



Appendixes

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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 2008 and at the beginning of fiscal 2009.

I. Audits of the Bank's Financial Statements and Other Documents⁷

A. 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 (the 123rd fiscal year) 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.

B. Financial statements and other documents for the first half of fiscal 2008

From October through to early November 2008, 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 2008 (the 124th 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 2008.

C. Financial statements and other documents for fiscal 2008

From April through to early May 2009, 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 2008 as well as the statement of income for the second half of fiscal 2008.

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 2008 as well as the results of operations for the second half of fiscal 2008.

II. Field Audits of Banknotes, Securities, and Books

In fiscal 2008, the Auditors conducted a total of 51 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 31 branches.

7. 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. Audits of the Bank's Business Operations

In fiscal 2008, the Auditors conducted field audits of the Bank's business operations at 31 branches, 11 local offices in Japan, and 2 overseas representative offices, in addition to a field audit of operations relating to expenses and contracts at a Head Office department. They also conducted a total of 182 meetings, at which

they reviewed the execution of the Bank's business operations, receiving explanatory overviews from each of the Head Office departments as well as reports from relevant departments concerning other high-priority issues. In addition, they conducted 442 examinations of key documents and 4 special on-site visits to the Bank's premises.

APPENDIX 2: THE BANK OF JAPAN'S 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 STRATEGIC PRIORITIES FOR FISCAL 2009–2011**I. Introduction**

The Bank of Japan has decided to wind up, one year earlier than scheduled, the Medium-Term Strategic Framework for Fiscal 2005–2009 (MTSF) introduced in March 2005, and to replace it with the Strategic Priorities for fiscal 2009–2011. The Bank came to this decision for the following reasons.

First, over the past four years, the Bank has mostly achieved the results anticipated in the MTSF, in accordance with the two core principles, namely, to pursue more advanced central banking services and to ensure well-disciplined management. Specifically, regarding the first principle, the Bank has made progress in addressing a number of issues and putting into effect concrete action plans, while devising ways to achieve these ends within constraints on its human resources and taking account of changes in the surrounding circumstances. In terms of the second principle, the Bank has made steady progress, in particular, in establishing the Plan-Do-Check-Act (PDCA) process¹ in its organizational management and in raising officers' and employees' awareness of their obligations to comply with all requisite laws and regulations in performing their duties. The assessment of the Bank's progress toward achieving the strategic goals of the MTSF is detailed in Attachment 1.

And second, the Bank's circumstances have changed considerably, and with such changes likely to continue, it is anticipated that the Bank will be required to address new issues and implement appropriate new

action plans. The MTSF was designed with a five-year horizon, but revision of the MTSF framework has now become necessary to respond more flexibly to future changes.

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.² Under the new framework, the Bank will keep a medium-term perspective and respond flexibly to any changes in circumstances, so as to ensure that its business operations and organizational management are conducted in a timely manner.

II. Background

Various structural changes have been taking place in Japan's economic and financial environment, such as globalization, the diversification of financial transaction needs, and the innovations in financial engineering and information processing technology accompanying these. These trends seem set to continue.

While the structural changes may well contribute to future global economic growth, they are also likely to lead to greater complexity and wider fluctuations in economic and financial developments. In such a situation, various imbalances may accumulate in the economy, triggering occasional large-scale economic adjustments. The global financial crisis stemming from the U.S. subprime mortgage problem and the subsequent economic downturn are cases in point.

1. This is a four-step iterative process for continuous quality improvement, which works as follows. First, develop and decide on the plan for improvement (plan). Second, implement the plan (do). Third, evaluate the results of the plan (check). And fourth, identify possibilities for further improvement and take appropriate action (act).

2. With the introduction of the Strategic Priorities, the Bank of Japan's Action Plans, which were formulated every fiscal year under the MTSF, will be discontinued.

Japan's economic conditions have been deteriorating significantly, and the outlook for the economy is highly uncertain. Regional differences in economic structure as well as consequent disparities in profitability and financial strength among regional financial institutions are likely to remain.

Under these circumstances, to provide a stable foundation in Japan for financial and economic activity, the Bank needs to conduct its central banking operations in a more advanced and integrated manner.

At the same time, the Bank must maintain the stability and efficiency of its central banking operations, while making various working arrangements to improve employees' work-life balance³ in response to changes in Japan's social structure. As a public organization, the Bank also faces public demand to further raise the fairness and efficiency of its management.

III. Management Principles

Based on the above understanding, in order that the Bank's full resources may be deployed smoothly and in an integrated fashion to fulfill its mission, the following three management principles have been set out under the Strategic Priorities: stability and efficiency in all business operations; learning in action; and enhancement of communication channels.

A. Stability and Efficiency in All Business Operations

The Bank's mission, ensuring price stability and financial system stability, is achieved through its banking operations. It is therefore important for the Bank to ensure the stable conduct of all its banking operations, thereby raising public confidence. This is

vital not only for banking operations but also for other activities such as the compilation of statistics, research and analysis activities, and organizational management. The Bank must, at the same time, continue to step up its efforts to conduct these operations efficiently.

B. Learning in Action

The Bank should continue to enhance its research activities on a wide range of economic and financial issues, since conducting high-quality research is a significant precondition for successfully achieving its mission. In its conduct of central banking operations, the Bank must take into account the surrounding circumstances, innovations in financial and information technology, and changes in public needs. Continuation of research and planning is needed to achieve further improvements in central banking services and thereby respond effectively to any changes in circumstances. It is also important for the Bank to conduct performance reviews and make revisions as appropriate. It is vital for the Bank to continue to foster an organizational culture, shared with other central banks, that encourages continuous "learning" in this broad sense.

C. Enhancement of Communication Channels

In order to maintain its independence and to conduct its policies and business operations appropriately, the Bank must be accountable for its activities and willing to disseminate related information widely. Moreover, ensuring that reviews of the Bank's policies and services are based on a firm grasp of any changes in circumstances or public needs requires that the Bank listen to outside opinions and properly understand the thinking behind them. Furthermore, to acquire and train the highly qualified employees needed for its business

3. This refers to the achievement of a balance between work and personal life: employees should feel motivated and fulfilled by their duties and responsibilities at work; at the same time, depending on their stage of life, as parents or otherwise, they should have a wide range of choices and opportunities for personal fulfillment at home and in their communities.

operations and organizational management, the Bank needs to promote personnel exchange with outside institutions. From this perspective, the Bank will look for further ways to consolidate external relationships and enhance communication channels.

IV. Issues and Action Plans

In accordance with the three management principles described in Section III above, the Bank will address various issues and move forward with a number of actions plans. The following is an overview of these issues and action plans.

A. Matters Relating to the Conduct of Monetary Policy

The Bank will enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment at home and abroad so as to make appropriate policy decisions. In particular, the Bank will devise better methods of monitoring the financial environment and further strengthen analysis related to the relationship between financial and economic activity, given the feedback loop between financial and economic activity in the world economy.

The Bank will analyze and deliberate the frameworks for money market operations so as to make appropriate policy decisions.

Giving due consideration to Japan's past experiences, the Bank will further analyze and deliberate the conduct of monetary policy in light of the recent global financial crisis and the subsequent policy responses by overseas authorities. The Bank will make use of the findings in exchanging views with other central banks and communicating with the public.

B. Matters Relating to the Financial System

Giving due consideration to Japan's past experiences,

the Bank will conduct research and planning on the future state of the financial system, financial institutions' risk management, and oversight and regulation of financial institutions, in light of the recent turmoil in global financial markets and financial systems. The Bank will make use of the findings to take active part in discussions both at home and abroad, thereby contributing to the stability of the financial system.

Given the business environment surrounding financial institutions undergoing significant changes and the disparities among institutions in terms of their profitability and financial strength, the Bank will ensure that it accurately grasps the business conditions at financial institutions by strengthening the feedback between its on-site examinations and off-site monitoring as well as by conducting them efficiently and effectively. The Bank will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT). At the same time, the Bank will comprehensively analyze and assess the stability of the overall financial system in Japan and its inherent risks, by making use of information obtained through its on-site examinations and off-site monitoring, and will communicate its findings to the public.

The Bank will make use of the findings of such research and analysis in developing financial system policies and implementing monetary policy.

C. Matters Relating to Payment and Settlement Systems and Market Infrastructure

In view of changes in the financial environment, such as the diversification of financial instruments and transactions, globalization of financial markets, and advances in information processing technology, the Bank will conduct research and planning to promote improvement in the safety and efficiency of Japan's

payment and settlement systems and implement necessary measures accordingly.

As part of these measures, given that almost 20 years have passed since the Bank of Japan Financial Network System (BOJ-NET) came into operation, the Bank will consider establishing a new BOJ-NET, to reflect advances in information processing technology and changes in settlement and trading needs during this period, and to promote further improvement in the safety and efficiency of Japan's payment and settlement systems.

At the same time, with settlement risk continuing to intensify and become more complex in response to the growing interdependence of payment and settlement systems worldwide, the Bank will strengthen its oversight, firmly monitoring the safety and efficiency of payment and settlement systems from the standpoint of the central bank and encouraging relevant parties to improve these systems.

With a view to further enhancing the stability and efficiency of financial markets and in consideration of developments in global financial markets, the Bank will carry out research and planning related to improving financial market structures and making requisite adjustments to market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad.

In addition to the above efforts, on the international financial front, the Bank will contribute to the stability of the international currency system by, for example, promoting efforts to ensure the stability of the currency system in Asia, and strengthening cooperation with overseas authorities, especially other central banks, through personnel exchange and technical assistance.

D. Matters Relating to the Regional Economic and Financial Environment

With regional differences in Japan's economic structure continuing to be observed, the Bank will maintain a sound grasp of regional economic and financial conditions, making use of its nationwide network of branches and offices to keep up a close dialogue with local financial and business communities. The Bank will make use of its findings in its conduct of monetary policy and other actions.

The Bank will strengthen its grasp of business conditions at regional financial institutions through its on-site examinations and off-site monitoring, and will carry out more in-depth discussions with regional financial institutions on issues relating to business conditions. The Bank will also support regional financial institutions' efforts to improve their management of risks through, for example, local seminars organized by the CAFT. By means of these activities, the Bank will contribute to efforts to improve the functioning of the financial system in regional economies.

E. Matters Relating to Banknotes, Treasury Funds, and Japanese Government Securities (JGS) Services

With regard to banknote examination and treasury funds services, the Bank will examine the likely changes in the future workload at its Head Office and branches in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank as well as recent institutional changes related to treasury funds services. The Bank will then consider changes in the division of roles between its Head Office and branches, as well as among branches; it will also consider changes in its operational framework for examining banknotes and for providing treasury funds services. Through these efforts, the Bank will seek to make its

operational framework in these areas even more stable and efficient.

The Bank will also continue to work toward securing confidence in the currency, and will conduct further research on anti-counterfeiting technologies as part of this effort.

F. Matters Relating to Communication with the

Public

In the course of implementing various measures, the Bank will work to achieve more fully effective and efficient communication with the public so as to ensure the transparency of its policies and overall business operations. As part of this effort, the Bank will enhance its dissemination of English-language materials, and conduct a comprehensive review of the various reports and research papers it releases.

Given the increasing significance of the Internet as a tool for communication, the Bank will conduct a thorough revision of its web site to better respond to users' various needs and to further enhance the effectiveness of its communication with the public.

V. Organizational Management

With a view to addressing the issues and moving forward with the action plans stated in Section IV above, the Bank will implement the following measures with respect to organizational management.

A. Stable and Efficient Business Operations

The Bank will continue to ensure that all operations are backed up by accurate practical knowledge and executed with precision and deliberation. In particular, it will ensure that the necessary operational procedures are put in place in a swift and appropriate manner to implement policy measures effectively. The Bank will assess its business processes so as to identify where operational risks, including those associated with

information security, exist and how such risks are controlled. It will then revise its business processes as necessary and work toward further strengthening its risk management.

Moreover, the Bank will raise the efficiency with which it uses management resources by implementing operational restructuring and improving its business processes in light of changes in the business environment, as well as by further promoting computerization and the use of outsourcing. The Bank plans to achieve wide-ranging efficiency gains across areas that include, specifically, the establishment of a new BOJ-NET, the provision of services relating to banknotes and treasury funds, and the compilation of statistics. The Bank will also work to improve the efficiency of its system development through streamlining development processes, employing new technology, and promoting outsourcing.

At the same time, the Bank will continue to ensure the fairness of its business operations and organizational management by means of thorough compliance with all requisite laws and regulations.

B. Human Resources

The basic guideline for managing personnel numbers put in place by the Bank is to realize a net reduction of 5 percent or more in the number of the Bank's full-time employees during the five-year period from fiscal 2006 to fiscal 2010, in line with the Administrative Reform Promotion Act (Act No. 47 of 2006) and with the General Principles of Administrative Reform decided by the Cabinet in December 24, 2005. In fiscal 2011, the number of full-time employees will be kept to almost the same level as in the previous fiscal year.

To the extent possible given the human resource constraint above, the Bank will nevertheless secure the staff needed to enhance its capabilities in both policy

formulation and the system development necessary for successful policy implementation. In addition, the Bank will work to expand the diversity of working arrangements so as to improve employees' work-life balance, while holding down total personnel expenses.

With these precepts guiding its human resource management, the Bank has set the ceiling on the number of full-time employees for fiscal 2009 at 5,000, a decrease of 30 employees from fiscal 2008.

The Bank will continue to acquire and train highly qualified employees. To this end, job rotation and career development programs will be improved. The Bank will also be more active in sending/receiving employees to/from outside institutions, with a view to enhancing communication channels.

C. Budget for Expenses

The Bank will keep any increase in expenses to a minimum by thoroughly examining each item of expenditure and achieving a more streamlined overall budget; at the same time, it will appropriate a portion of

the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities.

In keeping with these principles, the Bank has set its budget for expenses for fiscal 2009 (the 125th fiscal year) as shown in Attachment 2.

D. Performance Reviews

The Bank will evaluate the progress made in the improvement of business operations and organizational management described in the Strategic Priorities at the end of every fiscal year. It will release the results of this evaluation in the *Gyoumu Gaikyo Sho* (Outline of Business Operations), which is translated into English as the *Annual Review*.

In addition to these regular and comprehensive reviews, the Bank will conduct performance reviews of major projects some time after their completion. The Bank will examine, for example, whether the projects have achieved the desired results and whether unanticipated risks have arisen. The results of such reviews will be made available to the public.

Attachment 1

ASSESSMENT OF THE IMPLEMENTATION OF THE MEDIUM-TERM STRATEGIC FRAMEWORK FOR FISCAL 2005–2009

I. Strategic Goals in Pursuit of More Advanced Services

A. Strengthening Policy Planning Capabilities

The Bank of Japan conducted research and analysis regarding the following topics: developments in economic activity in the midst of structural changes; developments in financial markets during the ongoing changes in the financial environment; and the effectiveness of the monetary policy framework in the face of these developments. In the latter half of the period covered by the Medium-Term Strategic Framework for Fiscal 2005–2009 (MTSF),⁷ the Bank monitored changes in economic activity, prices, and the financial environment so as to make appropriate policy decisions, as the effects of the global financial crisis spread. In the last six months in particular, the Bank has responded to the increased severity of the economic and financial situation with measures to help secure stability in

7. The Bank has decided to wind up the MTSF, which was introduced in March 2005, one year earlier than scheduled, replacing it with the Strategic Priorities for fiscal 2009–2011.

financial markets and facilitate corporate financing.

Given the intensification of uncertainty emerging in various forms as a result of the global financial situation, the Bank will continue to improve the quality of its research and analysis related to developments in economic activity and the financial environment at home and abroad so as to make appropriate policy decisions. In addition, the Bank will further analyze and deliberate the conduct of monetary policy in view of the current situation, and will disseminate its findings to the public.

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

The Bank made progress in the following areas: (1) smooth implementation of the first phase of the next-generation real-time gross settlement (RTGS-XG) project of the Bank of Japan Financial Network System Funds Transfer System (BOJ-NET FTS), which involves, for example, the introduction of liquidity-saving features into the system; (2) revision of its current account services and cash services, in light of the expansion in both the types of location where account holders can handle cash and the range of entities to which account holders can outsource cash transportation operations; (3) enhancement of the functioning of financial markets in Japan, especially the money market; and (4) practical improvements in money market operations. Moreover, the Bank took steps to promote improvement in the safety and efficiency of private-sector payment and settlement systems. It also engaged in efforts to expand the use of electronic treasury funds services following the completion of the necessary infrastructure for their online processing.

With developments in global financial markets having highlighted the need to improve financial market structures and payment and settlement systems, the Bank will carry out research and planning in these areas and work toward securing improvements.

C. Ensuring Business Continuity Arrangements for Emergencies

In order to ensure the effectiveness of business continuity arrangements in preparation for emergency situations such as natural disasters, terrorist attacks, and pandemics, the Bank formulated a Civil Protection Business Plan and a policy for addressing a possible outbreak of avian influenza; it also steadily enhanced business continuity planning for emergency situations by improving the framework for ensuring the availability of key employees and related facilities at the Bank. Business continuity exercises were expanded to enhance the effectiveness of such measures, and the Bank also actively sought to engage relevant parties in upgrading the business continuity arrangements in financial markets and payment and settlement systems.

To ensure the efficacy of the business continuity arrangements put in place to date, the Bank will focus new measures on effective implementation, for example, by further improving business continuity exercises.

D. Enhancing the Functioning of the Financial System

The Bank supported financial institutions' efforts to improve risk and business management, to the extent possible given constraints on its human resources, through its on-site examinations and off-site monitoring as well as activities organized by the Bank's Center for Advanced Financial Technology (CAFT), devising various measures including the introduction of risk-based on-site examinations. In the latter half of the period covered by the MTSF and amid the turmoil in global financial markets and financial systems, the Bank sought to effectively evaluate business conditions at individual financial institutions as well as the degree of stability and functioning of the overall financial system; it resumed purchases of stocks held by financial institutions with a view to ensuring financial system stability; and it engaged in discussions on financial system policy held at global forums.

The Bank will contribute to international discussions on financial systems in view of the current global situation. In addition, the Bank will ensure its grasp of business conditions at financial institutions through its on-site examinations and off-site monitoring and will further encourage financial institutions to step up efforts to improve their management of risks through, for example, seminars organized by the CAFT.

E. Enhancing International Operations and Services in Response to Globalization

The Bank strengthened cooperation with overseas authorities, especially other central banks, particularly with those in Asia, by participating in the Governors' Meetings of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). It also played a prominent part in fostering and developing efficient financial markets in Asian economies through participation in the Asian Bond Fund Initiative, improvement and expansion of the network of swap agreements in the Asian region, and the activities of the Bank's Center for Monetary Cooperation in Asia (CeMCoA). In response to the turmoil in global financial markets, the Bank kept in close contact with overseas authorities, especially other central banks, maintained an accurate grasp of ongoing changes in the economic and financial situation, and contributed to efforts to ensure global financial stability.

Given current global financial developments, the Bank will continue to engage in efforts to ensure the stability of the international financial system, particularly in the Asian region.

F. Securing Confidence in the Currency

The Bank took the following measures to secure confidence in the currency: (1) rapidly distributing the new series of banknotes equipped with state-of-the-art security features; (2) compiling and analyzing data on damaged banknotes to maintain the cleanliness of banknotes in circulation; (3) further improving the efficiency of its channels for supplying cash, including coins; and (4) installing new automatic banknote examination machines with increased flexibility for detecting counterfeit banknotes. The Bank, in cooperation with relevant parties at home and abroad, also strengthened its efforts to prevent counterfeiting and ensure the security of the currency and other means of payment by, for example, pushing forward with related research and improving public relations activities in this area.

The Bank will continue to steadily step up measures to prevent counterfeiting of banknotes and continuously conduct research to this end.

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

The Bank enhanced its framework for explaining the conduct of monetary policy and the background to its policy decisions by, for example, starting to release the transcripts of previous Monetary Policy Meetings (MPMs),² as well as to include a summary of the assessment of the economic and price situation from the "two perspectives"³ in the statement on monetary policy released after each MPM. The Bank also worked to improve the plainness and accessibility of its explanations of its business operations by releasing various new reports. Moreover, in support of the activities of the Central Council for Financial Services Information (CCFSI) and local committees, the Bank continued to contribute to financial literacy education, for example, by encouraging deeper public understanding of the Bank's activities based on the CCFSI's report on programs for improving financial literacy (available only in Japanese); it also worked to raise public awareness and understanding of financial and economic issues.

2. Transcripts of MPMs are made public after an interval of ten years has elapsed.

3. 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.

In order to ensure the transparency of the Bank's policies and overall business operations and to demonstrate its commitment to the principles of accountability, the Bank will work to put in place the infrastructure necessary for more fully effective and efficient communication with the public.

H. Improving Regional Services

The Bank, making more effective use of its nationwide network of branches and offices, implemented various measures related to its regional operations, gathered information on regional economies, which it shared through the regular release of the *Regional Economic Report*, and disseminated information on its policies and business operations. It also contributed to financial literacy education in local communities by supporting activities carried out by local committees for financial services information.

The Bank will continue efforts to improve its regional services by making full use of its nationwide network of branches and offices.

II. Well-Disciplined Management

A. Management Resources

The Bank achieved a net decrease in the number of its employees by, for example, streamlining, outsourcing, and increasing the efficiency of its business operations. This was in line with the Administrative Reform Promotion Act (Act No. 47 of 2006). Subject to this constraint on its human resources, the Bank devised various measures to implement the MTSF.

For IT investment, the scale of system development was below the target set at 12,000 person-months⁴ in the MTSF due to the constraint on human resources; however, the Bank carried out most of the system development projects necessary to implement the MTSF through the effective use of those resources, employing, for example, new technology and performance reviews of completed projects to improve the efficiency of its system development. The Bank is seeking further ways to improve the efficiency of its system development.

The Bank aimed at achieving a more streamlined overall budget for expenses by thoroughly examining each item of expenditure, while appropriating a portion of the budget for implementation of the MTSF.

B. Organizational Management

The Management Committee and the Compliance Committee, established at the beginning of fiscal 2005, proved effective in addressing organizational management issues at the Bank. Through the examination and coordination of Bank-wide issues under the Management Committee, the Bank implemented the MTSF and Action Plans for each fiscal year, monitored its progress toward its published strategic goals, and assessed its achievements; at the same time, it allocated management resources efficiently. In the meantime, deliberations within the Compliance Committee led to measures being taken, for example, to further raise officers' and employees' awareness of their obligations to comply with all requisite laws and regulations in performing their duties, to reinforce the protection of personal information, and to enhance the management of information security. In addition, the Bank stepped up Bank-wide efforts to identify risks through measures such as the assessment of business processes, as well as to encourage the adoption of preemptive risk reduction measures. However, challenges faced by the Bank during the period covered by the MTSF suggest the need to further intensify efforts to enhance the fairness and precision with which it executes its business operations.

⁴ In system development, one person-month describes the workload equivalent to one person working for one month.

BUDGET FOR EXPENSES FOR FISCAL 2009

The Bank of Japan's budget for expenses for fiscal 2009 (the 125th fiscal year) is as follows (Table 1).⁷ While appropriating a significant portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities, the Bank has also thoroughly examined each item of expenditure to achieve a more streamlined overall budget.

1. The budget for expenses for fiscal 2009 (excluding the cost of fixed-asset purchases and contingency funds) decreased by 14.9 percent from the previous year to 182.4 billion yen, due mainly to the following decreases from the previous year: 1.5 percent in the cost of production of banknotes; 59.7 percent in administrative expenses for treasury business and Japanese government securities; 0.3 percent in personnel expenses; 4.0 percent in expenses for transportation and communications; and 0.7 percent in other general and administrative expenses and costs.
2. The Bank appropriated a total of 13.4 billion yen for fixed-asset purchases, an increase of 17.2 percent from the previous year, mainly due to the increase in expenses incurred in updating and repairing automatic banknote examination machines. The Bank appropriated 1.0 billion yen for contingency funds in fiscal 2009, which was the same amount as in the previous year.

⁷ The Bank prepares a budget for expenses 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 Act before the beginning of each fiscal year. For fiscal 2009, the Bank sought approval on March 24, 2009 and will implement the budget upon authorization from the Minister of Finance. All figures, including those in Table 1, are rounded off to the nearest whole number.

Table 1

Budget for Expenses for Fiscal 2009 (The 125th Fiscal Year)

Item	Initial budget (thous. yen)	Share ¹ (percent)	Change from the previous year (percent)
Cost of production of banknotes	51,979,378	28.5	-1.5
Administrative expenses for treasury business and Japanese government securities	20,597,397	11.3	-59.7
Personnel expenses	52,194,298	28.6	-0.3
Remuneration of the officers	436,078	0.2	-1.4
Remuneration of the employees	41,514,816	22.8	-0.0
Retirement allowances	10,243,404	5.6	-1.3
Expenses for transportation and communications	5,528,869	3.0	-4.0
Expenses for transportation	2,250,961	1.2	-1.8
Expenses for communications	3,277,908	1.8	-5.5
Expenses for maintenance and repairs	2,115,000	1.2	7.1
Other general and administrative expenses and costs	49,949,269	27.4	-0.7
Cost of expendable supplies	1,646,907	0.9	-12.0
Expenses for electricity and water supply	2,275,422	1.2	1.1
Leasing fees for buildings and equipment	9,959,813	5.5	-7.3
Expenses for maintenance of buildings and equipment	9,863,231	5.4	1.1
Miscellaneous expenses	26,203,896	14.4	2.1
Subtotal	182,364,211	100.0	-14.9
Cost of fixed-asset purchases	13,393,147	...	17.2
Of which: Subject to the approval of the Minister of Finance ²	8,023,147	...	59.0
Contingency funds	1,000,000	...	0.0
Total³	196,757,358	...	-13.2
Of which: Subject to the approval of the Minister of Finance ²	191,387,358	...	-13.1

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 expenses, those related to computerization amounted to 28,300,046 thousand yen, a 1.1 percent increase 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.

Budget estimates of computerization expenses assume required outsourcing man-hours of approximately 7,733 person-months (one person-month describes the workload equivalent to one person working for one month in system development), and total man-hours of approximately 10,521 person-months if the workload of the Bank's employees is included.

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