

## Chapter II Organization and Management of the Bank

Important matters concerning the business operations of the Bank of Japan are decided by the Policy Board, and the Bank executes its business operations in accordance with the policy formulated by the Policy Board. This chapter explains the Bank's organization and management, including the Policy Board.

### A. The Organization of the Bank of Japan

The Bank is a juridical person authorized by the government of Japan. The Bank has 100 million yen in capital, 55 percent of which is provided by the government, with the remaining 45 percent covered by the private sector.<sup>1</sup>

The organizational structure of the Bank is established based on the Bank of Japan Act (hereafter, the Act), by-laws, and other internal rules. The Bank's officers include the Governor, the Deputy Governors, Members of the Policy Board, Auditors, Executive Directors, and Counsellors. The Policy Board, the Bank's highest decision-making body, is made up of the Governor, two Deputy Governors, and six Members of the Policy Board. In order to accomplish its duty as the central bank, the Bank has a head office (twelve departments, two offices, and one institute<sup>2</sup>), 32 branches, and 14 local offices nationwide (including a computer center and a banknote operations center) and seven overseas representative offices (see Figure 2-1).

The Bank's branches are located throughout the country to conduct the various business operations explained in Chapter I. One of their major operations is the maintenance of the smooth circulation of banknotes. The branches distribute banknotes to private financial institutions and receive from them the banknotes that are not immediately needed for payment to individuals and firms or those that are too damaged or worn for further circulation. The branches also

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<sup>1</sup> The Bank issues subscription certificates, which are traded on the Jasdaq Securities Exchange, one of the Japanese stock markets. However, holders of these securities do not have the right to participate in the Bank's management and there are no such meetings as shareholders meetings.

<sup>2</sup> The Bank also has a Management Committee and a Compliance Committee. The members of the Management Committee include the Deputy Governors and Executive Directors. The Management Committee examines and manages Bank-wide issues regarding the Bank's business operations. The members of the Compliance Committee include members appointed from among the Deputy Governors and Executive Directors by the Governor, the Director-General of the Internal Auditors' Office, and one or more legal experts. The Compliance Committee ensures that the Bank's officers and employees perform their duties fairly and in compliance with the relevant laws and regulations.

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provide over-the-counter services related to treasury funds and Japanese government securities (JGSs).<sup>3</sup> Moreover, the Bank's branches assess the condition of regional financial institutions in their respective regions through interviews with the representatives. The Bank's branches and local offices perform analyses of recent economic and financial developments in the region and release part of their research.

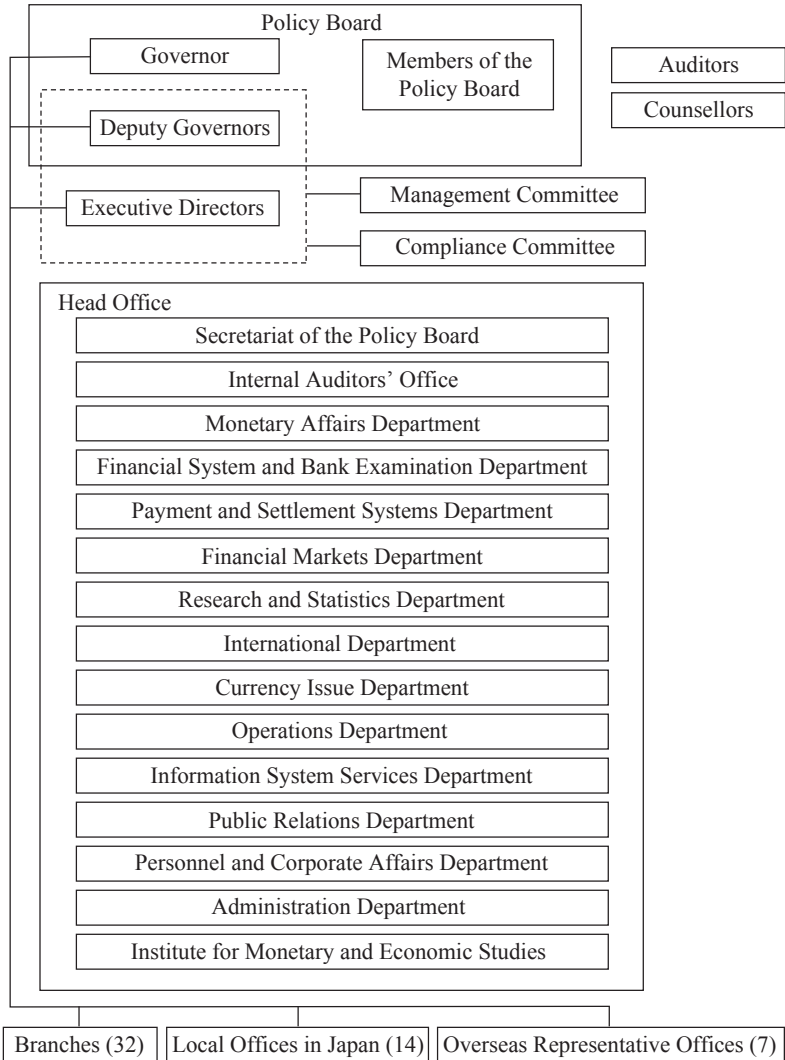
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<sup>3</sup> Treasury funds and JGS services entail nationwide transactions with individuals and firms, as well as the government; therefore, private financial institutions across the country serve as the Bank's agents. These financial institutions are entrusted to provide treasury funds and JGS services. They have indications, such as "agent of the Bank of Japan," visible from outside.

## A. The Organization of the Bank of Japan

**Figure 2-1 Organization of the Bank of Japan**

**(1) Organization Chart of the Bank**



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### (2) Roles of the Bank's Officers

The Policy Board (nine persons)	<ol style="list-style-type: none"><li>(1) The Policy Board is the Bank's highest decision-making body. It decides matters relating to monetary policy, and sets the basic principles for carrying out the Bank's business operations.</li><li>(2) The Policy Board oversees the fulfillment of the duties of the Bank's officers, except for Auditors and Counsellors.</li><li>(3) The chairman of the Policy Board is elected by the Board members from among themselves.</li></ol>
Governor	<ol style="list-style-type: none"><li>(1) Represents the Bank and exercises general control over the Bank's business operations in accordance with decisions made by the Policy Board.</li><li>(2) Is appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors.</li><li>(3) The term of office is five years.</li></ol>
Deputy Governors (two persons)	<ol style="list-style-type: none"><li>(1) Represent the Bank and assist the Governor, in accordance with decisions made by the Governor.</li><li>(2) Act for the Governor whenever the Governor is prevented from attending to his/her duties.</li><li>(3) Perform the Governor's duties during a vacancy in the office of the Governor.</li><li>(4) Are appointed by the Cabinet, subject to the consent of the House of Representatives and House of Councillors.</li><li>(5) The term of office is five years.</li></ol>
Members of the Policy Board (six persons)	<ol style="list-style-type: none"><li>(1) Are appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors.</li><li>(2) The term of office is five years.</li></ol>
Auditors (three or fewer persons)	<ol style="list-style-type: none"><li>(1) Audit the business operations of the Bank.</li><li>(2) May, when they find it necessary based on the audit results, submit their opinions to the Minister of Finance, the Prime Minister (the Commissioner of the Financial Services Agency when the Prime Minister delegates such authority), or the Policy Board.</li><li>(3) Are appointed by the Cabinet.</li><li>(4) The term of office is four years.</li></ol>

## A. The Organization of the Bank of Japan

<p>Executive Directors (six or fewer persons)</p>	<p>(1) Assist the Governor and the Deputy Governors, in accordance with decisions made by the Governor.</p> <p>(2) Act for the Governor whenever the Governor and Deputy Governors are prevented from attending to their duties.</p> <p>(3) Perform the Governor’s duties during a vacancy in the office of the Governor and Deputy Governors.</p> <p>(4) Are appointed by the Minister of Finance on the recommendation of the Policy Board.</p> <p>(5) The term of office is four years.</p>
<p>Counsellors (a few persons)</p>	<p>(1) Give advice to the Board when consulted on any important matters concerning the Bank’s business operations; may also express their opinions to the Policy Board when they find it necessary.</p> <p>(2) Are appointed by the Minister of Finance on the recommendation of the Policy Board.</p> <p>(3) The term of office is two years.</p>

### (3) Functions of Departments and Offices of the Bank

Committee/ department/ office	Business operations	Related chapters
Management Committee	Examines and manages Bank-wide issues regarding the Bank’s business operations. The committee consists of Deputy Governors and Executive Directors.	Chapter II
Compliance Committee	Ensures that the officers and employees perform their duties fairly and in compliance with the relevant laws and regulations. The committee consists of members appointed from among the Deputy Governors and Executive Directors by the Governor; the Director-General of Internal Auditors’ Office; and one or more legal experts from outside the Bank.	Chapter II

## Chapter II: Organization and Management of the Bank

Secretariat of the Policy Board	(1) Arranges proceedings for Policy Board meetings; (2) liaises with the Diet and the media; (3) reviews the content and wording of important documents, and offers a legal perspective on them; (4) plans and formulates measures relating to the Bank's business operations and organizational management; (5) handles the Bank's budget, settlement, and accounting; (6) provides administrative services for the Bank's officers; and (7) supports the Auditors in auditing.	chapters I and II
Internal Auditors' Office	Audits the Bank's business operations.	—
Monetary Affairs Department	Plans and formulates monetary policy measures.	chapters I, II, and V
Financial System and Bank Examination Department	(1) Plans and formulates measures that contribute to the maintenance of an orderly financial system; (2) conducts on-site examinations and off-site monitoring of financial institutions that hold current accounts at the Bank; (3) judges financial institutions' eligibility to hold current accounts at the Bank and to have access to its lending facilities; and (4) determines the specifics of credit extension and discounting of bills by the Bank.	Chapter VI
Payment and Settlement Systems Department	Plans and formulates measures in the following areas: (1) policy issues relating to the payment and settlement system; (2) financial institutions' access to payment and settlement services provided by the Bank; and (3) the Bank's business continuity planning.	Chapter IV
Financial Markets Department	(1) Determines the specifics of daily market operations; (2) conducts foreign exchange interventions; (3) works toward improving the functioning of Japanese financial markets, including the foreign exchange market; and (4) monitors and analyzes developments in financial markets in Japan as well as overseas, including foreign exchange markets.	chapters V and VIII
Research and Statistics Department	(1) Conducts research on the domestic economy and fiscal situation; and (2) compiles and publishes statistics.	Chapter VII

## A. The Organization of the Bank of Japan

International Department	(1) Liaises and coordinates with overseas central banks and international organizations; (2) makes arrangements for investment in yen assets by overseas central banks, and conducts operations aimed at providing international financial support; (3) manages foreign currency assets held by the Bank; (4) conducts research on global economic and financial conditions; and (5) compiles Japan's balance of payments and other such statistics.	chapters VII and VIII
Currency Issue Department	(1) Conducts planning and operations related to banknotes; and (2) conducts payment/receipt of coins, and examines and takes custody of them.	Chapter III
Operations Department	Conducts banking operations, including: (1) discounting of bills; (2) credit extension; (3) purchasing/selling of bills, Japanese government securities, and other securities; (4) borrowing/lending of securities with cash collateral; (5) accepting of deposits; (6) domestic funds transfers; (7) handling of treasury funds; and (8) operations relating to stocks purchased by the Bank.	chapters IV, V, and IX
Information System Services Department	Manages the development and operation of the Bank's computer systems.	Chapter IV
Public Relations Department	(1) Is responsible for public relations; (2) administers the Bank's library; and (3) works toward raising the public's awareness and understanding of financial and economic issues.	Chapter II
Personnel and Corporate Affairs Department	Handles business in corporate affairs, personnel policy issues relating to recruitment, assessment of job performance, career planning and training, wages and salaries, and the Bank's code of ethics.	—
Administration Department	Conducts administrative operations relating to the Bank's facilities, supplies, security, and transportation.	—
Institute for Monetary and Economic Studies	(1) Studies theoretical, institutional, technological, and historical aspects of monetary and economic issues; (2) collects, preserves, and exhibits historical materials and documents related to monetary and economic issues; and (3) exchanges views with academics.	Chapter VII

## Chapter II: Organization and Management of the Bank

Branches <sup>1</sup> (32)	The branches mainly conduct: (1) business operations relating to currency issues, such as issuance, circulation, and maintenance of banknotes, as well as payment/receipt and examination of banknotes and coins; (2) banking operations, such as discounting of bills, extension of loans, services through deposit accounts, and services relating to treasury funds; and (3) research and analysis on the economic and financial situation in each area.	chapters II–VII and IX
Local Offices in Japan <sup>2</sup> (14)	The computer center operates the Bank’s computer systems, and the banknote operations center deals with part of the operations of the Head Office relating to banknotes. The other local offices handle some of the operations of the Head Office and branches.	chapters II–IV and VII
Overseas Representative Offices <sup>3</sup> (7)	The overseas representative offices perform a liaison function, gather information, and conduct research.	chapters II, VII, and VIII

- Notes: 1. The 32 branches are located in the following cities: Kushiro, Sapporo, Hakodate, Aomori, Akita, Sendai, Fukushima, Maebashi, Yokohama, Niigata, Kanazawa, Kofu, Matsumoto, Shizuoka, Nagoya, Kyoto, Osaka, Kobe, Okayama, Hiroshima, Matsue, Shimonoseki, Takamatsu, Matsuyama, Kochi, Kitakyushu, Fukuoka, Oita, Nagasaki, Kumamoto, Kagoshima, and Naha.
2. The 14 local offices are located in the following cities: Mito, Obihiro, Asahikawa, Morioka, Yamagata, Toyama, Fukui, Nagano, Tottori, Tokushima, Saga, Miyazaki, Fuchu (Tokyo), and Toda (Saitama). The computer center of the Bank is in Fuchu, and the banknote operations center of the Bank is in Toda.
3. Overseas representative offices are located in New York, Washington, D.C., London, Paris, Frankfurt, Hong Kong, and Beijing.



## A. The Organization of the Bank of Japan

### (4) Head office, Branches, and Local Offices



### (5) Overseas Representative Offices



### B. The Policy Board

The Policy Board is the Bank's highest decision-making body. It is made up of the Governor, two Deputy Governors, and six Members of the Policy Board. Decisions are made by votes after thorough discussion among Policy Board members. The chairman of the Policy Board is elected by Policy Board members from among themselves. Since the start of the current Policy Board system in 1998, the Governor of the Bank has been serving as the chairman. The nine members of the Policy Board are appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors (Article 23 of the Act). The term of office is five years for each member (Article 24 of the Act), and the members are not dismissed against their will during their terms of office (Article 25 of the Act).

Important matters concerning the Bank's business operations are decided by a majority of votes after discussions at Policy Board meetings. Matters that require a decision by the Policy Board are stipulated by the Act. They include various matters, such as the policy, business management, and internal management of the organization (see Figure 2-2 and Box 1, "The Bank of Japan's Strategic Priorities").<sup>4</sup> Policy Board meetings held for decisions on matters related to monetary policy (Article 15, paragraph 1 of the Act) are called Monetary Policy Meetings (MPMs). Policy Board meetings held for decisions on other matters stipulated in Article 15, paragraph 2 of the Act are called regular Policy Board meetings. MPMs are held once or twice a month,<sup>5</sup> whereas regular Policy Board meetings are held twice a week.

MPMs are different from regular Policy Board meetings in terms of procedures. First, discussions at an MPM are made public later in the form of minutes and transcripts (see C.1 in this chapter). Second, government representatives can, when necessary, attend and make remarks at MPMs and submit proposals, or request a postponement of a Board vote on a proposal (Article 19 of the Act). Third, the schedule of MPMs for the coming twelve months is made public in June and December.

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<sup>4</sup> The Governor, the Deputy Governors, and Members of the Policy Board express their views and opinions as independent members at Policy Board meetings. The Governor and the Deputy Governors are responsible for carrying out decisions of the Policy Board, together with the Executive Directors and the staff. The Members of the Policy Board are full-time officers. They attend Policy Board meetings with the Governor and the Deputy Governors to make important strategic decisions on matters including various policies, business operations, and internal management of the organization.

<sup>5</sup> When the chairman finds it necessary, or when one-third or more of the total incumbent Policy Board members find it necessary and request the chairman to call a meeting, the Bank can hold unscheduled MPMs (Article 17, paragraph 3 of the Act).

## B. The Policy Board

**Figure 2-2 Matters That Must be Decided by the Policy Board under Article 15 of the Bank of Japan Act**

Matters related to monetary policy (Paragraph 1)	Other matters (Paragraph 2)
<ul style="list-style-type: none"><li>- The basic loan rate</li><li>- The reserve requirement ratio</li><li>- The guidelines for money market operations</li><li>- Monetary policy measures, e.g., operation schemes and types of collateral</li><li>- The Bank's view on economic and financial developments</li></ul>	<ul style="list-style-type: none"><li>- Issues related to the financial system, e.g., special loans and on-site examination policy</li><li>- International financial business, e.g., providing credit to foreign central banks</li><li>- Internal management, e.g., budget and organization</li><li>- Reports and rules, e.g., reports to the Diet and by-laws</li><li>- Other matters deemed necessary by the Policy Board</li></ul>

## C. Communication with the Public on Monetary Policy and Other Business Management

### 1. Communication on monetary policy

Regarding monetary policy, Article 3, paragraph 1 of the Bank of Japan Act stipulates that the Bank's autonomy regarding currency and monetary control shall be respected. On the other hand, considering the influence of monetary policy on the daily lives of the public, Article 3, paragraph 2 of the Act stipulates that the Bank shall endeavor to clarify to the citizen the content of its decisions, as well as its decision-making process, regarding currency and monetary control (see Box 3 for Chapter I, "Monetary Policy Independence").

In order to meet this requirement of accountability, Article 20 of the Act requires the Bank to promptly publish minutes describing an outline of the discussion at the MPMs, and to publish transcripts of each MPM after a certain period of time following the meeting.<sup>6</sup> Further, pursuant to Article 54 of the Act, the Bank submits the *Semiannual Report on Currency and Monetary Control* to the Diet and endeavors to explain it to the Diet.

<sup>6</sup> The Bank releases the minutes of an MPM after they are approved at the following MPM. In the case of an unscheduled MPM, the approval of the minutes may take place at the MPM following the next MPM. The transcript of an MPM is made public ten years after the MPM. It shows the details of each participant's remarks in the MPM.

## Chapter II: Organization and Management of the Bank

It is important to announce the Bank's outlook for economic activity and prices, and its basic stance for monetary policy, in order to enhance the effectiveness of monetary policy as well as to ensure the accountability of the Bank. From this viewpoint, the Bank takes various measures to accomplish these duties (see Box 2, "The Bank of Japan's Measures to Strengthen Communication on Monetary Policy").

First, the Bank announces the framework of monetary policy. Based on this framework, the Bank releases a public statement after each MPM, which contains a summary of the assessment of economic activity and prices based on "two perspectives," and the Bank's thinking on the conduct of future monetary policy, in addition to the policy decisions made at MPMs, including the guidelines for money market operations (see Chapter I.B.2). At the MPMs in April and October, the Bank decides the text of *Outlook for Economic Activity and Prices* (hereafter, "the Outlook Report"), which indicates the Bank's careful assessment of the outlook and risk factors for economic activity and prices over the coming two years or so, as well as its views on the future course of monetary policy.<sup>7</sup> At the MPMs in January and July, the Bank makes an interim assessment of upside and downside risks concerning the outlook laid out in the latest Outlook Report based on the developments in economic activity and prices since the release of the last report. The interim assessment is included in the statement released after the relevant MPM. The Governor of the Bank holds a press conference as Chairman of the Policy Board after each MPM on the day the policy decision is made, in order to explain the details of the decision and the thinking behind the decisions. A detailed background of the Bank's assessment of economic activity and prices is explained in the *Monthly Report of Recent Economic and Financial Developments*.

### 2. Accountability for policies and business operations other than monetary policy

The Bank, as a public organization, conducts various public relations activities to ensure the accountability of its policies and business operations. The Bank discloses its financial statements (see Box 3, "The Bank of Japan's Accounts," and Box 4, "Basic Accounting Principles for the Bank of Japan's Balance Sheet") and publishes an outline of business operations every business year, in accordance with Articles 52 and 55 of the Act.

The Bank also makes public the decisions made by the Policy Board in

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<sup>7</sup> The April issue of the Outlook Report covers the Bank's outlook for the current and the following fiscal years. The October issue covers the fiscal year following the next year as well.

## C. Communication with the Public on Monetary Policy and Other Business Management

the Japanese-language *Nippon Ginko Seisaku Inkai Geppo* (Monthly Report of the Policy Board of the Bank of Japan) and other materials.

Moreover, the Bank releases various kinds of information on its website,<sup>8</sup> including the data of daily market operations, projections and final figures of changes in current account balances at the Bank, payment and settlement statistics, the principal accounts, the standards for selecting counterparties for its operations, and the annual on-site examination policy. The thinking regarding, and the details of, the Bank's policies and business operations are communicated to the public through press conferences and speeches<sup>9</sup> by the Governor, the Deputy Governors, and Members of the Policy Board, as well as through press conferences by general managers of the Bank's branches, public relations activities, and discussions with a wide range of local business managers at its Head Office, branches, and local offices (see Figure 2-3).

**Figure 2-3 Releases and Publications on Monetary Policy and the Bank's Business Operations<sup>1</sup>**

Title	Frequency of publication	Contents
Announcement of Monetary Policy Meeting Decisions	After each meeting	Announcement of decisions on matters related to monetary policy, including the guidelines for money market operations decided at each Monetary Policy Meeting (MPM). Released immediately after each meeting.
Minutes of Monetary Policy Meetings	After each meeting	Summary of discussions held at each MPM. The minutes of each MPM are approved at the next respective MPM. In some cases of unscheduled MPMs, the minutes are approved at the MPM following the next one.
Transcripts of Monetary Policy Meetings <sup>2</sup>	Ten years after each meeting	Transcripts of discussions held at each MPM. The transcripts of each meeting are released ten years after the meeting concerned.

<sup>8</sup> The Bank's website can be viewed at <http://www.boj.or.jp/en/index.htm>. The Bank also provides various kinds of information through the websites of the Institute for Monetary and Economic Studies (<http://www.imes.boj.or.jp/english/index.html>) and of the Bank's branches and local offices (the sites of branches and local offices are available only in Japanese).

<sup>9</sup> The Bank works to facilitate the use of its website for overseas viewers by providing important information, such as decisions made in MPMs and speeches by the Governor, in English, at the same time as the release of the Japanese.

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<i>Monthly Report of Recent Economic and Financial Developments</i>	Monthly	Analyses of the economic and financial developments on which decisions on money market operations are based. The Japanese original and the English translation for summary are released on the last day of the first MPM of the month. The English translation of the full text is released on the next business day after the release of the summary.
<i>Outlook for Economic Activity and Prices</i> (Outlook Report)	Semiannually	The Bank's outlook for economic activity and prices as well as risks concerning the outlook. The report also provides the Policy Board members' forecasts for real GDP, the domestic corporate goods price index, and the consumer price index as a reference. At the end of April and October, "The Bank's View" of the report is released after the MPM on the same day, and the full text is released on the following business day. In January and July, the Bank makes interim assessments of the outlook laid out in the latest Outlook Report.
<i>Nippon Ginko Seisaku Inkai Geppo</i> <sup>2</sup> (Monthly Report of the Policy Board of the Bank of Japan)	Monthly	Monthly report of activities by the Policy Board, including decisions on monetary policy at MPMs and on other matters.
<i>Semiannual Report on Currency and Monetary Control</i>	Semiannually	Report to the Diet on the Bank's monetary policy as specified in Article 54 of the Bank of Japan Act.
Outline of Business Operations <sup>3</sup>	Annually	Outline of the Bank's business operations in each fiscal period as specified in Article 55 of the Bank of Japan Act.
<i>Annual Review</i>	Annually	Review of an outline of the Bank's organization, activities, financial statements, and other materials.
Statement by the Governor	Ad hoc basis	The Bank's view on monetary policy and the financial system at important junctures.
Summary of the Press Conferences by the Bank's Officers <sup>2</sup>	After each press conference	Summary of the press conferences by the Bank's officers.

## C. Communication with the Public on Monetary Policy and Other Business Management

Speeches by the Bank's Officers	After each speech	Speeches by the Bank's officers.
Financial Statements of the Bank of Japan	Semiannually	Report on the Bank's balance sheet (assets, liabilities, and capital accounts) and the statement of income during the period concerned.
Bank of Japan Accounts	Three times a month	Report on the amount outstanding of major items of the Bank's balance sheet (assets, liabilities, and capital accounts), at the end of the ten-day period concerned.

Notes: 1. Most of the data and reports are available on the Bank's website (<http://www.boj.or.jp/en/index.htm>).  
2. Available only in Japanese.  
3. A summary of the text is available in English on the Bank's website as the *Annual Review*.

### 3. Other public relations activities

The Bank's other public relations activities include the dissemination of information on financial and economic matters as well as the announcement of the Bank's policies and business operations. For instance, the Bank compiles and releases statistics such as the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and the Corporate Goods Price Index, as well as statistical publications such as the *Financial and Economic Statistics Monthly* and the *Price Indexes Quarterly*. The Bank also releases various reports such as the *Financial Markets Report*, the *Financial System Report*, the *Payment and Settlement Systems Report*, and such market indicators as "Short-Term Money Market Rates" and "Foreign Exchange Rates," which are all available on its website. In addition, the Bank provides introductory explanations related to financial and economic activity via its website and public relations magazines (see Figure 2-4), and responds to inquiries and questions from the public by telephone and e-mail. Furthermore, the Bank offers in-house tours of the Bank's Head Office (reservations required) and rental service of an introductory video about the Bank.

The Bank works to hear a wide range of views regarding its policies and business operations. As part of these activities, the Bank compiles and releases the *Opinion Survey on the General Public's Views and Behavior*<sup>10</sup> and uses the results to improve its conduct of policies and business operations. This survey

<sup>10</sup> This survey has been conducted since 1993 with a nationwide sample of 4,000 individuals who are at least 20 years of age, and the results are released on the Bank's website.

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is designed to gain insight into the public's impression of economic conditions, household circumstances, and perception of price levels, as well as the degree of credibility of the Bank and the degree of recognition of the Bank's policies and business operations among the public.

Moreover, the Bank works to enhance financial literacy by providing useful information on financial and economic matters on its website and by hosting, for example, educational events such as essay competitions for students. In addition, the Bank fully supports the activities of the Central Council for Financial Services Information,<sup>11</sup> including various projects on financial literacy education and provision of information on financial and economic activity by giving lectures at schools.

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<sup>11</sup> The council was originally established in 1952 as the Central Council for Savings Promotion, and changed its name in 1988 to the Central Council for Savings Information. In 2001, it changed its name again to the Central Council for Financial Services Information. The council's secretariat is located in the Bank's Public Relations Department. The members of the council include representatives from financial and industrial organizations, the media, consumer groups, other academic circles, and the Deputy Governor of the Bank. The details of activities of the council, with the nickname *Shiruporuto* (tips for money at the port of discovery), are available at <http://www.shiruporuto.jp/e/index.html> (available only in Japanese).



## C. Communication with the Public on Monetary Policy and Other Business Management

**Figure 2-4 Other Publications<sup>1</sup>**

Title	Contents and frequency of publication
<i>Nichigin</i> <sup>2</sup>	The Bank's public relations magazine issued quarterly in late March, June, September, and December, containing articles on the Bank's business operations and history, information gathered through the Bank's office network, and explanations concerning finance and the economy.
Bank of Japan: Its Functions and Organization <sup>3</sup>	This pamphlet introduces the Bank's role and business operations.
<i>Atarashii Nihonginkouken no Gizouboushigijutsu</i> <sup>2</sup> (Anti-counterfeiting Technologies for New Bank of Japan Notes)	This pamphlet describes the features of Bank of Japan notes, except for the 2,000-yen notes, e.g., anti-counterfeiting measures.
<i>Okane no Hanashi Arekore</i> <sup>2</sup> (Money Trivia)	This pamphlet describes trivia on money.
Currency Museum	This pamphlet introduces visitors to the exhibits in the Bank's Currency Museum.
The Bank of Japan Main Building	This pamphlet introduces visitors to the history and best places to see in the main building of the Head Office (completed in 1896; an important national cultural property).
Bank of Japan: The Underground Vault in the Main Building	This pamphlet introduces visitors to the history of the vault and best places to see in the basement of the Head Office.
<i>Kinyuu Shiryokan</i> <sup>2</sup> (The Bank of Japan Otaru Museum)	This pamphlet introduces the best places to see in the Bank of Japan Otaru Museum, a former branch of the Bank in Otaru City, Hokkaido.

Notes: 1. For the Bank's releases of statistics and other materials, see Chapter VII.

2. Available only in Japanese.

3. This pamphlet is designed for visitors who are high school students or older. The pamphlet designed for visitors who are elementary or junior high school students is available only in Japanese.

### Box 1 The Bank of Japan's Strategic Priorities

The Bank of Japan formulates and releases “The Bank of Japan’s Strategic Priorities,”<sup>1</sup> which describes the basic principles for its business operations and organizational management. The Strategic Priorities describe how the Bank would contribute to the sound development of Japan’s economy, and to this end, how it would address management issues. The Bank has designed the Strategic Priorities with a rolling three-year horizon to keep a medium-term perspective and respond flexibly to any changes in circumstances, so as to ensure that its business operations and organizational management are conducted in a timely manner. At the end of every fiscal year, the Bank conducts a performance review and then updates the Strategic Priorities accordingly, resetting the horizon to cover the next three years.

The contents of “The Bank of Japan’s Strategic Priorities for Fiscal 2010–2012” are listed below.

- I. Introduction
- II. Background
- III. Management Principles
  - A. Stability and Efficiency in All Business Operations
  - B. Learning in Action
  - C. Enhancement of Communication Channels
- IV. Issues and Action Plans
  - A. Matters Relating to the Conduct of Monetary Policy
  - B. Matters Relating to the Financial System
  - C. Matters Relating to Payment and Settlement Systems and Market Infrastructure
  - D. Matters Relating to the Regional Economic and Financial Environment
  - E. Matters Relating to Banknotes, Treasury Funds, and Japanese Government Securities (JGS) Services
  - F. Matters Relating to Communication with the Public
- V. Organizational Management
  - A. Stable and Efficient Business Operations
  - B. Human Resources
  - C. Budget for Expenses
  - D. Performance Reviews

Attachment: Budget for Expenses for Fiscal 2010

Note: 1. The full texts in Japanese and summaries in English are available on the Bank’s website.

## Box 2 The Bank of Japan's Measures to Strengthen Communication on Monetary Policy

The Bank of Japan works to strengthen its communication on monetary policy in order to enhance the effectiveness of its policy measures, and to fulfill its accountability. A time-series list of measures taken by the Bank to this end is given below.

December 1997	- The Bank releases the new framework of Monetary Policy Meetings (MPMs) with a review of its decision-making process.
April 1998	- The revised Bank of Japan Act is enforced. It stipulates the publication of the minutes and transcripts of MPMs.
September 2000	- The Bank brings forward the release schedule of the minutes of the MPMs and the <i>Monthly Report of Recent Economic and Financial Developments</i> .
October 2000	- The Bank releases "On Price Stability," which outlines the discussions of Policy Board members on issues related to price stability. - The Bank starts releasing the <i>Outlook and Risk Assessment of the Economy and Prices</i> (the Outlook Report) <sup>1</sup> semiannually, in April and October. In the report, the Bank starts to make public the Policy Board members' forecasts for real GDP, the domestic corporate goods price index, and the consumer price index (CPI; excluding fresh food) as a reference.
April 2001	- The Bank extends the period of the first MPM of each month to two days, to provide sufficient time for Policy Board members to hold extensive discussions and to enable financial markets in Japan to digest the decisions reached at the meetings on the day of the meeting as much as possible.
October 2003	- The Bank decides to strengthen its public communication on its outlook for economic activity and prices as follows: (1) by making interim assessments in January and July of the outlook laid out in the latest Outlook Report; (2) by deciding on the earlier release of the <i>Monthly Report of Recent Economic and Financial Developments</i> ; and (3) by holding a press conference by the Governor after each MPM on the same day of the MPM.
April 2005	- The Bank decides to extend the projection period in the Outlook Report by one year to cover both the current and the following fiscal years.

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March 2006	- The Bank introduces a new framework for the conduct of monetary policy. The Bank announces that it will examine economic activity and prices from two perspectives, and also release its view on medium- to long-term price stability. The Policy Board members' "understanding of medium- to long-term price stability" is expressed in terms of the year-on-year rate of change in the CPI, and falls in the range of approximately between 0 and 2 percent, with most Policy Board members' median figures at around 1 percent.
June 2007	- Expansion of the period covered in the list of scheduled dates of the MPMs. The schedule for twelve months ahead is released immediately after the MPMs in June and December.
April 2008	- The Bank starts releasing "Risk Balance Charts" in the Outlook Report. The charts show the probability distributions compiled by individual Policy Board members' forecasts for the year-on-year rates of change in real GDP and the CPI.
July 2008	<ul style="list-style-type: none"><li>- The Bank starts releasing the assessment of economic activity and prices from two perspectives after each MPM. The background of a policy decision is communicated regardless of whether or not policy change takes place.</li><li>- The Bank extends the projection period in the October Outlook Report to cover the fiscal year following the next year.</li><li>- The Bank decides on the earlier release of the minutes of MPMs.</li></ul>
December 2009	- The Bank clarifies the "understanding of medium- to long-term price stability." It announces that each Policy Board member's understanding of CPI on a year-on-year basis falls "in the positive range of 2 percent or lower, and the midpoints of most Policy Board members' understanding are around 1 percent."

Note: 1. The report was renamed *Outlook for Economic Activity and Prices* in April 2004.

### Box 3 The Bank of Japan's Accounts

At the end of fiscal 2009, items closely related to the Bank of Japan's open-market operations and loans accounted for a large share of its total balance sheet assets (see chapters V and VI). These included, for example, receivables under resale agreements,<sup>1</sup> Japanese government securities (JGSs),<sup>2</sup> and loans and bills discounted. Another major accounting item under assets was foreign currency assets (foreign currency securities and foreign currency deposits with foreign central banks and monetary authorities; see Chapter VIII). As for liabilities, the largest accounting item was banknotes (the amount outstanding of banknotes issued; see Chapter III), and other major items included deposits (mainly current deposits of financial institutions held at the Bank; see Chapter IV), deposits of the government (see Chapter IX), and payables under repurchase agreements.<sup>3</sup>

In the Bank's statement of income, operating income consisted mostly of interest on JGSs purchased through open market operations and gains on sales of JGSs.<sup>4</sup> Major accounting items under operating expenses were general and administrative expenses and costs (including the cost of production of banknotes, and personnel expenses), and losses on foreign currency assets (including foreign exchange losses). Net income is calculated as follows:

$$\begin{aligned} \text{Net income} = & \text{operating profits (operating income} - \text{operating expenses)} \\ & + \text{special profits (e.g., transfers from provision for possible losses on} \\ & \text{foreign exchange transactions, transfers from provision for possible} \\ & \text{losses on bonds transactions, and gains on disposal of fixed assets)} - \\ & \text{special losses (e.g., transfers to provision for possible losses on foreign} \\ & \text{exchange transactions, transfers to provision for possible losses on bonds} \\ & \text{transactions, and losses on disposal of fixed assets)} - \text{provision for taxes,} \\ & \text{including corporate income tax.} \end{aligned}$$

As for the appropriation of net income, funds are transferred to the legal reserve and dividends are paid to shareholders,<sup>5</sup> and the remainder of net income is paid to the government (Article 53 of the Bank of Japan Act).

As described above, the results of the Bank's business operations explained in this book are shown in the Bank's financial statements (e.g., the balance sheet and the statement of income). The Bank has conducted its accounting practices taking into consideration the generally accepted principles of corporate accounting. In 1998, to enhance the transparency of its business operations, the Bank formulated and released its principles of accounting practices and their procedures as a new set of Accounting Rules. The Accounting Rules of the Bank of Japan cover the following: (1) implementation of the budget, such as the criteria for diverting funds to other purposes and the use of contingency funds;

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(2) methods for valuation of securities; (3) criteria for maintaining provisions; and (4) the setting of the benchmark for the Bank's capital adequacy ratio. In addition, from fiscal 1998 (April 1, 1998–March 31, 1999), the Bank has made public a schedule for its financial statements and a table of the appropriation of net income.

<sup>1</sup> The amount paid for commercial paper (CP) and Japanese government securities under resale agreements is included in this item.

<sup>2</sup> Includes treasury discount bills (T-Bills) (financing bills and treasury bills).

<sup>3</sup> The amount received for JGSs under repurchase agreements is included in this item.

<sup>4</sup> Profits from interest-bearing financial assets (assets primarily acquired through open market operations, e.g., JGSs) that are financed by non-interest-bearing liabilities (e.g., banknotes) are called seigniorage.

<sup>5</sup> Article 53 of the Bank of Japan Act stipulates that: (1) the Bank shall retain, as a reserve fund, 5 percent of net income for each fiscal period (if deemed particularly necessary, the Bank may retain more than 5 percent of net income, upon authorization from the Minister of Finance); and (2) dividend payments as a proportion of paid-up capital are limited to 5 percent or below in each fiscal year.

**Table 1 for Box 3 Balance Sheet as at March 31, 2010<sup>1,2</sup>**

bil. yen

Item	
<b>Assets</b>	
Gold	441.2
Cash	330.1
Receivables under resale agreements	4,983.3
Japanese government securities	73,066.1
Corporate bonds	172.2
Pecuniary trusts (stocks held as trust property)	1,425.5
Loans and bills discounted	35,783.9
Foreign currency assets	5,022.7
Deposits with agents	19.3
Capital subscription to an international financial institution	15.2
Provision of funds to the Deposit Insurance Corporation's "Jusen account"	100.0
Provision of funds to the New Financial Stabilization Fund	20.0
Withdrawn cash to be returned to the government	62.1

## Boxes

Accrued interest receivable	139.4
Tangible fixed assets	221.4
Intangible fixed assets	0.1
<b>Total assets</b>	<b>121,824.1</b>
<b>Liabilities</b>	
Banknotes	77,352.7
Deposits (excluding those of the government)	23,498.5
Deposits of the government	3,018.6
Payables under repurchase agreements	11,651.5
Provision for retirement benefits	193.2
Provision for possible losses on bonds transactions	2,243.3
Provision for possible losses on foreign exchange transactions	794.5
<b>Total liabilities</b>	<b>118,796.9</b>
<b>Net Assets</b>	
Capital	0.1
Legal reserve	2,659.9
Special reserve	0.01
Net income	367.1
<b>Total net assets</b>	<b>3,027.2</b>
<b>Total liabilities and net assets</b>	<b>121,824.1</b>

**Table 2 for Box 3 Statement of Income for Fiscal 2009<sup>1,2</sup>**  
bil. yen

Item	
Operating income	832.4
Interest on loans and discounts	39.8
Interest on receivables under resale agreements	9.3
Interest and discounts on Japanese government securities	599.5
Interest on commercial paper	0.7
Interest and discounts on corporate bonds	1.6
Gains on sale of Japanese government securities	6.0
Gains on foreign currency assets	123.3

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Operating expenses	465.8
Interest on payables under repurchase agreements	20.2
Losses on foreign currency assets	218.5
General and administrative expenses and costs	192.2
Operating profits	366.5
Special profits	1.1
Special losses	0.5
Net income before taxes	367.1
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	0.009
Net income	367.1

**Table 3 for Box 3 Appropriation of Net Income for Fiscal 2009<sup>1</sup>**

bil. yen

Item	
Transfer to legal reserve	18.3
Dividends, 5 percent of share face value	0.005
Payment to the government	348.7
Total	367.1

**Table 4 for Box 3 Capital Base as at March 31, 2010<sup>1</sup>**

bil. yen

Item	
Capital accounts	2,678.4
Provisions	3,037.8
Total	5,716.3

Notes: 1. Figures are calculated in yen and then rounded down to the nearest 0.1 billion yen in principle.

2. Only the major accounting items are listed, and therefore figures under “Total” do not necessarily equal the total of relevant items listed.



#### **Box 4 Basic Accounting Principles for the Bank of Japan's Balance Sheet**

The Bank of Japan conducts its policies and business operations to achieve the objectives stipulated in the Bank of Japan Act. These policies and business operations are reflected in the Bank's balance sheet. In that sense, its balance sheet changes in accordance with economic and financial developments and the Bank's policies and business operations in response to such developments. The Bank's basic accounting principles for its balance sheet in conducting its policies and business operations appropriately are as follows.

##### **1. Requirements for the Bank's Assets**

In conducting its policies, the Bank makes every effort to maintain the soundness, liquidity, and neutrality of its assets.

###### **(1) Soundness**

The Bank makes every effort to hold assets and accept collateral with high creditworthiness. If the soundness of the Bank's assets and collateral were to be impaired and the Bank made a loss, the loss would ultimately be borne by the public through a decrease in the amount of the Bank's payment to the government. Furthermore, if the Bank were to become insolvent and had to receive financial support from the government, the view would spread that the Bank would have difficulty conducting appropriate policies and business operations on its own independent judgment, and this could jeopardize the Bank's conduct of appropriate policies and business operations.

Japanese government securities (JGSs), which account for the highest proportion of the Bank's balance sheet, are financial instruments with high creditworthiness. The Bank also purchases corporate debts as assets in market operations or accepts them as collateral for its loans, as long as their creditworthiness is maintained pursuant to its own criteria.

In addition, the Bank ensures that its financial soundness is not impaired when it extends credit (special loans) as stipulated in Article 38 of the Bank of Japan Act, in order to maintain financial system stability (see Chapter VI.D.1).

###### **(2) Liquidity**

The liquidity of the Bank's assets must always be ensured, so as to maintain flexibility in the conduct of monetary policy. To conduct market operations smoothly, it is necessary to adjust the size of assets in response to changes in

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that of liabilities. However, if the liquidity of the Bank's assets declines, it would be difficult for the Bank to adjust its liability in a flexible and smooth manner. From that viewpoint, the Bank diversifies redemption dates in order to prevent the overall duration of assets from becoming too long and to hold assets that are easy to sell whenever necessary.

The Bank underwrites treasury bills (TBs) with a one-year maturity to refund its JGSs at maturity and, in principle, redeems TBs at maturity. This is an example of ensuring the liquidity of the Bank's assets.

### **(3) Neutrality**

The Bank makes every effort to ensure that its holding of assets does not influence their market prices. If the Bank were to hold a large amount of specific financial assets, the Bank could influence the market price and impair the neutrality of resource allocation, depending on the market size of the assets.

In order to maintain neutrality, the Bank, in conducting open market operations, makes it a rule to purchase financial assets with high liquidity from a deep market.

## **2. Sufficient Capital Base**

The Bank holds its capital base, such as capital, legal reserves, and provisions, to be prepared for potential losses. The Bank measures its capital adequacy ratio by dividing the amount of its capital base by the annual average of banknotes issued, and accumulates provisions and legal reserves to maintain its financial soundness. After a certain amount of the Bank's net income is transferred to legal reserves and dividends are paid, the rest of the net income is paid to the Japanese government.