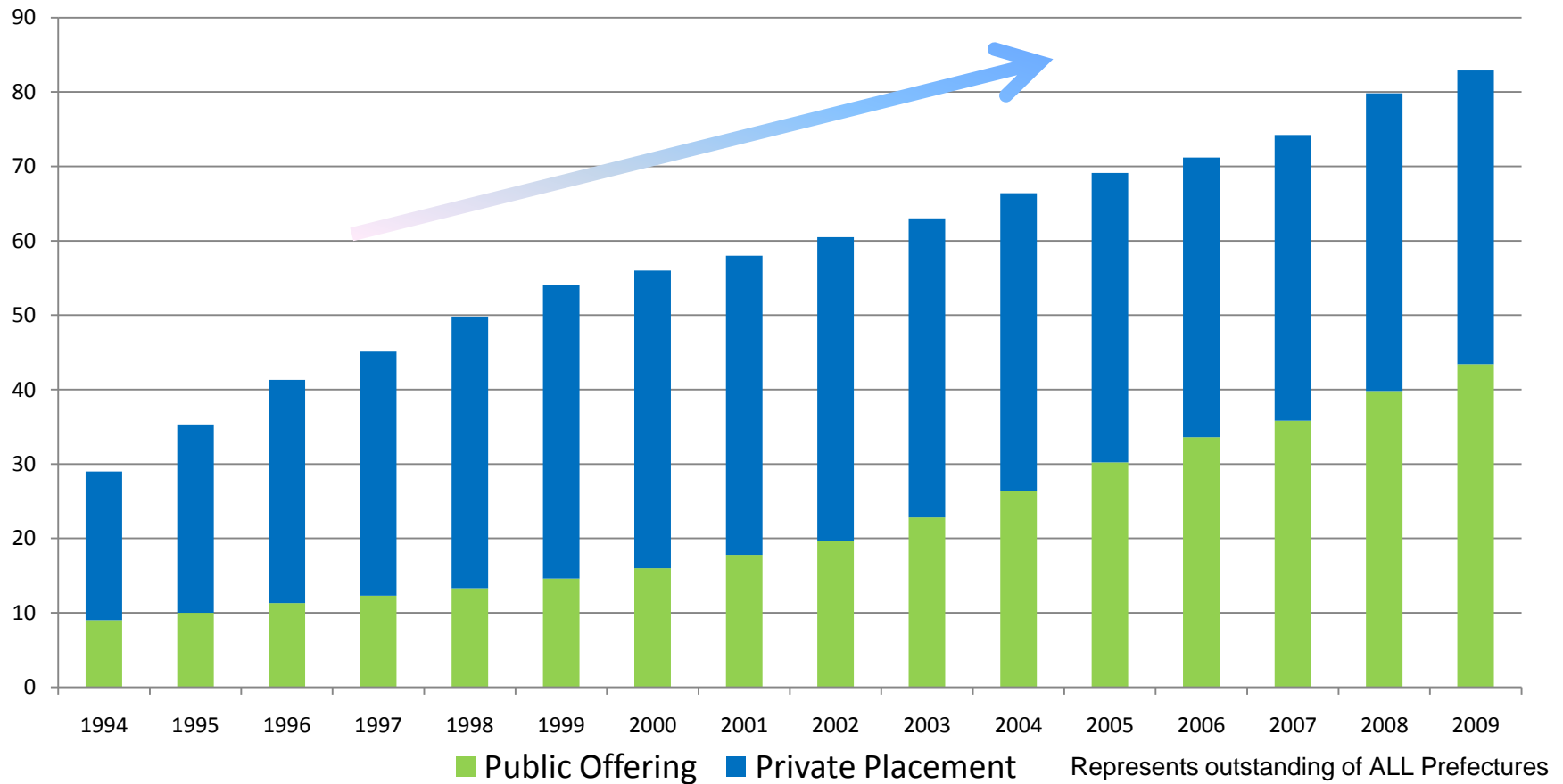


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Trends of JLGB outstanding (Private sector funding)

- ◆ The number of issuers and the issuance amount of public offering LGB (Local Government Bond) have been increasing due to the sharp reduction of government funding.

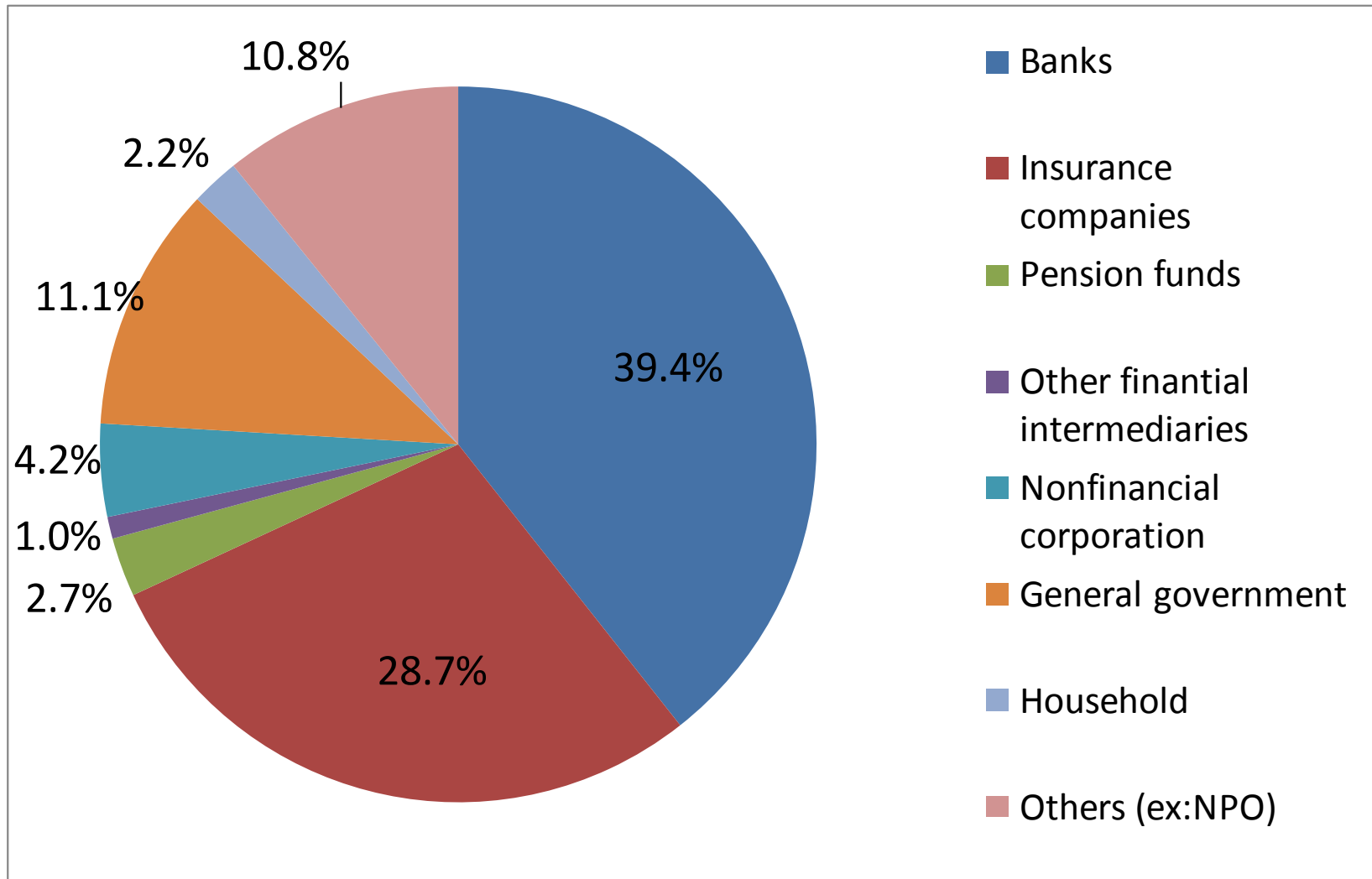
(Trillion Yen)



Source: Local Government Bond Association

Represents outstanding of ALL Prefectures and Designated cities

Distribution of JLGB holders (2010/March end)



Source: Bank of Japan "Flow of funds accounts"

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Attractiveness of Japanese LGB (JLGB)

- ◆ JLGB have achieved investors' stable subscription due to public awareness of their safety as well as the following attractive investment features

1. Attractiveness relative to JGB

- Stable spread range over JGB market with average pick up of 3 ~ 20 basis points
- Established prestigious positioning as a core asset in the investment plans of investors who are focused on safe investing

2. Provides diverse investment opportunities

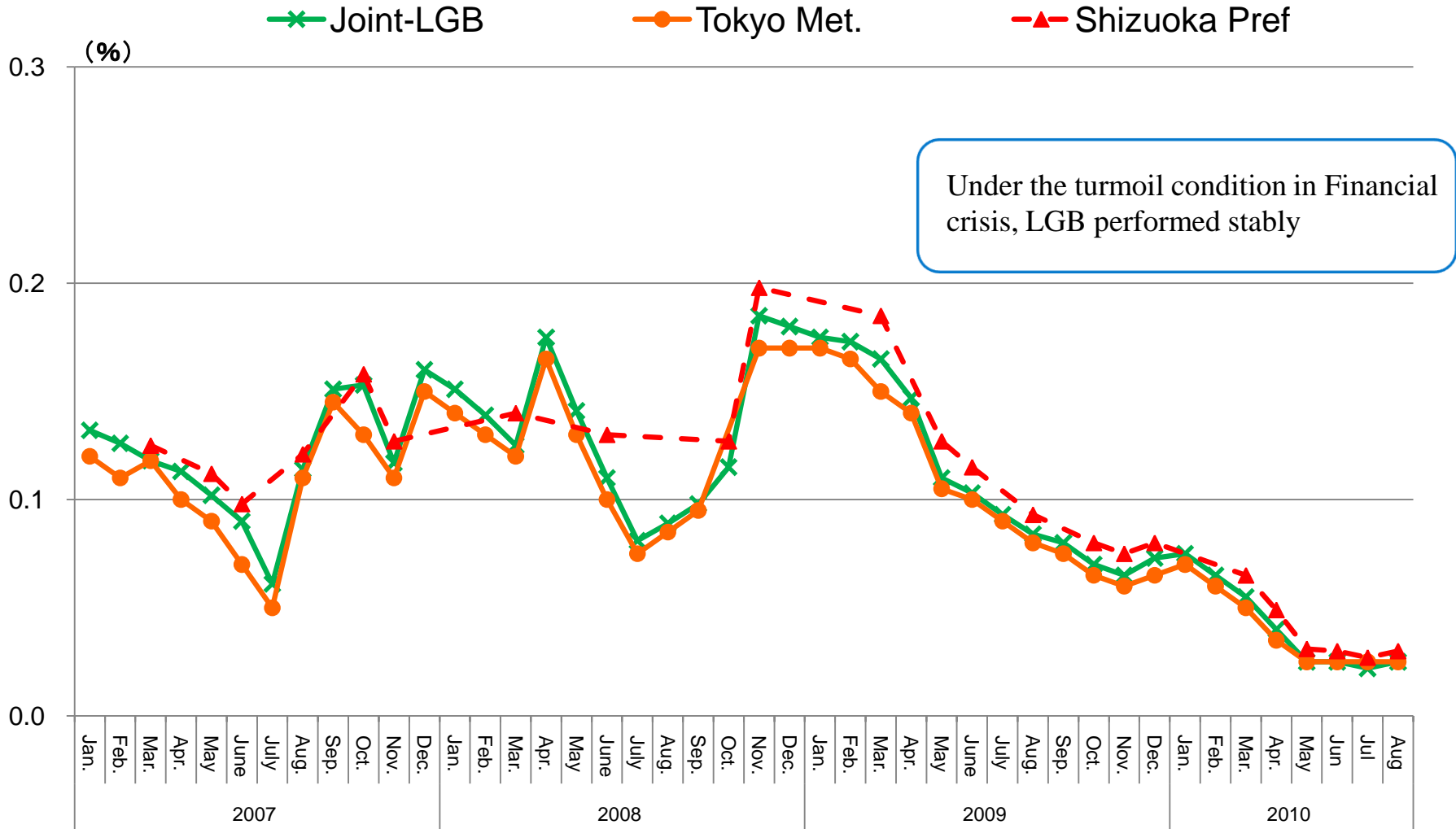
- A steady increase in issuance size coupled with diversification of the term to maturity allows for the selection of bonds suited to investment needs

3. Further safety and liquidity (Joint LGB)

- Certainty of bond repayments secured through a joint issuance framework
- Expanded investment opportunities and enhanced liquidity due to larger issuance sizes

Attractiveness relative to JGB

◆ Spreads on Ten-Year Public Offering LGB over JGB ◻ ◻ ◻ Stable performance



※ Issuance Yield (Jan 2006 – Aug 2010)



MIC Provides diverse investment opportunities

- The increasing number of issuers in public offering LGB provides diverse investment opportunities

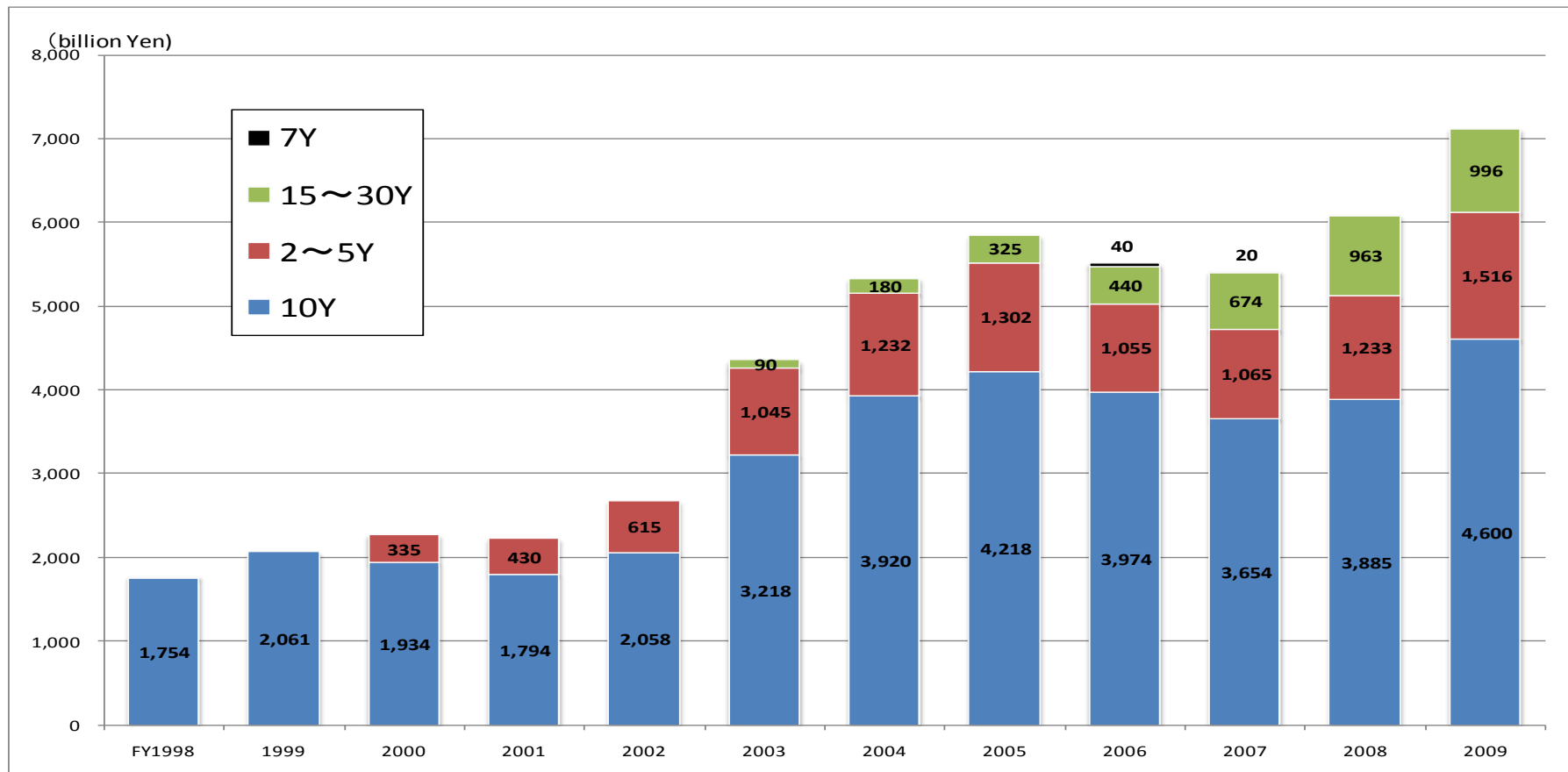
	Prefectures	Designated cities	Cumulative Number
FY1952	Tokyo , Osaka , Hyogo	Yokohama , Nagoya , Kyoto , Osaka , Kobe	8
FY1973	Hokkaido, Kanagawa , Shizuoka , Aichi , Hiroshima , Fukuoka	Sapporo , Kawasaki , Kitakyushu , Fukuoka	18
FY1975	Miyagi , Saitama , Chiba , Kyoto		22
FY1982		Hiroshima	23
FY1989	Ibaraki , Niigata , Nagano	Sendai	27
FY1994		Chiba	28
FY2003		Saitama	29
FY2004	Fukushima , Gunma , Gifu , Kumamoto		33
FY2005	Kagoshima	Shizuoka	35
FY2006	Shimane , Oita	Sakai	38
FY2007	Yamanashi , Okayama	Niigata , Hamamatsu	42
FY2008	Tochigi , Tokushima		44
FY2009	Fukui , Nara	Okayama	47
FY2010	Mie	Sagamihara	49



MIC Trends in Issuance of Public Offering Bonds by Maturity

- ◆ Terms & Conditions are decided mainly by negotiation with syndicated underwriters as well as bidding. Maturities are 2,3,5,7,10,15,20, or 30 years, the majority of which is 10 years.

▽ Historical issuance amount of Public Offering LGB





Planned Issuance for Nationwide Public Offering LGBs in Fiscal-Year 2010

Local Government	Fiscal-Year 2010 (Unit: Hundred Million Yen)						Local Government	Fiscal-Year 2010 (Unit: Hundred Million Yen)					
	Total	3y or 5y	10y	20 or 30y	Joint-LGB	Other		Total	3y or 5y	10y	20 or 30y	Joint-LGB	Other
Hokkaido	3,550	1,200	1,550	-	800	-	Fukuoka	1,600	500	500	400	-	200
Miyagi	1,000	400	-	-	600	-	Kumamoto	500	100	100	-	300	-
Fukushima	740	200	200	-	340	-	Oita	300	-	100	-	200	-
Ibaraki	300	-	-	-	300	-	Kagoshima	700	100	-	-	600	-
Tochigi	100	-	100	-	-	-	Sapporo City	1,300	300	300	100	300	300
Gunma	200	-	200	-	-	-	Sendai City	510	150	-	-	360	-
Saitama	3,400	600	1,800	400	600	-	Saitama City	100	-	100	-	-	-
Chiba	4,300	800	2,000	700	800	-	Chiba City	600	-	100	-	300	200
Tokyo	9,500	1,500	6,700	1,300	-	-	Yokohama City	2,100	200	1,200	400	-	300
Kanagawa	4,600	1,200	2,000	600	800	-	Kawasaki City	1,000	300	100	300	300	-
Niigata	1,200	-	400	-	800	-	Sagamihara City	100	-	100	-	-	-
Fukui	200	-	200	-	-	-	Niigata City	200	-	100	-	100	-
Yamanashi	200	-	200	-	-	-	Shizuoka City	250	-	100	-	150	-
Nagano	800	200	-	-	600	-	Hamamatsu City	100	-	100	-	-	-
Gifu	300	-	100	-	200	-	Nagoya City	1,300	200	800	200	-	100
Shizuoka	2,700	400	1,100	400	800	-	Kyoto City	1,300	450	200	100	400	150
Aichi	4,300	400	2,400	500	600	400	Osaka City	3,000	400	1,200	400	800	200
Mie	200	-	-	-	100	100	Sakai City	100	-	100	-	-	-
Kyoto	2,100	500	600	300	700	-	Kobe City	1,300	200	200	300	500	100
Osaka	8,000	3,200	3,200	-	800	800	Okayama City	100	-	100	-	-	-
Hyogo	3,300	1,000	1,000	500	800	-	Hiroshima City	850	-	200	-	350	300
Nara	200	100	-	-	100	-	Kita-Kyushu City	800	100	200	200	300	-
Shimane	200	200	-	-	-	-	Fukuoka City	1,550	500	300	200	350	200
Okayama	500	-	200	-	300	-	Total	73,400	15,600	30,850	7,400	16,200	3,350
Hiroshima	1,500	200	600	100	600	-	※This is based on the figures of domestic bonds announced by Ministry of Internal Affairs and Communications in Mar 2010.						
Tokushima	350	-	100	-	250	-							



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Public Offering Joint LGB

– High credit and high liquidity

- Joint issuances by multiple local governments under joint and several liability provide the following advantages:
 - 1) Stronger guarantee of safety
 - 2) Enhanced liquidity based on larger lot sizes <Issuances of **JPY 135 billion every month** during the current fiscal year>

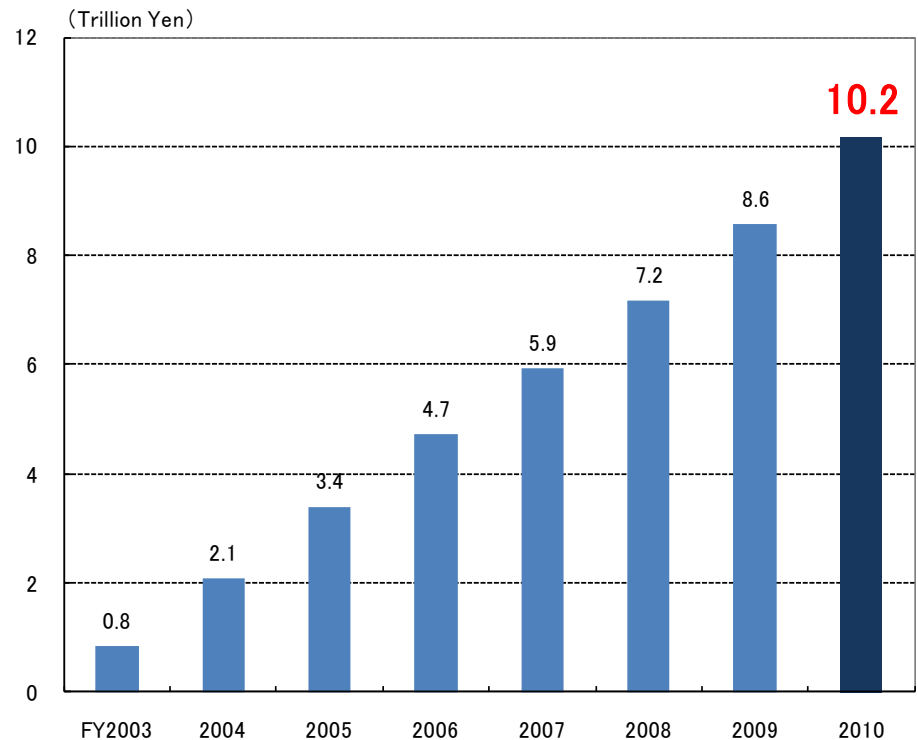
1) Stronger Guarantee of Repayment based on Joint and Several Liability

An extremely solid framework for enhancing the certitude of repayments has been achieved by the joint and several liability approach taken by Joint LGB issuers

<Local Finance Law Article 5-7>

- ◆ When local debts are raised by issuing bonds two or more local public bodies may, on approval of their respective assemblies, issue bonds jointly. Such local public bodies shall be collectively responsible for the redemption of the local debts and the interest payment.

2) Market Size for Jointly Issued Bonds (Total Joint LGBs Outstanding)





Public Offering Joint LGB

– High liquidity with \$1.6 billion issue monthly

1. High credit

- ◆ Joint LGB (Local Government Bond) is publicly-offered joint obligations issued by 35 local governments throughout Japan. It was first issued in April 2003. Each issuer guarantees the full amount of debt payment at each issue.

2. High liquidity

- ◆ Joint LGB is issued monthly for \$1.6 billion, which is one of the largest sizes among Japanese non-JGB bonds.

3. Special Sinking Fund for liquidity

- ◆ Funds are established with the commissioned bank to ensure timely payment of principal and interest without delay in the event of an unforeseen emergency. These are from the debt payment sinking funds of each issuer. Specifically, the 35 issuers in total set aside an amount equivalent to 10% of the higher monthly principal/interest payment of either February or August during that fiscal year.

4. Benchmark bond future potential

- ◆ Thus, Joint LGB becomes one of the leading benchmark bonds among non-JGB bonds. More local governments plan to join the Joint LGB issuers and outstanding Joint LGBs will keep accumulating. Thus, this will increase the presence in the bond market more in the future.

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- ◆ There is strong financial support system and check system for Local Governments (LGs) by the Japanese central government as follows.

1. Secured resources for debt payment of LGB

: Local Allocation Tax System

2. Check system for LGs I

: Consultation system for the issuance of LGB

3. Check system for LGs II

: Early warning system and reconstruction system to assure fiscal soundness

1. Secured resources for debt payment of LGB

1. Own authority of taxation

Can ensure tax revenue based upon own authority to tax and change the rate.

2. NG needs to prepare enough fund for LGs through Local Public Finance Program

Laws oblige LGs to perform standard public service. For this reason, Laws also oblige NG to create Local Public Finance Program in order to prepare enough fund to perform standard public service including standard debt payment.

3. Local Allocation Tax System

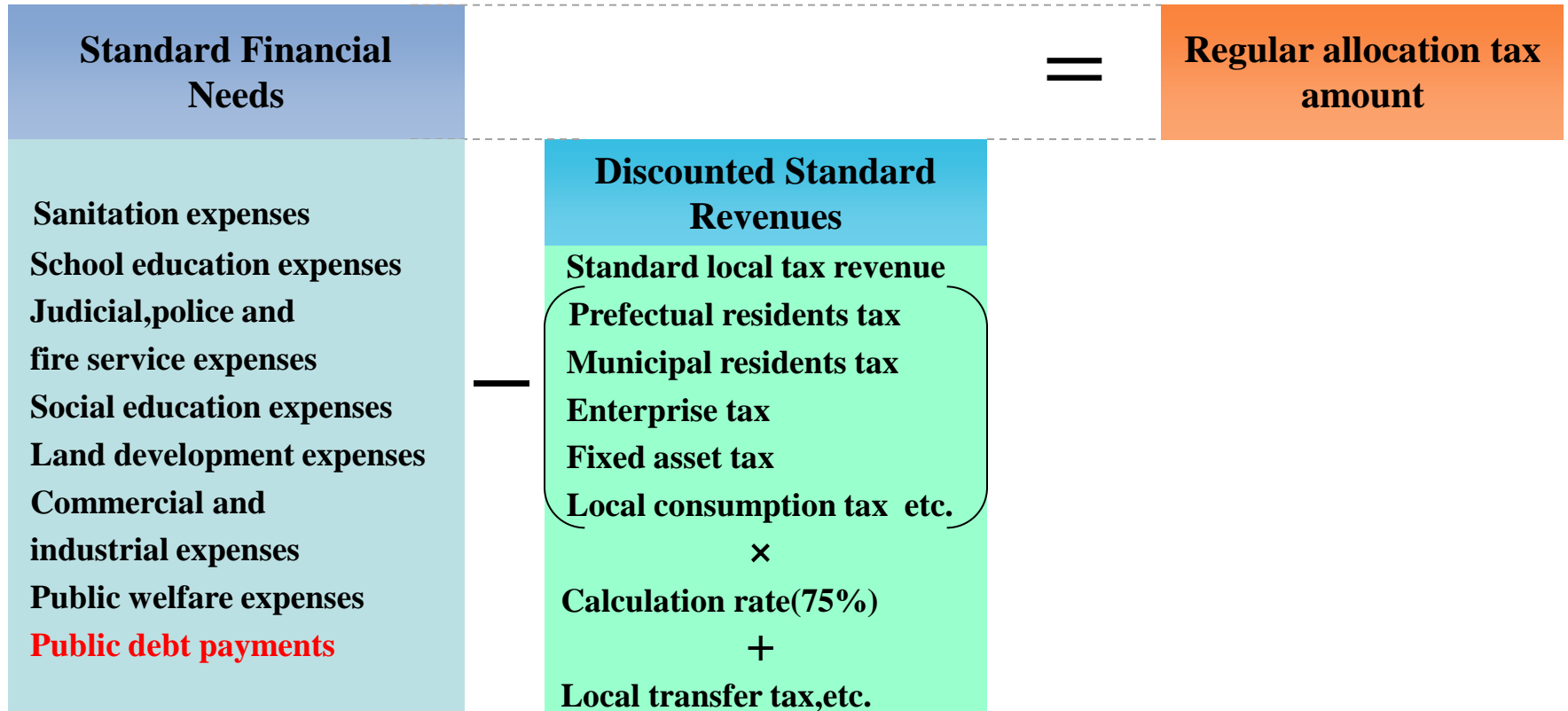
Local Allocation Tax system allows NG to balance local authority revenues and guarantee a standard level of service throughout all LGs by transferring fund to LGs.

4. Sinking fund

LG is required under MIC's ordinance to accumulate sufficient sinking fund annually for the debt payment of bullet type bonds.

LAT distribution: Calculating Standard Financial Needs & Revenues

- The Central Government protects revenue sources required for principal/interest redemption on local government bonds by adding a considerable portion to the standard fiscal demand amount when calculating local allocation tax.



Source: White Paper on Local Public Finance, 2007 - Illustrated -, MIC

2. Consultation system for the issuance of LGB ①

- ◆ 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

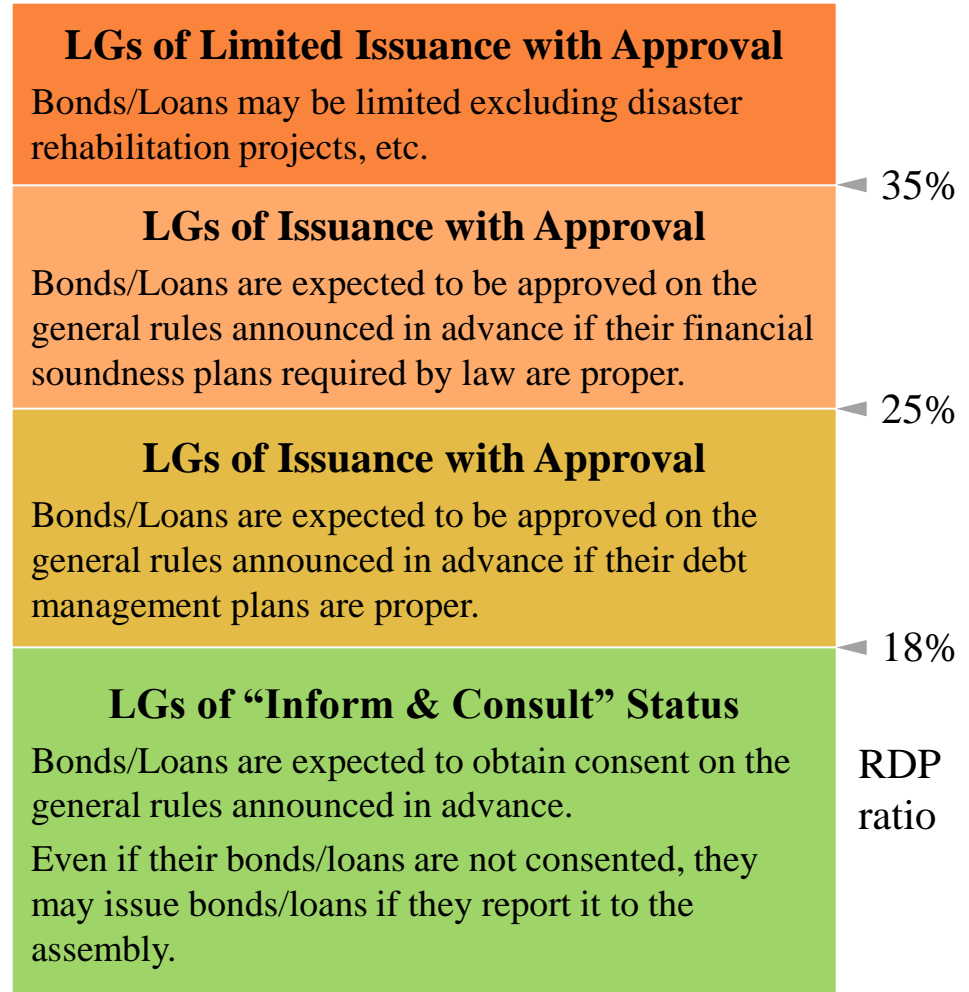
MIC Minister releases the standard for consent every fiscal year. Issuers in high deficit, issuers with high real-debt-payment-ratio, and public enterprises in high deficit, etc. must obtain the approval of issuance from the Minister or governors.

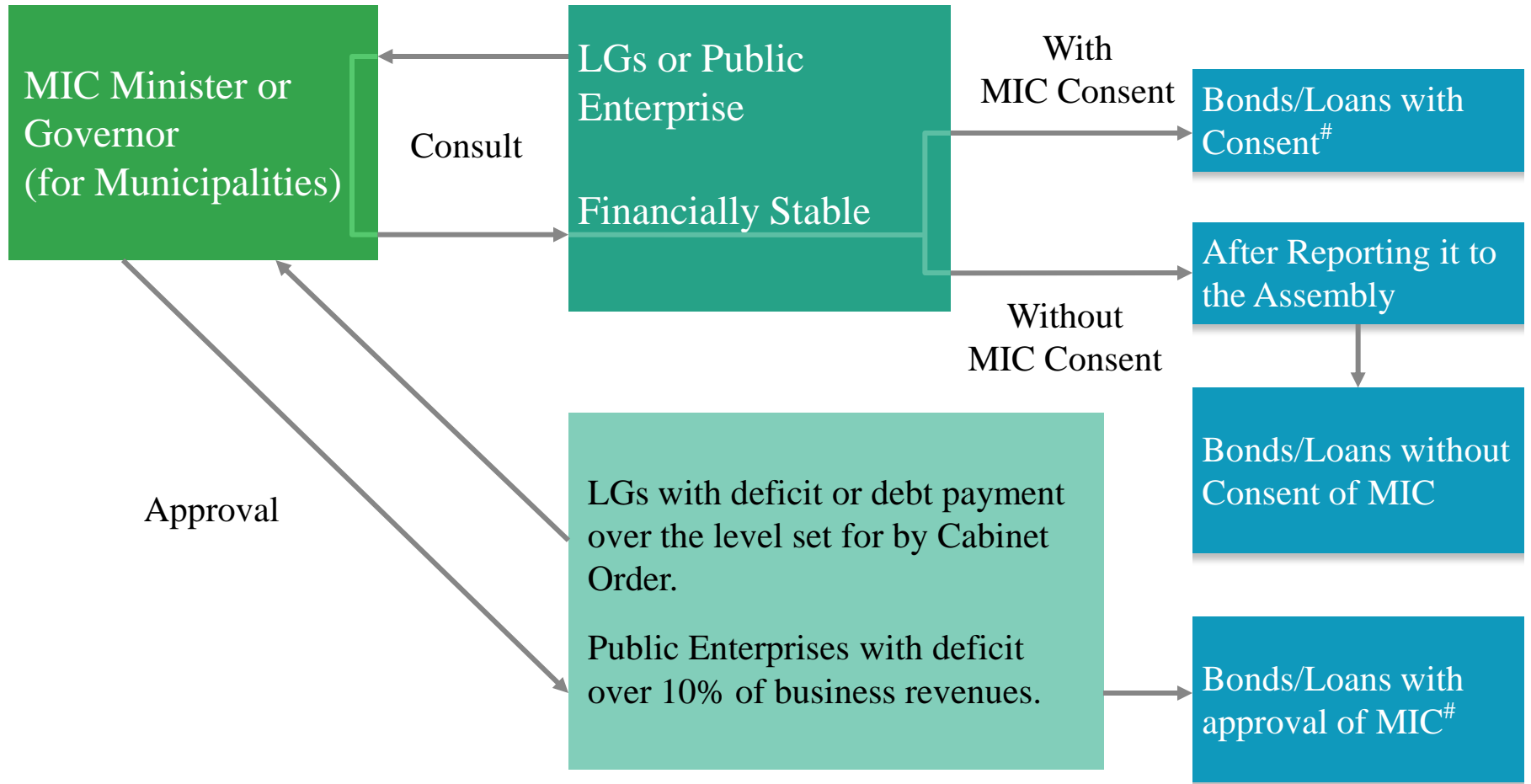
2. Consultation system for the issuance of LGB ②

- ◆ 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.





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

3. Early warning system and reconstruction system to assure fiscal soundness

The Law to strengthen the Fiscal Soundness of Local Governments

- ◆ The Law Relating to the Fiscal Soundness of LGs became effective from FY2008.

Purpose

1. Full disclosure of comprehensive fiscal condition including contingent liabilities

- ◆ Five fiscal indicators (see next page) disclose LGs fiscal condition thoroughly and strengthen public check on fiscal condition. This makes LGs much more accountable for the public and investors.

2. Early Warning System

- ◆ Each fiscal indicator must meet set limit and if one of them fails, the LG needs to make a fiscal restoration plan to meet the limit in years. This plan must be checked by outside auditors, authorized by the local assembly and reported to the NG. Also, the LG needs to make a progress report annually to the assembly, the public and NG and if there is problem, NG is supported to make a recommendation to change the fiscal policy to the LG.

3. Reconstruction System

- ◆ If fiscal indicators fail to meet the highest set limit, it needs to make a fiscal reconstruction plan with heavy oversight by NG. In this state, the LG needs to take severe measures to cut expenditure and increase tax and other revenue. Importantly, even in this state, both bankruptcy and discharge of debt is not allowed under legal scheme and LG needs to repay full amount of debt.

Disclosure of five fiscal indicators

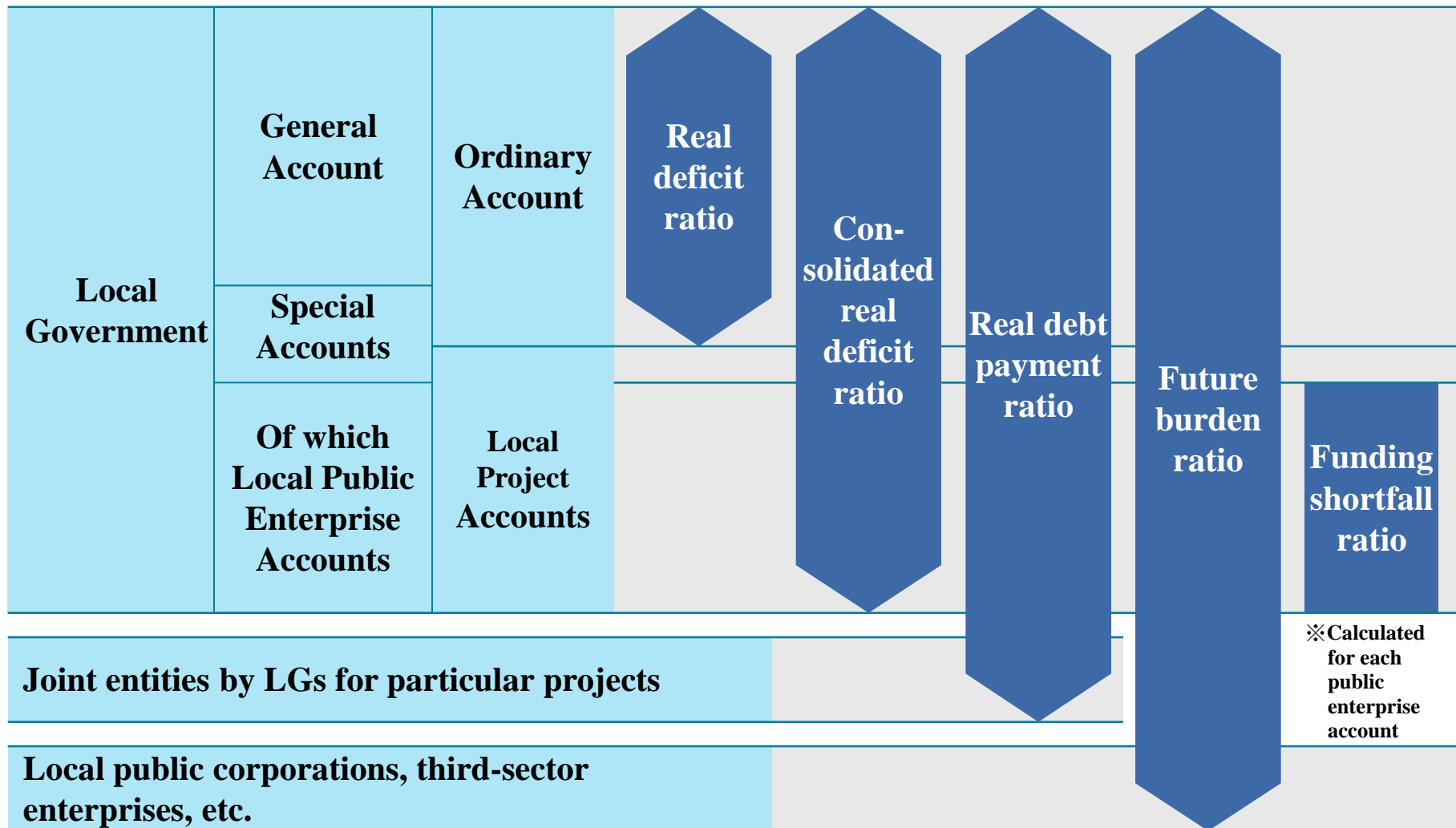
- ◆ LGs must report the following ratios every year after receiving assessment by outside auditor, to the assembly, and disclose those to the public.

Fiscal indicator	Definition
1. Real deficit ratio	The ratio of deficit to the standard fiscal scale.
2. Consolidated real deficit ratio	The ratio of consolidated deficit in the all accounts to standard fiscal scale.
3. Real dept payment ratio	The ratio of debt payment by general revenue to standard fiscal scale.
4. Future burden ratio	The ratio of outstanding debt including future burdens 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.

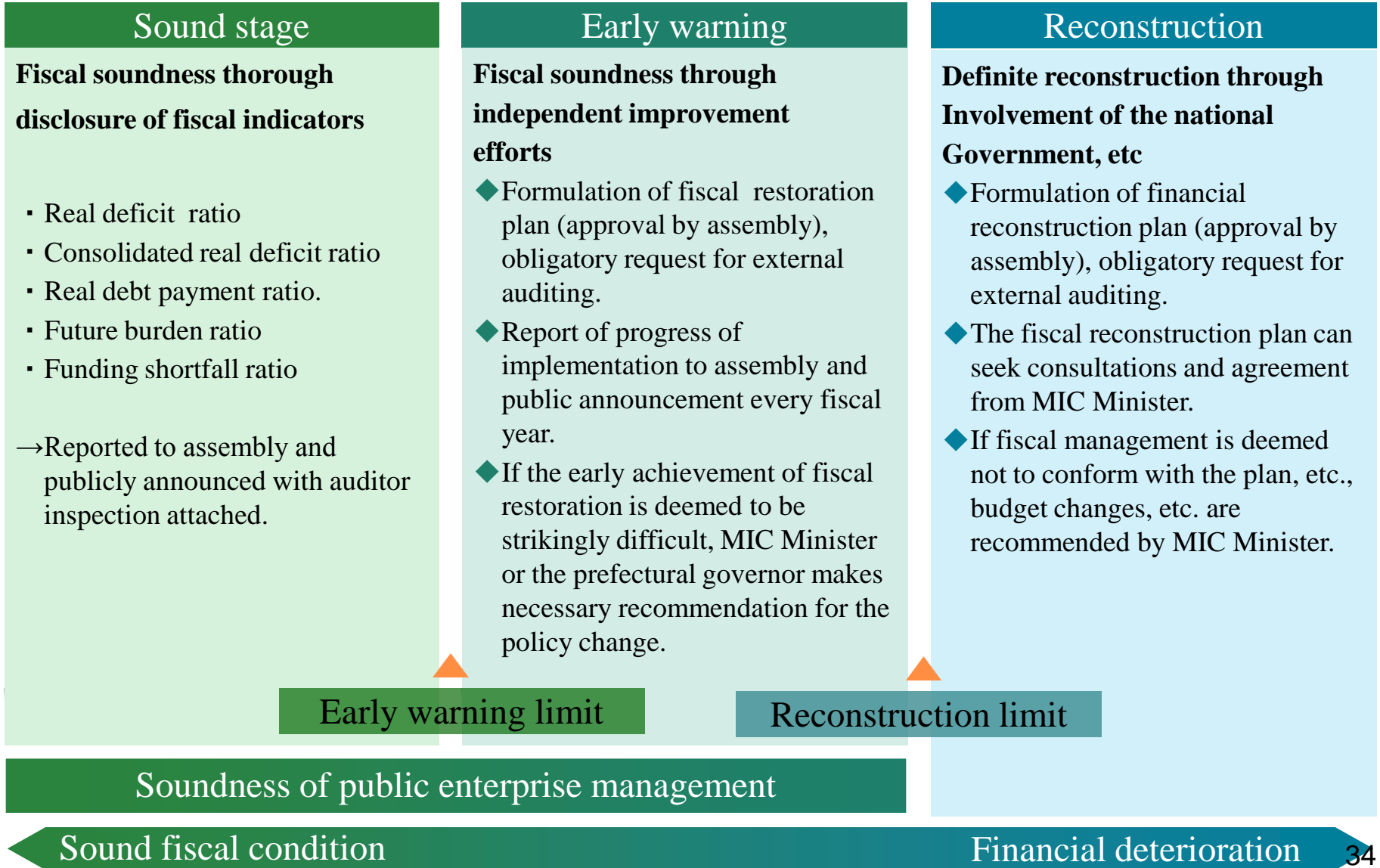
Limits for Early warning and reconstruction

	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%	

Scope of fiscal indicators in the Law



Early Warning System and Reconstruction System



- ◆ With regard to the selection of nationwide public offering LGB issuers, no special designations or permits are required to become a public offering LGB issuer.
- ◆ Up to now, 49 (30 prefectures and 19 designated cities) entities issue public offering bond in FY2010.
- ◆ All LGB issuers are supported by the following recognitions of Japanese LGB.

1. High Credit Rating

2. 0% risk weight to LGB in the standardized approach of BIS regulations (Basel II)

3. No legal concept of bankruptcy and debt discharge



Credit Rating

- The solidity of the LGB system has been evaluated highly by global rating agencies

Local Government	Ratings	
	Moody's	S&P
JGB(NG)	Aa2/Stable	AA/Negative
Tokyo	-	AA/Negative
Niigata Prefecture*	Aa2/Stable	-
Shizuoka Prefecture*	Aa2/Stable	-
Aichi Prefecture	-	AA/Negative
Hiroshima Prefecture*	Aa2/Stable	-
Fukuoka Prefecture	Aa2/Stable	-
Sapporo City	Aa2/Stable	-
Chiba City*	-	A+/Stable
Yokohama City	-	AA-/Stable
Niigata City*	-	AA-/Stable
Shizuoka City*	Aa2/Stable	-
Hamamatsu City	Aa2/Stable	-
Nagoya City	Aa2/Stable	-
Kyoto City*	Aa2/Stable	A+/Stable
Osaka City*	Aa2/Stable	AA-/Negative
Sakai City	Aa2/Stable	-
Fukuoka City*	Aa2/Stable	-
Miyazaki City	-	A/Stable

*Issuers for Joint LGB

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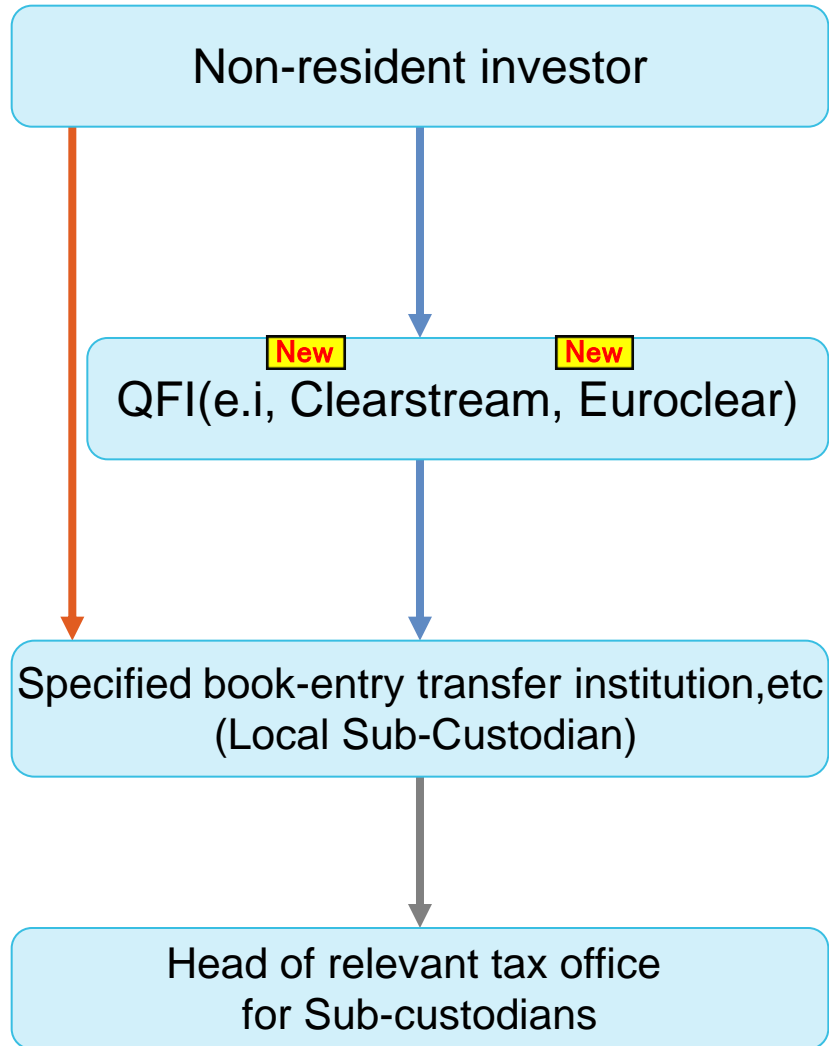
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- ◆ With the Article 5-2 Act on Special Measures Concerning Taxation (Limited to the provisions related to nonresidents and foreign corporations), the interest gains and the profit from redemption on LGBs owned by non-residents or foreign corporations settled by the book-entry system are exempted from withholding tax. Previously, 15% withholding tax rate was applied to foreign investors.

Conditions

- ◆ Non-JGB securities are required to be settled through Japan Securities Depository Center (JASDEC) - Japan's central securities custody and book-entry transfer system.
- ◆ Non-resident investors can enjoy tax exemption only when they hold LGBs through a direct participant of JASDEC (i.e., a local sub-custodian in Japan) or via a designated FIAMI/QFI (i.e., a global custodian).
- ◆ In case the beneficiary holds LGBs through a global custodian, such global custodian needs to be FIAMI/QFI.
- ◆ Entities who are exempted for JGBs are also eligible for the tax exemption on LGBs.



Application form for Tax Exemption

- ◆ When seeking the attached application of LGB tax exemption for the first time, nonresident or foreign corporation are required to submit an application form to the tax office via the institutions listed in the left.
- ◆ However, in the case of investors having exempt status of JGB, they can submit just the copy of existing JGB application, which local custodians usually take care of.
- ◆ Up to now, 43 Global Custodians have registered as QFI (Qualified Foreign Intermediary on the next page).
- ◆ In the 2010 Tax Reform, the procedure for tax exemption for interest and profit from redemption on LGBs in book-entry form received by non-residents, etc. shall be simplified.

List of QFI for LGB

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

Application Form for Withholding Tax Exemption and Notification Form

振替国債・振替地方債・振替社債等の利子課税の特例に関する非課税適用申告書
 特定振替国債等の振替記載等・償還金等に関する告知書
 振替国債・振替地方債・振替社債等の利子課税の特例に関する特例書類

外国投資家用

Application Form for Withholding Tax Exemption based on the Special Taxation Measures Law (Article 5-2, paragraph 1 and Article 5-3, paragraph 1)

Notification Form for Book-Entries or Receipt of Redemption Proceeds on a Specified Book-Entry JGB,etc (Article 41-12, paragraph 12 or 18)

Special Document for Withholding Tax Exemption based on the Enforcement Ordinance of the Special Taxation Measures Law (Article 3, paragraph 3 (including the case applied under Article 3-2, paragraph 14))

税務署長殿 To: The District Director of ② Tax Office

① 平成 年 月 日
 Date: June.1.2010

フリガナ 住所等 (注1) Address of the applicant (Note1)	③ 350 South Grand Avenue, Suite 1700, Los Angeles, California 90071, U.S.A.
フリガナ 氏名又は名称 Name of the applicant	④ AAA BANKING LTD.
適格外国証券投資信託の名称 (注2) Name of the Qualified Foreign Securities Investment Trust (Note2)	⑤ ここに「レ」

本様式により、1. 下記の特定振替機関等又は適格外国仲介業者から振替記載等を受けている (□振替国債、□振替地方債及び振替社債等) の利子につき租税特別措置法第5条の2第1項又は第5条の3第1項の規定の適用を受けたいので、この旨申告します。

2. 下記の特定振替機関等又は償還金若しくは利息の支払の取扱者に対し、租税特別措置法第41条の12第12項又は第18項の規定により上記のとおり告知します。

With this form: 1. We hereby file for tax-exemption based on the Special Taxation Measures Law Article 5-2, paragraph 1 or Article 5-3, paragraph 1 and the relevant regulations thereunder, with regard to (□Japanese Government Bonds () Japanese Local Government Bonds and Japanese Corporate Bonds, etc.) recorded in an account established in the Bank of Japan Book-entry System or the Japan Securities Depository Center Book-entry System through a Specified Book Entry Transfer Institution, etc or Qualified Foreign Intermediary (QFI) stated as below.

2. We hereby notify as stated above, based on the Special Taxation Measures Law Article 41-12 paragraph 12 or 18, to the below stated Specified Book Entry Transfer Institution, etc, QFI or Paying Agent of redemption proceeds or interest.

特定振替機関等の営業所等、適格外国仲介業者の特定国外営業所等、適格口座管理機関の営業所等又は償還金若しくは利息の支払の取扱者の名称及び所在地 Name and Address of the Specified Book Entry Transfer Institution, etc specified foreign branch of the QFI, Qualified Account Management Institution or Paying Agent of Redemption Proceeds or Interest	⑥ CCC Bank LTD. Tokyo Branch 25, Ichiban-cho, chiyoda-ku, Tokyo
納税管理人の氏名及び住所 Name and Address of the applicant's tax agent (if any)	⑦

適格外国仲介業者の特定国外営業所等 (の長) による署名及び受理日付(注4) Signature of the qualified person at the QFI's specified foreign branch and Date of receipt by it (Note4)	
A QFI 署名	QFI 受理日付

摘要 (注3) Remarks (Note3)	非
⑧ a 株式会社 かかか銀行 東京都千代田区一番町25番地	

特定国外営業所等が確認した確認書類の名称(注4) Name of the ID Document by which the QFI's specified foreign branch identified the applicant (Note4)	特定振替機関等の受理日付(注4) Date of receipt by the Specified Book Entry Transfer Institution, etc (Note4)
B 本人確認書類の名称	C 受理日

- ◆ With the Cabinet approval for the amendment of Cabinet Order in September 2008, local governments are allowed to issue yen-denominated LGBs on overseas markets (Euroyen bonds).

Article 36. Special Case for Overseas Local Government Bonds

- ◆ The provisions in Article 24 – 35 notwithstanding, the following transactions related to overseas local government bonds which issued outside of Japan may be conducted in accordance with the laws or the practices of the market of issuance: (1) issuance, (2) transfers between registered and bearer bond systems, (3) the keeping of ledgers for such bonds, payments related to redemptions of bonds that have had coupons detached, and interest payments to bearers of the detached coupons.



MIC Regular overseas road shows

◆ Japanese LGs have held overseas road shows as below.

Entities	Activities
Tokyo Metropolitan Government	Visit: London (May 2007) London, Paris, Frankfurt (Oct 2007) Seoul, Beijing, Hong Kong (July 2008) Europe (June 2009)
Fukuoka Prefecture	Visit: Frankfurt, Dusseldorf, Paris Period: January 2008
Japan Local Government Bond Association	Visit: London, Frankfurt, Paris Period: from 16 to 27 February 2008
JLGB European Road Show 2008	Visit: London, Berlin, Frankfurt, Paris, Dublin Period: from 6 to 11 October 2008 Participants: Ministry of Internal Affairs and Communications, Kyoto City, Shizuoka Prefecture, Kawasaki City, and JLGBA
JLGB Asian Road Show 2009	Visit: Seoul, Singapore, Hong Kong, Beijing Period: from 12 to 16 October 2009 Participants: Ministry of Internal Affairs and Communications, Shizuoka Prefecture, Kawasaki City and Japan Finance Organization for Municipalities, and JLGBA
Road Show 2010	To be confirmed

Japan Local Government Bond Association Website

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

JAPAN LOCAL GOVERNMENT BOND ASSOCIATION



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Japan Local Government Bond Association Website

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

English Publications on JLGBs

Presentation Materials	Local Government Bond System and Market in Japan
	Public Offering Joint Local Government Bond
	Shizuoka Prefecture
	Kawasaki City
Some other issuers	Tokyo Metropolitan Government (TMG), Chiba Prefecture, Hiroshima Prefecture, Fukuoka Prefecture, Sapporo City, Kobe City, Fukuoka City, Japan Finance Organization for Municipalities
	Statistics of 46 Public Offering Local Government Bond Issuers (To be updated shortly)
Statistics*	Revenue and Expenditure of 47 Prefectures and 17 Designated Cities (To be updated shortly)
	White Paper
Laws and Ordinances	FY2008 Settlement White Paper on Local Public Finance, 2010
	Law on the Fiscal Consolidation of Local Governments
	Local Autonomy Law
	Local Finance Law
Others	Local Allocation Tax Law
	Issue Outline of Joint Local Government Bond
	Terms and conditions of Tokyo Metropolitan Government Bond

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Article 232. Scope of Expenditures, Local Autonomy Law

- ◆ Each ordinary local public body shall bear the expenses necessarily incurred in the performance of its own affairs and other expenses falling to the ordinary local public body in accordance with laws or cabinet orders founded in law.
- 2. When the State, by laws or cabinet orders founded in law, obliges any ordinary local public body to perform functions, the State shall take the necessary measures for financing of the expenses thereby made necessary.

Article 13. Newly Added Affairs, Local Finance Law

- ◆ When new affairs are by law or cabinet order added to the affairs of local public bodies or the organs of the State whose expenses are borne by local public bodies, the State shall take necessary measures to finance such newly added affairs.
- 2. Any local public body dissatisfied with such financial measures may tender its letter of opinion to the Diet through the Cabinet.

Article 11-2. Financial Needs, Local Finance Law

- ◆ That part of the expenses enumerated in Article 10 – 10-3 which shall be borne by the local public body (except expenses borne by the local public body as provided by item 13-5 of Article 10 to be appropriated by fiscal stabilization funds for nursing care insurance) shall be included in the amount of its financial needs to be considered in the computation of local allocation tax granted thereto under the Local Allocation Tax Law. However, such rule shall not apply to the expenses enumerated in item 16 of Article 10 (except the reduction of the national health insurance premium and tax for the low-income persons to be transferred to the special account of the national health insurance), item 4 of Article 10-2 and item 5 of Article 10-3.



MIC Laws related to balancing local authority revenues ②

Article 1. Object of this Law, Local Allocation Tax Law

- ◆ The object of this Law is to contribute toward realization of the principles of local autonomy and to strengthen the self-dependence of local bodies, by equalizing the financial resources of local bodies and by assuring the systematic operation of local administration through the establishment of allocation standards of local allocation tax, without impairing the rights of such local bodies to administer their property, perform their affairs and execute their administration autonomously.

Article 3. Basic Principles, Local Allocation Tax Law

Article 3-2

- ◆ The State shall, in granting allocation tax, respect the principles of local autonomy and shall attach no conditions or impose no limitations on the use thereof.

Article 3-3

- ◆ Each local body shall make best efforts to maintain a reasonable and appropriate level of administration, and see to it that it conform at least to the minimum standards of scale and quality established by laws or cabinet orders duly delegated by laws.



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.

Article 58 (Exposure to Japanese Local Governments)

- ◆ The risk weight for that portion of yen-denominated exposure to Japanese local governments (excluding that which will be repaid out of income from specific projects only) that is funded in yen will be 0%.
- (2) Excluding the above, the risk weight for exposure to Japanese local governments (excluding that which will be repaid out of income from specific projects only) will be as stipulated in the left-hand column of the table in Article 56-1, in accordance with the credit rating assigned to the Japanese government or the credit risk classification in line with the country score.

Article 56 (Exposure to Central Government and Central Bank)

- ◆ The risk weight for exposure to the central government and central bank will be as stipulated in the left-hand column of the following table, in accordance with credit ratings or credit risk classifications in line with the country risk score. However, the risk weight will be 100% if there is no credit rating.

1 In case of credit rating assigned by qualified rating agency

Credit risk classification	1-1	1-2	1-3	1-4	1-5	1-6
Risk weight(%)	0	20	50	100	100	150

2 In case of country risk score

Credit risk classification (country risk score)	0	1	2	3	4	5	6	7
Risk weight(%)	0	0	20	50	100	100	100	150

Source: FSA Notification #19 Standards for Banks to Assess Whether Their Adequacy is Appropriate Given Asset Holdings Based on Article 14-2 of the Banking Law, 27 March 2006, Financial Services Agency.

Decentralization Reform & Local Bond/Loan System

First Step 1993-2001

- 1993 The Diet resolution of decentralization
- 1995 Decentralization Promotion Law enacted
Decentralization Promotion Committee (DPC) was established.
- 1997 DPC's 4 recommendations submitted to the Prime Minister.
- 1998 The Cabinet decided the Decentralization Promotion Plan
- 1999 The Decentralization Package Law was promulgated.



Many reforms were conducted aiming to change the relationship between the central and local governments to a new more equal and cooperative one.

As a part of the first step of decentralization reform, Gov. control of LGs' Bond/Loan was reformed. It took effect on April 1, 2006.

Second Step 2001-2006

Tax and financial system between the central and local governments are considered and "Three-Part Reform Package" has been decided to promote decentralization.

- ¥4 tr. earmarked grants abolished.
- ¥3 tr. Income Tax has decided to be transferred to LGs as Local Taxes
- LAT system has been reviewed and reformed

Also new legal scheme to assure sustainable finance of LGs is submitted to the Diet.

Third Step 2007-2010

- 2006 Decentralization Reform Promotion Law enacted
- 2007 Decentralization Reform Promotion Committee (DRPC) started on April 1.
- 2008-2009 DRPC will submit the recommendation I, II, III.

- **Japan Local Government Bond Association**

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This is the presentation material made by Ministry of Internal Affairs and Communications in use of a seminar in Europe October 2010.

The purpose of this material is to explain the local government finance system, etc. of Japan to investors who are interested in local government's bond, and not to offer the sale or solicit of the purchase of any specific bonds. The Government of Japan assumes no responsibility for any action taken based on the information contained herein.

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