5. Government Guaranteed Bonds
5.1. **Security Type**

Refer to 1.4.2. Among the total outstanding, bonds underwritten by Trust Fund Bureau, Postal Savings ("Yucho"), and Postal Life Insurance ("Kanpo"), are not traded in the secondary market.

5.2. **Maturity Type**

All GGBs issued on or before 1986 were redeemed by 3% Lottery Style with the initial 3 years as an unredeemable period. GGBs issued thereafter have been changing maturity type to the bullet redemption at maturity. Currently, all the outstanding GGBs are redeemed by this style. More than 90% issues are 10-year maturity with some names which Small Business Corporation and Deposit Insurance Corporation ("Yokin Hoken Kikou" in Japanese) Bond issued in 4 & 6-year maturities.
5.3. **Tiering**

1st Grade
Japan Financial Co. for Municipal Enterprise

2nd Grade
Japan Highway Public Co.

3rd Grade
Tokyo Expressway Public Co.
Shinkansen Holding Co.
Japan Railway Construction Public Co.
Railway Development Fund
Hanshin Expressway Public Co.
East Japan Railway Company

4th Grade
Kansai International Airport Company, Ltd.
Housing And Urban Development Co.
Japan Financial Co. for Small Business
Chubu International Airport Company, Ltd.
Electric Power Development Company, Ltd.
Trans-Tokyo Bay highway Co.
Honshu-Shikoku Bridge Authority
Organization for Promoting Urban Development

5th Grade
The Overseas Economic Cooperation Fund
Social Welfare & Medical Services Co.
Water Resources Development Public Co.
Japan National Oil Co.
The Hokkaido Tohoku Development Co.
Serial "Ho" Japan Highway Public Co.

The 1st grade has the tightest spread. On average for the past 10 years, GGBs can be classified into four to five grades as above. The list of each grade, especially the 3rd to the 5th grade, changes as the market changes. The spread between the 1st grade and the 5th grade is on average 9 ~ 12 b.p., moving within 2 ~ 20 b.p. range.
Until 1995, Non-JGBs have been bought mainly for window-dressing purposes at fiscal year-end. About 1 or 2 months prior to March and September fiscal year-ends, we often saw switching from JGBs to unlisted bonds across the board. 10-year zone was especially strong, tightening to JGB \( \Delta 5 \) b.p. on average and sometimes to JGB \( \Delta 10 \) b.p. at that time. Medium-term zone also tightened but never went below JGB as those issues were outside of the on-the-run current zone. After the “2% Rule” (the rule that bonds must be traded within the base indication issued by JSDA +/- 2%) was introduced, the negative spread versus JGB in the 10-year zone narrowed but the spread still stayed negative versus JGB.

Since 1996 when Japanese investors changed their internal accounting standards (eg. introduction of mark-to-market accounting) and stricter rules were introduced, the negative spread versus JGB disappeared. Since 1999 when the price adjustment practice (“Tanka Chousei”) was prohibited, such extraordinary spread tightening disappeared even around the fiscal year-end period.

Unless there are significant credit events (such as Russian Crisis), the GGBs spread versus JGB is normally quite stable, as they can be regarded as ”quasi-JGBs”. Except for the current 10-year zone, the spread has been staying within the range of 10 ~ 20 b.p. over JGB in the last 5 years.

The spread of the 2nd grade and below is also stable as follows:

- 2nd grade: 1st grade + 0 ~ 3 b.p.
- 3rd grade: 1st grade + 5 ~ 10 b.p.

---

5.4. History

JFM / JGB Spread History

![Graph showing JFM 5y and JFM 10y spread history from Jan-95 to Jan-99](image-url)