

The Bank's Other Operations

I. Payment and Settlement Systems

- A. Role of the Bank of Japan in Payment and Settlement Systems
- B. Improving the Network Infrastructure of the BOJ-NET
- C. Amendments to the Requirements Governing Participants in the JGB Book-Entry System
- D. Reform of Securities Settlement Systems in Japan

II. Issuance, Circulation, and Maintenance of Banknotes

- A. Banknotes
- B. Introduction of the New Series of Bank of Japan Notes
- C. Coins

III. Services Relating to the Government

- A. Overview
- B. Treasury Funds
- C. JGSs
- D. Underwriting of JGSs for Refunding and Buybacks of JGBs by the Government Debt Consolidation Fund

IV. International Operations

V. Research and Statistics

- A. Research
- B. Statistics

VI. Organizational Management

- A. Overview
- B. Disaster and Crisis Management
- C. Measures to Enhance the Functioning of the Bank

VII. External Relations

- A. Framework Governing External Relations Activities
- B. Reports Made to the Diet
- C. Relations with the Media and the Public
- D. Information Disclosure in Fiscal 2004

I. PAYMENT AND SETTLEMENT SYSTEMS

A. Role of the Bank of Japan in Payment and Settlement Systems

The Bank of Japan provides safe and convenient settlement assets in the form of banknotes and deposits in financial institutions' current accounts held at the Bank (deposits in BOJ accounts). In addition, the Bank conducts settlement for Japanese government securities (JGSs) in its role as the book-entry transfer institution in the Japanese government bond (JGB) book-entry system. To ensure the safety and efficiency of these services, the Bank operates a computer network system for the settlement of funds and JGSs, the Bank of Japan Financial Network System (BOJ-NET). The BOJ-NET remained online and fully functional throughout fiscal 2004.

To promote smooth and stable operation of Japan's payment and settlement systems, the Bank encourages the owners/operators of private-sector payment and settlement systems to enhance the safety and efficiency of their systems and cooperates with them to that end. The Bank hosts biannual meetings of the Payment System Forum to exchange information and views with owners/operators of domestic private-sector payment and settlement systems and to address practical issues concerning Japan's payment and settlement systems.

The Bank also participates in various international discussions and initiatives related to payment and

settlement systems, including those at the meetings of the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of Ten (G-10) countries. The CPSS serves as a forum for monitoring and analyzing developments in payment and settlement systems.

B. Improving the Network Infrastructure of the BOJ-NET

To incorporate recent innovations in network technology and to conform to international standards, the Bank proceeded with its plan to improve the network infrastructure of the BOJ-NET. The plan includes introducing the new computer-to-computer connection method, replacing dedicated BOJ-NET terminals with PC-based connection, and accepting message formats based on international standards.

Regarding improvements to computer-to-computer connection, the Bank completed the system adjustments necessary to use TCP/IP transmission protocol for the BOJ-NET in the first half of fiscal 2004.¹ In the second half of fiscal 2004, financial institutions started to convert to the new method of connection to the BOJ-NET. The Bank started to accept message formats based on international standards in the BOJ-NET funds transfer system from January 2004, while the same flexibility was offered for the BOJ-NET JGB

¹ TCP/IP is an abbreviation for Transmission Control Protocol/Internet Protocol and is a widely used international communication protocol. Previously, Zenginkyo data transmission protocol, which the Japanese Bankers Association established for use in online data exchange between firms and banks, but which is used only in Japan, was the only protocol available for the BOJ-NET.

services from the second half of fiscal 2004 to coincide with the start of TCP/IP connection. The Bank has also been proceeding with previously planned arrangements to introduce PC-based connection for the BOJ-NET in late 2006, based on the outline of further plans described in papers released in Japanese by the Bank on February 20 and April 27.

C. Amendments to the Requirements Governing Participants in the JGB Book-Entry System

On March 29, 2005, the Bank amended the “Requirements for Establishing Direct Participants’ Accounts and Customers’ Accounts and Requirements for Admission as Indirect Participants and Foreign Indirect Participants in the JGB Book-entry System,” with a view to enhancing efficiency and transparency in the approval procedures. Specifically, the Bank added criteria addressing the financial condition of insurance companies applying to establish accounts or become indirect participants in the system.

D. Reform of Securities Settlement Systems in Japan

In support of the progress being made to reform securities settlement systems in Japan, the Bank continued to provide operational and technical support to securities settlement systems to enhance their safety and efficiency. For example, in May 2004, the Bank gave the Japan Securities Depository Center (JASDEC) DVP Clearing Corporation, which clears spot transactions involving stocks and other securities traded outside Japanese stock exchanges, permission to hold a current account at the Bank and to participate in the JGB book-entry system and the BOJ-NET. The Bank also worked toward the launch of a clearing organization for Japanese government bonds and bills (the Japan Government Bond Clearing Corporation) scheduled for May 2005, and the introduction of delivery-versus-payment (DVP) settlement to the book-entry system for bonds other than JGBs governed by the Law concerning Book-Entry Transfer of Corporate and Other Debt Securities scheduled for January 2006.

II. ISSUANCE, CIRCULATION, AND MAINTENANCE OF BANKNOTES

A. Banknotes

1. Operations

The Bank issues banknotes (Bank of Japan notes) as stipulated in Article 46, Paragraph 1 of the Bank of Japan Law. Banknotes are issued and put into circulation when financial institutions withdraw them from their current accounts at the Bank. These banknotes are legal tender and hence can be used for

payment without limit (Article 46, Paragraph 2). They are widely used for payment and settlement. As of the end of fiscal 2004, the amount outstanding of banknotes issued (banknotes in circulation) was 74.7 trillion yen, up 4.6 percent from a year earlier. In volume, this amounted to 12.83 billion banknotes, up 3.8 percent from a year earlier (Table 1).

As of the end of fiscal 2004, the total amount

outstanding of the three new series of Bank of Japan notes (10,000, 5,000, and 1,000 yen notes) issued since November 1, 2004, was 29.6 trillion yen. In volume, this amounted to 4.61 billion banknotes (Table 2).

The Bank conducts the following operations to ensure the stability of banknote supply and to maintain public confidence in banknotes. First, the Bank receives/pays banknotes from/to financial institutions that hold current accounts at the Bank (BOJ account holders). Second, the Bank counts the banknotes it receives from BOJ account holders, examines them to verify their authenticity, and checks their fitness for recirculation. Third, the Bank destroys soiled or damaged banknotes,² and stores unissued banknotes in vaults. And fourth, the Bank exchanges damaged notes for new ones (Article 48).

2. Volume of banknotes handled

Both the Bank's receipts and payments of banknotes increased in fiscal 2004 as a result of strong demand for the new series of banknotes and of withdrawal of the old series from circulation. There were 11.63 billion banknotes received, up 5.2 percent year on year, and 12.09 billion banknotes paid, up 8.2 percent from the previous year.

During this period, the Bank kept up its stringent examination of banknotes, while maintaining a sufficient

stock of notes in its vaults. The Bank examined 10.62 billion banknotes (down 5.6 percent from the year before), of which 3.98 billion banknotes (up 40.6 percent) were judged unfit for recirculation and were shredded. This increase was due to withdrawal of the old banknote series from circulation. The Bank received 7.6 million damaged banknotes (up 28.3 percent) in exchange for new ones.

The Bank ordered a total of 4.08 billion banknotes (up 20.0 percent from the previous year) from the National Printing Bureau in fiscal 2004.³ This represented a record high, with the Bank increasing the stock of the new series of banknotes in advance of the series' entry into circulation (Table 3).

To enhance the accuracy and efficiency of its handling of banknotes in massive amounts at its Head Office and branches, the Bank has sought to streamline operations through mechanization. For example, the Bank makes use of bulk bundle receivers (34 units in operation as of the end of fiscal 2004) and banknote examination machines (113 units in operation as of the end of fiscal 2004).⁴

To deal with particularly large amounts of banknotes handled at its Head Office, the Bank established a structure enabling it to carry out banknote operations at two locations, namely, its Head Office and the banknote operations center in Toda City, Saitama Prefecture. At

2. Soiled or damaged banknotes are destroyed by, for example, shredding or incineration. Currently, the Bank shreds them.

3. The Bank places orders for the manufacturing of banknotes to the National Printing Bureau, which is an incorporated administrative agency. The Bank then pays the manufacturing cost and receives the banknotes. In fiscal 2004, the total printing cost of 4.08 billion banknotes amounted to 64.7 billion yen.

4. A bulk bundle receiver is used when the Bank receives banknotes in bundles (a bundle consists of 1,000 banknotes) from BOJ account holders. The machine verifies the denomination and the volume of banknotes automatically. The latest model is capable of shrink-wrapping ten bundles into one package.

A banknote examination machine breaks the bands of the bundles and examines the banknotes one by one automatically. After examining the banknotes, the machine makes a new bundle of banknotes fit for recirculation and shreds those that are damaged or too worn for recirculation. It can process about 1,800 notes per minute.

the banknote operations center, which is equipped with an automated and integrated processing system, operations have in principle all been automated, from the receipt of banknotes to their custody, examination, and payment, to achieve accurate and speedy processing and increased security.

B. Introduction of the New Series of Bank of Japan Notes

1. Issuance

Issuance of the new series of 10,000, 5,000, and 1,000 yen notes had been scheduled to start from around the autumn of 2004, and after the Ministry of Finance revealed specimens of the redesigned 5,000 yen notes on June 17, 2004, the National Printing Bureau was in a position to start printing these 5,000 yen notes, as well as the redesigned 10,000 and 1,000 yen notes for which printing had already started in 2003. The Bank therefore decided on August 6, 2004, that issuance of all three new series would begin from November 1, 2004, and the Ministry of Finance announced the features of the redesigned notes on August 13. Printing of the redesigned 5,000 yen notes began on August 17.

In preparation for the issuance, the Bank steadily increased the stock of the new series of banknotes at its Head Office and branches. At the same time, the Bank requested the National Printing Bureau to strictly control the manufacturing process, and it took steps to ensure the quality of the new banknotes including their security

features. To ensure the smooth circulation of the new series of banknotes, the Bank paved the way by giving financial institutions and manufacturers of cash-handling machines, such as automated teller machines (ATMs) and vending machines, opportunities to conduct tests with specimens of the new series. In addition, the Bank kept the public informed about the introduction of the new series of banknotes and their features by actively carrying out the following public relations activities: providing information about preparations for the new issue on its web site; printing and distributing posters and brochures illustrating the design as well as security features of the new banknote series; and holding exhibitions at the Currency Museum and the Bank of Japan Otaru Museum.

On November 1, 2004, after preparations were complete, the Bank started issuing the new series of banknotes.

On the day of issuance, to ensure faster and smoother distribution of the new series of banknotes to the public, the Bank extended the operating hours of its Head Office and branch counters for paying banknotes to BOJ account holders, opening them from 6:00 a.m. to 4:00 p.m.⁵ Consequently, payments of banknotes at the Head Office and branches marked a record daily high of 2.3 trillion yen, about 0.42 billion banknotes, on November 1, 2004.

2. Facilitating the circulation of the new series

The number of counterfeit banknotes discovered nationwide in 2004 was 25,858, its highest level in ten

5. Regular operating hours at the Head Office and branches are from 9:00 a.m. to 3:00 p.m., and those at the banknote operations center are from 8:00 a.m. to 4:00 p.m.

years, according to statistics from the National Policy Agency. In between the end of 2004 and the beginning of 2005, a large number of counterfeit old series 10,000 yen notes were found around the country, mostly at shrines, temples, and street stalls. The Bank took various measures to increase public awareness of counterfeit banknotes by describing the features of counterfeit notes on its web site and by holding explanatory meetings with BOJ account holders.

Under these circumstances, the Bank decided it necessary to raise the proportion of new series banknotes in circulation, in view of their state-of-the-art security features. From January 17, 2005, the Bank therefore started to pay to BOJ account holders only the new series notes, whereas it had previously paid out both new and old ones. In addition, the Bank, in cooperation with the relevant government ministries and agencies, requested the industry association of cash-handling machines to accelerate the process of making these machines compatible with the new banknote series. As a result, redesigned 10,000, 5,000, and 1,000 yen notes made up 42.9 percent of total banknotes issued at the end of fiscal 2004, reflecting a smooth transition from the old series to the new series (Table 4).

On January 25, 2005, the Policy Board decided to order 4.08 billion banknotes from the National Printing Bureau in fiscal 2005,⁶ the same number as the previous high in fiscal 2004, in order to secure as many new series banknotes as possible to ensure a smooth transition. For the same reason, the Policy Board also

decided to front-load orders from the National Printing Bureau to the extent possible.

C. Coins

1. Operations

As stipulated in the Law Concerning Currency Units and Issuance, coins are delivered to the Bank by the government, which has the authority to issue coins. Coins are put into circulation when BOJ account holders withdraw them from their accounts at the Bank. As of the end of fiscal 2004, the amount outstanding of coins (coins in circulation) was 4.4 trillion yen, up 2.0 percent from a year earlier. In volume, this amounted to 91.89 billion coins, up 0.2 percent from the previous year.

2. Volume of coins handled

In fiscal 2004, the volume of coins that the Bank received from BOJ account holders amounted to 2.73 billion coins, down 13.9 percent from the previous year, and coins paid out by the Bank totaled 2.90 billion, down 12.1 percent. The volume of new coins the Bank received from the Ministry of Finance was 1.22 billion coins, down 12.3 percent from fiscal 2003. The volume of damaged coins received for exchange was 17.1 million, down 6.1 percent (Table 5).

The Bank began to put into circulation the new nickel-brass 500 yen coins in August 2000. The volume of the new 500 yen coins paid out in fiscal 2004 was 0.35 billion, down 12.4 percent from the year before, while receipts of the old 500 yen coins for which new payments had been suspended were down 36.0 percent at 0.17 billion (Table 6).

6. The Bank placed orders of 4.08 billion banknotes for fiscal 2005, 4.08 billion for fiscal 2004, and 3.40 billion for fiscal 2003.

On May 14, 2004, the Ministry of Finance announced the finding of counterfeit new 500 yen coins at Tokyo Customs. Moreover, in February 2005, similar counterfeit coins were found in large amounts within a short period at post offices in the Kyushu area. In response to the situation and for the sake of early detection of counterfeit coins, the Bank expedited the procedures for authentication of coins by the Japan Mint, and called the attention of BOJ account holders by sharing information with them detailing the features of counterfeit coins. The Ministry of Finance, the National

Police Agency, the Financial Services Agency, Japan Post, and the Japan Mint joined with the Bank to form a committee to address the issue of the counterfeiting of 500 yen coins. This committee announced measures against counterfeiting on March 10, 2005. One of these measures was to ensure the good condition of coins in circulation. The Bank is expediting withdrawal of damaged coins and the entry into circulation of new coins received from the Japan Mint. In addition, the Bank continues to closely examine coins received so as to eliminate counterfeits from circulation.

Table 1

Banknote Issuance

	Denomination	End of fiscal 2003		End of fiscal 2004 ¹	
			Percent of total		Percent of total
Value (tril. yen)	10,000 yen	64.7	90.7	67.7	90.7
	5,000 yen	2.2	3.1	2.5	3.3
	2,000 yen	1.0	1.4	0.8	1.1
	1,000 yen	3.3	4.6	3.5	4.7
	Others	0.2	0.2	0.2	0.2
	Total	71.4	100.0	74.7	100.0
Number of banknotes (bil.)	10,000 yen	6.47	52.4	6.77	52.8
	5,000 yen	0.45	3.6	0.50	3.9
	2,000 yen	0.48	3.9	0.42	3.3
	1,000 yen	3.30	26.7	3.48	27.2
	Others	1.66	13.5	1.66	12.9
	Total	12.36	100.0	12.83	100.0

Note: 1. Figures cover both the old and new series of banknotes issued.

Table 2

New Series Banknotes Issued as of the End of Fiscal 2004

	Denomination	New series banknotes issued	Reference: total banknotes issued
Value (tril. yen)	10,000 yen	26.7	67.7
	5,000 yen	1.2	2.5
	1,000 yen	1.7	3.5
	Total	29.6	73.7
Number of banknotes (bil.)	10,000 yen	2.67	6.77
	5,000 yen	0.23	0.50
	1,000 yen	1.70	3.48
	Total	4.61	10.75

Table 3

Volume of Banknotes Handled

bil. banknotes, except where otherwise noted

	Fiscal 2003	Year-on-year change (percent)	Fiscal 2004	Year-on-year change (percent)
	Receipt	11.05	-7.5	11.63
Payment	11.18	-10.4	12.09	+8.2
Examined	11.26	-5.6	10.62	-5.6
Shredded	2.83	-17.2	3.98	+40.6
New notes purchased	3.40	+1.8	4.08	+20.0
Exchanged (mil.)	5.9	+6.3	7.6	+28.3

Table 4

Banknotes in Circulation: Conversion to the New Series¹

bil. banknotes, except where otherwise noted, end of month

	2004		2005		
	Nov.	Dec.	Jan.	Feb.	Mar.
New series banknotes (A)	1.34	2.53	3.09	3.81	4.61
Total banknotes (B)	10.51	11.38	10.68	10.57	10.75
Percentage converted (A/B)	12.7	22.2	29.0	36.0	42.9

Note: 1. The sum of the 10,000, 5,000, and 1,000 yen notes.

Table 5

Volume of Coins Handled

bil. coins, except where otherwise noted

	Fiscal 2003	Year-on-year change (percent)	Fiscal 2004	Year-on-year change (percent)
	Receipt	3.17	-8.0	2.73
Payment	3.30	-12.2	2.90	-12.1
From the Ministry of Finance	1.39	+19.8	1.22	-12.3
Exchanged (mil.)	18.2	+0.6	17.1	-6.1

Table 6

Payments/Receipts of New/Old 500 Yen Coins

bil. coins

	Fiscal 2003	Fiscal 2004	Year-on-year change (percent)
Payments of new 500 yen coins	0.40	0.35	-12.4
Receipts of old 500 yen coins	0.27	0.17	-36.0

III. SERVICES RELATING TO THE GOVERNMENT**A. Overview**

The Bank provides various services relating to the government, such as treasury funds and JGS services. Specifically, these are (1) receipt, disbursement, and accounting of treasury funds (the Bank classifies receipts and disbursements of treasury funds by the specific government account as well as by the individual government agency); (2) issuance of, and principal and interest payment on JGSs; (3) operations relating to its role as the book-entry transfer institution in the JGB book-entry system; and (4) certain operations on behalf of the government in the field of international finance (see Section IV on pages 97–98 for details).

Besides the above operations, the Bank engages in various transactions with the government, such as buying and selling JGSs. The Bank makes efforts to

ensure the appropriateness of these transactions, giving due consideration to the principles for the extension of central bank credit to the government.

B. Treasury Funds**1. Treasury funds operations**

The Bank performs services relating to treasury funds in accordance with various laws and regulations (e.g., Articles 35 and 36 of the Bank of Japan Law as well as Articles 34 and 35 of the Public Accounting Law). The Bank provides the following services: (1) receipt, disbursement, and accounting of treasury funds; (2) management of deposits of the Japanese government; and (3) custody of securities acquired by or submitted to the government.

Specifically, the government receives revenues such

as taxes and disburses treasury funds when providing various services using its deposit at the Bank's Head Office. Such receipts and disbursements of treasury funds are accurately recorded by the Bank, classified not only by the specific government account but also by the individual government agency. These figures are checked each month to ascertain whether they match those calculated by the relevant government agencies. The results are reported to the Ministry of Finance and the Board of Audit.

The Bank makes projections of inflows and outflows of treasury funds and carries out operations relating to the issuance and redemption of financing bills (FBs) so as to facilitate the government's management of the cash in its account at the Bank. The Bank acts as the custodian of securities acquired by or submitted (as collateral or deposits) to the government. The Bank receives, delivers, and keeps in custody such securities on behalf of the government.

Government agencies are located nationwide and the Bank conducts transactions on their behalf by receiving/dispersing treasury funds from/to the public. For the convenience of the public and government agencies across the country and to ensure smooth treasury funds operations, the Bank designates, with the approval of the Minister of Finance, many branches and offices of financial institutions throughout the country, as well as nationwide post offices of the Japan Post, as agents and entrusts them with the receipt and disbursement of treasury funds.

There are several types of agents. The first type are called "treasury agents" (548 agents as of end-March 2005), which provide most kinds of treasury services on

behalf of the Bank including the receipt/disbursement of treasury funds and the handling of securities that are acquired by or submitted to the government, as well as JGS-related services. The second type are called "revenue agents" (40,414 agents), which are only empowered to receive national taxes and fiscal revenues. The third type are called "revenue sub-agents" (1,457 agents), which are entrusted by a revenue agent with receiving national taxes and fiscal revenues on its behalf.

2. Agents

The number of treasury agents remained the same as it had been at the end of the previous fiscal year: 548, as of end-March. The numbers of revenue agents and revenue sub-agents decreased by 430 and 86, to 40,414 and 1,457, respectively. This was mainly due to reductions in the numbers of financial institutions' branches in order to enhance the efficiency of their business operations.

3. Progress toward more streamlined online processing of treasury funds operations

The Bank has been making advances toward achieving more streamlined online processing for treasury funds operations for the convenience of the public and to enhance efficiency in the operations of related institutions. Treasury funds operations involve not only the Bank but also many government agencies and financial institutions, and advances toward digitization are being made with their cooperation. The process is not limited to the digitization of current operations, but also involves business process reengineering, streamlining, and standardization of such operations.

The Bank carried out online processing smoothly and

securely for the following treasury funds operations that had previously been introduced in fiscal 2003: electronic payment of government taxes and fees; electronic application for government disbursements of treasury funds; and electronic recording and transferring of treasury funds. In fiscal 2004, the first electronic payments of social security premiums and national taxes were accepted, and the number of agents at which such payments were possible also increased. In addition, processing of receipt and disbursement of money submitted to the government to be held in custody or as deposits was also made available online in March 2005.

a. Electronic payment of government taxes and fees

For the convenience of tax/fee payers and to simplify and improve the efficiency of administrative work for the institutions involved, the Bank introduced electronic payment of government taxes and fees in January 2004. Tax/fee payers can make payments to the government by accessing Internet banking services or by making payments at ATMs at financial institutions.

Since then, the range of government taxes and fees that can be paid electronically has widened and the number of agents that can accept such payments has increased (tables 7 and 8). The Bank publicized each increase in the number of agents so as to keep tax/fee payers informed and to promote the use of such means of payment.

b. Electronic application for government disbursements of treasury funds

The Bank has established a nationwide network connecting various institutions, from government agencies to financial institutions holding payees' accounts, and began online processing of requests for direct credits with the government in April 2003.

The Bank has cooperated with the National Tax Agency (NTA) to promote electronic application for refunds of national taxes. Specifically, the Bank and the NTA promoted the existing scheme which uses magnetic tapes containing account data when refunding national taxes, and also examined ways of bringing the whole process online.

In February 2004, the government released its "e-Japan Strategy II Acceleration Package," announcing as a target that, at all ministries and agencies, the entire amount of employees' remuneration would be credited directly to their bank accounts by the end of fiscal 2005. In December 2004, the government conducted a follow-up survey and published the results, revealing the number of employees whose remunerations are directly credited to bank accounts relative to the respective totals for each ministry or agency, as well as for their individual divisions. The Bank's Head Office and branches are cooperating with the government in this regard and are working with the government, financial institutions, and other relevant parties on a plan to replace the paper-based procedures for crediting bank accounts with a centralized online processing system.⁷

7. As part of its plan for optimizing its operational and systems procedures for personnel affairs and remuneration released in February 2004, the government proposed changing its current decentralized practice of paying its employees in cash through each agency's officials to one of directly crediting employees' accounts via a centralized online processing system.

c. Electronic recording and transferring of treasury funds

In March 2004, the Bank started electronic recording and transferring of treasury funds using a computer system linking its Head Office, branches, and all of its treasury agents. In fiscal 2004, the Bank worked on establishing firm operational procedures for the new system by, for example, giving operational instructions to the agents through its helpdesk and branches, and also by conducting drills at its Head Office and branches in which, in case of system disruptions at agents, the recording and transferring of treasury funds would be carried out remotely by the Head Office or the relevant branch of the Bank, acting as its agent's proxy.

d. Electronic application for receipt and disbursement of money submitted to the government to be held in custody or as deposits

In addition to the aforementioned treasury funds operations, the Bank's Head Office, branches, and agents also conduct operations for other types of treasury funds, for example, money submitted to the government to be held in custody or as deposits.⁸ These types of treasury funds include: money submitted to the government as a guarantee by bidders participating in a public auction, that will be returned if their bids are not successful; and money paid by debtors as collateral when their legal rights are in dispute, that will be returned when the dispute is resolved. Operations related to such treasury funds differ from ordinary treasury funds operations because

of the explicit one-to-one correspondence between receipts and disbursements.

Before the introduction of electronic application, receipt and disbursement of money held in the government's custody or as deposits were previously processed manually at the Bank's Head Office, branches, and agents. In cooperation with the Ministry of Finance Accounting Center and other related ministries and agencies, the Bank decided to extend the existing schemes for electronic processing to cover the above operations, for the convenience of users and to enhance operational efficiency at authorities involved in such transactions. Specifically, in order to achieve this, the Bank made arrangements with them to connect and reinforce the functions of the following existing electronic processing schemes: for receipt of funds, the scheme for electronic payment of government taxes and fees that started to operate in January 2004; for disbursements, the scheme governing electronic application for government disbursements of treasury funds that started to operate in April 2003; and for record-keeping, the computer system for electronic recording and transferring of treasury funds that commenced operation in March 2004.

The Bank carried out necessary testing of the above electronic processing scheme, which then commenced operation on March 7, 2005. Taking the opportunity presented by this further expansion in the range of electronic processing schemes involving treasury funds on April 1, the Bank held a press conference on the

8. Such money is classified as "funds other than government revenues or expenditures."

same day calling for further use of the system.

C. JGSs

The Bank provides services relating to JGSs on behalf of the government. Such services are provided pursuant to Article 36 of the Bank of Japan Law, which stipulates that “the Bank shall handle the affairs of the government relating to currency and finance in compliance with the relevant laws and regulations” (e.g., the Law Concerning Government Bonds). Specifically, the Bank performs the following JGS services: (1) services relating to issuance, which include announcement of public auctions, acceptance of bids, notification of successful bids, receipt of payments from successful bidders, and the subsequent delivery of physical securities; (2) services relating to principal and interest payment and the collection of physical securities and coupons, and the exchange of damaged or worn physical securities; and (3) as the registrar of JGSs, services relating to registration of JGS holders' titles to the securities. Some of these services are handled by several types of agent such as treasury agents, JGS agents, and JGS paying agents including post offices nationwide, which are designated by the Bank for the convenience of JGS holders.

In addition, the Bank manages the JGB book-entry system, acting as the book-entry transfer institution pursuant to Article 39 of the Bank of Japan Law, which stipulates that the Bank may conduct business deemed to contribute to the smooth settlement of funds among

financial institutions. Under the system, the Bank performs the following services: new description/record, transfer, and payment of principal and interest.

D. Underwriting of JGSs for Refunding and Buybacks of JGBs by the Government Debt Consolidation Fund⁹

On December 14, 2004, the Bank decided its policy with regard to the underwriting of JGSs carried out for the purpose of refunding JGSs held by the Bank and set to mature in fiscal 2005, with a view to preserving the liquidity of the Bank's assets and to smoothing out the proportion of JGSs reaching maturity. The major decision was as follows. The Bank shall underwrite treasury bills (TBs) to refund, of those JGSs held by the Bank that will mature during fiscal 2005, interest-bearing JGBs amounting to 15,633.964 billion yen in face value. Of TBs underwritten by the Bank in fiscal 2004 to refund JGSs held by the Bank that had matured, all TBs that were underwritten to refund JGBs sold in response to the Government Debt Consolidation Fund's buyback requests will be underwritten at full face value by the Bank, whereas in other cases half of the total face value of TBs will be underwritten.

The Bank also determined that during fiscal 2005 JGBs maturing in fiscal 2008 will be sold by the Bank in response to buyback requests from the Government Debt Consolidation Fund with a total face value of 600 billion yen, and that the Bank shall underwrite TBs to refund these JGBs sold.

9. The Government Debt Consolidation Fund was established under the Special Account Law of the Government Debt Consolidation Fund for the purpose of government bond redemption.

Of the JGSs held by the Bank that matured in fiscal 2004 (from April 2004 to March 2005) and of the JGBs that the Bank sold to the Government Debt Consolidation Fund in response to its buyback requests, the Bank underwrote one-year TBs to refund interest-

bearing JGBs as listed in Table 9. Except for those TBs that had been sold, all of the one-year TBs underwritten by the Bank in fiscal 2003 to refund interest-bearing JGBs that the Bank held and that matured in fiscal 2004 were redeemed in cash.

Table 7

Government Taxes and Fees for which Electronic Payment Was Accepted

Fiscal 2003	Jan. 19, 2004	Fees to the government, labor insurance premiums, and spectrum user fees
	Mar. 22, 2004	National taxes (limited to certain regions) and tariffs
Fiscal 2004	Apr. 1, 2004	Social security premiums
	June 1, 2004	National taxes (nationwide)
	Mar. 7, 2005	Receipt and disbursement of money submitted to the government to be held in custody or as deposits

Table 8

Number of Agents Able to Accept Electronic Payment of Government Taxes and Fees¹

		Treasury agents and revenue agents	Revenue sub-agents ²
Fiscal 2003	Jan. 19–26, 2004	335 (79)	17
Fiscal 2004	July 20, 2004	335 (80)	19
	Oct. 18, 2004	349 (84)	19
	Jan. 4–Feb. 14, 2005	350 (85)	22
Fiscal 2005	Apr. 18–May 6, 2005	358 (87)	23

Notes: 1. Figures in parentheses indicate the percentage share of the total.

2. Revenue sub-agents are financial institutions that are entrusted by a revenue agent with receiving national taxes and fiscal revenues on its behalf.

Table 9

Amount of TBs Underwritten by the Bank in Fiscal 2004

Date of underwriting		Face value of one-year TBs underwritten (bil. yen)
2004	Apr. 20	545.44
	May 20	278.74
	June 21	2,639.64
	July 20	208.20
	Aug. 20	673.75
	Sep. 21	4,017.10
	Oct. 20	583.52
	Nov. 22	777.73
	Dec. 20	1,173.02
2005	Jan. 20	678.47
	Feb. 21	358.40
	Mar. 22	1,294.18
Total		13,228.19

IV. INTERNATIONAL OPERATIONS

The Bank conducts operations in the field of international finance, such as foreign exchange transactions and management of the Bank's foreign currency assets, as well as business related to assisting foreign central banks and international organizations in their investment in yen. The Bank also prepares Japan's balance of payments statistics and international operations on behalf of the government.

In January 2005, the Bank started an online reporting system accessed via the Internet, to accept reports required under the Foreign Exchange and Foreign Trade Law. The Bank is entrusted by the Minister of Finance with accepting such reports. In relation to this, the Bank also revised the balance of payments statistics.

The Bank takes part in international discussions on the state of the world economy, and in measures to ensure the stability of financial markets and to improve their structure. The Bank participates in various forums, such as meetings of the Bank for International Settlements (BIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP),¹⁰ the Group of Seven (G-7) countries, the Group of 20 (G-20) countries, the Financial Stability Forum, and ASEAN Plus Three (China, South Korea, and Japan).

In fiscal 2004, EMEAP launched an Asian Bond Fund 2 that invests in local currency-denominated bonds issued in the eight EMEAP markets, with the aim of fostering bond markets in the region. The Bank subscribed to the fund as part of its cooperation with other EMEAP central banks.

10. EMEAP comprises the central banks of eleven of the region's economies.

At international forums, such as meetings of the G-7 countries and Meetings of Central Bank Governors of the Group of Ten (G-10) Countries at the BIS, the Bank took part in discussions particularly on the surge in crude oil prices and its effects, current account imbalances across countries, sustainability of economic growth in China and the United States, and the possibility of excessive risk taking by investors in international financial markets. Moreover, at the Committee on the Global Financial System, which is a committee under the Meeting of Central Bank Governors of the G-10 Countries at the BIS, the Bank participated in the compilation of various reports,

including, for example, survey results from stress tests undertaken by major financial institutions, and the findings of research into structured finance markets.

The Bank held seminars/workshops to provide foreign central banks, mostly in Asia, with technical assistance/cooperation relating to central banking business. Topics in fiscal 2004 covered issues such as central banks' involvement in capital market development, and research and analysis on the Asian economic situation. The Bank also dispatched staff to seminars held overseas (Table 10).

Table 10

Technical Assistance (TA) and Technical Cooperation (TC)

number of cases; figures in parentheses are the number of people attending sessions hosted by the Bank in Japan and the number of staff dispatched to other countries

	TA and TC provided in Japan (group and individual)		TA and TC provided in other countries	
		Of which, from Asia		Of which, in Asia
Fiscal 2003	43 (370)	37 (250)	4 (4)	4 (4)
Fiscal 2004	47 (445)	44 (323)	9 (9)	9 (9)

V. RESEARCH AND STATISTICS**A. Research**

In order to implement monetary policy and carry out business operations effectively, the Bank conducts research on economic and financial conditions as well as the financial system and financial markets. In fiscal 2004, the Bank conducted research in line with the major issues and action plans outlined in the "Strategic Framework for Fiscal 2004" (see Section I on pages 10–17 for details).

The findings are published in the Bank's various reports including the *Monthly Report of Recent Economic and Financial Developments*, and the *Outlook for Economic Activity and Prices* which is released biannually in April and October. The Bank's research papers are also available in the *Bank of Japan Quarterly Bulletin*, the *Monetary and Economic Studies*, the *Bank of Japan Working Paper Series*, the *IMES Discussion Paper Series*, and the *Bank of Japan Review Series*.¹¹

11. The papers and statistics as well as lists of the Bank's publications are available at the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

Moreover, the Bank announced plans to support the development of a new publication, the *International Journal of Central Banking*¹² (IJCB), which focuses on central bank theory and practice, and issued a call for research papers. The IJCB is a joint project with the BIS and various central banks.

The Bank invites researchers from central banks and international organizations as well as academics to attend the conferences, workshops, and symposiums it organizes. The proceedings of the international conferences are available to the public at the web site of the Institute for Monetary and Economic Studies (<http://www.imes.boj.or.jp/english/index.html>).

To support historical research on monetary and economic issues, the Bank operates the Currency Museum and the Archive.¹³

B. Statistics

The Bank compiles and publishes a variety of statistics, such as the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the corporate goods price index (CGPI), the corporate service price index (CSPI), and the money stock. The Bank also continuously reviews the compilation procedures for its statistics with the aim of accurately assessing developments in the economy and financial markets, and changes in economic and financial structures. As part of this effort, during fiscal 2004 the Bank released several new statistics, while also improving some and abolishing other existing statistics. In addition, the Bank participated in the government's deliberations on improving statistical services.

VI. ORGANIZATIONAL MANAGEMENT

A. Overview

The Bank took various measures concerning organizational management in fiscal 2004, in view of the Bank of Japan Law stipulating that "the Bank of Japan shall endeavor to conduct its business in a proper and efficient manner" (Article 5, Paragraph 1).

With the basic principle of continuing to pursue

appropriate and efficient operational management, the Bank retained the number of employees appropriate for carrying out its various operations. Consequently, the number of employees was 5,052 at the end of March 2005.

Regarding wages and salaries, the Bank decided to keep the salary and benefit levels of the Bank's

12. The first issue was published in May 2005.

13. The Archive and the Currency Museum are designated institutions whose preservation of historical documents meets the appropriate standards set by the Minister for Internal Affairs and Communications. These historical documents are made available to the public in accordance with the Law Concerning Access to Information Held by Incorporated Administrative Agencies, Etc. and other relevant rules and regulations. These documents are available only in Japanese. At the Archive, about 9,000 historical documents, which are organized and listed in a catalog, are currently available. These documents date from the foundation of the Bank in 1882 to the 1950s.

executives unchanged in fiscal 2004 in order to be consistent with conditions prevailing in society in general. As for its staff, the Bank introduced a unified structure for ranking managerial staff accompanied by an annual salary system based on performance and ability assessments, in order to achieve more flexible division of responsibilities based on skills and experience. The Bank kept the levels of staff salaries unchanged in fiscal 2004 for the ninth consecutive year and the bonuses for May and November 2004 were also kept unchanged from the previous year.

The Bank proceeded with the disposal of its property in accordance with the basic principle decided in January 1999. By the end of March 2005, the Bank had replaced 28 houses for general managers of the Bank's branches with flats and sold 21 houses. Also, the Bank disposed of recreation facilities that had been closed and real estate that was not in use.

On an organizational level, the Bank has been carrying out organizational management in response to rapid changes in the economic and financial environment, with the aim of making the organization more innovative, improving efficiency, and increasing the value added of its central banking services. In the "BOJ Innovation Initiative" that the Bank worked on for about a year from May 2003, the Bank reviewed its business and operational procedures, abolishing the division system in most of the departments at its Head Office, reorganizing some departments and offices at its Head Office, and introducing a unified structure for ranking managerial staff accompanied by an annual salary system based on performance and ability assessments. Moreover, the Bank formulated and

released the "Medium-Term Strategic Framework for Fiscal 2005–2009" (MTSF) and the "Action Plans for Fiscal 2005." This MTSF set out the basic framework underlying its business operations and organizational management policies for the next five years, in order to maximize the Bank's potential by encouraging its executives and staff to have a clear vision of their goals and use management resources as effectively as possible (see "The Bank's Strategic Framework" Section III on pages 28–35). The "Action Plans for Fiscal 2005" set out concrete action plans that the Bank should tackle in the fiscal year to achieve the strategic goals laid out in the MTSF (see "The Bank's Strategic Framework" Section IV on pages 36–45).

B. Disaster and Crisis Management

The Bank, as a designated public corporation under the terms of the Disaster Countermeasures Basic Law, has put in place a disaster management operation plan to prevent or minimize disruptions to the Bank's operations as well as developing and continuously revising business continuity plans to ensure smooth implementation of the Bank's responsibilities in times of disaster. In addition, to make sure that such plans are smoothly implemented, the Bank ensures that the members of staff involved are kept fully abreast of all the requisite information regarding disaster management. The Bank also conducts annual emergency drills with BOJ account holders and related administrative institutions, on the assumption that a warning statement for a large-scale earthquake has been issued.

In fiscal 2004, the Bank responded appropriately to

strong earthquakes in Niigata Prefecture and to other natural disasters such as typhoons and downpours, that caused considerable damage in many regions in Japan, with respective branches and local offices working in close liaison with the Head Office. The Bank conducted emergency drills on Disaster Preparedness Day and other occasions at its Head Office and branches. In addition, the Bank tested its arrangements for addressing system disruptions with BOJ account holders.

Furthermore, following the law on special measures to be put in place in case of earthquakes in the Tonankai and Nankai regions, the Bank reexamined its disaster management operation plan in October 2004. In September 2004, the Bank was appointed as a designated public corporation according to the terms of the People Protection Law that sets out roles and responsibilities of organizations involved in civil protection arrangements in response to armed attacks. In this role, the Bank gathered information and identified issues that need to be addressed to pursue the aims of the law.

Moreover, in April 2004 the Bank reorganized the disaster management committee, setting up a new committee to coordinate business continuity arrangements.¹⁴ The mandate of the committee is to advise on measures to strengthen the Bank's own business continuity arrangements for operational and organizational management in times of emergency, and at the same time, to enhance the resilience of the

overall financial system, including payment and settlement systems and financial markets, by promoting the improvement of business continuity arrangements at financial institutions and other relevant entities.

C. Measures to Enhance the Functioning of the Bank

Since 2003, the Bank has been engaged in projects focused primarily on making the organization more innovative, in order not only to continue its effort to improve efficiency, but also to provide higher-value-added central banking services in response to rapid changes in the economic and financial environment.

In relation to the "BOJ Innovation Initiative" that the Bank worked on from May 2003 to July 2004, the Bank took the following measures. First, the Bank reviewed its organization and personnel system with the aim of realizing a more flexible organizational management. And second, the Bank engaged in a comprehensive review of its business and operational procedures, for which it solicited proposals from its staff. As for the organization and personnel system, the Bank abolished the division system in most of the departments at its Head Office, reorganizing some departments and offices at its Head Office, and introducing a unified structure for ranking managerial staff accompanied by an annual salary system based on performance and ability assessments on July 2, 2004. With regard to its business and operational procedures, the Bank reviewed these from the following three broad

14. Effective from April 1, 2005, this committee became a subcommittee under the Management Committee.

perspectives: first, eliminating inefficient practices and procedures and shifting to providing high-quality services generating increased value added; second, improving the Bank's public relations activities to promote better understanding of its organization and operations; and third, in the context of knowledge management, sharing and utilizing effectively the Bank's information and intellectual resources. In relation to the second of these, the Bank spelled out some basic principles in its "CI¹⁵ Improvement Strategy" released on April 20, 2004. Based on these principles, the Bank started a new series of public relations activities, such as tours of the underground vault in the Old Building of the Head Office, tours geared toward families during the summer vacation, and the renewal of the Bank's web site (including creating web sites designed for children) (see Section VII.C on pages 103–105). Regarding the first and third of the above perspectives, the Bank established two dedicated task forces: the Operational Reform Task Force and the Knowledge Management Task Force, respectively. During fiscal 2004, these task forces took steps to deal with issues arising from the comprehensive review of the Bank's business and operational procedures. In particular, out of a total of over 1,000 proposals from the Bank's staff for improving business procedures, the Bank started to put steadily into effect those that could be addressed immediately, including: streamlining of internal procedures and screening; elimination of obsolete practices; and simplification of internal documents accompanied by efforts to make them paper-free. The

Bank also improved its system infrastructure for information sharing by introducing a Bank-wide intranet and developing a dedicated information-sharing system. The task force also took a leading role in identifying problems within each department section and devised appropriate countermeasures.

Having established this foundation, the Bank for the first time formulated and released, on March 18, 2005, the MTSF in which it set out the basic framework underlying its business operations and organizational management policies for the next five years, in order to maximize the Bank's potential by encouraging its executives and staff to have a clear vision of their goals and use management resources as effectively as possible (see "The Bank's Strategic Framework" Section III on pages 28–35). The Bank took the opportunity of this release to publish, on the same day, the "Action Plans for Fiscal 2005" in which it set out concrete action plans that the Bank should tackle in the fiscal year to achieve the strategic goals laid out in the MTSF (see "The Bank's Strategic Framework" Section IV on pages 36–45).

At the end of each fiscal year, the Bank will evaluate its progress toward these strategic goals by reviewing the results of the planned actions. The evaluation will be released in Japanese in the *Gyoumu Gaikyo Sho* (Outline of Business Operations), excerpts of which will be translated into English and included in the *Annual Review* published every September. Through these releases, the Bank aims to provide the public with clear explanations of its efforts and progress.

¹⁵ CI is used as an abbreviation of corporate identity.

VII. EXTERNAL RELATIONS

A. Framework Governing External Relations Activities

The Bank of Japan Law requires the Bank to clarify to the public the content of its decisions, as well as its decision-making processes, regarding monetary policy (Article 3, Paragraph 2). As a specific framework, the Law stipulates the following.

- (1) Releasing the minutes and transcripts of Monetary Policy Meetings (MPMs) (Article 20).
- (2) Reporting to and attendance at the Diet (Article 54).
- (3) Public announcement of the *Gyomu Gaikyo Sho* (Outline of Business Operations) (Article 55).

In addition to compliance with the above, the Bank discloses information in accordance with the Law Concerning Access to Information Held by Incorporated Administrative Agencies, Etc., which took effect on October 1, 2002.

B. Reports Made to the Diet

The Bank is required, under Article 54 of the Bank of Japan Law mentioned above, to attend and make reports to the Diet regarding the conduct of its policies, its operations, and its organizational management. The Bank takes an active stance on fulfilling this obligation.

Specifically, the Bank prepared and submitted two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet, in June and December, and explained its policies and answered questions at committees of both houses of the Diet, the House of Representatives and the House of Councillors.

In addition, Bank officials, including the Governor,

appeared before committees of both houses of the Diet when requested to answer questions. Appearances took place on a total of 35 days (27 of which involved appearances by the Governor) in fiscal 2004.

Bank officials also gave explanatory briefings to persons related to the Diet, as necessary.

C. Relations with the Media and the Public

1. The Bank's basic thinking

In keeping with the principles of the Law described above, the Bank aims to establish a high degree of transparency with regard to its conduct of policies and operations by taking the following steps to distribute information to the media and the public, in addition to its reports to the Diet.

- (1) Releasing public statements on most of the Policy Board decisions.
- (2) Having the Governor hold regular press conferences.
- (3) Providing information through the Bank's web site (Table 11).

In addition to the above, the Bank uses many different channels to keep the public informed not only about the Bank's conduct of policies and operations, but also about economic and financial developments. One such example is the Bank's activities in cooperation with the Central Council for Financial Services Information, which aim to provide financial information.

2. Specific measures

a. Key issues in fiscal 2004

In line with the basic thinking described above, the Bank undertook the following media and public relations

activities in fiscal 2004, putting particular emphasis on enhancing these activities by improving communications tools.

(1) Enhancing public relations activities by improving communications tools

In order to pave the way for more accessible information releases as well as to examine its ideas and concrete plans for further enhancing its corporate identity, in April 2004 the Bank released a proposal (in Japanese), its "CI¹⁶ Improvement Strategy." Accordingly, the Bank reviewed the editorial policies and contents of various research papers and publications in fiscal 2004. A wide range of programs were offered to enhance communications between the Bank and the general public, including launching a children's corner on its web site, opening up the underground vault at the Head Office's Old Building, and illuminating the Old Building at night.

(2) Expansion of regional public relations activities

The Bank established a Regional Information Services section at its Head Office to promote cooperation among its branches, local offices, and the Central Council for Financial Services Information. This section expanded regional public relations activities, particularly related to the full removal of blanket deposit insurance and introduction of the new banknotes series in fiscal 2004.

(3) Public relations regarding the new series of Bank of Japan notes

With banknotes being redesigned for the first time since 1984, the Bank has been carrying out public relations activities to inform the public about the introduction and special features of the new series of banknotes via press conferences, TV interviews, its web site, and brochures, to make sure that both the issue and the entry into circulation of the new series of banknotes go smoothly (see Section II.B.1 on page 87).

As part of its preparations for the new issue, the Bank provided information on its progress, by explaining how it had built up sufficient stocks of the new banknotes series in its vaults, as well as providing photo opportunities to the media. It also printed and distributed posters and brochures describing the design as well as the security features of the new banknote series; and held exhibitions at the Currency Museum and the Bank of Japan Otaru Museum. On November 1, 2004, the day of issuance, the Bank had the media report Prime Minister Junichiro Koizumi's visit to the Bank, during which he attended a ceremony commemorating the issuance of the new banknote series, viewed the Bank's payment operations, and held a joint press conference with Governor Toshihiko Fukui.

After the new issue took place, a large number of counterfeit old series banknotes were found around

16. The term CI, which is an abbreviation of corporate identity, is generally used to clarify the philosophy governing a firm's management and business operations, helping both the public and its own employees to understand these better. The Bank uses this abbreviation as a term to describe the Bank's various public relations activities in a plain and friendly manner, in order to secure broad public interest in and understanding of its policies and operations.

the country from the end of 2004. In response, the Bank took various measures to increase public awareness of counterfeit banknotes by describing their features on its web site, by making press releases on the Bank's countermeasures, and by posting warnings in newspaper advertisements against counterfeiting (see Section II.B.2 on pages 87–88).

D. Information Disclosure in Fiscal 2004

The Law Concerning Access to Information Held by Incorporated Administrative Agencies, Etc. took effect on October 1, 2002, whereupon the Bank began to disclose information in accordance with the terms of this law.

In fiscal 2004, the Bank received requests for information as indicated in Table 12.

Table 11

Number of Page Views Visitors Accessed on the Bank of Japan Web Site

thous. page views¹

	Fiscal 2002		Fiscal 2003		Fiscal 2004	
		Year-on-year change (percent)		Year-on-year change (percent)		Year-on-year change (percent)
Number of accesses	31,180	+20.7	37,060	+18.9	48,084	+29.7
Of which: English web site	3,454	+14.9	3,771	+9.2	5,268	+39.7

Note: 1. A page view refers to one request to load a single document from the Bank of Japan web site.

Table 12

Number of Requests for Information Disclosure¹

	Total number of requests received	
	Head Office	Branches
	22	29
	51	

Note: 1. Number of requests including those received by mail.

