Chapter VIII International Operations and Services

The Bank of Japan participates in various international forums, including the Meeting of Finance Ministers and Central Bank Governors of the Group of 20 (G-20) and that of the Group of Seven (G-7), and contributes to the stability of the global financial system. The Bank also engages in a wide range of transactions with other central banks and international organizations. This chapter explains these international operations and services.

A. The Bank of Japan's International Operations and Services

The Bank of Japan's international operations and services include various activities, such as participation in international economic and financial meetings and international cooperation related to specific areas of its operations.[1] In this chapter, the Bank's international operations and services are explained in the following three categories.

First, the Bank engages in discussions and exchanges of views at international meetings, contributes to the formulation of standards and guidelines on international finance, and works on the stabilization of the global economy and financial system by addressing global financial crises. In response to the globalization of financial markets and the global expansion of financial institutions' business activities, the Bank participates frequently in international meetings such as those of the Meeting of Finance Ministers and Central Bank Governors of the G-20 and G-7, the meeting of central bank governors at the Bank for International Settlements (BIS), and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), and arranges bilateral meetings in order to cooperate closely with other central banks and to discuss adequate policy measures as well as the current state of the global economy and financial system. The Bank also contributes to the formulation of standards and guidelines on international finance as well as to the assessment of recent developments in global financial markets by participating in major international forums, such as those of the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the Committee on the Global Financial System (CGFS), the Committee on Payment and Settlement Systems (CPSS), and the Markets Committee (MC) (see Box 1, "The Bank of Japan's Participation in Major International Forums"). Moreover, in response to global financial

[1] The Bank's international cooperation related to specific areas of its operations includes the prevention of counterfeiting banknotes (see Chapter III.C.2) and harmonization of standards for compiling statistics (see Section A in Chapter VII).

crises, the Bank cooperates closely with other central banks and takes measures to ensure the stability of the global financial system. For example, in response to the global financial crisis since the summer of 2007, the Bank, together with other major central banks, concluded a temporary U.S. dollar liquidity swap agreement with the Federal Reserve to obtain U.S. dollars, and, as a temporary measure, introduced a U.S. dollar funds-supplying operation against pooled collateral in order to address a liquidity shortage in the U.S. dollar money market and supply U.S. dollar funds to market participants in Japan (see Box 4 for Chapter I, "Global Financial Crisis after Summer 2007 and Policy Measures Taken by the Bank of Japan").

Second, the Bank conducts transactions with other central banks and international organizations, and also provides technical assistance. The Bank accepts yen deposits from central banks and international organizations, acts as a custodian for their securities, and trades government securities for them. The Bank also provides technical assistance to central banks. Through those operations and services, the Bank is strengthening financial cooperation among central banks in Asia.

Third, the Bank acts on the government's behalf in international financial business. The Bank buys and sells yen for foreign currencies[2] (foreign exchange intervention) to stabilize the exchange rate of Japan's national currency, the yen. The Bank also manages foreign exchange reserves, and receives reports of cross-border transactions required under the provisions of the Foreign Exchange and Foreign Trade Act.

These three operations and services are explained in detail in the sections below.

B. Initiatives for the Stability of the Global Economy and Financial System

1. Global financial market expansion and global financial crises

In recent years, the volume of transactions in international financial markets has expanded significantly, and the interconnection among financial markets in different countries has been strengthened, due to the increase in international economic and financial activity, especially the growth in cross-border financial transactions driven

[2] Buying and selling foreign currency refers to the exchange of cash, deposits, checks, bills, and bonds denominated in foreign currency, such as the U.S. dollar, for those denominated in the domestic currency, such as the yen, or the exchange of these instruments between two foreign currencies. The following are examples of such transactions: (1) financial institutions buy, in exchange for yen funds, foreign currency-denominated bills drawn by Japanese exporters that are to be paid by their counterparts in other countries; (2) yen funds are exchanged for U.S. dollar funds, or vice versa, between financial institutions; and (3) individuals exchange yen cash for travelers checks in U.S. dollars.

by deregulation and innovation in information and financial technology. While this gives market participants the opportunity to transfer and allocate funds and risks efficiently, it increases the possibility of disruption in a specific market in a specific country being immediately transmitted worldwide through various channels. One example of this has been the turmoil in the global financial markets since summer 2007, triggered by the U.S. subprime mortgage problem (see Box 4 for Chapter I, "Global Financial Crisis after Summer 2007 and Policy Measures Taken by the Bank of Japan"). Therefore, it is becoming increasingly important for the Bank of Japan to closely exchange information and views with other central banks and international organizations, to address systemic risk, and to establish and maintain resilient payment and settlement systems.

2. Contributions to the stability of the global economy and financial system

The Bank takes various measures to contribute to the stability of the global economy and finance, to support the functioning of global financial markets, and to prevent global financial crises and their expansion, while closely exchanging information and views with governments, central banks, international organizations, and private financial institutions. The roles of the Bank in this context are categorized into three areas: policy discussions with monetary authorities and international organizations about global economic and financial situations; contributions to the establishment of stable and efficient global financial markets; and actions to address global financial crises.

First, the Bank closely exchanges information and views with other central banks and international organizations, including the BIS and the International Monetary Fund (IMF), at international meetings, such as those of the Meeting of Finance Ministers and Central Bank Governors of the G-20 and that of the G-7, the FSB, and the EMEAP, together with bilateral meetings. The Bank exchanges information and views on recent developments in the global economy and finance and the conduct of monetary policy, as well as the current state of, and outlook for, global financial markets and the global financial system. The Bank also holds discussions on the structural problems of the global economy and finance, the international monetary system, and financial regulation and supervision, as well as appropriate policy measures to address them. In particular, at the bimonthly Global Economy Meeting at the BIS, the forum for central banks, the Bank exchanges information and views on recent transactions in global financial markets and activities of financial institutions. To deepen its understanding of trends in global financial markets, the Bank compiles and disseminates various statistics in cooperation with other central banks at the BIS.

Second, the Bank contributes to activities for establishing stable and efficient global financial markets. The Bank participates in discussions on the formulation of international standards and guidelines at international organizations, and makes proposals based on its research, analysis, and findings from its discussions with financial institutions. The Bank takes part in committees under the meeting of central bank governors at the BIS. The activities of the BIS committees are as follows. The Committee on the Global Financial System (CGFS) monitors global financial markets and proposes policies that aim to promote improvements in the functioning and stability of global financial markets. The Committee on Payment and Settlement Systems (CPSS) monitors and analyzes recent developments in payment, settlement, and clearing systems in member countries, as well as cross-border multi-currency settlement schemes, and formulates international standards for payment, settlement, and clearing systems, in order to maintain their stability and efficiency. The Markets Committee (MC) plays an important role in assessing the functioning of financial markets and market operations by central banks as well as the long-term structural trends that may have implications for them. The MC currently consists of senior officials responsible for the market operations of central banks from 21 major economies. In addition to those committees, the Basel Committee on Banking Supervision (BCBS) proposes and revises international standards on capital adequacy ratios and publishes other principles and banking supervision guidelines. The Joint Forum, which consists of the BCBS, the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS), deals with regulatory issues common to the banking, securities, and insurance sectors, including the regulation of financial conglomerates. The Bank contributes to the establishment of stable and efficient global financial markets through its active involvement in the activities of these committees.[3]

Third, the Bank addresses global financial crises by cooperating closely with foreign monetary authorities, including central banks. When disruption in global financial markets occurs, maintaining financial market stability is an important responsibility of a central bank. Under such circumstances, the Bank can: (1) buy and sell foreign currencies in concert with other central banks; (2) acquire loan claims on other central banks that are held by the BIS (e.g., bridging loans[4]); and (3) provide

[3] Officers and officials of the Bank play key roles, such as serving as chairman, in some of these committees.

[4] In general, the term "bridging loans" refers to interim, short-term financing to bridge the time lag until the borrower receives longer-term financing from another source. The BIS makes bridging loans to countries in financial crisis to cover the need for funds until funding arrives from the IMF or other organizations. This type of loan is made when it takes time for funds to arrive from the IMF or other organizations after decisions for loans are made.

credit to other central banks and international organizations, under Articles 40 and 42 of the Bank of Japan Act. Since the global financial crisis in summer 2007, the Bank has been contributing to the stabilization of global financial and capital markets by keeping in closer contact with other central banks, in order to exchange information and views on developments in financial markets and financial activities, and also to take necessary measures (see Box 4 for Chapter I, "Global Financial Crisis after Summer 2007 and Policy Measures Taken by the Bank of Japan"). For example, the Bank, together with other major central banks, concluded a temporary U.S. dollar liquidity swap agreement with the Federal Reserve to obtain U.S. dollars, and introduced, as a temporary measure, a U.S. dollar funds-supplying operation against pooled collateral in order to tackle a liquidity shortage in the U.S. dollar money market and supply U.S. dollar funds to market participants in Japan. The Bank also decided to make certain foreign bonds eligible as collateral for the Bank's market operations, with a view to further facilitating the Bank's market operations in response to developments in financial markets, while ensuring the appropriate and efficient management of collateral (see Section F in Chapter V). Moreover, making full use of the lessons learned from past financial crises in Japan, the Bank supports other central banks by sharing its expertise and knowledge on formulating market operations frameworks and on providing funds to financial institutions in times of crisis.

C. Transactions with Foreign Central Banks

1. Transactions with foreign central banks and international organizations

Pursuant to Article 41 of the Bank of Japan Act, the Bank assists foreign central banks and like institutions, and international organizations, in their investment in, and financing of, yen by accepting yen deposits, acting as a custodian for yen-denominated securities, and providing liquidation services for Japanese Government Securities (JGSs).[5] As of March 31, 2010, the Bank accepts yen deposits from 91 organizations, acts as a custodian for yen-denominated securities for 73 organizations, and provides liquidation services for JGSs for 16 organizations. Likewise, the Bank invests its own foreign currency-denominated assets by holding foreign currency-denominated deposit accounts and securities accounts at international organizations such as major central banks and the BIS.

More specifically, in terms of the yen deposits it accepts, the Bank settles funds according to instructions from overseas account holders, and also provides these overseas account holders with a facility whereby the Bank sells to them,

[5] The guidelines for these transactions are available (in Japanese only) on the Bank's website.

without their specific instruction to do so, Japanese treasury discount bills (T-Bills) held by the Bank under repurchase agreements in order to invest funds in their yen accounts with the Bank (called an "automatic investment facility"). Under Article 40 of the Bank of Japan Act, the Bank conducts transactions related to foreign currencies, such as foreign exchange transactions, with private financial institutions on behalf of overseas account holders (called "arranged transactions"). By acting as a custodian for yen-denominated securities, the Bank accepts and manages the principal and interest of securities such as government securities, government-guaranteed bonds, bank debentures, and certificates of deposit. Moreover, when overseas account holders have a sudden need to raise yen funds, the Bank meets their needs by purchasing securities, either with or without repurchase agreements.

Pursuant to the act on measures accompanying accession to international organizations, the Bank also provides international organizations with safekeeping for notes issued by the Japanese government in lieu of subscription fees and conducts payment and receipt of the principal (see Chapter IX.C.4, "Services Related to Payment of Principal and Interest on JGSs").

2. Technical assistance

In addition to the above operations and services, the Bank provides technical assistance on central banking operations as part of its cooperation with other central banks and international organizations. In response to requests from other central banks and international organizations, especially those in Asia, the Bank sends members of its staff to relevant organizations in the relevant countries, and organizes seminars and workshops at the Bank for staff members from such organizations, to share the Bank's knowledge and expertise regarding central banking operations in areas such as banknote issuance, market operations, payment and settlement systems, and on-site examinations and off-site monitoring. In fiscal 2009, the Bank sent 14 staff members to twelve organizations and hosted 36 seminars or workshops for 400 participants.

3. Promotion of monetary cooperation in Asia

The Bank established the Center for Monetary Cooperation in Asia (CeMCoA) in November 2005 within its International Department in order to further promote monetary cooperation in Asia by accumulating information and know-how at the Bank and other central banks in the region. The CeMCoA's main activities are promoting monetary cooperation in the region, strengthening technical cooperation and staff training in the region, and conducting joint research related to Asia involving experts from both inside and outside the Bank.

The promotion of monetary cooperation in Asia features activities of the EMEAP, a forum of the central banks of eleven economies in East Asia and the Pacific. The EMEAP was established in 1991 on the initiative of the Bank as a forum where central banks can freely discuss monetary policy and central banking operations. Currently, the EMEAP holds Governors' Meetings annually. It also hosts Deputies' Meetings and Working Groups, both of which are set under the Governors' Meeting. At these meetings, members discuss recent macroeconomic developments in the region, payment and settlement systems, the institutional structure of financial supervision and its methods, trends in the foreign exchange and other financial markets, and information technology. The EMEAP has also worked on the Asian Bond Fund (ABF) project since 2003 in order to develop bond markets in the region.[6] The Bank serves as a secretariat of the EMEAP and actively promotes those initiatives.

Also, the Bank, the People's Bank of China (the central bank of China; PBC), and the Bank of Korea (the central bank of South Korea; BOK) strengthened the framework for communication on recent economic and financial developments in East Asia as well as common concerns over central banking operations, and started holding an annual Tripartite Governors' Meeting in 2009 to contribute to economic and financial stability in the region.

Moreover, a currency swap network was established among Japan, China, Korea, and five members of the Association of Southeast Asian Nations (ASEAN5; Thailand, the Philippines, Malaysia, Indonesia, and Singapore) under the Chiang Mai Initiative (CMI), a government-level agreement reached at the ASEAN Plus Three Finance Ministers' Meeting[7] in May 2000. In this currency

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[6] The background to the launching of the ABF was that, from the lessons learned from the Asian Financial Crisis in 1997, central banks recognized that this region was in need of bond markets that could supply long-term funds in domestic currencies. Although bond markets in Asia were growing at that time, their investors were mostly limited to domestic financial institutions and their market liquidity was low. Central banks in the EMEAP economies launched the first stage of the Asian Bond Fund (ABF1) in June 2003, which invests in a basket of U.S. dollar denominated bonds issued by sovereign and quasi-sovereign issuers in eight EMEAP member economies (excluding Japan, Australia, and New Zealand), in order to develop government bond markets that are necessary for the development of bond markets. The launch of the second stage of the ABF (ABF2) was announced in December 2004, which invests in domestic currency bonds issued by sovereign and quasi-sovereign issuers in eight EMEAP member economies (excluding Japan, Australia, and New Zealand). Although only central banks in EMEAP economies are allowed to invest in ABF1, private investors and other public sector investors are allowed to invest in ABF2.

[7] Members of the ASEAN Plus Three Finance Ministers' Meeting are finance ministers from 13 countries, including the ASEAN members, Japan, China, and Korea.

swap network, member countries may provide temporary loans in foreign currency to other member countries that cannot repay loans to foreign lenders because of liquidity shortages. In 2009, the CMI framework was further enhanced with the members' agreement on the Chiang Mai Initiative Multilateralization (CMIM[8]). The Bank, in cooperation with the Ministry of Finance (MOF), actively works on such initiatives from the viewpoint of putting them into practice. The Bank also concludes bilateral yen-renminbi and yen-won swap arrangements with the PBC and the BOK, respectively, to strengthen cooperation between central banks.[9]

D. International Operations Conducted on Behalf of the Government

1. The foreign exchange market and purposes of foreign exchange intervention

The foreign exchange market refers generally to the marketplace where individuals, firms, and financial institutions buy and sell foreign currencies.[10] Transactions in the foreign exchange market are broadly divided into two categories: (1) transactions in which a financial institution trades with nonfinancial customers, such as individuals and firms, which are known as financial institutions' customer trades; and (2) transactions in which one financial institution trades directly with another or through foreign exchange brokers,[11] which are known as interbank trades. Financial institutions engage in interbank trades mainly to manage their exposure to foreign exchange risk arising from currency positions as a result of customer trades, to manage their investment in foreign-currency assets, or to raise foreign-currency funds. Over the years, major countries, including Japan, have abolished regulations governing cross-border financial transactions in securities and deposits (capital transactions), and cross-border financial transactions now take place daily on an enormous scale.

Foreign exchange rates are the conversion rates between two currencies,

[8] Under the CMIM, many member countries reached a swap arrangement under a single contract, enabling them to use their foreign reserves to provide temporary loans to other member countries facing liquidity shortages in times of crisis.

[9] The Bank concluded a currency swap arrangement with the PBC in March 2002 and with the BOK in May 2005.

[10] Although it is called the foreign exchange market, in most countries, including Japan, there is no physical trading floor (unlike a stock exchange) where foreign-currency trading takes place. For the most part, financial institutions trade with one another using telephones or specialized terminals provided by information vendors.

[11] Foreign exchange brokers are firms that specialize in intermediating foreign exchange transactions in the foreign exchange market.

such as the rate of exchanging yen for another currency, or of exchanging one foreign currency for another. The fluctuation in exchange rates reflects changes in the balance between currency supply and demand by market participants such as financial institutions and firms. Although the supply and demand balance in the foreign exchange market is vulnerable to conditions in the financial markets of the countries concerned, such as developments in interest rates and stock prices, it generally reflects the macroeconomic fundamentals[12] of each country. From time to time, however, market participants' expectations of financial markets and the macroeconomic fundamentals in their own or another country may concentrate in the same direction, causing an imbalance in supply and demand conditions in the foreign exchange market, and this could lead to increased volatility in the exchange rate.

Volatility in foreign exchange rates can disrupt imports and exports, as well as cross-border investment and funding, and threaten the stability of domestic prices through changes in prices for imported or exported goods. As a result, this could affect the domestic economy and even the economies of trading partners abroad. Foreign exchange intervention is intended to prevent or contain excessive fluctuations in foreign exchange rates and to stabilize them.

2. The Bank of Japan's business operations related to foreign exchange intervention and foreign exchange reserves

When the yen becomes unstable in the foreign exchange market, the Japanese government (Finance Minister) may instruct the Bank of Japan, its agent, to conduct foreign exchange intervention by buying or selling yen against foreign currencies as needed. As the agent of the Japanese government (Finance Minister), the Bank may entrust other central banks to intervene in the foreign exchange market on its behalf.[13] The roles of the government and the central bank in foreign exchange intervention differ from country to country (see Box 2, "Institutional Design of Foreign Exchange Intervention: International Comparison").

When the Bank intervenes, it uses government funds, and specifically those in the Foreign Exchange Fund Special Account (FEFSA). Since the introduction of floating exchange rates, Japan's interventions to stabilize the foreign exchange market have primarily taken the form of yen sales. The government's foreign-currency assets

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[12] Macroeconomic fundamentals include inflation, economic growth, and balance of payments.

[13] The Bank may also conduct foreign exchange intervention upon receipt of such requests from other central banks.

held in the FEFSA, together with other foreign-currency assets held by the Bank,[14] make up Japan's foreign exchange reserves, the balance of which at the end of each month is released by the government (MOF).[15] Foreign exchange reserves are primarily used in times of foreign exchange intervention, but they may also be used to pay foreign currency-denominated debt to creditor countries in times of currency crises or other events, when the repayment of such debt becomes difficult.

The Bank closely monitors developments in the foreign exchange market on a daily basis because it regards foreign exchange rates as one of the key elements influencing developments in economic activity and prices. The Bank exchanges information concerning the foreign exchange market with the government (MOF) and with foreign monetary authorities, including central banks. The Bank uses such information when it conducts foreign exchange intervention as the agent of the government (Finance Minister). The Bank is also in charge of the accounting of the FEFSA. Foreign exchange intervention and the accounting of the FEFSA are national government affairs handled by the Bank as stipulated in the Act on Special Accounts and the Bank of Japan Act (Articles 36 and 40).

3. Procedures for foreign exchange intervention

The operational flow of foreign exchange intervention is as follows (see Figure 8-1).

When the government (Finance Minister) deems it necessary to intervene in the foreign exchange market because of rapid fluctuations in the yen, the government (MOF) instructs the Bank to intervene. The Bank provides the government (MOF) with the latest market information relevant for making decisions on intervention. Based on this information, the government (MOF) gives the Bank specific instructions for the intervention. The Bank then conducts operations by concluding, through its dealers, foreign exchange trade agreements with major participants in the interbank market, such as financial institutions and foreign exchange brokers. If intervention is required during nighttime hours in Japan, the Bank usually entrusts the operation to the central bank of the region with the

[14] The foreign-currency assets held by the Bank are mainly invested in the major economies' government bonds and respective foreign central banks' deposits based on the "Guidelines for the Management of External Assets Held by the Bank" decided by the Policy Board. The two basic principles are as follows: (1) with respect to investment assets, that a high degree of safety and liquidity is required and, provided this condition is met, the return is also to be taken into consideration; and (2) with respect to the conduct of transactions, that due attention is paid not to disrupt financial and exchange markets.

[15] The government (MOF) officially announces the total amount of intervention in the yen on a monthly basis. The government also officially announces the total amount and daily amount of intervention in currency pairs on a quarterly basis.

most active trading in its foreign exchange market at that time of the day.

Once the Bank's dealers reach an agreement on foreign exchange transactions with financial institutions or foreign exchange brokers, the Bank draws up a contract record of the intervention, including the currencies, amounts, and foreign exchange rates involved. Based on this record, the Bank then confirms the transactions with the counterparties via telephone or SWIFT[16] messages. After confirming that the content of the transactions matches what was agreed upon, the Bank prepares for the settlement of funds. For example, when the Bank buys U.S. dollars against yen in spot transactions,[17] it is on the second business day after the contract that the Bank debits the yen amount from the government's account and credits the same amount to the current account held by the receiving party at the Bank. U.S. dollars involved in the trade are also settled on the second business day after the contract.

4. Other business operations, including those conducted under the Foreign Exchange and Foreign Trade Act

The Bank performs other services related to international finance for the government: (1) receiving reports required under the Foreign Exchange and Foreign Trade Act, as well as foreign exchange intervention and FEFSA accounting; and (2) compiling statistics on Japan's balance of payments and international investment position.

With regard to (1), the Bank's main responsibility is to receive regular reports on foreign exchange transactions from financial institutions as well as reports on capital transactions, such as foreign direct investment, purchases and sales of securities, borrowing and lending of funds, and deposit transactions.

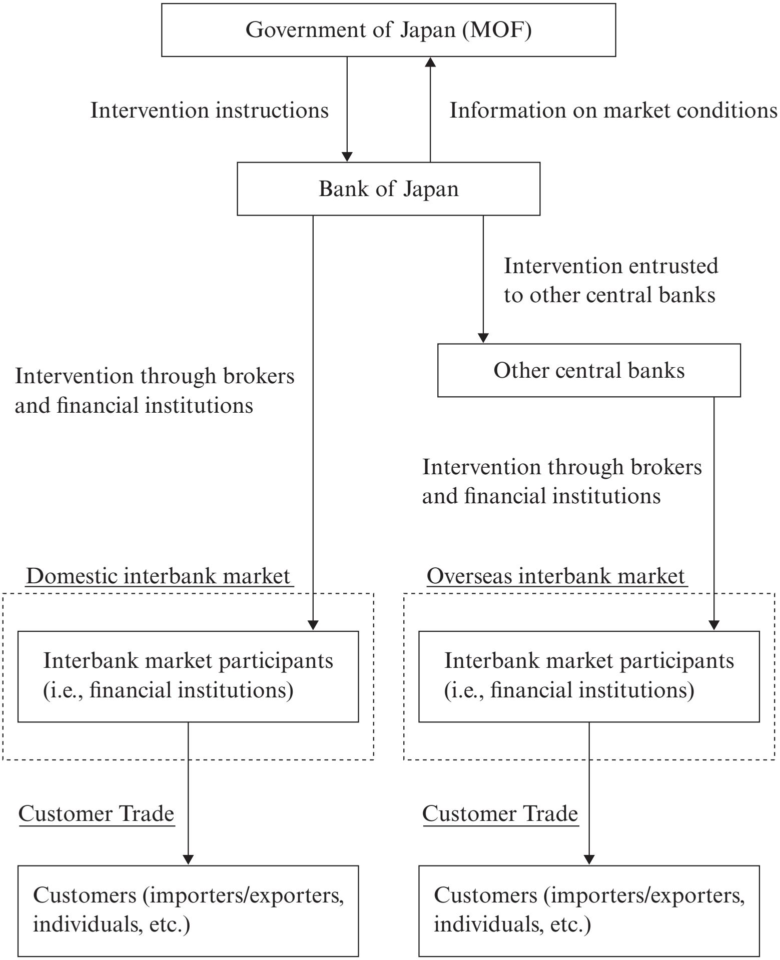
In terms of (2), the Bank's main responsibility is to collect data on cross-border current account transactions (exports and imports of goods and services), capital transactions, and financial institutions' foreign exchange transactions, and to compile "flow" statistics for a given period of time (balance of payments), and "stock" data on assets and liabilities (international investment position). These statistics are reported by the government (MOF) to the Cabinet annually, and are released periodically.[18]

[16] See Footnote 17 in Chapter IV for details on the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

[17] Spot transactions refer to foreign exchange transactions that are settled two business days after the contract.

[18] Balance of payments statistics are released by the MOF jointly with the Bank.

Figure 8-1 The Operational Flow of Foreign Exchange Intervention



Box 1 The Bank of Japan's Participation in Major International Forums

1. Meeting of Finance Ministers and Central Bank Governors of the Group of 20 (G-20) and Meeting of Finance Ministers and Central Bank Governors of the Group of Seven (G-7)

Finance ministers and central bank governors from the G-20 and G-7 countries participate in these meetings to discuss the current state of the world economy and financial markets, the international monetary system, and financial regulation and supervision.

The G-20 Meeting of Finance Ministers and Central Bank Governors is made up of members from 20 economies of systemic importance, namely, the G7 countries, the European Union, and the European Central Bank (ECB), plus twelve other countries (Argentina, Australia, Brazil, China, India, Indonesia, South Korea, Mexico, Russia, Saudi Arabia, South Africa, and Turkey) as well as international organizations such as the International Monetary Fund (IMF) and the World Bank (WB). Regular meetings were held once a year between 1999 and 2008; however, they have been held more frequently since 2009 in response to the global financial crisis.

The G-7 Meeting of Finance Ministers and Central Bank Governors has been held since 1986. Before the G-7 meetings, the Meeting of Finance Ministers and Central Bank Governors of the Group of Five (G-5) had been held since the 1970s, involving five countries: Germany, the United Kingdom, France, the United States, and Japan. The members of the G-7 include the finance ministers and central bank governors from Canada and Italy in addition to those from the members of the G-5. The meetings are usually held three times a year. Following the introduction of the euro, the President of the ECB (instead of the central bank governors of the three countries in the euro area, namely, Germany, France, and Italy) and the Chairman of the Eurogroup attend the meetings, during which participants discuss the world economy and exchange rate.

2. Meeting of Central Bank Governors at the Bank for International Settlements (BIS)

The meeting of central bank governors at the BIS, which is in principle held bimonthly, is a general term for various meetings held at the BIS, including the Global Economy Meeting and the All Governors' Meeting. Governors discuss the current state of their national economy, financial system, and monetary policy, as well as the global financial markets. Committees such as those listed below are established in relation to the Global Economy Meeting, and they discuss current issues of global financial markets and infrastructures, and then report the results of their discussions to the Global Economy Meeting.

a. Committee on the Global Financial System (CGFS)

The CGFS was established in 1971 and is currently made up of central banks from 22 major economies. The committee has a mandate to identify and assess potential sources of stress in global financial markets, to further the understanding of the structural underpinnings of financial markets, and to promote improvements to the functioning and stability of these markets. The committee meetings are held four times a year and discuss issues such as the current state of global financial markets. It also oversees collection of the “Locational Banking Statistics” and “Consolidated Banking Statistics,” published by the BIS.

b. Committee on Payment and Settlement Systems (CPSS)

The CPSS was established in 1990 and is currently made up of central banks from 23 major economies. This committee, which holds meetings three times a year, monitors and analyzes recent developments in payment, settlement, and clearing systems in member countries, as well as in cross-border and multicurrency settlement schemes. It also explores related issues that require policy measures. For example, it publishes international standards for payment, settlement, and clearing systems.

c. Market Committee (MC)

The MC was established in 1962 and is currently made up of senior officials responsible for market operations of central banks from 21 major economies. The committee holds meetings bimonthly, and assesses the functioning of financial markets and market operations by central banks, as well as long-term structural trends that may have implications in these areas. To facilitate its discussions and enhance market transparency, it publishes a document that summarizes and compares the monetary policy frameworks and market operations of its member countries. The document is available on the BIS website (http://www.bis.org).

3. Basel Committee on Banking Supervision (BCBS)

The BCBS, which was established in 1974, provides a forum for banking supervisors and central banks. The committee consists of banking supervisors and central banks from 27 major economies. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It has published international standards on capital adequacy ratio, called the Basel Capital Accord (Basel I), and later revised standards, called Basel II. It also publishes other banking supervisory principles and guidelines. Since the global financial crisis in the summer of 2007, it has been working on further revisions of the international standards on capital adequacy ratio (see Section E in Chapter VI).

The activities of the committee are directed by the Group of Governors and Heads of Supervision, which is the oversight body of the BCBS. The BCBS, along with the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS), come together in a Joint Forum in order to deal with regulatory issues common to the banking, securities, and insurance sectors, including the regulation of financial conglomerates.

4. Financial Stability Board (FSB)

The FSB works to address financial vulnerability and to promote cooperation among financial supervisors and central banks, with the goal of financial system stability. It is made up of representatives of central banks, financial supervisors, and fiscal authorities from 25 major economies, as well as those of major standard-setting bodies: the IMF, the WB, the BIS, and the Organisation for Economic Co-operation and Development (OECD). It was established in April 2009 as a successor to the Financial Stability Forum (FSF), which was established in 1999 and provided a forum for central banks, financial authorities, and ministries of finance to discuss the issues related to the stability of the global financial system, as well as to promote international cooperation related to the supervision of financial institutions.

5. Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)

The EMEAP is a forum made up of the central banks of eleven economies: Australia, China, Hong Kong, Indonesia, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Japan (for details of EMEAP activities, see Section C.3 in this chapter).

Box 2 Institutional Design of Foreign Exchange Intervention: International Comparison

The institutional design of foreign exchange intervention differs from country to country. In Japan, the Ministry of Finance (MOF) has the legal authority to conduct foreign exchange intervention, and the Bank of Japan executes foreign exchange intervention operations. In the United States, both the U.S. Department of the Treasury (Treasury Department) and the Federal Reserve Board (FRB) have the legal authority to conduct foreign exchange intervention. The FRB conducts intervention as part of its open market operations. The Treasury Department and the FRB, after mutual consultation, each fund half of the cash necessary for an intervention, whereas the Federal Reserve Bank of New York (New York Fed) executes the intervention operations. In the euro area, where the euro was introduced as the single currency, the Economic and Financial Affairs Council (Ecofin Council) of the European Union (EU) grants the European Central Bank (ECB) the legal authority to conduct foreign exchange intervention in line with the general guidelines[1] on foreign exchange rate policy formulated by the Ecofin Council in consultation with the ECB. The ECB and central banks of member states in the euro area execute the intervention operations. In the United Kingdom, both Her Majesty's Treasury (HM Treasury) and the Bank of England (BOE) have the legal authority to conduct foreign exchange intervention. The authority of the BOE is limited to cases where foreign exchange intervention is necessary to achieve the objectives of monetary policy, and the intervention operations are executed by the BOE. In China, under the guidance of the State Council of the People's Republic of China, the People's Bank of China (PBC), China's central bank, has the legal authority to conduct foreign exchange intervention and execute intervention operations. In Korea, the Ministry of Strategy and Finance (MOSF) has the legal authority to conduct foreign exchange intervention, and the Bank of Korea (BOK) executes intervention operations.

Table for Box 2

Country/ Region	Foreign exchange intervention decision	Execution of intervention operations	Accounts for intervention, and release of records of intervention
Japan	MOF.	Bank of Japan.	MOF (Foreign Exchange Funds Special Account, FEFSA). Monthly and quarterly data are released on the MOF website.

United States	Treasury Department and FRB.	New York Fed.	Treasury Department (Exchange Stabilization Fund) and FRB (each provides half of the funds necessary for intervention). Records are reported quarterly to Congress and released in "Treasury and Federal Reserve Foreign Exchange Operations."
Euro area	ECB, in line with the general guidelines, which are formulated by the Ecofin Council. The guidelines are decided after consultation with the ECB and must not prejudice the primary objective of maintaining price stability.	ECB and central banks of member states.	ECB. Records are not released (only the fact that intervention was conducted is made public).
United Kingdom	HM Treasury and BOE. BOE is authorized to conduct intervention only in cases where the intervention is necessary to achieve the objectives of monetary policy.	BOE.	HM Treasury (Exchange Equalisation Account) and BOE. Records are released monthly on the HM Treasury website.
China	PBC under the guidance of the State Council of the People's Republic of China.	PBC.	PBC. Records of intervention are not released.
South Korea	MOSF.	BOK.	MOSF (Foreign Exchange Stabilization Fund). Records are not released.

Note 1. These guidelines are not permitted to prejudice the primary objective of maintaining price stability.