

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.	-	<Affirmation>	A-	Stable
Central Tanshi Co., Ltd.	-	<Affirmation>	A-	Stable
The Tokyo Tanshi Co., Ltd.	-	<Affirmation>	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

- (1) JCR reviewed ratings for three Japanese money market brokers ("tanshi" companies), and affirmed each respective rating. These tanshi companies' ratings reflect their importance for Japan's overall financial system, their sound asset quality and manageable risk level, etc. The Bank of Japan ("BOJ")'s extreme monetary easing policy has been continuing and the COVID-19 pandemic impact further intensified the monetary relaxation. Negative or near zero interest rate has become an everyday matter for almost all short-term money market products and the interest margins from various kinds of transactions remain at a very low level. However, even under the mentioned environment, there are various kinds of needs for transactions among market players such as arbitrage transactions earning profit margins between interest rates both are in negative or near zero area, and transactions for benefitting low funding costs. Tanshi companies are expeditiously capturing various earnings opportunities by thoroughly responding to funding needs, including arbitrage transactions. For the most recently ended fiscal year, each company reported a solid earnings due partly to increased transaction volumes of bond repo, commercial paper, etc., and also increased balance of uncollateralized call market transactions. Presently, tanshi companies have been securing certain amounts of earnings while factors causing a decrease in revenue including decline in the brokerage fee rate are seen. As their operations, on the other hand, are susceptible to monetary policies and market conditions, they may record deficits due to trends in such factors. While JCR incorporates these risks into the ratings, JCR sees that it is highly likely that their losses in such cases will be only limited in scale compared with their financial strength, due partly to their focus on enhancement of cost control and risk management. Having large capital, each company keeps enough financial soundness that can enable business continuity under a certain stressful situation.
- (2) Tanshi companies borrow and lend call money and mediate related transactions in the interbank market, and also engage in trading of short-term JGBs, interest-bearing JGBs, commercial paper, bond repo, stock repo, etc. in the open market. They mediate many of transactions in the call money market, where fund surpluses or deficits of financial institutions are finally adjusted, and hence play a role as a node in the market. In other words, if their intermediary function were not maintained and if their own funds were not settled smoothly, call market would fall into a jumble, and the disorder might immediately spread to Japan's overall financial system. Their position in the financial system as described above supports their ratings.

- (3) The outstanding amount of uncollateralized call market transactions, which is a main revenue source in the interbank market, temporarily fell below 4 trillion yen in 2016, mainly because the number of market players decreased after introduction of negative interest rate policy and others. The amount, however, recovered to around 13 trillion yen currently, partly as the market players' adjustments of their systems have progressed. There are various needs for fund intermediary services from market players in different situations for investment and procurement, including those who have/ do not have a current account at the BOJ and those who have/ do not have enough basic balance and macro add-on balance under the three-tier system at BOJ, to which 0% and more than 0% interest rates are applied for the current account. For this reason, each company generated favorable revenue from the interbank market for the most recently ended fiscal year. However, along with increased demand for funds, market interest rate, which once declined to -0.07%, is on uptrend nearly exceeding -0.04% for overnight call. Declined absolute value of interest rate level will cause decline in rate of brokerage received by companies engage in money brokerage business, and will put a downward pressure on their revenue. Despite the fact, under the current monetary policy, needs of arbitrage transactions with those in BOJ's three-tier system can be expected. JCR views that each company can secure a certain amount of interbank revenue in the future as well. In the collateralized call market transactions, each tanshi company secures earnings from dealings combined with transactions other than call whereby differences between large and small negative interest rates are used, despite the low outstanding amount of market transactions.
- (4) Each company also thoroughly captures revenue opportunities in the open market. In the bond repo market, transactions are being conducted by market players focusing on interest rate differences between the repo interest rate and interest rates on other products or current account deposits at the BOJ. The tanshi companies secure earnings by mediating needs of market players in different situations for investment and procurement. For CP transactions, increasing CP issues by companies for the purpose of ensuring liquidity, they could accumulate revenue by trading CPs in the market and others for the most recently ended last fiscal year. Due to declining interest rate level, it is difficult to secure revenue arising from holding securities; however, JCR views that they can expect a certain amount of revenue by selling them, etc. On the other hand, growth of revenue from stock repo transactions is stagnant; however, transaction balance is gradually expanding due partly to active stock market conditions and others.
- (5) For open market operations, the tanshi companies need to ensure revenues, while appropriately managing risks. Their positions in CP transactions are expanding compared to these before. The CP transactions are large-lot and unsecured transactions, and issues with slightly longer terms are increasing. Appropriate credit risk management is becoming more important under the environment involving uncertainties. As funds for the CP transactions, etc. are largely unsecured funds financed through call money, unsecured borrowed bonds, etc., liquidity management is also important. While JCR sees that these risks are within the manageable scope and management methods are also in the appropriate situation, JCR will pay attention to whether they can manage these risks in consideration of stress scenarios.

Rationale

Issuer: Ueda Yagi Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A-

Outlook: Stable

Short-term Issuer Rating: J-1

Ueda Yagi Tanshi Co., Ltd. (the "Company") was formed in July 2001 as a result of a merger between Ueda Tanshi Co., Ltd. and Yagi Tanshi Co., Ltd. It ranks first in terms of market share for the uncollateralized call market transactions among three companies. It has strength in the open market operations such as short-term JGB and stock repo trading, and the proportion of revenues from these operations to the total revenue is larger as compared with other tanshi companies. With relatively high risk preference, the Company places importance on expeditiously capturing earnings opportunities. For the most recently ended fiscal year, revenues from the interbank market and open market were both solid, resulting a substantial increase in net operating revenue. JCR views that the Company will likely secure a certain amount of revenue continuously since it has been well capturing fund management and procurement needs arising from the COVID-19 pandemic. It has only a few subsidiaries and affiliates, which have only small impacts on its risks and profits/losses.

Issuer: Central Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable
Short-term Issuer Rating: J-1

Central Tanshi Co., Ltd. (the "Company") was formed in April 2001 as a result of a merger among Nagoya Tanshi Co., Ltd., Nihon Tanshi Co., Ltd. and Yamane Tanshi Co., Ltd. The Company has a wide customer base in the call money transactions, underwriting commercial paper, etc. As compared with other tanshi companies, the Company is more cautious about risk taking and also has stronger capital base, resulting in a relatively low risk exposure against capital. The fluctuations in the revenue are small as compared with other tanshi companies due to the diversified business. For the most recently ended fiscal, revenues from the interbank and open markets were both solid, resulting a substantial increase in net operating revenue. The Company has been well capturing fund management and procurement needs arising from the COVID-19 pandemic, and an increase in revenue from commercial paper trading was notable due partly to contribution of strengthening of the sales capability. Its present performance is also steady. Enhancement of management of the group companies, which have been its issue to solve, is gradually in progress.

Issuer: The Tokyo Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A-
Outlook: Stable
Short-term Issuer Rating: J-1

The Tokyo Tanshi Co., Ltd. (the "Company") was established in 1909 and is the core of the Totan Group. In the money market brokerage business, the Company ensures revenues from the interbank and open markets in a well-balanced manner due partly to outcomes of the sales reforms. For the most recently ended fiscal year, net operating revenue from the money market brokerage substantially increased. The Company has been well capturing fund management and procurement needs arising from the COVID-19 pandemic. It showed a good record particularly in bond repo trading. Since its system related expenses peaked out, it will likely secure a certain amount of operating income in the future as well. As for the group's overall strength, which is considered as the Company's advantage, revenues of some subsidiaries handling broking business have been weakening due to the impact of COVID-19 pandemic. However, the group's overall profits are at a reasonable level as the aforementioned situation has been covered by the increased revenue relating to the money market brokerage business.

Kenji Sumitani, Kota Matsuzawa

Rating

Issuer: Ueda Yagi Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable
Short-term Issuer Rating: J-1

Issuer: Central Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable
Short-term Issuer Rating: J-1

Issuer: The Tokyo Tanshi Co., Ltd.

<Affirmation>

Long-term Issuer Rating: A- Outlook: Stable
Short-term Issuer Rating: J-1

Rating Assignment Date: July 1, 2021

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/>).

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