



Appendixes

- **Appendix 1: Overview of Audits of the Bank of Japan**
- **Appendix 2: Medium-Term Strategic Framework for Fiscal 2005–2009**
- **Appendix 3: The Bank of Japan's Action Plans for Fiscal 2008**
- **Appendix 4: Bank of Japan Act
(Act No. 89 of June 18, 1997)**

APPENDIX 1: OVERVIEW OF AUDITS OF THE BANK OF JAPAN

Pursuant to the provisions of the Bank of Japan Act and in accordance with the Bank's internal rules, the following audits were conducted by the Auditors of the Bank in fiscal 2007 and at the beginning of fiscal 2008.

I. Audits of the Bank's Financial Statements and Other Documents¹

A. The financial statements and other documents for fiscal 2006

From April through to early May 2007, the Auditors audited the Bank's financial statements and other documents, specifically the inventory of property, the balance sheet, the statement of income, the annual report on the settlement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2006 (the 122nd fiscal year) as well as the statement of income for the second half of fiscal 2006.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2006 as well as the results of operations for the second half of fiscal 2006.

B. The financial statements and other documents for the first half of fiscal 2007

From October through to early November 2007, the Auditors audited the Bank's financial statements and other documents, specifically the inventory of property, the balance sheet, the statement of income, and the

schedule for the financial statements for the first half of fiscal 2007 (the 123rd fiscal year).

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property and the results of operations for the first half of fiscal 2007.

C. The financial statements and other documents for fiscal 2007

From April through to early May 2008, the Auditors audited the Bank's financial statements and other documents, specifically the inventory of property, the balance sheet, the statement of income, the annual report on the settlement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2007 as well as the statement of income for the second half of fiscal 2007.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2007 as well as the results of operations for the second half of fiscal 2007.

II. Field Audits of Banknotes, Securities, and Books

In fiscal 2007, the Auditors conducted a total of 52 field audits of banknotes and securities in the custody of as well as books kept by 6 departments of the Bank's Head Office and 32 branches.

1. The first half of the fiscal year runs from April 1 through September 30, and the second half from October 1 through March 31.

III. Other Audits

In fiscal 2007, the Auditors audited the Bank's overall operations at the Bank's Head Office, 32 branches, and 7 local offices in Japan. They conducted 210 meetings, at which they heard explanations and received reports concerning the Bank's operations from the relevant

departments, expressing opinions as required, as well as 392 examinations of key documents and 6 special on-site visits. They also conducted an additional audit of a department at the Bank's Head Office regarding operations relating to expenses and contracts.

APPENDIX 2: MEDIUM-TERM STRATEGIC FRAMEWORK FOR FISCAL 2005–2009

The Bank released the Medium-Term Strategic Framework for Fiscal 2005–2009 (MTSF) on March 18, 2005.¹ The MTSF described how the Bank would contribute to the sound development of Japan's economy during this period, and to this end, how it would address management issues.

I. The Core Principles of the MTSF

The MTSF is based on the two core principles of pursuing more advanced services and ensuring well-disciplined management. Japan's economy is in an important phase as it is shifting toward a new stage of development. Japanese firms and financial institutions need to adapt to the changes in their environment, and at the same time, they face the challenge of regaining dynamism and enhancing their international competitiveness. Against this background, the Bank will increase the value of its services so that they are fully consistent with the new environment and supportive of economic entities in Japan. Also, the Bank, as a public organization, will make its services as efficient as possible and will be firmly committed to the fair and precise execution of its business operations essential to gain public confidence.

II. Pursuit of More Advanced Services: Eight Strategic Goals

The Bank, in accordance with the principles outlined above, has adopted the following eight strategic goals.

A. Strengthening policy planning capabilities

Against the background detailed above, the Bank will conduct its policy appropriately, taking into consideration the ongoing structural changes both in the domestic

and overseas economies. To this end, the Bank will seek to enhance the quality of its research and analysis and improve the statistics it publishes, with a view to further strengthening its policy planning capabilities.

Regarding research and analysis, a broad range of issues will be studied, including the progress of globalization, other structural and systemic changes in Japan's economy and financial markets, and the effectiveness of monetary policy, as well as the policy framework. The Bank will make use of these findings in conducting monetary policy. In addition, the Bank will undertake research in other areas such as the infrastructure of the financial system, including information technology (IT), and the history of currencies and finance. The Bank is also constantly examining ways to improve the quality of the statistics it publishes.

The findings of such research and analysis will be released promptly, with the aim of sharing understanding of financial and economic issues both domestically and overseas. Furthermore, the Bank will strengthen cooperation with other central banks, domestic and foreign academia, and research institutes, to raise the quality of its research activities.

B. Attaining safer and more efficient payment and settlement systems and market infrastructure

The Bank will seek to enhance the functionality and efficiency of Japan's payment and settlement systems and market infrastructure, to achieve improved levels of security and serviceability that compare favorably with international standards. Financial services and market transactions are rapidly becoming more advanced and diverse, requiring the Bank to strengthen its efforts to support new developments and innovation. To achieve

1. The terms used herein are those based on the old translation of the Bank of Japan Act (Act No. 89 of June 18, 1997).

this, the Bank will upgrade the functions of Japan's payment and settlement systems including the Bank of Japan Financial Network System (BOJ-NET), improve the procedures for its money market operations and other transactions, and provide support for the reform of financial markets through close dialogue with the relevant parties. The Bank will also enhance the user-friendliness of business operations related to treasury funds (government expenses and revenues) by expanding online processing.

C. Ensuring business continuity arrangements for emergencies

The Bank will aim to ensure that the overall financial system, including payment and settlement systems and financial markets, maintains basic functioning in times of emergency. This will involve the reinforcement of the Bank's own business continuity arrangements. The Bank will also cooperate closely with financial institutions and other relevant entities and support their efforts to improve their business continuity arrangements.

D. Enhancing the functioning of the financial system

Given that the financial system in Japan has been regaining stability, the Bank will shift its focus from crisis management to supporting private-sector initiatives aimed at providing more efficient and advanced financial services via fair competition, while maintaining overall system stability.

From this perspective, in its on-site examinations and off-site monitoring, the Bank will place more emphasis on enhancing the functioning and robustness of the overall financial system. To this end, the Bank will support financial institutions' efforts to put in place more sophisticated risk management and general management systems, with a view to providing innovative new services to meet customer needs.

Ensuring financial system stability will be as essential as ever in the new financial environment. The Bank will promptly implement measures, including those as the lender of last resort, to prevent the manifestation of systemic risks.

E. Enhancing international operations and services in response to globalization

In recent years, Japan's economy has adapted rapidly to the ongoing trend of globalization, which is likely to gather further momentum over the next five years. In particular, economic interdependence with other Asian countries will continue to deepen. Against this background, the Bank will upgrade its international operations and services and increase cooperation, including technical assistance with other central banks, particularly with those in Asia.

F. Securing confidence in the currency

The Bank will work to maintain an environment in which currency can circulate safely, by preventing the counterfeiting of currency. To this end, the Bank will promote faster distribution of the new series of banknotes with improved security features. The Bank will also improve its capability to detect counterfeits. In addition, the Bank will further advance research and promote public understanding regarding security and anti-counterfeiting of the currency and other means of payment, in cooperation with relevant parties at home and abroad, including other central banks and international organizations.

G. Promoting better understanding of the policies and business operations of the Bank and related financial and economic issues

The Bank conducts various public relations activities to explain its policies and business operations as well as general financial and economic developments. The Bank will increase the number of such opportunities so as to

promote a better understanding of its activities among the general public as well as professionals. In addition, the Bank will aim to make its various publications and releases better suited to the diverse needs and interests of their users. It will also cooperate with the Central Council for Financial Services Information (CCFSI) and associated local committees to promote understanding of financial literacy among the general public. International public relations activities will also be stepped up with a view to improving understanding of Japan's economy overseas.

H. Improving regional services

In achieving the strategic goals listed above, the Bank will also place emphasis on improving various services provided in each region in Japan. For this purpose, the Bank will make effective use of its local network of branches and offices and serve local communities through provision of payment and settlement services for financial institutions and the government, distribution of currencies and appropriate response to issues involving counterfeits, business continuity arrangements in times of emergency, research on regional financial and economic developments and surveys of business conditions, and improving financial literacy and public relations activities. Information gained through these activities will be reflected in the Bank's policy implementation.

III. Well-Disciplined Management

A. Management resources

The Bank will strive to achieve the strategic goals mentioned above by using its management resources efficiently. To this end, the Bank will manage its resources (i.e., its human resources, resources for IT investment, and administrative expenses) according to the following principles.

1. Human resources

The Bank will continue to raise the efficiency of its operations through measures such as reengineering of business processes, utilization of IT, and promotion of information sharing and outsourcing.

On the other hand, the Bank must ensure that it has the staff necessary to achieve its strategic goals. Of the eight strategic goals discussed above, services related to the first three require the Bank to retain the appropriate number of employees to achieve these goals. Specifically, they are the strengthening of policy planning capabilities, attaining of safer and more efficient payment and settlement systems and market infrastructure, and ensuring business continuity arrangements. However, the extra staff required to achieve strategic goals should be offset by staff reductions elsewhere, attained, as mentioned above, by streamlining existing operations. The total number of employees should therefore, in principle, remain more or less flat for the next five years. With this in mind, the Bank will make further efforts to raise the efficiency of its operations and, to the extent possible, achieve a net decrease in the number of employees.

In line with this basic principle, the Bank will enhance the quality of its human capital by seeking new staff with diverse skills as well as through strategic job rotation, career development programs, and active personnel exchanges between the Bank and other domestic and overseas organizations.

2. IT investment

To meet the growing demand for the Bank's services and achieve its stated strategic goals, the Bank must continue to invest steadily in its systems to upgrade the functions of the BOJ-NET and other operations, ensure business continuity arrangements, and improve its information database. The Bank will, however, avoid a

marked expansion in the scale of system development by working actively to streamline the business procedures involved in IT planning and development. Specifically, the Bank plans to control the rise in the scale of system development, which will move from the level of approximately 10,200 person-months in fiscal 2004 to 12,000 person-months over the five years of the MTSF. The Bank will seek to meet the needs for its services within the bounds of this constraint.

3. General and administrative expenses and costs²

The Bank will continue to appropriate the budget necessary for human resources and IT investment. At the same time, the Bank will minimize the consequent rise in costs by examining thoroughly all possible reductions and streamlining of overall expenses.

B. Organizational management

With a view to the steady pursuit and achievement of its stated strategic goals, the Bank has put in place the following principles with respect to organizational management.

1. MTSF and performance review

The Bank will formulate and release in its Action Plans, published every fiscal year, the concrete actions through which it aims to achieve its strategic goals, at the same time specifying the management resources required to carry out these actions. 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 around September.

2. Enhancement of the management system for execution

The Bank will establish a Management Committee.³ This committee is to be responsible for examining Bank-wide issues such as implementation of the MTSF and strengthening the functioning of the organization as a whole.

In addition to the above, the Bank specifies the following principles with respect to the conduct of duties in light of its mission to serve the public.

3. Fairness and accuracy in conducting duties

The Bank will ensure fairness in conducting its duties. Moreover, while pursuing more efficient organizational management, the Bank will apply due diligence to ensure that it maintains accuracy in its operations. To this end, the Bank will formulate and review regulations and manuals and improve staff education and training programs for acquiring practical knowledge and workplace discipline.

4. Enhancement of compliance

The Bank will establish a Compliance Committee⁴ in order to ensure that the executives and staff perform their duties fairly and in compliance with the relevant laws and regulations. Also, under the auspices of this committee, the Bank will enhance the management of information security in its operations.

2. These are limited to expenses specified by a Cabinet Order as not hampering the currency and monetary control.

3. The members of this committee comprise the Deputy Governors and all Executive Directors. The committee was established on April 1, 2005.

4. The members of this committee comprise members appointed from among the Deputy Governors and Executive Directors by the Governor; the Director-General of the Internal Auditors' Office; and one or more legal experts from outside the Bank. The committee was established on April 1, 2005.

APPENDIX 3: THE BANK OF JAPAN'S ACTION PLANS FOR FISCAL 2008¹**I. Introduction**

The Action Plans for Fiscal 2008 details the issues and concrete action plans that the Bank of Japan intends to tackle during the coming fiscal year, as well as the principles for the Bank's organizational management and its allocation of resources (i.e., its administrative expenses, resources for information technology [IT] investment, and human resources) to support implementation of the planned actions.

In 2007, the materialization of the U.S. subprime mortgage problem triggered instability in global financial markets. The effects of this, including on Japan's economy, continue to warrant attention. These developments reflect multifaceted changes extending throughout financial markets, which have taken place against the background of progress in globalization, advances in financial engineering techniques, and continuation of the accommodative financial environment.

In light of such changes, it is increasingly important for the Bank to conduct accurate research and analysis into developments in a wider range of markets and the diverse make-up of their participants, thereby further improving the Bank's assessment of economic activity and prices.

The Bank has been implementing new measures toward further enhancement of its payment and settlement services, by, for example, pushing forward with the next-generation real-time gross settlement (RTGS-XG) project of the Bank of Japan Financial Network System Funds Transfer System (BOJ-NET FTS). Taking account of changes in the financial market

environment, the Bank should continue to support financial institutions' efforts to put in place more sophisticated risk management and general management systems. In addition to the above, in implementing concrete action plans for fiscal 2008, the Bank should aim at further enhancing the functioning of Japan's financial markets.

With this understanding, the Bank will tackle the following concrete action plans in fiscal 2008 in order to realize more advanced central banking services. At the same time, in terms of its organizational management, the Bank will continue to strive to ensure the fairness and precision with which it executes its business operations.

II. Major Issues and Action Plans

The major issues facing the Bank in fiscal 2008 and action plans to tackle them are summarized according to the eight strategic goals laid out in the Medium-Term Strategic Framework (MTSF) for fiscal 2005–2009, which was formulated and released in March 2005.²

A. Strengthening policy planning capabilities

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, taking full account of the economic situation and multifaceted changes in financial markets.

1. The quality of the Bank's research and analysis on developments in economic activity, prices, and the financial environment will be improved by the following measures.

1. The Bank released the Action Plans for Fiscal 2008 on March 14, 2008. The terms used herein are those based on the old translation of the Bank of Japan Act (Act No. 89 of June 18, 1997).

2. Fiscal 2005–2009 refers to the period from April 2005 through March 2010.

- a. Expanding the range of research and analysis in light of changes in financial markets.
 - b. Reinforcing research and analysis so as to account for structural changes in Japan's economy. Specifically, the Bank will conduct research and analysis into issues such as the extent to which developments in the corporate sector affect the household sector and the profitability and productivity of firms by industry and size.
2. Deeper deliberation, analysis, and research related to the conduct of monetary policy and the framework for money market operations, in light of the ongoing changes in the financial and economic situation.
 3. Making public the findings of its research and analysis through the release of various reports.
 4. Improving the quality of statistics compiled by the Bank through scheduled reviews and revisions. Major actions to be taken are as follows.
 - a. Revision of the money stock statistics. Preparing for the revision of the base year for the Corporate Service Price Index. Continued contribution to international initiatives to revise the *Balance of Payments Manual* to be released by the International Monetary Fund (IMF) in 2008.
 - b. Further enhancing the quality of various statistical databases.
 5. Sharing with financial institutions the Bank's understanding of IT-related issues involved in financial transactions and encouraging them to strengthen their management of information security, by releasing the IT research findings made by the Center for Information Technology Studies (CITECS) of the Bank's Institute for Monetary and Economic Studies (IMES). Continuing to develop the activities of the Archives and the Currency Museum.

B. Attaining safer and more efficient payment and settlement systems and market infrastructure

The Bank will continue to raise the sophistication of its payment and settlement services and improve the functioning of financial markets, given advances in IT and changes in the financial environment. It will also continue to deliberate on how to improve the BOJ-NET over the medium to long term.

1. Ensuring the daily, smooth operation of its systems for providing payment and settlement services, including the BOJ-NET.
2. Upgrading the functions of the BOJ-NET as follows.
 - a. Pushing forward with the RTGS-XG project of the BOJ-NET FTS via the smooth introduction of liquidity-saving features into the RTGS mode, and by proceeding with and promoting system modifications to enable the incorporation of large-value payments currently handled by private-sector deferred net settlement systems.
 - b. Continuing to deliberate on further improvement of the BOJ-NET over the medium to long term, including the redesigning of its infrastructure.
3. Conducting a survey into the functioning of the money market in Japan and releasing its findings, so as to contribute to the enhancement of market functioning.
4. Improving the procedures for money market operations and for the acceptance of eligible collateral so as to conduct market operations more smoothly, maintain the stability of financial markets, and improve the convenience of counterparties, by, for example, implementing measures that enable them to outsource the management of collateral to custodian institutions.
5. Continuing to take the initiative in promoting further improvement in the safety and efficiency of private-

sector payment and settlement systems.

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

C. Ensuring business continuity arrangements for emergencies

In order to prepare for natural disasters, terrorist attacks, and pandemics, the Bank will continue to improve its business continuity arrangements, and will push initiatives with concerned parties to upgrade the business continuity facility of financial markets, payment and settlement systems, and the financial system.

1. Promoting efforts to upgrade the business continuity facility of financial markets, payment and settlement systems, and the financial system, in cooperation with concerned parties in financial markets, by, for example, conducting joint exercises on a market-wide basis.
2. Further enhancing business continuity planning for emergencies at the Bank's Head Office as follows.
 - a. Ensuring that the business continuity infrastructure at the Bank is in line with the "General Principles Relating to Countermeasures for Earthquakes Directly below the Tokyo Metropolitan Area" and the Bank's civil protection business plan.
 - b. Improving business continuity exercises and emergency drills.
 - c. Formulating contingency plans for various types of emergency.

D. Enhancing the functioning of the financial system

The Bank will continue its efforts to effectively evaluate the overall condition of financial institutions, and will support efforts to improve their risk and business management, taking into account structural changes in

financial markets and the financial system. It will also reinforce research and analysis related to overall risks in the Japanese financial system.

1. Reinforcing research and analysis related to the overall condition of financial institutions and the robustness of the Japanese financial system as a whole as follows.
 - a. Conducting on-site examinations and off-site monitoring of financial institutions, giving due consideration to their individual risk profiles and risk management capabilities.
 - b. Reinforcing research and analysis that take account of recent developments in the flow of risk capital.
 - c. Continuing to conduct research and analysis that pay explicit attention to systemic links within the financial system in Japan by, for example, considering methods for analyzing and assessing overall risks in the Japanese financial system, as well as deliberating about how to put these methods into practice.
2. Further supporting 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 Bank's Center for Advanced Financial Technology (CAFT), as follows.
 - a. Discussing more practical risk management and internal control systems at financial institutions, better tailored to their individual management circumstances, and working to realize such systems.
3. Engaging in discussions on financial system policy held at global forums by making use of the Bank's past experiences and accumulated expertise.

E. Enhancing international operations and services in response to globalization

The Bank will 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. Engaging in discussions held at global forums on the sound development of the global economy and the improvement of the functioning of global financial markets.
2. Continuing to promote 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.
3. Strengthening cooperation with central banks and other authorities in Asia and playing a prominent part in the region, especially through initiatives taken by the Bank's Center for Monetary Cooperation in Asia (CeMCoA), by holding seminars, conducting joint research, and building on existing schemes for technical assistance and personnel exchange.
4. Managing the Bank's foreign currency assets in a stable and efficient manner.

F. Securing confidence in the currency

The Bank will progress with measures for maintaining the cleanliness of banknotes in circulation and further improving the efficiency of its channels for supplying cash, including coins. It will also step up its efforts to ensure the safe use of the currency and other means of payment, while further cooperating with concerned parties.

1. Continuing to maintain the cleanliness of banknotes in circulation based on data on damaged banknotes

compiled and analyzed by the Bank.

2. Ensuring a stable and efficient supply of banknotes by continuously reviewing the Bank's operations related to examination and distribution of banknotes.
3. Further improving the efficiency of the Bank's channels for supplying cash, including coins, through close dialogue with financial institutions and cash service providers, while at the same time ensuring the transparency of its cash handling services.
4. Continuing to improve the Bank's counterfeit detection capability through the installment of the new automatic banknote examination machines with increased flexibility for detecting counterfeit banknotes.
5. 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. Stepping up efforts to grasp the situation in the private sector regarding measures for detecting counterfeits.
 - c. Improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.

G. Promoting better understanding of the policies and business operations of the Bank and related financial and economic issues

The Bank will continue to improve the plainness and accessibility of its explanations of its policies and business operations from a variety of perspectives, in order to secure public understanding.

1. Working toward securing public understanding of the Bank's policies and business operations as follows.

- a. Promoting the dissemination of information on the Bank's various measures.
 - b. Further enhancing the user-friendliness of the Bank's web site, and improving its contents.
 - c. Expanding the Bank's means of accessing public opinion regarding its business operations.
 - d. Starting to release transcripts of the Monetary Policy Meetings.
2. Continuing to contribute to financial literacy education, for example, by encouraging deeper public understanding of the Bank's activities based on educational programs for improving financial literacy as well as raising awareness and understanding of financial and economic issues, in support of the activities of the Central Council for Financial Services Information (CCFSI) and local committees.

H. Improving regional services

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.

1. Continuing to promote the smooth supply of clean banknotes.
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 economic and financial information, including these results, to individual regions.
3. Reinforcing activities to maintain the stability of regional financial systems and improving their functioning.
4. Strengthening the accountability of the Bank by thoroughly explaining its policies and business operations and promoting public relations activities.
5. Continuing to contribute to financial literacy education in local communities and raising awareness and understanding of financial and economic issues.

6. Enhancing business continuity arrangements.

III. Organizational Management and Management Resources

A. Organizational management

In the area of organizational management, the major issues and action plans for fiscal 2008 are as follows.

The Bank will strengthen efforts to raise the efficiency with which it uses management resources by, for example, implementing work-life balance initiatives for the benefit of its employees, thus ensuring a firm basis from which to implement the measures needed to achieve the eight strategic goals laid out in the MTSF. At the same time, the Bank will intensify Bank-wide efforts to execute its business operations with fairness and precision.

1. Raising the efficiency of the Bank's use of management resources as follows.
 - a. Increasing productivity through operational restructuring and improving business processes, taking into account changes in the business environment.
 - b. Allocating human resources flexibly to reflect the contents of, and extent of progress in achieving, its action plans.
 - c. Acquiring staff with diverse skills. Enhancing staff training to keep up with the growing sophistication of business operations.
2. Enhancing work-life balance initiatives to support a healthier balance between work and private life for the Bank's employees, while ensuring the smooth running of the organization.
3. Striving to execute all operations with fairness and precision as follows.

- a. Ensuring the fairness of the Bank's business operations by making sure that executives and staff attend thoroughly to their obligations in terms of compliance with requisite laws and regulations.
- b. Identifying risks through measures such as the assessment of business processes, as well as reinforcing and implementing concrete measures for preemptive risk reduction.
- c. Continuing to ensure that all operations are backed up by reliable practical knowledge, and executed with precision and deliberation.

B. Budget for general and administrative expenses and costs³

The Bank's budget for general and administrative expenses and costs for fiscal 2008 (the 124th fiscal year) is as follows (Tables 1 and 2).⁴ Note that, while appropriating a significant portion of the budget to deal with the major issues and action plans outlined in the preceding section, the Bank has also thoroughly examined overall expenditure to achieve a more streamlined budget.

1. The budget for general and administrative expenses and costs for fiscal 2008 (excluding the cost of fixed-asset purchases and the contingency funds) decreased by 2.2 percent from the previous year to 214.3 billion yen, due mainly to the following decreases from the previous year: 1.6 percent in the cost of production of banknotes; 2.1 percent in administrative expenses for treasury business and government securities; 3.9 percent in expenses for

transportation and communications; and 5.8 percent in other expenses and costs.

2. The Bank appropriated a total of 11.4 billion yen for fixed-asset purchases, a decrease of 25.1 percent from the previous year, mainly because the cost for the rebuilding of the Naha branch and the cost of purchasing land for the relocation of the Kushiro branch were no longer included. The Bank appropriated 1.0 billion yen for the contingency funds in fiscal 2008, which was the same amount as in the previous year.

C. IT investment

The scale of system development for fiscal 2008 was set at 9,939 person-months⁵ (including outsourcing man-hours of 7,100 person-months), somewhat lower than the previous year (projected at approximately 10,557 person-months). The Bank will steadily carry out system development projects necessary for implementing the action plans laid out in the MTSF; at the same time, it will continue to seek further improvements in the efficiency of its system development while paying due attention to maintaining system quality.

D. Ceiling on the number of employees

While ensuring that it has the staff necessary to carry out its action plans, the Bank will continue to step up its efforts to achieve a net decrease in the number of its employees by, for example, streamlining, outsourcing, and increasing the efficiency of its business operations. The ceiling on the number of full-time employees at the Bank for fiscal 2008 has been set at 5,030, a decrease of 50 employees from fiscal 2007.

3. These are limited to expenses specified by a Cabinet Order as not hampering the currency and monetary control.

4. The Bank prepares a budget for general and administrative expenses and costs every fiscal year. Its budget for core operations, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, Paragraph 1 of the Bank of Japan Law before the beginning of each fiscal year. For fiscal 2008, the Bank sought approval on March 14, 2008 and will implement the budget upon authorization from the Minister of Finance.

Figures appearing in the text and tables of the Action Plans are rounded.

5. In system development, one person-month describes the workload equivalent to one person working for one month.

Table 1

Budget for General and Administrative Expenses and Costs for Fiscal 2008 (The 124th Fiscal Year)

Item	Initial budget (thous. yen)	Share ¹ (percent)	Change from the previous year (percent)
Cost of production of banknotes	52,785,255	24.6	-1.6
Administrative expenses for treasury business and government securities	51,130,849	23.9	-2.1
Personnel expenses	52,350,842	24.4	1.0
Remuneration of executives	442,047	0.2	-0.8
Remuneration of staff	41,533,411	19.4	0.3
Retirement allowances	10,375,384	4.8	3.8
Expenses for transportation and communications	5,761,681	2.7	-3.9
Expenses for transportation	2,293,181	1.1	-2.2
Expenses for communications	3,468,500	1.6	-4.9
Expenses for maintenance and repairs	1,974,672	0.9	0.8
Other expenses and costs	50,280,487	23.5	-5.8
Cost of expendable supplies	1,872,134	0.9	-2.9
Expenses for electricity and water supply	2,251,091	1.1	-0.5
Leasing fees for buildings and equipment	10,747,348	5.0	-10.5
Expenses for maintenance of buildings and equipment	9,752,775	4.6	-2.8
Miscellaneous expenses	25,657,139	12.0	-5.6
Subtotal	214,283,786	100.0	-2.2
Cost of fixed-asset purchases	11,422,994	...	-25.1
Of which: Subject to the approval of the Minister of Finance ²	5,045,263	...	-21.4
Contingency funds	1,000,000	...	0.0
Total³	226,706,780	...	-3.7
Of which: Subject to the approval of the Minister of Finance ²	220,329,049	...	-2.7

Notes: 1. "..." indicates that figures are not applicable.

2. Excludes the cost of purchasing fixed assets used for the Bank's business operations.

3. Of the budget for general and administrative expenses and costs, expenses for computerization amounted to 28,001,150 thousand yen, a 9.3 percent decrease from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

The budget for expenses related to computerization reflects an estimate for outsourcing man-hours stipulated in Section III.C.

Table 2

Budget for General and Administrative Expenses and Costs for Fiscal 2003–2008

bil. yen

Item	Fiscal year					
	2003	2004	2005	2006	2007	2008
Budget for general and administrative expenses and costs ¹	222.8	226.0	222.3	219.6	219.1	214.3
Reference: Expenses for computerization	30.9	31.9	34.3	32.4	30.9	28.0
Cost of fixed-asset purchases	12.2	16.6	13.8	15.5	15.3	11.4
Total budget for general and administrative expenses and costs ²	236.0	243.7	237.2	236.2	235.3	226.7

Notes: 1. Excludes the cost of fixed-asset purchases and the contingency funds.

2. Includes the contingency funds.

APPENDIX 4: BANK OF JAPAN ACT (ACT NO. 89 OF JUNE 18, 1997)

The following introductory text and English translation of the Bank of Japan Act have been prepared by the government of Japan and are available also in the web site of the Cabinet Secretariat (<http://www.cas.go.jp/>).

This English translation of the Bank of Japan Act has been prepared (up to the revisions of Act No. 102 of 2007 [yet to enter into force]) in compliance with the Standard Bilingual Dictionary (March 2007 edition). This is an unofficial translation. Only the original Japanese texts of laws and regulations have legal effect, and translations are to be used solely as reference material to aid in the understanding of Japanese laws and regulations. The Government of Japan will not be responsible for the accuracy, reliability, or currency of the legislative material provided on this Website, or for any consequence resulting from use of the information on this Website. For all purposes of interpreting and applying the law to any legal issue or dispute, users should consult the original Japanese texts published in the Official Gazette.

Chapter I	General Provisions (Article 1–Article 13)
Chapter II	Policy Board (Article 14–Article 20)
Chapter III	Officers and Employees (Article 21–Article 32)
Chapter IV	Business (Article 33–Article 45)
Chapter V	Bank of Japan Notes (Article 46–Article 49)
Chapter VI	Accounting (Article 50–Article 53)
Chapter VII	Reporting, etc. to the Diet (Article 54 and Article 55)

Chapter VIII Rectification, etc. of Illegal Acts, etc.

(Article 56–Article 58)

Chapter IX Miscellaneous Provisions

(Article 59–Article 62)

Chapter X Penal Provisions (Article 63–Article 66)

Chapter I General Provisions**Article 1 (Purpose)**

- (1) The purpose of the Bank of Japan, or the central bank of Japan, is to issue banknotes and to carry out currency and monetary control.
- (2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of stability of the financial system.

Article 2 (The Principle of Currency and Monetary Control)

Currency and monetary control by the Bank of Japan shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

Article 3 (Respecting the Autonomy of the Bank of Japan and Ensuring Transparency)

- (1) The Bank of Japan's autonomy regarding currency and monetary control shall be respected.
- (2) The Bank of Japan shall endeavor to clarify to the citizen the content of its decisions, as well as its decision-making process, regarding currency and monetary control.

Article 4 (Relationship with the Government)

The Bank of Japan shall, taking into account the fact that currency and monetary control is a component of overall economic policy, always maintain close contact

with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy shall be mutually compatible.

Article 5 (Public Nature of the Bank of Japan's Business and Its Autonomy)

- (1) In light of the public nature of its business and property, the Bank of Japan shall endeavor to conduct its business in a proper and efficient manner.
- (2) In implementing this Act, due consideration shall be given to the autonomy of the Bank of Japan's business operations.

Article 6 (Juridical Personality)

The Bank of Japan shall be a juridical person.

Article 7 (Head Office and Branch Offices, etc.)

- (1) The Bank of Japan shall locate its head office in Tokyo.
- (2) The Bank of Japan may, pursuant to an Ordinance of the Ministry of Finance and upon authorization from the Minister of Finance, establish, relocate, or abolish offices including branch offices.
- (3) The Bank of Japan may, pursuant to an Ordinance of the Ministry of Finance and upon authorization from the Minister of Finance, establish or abolish agencies that perform a part of the Bank's business.
- (4) If an application for authorization set forth in the preceding two paragraphs has been filed but the Minister of Finance has denied it, he/she shall make public this denial of authorization and the reason therefor promptly, together with the content of the requested application.

Article 8 (Stated Capital)

- (1) The amount of the Bank of Japan's stated capital shall be one hundred million yen to be contributed to by both the government and non-governmental persons.

- (2) Of the amount of stated capital set forth in the preceding paragraph, the amount of contribution by the government shall be no less than fifty-five million yen.

Article 9 (Investment Securities)

- (1) The Bank of Japan shall issue investment securities for capital contribution pursuant to paragraph 1 of the preceding Article.
- (2) Other matters concerning investment securities set forth in the preceding paragraph, as well as matters concerning capital contribution in general, shall be specified by a Cabinet Order.

Article 10 (Transfer of Equity)

Contributors to the Bank of Japan's capital may, pursuant to a Cabinet Order, transfer their equity or put it in pledge.

Article 11 (Articles of Incorporation)

- (1) The Bank of Japan shall stipulate the following matters in its articles of incorporation:
 - (i) Purpose;
 - (ii) Official name;
 - (iii) Locations of the head office and branch offices;
 - (iv) Matters concerning the stated capital and contribution;
 - (v) Matters concerning the Policy Board;
 - (vi) Matters concerning officers;
 - (vii) Matters concerning its business and the execution thereof;
 - (viii) Matters concerning the issuance of banknotes;
 - (ix) Matters concerning accounting;
 - (x) Means for public notice and publication.
- (2) Any amendments to the articles of incorporation shall not come into effect unless authorized by the Minister of Finance and the Prime Minister.
- (3) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the authorization set forth in the preceding paragraph.

Article 12 (Registration)

- (1) The Bank of Japan shall register relevant matters pursuant to a Cabinet Order.
- (2) Matters to be registered as prescribed in the preceding paragraph may not be asserted against a third party unless having been registered.

Article 13 (Restriction on Use of the Bank of Japan's Name)

No person other than the Bank of Japan may use the name "Bank of Japan."

Chapter II Policy Board**Article 14 (Establishment)**

A Policy Board (hereinafter referred to as the "Board" in this and the following Chapter) shall be established in the Bank of Japan.

Article 15 (Authority)

- (1) The following matters concerning currency and monetary control shall be decided by the Board:
 - (i) Determining or altering the basic discount rate and other discount rates pertaining to the discounting of negotiable instruments set forth in Article 33, paragraph 1, item (i), as well as the types and conditions of negotiable instruments pertaining to the said discounting;
 - (ii) Determining or altering the basic loan rate and other loan rates pertaining to the loans set forth in Article 33, paragraph 1, item (ii), as well as the types, conditions, and value of collateral pertaining to the said loans;
 - (iii) Determining, altering, or abolishing reserve requirement ratios, the base date, and other matters prescribed in Article 4, paragraph 1 of the Act on Reserve Deposit Requirement System (Act No. 135 of 1957);
 - (iv) Determining or altering the guidelines for

financial market control (currency and monetary control conducted through financial markets [including open market operations]) through such measures as the buying and selling of negotiable instruments, bonds, or electronically recorded claims (electronically recorded claims prescribed in Article 2, paragraph 1 of the Electronically Recorded Claims Act [Act No. 102 of 2007]); hereinafter the same shall apply in this item and Article 33, paragraph 1) prescribed in Article 33, paragraph 1, item (iii), as well as determining or altering the types, conditions, and other matters of negotiable instruments, bonds, or electronically recorded claims pertaining to the said financial market control;

- (v) Determining or altering other guidelines for currency and monetary control;
 - (vi) Determining or altering the Bank of Japan's view on currency and monetary control, including its basic view on economic and monetary conditions which provides the basis for matters listed in the preceding items.
- (2) In addition to matters to be subject to the Board resolution as prescribed in the preceding paragraph, the following matters shall also be decided by the Board:
 - (i) Making loans pursuant to Article 37, paragraph 1, and executing business pursuant to Article 38, paragraph 2;
 - (ii) Applying for authorization pursuant to Article 39, paragraph 1, and determining important matters concerning the business pertaining to the said authorization;
 - (iii) Conducting the buying and selling of foreign exchange to facilitate international financial

- business which the Minister of Finance specifies as constituting cooperation in the field of international finance as prescribed in Article 40, paragraph 3, initiating transactions with a foreign central bank, etc. (a foreign central bank, etc. prescribed in Article 41) pertaining to the business prescribed in the same Article, and executing transactions pursuant to Article 42;
- (iv) Applying for authorization pursuant to the proviso of Article 43, paragraph 1, and determining important matters concerning the business pertaining to the said authorization;
 - (v) Determining the content of a contract concerning on-site examinations prescribed in Article 44, paragraph 1, as well as determining important matters concerning the implementation of on-site examinations for each business year;
 - (vi) Altering the articles of incorporation;
 - (vii) Preparing or altering a statement of operation procedures;
 - (viii) Establishing, relocating, or abolishing offices including branch offices and agencies;
 - (ix) Determining important matters concerning the Bank of Japan's organization and size of staff (excluding what is listed in the preceding item);
 - (x) Establishing or altering the standards for paying remuneration prescribed in Article 31, paragraph 1, as well as rules on service prescribed in Article 32;
 - (xi) Acquiring or disposing of real estate and other important property;
 - (xii) Making or altering a budget for expenses (a budget for expenses prescribed in Article 51, paragraph 1), preparing an inventory, balance sheet, profit and loss statement, and statement of accounts, and determining important matters concerning accounting including the appropriation of any surplus;
 - (xiii) Preparing a written report prescribed in Article 54, paragraph 1, as well as the outline of business operations prescribed in Article 55;
 - (xiv) Establishing or altering the rules prescribed in Article 59;
 - (xv) Determining matters to be decided by the Board pursuant to this Act or to be carried out by the Board pursuant to this Act or other laws and regulations;
 - (xvi) Determining matters which the Board finds particularly necessary, in addition to what is listed in the preceding items.
- (3) The Board shall supervise the execution of their duties by the officers (excluding Auditors and Counsellors in this paragraph) of the Bank of Japan.
- Article 16 (Organization)**
- (1) The Board shall be composed of nine members.
 - (2) Board members shall consist of six Members of the Policy Board, the Bank of Japan's Governor and two Deputy Governors. In this case, the Governor and the Deputy Governors shall perform their duties as Board members independently of each other, irrespective of the provisions of Article 22, paragraphs 1 and 2.
 - (3) The Board shall have a chairperson, who shall be elected by Board members from among themselves.
 - (4) The chairperson shall exercise general control over Board business.
 - (5) The Board shall designate, in advance, a member who shall perform the duties of the chairperson when the chairperson is prevented from attending to his/her duties.
- Article 17 (Calling of Board Meetings)**
- (1) Board meetings shall be called by the chairperson of the Board (or by the designated alternate prescribed

in paragraph 5 of the previous Article; hereinafter the same shall apply in this Article, the following Article, and Article 20).

- (2) The chairperson shall, pursuant to a Cabinet Order, regularly call Board meetings at which the matters listed in the items of Article 15, paragraph 1 (hereinafter referred to as "monetary control matters" in this Chapter) are to be discussed.
- (3) The preceding paragraph shall not be interpreted as preventing a Board meeting for monetary control matters from being called on an ad hoc basis, when the chairperson finds it necessary, or when one-third or more of the total incumbent Board members find it necessary and request the chairperson to call such a meeting.

Article 18 (Management of Board Meetings)

- (1) The Board may neither meet nor vote unless the chairperson and two-thirds or more of the total incumbent Board members are present.
- (2) Matters shall be decided by a majority of votes cast by Board members who are present. When the votes are equally split, the chairperson shall make a final decision.
- (3) Except for those specified in this Act, procedures of meetings and other necessary matters concerning the administration of the Board shall be determined by the Board.

Article 19 (Attendance of Government Representatives)

- (1) The Minister of Finance or the Minister of State for Economic and Fiscal Policy prescribed in Article 19, paragraph 2 of the Act for Establishment of the Cabinet Office (Act No. 89 of 1999) (referred to as the "Minister of State for Economic and Fiscal Policy" in the following paragraph; in the case where the office is vacant, it shall be assumed by the Prime

Minister) may, when necessary, attend and express opinions at Board meetings for monetary control matters, or may designate an official of the Ministry of Finance or the Cabinet Office, respectively, to attend and express opinions at such meetings.

- (2) The Minister of Finance, or a delegate designated by him/her, and the Minister of State for Economic and Fiscal Policy, or a delegate designated by him/her, may, when attending the Board meetings for monetary control matters, submit proposals concerning monetary control matters, or request that the Board postpone a vote on proposals on monetary control matters submitted at the meeting until the next Board meeting for monetary control matters.
- (3) When a request has been made to postpone a vote as prescribed in the preceding paragraph, the Board shall decide whether or not to accommodate the request, in accordance with the Board's practice for voting.

Article 20 (Publication of Transcripts, etc.)

- (1) After each Board meeting for monetary control matters, the chairperson shall promptly prepare a document describing an outline of the discussion at the meeting in accordance with the decisions made by the Board, and make public the document following its approval at another Board meeting for monetary control matters.
- (2) The chairperson shall prepare a transcript of each Board meeting for monetary control matters in accordance with the decisions made by the Board, and make public the transcript after the expiration of a period of time which is determined by the Board as appropriate.

Chapter III Officers and Employees

Article 21 (Officers)

The officers of the Bank of Japan shall consist of six Members of the Policy Board, a Governor, two Deputy Governors, three or fewer Auditors, six or fewer Executive Directors, and a small number of Counsellors.

Article 22 (Duties and Powers of Officers)

- (1) The Governor shall represent the Bank of Japan and exercise general control over the Bank's business in accordance with decisions made by the Board.
- (2) The Deputy Governors shall, in accordance with decisions made by the Governor, represent the Bank of Japan, administer the business of the Bank assisting the Governor, act for the Governor whenever he/she is prevented from attending to his/her duties, and perform the Governor's duties during a vacancy in the office of the Governor.
- (3) The Auditors shall audit the business of the Bank of Japan.
- (4) The Auditors may, when they find it necessary based on the audit results, submit their opinions to the Minister of Finance, the Prime Minister, or the Board.
- (5) The Executive Directors shall, in accordance with the decisions made by the Governor, administer the business of the Bank of Japan assisting the Governor and the Deputy Governors, act for the Governor when the Governor and the Deputy Governors are prevented from attending to their duties, and perform the Governor's duties during a vacancy in the office of the Governor and the Deputy Governors.
- (6) The Counsellors shall be consulted by the Board on any important matters concerning the Bank of Japan's business operations, and may express their opinions to the Board when they find it necessary.

Article 22-2 (Restrictions on Authority of Representation)

Restrictions on the authority of representation of the Governor or the Deputy Governors may not be asserted against a third party without knowledge of such restrictions.

Article 22-3 (Acts of Conflict of Interest)

The Governor or the Deputy Governors shall not have the authority of representation with regard to matters for which their interests and the interest of the Bank of Japan conflict with each other. In this case, the court shall appoint a special agent, upon a request from an interested person or a public prosecutor.

Article 23 (Appointment of Officers)

- (1) The Governor and the Deputy Governors shall be appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors.
- (2) The Members of the Policy Board shall be appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors, from among persons with relevant knowledge and experience including experts on the economy or finance.
- (3) The Auditors shall be appointed by the Cabinet.
- (4) The Executive Directors and the Counsellors shall be appointed by the Minister of Finance based on the Board's recommendation.
- (5) If the term of office of a Governor, Deputy Governor, or Member of the Policy Board expires or a vacancy occurs in the office of any of these, and if the Diet is out of session or the House of Representatives has been dissolved and it is impossible to obtain the consent of both Houses, the Cabinet may appoint a Governor, Deputy Governor, or Member of the Policy Board, irrespective of the provisions of paragraphs 1 and 2.

(6) In the case set forth in the preceding paragraph, the appointment shall be approved ex post by both Houses in the first Diet session after the said appointment. If the Cabinet fails to obtain such ex post approval, it shall immediately dismiss the said Governor, Deputy Governor, or Member of the Policy Board.

Article 24 (Officers' Terms of Office)

- (1) The terms of office shall be five years for the Governor, Deputy Governors, and Members of the Policy Board, four years for Auditors and Executive Directors, and two years for Counsellors. However, if a vacancy occurs in the office of a Governor, Deputy Governor, or Member of the Policy Board, the term of office for a substitute Governor, Deputy Governor, or Member of the Policy Board shall be limited to the remaining term of his/her predecessor.
- (2) The Governor, Deputy Governors, Members of the Policy Board, Auditors, Executive Directors, and Counsellors may be reappointed.

Article 25 (Guarantee of the Officers' Status)

- (1) Officers of the Bank of Japan (excluding Executive Directors in this paragraph) shall not be dismissed against their will during their terms of office, except in the case prescribed in the second sentence of Article 23, paragraph 6 or in the following cases:
- (i) An officer has received a ruling of the commencement of bankruptcy proceedings;
 - (ii) An officer has received punishment under this Act;
 - (iii) An officer has been sentenced to imprisonment without work or a heavier punishment;
 - (iv) An officer has been deemed incapable of carrying out his/her duties due to mental or physical disorder by the Board (or by the Board and the Cabinet in the case of the Auditors).

(2) The Cabinet or the Minister of Finance shall dismiss an officer of the Bank of Japan if he/she falls under any of the cases listed in the items of the preceding paragraph.

(3) In addition to the case prescribed in the preceding paragraph, the Minister of Finance may dismiss an Executive Director when the Board has requested the dismissal thereof.

Article 26 (Restriction on Officers' Acts)

- (1) An officer of the Bank of Japan (excluding Counsellors; hereinafter the same shall apply in this Article and Articles 31 and 32) shall not conduct any of the following acts during his/her term of office:
- (i) Becoming a candidate for the Diet, for any local council, or for any elected public office;
 - (ii) Becoming an officer of any political body including a political party or actively engaging in political activities;
 - (iii) Engaging in other work that brings remuneration (excluding work that the Board finds as meeting the requirements specified by the rules on service prescribed in Article 32 as the standards of work that does not interfere with the proper execution of his/her duties as an officer);
 - (iv) Carrying out commercial business or other business for the purpose of pecuniary gain.
- (2) If an officer of the Bank of Japan becomes a candidate for the Diet, for any local council, or for any elected public office, he/she shall be deemed to have resigned as an officer of the Bank.

Article 27 (Appointment of Agents)

The Governor and the Deputy Governors may appoint agents, from among the Bank of Japan's Executive Directors or employees, who shall have the authority to act on behalf of the Bank in all juridical and non-juridical matters with regard to the business of the Bank's head

office and branch offices.

Article 28 (Appointment of Employees)

The Bank of Japan's employees shall be appointed by the Governor.

Article 29 (Confidentiality Obligations of Officers and Employees)

The Bank of Japan's officers and employees shall not leak or misappropriate secrets which they have learned in the course of their duties. The same shall apply even after they have left the Bank.

Article 30 (Status of the Officers and Employees)

The Bank of Japan's officers and employees shall be deemed to be those engaged in public service pursuant to laws and regulations.

Article 31 (Standards for Paying Remuneration)

(1) The Bank of Japan shall establish the standards for paying rewards (including the payment of money such as bonuses), salaries (including the payment of money such as bonuses), and retirement allowances (collectively referred to as "remuneration" in the following paragraph) to be paid to its officers and employees, as being consistent with the general standards prevailing in society, and shall report such standards to the Minister of Finance and, at the same time, make them public. The same shall apply when making any change to the standards.

(2) Among the standards for paying remuneration prescribed in the preceding paragraph, those pertaining to officers shall be established in consideration of salaries, retirement allowances, and other circumstances of national public officers to whom the Act on Salaries of Government Officials with Special Capacity (Act No. 252 of 1949) is applicable.

Article 32 (Rules on Service)

The Bank of Japan shall, in light of the public nature of its business and in order to ensure the proper execution of their duties by its officers and employees, establish rules on service for its officers and employees, such as rules on the obligations to devote themselves to their duties and to separate themselves from private enterprises, and shall report such rules to the Minister of Finance and, at the same time, make them public. The same shall apply when making any change to the rules.

Chapter IV Business

Article 33 (Regular Business)

(1) In order to achieve the purpose prescribed in Article 1, the Bank of Japan may conduct the following business:

- (i) Discounting of commercial bills and other negotiable instruments;
- (ii) Making loans against collateral in the form of negotiable instruments, national government securities and other securities, or electronically recorded claims;
- (iii) Buying and selling of commercial bills and other negotiable instruments (including those drawn by the Bank of Japan in this item), national government securities and other bonds, or electronically recorded claims;
- (iv) Lending and borrowing of national government securities and other bonds against cash collateral;
- (v) Taking deposits;
- (vi) Conducting domestic funds transfers;
- (vii) Taking safe custody of securities and other instruments pertaining to property rights, or certificates;

(viii) Buying and selling gold and silver bullion and carrying out business related to business set forth in the preceding items.

(2) "Taking deposits" set forth in item (v) of the preceding paragraph refers to taking deposits based on a deposit contract.

Article 34 (Loans, etc. to the National Government)

As the central bank of Japan, the Bank of Japan may, in addition to the business prescribed in paragraph 1 of the preceding Article, conduct the following business with the national government:

- (i) Making uncollateralized loans within the limit decided by the Diet as prescribed in the proviso of Article 5 of the Fiscal Act (Act No. 34 of 1947);
- (ii) Making uncollateralized loans for the national government's temporary borrowing permitted under the Fiscal Act or other acts concerning the national government's accounting;
- (iii) Subscribing or underwriting national government securities within the limit decided by the Diet as prescribed in the proviso of Article 5 of the Fiscal Act;
- (iv) Subscribing or underwriting financing bills and other financing securities;
- (v) Taking safe custody of precious metals and other articles.

Article 35 (Handling of Treasury Money)

- (1) As the central bank of Japan, the Bank of Japan shall handle treasury money, pursuant to laws and regulations.
- (2) When handling treasury money as prescribed in the preceding paragraph, the Bank of Japan may conduct the business necessary for this purpose in addition to the business prescribed in Article 33, paragraph 1.

Article 36 (Handling of National Government Affairs)

- (1) As the central bank of Japan, the Bank of Japan shall handle national government affairs concerning currency and finance, pursuant to laws and regulations.
- (2) When handling national government affairs as prescribed in the preceding paragraph, the Bank of Japan may conduct the business necessary for this purpose in addition to the business prescribed in Article 33, paragraph 1.
- (3) Expenses necessary for handling national government affairs as prescribed in paragraph 1 may be borne by the Bank of Japan, pursuant to laws and regulations.

Article 37 (Temporary Loans to Financial Institutions, etc.)

- (1) Irrespective of the provisions of Article 33, paragraph 1, the Bank of Japan may provide financial institutions (banks and other institutions engaged in the business of taking deposits, etc. [deposits and others prescribed in Article 2, paragraph 2 of the Deposit Insurance Act {Act No. 34 of 1971} and other deposits for savings] and in funds transfers in the course of trade; the same shall apply hereinafter) and other financial business entities specified by a Cabinet Order (hereinafter collectively referred to as "financial institutions, etc.") with uncollateralized loans the amount of which is equivalent to the shortage of funds for a period no longer than the length of time prescribed by a Cabinet Order, when the relevant financial institutions, etc. unexpectedly experience a temporary shortage of funds necessary for payment due to accidental causes, including failures in electronic data processing systems, whereby their business operations may be seriously hampered if the shortage is not recovered swiftly,

provided that the Bank finds the advance is necessary to secure smooth settlement of funds among financial institutions.

- (2) The Bank of Japan shall, when having provided loans as prescribed in the preceding paragraph, report to that effect to the Prime Minister and the Minister of Finance without delay.

Article 38 (Business Contributing to the Maintenance of Stability of the Financial System)

- (1) The Prime Minister and the Minister of Finance may, when they find it especially necessary for the maintenance of stability of the financial system, such as in the case where they find that serious problems may arise in the maintenance of stability of the financial system based on the consultation pursuant to Article 57-5 of the Banking Act (Act No. 59 of 1981) or other laws and regulations, request the Bank of Japan to conduct the business necessary to maintain stability of the financial system, such as to provide loans to the financial institution pertaining to the said consultation.
- (2) When a request has been made from the Prime Minister and the Minister of Finance as prescribed in the preceding paragraph, the Bank of Japan may conduct the business necessary to maintain stability of the financial system, including the provision of loans under special conditions, responding to the said request, in addition to the business prescribed in Article 33, paragraph 1.

Article 39 (Business Contributing to Smooth Settlement of Funds)

- (1) In addition to the business prescribed in Article 33 through the preceding Article, the Bank of Japan may, upon authorization from the Prime Minister and the Minister of Finance, conduct the business

deemed to contribute to smooth settlement of funds among financial institutions in conjunction with the business prescribed in Article 33, paragraph 1, items (v) through (vii) or the business prescribed in Article 35, paragraph 2 or Article 36, paragraph 2.

- (2) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the authorization set forth in the preceding paragraph.

Article 40 (Buying and Selling of Foreign Exchange)

- (1) The Bank of Japan may, when necessary, buy and sell foreign exchange on its own account or as an agent handling national government affairs pursuant to Article 36, paragraph 1, and it may also buy and sell foreign exchange on behalf of foreign central banks, etc. (foreign central banks and those equivalent thereto; the same shall apply hereinafter) or international institutions (international institutions of which Japan has a membership, including the Bank for International Settlements; the same shall apply hereinafter) as their agent in order to cooperate with them as the central bank of Japan.
- (2) The Bank of Japan shall buy and sell foreign exchange as an agent handling national government affairs pursuant to Article 36, paragraph 1, when the purpose of the buying and selling is to stabilize the exchange rate of Japanese currency.
- (3) The Bank of Japan shall, when buying and selling foreign exchange on its own account or as an agent on behalf of foreign central banks, etc. or international institutions to cooperate with them as the central bank of Japan pursuant to paragraph 1, conduct the buying and selling for the purpose which the Minister of Finance specifies as constituting cooperation in the field of international finance, at the request, or upon the approval, of the Minister of Finance.

Article 41 (International Financial Business)

The Bank of Japan may conduct the following business with foreign central banks, etc. or international institutions in order to cooperate with them as the central bank of Japan:

- (i) Taking deposits pertaining to deposit money denominated in Japanese currency (deposits prescribed in Article 33, paragraph 2);
- (ii) Buying and selling national government securities in exchange for deposits received through the business set forth in the preceding item;
- (iii) Taking safe custody of securities, precious metals, and other articles;
- (iv) Carrying out intermediary, brokerage, or agency services for sales and purchases of national government securities conducted by the said foreign central banks, etc. or international institutions;
- (v) Other business specified by an ordinance of the Ministry of Finance as those deemed to contribute to the proper management of Japanese currency or assets denominated in Japanese currency held by the said foreign central banks, etc. or international institutions.

Article 42

In addition to the business prescribed in the preceding Article, the Bank of Japan may conduct the following transactions and other transactions necessary for cooperating, as the central bank of Japan, with foreign central banks, etc. or international institutions in the field of international finance, including the provision of international financial assistance, at the request, or upon the approval, of the Minister of Finance:

- (i) Substituting loan claims against foreign central banks, etc. which are held by the Bank for

International Settlements;

- (ii) Providing credit to foreign central banks, etc. or international institutions.

Article 43 (Prohibition of Other Business)

- (1) The Bank of Japan may not conduct any business other than that specified by this Act as the business of the Bank; provided, however, that this shall not apply to the case where such business is necessary to achieve the Bank's purpose specified by this Act and the Bank has obtained authorization from the Minister of Finance and the Prime Minister.
- (2) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the authorization set forth in the preceding paragraph.

Article 44 (On-Site Examinations)

- (1) The Bank of Japan may, for the purpose of appropriately conducting or preparing to conduct the business prescribed in Articles 37 through 39, conclude a contract with financial institutions, etc. which would be the counterparty in such business (hereinafter referred to as the "counterparty financial institutions, etc." in this Article) concerning on-site examinations (examinations which the Bank carries out regarding the business operations and the state of the property of the counterparty financial institutions, etc. by visiting the premises thereof; hereinafter the same shall apply in this Article) (such contract shall meet the requirements specified by a Cabinet Order including those whereby the Bank shall notify and obtain prior consent from the counterparty financial institutions, etc. when carrying out on-site examinations).
- (2) The Bank of Japan shall consider the administrative burden incurred by counterparty financial institutions, etc. when carrying out on-site examinations.
- (3) When a request has been made from the

Commissioner of the Financial Services Agency, the Bank of Japan may submit the documents describing the results of the on-site examinations and other related materials to the Commissioner or have officials of the Financial Services Agency inspect them.

Article 45 (Statement of Operation Procedures)

- (1) The Bank of Japan shall prepare a statement of operation procedures and submit it to the Minister of Finance and the Prime Minister. The same shall apply when making any change to the statement.
- (2) The statement of operation procedures set forth in the preceding paragraph shall contain matters specified by a Cabinet Order, including those concerning the provision of loans.

Chapter V Bank of Japan Notes

Article 46 (Issuance of Bank of Japan Notes)

- (1) The Bank of Japan shall issue banknotes.
- (2) The banknotes issued by the Bank of Japan (hereinafter referred to as "Bank of Japan notes") as prescribed in the preceding paragraph shall be legal tender and hence shall be used for payment without limits.

Article 47 (Types and Forms of Bank of Japan Notes)

- (1) The types of Bank of Japan notes shall be specified by a Cabinet Order.
- (2) The Minister of Finance shall decide the forms of Bank of Japan notes and publicly notify them.

Article 48 (Exchange of Bank of Japan Notes)

The Bank of Japan shall exchange, without fees, Bank of Japan notes rendered unfit for further circulation due to defacement, mutilation, or other causes, pursuant to an Ordinance of the Ministry of Finance.

Article 49 (Printing and Cancellation of Bank of Japan Notes)

- (1) The Bank of Japan shall determine the procedures for printing and canceling Bank of Japan notes and submit those procedures to the Minister of Finance for approval. The same shall apply when making any change to the procedures.
- (2) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the approval set forth in the preceding paragraph.

Chapter VI Accounting

Article 50 (Business Year)

The business year of the Bank of Japan shall run April 1 through March 31 of the following year.

Article 51 (Budget for Expenses)

- (1) Every business year, the Bank of Japan shall make a budget for expenses (limited to those specified by a Cabinet Order as not hampering the currency and monetary control; hereinafter such budget shall be referred to as a "budget for expenses"), and submit it to the Minister of Finance for authorization before the business year begins. The same shall apply when making any change to the budget.
- (2) If the Minister of Finance finds it inappropriate to authorize the budget for expenses submitted as prescribed in the preceding paragraph, he/she shall make prompt notice to the Bank of Japan to that effect along with the reason therefor, and make public the details of the submitted budget for expenses and the said reason.
- (3) When the notice as prescribed in the preceding paragraph has been made, the Bank of Japan may express its opinions to the Minister of Finance or, if necessary, make public the said opinions.

Article 52 (Financial Statements, etc.)

- (1) The Bank of Japan shall prepare an inventory of property and a balance sheet for each six-month period running from April through September and from October through March and prepare a profit and loss statement for each business year as well as for each six-month period mentioned above, and submit these documents (hereinafter referred to as "financial statements") attached with Auditors' written opinions thereon to the Minister of Finance for approval within two months after the relevant six-month period or the business year has elapsed.
- (2) When submitting the financial statements for a business year to the Minister of Finance as prescribed in the preceding paragraph, the Bank of Japan shall attach a statement of accounts for the business year and the Auditors' written opinions thereon.
- (3) When having received the approval from the Minister of Finance as prescribed in paragraph 1, the Bank of Japan shall, without delay, keep the financial statements, the statement of accounts set forth in the preceding paragraph, and the Auditors' written opinions set forth in the preceding two paragraphs at its head office and branch offices and make them available for public inspection for a period determined by the Policy Board as appropriate.

Article 53 (Appropriation of Surplus)

- (1) The Bank of Japan shall reserve, as a reserve fund, five-hundredths of the surplus resulting from the settlement of profits and losses for each business year.
- (2) Irrespective of the provisions of the preceding paragraph, the Bank of Japan may, when it finds it especially necessary, reserve the money which exceeds the amount prescribed in the preceding

paragraph as a reserve fund, upon authorization from the Minister of Finance.

- (3) The reserve fund reserved as prescribed in the preceding two paragraphs shall not be disposed of, except to cover losses incurred by the Bank of Japan or to be appropriated for dividends as prescribed in the following paragraph.
- (4) The Bank of Japan may, upon authorization from the Minister of Finance, pay dividends to contributories out of the surplus resulting from the settlement of profits and losses for each business year; provided, however, that the rate of dividend payments against paid-up capital may not exceed five-hundredths per annum.
- (5) After deducting the amount reserved as prescribed in paragraphs 1 and 2 and the dividend payments prescribed in the preceding paragraph from the surplus resulting from the settlement of profits and losses for each business year, the Bank of Japan shall pay the remaining surplus to the national treasury within two months after each relevant business year ends.
- (6) The government may have the Bank of Japan make the payment to the national treasury for each business year as prescribed in the preceding paragraph, partially during the said business year, by estimate, pursuant to a Cabinet Order.
- (7) The amount of the payment to the national treasury pursuant to paragraph 5 shall be treated as losses when accounting the amount of income prescribed by the Corporation Tax Act (Act No. 34 of 1965) and the amount of income pertaining to the business tax prescribed by the Local Tax Act (Act No. 226 of 1950).
- (8) In addition to what is prescribed in the preceding three paragraphs, necessary matters concerning the

payment to the national treasury pursuant to paragraph 5 shall be specified by a Cabinet Order.

- (9) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the authorization set forth in paragraphs 2 and 4.

Chapter VII Reporting, etc. to the Diet

Article 54 (Reporting to and Attendance at the Diet)

- (1) The Bank of Japan shall, approximately every six months, prepare a written report on the Policy Board resolutions regarding the matters listed in the items of Article 15, paragraph 1 and conditions of business operations that the Bank has conducted based thereon and submit it to the Diet through the Minister of Finance.
- (2) The Bank of Japan shall endeavor to explain to the Diet the written report set forth in the preceding paragraph.
- (3) The Bank of Japan's Governor or the chairperson of the Policy Board, or a representative designated by them, shall attend the sessions of the House of Representatives, the House of Councillors, or their Committees when requested by them, in order to explain the state of the Bank's business operations and property.

Article 55 (Publication of an Outline of Business Operations)

When having received the approval regarding financial statements for each business year as prescribed in Article 52, paragraph 1, the Bank of Japan shall prepare, without delay, an outline of its business operations for the business year and make it public along with the said financial statements and a statement of accounts for the said business year.

Chapter VIII Rectification, etc. of Illegal Acts, etc.

Article 56 (Rectification of Illegal Acts, etc.)

- (1) The Minister of Finance or the Prime Minister may, when he/she finds that the Bank of Japan, its officers or employees have violated or are likely to violate this Act, other laws and regulations, or articles of incorporation, request the Bank to take the measures necessary to rectify such acts.
- (2) When a request has been made from the Minister of Finance or the Prime Minister as prescribed in the preceding paragraph, the Bank of Japan shall promptly take measures which the Policy Board finds necessary, such as rectifying the said acts, and report those measures to the Minister of Finance or the Prime Minister.

Article 57 (Audit at the Request of the Minister of Finance or the Prime Minister)

- (1) The Minister of Finance or the Prime Minister may, when he/she finds that the Bank of Japan, its officers or employees have violated or are likely to violate this Act, other laws and regulations, or articles of incorporation, request the Auditors of the Bank to audit such acts and other necessary matters and report the results thereof to the Minister of Finance or the Prime Minister.
- (2) When a request has been made from the Minister of Finance or the Prime Minister as prescribed in the preceding paragraph, the Auditors of the Bank of Japan shall promptly audit such matters and report the results thereof to the Minister of Finance or the Prime Minister and also to the Policy Board.

Article 58 (Reports, etc.)

The Minister of Finance or the Prime Minister may, when he/she finds it necessary in light of the conditions of the business operations of the Bank of Japan,

request the Bank to submit a report or relevant materials.

Chapter IX Miscellaneous Provisions

Article 59 (Rules)

The Bank of Japan shall, when having established rules regarding the organization or other matters other than those specified by this Act separately, report such rules to the Minister of Finance without delay. The same shall apply when making any change to the rules.

Article 60 (Dissolution)

- (1) The dissolution of the Bank of Japan shall be specified separately by an Act.
- (2) In the case where the Bank of Japan has been dissolved, when the residual assets of the Bank exceed the amount of paid-up capital, the residual assets equivalent to the excess amount shall belong to the national treasury.

Article 60-2 (Jurisdiction over Cases Concerning Appointment of Special Agents)

Cases concerning the appointment of special agents shall be under the jurisdiction of the District Court which exercises jurisdiction over the location of the head office of the Bank of Japan.

Article 61 (Mutatis Mutandis Application of the Act on General Incorporated Associations and General Incorporated Foundations)

The provisions of Article 4 and Article 78 of the Act on General Incorporated Associations and General Incorporated Foundations (Act No. 48 of 2006) shall apply mutatis mutandis to the Bank of Japan.

Article 61-2 (Delegation of Authority)

The Prime Minister shall delegate the authority under this Act (excluding Article 19) to the Commissioner of the Financial Services Agency except for those

prescribed by a Cabinet Order.

Article 62 (Delegation to a Cabinet Order)

In addition to what is prescribed in this Act, matters necessary to implement this Act shall be specified by a Cabinet Order.

Chapter X Penal Provisions

Article 63

Those who have leaked or misappropriated secrets in violation of Article 29 shall be punished by imprisonment with work for not exceeding a year or a fine not exceeding five hundred thousand yen.

Article 64

Those who have failed to conduct an audit pursuant to Article 57, paragraph 2, or have failed to make a report pursuant to the same paragraph or have made a false report shall be punished by a fine not exceeding five hundred thousand yen.

Article 65

The Bank of Japan's officers or employees shall be punished by a non-penal fine not exceeding five hundred thousand yen when falling under any of the following items:

- (i) Having failed to obtain the authorization from the Minister of Finance or from both the Minister of Finance and the Prime Minister, or the approval from the Minister of Finance, as required by this Act (excluding the provisions of Article 43, paragraph 1);
- (ii) Having failed to make a report to the Minister of Finance or to both the Minister of Finance and the Prime Minister as required by this Act, or having made a false report;
- (iii) Having failed to make public what is required by this Act, or having made it public falsely;
- (iv) Having neglected to register in violation of a

- Cabinet Order prescribed in Article 12, paragraph 1;
- (v) Having been engaged in other work that brings remuneration or having carried out commercial business or other business for the purpose of pecuniary gain in violation of Article 26, paragraph 1;
 - (vi) Having conducted any business other than that specified as the business of the Bank of Japan in violation of Article 43, paragraph 1;
 - (vii) Having violated Article 48;
 - (viii) Having failed to keep the financial statements, the statement of accounts, or the Auditors' written opinions or having failed to make them available for public inspection in violation of Article 52, paragraph 3;
 - (ix) Having failed to reserve a surplus as a reserve fund in violation of Article 53, paragraph 1;
 - (x) Having disposed of a reserve fund in violation of Article 53, paragraph 3;
 - (xi) Having paid dividends in violation of the proviso of Article 53, paragraph 4;
 - (xii) Having failed to make a report as required in Article 56, paragraph 2 or having made a false report;
 - (xiii) Having failed to submit a report or materials as required in Article 58 or having submitted a false report or false materials.

Article 66

Those who have violated Article 13 shall be punished by a non-penal fine not exceeding five hundred thousand yen.

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ISSN 0919-6595

