

The Bank's Progress toward Its Strategic Goals: Implementation of Action Plans in Fiscal 2007

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I. INTRODUCTION

In March 2005, the Bank of Japan released the "Medium-Term Strategic Framework for Fiscal 2005–2009" (MTSF),¹ in which it described how management issues during this period would be addressed. The core principles of the MTSF are to pursue more advanced central banking services and to ensure well-disciplined management.²

With a view to realizing more advanced central banking services, the Bank laid out the following eight strategic goals.

Strategic Goal A: Strengthening Policy Planning Capabilities

Strategic Goal B: Attaining Safer and More Efficient Payment and Settlement Systems and Market Infrastructure

Strategic Goal C: Ensuring Business Continuity Arrangements for Emergencies

Strategic Goal D: Enhancing the Functioning of the Financial System

Strategic Goal E: Enhancing International Operations and Services in response to Globalization

Strategic Goal F: Securing Confidence in the Currency

Strategic Goal G: Promoting Better Understanding of the Policies and Business Operations of the Bank and Related Financial and Economic Issues

Strategic Goal H: Improving Regional Services

In working toward the above eight strategic goals, the Bank formulates and releases every fiscal year the Action Plans, which comprise the set of issues to be faced and concrete measures to be taken by the Bank during the fiscal year. The Bank conducts its daily business operations in accordance with the Action Plans.³

During fiscal 2007, the third year of the MTSF, the Bank continued to actively implement various measures with the aim of improving central banking services, making steady progress toward each of its eight strategic goals.

1. For the text of the MTSF, see Appendix 2 on pages 80–83.

2. For the Bank's progress in achieving the second core principle, "to ensure well-disciplined management," see "The Bank's Organizational Management in Fiscal 2007" on pages 49–53.

3. For the text of the "Action Plans for Fiscal 2008," see Appendix 3 on pages 84–90.

II. THE IMPLEMENTATION OF THE ACTION PLANS FOR FISCAL 2007

A. Strengthening Policy Planning Capabilities

In fiscal 2007, the Bank will endeavor to enhance the quality of its analysis on developments in economic activity, prices, and the financial environment so as to make appropriate policy decisions in light of the ongoing changes in the economy and financial markets, particularly globalization, the prolonged economic expansion, and diversification of the channels for financial intermediation.

1. Upgrading the quality of its analysis of developments in economic activity, prices, and the financial environment as follows:

- a. Enhancing the quality of its analysis of the effects of the ongoing globalization in the economy and financial markets on, for example, corporate behavior and the flow of funds.
- b. Accurately analyzing corporate and household behavior in light of the prolonged economic expansion, as well as the resultant impact on prices.
- c. Further enhancing the quality of its analysis of new channels of financial intermediation and developments in, for example, emerging economies.
- d. Reinforcing research and analysis of issues related to the financial system, so as to extend their contribution to the appropriate conduct of monetary policy.

(1) From summer 2007, the spreading effects of the subprime mortgage problem caused disruptions in

global financial markets. The Bank responded promptly to the situation by conducting research and analysis on developments in financial markets at home and abroad and their effects on Japan's financial system. In addition, whenever other central banks deemed emergency measures necessary, the Bank remained in contact and coordinated adjustments with them.

- (2) The Bank engaged in further detailed discussion about the appropriate conduct of monetary policy amid the ongoing financial and economic globalization, and communicated its thinking via speeches, press conferences, and other such occasions.
- (3) The Bank analyzed structural changes in the economy, focusing on corporate behavior amid the ongoing economic globalization. It also looked closely at the positive influence of corporate sector strength on the household sector and how this would impact on price developments. The Bank will continue to analyze these important issues in fiscal 2008.
- (4) The Bank released the results of its research and analysis, including those mentioned above, in various reports, for example the following:
 - (a) The *Financial Markets Report—Developments during the First Half of 2007* contained analysis focusing on the financial environment after the policy interest rate rise in February 2007. The *Financial Markets Report—Developments during the Second Half of 2007* included analysis on the extent to which the U.S. subprime mortgage problem had affected financial markets in Japan and the cause of the turmoil in global financial markets.

- (b) The *Regional Economic Report* presented more detailed research and analysis on developments in regional economies; for example, including for the first time a report addressing distinctive developments in a particular area.
- (5) The Bank also strengthened its research into past economic developments in Japan. For example, it held a joint conference with The University of Tokyo on the topic *Kyuujuu Nendai no Chouki Teimei wa Wareware ni Nani wo Motarashitaka—Ukabiagatta Nihon Keizai no Kadai, Aratani Shoujita Kadai* (What have been the effects of the prolonged economic stagnation in Japan in the 1990s?—New and old challenges facing Japan's economy).
- (6) The Bank extended its research and analysis to cover the flow of funds along new channels such as emerging markets and hedge funds. Also, it made efforts to better understand the latest developments in the rapidly expanding world of Islamic finance by joining the Islamic Financial Services Board (IFSB) as an Observer Member. In view of the progress of globalization, the Bank will further strengthen these efforts in and after fiscal 2008.
- (7) The Bank conducted research and analysis of issues related to the financial system with a view to further enhancing its conduct of monetary policy. Specifically, it analyzed the risks that the accommodative financial environment poses to the financial system from a macroprudential perspective, publishing its findings in the *Financial System Report* released in March 2008. In this report, the Bank also outlined the effects of the U.S. subprime mortgage problem on Japan's financial system and considered the lessons learned and challenges posed.

2. Deliberating on and analyzing its conduct of monetary policy and the framework for money

market operations in light of the ongoing changes in the financial and economic situation.

- (1) With uncertainty regarding future developments in global financial markets and overseas economies intensifying and energy and materials prices remaining high, the Bank, in line with the current policy framework, carefully examined the likelihood of its projections for economic activity and prices as well as factors posing upside or downside risks. Monetary policy was conducted based on these findings, and the Bank worked to establish its policy framework firmly in the public's mind.
- (2) The Bank deliberated on and analyzed the framework for money market operations from a medium- to long-term perspective, taking into account measures by other central banks.

3. Strengthening the information technology (IT) research capability of the Center for Information Technology Studies (CITECS) of the Bank's Institute for Monetary and Economic Studies (IMES) and releasing the findings promptly so as to share with the public its understanding of IT-related issues involved in financial transactions. Enhancing other activities of the IMES such as those of the Archives and the Currency Museum.

- (1) With a view to sharing understanding on issues of IT security with financial institutions and other parties, the Bank's CITECS hosted a symposium on the topic, *Kin'yu Gyomu to Jouhou Security Gijutsu ni okeru Kono Juu Nen no Keiken to Kongo no Tenbou* (Financial business and information security: Experiences from the last decade and the outlook for the future). It also hosted seminars and released research papers about IT security issues.
- (2) The Bank rearranged its Archive catalog listing around 18,000 historical official documents held by

the Bank, and increased the number of documents available to the public in its Archives. The Bank's Currency Museum held a special exhibition on currency associated with Nihonbashi, where the Bank's Head Office is located, in addition to four feature exhibitions.

4. Improving the quality of statistics compiled by the Bank through scheduled reviews and revisions.

a. Revising the sample firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) in accordance with the "Establishment and Enterprise Census" released in 2006 by the Ministry of Internal Affairs and Communications, and deliberating on revising money stock statistics in light of administrative reforms.

b. Revising the base year for the Corporate Goods Price Index (CGPI) to 2005 and deliberating on the revision of the base year for the Corporate Services Price Index (CSPI).

c. Continuing to contribute to international initiatives to revise the *Balance of Payments Manual* to be released by the International Monetary Fund (IMF) in 2008.

(1) The Bank continued with scheduled reviews and revision of its statistics to improve their quality, as follows.

(a) With regard to the money stock statistics, the Bank released the final draft of the revisions in January 2008. From June 2008, the Bank started to compile a new M3 by combining the former M2+CDs with deposits at Japan Post Bank and other financial institutions such as credit cooperatives; as a result, the new M3 includes deposits at all depository institutions.

(b) With a view to incorporating the structural changes in Japan's industry and trade, maintaining and enhancing statistical accuracy, reducing the reporting burden on companies, and enhancing services for users, the Bank made necessary revisions and introduced the 2005 base CGPI in figures released from December 2007.

(c) The Bank took part in international initiatives to revise the *Balance of Payments Manual*, due to be finalized by the IMF in 2008.

B. Attaining Safer and More Efficient Payment and Settlement Systems and Market Infrastructure

In fiscal 2007, the Bank will proceed with concrete measures to further improve its payment and settlement services and will deliberate on how to improve the Bank of Japan Financial Network System (BOJ-NET) over the medium to long term, in consideration of the advancement of IT and changes in the business models employed by financial institutions. It will also take concrete steps to improve the functioning of financial markets to adapt to changes in the financial environment.

1. Ensuring the daily, smooth operation of the Bank's systems for providing payment and settlement services, including the BOJ-NET.

(1) The Bank's systems continued to operate smoothly throughout most of the year, with the exception of December 5, 2007, when BOJ-NET terminals at 87 offices of financial institutions (17 percent of the total) became disconnected from the network at the start of service (9:00 a.m.). The connection was restored after about an hour, and the day's

settlements were completed smoothly.

2. Upgrading the functions of the BOJ-NET as follows:

a. Promoting the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System (BOJ-NET FTS), via two specific measures: the introduction of liquidity-saving features; and the modification of the system to enable it to incorporate large-value payments currently handled by private-sector deferred net settlement systems.

b. Deliberating on further improvement of the BOJ-NET over the medium to long term, including the redesigning of its infrastructure, to take account of needs both at home and abroad.

(1) The Bank conducted scheduled upgrades of the functions of the BOJ-NET as follows.

(a) The Bank proceeded with system development with a view to implementing the first phase of the RTGS-XG project. This first phase, scheduled for autumn 2008, involves the introduction of liquidity-saving features into the BOJ-NET FTS, and the shift of payments processed through the Foreign Exchange Yen Clearing System (FXYCS), which are currently settled primarily on a deferred net basis, to the new BOJ-NET FTS. The Bank supported the relevant parties by providing information that would help them develop the necessary new systems and operational procedures. The Bank also supported discussions on the development of new market practices.

(b) With regard to the second phase of the RTGS-XG project, which is the shift of large-value payments currently handled by the Zengin Data Telecommunication System (Zengin System) into

the BOJ-NET FTS, the Bank discussed the basic design of the new interface between the two systems in cooperation with the next-generation Zengin System study group established by the Organization for Management of Domestic Fund Transfers.

(2) The Bank deliberated on further improvement of the BOJ-NET over the medium to long term, including the redesigning of its infrastructure to cope with new demands on the system. The Bank plans to continue its discussions through fiscal 2008 and beyond.

3. Working toward the revision of its current account services and cash services in light of the recent changes in financial institutions' cash-related operations, such as diversification in their branch strategies and the increase in outsourcing of cash transportation operations.

(1) Based on feedback from the task force charged with reviewing its current account and cash services, the Bank announced in May 2007 the following revisions. First, the Bank will allow financial institutions that hold current accounts with it to access its services through certain locations in addition to their headquarters and branches. And second, the range of entities to which financial institutions can outsource the deposit/withdrawal of banknotes with/from the Bank will be extended to include private security companies providing cash transportation services. As of April 2008, twelve entities had taken advantage of the first of these revisions, while five had taken advantage of the second.

4. Continuing to take the initiative in promoting further improvement in the safety and efficiency of private-sector payment and settlement systems.

(1) The Bank continued to take the initiative in

promoting further improvement in the safety and efficiency of private-sector payment and settlement systems as follows.

(a) In November 2007, the Bank released the results of the self-assessment of the settlement system for Japanese government securities (JGSs) based on the *Recommendations for Securities Settlement Systems*.⁴ Moreover, the Bank actively participated in related international discussions such as those organized by the Committee on Payment and Settlement Systems (CPSS), thus contributing to further improvement in the safety and efficiency of payment and settlement systems.

(b) The Bank supported deliberations at private-sector payment and settlement systems on the management of settlement risk, with a view to increasing system stability. The Bank encouraged the Zengin System to make efforts to reduce the level of settlement exposure. It also advised the Tokyo Financial Exchange to improve the feasibility of its liquidity provision arrangements in order to ensure the timely completion of daily settlements.

(c) The Bank participated in deliberations with relevant parties regarding dematerialization of stock certificates and supported public relations activities to promote a smooth changeover to a new system, especially the deposit of stock certificates with the Japan Securities Depository Center.

(2) The Bank released the *Payment and Settlement Systems Report 2006* in July 2007. This report reviewed developments in payment and settlement systems in Japan since March 2006, when the first issue was released. It discussed changes in the

environment surrounding payment and settlement systems and pointed to new challenges arising from those changes.

5. Stepping up efforts to enhance the functioning of the money market and deliberating with market participants on concrete measures needed to be taken. Concrete measures are as follows.

a. Deliberating on releasing benchmark rates for repo transactions and moving forward with procedures for improving money market data.

b. Supporting deliberations on how to encourage collateralized fund transactions.

c. Conducting research and analysis on the Overnight Index Swap (OIS) market.

(1) From February to July 2007, the Bank took a series of actions to support and promote practical improvements in the functioning of the money market. The Bank identified issues to be addressed and specific measures to address them.

(2) The Bank held a forum in March 2007 to exchange views with market participants on issues of concern. The Bank also sought comments from various market participants in April. Based on the insights gleaned, the Bank prepared and released the *Financial Markets Report (Supplement)* as well as the final report on the actions to support and promote the autonomous improvement of the functioning of the markets.

(3) Having identified the issues to be addressed, the Bank promptly took the actions detailed below. Meanwhile, market participants also took various actions, and through these efforts, the infrastructure of the money market continued to improve over the fiscal year.

4. A report jointly prepared and released in November 2001 by the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

- (a) The Bank started to release the Tokyo Repo Rate from October 2007 based on the results of discussions at a working group it set up with market participants.
- (b) The Bank moved up the time of release of the daily projections of "Reserve Balances" from April 2007 with a view to facilitating the smooth formation of short-term interest rates. From June 2007, the Bank also started to release data on the amounts outstanding of current account balances held with the Bank by type of financial institution as well as the amounts outstanding in uncollateralized call markets by maturity.
- (c) With a view to raising the volume of transactions in the collateralized call market, the Bank supported the revision in July 2007 of market practices for collateralized call markets to allow mark-to-market valuation of collateral and delivery versus payment (DVP) of collateral and funds. It also supported the regular revision of margin ratios for collateralized call transactions in March 2008.
- (d) The Bank conducted a survey examining the structural situation and state of transactions in the yen-denominated overnight index swap (JPY OIS) market and released the results in July 2007.

6. Improving the procedures for money market operations and the acceptance of eligible collateral so as to conduct market operations more smoothly and improve the convenience of counterparties by formulating measures that enable them to outsource to custodian institutions operations involved in transferring Japanese government bonds (JGBs) as collateral to/from the Bank.

- (1) Following the introduction of 40-year JGBs and the Bank's annual review of appropriate margins, the Bank made necessary amendments, including amendments to the margin tables used in accepting eligible collateral. Moreover, it made institutional changes and took other practical measures in response to postal privatization.
- (2) To facilitate the outsourcing of JGB settlement operations by financial institutions, the Bank made preparations for introducing measures during fiscal 2008 to enable them to outsource to custodian institutions operations involved in transferring JGBs pledged to/returned from the Bank as eligible collateral.

7. Continuing its efforts to expand the use of the electronic treasury funds (government expenses and revenues) services.

- (1) The Bank continued to modify computer systems to promote further progress in online processing of treasury funds (government expenses and revenues), expanding the use of the electronic services offered. As a result, there was a gradual increase in the number of electronic payments of government taxes and fees, and 2 percent of the total number of payments were made in this way by October 2007.
- (2) The Bank encouraged government agencies to introduce simplified and user-friendly online processing of tariffs, patent fees, and national taxes. Results have now begun to be seen, and the proportion of the total number of payments of government taxes and fees made electronically is expected to rise significantly from fiscal 2008 onward.

C. Ensuring Business Continuity Arrangements for Emergencies

In fiscal 2007, the Bank will further improve its business continuity arrangements, and will continue to encourage the relevant parties to enhance the business continuity facility of the overall financial market and its participant financial institutions.

1. Further enhancing business continuity planning (BCP) for emergency situations at the Bank's Head Office as follows:

- a. Reinforcing the necessary infrastructure at the Bank based on the "Policy Framework for Tokyo Inland Earthquakes" and its "Civil Protection Business Plan."
- b. Improving exercises to address cases of system failure.
- c. Developing business continuity arrangements for a wider range of damage scenarios.

(1) With a view to further developing and improving business continuity arrangements at its Head Office, the Bank continued to implement a number of measures to ensure the continuity of critical operations should its Head Office be damaged and unable to function. Specifically, improvements were made in arrangements for alternative operation sites by upgrading facilities, preparing manuals for business operations, and testing procedures for switching over to alternative operation sites. The framework for ensuring the availability of key employees in times of disaster and other emergency situations was improved.

(2) The Bank conducted various exercises at its Head Office and branches. These involved assumed disruptions to the BOJ-NET and were conducted in

cooperation with relevant parties. The business continuity capability of the BOJ-NET was assessed under new test scenarios, including those based on different levels of communication failure and variations in the timing of disaster occurrence. Moreover, the Bank further enhanced the effectiveness of its business continuity arrangements by, for example, conducting exercises that involved switching over operations from its Head Office to alternative operation sites.

(3) The Bank also continued to strengthen the backup capabilities of its computer systems.

2. Further enhancing the business continuity facility of the overall financial market, payment and settlement systems, and financial system by continuing to take the initiative in efforts to improve existing arrangements. Actions to be taken are as follows:

- a. Supporting financial institutions to phase in more practical measures such as enhanced drills.
- b. Planning new joint drills involving financial institutions and government agencies.

(1) The Bank actively supported the initiatives of market participants to develop the BCP and to put networks of market participants in place to ensure that the minimal necessary transactions can be completed and markets continue to function in times of disaster, participating in exercises and discussions as follows:

(a) With regard to the money market, the Bank participated in joint exercises organized by the Japanese Bankers Association in September 2007 and February 2008. These aimed to mirror real-life experience, and participants were not informed beforehand about how they had each been affected by the disaster. As part of these

exercises, the Bank also conducted communication exercises with relevant institutions.

- (b) A BCP-dedicated web site was developed for the foreign exchange market and made available to relevant market institutions in January 2008 as a tool for exchanging information in times of disaster and other emergency situations.
 - (c) As for securities markets, a BCP-dedicated web site was also developed, and there was progress in discussions on communication arrangements and methods of information gathering.
- (2) The Bank continued to work on initiatives with financial institutions to improve their business continuity arrangements through its on-site examinations and off-site monitoring as well as seminars organized by the Center for Advanced Financial Technology (CAFT) at the Bank. With regard to new strains of avian and pandemic flu, the Bank released a research paper on countermeasures taken by financial institutions at home and abroad, providing a firm basis for future discussions.
- (3) The Bank carried out research on large-scale joint exercises involving financial institutions and government agencies in major countries. The Bank will examine this topic further in fiscal 2008 and beyond.

D. Enhancing the Functioning of the Financial System

In fiscal 2007, the Bank will support initiatives of individual financial institutions to provide more efficient and advanced financial services better tailored to their needs and circumstances, taking into account recent changes in how they are managed. It will also

deliberate on methods for assessing and analyzing overall risks in the Japanese financial system.

1. Further supporting financial institutions' efforts to provide more efficient and advanced financial services as follows:

- a. Discussing more practical risk management and internal control systems at financial institutions, better tailored to their individual management circumstances, through its on-site examinations and off-site monitoring as well as seminars organized by the CAFT, and working to realize such systems.
- b. Given developments in new business models, monitoring financial groups, and assessing and analyzing accompanying risks, on a consolidated basis.

(1) The Bank further supported financial institutions' efforts to provide more efficient and advanced financial services, through its on-site examinations and off-site monitoring as well as seminars organized by the CAFT, as follows:

- (a) In its on-site examinations, the Bank held more detailed discussions with financial institutions on effective risk management of complex financial assets and transactions, development and implementation of integrated risk management, and active credit portfolio management, while taking into consideration the individual factors relevant to each institution.
- (b) The Bank released the findings of research on risk management for hedge fund investments and securitized products as well as research on operational risk measurement. The Bank also published the results of surveys on Japanese

financial institutions' internal auditing and on the management of system development at regional banks.

(c) The Bank supported financial institutions' initiatives in the areas of practical risk management and internal control systems, through seminars organized by the CAFT at the Bank's Head Office and its 15 branches. The Bank will continue with such support in future.

(2) Given the changes in the financial environment, such as the worsening of the U.S. subprime mortgage problem, the Bank built up a more detailed understanding of individual financial institutions' business conditions and offered guidance and advice accordingly.

(3) Given that an increasing number of financial services providers operate as financial groups and offer a wide range of services across business areas, including banking, securities, trust, and asset management, the Bank has shifted to identifying risks on a consolidated basis, instead of by business sector as in the past, so as to ensure that its monitoring is as timely and effective as possible.

(4) The Bank raised the efficiency of financial data exchange with financial institutions by expanding the range of financial data it exchanged in the extensible business reporting language (XBRL) format.⁵

2. Reinforcing research and analysis related to the financial system and risk management skills as follows:

a. Deliberating on methods for analyzing and assessing overall risks in the Japanese financial system.

b. Reinforcing analysis that takes account of new

financing instruments and recent developments in the flow of risk capital.

c. Enhancing the *Financial System Report* so as to further contribute to the conduct of monetary policy.

(1) The Bank ascertained that both major and regional banks remained sufficiently robust with regard to their exposure to credit risk, based on the results of macro stress-testing that assumed a prolonged economic downturn. The Bank also conducted research and analysis into the effects of the U.S. subprime mortgage problem on Japanese financial institutions. In fiscal 2007 the Bank released two issues of the *Financial System Report*, which included the findings of its research. The Bank will make further efforts to refine its methods for analyzing and assessing the overall financial system, taking into account the changes in the economic and financial environment.

3. Participating in discussions on financial system policy held at global forums, and making practical use of the insights gained to contribute to more efficient and advanced financial services.

(1) The Basel Committee on Banking Supervision (Basel Committee) continued to work toward smooth implementation of the international standards governing the capital adequacy of financial institutions (Basel II) as well as pressing forward with discussions on the appropriate definition of regulatory capital. In response to the financial market turmoil that began in summer 2007, the Committee stepped up the intensity of its deliberations into how to improve global supervisory practices and its examination of the issues surrounding the weakness

5. The XBRL was developed to facilitate the exchange of financial data between computers.

of financial institutions' management of risks such as liquidity risk. The Bank actively contributed to discussions held by the Committee, providing both insights and experience, and it kept Japanese financial institutions informed about the outcome of the discussions by holding workshops. The Bank also participated in meetings of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), including meetings of the Working Group on Banking Supervision.

4. Related issues.

(1) During fiscal 2007, the Bank provided no loans pursuant to Articles 37 and 38 of the Bank of Japan Act. In order to encourage financial institutions to reduce their exposure to the risk of stock price fluctuations, the Bank purchased stocks from them between November 2002 and September 2004. In October 2007, the Bank started to dispose of these stocks through a trust bank, the Bank's trustee, in accordance with the Bank's stock disposal policy.

E. Enhancing International Operations and Services in response to Globalization

In fiscal 2007, the Bank will further strengthen cooperation with other central banks and play a prominent part in ensuring the stability of the international financial system, and in fostering and developing efficient financial markets in Asian economies.

1. Strengthening its relationship with other central banks and playing a prominent part at global forums on various issues such as developments in the global economy and international financial markets.

(1) The Bank took an active part in various international

discussions on issues such as developments in the global economy and international financial markets. Meetings participated in by the Bank included the following: meetings of the Group of Seven (G-7) finance ministers and central bank governors; meetings of the Bank for International Settlements (BIS), including those of the Group of Ten (G-10) central bank governors, and meetings of subcommittees at the BIS, namely, the Committee on the Global Financial System and the Markets Committee, and EMEAP meetings, including the EMEAP Governors' Meetings.

(2) In response to global financial market disruptions since summer 2007, the Bank kept in regular contact and worked in close cooperation with central banks in Europe and North America as well as in Asia. The Bank contributed to central-bank efforts to ensure global financial stability by sharing its own monetary and prudential policy experiences and related insights, gained in dealing with the financial crisis in Japan.

2. Promoting efforts to formulate and implement concrete measures to improve and expand the network of swap agreements in the Asian region, so as to foster and develop efficient financial markets in Asian economies and enhance the stability of the currency system in Asia.

(1) The Bank chaired meetings of the EMEAP Working Group on Financial Markets four times in fiscal 2007 and promoted the Asian Bond Fund 2 Initiative, which invests in bonds denominated in local Asian currencies. In response to global financial market disruptions, the Bank worked together with other EMEAP members to further strengthen the monitoring of financial market developments in the East Asia and Pacific region.

(2) Under the framework of the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), which is comprised of the ten Member Countries of ASEAN plus Japan, China, and South Korea, the Bank, together with the Ministry of Finance, actively took part in initiatives to strengthen financial cooperation in Asia, including arrangements under the Chiang Mai Initiative, and to foster Asian bond markets.

(a) In fiscal 2007, the Bank concluded with the Bank of Thailand a new enhanced bilateral swap arrangement against the U.S. dollar.

3. Further strengthening its ties with central banks and other authorities in Asia, especially through initiatives taken by the Bank's Center for Monetary Cooperation in Asia (CeMCoA). Concrete measures are as follows:

a. Conducting seminars and joint research activities on medium- to long-term structural issues affecting Asia.

b. Promoting technical assistance and cooperation as well as personnel exchanges.

(1) CeMCoA organized the Research Group on Financial Issues in China, which consisted of experts from industrial and banking circles in Japan involved in business in China, and released a summary of the group's discussions. CeMCoA also made progress in terms of its research activity by making use of external networks, for example carrying out a joint research project on foreign exchange markets in Asia with researchers from the BIS. The Bank joined the IFSB as an Observer Member so as to follow developments in Islamic finance.

(2) The Bank provided technical assistance and cooperation to central banks in Asia by inviting their personnel to seminars as well as sending its own employees as speakers to seminars held by foreign

central banks. The Bank also conducted personnel exchanges with the Bank of Korea.

4. Managing the Bank's foreign currency assets in a stable and efficient manner.

(1) The Bank managed its foreign currency assets in accordance with the "Basic Guidelines for the Management of External Assets Held by Bank of Japan" and continued to develop its asset management systems.

F. Securing Confidence in the Currency

In fiscal 2007, the Bank will continue to enhance the smooth supply of banknotes as well as reinforce measures to maintain the cleanliness of banknotes in circulation. It will also continue to ensure the safe use of the currency and other means of payment.

1. Deliberating on new measures to maintain the cleanliness of banknotes in circulation based on data on damaged banknotes compiled and analyzed by the Bank, in order to prevent damaged or worn banknotes from being returned to circulation.

(1) In fiscal 2007, the Bank received 10.83 billion banknotes and paid out 10.91 billion banknotes at the windows of its Head Office and branches. It maintained the cleanliness of banknotes in circulation by examining the banknotes it received and shredding the 3.35 billion banknotes that were judged unfit for recirculation. During the year, it bought 3.30 billion banknotes from the National Printing Bureau.

(2) The Bank continued to compile and analyze data on damaged banknotes, and utilized the data when deliberating on new measures to maintain the

cleanliness of banknotes.

2. Continuing to enhance smooth banknote supply as follows:

a. Ensuring a stable and efficient supply of banknotes by continuously reviewing the Bank's operations related to examination and distribution of banknotes.

b. Further improving the transparency and efficiency of the Bank's cash handling services through close dialogue with financial institutions and cash service providers.

(1) The Bank enhanced the smoothness of its supply of banknotes as follows:

(a) With a view to enhancing the efficiency of its cash handling services, the Bank reviewed the methods of delivering cash to financial institutions and of transporting cash between the Bank's Head Office and its branches, taking into account recent trends in cash circulation. In fiscal 2008, it will continue to enhance the efficiency of its channels for supplying cash, including coins.

(b) The Bank further improved the transparency and efficiency of its cash handling services through close dialogue with financial institutions and cash service providers by, for example, formulating guidelines in July 2007 for the receipt and payment of cash and the exchange of damaged cash, as well as exchanging views about best practice with counterparties handling a large amount of cash.

3. Improving the Bank's counterfeit detection capability through the installment of the new automatic banknote examination machines with enhanced counterfeit detection features.

(1) Since fiscal 2005, the Bank has been steadily replacing its automatic banknote examination

machines with those with increased flexibility for detecting counterfeit banknotes. In fiscal 2007, it replaced 14 machines at 8 branches.

4. Ensuring the security of the currency and other means of payment, and preventing counterfeiting as follows:

a. Enhancing communication and cooperation with relevant parties, including ministries and government agencies at home as well as other central banks, and conducting further joint research on anti-counterfeiting technologies.

b. Improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.

(1) The Bank enhanced communication and cooperation with relevant parties, including ministries and government agencies at home as well as other central banks, conducted further joint research to ensure the security of the currency and other means of payment and prevent counterfeiting, and made efforts to achieve better public understanding of anti-counterfeiting measures. In December 2007, it designed and distributed two posters (available only in Japanese): one, for detecting counterfeit banknotes, carried the slogan *Sawaru, Sukasu, Katamukeru* ("Feel, hold up to the light, and tilt"—i.e., check banknotes for texture, watermark, and hologram); the other, designed to encourage the public to treat banknotes with care, carried the slogan *Te kara Te e, Kokoro kara Kokoro e* ("From hand to hand; from heart to heart").

G. Promoting Better Understanding of the Policies and Business Operations of the Bank and Related Financial and Economic Issues

In fiscal 2007, the Bank will continue to improve the plainness and accessibility of its explanations of its policies and business operations from a variety of perspectives. It will focus particularly on enhancement of its web site contents.

1. Working toward expanding the breadth and depth of the information available on the Bank's policies and business operations as follows:
 - a. Further enhancing public understanding of the Bank's thinking concerning the conduct of monetary policy.
 - b. Promoting the dissemination of information on the Bank's various measures.
 - c. Expanding ways to acquire information on the public's interests and views regarding the Bank's policies and operations, and making use of them to improve its business operations and enhance its public relations activities.
- (1) The Bank expanded the number of occasions for explaining its policies and business operations, such as speeches, meetings, interviews, and press conferences held in various regions of Japan by Bank officials, in addition to the regular press conferences by the Governor held after every Monetary Policy Meeting (MPM). It also endeavored to achieve better public understanding of its overall policies and business operations by, for example, making the texts of speeches and statements promptly available on its web site.
 - (2) Since June 2007, the Bank has been releasing the schedule of MPMs twelve months instead of six months ahead. It also moved up the time of release of the minutes of MPMs from 2:00 p.m. to 8:50 a.m.
 - (3) The Bank submitted two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2007, in June and December, in accordance with the Bank of Japan Act, 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.
 - (4) The Bank published for the first time a brochure intended for the general public, which explained the Bank's monetary policy in plain language, and worked toward getting descriptions about the Bank in textbooks for junior and senior high schools revised. It also endeavored to achieve better public understanding of specific methods used in money market operations by, for example, providing concise explanations of these in the *Nichigin*, the Bank's public relations magazine (available only in Japanese). In addition, it moved forward with the necessary preparations for the release of MPM transcripts from fiscal 2008.
 - (5) The Bank proceeded to provide explanations, from a variety of perspectives, of the various measures taken based on the MTSF and the "Action Plans for Fiscal 2007." In fiscal 2007, it responded to 62,037 inquiries (a decrease of 10.8 percent from the previous year) and 4 requests for information disclosure (a decrease of 71.4 percent from the previous year) in accordance with the Act on Access to Information Held by Incorporated Administrative Agencies, Etc.

(6) In addition to conducting conventional questionnaires, the Bank introduced a new opinion polling method aimed at finding out what the public thinks about the Bank's public relations activities. This involved the Bank holding discussions with advisory groups on specific themes. In fiscal 2007, such discussions enabled the Bank to acquire detailed feedback on public relations materials such as its web site and videos, and to enhance its planning of public relations activities.

2. Enhancing the Bank's conduct of its public relations activities, particularly speeches, and improving the plainness and accessibility of its explanations. Further developing the Bank's web site contents to this end.

(1) The Bank released a steady stream of up-to-date information in both English and Japanese on its web site. The number of page views on its web site rose to 62,952,000, an increase of 3.8 percent from the previous year (10.7 percent when adjusted for the abnormal activity in December 2006, when there were concentrated accesses with malicious intent); of these page views, 9,569,000 were made to its English-language web site, an increase of 8.9 percent (10.0 percent after making the adjustment above).

(2) The Bank deliberated on concrete measures to develop its web site contents and improve the site's user-friendliness, conducting questionnaires targeting users both inside and outside the Bank and asking experts to test the site's accessibility.

(3) The Bank worked to enhance in-house tours of its Head Office by, for example, holding tours for families with children during school holiday seasons

in summer and spring, as well as by hosting *Nichigin Museum KINCO*⁶ ("Museum tour of the Bank of Japan Old Building including the former underground vault in collaboration with the Tokyo University of the Arts") in November 2007. The number of visitors to the Bank in fiscal 2007, however, declined to 28,074 from the previous year, a decrease of 17.8 percent, due to the temporary closure of the underground vault for renovation.

3. Continuing to contribute to improved financial literacy education as follows:

a. Supporting the promotion and proliferation of activities based on the report on programs for improving financial literacy.

b. Producing teaching materials for schools and promoting their use, in cooperation with people engaged in education.

(1) As the secretariat of the Central Council for Financial Services Information (CCFSI), the Bank distributed a report on programs for improving financial literacy (available only in Japanese) released by the CCFSI to all of the approximately 40,000 elementary, junior high, and senior high schools in Japan; it also supported the promotion and proliferation of activities based on the report by dispatching Bank staff to explain the report to boards of education in various regions of Japan. Furthermore, the Bank was active in holding seminars and training courses for schoolteachers as well as other activities to promote financial literacy education.

(2) With a view to raising the public's awareness of its nickname, *Shiruporuto*, the CCFSI produced and broadcast a TV commercial for the first time in eight years. Owing partly to the commercial, the number

6. "*Nichigin*" is a colloquial abbreviation in Japanese for "Bank of Japan." "*Kinco*" means "vault" in Japanese.

of page views on the CCFSI web site surged to 20,824,000 in fiscal 2007 from the previous year, an increase of 29.0 percent. The Bank also worked to enhance financial literacy-related activities by starting publication of *Kurashi Juku Kin'yu Juku* ("First steps toward financial literacy for everyday life"; available only in Japanese), a quarterly public relations magazine, and by distributing its revised brochure on avoiding the financial pitfalls of multiple debts to all of the approximately 2,000 local governments in Japan.

- (3) The CCFSI improved teaching materials geared toward financial literacy by, for example, drastically revising its supplementary textbooks for senior high school students, and creating *Okane no ne* ("Money-savvy for kids"; available only in Japanese) on its web site, with content aimed at parents and their children.

H. Improving Regional Services

In fiscal 2007, making effective use of the strengths of its nationwide network of branches and offices, the Bank will provide services appropriately tailored to individual regional circumstances for each of the strategic goals listed above.

Making effective use of its nationwide network of branches and offices, the Bank provided central banking services appropriately tailored to individual regional circumstances for each of its strategic goals A to G through the implementation of the following action plans.

1. Continuing to promote the smooth supply of clean banknotes.

- (1) The Bank ensured the smooth supply of clean

banknotes by keeping close track of levels of supply of and demand for banknotes as well as the condition of banknotes in circulation in each region by, for example, obtaining information from financial institutions.

- (2) In fiscal 2007, the Bank worked toward improving the system for supplying clean banknotes based on more transparent and fair rules, placing particular emphasis on the following measures.

(a) The Bank worked to ensure that its cash handling services were conducted in compliance with all relevant rules and that its counterparties and employees were fully informed about these.

(b) The Bank assessed the cleanliness of banknotes in circulation based on the information obtained through meetings with chief cashiers of financial institutions and the results of opinion surveys.

(c) The Bank conducted interviews with manufacturers of vending machines and automated teller machines (ATMs) as well as private security companies.

(d) The Bank made the appropriate adjustments to the strictness of standards for automatic banknote examination machines to determine whether returned banknotes were fit for recirculation.

2. Researching and analyzing information on regional economies accurately and making use of the results in the Bank's policy implementation, as well as disseminating information on the Japanese economy, including these results, to individual regions.

- (1) The Bank's branches produced up-to-date reports summarizing information on regional economies obtained from local firms and local governments via interviews and other channels. The Bank made use of the findings in its monetary policy implementation,

in addition to compiling and publishing them in the form of the *Regional Economic Report*.

3. Promoting activities to maintain the stability of regional financial systems and improving their functioning.

(1) The Bank, mainly through interviews, exchanged opinions with and gave advice to regional financial institutions concerning financial and management issues. The Bank also supported regional financial institutions' efforts to provide more efficient and advanced financial services by assessing progress in the implementation of the integrated risk management framework and the Basel II Framework. Amid the far-reaching changes in the financial environment, the Bank will continue its efforts to effectively evaluate the overall condition of regional financial institutions by strengthening its monitoring activities.

4. Strengthening the accountability of the Bank by thoroughly explaining its policies and business operations and promoting public relations activities.

(1) The Bank organized opportunities for speeches and press conferences by Bank officials in various regions of Japan and released research papers and statistical publications on themes that were timely and relevant to regional economies. The Bank further enhanced measures toward promoting understanding of its policies and business operations at the regional level by, for example, improving the quality of its explanatory materials and expanding the range of

exhibitions for in-house tours at its branches as well as organizing various events.

5. Continuing to contribute to financial literacy education in local communities.

(1) In cooperation with local committees for financial services information, boards of education, and schools, the Bank actively implemented measures to raise public interest in financial literacy education and to enhance the effectiveness of such education by organizing lecture tours and open lectures on the subject as well as holding seminars for schoolteachers.

6. Enhancing business continuity arrangements.

(1) In order to ensure the continuity of central banking services at the regional level in case of emergencies or system disruptions, the Bank, in cooperation with the relevant parties, conducted practical business continuity exercises, including those designed to fit particular regional circumstances as well as those for testing the availability of key employees and the functioning of actual operations under emergency situations. In addition, the Bank established contact lists and conducted communication exercises with local governments and financial institutions to ensure that the financial activities would continue to function at the regional level in times of emergency. The Bank will continue to further enhance business continuity arrangements, focusing on areas deemed most at risk from disasters such as large-scale earthquakes.