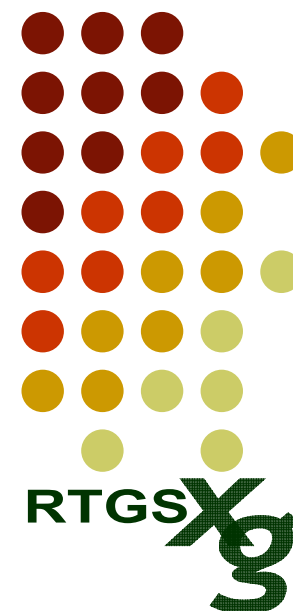


Proposal for the Next-Generation RTGS Project of the BOJ-NET Funds Transfer System

December 2005

Bank of Japan



This document provides an overview of the Bank's proposal that was set out in the consultation document released on November 29, 2005. The consultation document is available on the Bank's website in Japanese.

1. Outline of the RTGS-XG project

2. Sub-project A: Liquidity-saving features

3. Sub-project B: Incorporating FXYCS and
large-value Zengin payments

4. Proposed implementation timetable

1. Outline of the RTGS-XG project



NeXt-Generation RTGS project of the BOJ-NET Funds Transfer System (BOJ-NET FTS)

Objective: To further enhance the safety and efficiency of large-value payment systems in Japan

Sub-project A:

Introduce liquidity-saving features (LSF) into BOJ-NET FTS

Sub-project B:

Modify BOJ-NET FTS to incorporate large-value payments currently handled by two private-sector DNS systems (Foreign Exchange Yen Clearing System (FXYCS) and Zengin System) into the new BOJ-NET FTS (RTGS) with LSF

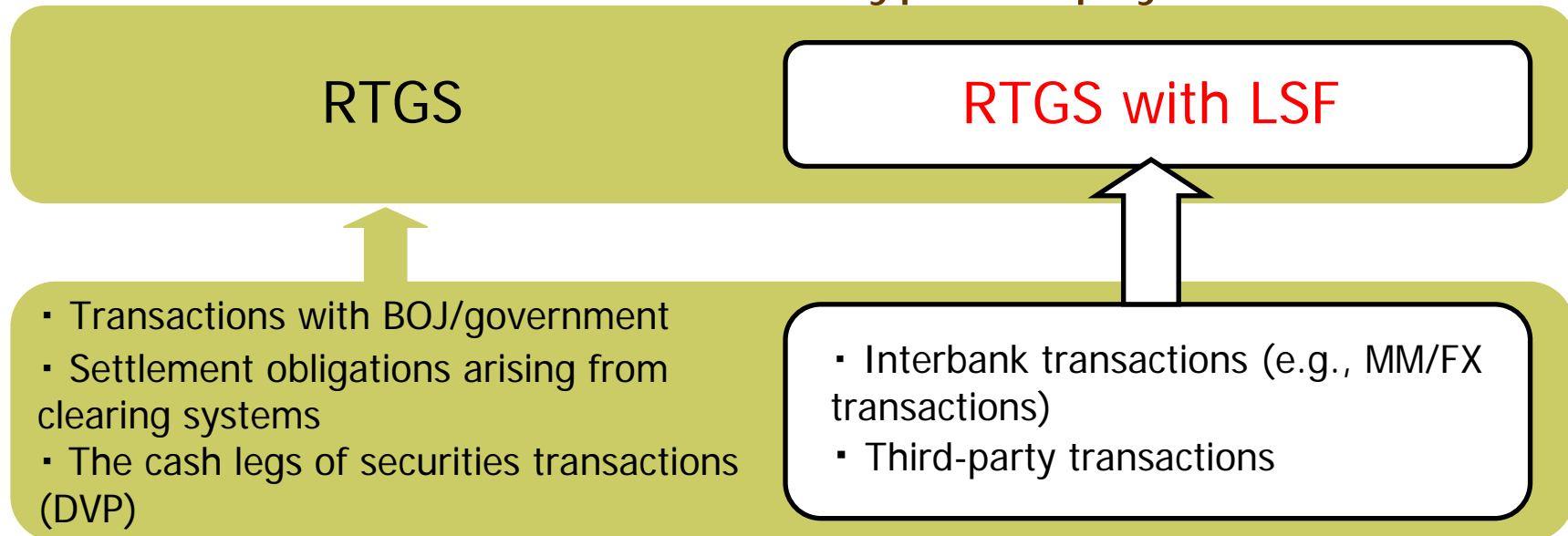
1. Outline of the *RTGS-XG* project

● Sub-project A: *Liquidity-saving features (LSF)*

Benefits of LSF

- ➔ Reduces liquidity cost and prevents gridlock
- ➔ Achieves earlier settlement of payments
- ➔ Enhances resiliency against unexpected liquidity shortages

Pure RTGS will remain for certain types of payments

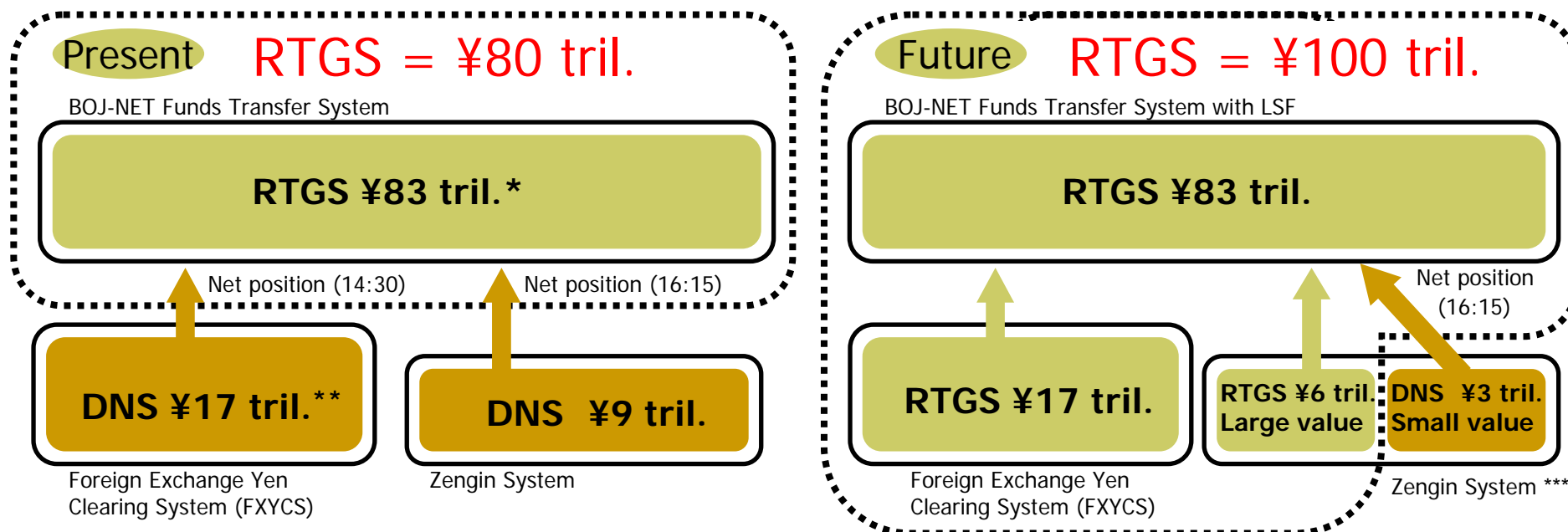


1. Outline of the *RTGS-XG* project

- *Sub-project B:*
Incorporating FXYCS and large-value Zengin payments

Benefits of incorporating large-value payments in private-sector DNS systems into BOJ-NET FTS (RTGS) with LSF

- ➔ Achieves intraday finality
- ➔ Achieves greater efficiency in liquidity usage



* Limited types of payments such as government transactions (with a total of ¥2 tril.) are currently, and will continue to be, settled at designated times.
 ** FXYCS also has an RTGS mode, but its use is currently limited (less than 1% of total volume and 20% of total value).
 *** According to the Japanese Bankers Association, the share of large-value payments (¥100 mil. and up) in the Zengin System is 0.2% of total volume and 65% of total value.

1. Outline of the RTGS-XG project

2. Sub-project A: Liquidity-saving features

3. Sub-project B: Incorporating FXYCS and
large-value Zengin payments

4. Proposed implementation timetable

2. Sub-project A: Liquidity-saving features

● Special account for LSF

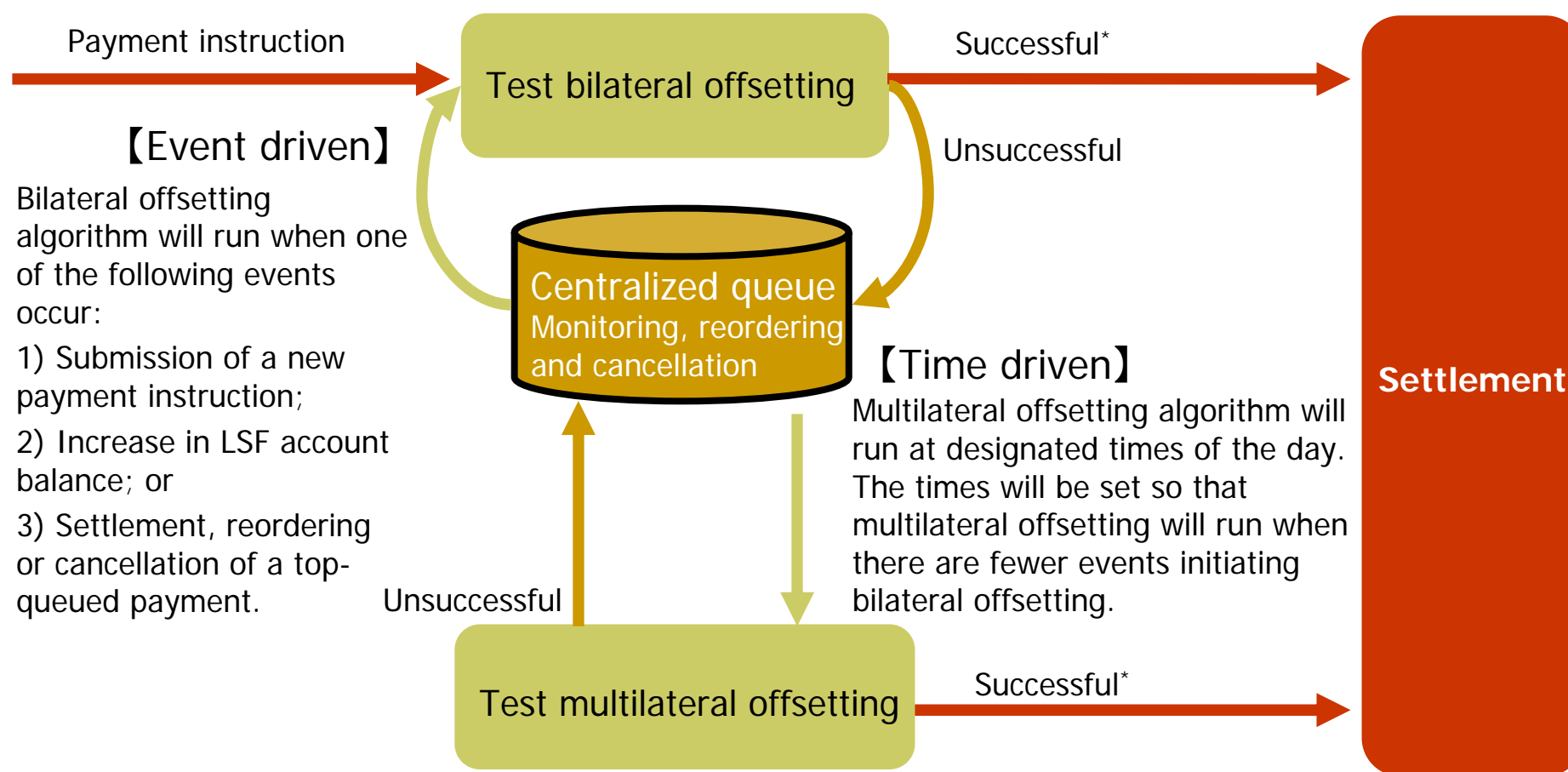
- LSF available only for payments between LSF accounts
 - Each participant can have only one LSF account
- Funding to LSF accounts from current accounts
 - No intraday overdrafts allowed on LSF accounts
- Payment instructions for LSF accounts must be submitted online

	Current account	SPDC account	NEW LSF account
Types of transactions settled	<ul style="list-style-type: none"> - Interbank transactions (e.g., MM/FX) - Third-party transactions - Transactions with BOJ/government - Settlement obligations arising from clearing systems - The cash legs of securities transactions 	<ul style="list-style-type: none"> - The cash legs of JGB transactions using the SPDC (simultaneous processing of DVP and collateralization) facility 	<ul style="list-style-type: none"> - Interbank transactions (e.g., MM/FX transactions) - Third-party transactions (including large-value Zengin payments)
Liquidity supply	Intraday overdrafts	Intraday overdrafts, liquidity transfer from current account	Liquidity transfer from current account
Liquidity saving	Not applicable (pure RTGS)	SPDC	LSF
Balance management	Overnight	Intraday (zero balance at the end of the day)	Intraday (zero balance at the end of the day)
Time available	9:00 – 17:00*	9:00 – 16:30	9:00 – 16:30

* Closing time is 19:00 for participants that have applied for access to extended hours.

2. Sub-project A: Liquidity-saving features

● Settlement process for LSF accounts



*Including simple gross settlement.

1. Outline of the RTGS-XG project
2. Sub-project A: Liquidity-saving features
3. Sub-project B: Incorporating FXYCS and large-value Zengin payments
4. Proposed implementation timetable

3. Sub-project B: Incorporating FXYCS and large-value Zengin payments

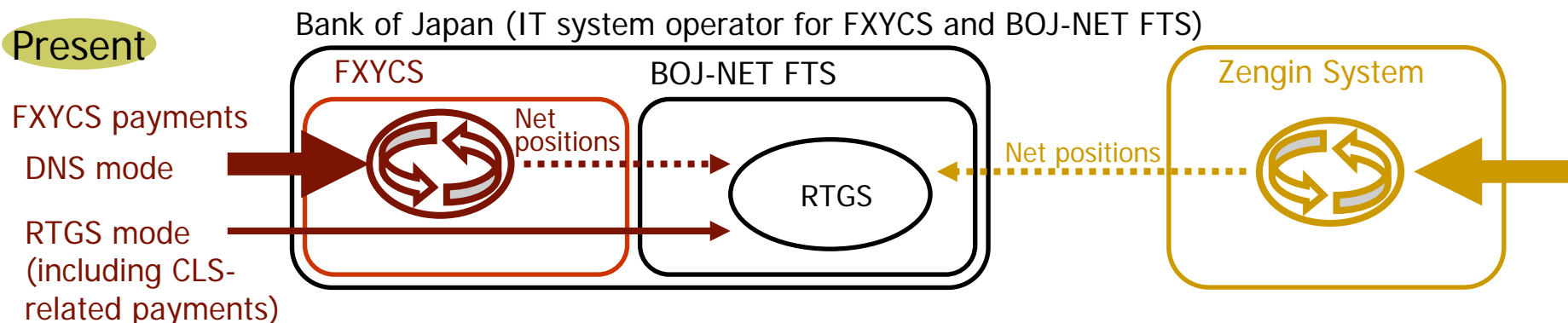


● Submission of payment instructions

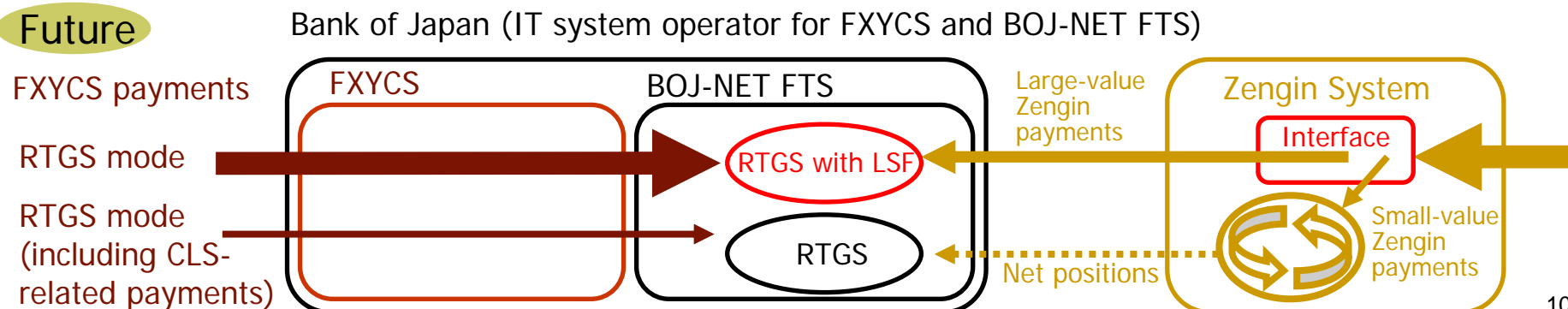
FXYCS and large-value Zengin payments will be forwarded to BOJ-NET FTS

- FXYCS (FX yen payments) → via FXYCS
- Zengin System (retail payments) → Interbank payment information on large-value Zengin payments will be sent to BOJ-NET FTS via a newly developed interface

Present

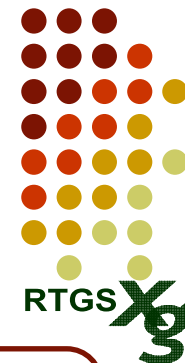


Future



3. Sub-project B: Incorporating FXYCS and large-value Zengin payments

- Coordination between BOJ and the private sector



BOJ and Tokyo Bankers Association* (TBA) will coordinate in making the necessary changes to relevant rules and IT systems

	FXYCS	BOJ-NET FTS	Zengin System
System rules	TBA <ul style="list-style-type: none">■ Abolish DNS mode	BOJ <ul style="list-style-type: none">■ Develop rules on LSF account	TBA <ul style="list-style-type: none">■ Develop rules for forwarding large-value Zengin payments to BOJ-NET FTS
IT system	BOJ (on behalf of TBA)** <ul style="list-style-type: none">■ Develop new message formats for LSF account	BOJ <ul style="list-style-type: none">■ Develop LSF■ Develop new message formats for LSF account■ Connect with Zengin interface	TBA <ul style="list-style-type: none">■ Develop interface for connection to BOJ-NET FTS

* TBA will continue to be the owner/operator of FXYCS and Zengin System.

**BOJ will continue to develop and operate the IT platform of FXYCS on behalf of TBA.

1. Outline of the RTGS-XG project
2. Sub-project A: Liquidity-saving features
3. Sub-project B: Incorporating FXYCS and
large-value Zengin payments

4. Proposed implementation timetable

4. Proposed implementation timetable



Phased implementation to allow for adequate preparation by BOJ, TBA, and market participants in making changes to system rules, IT systems, and market practices.

