

# The Bank's Progress toward Its Strategic Goals: Implementation of Action Plans in Fiscal 2008

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## I. INTRODUCTION

In fulfillment of the core principles of "The Bank of Japan's Medium-Term Strategic Framework for Fiscal 2005–2009" (MTSF),<sup>1</sup> namely, to pursue more advanced central banking services<sup>2</sup> and to ensure well-disciplined management,<sup>3</sup> during fiscal 2008 the Bank of Japan conducted its daily business operations in accordance with "The Bank of Japan's Action Plans for Fiscal 2008," which comprises the set of issues to be addressed and concrete measures to be taken by the Bank.

The economic environment facing the Bank changed considerably after autumn 2008, with the global financial crisis leading subsequently to a significant deterioration in Japan's economic conditions. During the subsequent period, in its support of the economy, the Bank tackled new issues, particularly on the monetary policy and financial system policy fronts, and took some exceptional temporary measures.

Meanwhile, the Bank worked to constrain the size of its workforce, in line with, for example, the aims of the Act on Promotion of Administrative Reform for Realization of Small and Efficient Government (Act No.

47 of 2006). During fiscal 2008, the Bank gave priority to responding to the changed circumstances mentioned above; at the same time, working within the constraints on its human resources and devising various measures, the Bank broadly succeeded in addressing the issues and putting into effect the concrete action plans detailed in "The Bank of Japan's Action Plans for Fiscal 2008." However, some issues and concrete action plans remained to be addressed in fiscal 2009.

By the end of fiscal 2008, the fourth year of the period covered by the MTSF, the Bank had mostly achieved the results anticipated in the MTSF. In order to respond more flexibly to future changes in the circumstances surrounding it, in March 2009 the Bank decided to wind up the MTSF one year earlier than scheduled, and to replace it with "The Bank of Japan's Strategic Priorities for Fiscal 2009–2011."<sup>4</sup> The new Strategic Priorities will have a rolling three-year horizon. At the end of every fiscal year, the Bank will conduct a performance review and then update the Strategic Priorities accordingly, resetting the horizon to cover the next three years.

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1. For the text of the MTSF, see Appendix 2 on pages 82–85.

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

3. For the Bank's progress in achieving the second core principle, "to ensure well-disciplined management," see "The Bank's Organizational Management in Fiscal 2008" on pages 49–54.

4. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2009–2011," see Appendix 3 on pages 86–96.

## II. THE IMPLEMENTATION OF THE ACTION PLANS FOR FISCAL 2008

### 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.

- 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.

(1) The Bank responded promptly to the continued global financial crisis by conducting research and analysis on economic and financial conditions and developments in Japan's financial system. In addition, the Bank conducted coordinated action, keeping in close contact and making necessary adjustments with other central banks.

(2) The Bank conducted extensive research and analysis

on developments in financial markets, including foreign exchange markets, at home and abroad.

(3) The Bank made steady progress in its research and analysis on the structure of Japan's economy and released its major findings in research papers, such as "Measurement of Productivity in Japan Adjusted for Cyclical Factors" (available only in Japanese).

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.

(1) The Bank proceeded to research, analyze, and discuss the proper conduct of monetary policy and framework for money market operations, in light of the ongoing changes in the financial and economic situation.

(2) Based on its analysis and deliberations, the Bank formulated policy measures and took the following actions.

(a) In April 2008, the Bank started to release the Risk Balance Charts. These are aggregated probability distributions compiled from the distributions attributed by individual Policy Board members to the likelihood of divergence upward or downward from their forecasts of changes in real gross domestic product (GDP) and the consumer price index (CPI).

(b) In July 2008, the Bank adopted the following enhancements to its communication strategy under the "Framework for the Conduct of Monetary Policy": inclusion of a summary of the assessment of the economic and price situation from the "two perspectives"<sup>5</sup> in the statement on

5. The first perspective assesses the most likely outlook for economic activity and prices over the next few years. The second perspective assesses the risks considered most relevant to the conduct of monetary policy, including risks that have a longer time horizon than the first perspective.

monetary policy released after each Monetary Policy Meeting (MPM); extension of the forecast horizon for projections reported in the *Outlook for Economic Activity and Prices*; quarterly release of the Policy Board members' forecasts of changes in real GDP, the domestic corporate goods price index (CGPI), and the CPI, along with the Risk Balance Charts; and the earlier release of the minutes of MPMs.

(3) Since autumn 2008, when the turmoil in global financial markets intensified, the Bank has formulated the following policy measures, in addition to reductions in the policy interest rate, to ensure stability in financial markets and to facilitate corporate financing. The Bank has also put in place the operational procedures to implement them.

- (a) Measures to ensure stability in financial markets.
  - i) Introduction and expansion of U.S. dollar funds-supplying operations.
  - ii) Broadening of the range of Japanese government securities (JGSs) eligible as collateral for the Bank's repo operations and those offered under the securities lending facility.
  - iii) Relaxation in conditions for conducting the securities lending facility.
  - iv) Introduction of the complementary deposit facility.
  - v) Increase in outright purchases of Japanese government bonds (JGBs), expansion in the range of JGBs accepted in outright purchases, and introduction of outright purchases of JGBs from specific brackets classified by bond type and residual maturity.
  - vi) Acceptance of debt instruments issued by real estate investment corporations as eligible collateral as well as inclusion of CP issued by

such corporations in the list of CP eligible to be purchased with repurchase agreements.

- vii) Inclusion of government-guaranteed dematerialized CP in eligible collateral and in the list of CP purchased with repurchase agreements.
- (b) Measures to facilitate corporate financing.
  - i) Introduction and expansion of special funds-supplying operations to facilitate corporate financing.
  - ii) Expansion in the range of asset-backed CP (ABCP) accepted as eligible collateral.
  - iii) Easing of the eligibility criteria for corporate debt accepted as eligible collateral.
  - iv) Release of the Bank's basic principles regarding outright purchases of corporate financing instruments.
  - v) Introduction of outright purchases of CP and corporate bonds.

### 3. Making public the findings of its research and analysis through the release of various reports.

- (1) Major findings of the Bank's research and analysis on developments in regional economies were released quarterly in the *Regional Economic Report*, which focused on topics such as regional developments in private consumption, the effects of the rise in crude oil prices on the fishing industry, and business conditions at small firms.
- (2) The Bank conducted research and analysis on financial markets at home and abroad, and released its major findings in the *Financial Markets Report* in July 2008 and January 2009.<sup>6</sup> The July 2008 issue of the report contained analysis focusing on the turmoil in global financial markets triggered by the U.S. subprime mortgage problem and its implications for Japanese financial markets. The January 2009 issue

6. The English translation was published in September 2008 and March 2009, respectively.

contained analysis focusing on the policy responses of central banks and governments to the financial crisis.

- (3) In addition to the regular conduct of research and analysis as above, the Bank, with a view to enhancing the functioning of money markets, also carried out the *Tokyo Money Market Survey*, examining trends in money market transactions, changes in market participants' activities, and progress in addressing challenges facing the markets. In January 2009, the Bank released a research paper entitled "Developments and Issues of Money Markets in Japan" (available only in Japanese), which included the survey results as well as the findings of its research and analysis on the impact of the failure of Lehman Brothers on money markets.
- (4) Meanwhile, in response to the increasing number of inquiries regarding its money market operations, in June 2008 the Bank released a report providing an overview of the framework governing these as well as its operational practices, titled "The Bank of Japan's Money Market Operations" (available only in Japanese).

#### 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 (CSPI). 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.

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

(a) From June 2008, the Bank, in response to the privatization of Japan Post and the diversification of financial products, started to compile and release the money stock statistics on a new basis, revising the range of indices and the range of money holders and changing the Japanese name of the statistics.

(b) The Bank released and sought public feedback related to a proposed revision of the base year for the CSPI in July 2008; the final version of the proposal was released in June 2009.

(c) The Bank took part in international initiatives to revise the IMF's *Balance of Payments Manual* and contributed to the finalization and release of the sixth edition of the *Balance of Payments and International Investment Position Manual* by the IMF at the end of 2008.

(2) Constraints on human resources, however, meant that there remained room for further research and analysis on the refinement of statistics; this was left to be dealt with during or after fiscal 2009.

(3) The Bank launched "BOJ Time-Series Data Search," a page for data search on the Bank's web site, in December 2008.

(4) With all statistics compiled and released by the Bank becoming official statistics under the revised Statistics Act, the Bank released in March 2009 the "Bank of Japan's Basic Principles for Statistics," which explained the principles governing the compilation and release of its statistics as well as its current priorities regarding the development of statistics.

#### 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.

- (1) With a view to sharing understanding on issues of IT security with financial institutions and other parties and encouraging them to strengthen their IT security management, the Bank's CITECS hosted a symposium on new trends in security features with a focus on the potential of artifact-metrics in financial business. It also hosted seminars about IT security issues and released research papers that included the findings of joint research activities with specialist institutions.
- (2) The Bank increased, to some 49,000 titles, the number of documents in its Archives accessible to the public, adding around 18,000 historical official documents held by the Bank. The Bank's Currency Museum held five feature exhibitions, including a special exhibition on banknotes and coins of the Group of Eight (G-8) countries participating in the Hokkaido Toyako Summit held in Japan.

## 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 Bank of Japan Financial Network System (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.

- (1) The Bank's systems, including the BOJ-NET, continued to operate smoothly.

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

- a. Pushing forward with the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System (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.

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

- (a) The Bank implemented the first phase of the RTGS-XG project in October 2008 as scheduled, supporting relevant parties through the provision of information to help them develop the necessary systems and operational procedures. This first phase involved the introduction of liquidity-saving features into the BOJ-NET FTS, and the shift of payments that had been settled primarily on a deferred net basis through the Foreign Exchange Yen Clearing System (FXYCS) to the new BOJ-NET FTS.

- (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 continued discussion with the next-generation Zengin System study group established by the Organization for Management of Domestic Fund Transfers, and details of the new interface between the two systems were mostly finalized.

(c) In addition, with the Act on Book-Entry Transfer of Company Bonds, Shares, etc. coming into effect in January 2009, the Bank started gross-gross type delivery-versus-payment (DVP) settlement for the issuance and redemption of shares and bonds with share options by setting up a link between the BOJ-NET FTS and the book-entry transfer system of the Japan Securities Depository Center, Inc. (JASDEC).

(2) Given that almost 20 years have passed since the BOJ-NET began operation, in October 2008 the Bank set up a "Task Force for New BOJ-NET Planning" to discuss the basic policies that should govern construction of the new system. The Bank is scheduled to release these policies around autumn 2009.

### **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.**

(1) In order to enhance the functioning of Japan's money markets, the Bank carried out the *Tokyo Money Market Survey*, and in January 2009 released a research paper entitled "Developments and Issues of Money Markets in Japan" (available only in Japanese), which included the survey results as well as the findings of its research and analysis on the impact of the failure of Lehman Brothers on money markets.

### **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.**

- (1) Since autumn 2008, when the turmoil in global financial markets intensified, the Bank has decided and promptly implemented a series of measures to ensure stability in financial markets and facilitate corporate financing (see Section A. 2 on pages 33–34).
- (2) Following its annual review of appropriate margins, the Bank made necessary amendments, including amendments to the margin tables used in accepting eligible collateral. Moreover, prior to the conversion of Shoko Chukin Bank into a joint-stock company, the Bank entered into a contract with it concerning the designated minimum balance to be held in its current account with the Bank.
- (3) In response to reforms in the JGS market (the integration of financing bills [FBs] and treasury bills [TBs] to form "treasury discount bills [T-Bills]") and to the conversion of Japan Expressway Holding and Debt Repayment Agency bonds into JGBs, the Bank made the necessary procedural improvements and computer system modifications, liaising and coordinating with relevant parties.
- (4) The Bank proceeded with the acceptance of bonds newly issued by the Japan Finance Organization for Municipal Enterprises (currently the Japan Finance Organization for Municipalities) as eligible collateral.
- (5) In response to the introduction of the electronically recorded monetary claims system, the Bank took measures to enable it to confirm that electronically recorded monetary claims have not arisen from loans on deeds that the Bank accepts as eligible collateral.
- (6) The Bank, in December 2008, implemented

measures enabling financial institutions to outsource to custodian institutions operations involved in transferring JGSs pledged to/returned from the Bank as eligible collateral.

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

(1) The Bank conducted oversight of payment and settlement systems, monitoring their safety and efficiency and inducing improvements where necessary. Specifically, it took the following actions.

(a) The Bank supported the formulation of risk management measures for private-sector payment and settlement systems. It also continued to encourage system operators to enhance system resilience so that they would be better able to respond to changes in the financial environment, by, for example, encouraging them to reduce the levels of settlement exposure of major system participants and promoting the review of liquidity provision arrangements to address disaster and other emergency situations. Moreover, the Bank supported market participants' deliberations on establishing post-trading arrangements for over-the-counter (OTC) derivatives.

(b) At the time of Lehman Brothers' failure, the Bank maintained close contact with central counterparties (CCPs) and closely monitored on a daily basis settlements in which they were involved. The Bank also encouraged necessary improvements to the procedures through which they obtain liquidity and procedures to resolve settlement fails. Moreover, the Bank reviewed the implications of the above situation for Japan's payment and settlement systems, and shared its insights with CCPs and market participants via the

Payment System Forum meeting held in January 2009 and by releasing in March 2009 a research paper entitled "Lessons for Japan's Payment and Settlement Systems Learned from the Failure of Lehman Brothers" (available only in Japanese), thereby encouraging CCPs and market participants to improve their ability to respond to defaults by participants.

(c) The Bank took an active part with other central banks in activities involved in the international cooperative oversight of the continuous linked settlement (CLS) system—a cross-border multi-currency payment system—and the Society for Worldwide Interbank Financial Telecommunication (SWIFT)—a global provider of financial messaging services.

(2) Based on experiences during the recent turmoil in global financial markets, the Bank considers it necessary to take a more comprehensive and systematic approach to the oversight of Japan's payment and settlement systems, drawing also upon approaches taken by other central banks.

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

(1) In response to the October 2008 introduction by Japan Multi-Payment Network Management Organization (JAMMO) of a direct electronic payment method for the public to pay taxes and fees to the government—a method allowing account transfers to be completed online via an electronic application to government agencies (previously electronic applications and electronic payments had to be made separately)—the Bank, mainly through its support for deliberations of the government and the private sector on the issue, contributed to the modification of



computer systems to promote further progress in the online processing of treasury funds and the expansion of the use of the electronic treasury funds services offered. Following these efforts, approximately 3 million electronic payments of government taxes and fees were made in fiscal 2008, an increase of 96 percent from the previous year.

(2) However, no more than 4 percent of the total number of payments of government taxes and fees were made electronically in March 2009 (3 percent in March 2008), partly because efforts to improve the user-friendliness of electronic treasury funds services were still in process. Further deliberation on how to expand the use of electronic treasury funds services is therefore necessary, based on a comprehensive interim assessment of efforts to date.

### 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.**

(1) With a view to enhancing business continuity planning (BCP) on a market-wide basis, the Bank

supported various initiatives to ensure that financial markets continue to function in times of disaster and other emergency situations. These initiatives included setting up emergency networks of communication among market participants; establishing criteria for identifying the extent of emergencies; and formulating recommendations for modifying trade practices in emergencies. The Bank supported such initiatives as follows.

(a) With regard to the money market, the Bank supported the Japanese Bankers Association in its deliberations on issues such as how to clarify the criteria for identifying the extent of emergencies and in formulating scenarios for market-wide joint exercises.

(b) With regard to the foreign exchange market, the Bank assisted in the first BCP exercise organized by the Tokyo Foreign Exchange Market Committee, which is responsible for BCP matters in the Tokyo foreign exchange market.

(c) As for securities markets, the Bank encouraged initiatives taken by the Japan Securities Dealers Association (JSDA); for example, it participated in JSDA's committee on BCP and, in October 2008, assisted in JSDA's market-wide joint exercises, which marked the first ever use of its BCP-dedicated web site.

(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. Also, the Bank exchanged views with experts on the improvement of business continuity arrangements and made the findings public in a report "BCP in

Practice" (available only in Japanese) released in June 2008. Furthermore, the Bank, with the cooperation of the Financial Services Agency, encouraged financial institutions' preparations to address an outbreak of the new strain of influenza by, for example, arranging opportunities for financial institutions to share ideas and co-hosting seminars with the Japanese Bankers Association.

## 2. Further enhancing BCP for emergencies at the Bank as follows.

a. Ensuring that the business continuity infrastructure at the Bank is in line with the "Policy Framework for Tokyo Inland Earthquakes" and the Bank's "Civil Protection Business Plan."

b. Improving business continuity exercises and emergency drills.

c. Formulating contingency plans for various types of emergencies.

(1) The Bank introduced in all its domestic offices a system to receive advance warnings of earthquakes from the Japan Meteorological Agency. It also enhanced its internal emergency communication arrangements. Regarding alternative operation sites for use should the Head Office be damaged and unable to function, the Bank, based on lessons learned from past exercises, provided additional equipment and improved and updated manuals, while also improving the efficiency with which alternative sites are managed and maintained.

(2) The Bank, with the participation of relevant parties, conducted exercises that assumed disruptions to the BOJ-NET, employing more practical scenarios. For example, it provided BOJ-NET users with the opportunity to experience the switch-over process to the back-up center. In addition, the Bank further

enhanced the effectiveness of each of its exercises including the exercise for the switching over of operations from its Head Office to alternative operation sites.

(3) The Bank formulated a policy for addressing an outbreak of the new strain of influenza, taking into account the measures put in place by the Japanese government.

## 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.**

- (1) The Bank further strengthened coordination between its on-site examination and off-site monitoring sections, and also introduced risk-based on-site examinations, which place an emphasis on responding to each financial institution's individual risk profile in a timely and effective manner. The Bank, in response to changes in the financial environment, placed increased emphasis on examining financial institutions' market risk management, and conducted, when necessary, targeted on-site examinations that focused on the management of liquidity risk.
- (2) With a view to stabilizing Japan's financial system following the failure of Lehman Brothers, the Bank, working in close cooperation with relevant authorities at home and abroad, responded as the situation required; for example, it strengthened monitoring of financial institutions' liquidity positions.
- (3) In addition to research on the traditional financial intermediation function of financial institutions, the Bank carried out research into financial institutions' investment in hedge funds and private equity funds and the impact of such investment on the broader financial system.
- (4) In the two issues of the *Financial System Report* released during fiscal 2008, the Bank examined the stability of Japan's financial system in terms of the financial intermediation function and its robustness amid the turbulence of the global financial system. In the March 2009 issue of the report, the Bank concluded that Japan's financial system was broadly stable. It also pointed out, however, that the management of the market risk associated with

stockholdings remained an important challenge for financial institutions and that, should capital constraints become more of an issue in future, a situation might arise in which the financial intermediation function would not be carried out smoothly from a macro perspective.

**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 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.**

- (1) The Bank's CAFT held discussions on more practical risk management better tailored to financial institutions' individual management circumstances, organizing a total of 16 seminars and workshops. In addition to basic seminars on the management of market risks and the implementation of integrated risk management frameworks, the CAFT hosted seminars and workshops on themes such as the advancement of operational risk management and internal auditing at financial institutions as well as the response to an outbreak of the new strain of influenza. Furthermore, the Bank contributed to the reinforcement and improvement of risk and business management at financial institutions through, for example, the release of related research papers and dialogue with top management during on-site examinations. The Bank will continue to look into risk management methods suitable for small financial institutions.

### 3. Engaging in discussions on financial system policy held at global forums by making use of the Bank's past experiences and accumulated expertise.

(1) As the effects of the global financial crisis spread, the Bank took an active part in discussions on financial system-related measures held at global forums, such as those organized by the Basel Committee on Banking Supervision (Basel Committee), making use of the insights gained from Japan's past experiences.

### 4. Related issues.

(1) During fiscal 2008, the Bank provided no loans pursuant to Articles 37 and 38 of the Bank of Japan Act.

(2) Given its views on the current state of Japan's financial system, and upon authorization pursuant to the proviso of Article 43 of the Bank of Japan Act, in February 2009, the Bank resumed its purchases of stocks held by financial institutions so as to reduce market risk associated with stock holdings. Furthermore, in March 2009, the Bank started to explore a new framework for providing subordinated loans to banks, aiming at ensuring smooth financial intermediation and financial system stability by enabling banks in Japan to maintain sufficient capital bases even in severe financial and economic environments. In April 2009, the principal terms and conditions governing the provision of such loans were decided by the Policy Board, and the Bank obtained authorization to implement them pursuant to the proviso of Article 43 of the Bank of Japan Act.

## 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.

(1) The Bank took an active part in various international discussions on issues such as developments in the world economy and global financial markets. Meetings participated in by the Bank included the following: meetings of finance ministers and central bank governors from the Group of Seven (G-7) countries and the Group of Twenty (G-20) countries; meetings of the Bank for International Settlements (BIS), including those of the Group of Ten (G-10) central bank governors, and other meetings held at the BIS, namely, meetings of the Basel Committee, the Committee on the Global Financial System, the Committee on Payment and Settlement Systems and the Markets Committee; meetings of the Financial Stability Forum (FSF)<sup>7</sup>; the Governors' Meetings of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP); and meetings of the IMF and the Organisation for Economic Co-operation and Development (OECD).

(2) In response to the intensification of the turmoil in global financial markets, the Bank implemented various measures to ensure global financial stability. The Bank also contributed to central bank efforts, working in close cooperation with central banks in Europe and North America as well as in Asia and sharing details of its own past policy experiences.

7. The FSF has been reestablished as the Financial Stability Board (FSB) with an expanded membership as of April 2009.

**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.**

- (1) The Bank chaired meetings of the EMEAP Working Group on Financial Markets four times in fiscal 2008 and promoted the Asian Bond Fund 2 Initiative, which invests in bonds denominated in local Asian currencies. The Bank also worked together with other EMEAP members to strengthen monitoring in the East Asia and Pacific region, focusing mainly on the management of liquidity in money markets.
- (2) Under the framework of the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), comprising 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.
  - (a) In fiscal 2008, the Bank increased, as a temporary measure, the maximum amount of the bilateral yen-won swap arrangement with the Bank of Korea. In addition, the Bank, acting as the agent for the Minister of Finance of Japan, concluded a bilateral swap arrangement with the Reserve Bank of India that enabled them to swap their currencies against the U.S. dollar.

**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.**

- (1) The Bank announced its agreement with the People's Bank of China and the Bank of Korea to hold Governors' meetings on a regular basis to enhance communication among the governors of the three central banks.
- (2) CeMCoA made progress in its research activity by making use of external networks, for example, releasing the findings of a joint research project with a researcher at the BIS on trading activity in Asian foreign exchange markets as well as holding a series of academic workshops on Asian financial systems.
- (3) The Bank strengthened the cooperation and support it offers to central banks in Asia by, for example, sending a consultant for an extended period to provide technical assistance on a project at the State Bank of Vietnam, as well as inviting personnel from Asian central banks to a variety of seminars.

**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." It also continued to develop its asset management systems, which became operational in May 2009.

**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.**

- (1) In fiscal 2008, the Bank received 10.78 billion banknotes and paid out 10.79 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 3.17 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 implemented measures to maintain the cleanliness of banknotes taking into account data on damaged banknotes obtained from a quarterly survey.

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

- (1) With a view to enhancing the efficiency of its cash handling services, the Bank, taking into account recent trends in cash circulation, reviewed the methods of delivering cash to financial institutions and of transporting cash between the Bank's various offices, and strengthened support arrangements among cash handling locations. The Bank will continue to examine trends in cash circulation, and will seek to make its operational framework in this area even more stable and efficient.
- (2) In order to strengthen its emergency response capability, the Bank improved reciprocal back-up arrangements between the Head Office and the banknote operations center in Toda City, Saitama Prefecture, by, for example, formulating a procedure for switching to manual processing at the banknote

operations center should some disaster or other emergency situation cause the Head Office to become damaged and unable to function.

**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.**

- (1) With a view to further improving the transparency and efficiency of its cash handling services, the Bank received written consent from financial institutions allowing it to provide other financial institutions with information on their planned deposits/withdrawals of coins with/from the Bank, and also exchanged views with financial institutions and cash service providers about cash handling services.
- (2) As part of the revision of its current account services and cash services, the Bank extended the range of entities to which financial institutions can outsource the deposit/withdrawal of banknotes and coins with/from the Head Office, to include private security companies providing cash transportation 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.**

- (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 2008, it replaced 6 machines at 6 branches.

**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.
- (1) The Bank strengthened its efforts to prevent counterfeiting of the currency and other means of payment and pushed forward with related research. For example, the Bank enhanced communication and cooperation with relevant parties, including domestic ministries and government agencies as well as other central banks; it also worked to keep up-to-date with private sector advances in counterfeit detection, and to update the anti-counterfeiting technology used in automatic banknote examination machines. Meanwhile, the Bank continued its efforts to improve 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 MPMs.
- (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, in addition to the regular press conferences by the Governor held after every MPM. It also enhanced its explanations of its overall policies and business operations by, for example, making the texts of speeches and statements promptly available on its web site and making efforts to increase simultaneous releases of English texts of speeches. In order to achieve better public understanding of the Bank's activities, it will continue to improve the plainness and accessibility of its explanations.
- (2) In accordance with the Bank of Japan Act, the Bank submitted two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2008, in June and December; it also provided explanations of the report to the Diet in December 2008 and March 2009. Bank officials, including the Governor, appeared before committees of both houses of the Diet when requested to answer questions. Appearances took place on a total of 45 days in fiscal 2008, increasing by 50 percent from the previous year.
- (3) The Bank hosted various public relations events at its Head Office in Tokyo: in-house tours for families with

children during school holiday seasons in summer and spring; public lectures and an exhibition, about the Japanese currency and the Bank's history in November 2008; and, in December 2008, public lectures about the Bank's business operations and the history of the Old Building, designated an important cultural property. Other public relations activities included the following: the production of a new introductory video "The Role of the Bank of Japan" (viewable on the Bank's web site); the start of regular lectures about the Bank and Japanese currency for participants of the Head Office in-house tour; a thorough revision of exhibits and accompanying explanatory materials for in-house tours; and the arrangement of joint tours of the Head Office and the Bank's Currency Museum. The number of visitors to the Bank increased to over 41,000 in fiscal 2008, an increase of 46.1 percent from the previous year.

- (4) 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 around 85,681,000, an increase of 36.1 percent from the previous fiscal year; of these page views, around 12,052,000 were made to its English-language web site, an increase of 26.0 percent.
- (5) The Bank worked to improve its web site in fiscal 2008. In November 2008, the Bank modified the top page of the web site and improved the accuracy of search results. Prior to these changes and in response to frequent requests from users, in August 2008 the Bank began making available on its web site past issues of the *Quarterly Economic Outlook*, the publication of which was discontinued with the release of the *Monthly Report of Recent Economic and Financial Developments* from January 1998. On

top of these efforts, the Bank also plans to conduct a thorough revision of its web site so as to better respond to users' various needs and to further enhance the effectiveness of its communication with the public.

- (6) In fiscal 2008, the Bank received some 13,000 inquiries and comments (excluding letters or e-mails motivated by business purposes and those where the writing or intent was unclear) on a wide range of matters including changes in monetary policy; this represented an increase of 14.3 percent from the previous year. The Bank also received 13 requests for information disclosure, about three times as many as the previous year, and 8 requests for the protection of personal information, a decline of 81.4 percent from the previous year.
- (7) As a means of opinion polling, the Bank introduced a customer satisfaction survey to find out how its users assessed the manners of the Bank's employees and the quality of services provided.
- (8) The transcripts of MPMs held more than ten years previously have been released since July 2008 in accordance with the rule concerning the release of MPM transcripts.

## **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.**

- (1) As the secretariat of the CCFSI and with the aim of helping put financial literacy education into practice, the Bank was active in holding seminars and training



courses for schoolteachers in various regions of Japan. The Bank also distributed the CCFSI's newly-published introductory booklet for teachers on financial literacy education, "An Introduction to Financial Literacy Education" (available only in Japanese), to schools and boards of education throughout Japan.

- (2) The Bank, as the secretariat of the CCFSI, worked toward raising the awareness and understanding of a wider proportion of the public about financial issues by, for example, organizing an event, the Festival for Promoting Financial Literacy Education, as well as broadcasting a TV commercial to increase public awareness of the CCFSI's activities. The Bank also continued the publication of a quarterly magazine, "First Steps toward Financial Literacy for Everyday Life" (available only in Japanese).
- (3) Thanks in part to publicity efforts such as the TV commercial broadcast, the number of page views on the CCFSI web site increased by around 10 percent from the previous fiscal year.
- (4) The Bank, as the secretariat of the CCFSI, conducted, for the first time in five years, the *Consumer Survey on Finance*, which sought to identify the extent of the public's understanding of financial issues. It also continued to conduct a survey on households' financial activity.

## 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.**

**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 based on transparent and fair rules, closely monitoring levels of demand for banknotes as well as the condition of banknotes in circulation in each region by obtaining information from financial institutions and other related parties.
  - (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 maintained the cleanliness of banknotes in circulation through careful and thorough examination.

**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.**

(1) The Bank's branches produced up-to-date reports summarizing information on regional economies obtained via interviews and other channels from firms, business and industry associations, and governments in the region. 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*. Moreover, the Bank worked to share information on economic and financial issues in the region by, for example, maintaining a close dialogue with local financial and business communities.

### **3. Reinforcing 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 their progress in managing market risks and operational risks as well as in implementing frameworks for integrated risk management.

### **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.

(2) The Bank worked to secure better regional understanding of its policies and business

operations, including its efforts to encourage the public to make use of the electronic payment system when paying taxes and fees to the government.

(3) The Bank was active in 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 and raising awareness and understanding of financial and economic issues.**

(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 open lectures on the subject and 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, the Bank introduced in all its domestic offices a system to receive advance warnings of earthquakes from the Japan Meteorological Agency. 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 financial functions would remain operative at the regional level in times of emergency.