

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

## JCR's Rating Review of Money Market Brokers

Issuer	Code	Long-Term Issuer Rating		Outlook
Ueda Yagi Tanshi Co., Ltd.	-	<Rating Change>	from A- to A	Stable
Central Tanshi Co., Ltd.	-	<Rating Change>	from A- to A	Stable
The Tokyo Tanshi Co., Ltd.	-	<Rating Change>	from A- to A	Stable

Issuer	Code	Short-Term Issuer Rating	
Ueda Yagi Tanshi Co., Ltd.	-	<Affirmation>	J-1
Central Tanshi Co., Ltd.	-	<Affirmation>	J-1
The Tokyo Tanshi Co., Ltd.	-	<Affirmation>	J-1

### Rating Viewpoints

- JCR has reviewed the ratings of three money market brokers (the "companies") and upgraded the long-term issuer rating of each company from "A-" to "A." The outlook on the ratings is "Stable. JCR's review this time reflects JCR's view on various risk factors, in addition to its previous assessment of the importance of money market brokers in the overall financial system and the soundness of their assets, etc. JCR has previously considered that their operations are susceptible to monetary policy and market conditions, and depending on these developments, they may record losses in the medium term. However, JCR believes that the companies can secure a certain level of profit for the time being, partly because they are diversifying their revenue sources and focusing on strengthening cost control and risk management. In addition, JCR believes that their equity capital has increased through the accumulation of profits over the years and that they are financially sound enough to withstand even a strong stressful situation in which credit risks may materialize in the CP transactions. JCR judged that the stability of their profits and improved stress tolerance will limit the impact of monetary policy and market conditions compared to the past.
- The Bank of Japan's (BOJ) extremely accommodative monetary policy, which has been in place for a long time, has resulted in interest rates in negative territory or near zero for almost all short-term money market instruments, and margins on various transactions are thin. Even in this environment, market participants have a need to arbitrage between interest rates in negative territory and near zero, and to take advantage of low financing costs. By finely responding to arbitrage and other financing needs, the companies are capturing diverse earnings opportunities in a flexible manner. In the most recent fiscal year, BOJ's termination of COVID-19 operations had only a minor negative impact on the balance of uncollateralized call transactions, and the increase in bond repo transactions in response to rising interest rates in Japan and abroad and the rise in CP revenues due to higher issuance rates contributed to the overall positive performance of the companies. JCR expects the companies to maintain a relatively high level of earnings, as open market transactions such as bond repos and CPs remain strong. Going forward, earnings from uncollateralized call transactions are expected to decline depending on interest rate conditions, but this should be covered by earnings from open market transactions.
- 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 finally adjusted, and in this market, the companies serve as intermediaries for many transactions and play a role of the nodal point in the market. In other words, 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 immediately spread to the entire financial system in Japan. This position in the financial system supports their ratings.

- (4) In uncollateralized call transactions, which are the core revenue source in the interbank market, there are needs for fund intermediation by financial institutions and others in different operating and financing environments, such as those covered and not covered by the BOJ's current deposits, those with margins for their basic balances and macro add-on balances to which interest rates of 0% or more are applied out of the three-tier structure of BOJ's current deposits and those without margins. The uncollateralized overnight call rate, which had been above -0.04% and approaching 0% due to an increase in market participants, declined again due to a decrease in market participants following the phased termination of the COVID-19 operations. An increase in the absolute value of interest rates leads to an increase in the rate of brokerage commissions received by the companies. Although the termination of the COVID-19 operations had an impact on transaction balances, they remained at a certain level due to factors such as an increase in the benchmark ratio of macro add-on balances, and each company secured earnings on par with the previous year for the most recent fiscal year. Although it is necessary to pay attention to market interest rate trends going forward, JCR believes that the companies will be able to secure a certain level of earnings for the time being due to continued demand for arbitrage transactions. 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, the companies are also finely capturing earnings opportunities. In bond repos, market participants are trading with a focus on differences in interest rates with other short-term money market products and the BOJ's current deposits. Transactions have become more active on the back of rising interest rates in Japan and abroad, and revenues have expanded significantly by intermediating the needs of participants in different operating and financing environments. In the CP transactions, CP issuance by firms seeking to secure liquidity is at a high level due to high prices and other factors. The companies' earnings have been boosted by an increase in profits from holding them due to higher issuance interest rates in addition to recording of gains on sales. In the stock repo transactions, the stock market has been active, expanding the transaction balance and allowing them to steadily secure revenues.
- (6) Open market operations require both earnings securing and risk management, and while there are some differences in the stance of individual companies with respect to CP transactions, some companies continue to expand their positions. Proper credit risk management is important for CP transactions because of the large lot size per transaction with unsecured transaction nature and the uncertain environment. 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 various risks are within manageable scope. JCR believes that the companies have a certain level of stress resistance to credit risk and liquidity risk due to their capital accumulation and diversified financing sources, but JCR will continue to focus on whether they can continue to manage their risks with stress scenarios in mind.

### *Rationale*

Issuer: Ueda Yagi Tanshi Co., Ltd.

#### <Rating Change>

Long-term Issuer Rating: from A- to A  
 Outlook: Stable

#### <Affirmation>

Short-term Issuer Rating: J-1

- (1) Ueda Yagi Tanshi Co., Ltd. (the "Company") was formed in July 2001 through the merger of Ueda Tanshi Co., Ltd. and Yagi Tanshi Co., Ltd. It is strong in open market operations such as short-term JGB trading and stock repos, and the proportion of revenues from these operations to the total is larger than other companies. JCR has upgraded the Company's long-term issuer rating from "A-" to "A." The upgrade reflects JCR's view on various risk factors, in addition to its assessment of the importance of money market brokers in the overall financial system and the soundness of their assets,

etc. JCR has previously considered that their operations are susceptible to monetary policy and market conditions, and depending on these developments, they may record losses in the medium term. However, JCR believes that the Company can secure a certain level of profit for the time being, partly because it is focusing on strengthening cost control and risk management. In addition, JCR believes that its equity capital has increased through the accumulation of profits over the years and that it is financially sound enough to withstand even a strong stressful situation. JCR judged that the stability of its profits and improved stress tolerance will limit the impact of monetary policy and market conditions compared to the past.

- (2) Among the three money market brokers, the Company is relatively aggressive in risk-taking, and is capturing earning opportunities in a flexible manner. In the most recent fiscal period, net operating revenues were significantly higher than the previous period as the Company accumulated revenues from bond repo, CP, and stock repo transactions by carefully responding to fund management and financing needs. It has secured well-balanced revenues from interbank and open markets, and its current performance is also solid. The number of subsidiaries and affiliates is small, and their impact on its risk and profit is minimal.
- (3) Although total assets are large, most of them are assets such as government bonds with extremely short maturities, high liquidity, and high safety, or assets with high quality collateral such as cash and government bonds, and the quality of assets is sound. Credit risk management and liquidity management are important due in part to the expansion of CP trading positions, but the Company is controlling risk appropriately.

Issuer: Central Tanshi Co., Ltd.

<Rating Change>

Long-term Issuer Rating: from A- to A

Outlook: Stable

<Affirmation>

Short-term Issuer Rating: J-1

- (1) Central Tanshi Co., Ltd. (the "Company") was formed in April 2001 through the merger of Nagoya Tanshi Co., Ltd., Nihon Tanshi Co., Ltd. and Yamane Tanshi Co., Ltd. The Company has a high share of uncollateralized call transactions and a broad customer base, including CP underwriting. JCR has upgraded the Company's long-term issuer rating from "A-" to "A." The upgrade reflects JCR's view on various risk factors, in addition to its assessment of the importance of money market brokers in the overall financial system and the soundness of their assets, etc. JCR has previously considered that their operations are susceptible to monetary policy and market conditions, and depending on these developments, they may record losses in the medium term. However, JCR believes that the Company can secure a certain level of profit for the time being, partly because it is focusing on strengthening cost control and risk management. In addition, JCR believes that its equity capital has increased through the accumulation of profits over the years and that it is financially sound enough to withstand even a strong stressful situation. JCR judged that the stability of its profits and improved stress tolerance will limit the impact of monetary policy and market conditions compared to the past.
- (2) The fluctuations in earnings is small among the three money market brokers due to effective business diversification. In the most recent fiscal period, net operating revenues were significantly higher than the previous period as the Company accumulated revenues from bond repo and CP transactions by carefully responding to fund management and financing needs. The strength of the customer base is also believed to have contributed to the increase. It has secured well-balanced revenues from products in each of short-term money markets, interbank and open markets, and its current performance is also solid. The Company has also made progress in strengthening management of group companies, and profit level is improving.
- (3) Although total assets are large, most of them are assets such as government bonds with extremely short maturities, high liquidity, and high safety, or assets with high quality collateral such as cash and government bonds, and the quality of assets is sound. Credit risk management and liquidity management are important due in part to the expansion of CP trading positions, but the Company is controlling risk appropriately. Compared to other companies, the Company is more prudent in risk-taking, and the amount of risk relative to capital is controlled.

Issuer: The Tokyo Tanshi Co., Ltd.

<Rating Change>

Long-term Issuer Rating: from A- to A

Outlook: Stable

<Affirmation>

Short-term Issuer Rating: J-1

- (1) Established in 1909, The Tokyo Tanshi Co., Ltd. (the "Company") is the core of the Totan Group. In the money market brokerage operations, it secures well-balanced revenues from interbank and open markets and has strength particularly in bond repo trading. JCR has upgraded the Company's long-term issuer rating from "A-" to "A." The upgrade reflects JCR's view on various risk factors, in addition to its assessment of the importance of money market brokers in the overall financial system and the soundness of their assets, etc. JCR has previously considered that their operations are susceptible to monetary policy and market conditions, and depending on these developments, they may record losses in the medium term. However, JCR believes that the Company can secure a certain level of profit for the time being, partly because it is focusing on strengthening cost control and risk management. In addition, JCR believes that its equity capital has increased through the accumulation of profits over the years and that it is financially sound enough to withstand even a strong stressful situation. JCR judged that the stability of its profits and improved stress tolerance will limit the impact of monetary policy and market conditions compared to the past.
- (2) In the most recent fiscal period, net operating revenues in the money market brokerage operations were significantly higher than the previous period as the Company accumulated revenues from bond repo and CP transactions by carefully responding to fund management and financing needs. Its current performance is also solid, and it is expected to maintain a certain level of operating profit in the future. The slump in earnings seen at the broking companies under its umbrella has improved, and JCR believes that the Company can boost overall group profit by demonstrating the group's integrated strength through diverse business development.
- (3) Although total assets are large, most of them are assets such as government bonds with extremely short maturities, high liquidity, and high safety, or assets with high quality collateral such as cash and government bonds, and the quality of assets is sound. Credit risk management and liquidity management for CP transactions are important, but the Company is controlling risk appropriately.

Hidekazu Sakai, Kota Matsuzawa

*Rating*

Issuer: Ueda Yagi Tanshi Co., Ltd.

<Rating Change>

Long-term Issuer Rating: A      Outlook: Stable

<Affirmation>

Short-term Issuer Rating: J-1

Issuer: Central Tanshi Co., Ltd.

<Rating Change>

Long-term Issuer Rating: A      Outlook: Stable

<Affirmation>

Short-term Issuer Rating: J-1

Issuer: The Tokyo Tanshi Co., Ltd.

<Rating Change>

Long-term Issuer Rating: A      Outlook: Stable

<Affirmation>

Short-term Issuer Rating: J-1



Rating Assignment Date: July 12, 2023

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.

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