24-D-0472
July 16, 2024

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

JCR's Rating Review of Money Market Brokers

JCR has reviewed the ratings of three money market brokers. The rating viewpoints in this review are as follows. Please refer to JCR's press releases (24-D-0473 through 24-D-0475) dated today for rating rational for individual companies.

Rating Viewpoints

(1) JCR has reviewed the ratings of three money market brokers (the "companies) and has affirmed all of their ratings with Stable outlook. The ratings reflect the importance of these companies in the overall financial system, as well as the stability of their profits and their high stress tolerance backed by their financial soundness. As the Bank of Japan (BOJ) reviews its monetary policy and the trading environment changes, all companies are diversifying their revenue sources and steadily capturing profit opportunities. In addition, JCR believes that the companies will continue to secure a certain level of profit and maintain financial soundness in the future, given that they are maintaining appropriate cost control and risk management.

(2) After a long period of extremely accommodative monetary policy, the framework was revised in March 2024, and a flat interest rate of 0.1% was applied to current deposits held by financial institutions with the Bank of Japan (BOJ Current Account). At this point, a rapid increase in policy rate is unlikely, and an accommodative financial environment is expected to continue. Interest rates for various instruments in the short-term money market have switched from negative to positive territory, but margins remain thin. In the most recent fiscal year ended, when interest rates were in negative territory, they seized opportunities to trade between interest rates in negative territory and near zero, and secured a high level of profits based on open market transactions such as bond repos and CP, in addition to uncollateralized call transactions. The impact of the recent monetary policy review on the call transaction earnings has been minimal, and trading in bond repos and CP remains brisk. The companies will be able to maintain relatively high levels of earnings for the time being by carefully responding to arbitrage and other financing needs.

(3) The companies lend and borrow call funds and act as intermediaries in the interbank market, and engage in short-term government bond transactions, CP transactions, bond repo transactions, stock repo transactions, etc. in the open market. The call market is the place where the excess or shortage of funds of financial institutions is adjusted, and in this market, the companies serve as intermediaries for many transactions and play a role of the node in the market. If the intermediary function of the companies is not maintained and the settlement of their own funds does not proceed smoothly, the call market will be disrupted, and this disruption could spread to the entire financial system. This position in the financial system supports their ratings.

(4) In uncollateralized call transactions, which are the core revenue source in the interbank market, as the absolute value of interest rates rises, the rate of brokerage commissions received by the companies will rise to a certain level and stabilize. Prior to the monetary policy review, the uncollateralized overnight call rate remained in negative territory, approaching 0% at times, but has recently turned to positive territory and is generally stable at around the 0.07% level. Given that the policy rate is set to rise, it is unlikely that the brokerage commission rate will decline. On the other hand, the current transaction balance is declining. This is due to the fact that the participants in arbitrage transactions utilizing the BOJ Current Account have changed from those in the negative interest rate environment, and the number of participants who provide funds has become limited. Going forward, the decline in transaction balances can be offset by stabilization of brokerage commission rates, and each company will be able to secure a certain level of earnings by capturing the intermediary needs of financial institutions with different investment and financing environments, such as those covered by the BOJ Current Account and those not covered by the BOJ Current Account. Although the balance of collateralized call transactions remains low, the companies are generating profits through dealings such as dealings with interest rate differentials captured by being involved in transactions other than call transactions.

(5) In the open market, even after the monetary policy review, the companies are also finely capturing earnings opportunities. In bond repos, market participants are trading with a focus on differences in interest rates with the BOJ Current Account and other short-term money market products. Earnings

have expanded by intermediating the needs of participants with different investment and financing environments. In the CP transactions, CP issuance by firms with an awareness of liquidity of funds remains at a high level in response to high prices and other factors. In addition to gains on sales, earnings from holding it has increased due to higher issue interest rates, and the companies' earnings have been strong. In the stock repo transactions, earnings are growing as the transaction balance is expanding due to the active stock market and the effect of enhanced responsiveness to customer needs.

(6) In open market operations, risk management is important in addition to securing earnings, and in CP transactions, each company continues to hold relatively large positions due to the high level of transactions. Proper credit risk management is required for CP transactions because the lot size per counterparty is large and they are unsecured transactions. In addition, since not a small portion of CP transactions are financed by unsecured funds, it is also important to manage liquidity. Under these circumstances, each company is appropriately controlling risks and has stress tolerance for credit and liquidity risks due to its capital accumulation and multiple financing tools. JCR is paying attention to whether they can continue to manage their risks with stress scenarios in mind.

Hidekazu Sakai, Kota Matsuzawa, and Naoki Shimura

<Reference>

Issuer: Central Tanshi Co., Ltd.

Long-term Issuer Rating: A　　Outlook: Stable

Issuer: The Tokyo Tanshi Co., Ltd.

Long-term Issuer Rating: A　　Outlook: Stable

Issuer: Ueda Yagi Tanshi Co., Ltd.

Long-term Issuer Rating: A　　Outlook: Stable

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026