

The Bank's Management Strategy: Framework and Progress

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I. MEDIUM-TERM STRATEGIC FRAMEWORK FOR FISCAL 2005–2009 (MTSF)

The Bank of Japan released the “Medium-Term Strategic Framework for Fiscal 2005–2009” (MTSF) for the first time on March 18, 2005. 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.

A. 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.

B. Pursuit of More Advanced Services: Eight Strategic Goals

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

1. 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.

2. 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 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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.

C. Well-Disciplined Management

1. 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.

a. 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.

b. 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-months¹ 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.

c. General and administrative expenses and costs

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.

2. 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.

a. 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.

b. Enhancement of the management system for execution

The Bank will establish a Management Committee.² 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.

c. 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.

1. In system development, one person-month is the workload equivalent of one person working for one month.

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

d. Enhancement of compliance

The Bank will establish a Compliance Committee in order to ensure that the executives and staff perform their duties fairly and in compliance with the relevant laws

and regulations.³ Also, under the auspices of this committee, the Bank will enhance the management of information security in its operations.

II. IMPLEMENTATION OF ACTION PLANS FOR FISCAL 2005 AND PROGRESS TOWARD STRATEGIC GOALS

The Bank of Japan released the "Action Plans for Fiscal 2005" and conducted its business operations in accordance with the plans. The "Action Plans for Fiscal 2005" comprised the set of issues and concrete action plans that the Bank should tackle during fiscal 2005 in order to achieve the goals of the MTSF described in Section I above. It also detailed the principles governing the Bank's organizational management and specified the resources necessary to fulfill the planned actions. This section outlines the implementation of the action plans and describe the progress toward meeting the strategic goals. The findings of the Bank's progress evaluation for fiscal 2005 are reflected in its formulation of the "Action Plans for Fiscal 2006" (see Section III on pages 28–37).

A. Progress toward Individual Strategic Goals

During fiscal 2005, the first year of the MTSF, the Bank took various actions and made steady progress in achieving each of the eight strategic goals listed in Section I.B (see pages 10–12).

1. Strengthening policy planning capabilities

a. Action plan for fiscal 2005

With the Japanese economy undergoing change as it moves toward a new stage of development, the Bank will endeavor to enhance the quality of its research and analysis to support policymaking and thereby gain a more accurate picture of economic developments from a broad range of perspectives, and will release the findings of such research and analysis to the public.

b. Implementation of the action plan

The Bank supported discussions at Monetary Policy Meetings by conducting research and analysis, from a broad range of perspectives, into significant economic developments: developments in economic activity and prices at home and abroad; developments in corporate behavior; and developments in financial markets and corporate finance under the quantitative easing policy. The Bank also put effort into research placing the Japanese economy's move toward a new stage of development within the context of overall developments in the economy to date. Of particular note

3. The members of this committee comprise some of the Deputy Governors and Executive Directors, 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.

in this regard was the Bank's joint conference with the University of Tokyo, entitled "Long-Term Stagnation of the Japanese Economy since the 1990s." Meanwhile, a framework for regularly releasing the results of such research and analysis was provided by three reports that the Bank started to publish: the Regional Economic Report; the Financial Markets Report; and the Financial System Report. The Regional Economic Report was particularly well received as offering accurate analysis and evaluation of regional economies in Japan. In addition, the Bank established the Center for Information Technology Studies (CITECS) as part of the Bank's Institute for Monetary and Economic Studies (IMES). The center published the results of research on information security technologies, helping to raise public awareness of information security.

c. Concrete measures taken

- (1) The Bank enhanced the quality of both theoretical and empirical research and analysis of the effects of structural and institutional factors on economic activity, prices, and the effectiveness of monetary policy.
 - (a) The Bank conducted research related to prices, the money stock, and monetary policy, the results of which were published in the Bank of Japan Working Paper Series and the Bank of Japan Review Series.
 - (b) The Bank hosted its twelfth international conference in May 2005, entitled "Incentive Mechanisms for Economic Policymakers," as well as a joint conference with the University of Tokyo in November 2005, entitled "Long-Term Stagnation of the Japanese Economy since the 1990s."
- (2) The Bank enhanced the quality of research on regional economies and surveys of business conditions to gain an accurate understanding of gaps in economic conditions between different regions or firms that may occur along with structural changes in the economy.
 - (a) The Bank started to publish a quarterly report on regional economies (the Regional Economic Report) in April 2005.
- (3) The Bank enhanced its ability to identify financial developments and their effects on economic activity against the background of significant changes in the environment surrounding financial markets and the financial system.
 - (a) In July 2005, the Bank started publishing a semi-annual report, the Financial Markets Report, reviewing developments in the Japanese financial markets.
 - (b) In August 2005, the Bank started publication of an annual report, the Financial System Report, reviewing the stability and functionality of the financial system and the measures being taken on this front (see Section II.A.4 on pages 19–21).
- (4) The Bank strengthened its IT research capability, in light of the increasing importance of IT for the development of financial services and ensuring financial system stability.
 - (a) The Bank established the CITECS as part of the Bank's IMES in April 2005. The center released the results of research related to information security technologies on a specially dedicated web site among other places.
- (5) The Bank enhanced the activities of the Archives and the Currency Museum.
 - (a) The Bank improved the management of its Archives by establishing a dedicated advisory committee.

The Bank also expanded the number of publicly available documents of historical and cultural value listed in the Archive catalog after further reorganizing them.

- (b) The Bank enhanced the activities of the Currency Museum, closely examining the items it holds in storage and as a result deciding, for example, to hold an exhibition of *Fundokin*, stamped weight-shaped gold ingots of considerable cultural and historical value.
- (6) The Bank conducted scheduled reviews and revisions to improve the quality of the statistics compiled by the Bank.
 - (a) The Bank revised the base year for the Input-Output Price Index of Manufacturing Industry by Sector to the year 2000 in September 2005.
 - (b) The Bank established a framework for revising the base year for the Corporate Goods Price Index to 2005, to be implemented in 2007, and invited public comment.
 - (c) The Bank made smooth progress in preparing for the revision of the sample firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) scheduled for 2006.
 - (d) The Bank took part in international initiatives to revise the Balance of Payments Manual to be released by the International Monetary Fund (IMF) in 2008.

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

a. Action plan for fiscal 2005

The Bank will work to achieve further sophistication of its payment and settlement services, by making full

use of advanced IT, and will also improve procedures of its money market operations and other transactions. In order to enhance Japan's payment and settlement systems and market infrastructure so that they can support more firmly the development of the nation's financial services, the Bank will actively make recommendations and encourage the private sector to take action.

b. Implementation of the action plan

The Bank made progress in upgrading the BOJ-NET to make full use of advanced IT, and made arrangements to have the new system available for practical use from around November 2006. The Bank, with the newly established Payment and Settlement Systems Department taking the initiative, looked to make advances in payment and settlement services by, for example, launching the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System (BOJ-NET FTS) after holding discussions and securing coordination among relevant parties. In order to improve market practices, the Bank promoted more efficient use of collateral and facilitated money market operations by amending the margin tables used in accepting eligible collateral and by deciding to make transactions related to bill purchasing operations paperless. In order to ensure the stable operation of private-sector payment and settlement systems, the Bank needs to promote further improvement in their safety and efficiency. In the same vein, the Bank took initiatives to improve the functioning and efficiency of the infrastructure in the money market, Japanese government bond (JGB) market, and credit markets, and to promote innovation in

financial services and market transactions. It also continued with the modifications to computer systems necessary for online processing of treasury funds, the wider use of which was encouraged by the decision to raise the fees paid to revenue agents for government revenue-related electronic payment transactions. The Bank needs to continue promoting greater use of online processing, for example, by encouraging individuals and firms to make tax payments electronically.

c. Concrete measures taken

(1) The Bank ensured the daily, smooth operation of its systems for providing payment and settlement services, including the BOJ-NET.

(a) During a system disruption that occurred for a short period of time at the banknote operations center in Toda City, Saitama Prefecture in March 2006, the Bank took the following action. Receipts and payments of banknotes between the Bank and BOJ account holders that would normally have taken place at the Center were promptly made at the Head Office while the Bank took action swiftly to restore the system.

(b) On the whole the Bank operated its systems for providing payment and settlement services, including the BOJ-NET, smoothly throughout fiscal 2005.

(2) The Bank upgraded the functions of the BOJ-NET.

(a) The Bank made steady progress in the development of new, more user-friendly BOJ-NET terminals, equipped with improved security features, making use of Internet technology. The terminals are to be available for practical use by financial institutions holding current accounts at the Bank from around November 2006.

(b) The Bank started to implement the RTGS-XG project of the BOJ-NET FTS following public consultation.

(c) The Bank gave the Japan Government Bond Clearing Corporation, prior to its launch, permission to hold a current account at the Bank and to become overdrawn, as well as to establish an account in the JGB book-entry system as a direct participant.

(d) The Bank introduced a delivery-versus-payment (DVP) mechanism for the settlement of book-entry corporate bonds in January 2006.

(3) The Bank promoted further improvement in the safety and efficiency of private-sector payment and settlement systems.

(a) The Bank started to publish annual reports on developments in payment and settlement systems (the Payment and Settlement Systems Report) in March 2006.

(b) The Bank held meetings of the Payment System Forum in April and December 2005 and exchanged opinions with those in charge of managing private-sector payment and settlement systems. The Bank, in cooperation with other central banks and international organizations, contributed to formulating and releasing an international standard for cooperative oversight of cross-border payment and settlement systems.

(4) The Bank improved the procedures involved in the Bank's money market operations and the acceptance of eligible collateral in order to conduct market operations more smoothly and improve the convenience of counterparties in these operations.

- (a) The Bank revised the margin tables for eligible collateral and released the "Framework for Revising the Current Bill Purchasing Scheme" in September 2005 in order to make operation-related transactions paperless.
 - (b) The Bank decided in May 2005 to accept, as eligible counterparties in the Bank's money market operations, financial institutions that entrusted other financial institutions with settlement of JGSs and funds accompanying money market operations conducted by the Bank such as purchase/sale of JGSs with repurchase agreements.
 - (c) The Bank took action to facilitate the use of credit market-related instruments as collateral in transactions with the Bank in December 2005 and in January and March 2006.
- (5) The Bank moved forward with initiatives for improving the functioning of the money market, the JGB market, and credit markets (e.g., markets for corporate bonds, dematerialized CP, and securitized assets).
- (a) The Bank published the Financial Markets Report, which reviews issues needing to be dealt with to improve the functioning of the money market.
 - (b) The Bank participated in discussions on formulating additional rules on market practices and revising accounting practices held, for example, at the Study Group for Bonds Repurchase Markets, the Financial Instruments Technical Committee of the Accounting Standards Board of Japan, and the committee on liquidation and securitization of assets.
- (6) The Bank modified business procedures and computer systems to promote further progress in online

processing of treasury funds (government expenses and revenues), expanding the use of the electronic services offered.

- (a) The Bank continued to deliberate and prepare for the introduction of collective online payment of tax returns and salaries for government employees.
- (b) As for electronic payment of government taxes and fees, the Bank decided in March 2006 to raise the fees it pays agent institutions for government revenue-related electronic payment transactions.
- (c) The Bank encouraged the greater use of electronic payments by individuals and firms as well as related ministries and government agencies by, for example, publishing a research paper examining progress and identifying remaining problems in streamlining the online processing.

3. Ensuring business continuity arrangements for emergencies

a. Action plan for fiscal 2005

The Bank will identify issues where business continuity arrangements for major disasters require further strengthening, and address these in order of priority.

b. Implementation of the action plan

The Bank formulated and released its civil protection business plan in accordance with the Civil Protection Law. This plan gave details to the public about how it would respond in the case of an armed attack or other such emergency. The Bank established a task force to consider alternative operational bases for use should its Head Office be damaged and unable to function. The Bank proceeded with measures to deal with emergencies, such

as considering the introduction of a system to ensure sufficient staff numbers for carrying out business continuity arrangements at its Head Office. The Bank also cooperated with relevant parties in developing the infrastructure to guarantee the continuity of operations in financial markets, payment and settlement systems, and the financial system, in case of a wide-scale disruption.

c. Concrete measures taken

(1) The Bank prepared its action plans in accordance with the Civil Protection Law to ensure the safety and security of Japanese citizens in the case of an armed attack or other such emergency.

(a) The Bank, as a designated public institution according to the terms of the Civil Protection Law, prepared and released in March 2006 its operational schemes for ensuring the safety and security of Japanese citizens in the case of an armed attack or other such emergency.

(2) The Bank enhanced business continuity planning (BCP) for emergencies at the Bank's Head Office.

(a) The Bank considered alternative operational bases for use should its Head Office be damaged and unable to function. It also considered expanding the range of business operations that could be continued, as well as increasing the number of staff and upgrading facilities for emergency operations. A task force for strengthening BCP was established in April 2005.⁴

(b) The Bank further strengthened the backup capabilities of its computer systems by revising its

manuals and expanding the range of computer systems that were backed up.

(3) The Bank cooperated with relevant parties in developing the infrastructure to guarantee the continuity of operations in financial markets, payment and settlement systems, and the financial system, in case of a wide-scale disruption.

(a) The Bank actively supported the initiatives of market participants to develop BCP in the money market, securities markets, and foreign exchange markets, to put networks of market participants in place to ensure that the minimal necessary transactions could be completed and markets continue to function in times of disaster.

(b) The Bank took part in deliberations on a consultation report, "High-Level Principles for Business Continuity," by participating in an international forum, the Joint Forum, comprising national authorities for the banking, securities, and insurance sectors.

(4) The Bank improved drills in preparation for emergency operations.

(a) The Bank conducted drills in preparation for emergency operations in cooperation with financial institutions and government agencies.

4. Enhancing the functioning of the financial system

a. Action plan for fiscal 2005

The Bank will conduct on-site examinations and off-site monitoring of overall financial institutions by placing more emphasis on enhancing the functioning

4. The task force was dissolved in April 2006.

and robustness of the financial system in Japan, taking into account the effects on the system of the full removal of the blanket guarantee of deposits in April 2005. It will also push forward with research and analysis of the financial system.

b. Implementation of the action plan

The Bank established the Financial Systems and Bank Examination Department by merging the former Financial Systems Department with the Bank Examination and Surveillance Department. The new department is responsible for issues involving financial system stability that previously fell within the remit of its two constituent departments, and also for the enhancement of the functioning of the financial system. Through its on-site examinations and off-site monitoring as well as seminars organized by the Center for Advanced Financial Technology (CAFT), which was set up in the new department, the Bank focused on encouraging financial institutions' efforts to improve their management of risks and business activities. The Bank started to release an annual report (the Financial System Report) evaluating the stability and functioning of the financial system and explaining the Bank's policy. The Bank actively participated in international discussions on the introduction of the new capital adequacy framework (Basel II). Through these activities, the Bank contributed to enhancing the functioning and robustness of the financial system in Japan.

c. Concrete measures taken

(1) The Bank conducted on-site examinations and off-site monitoring of financial institutions with a view to supporting private-sector initiatives toward providing more efficient and advanced financial services.

- (a) In its on-site examinations and off-site monitoring, the Bank supported financial institutions' efforts to assess the economic value of their assets and quantify the accompanying risk. It also encouraged them to introduce the integrated risk management framework best suited to their business conditions so as to improve their management of risks and business activities.
 - (b) The Bank established the CAFT in its new Financial Systems and Bank Examination Department in July 2005. The center hosted four large-scale open seminars, twelve small-scale seminars targeting the management and officers of financial institutions, and seminars held outside Tokyo at four branches of the Bank, namely, Osaka, Hiroshima, Sendai, and Fukuoka.
- (2) The Bank supported more sophisticated financial data exchange with financial institutions.
- (a) In February 2006, the Bank started exchanging financial data in extensible business reporting language (XBRL) format, which was developed to facilitate the exchange between computers. Prior to this, in December 2005 the CAFT hosted a seminar on advanced networks for financial data exchange, which centered on practical use of the XBRL technology.
- (3) The Bank reinforced research and analysis of the financial system.
- (a) The Bank released the first issue of the Financial System Report in August 2005. This annual report provides analysis and assessment of the state of the overall financial system and describes policy measures taken for financial system stability.

(4) The Bank enhanced the transparency of its on-site examinations.

(a) The Bank made public the names of the financial institutions examined on site and the timing of the examinations conducted in fiscal 2004 in Japanese in the *Gyomu Gaikyo Sho* (Outline of Business Operations) and in English in the Bank's *Annual Review 2005*.

(5) The Bank participated in discussions on financial system policy held at global forums, and application of the outcomes so as to provide more efficient and advanced financial services.

(a) The Bank contributed to the drafting of rules in preparation for the introduction of Basel II, which marks a drastic revision of international standards for capital adequacy.

(6) The Bank promptly implemented measures, including those as the lender of last resort, to prevent the manifestation of systemic risks.

(a) The Bank terminated the availability of credit under the special loan scheme to Ashikaga Bank, pursuant to Article 38 of the Bank of Japan Law. Since the termination of the above, there have been no cases where credit has been made available under the scheme.

5. Enhancing international operations and services in response to globalization

a. Action plan for fiscal 2005

In view of the ongoing trend of globalization in the economy and financial services, particularly the development of closer links between Japan and other Asian economies, the Bank will strengthen

cooperation with other central banks. The Bank will also implement measures to help ensure the stability of the currency system and foster financial markets in Asia.

b. Implementation of the action plan

The Bank strengthened its relationship with other central banks especially in Asia through, for example, workshops at the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and technical assistance. The Bank worked to enhance the stability of the currency system by concluding bilateral swap agreements with other central banks, and began implementation of the Asian Bond Fund 2 (ABF2) to foster efficient financial markets in Asian economies. The Bank established the Center for Monetary Cooperation in Asia (CeMCoA) to promote these activities as well as to facilitate more organized and better integrated research on monetary cooperation in Asia.

c. Concrete measures taken

(1) The Bank strengthened the relationship with other central banks through, for example, technical assistance and seminars, as well as personnel exchanges.

(a) The Bank held seminars/workshops, targeting particularly central bankers of EMEAP, and provided technical assistance to other central banks in Asia.

(2) The Bank worked to enhance the stability of the currency system in Asia by, for example, considering measures to improve and expand the network of bilateral swap agreements in the Asian region.

(a) The Bank, acting as the agent for the Minister of Finance of Japan, concluded a bilateral yen-won swap arrangement with the Bank of Korea, which enabled the two countries to swap their local

currencies (i.e., Korean won or Japanese yen) against the U.S. dollar. The Bank also signed bilateral swap arrangements with the Bank Indonesia and the Monetary Authority of Singapore, which replaced previous swap arrangements against the U.S. dollar.

- (3) The Bank cooperated in fostering efficient financial markets in Asian economies.
 - (a) The Bank began implementation of the ABF2 and promoted the effective use of the fund by private financial institutions.
 - (b) The Bank established the CeMCoA within its International Department in November 2005, to promote monetary cooperation in Asia as well as to facilitate more organized and better integrated research.
- (4) The Bank managed its foreign currency assets in a stable and efficient manner.
 - (a) The Bank managed its foreign currency-denominated assets in full accordance with the appropriate principal terms and conditions. The Bank also started entrusting the investment decisions to external entities.

6. Securing confidence in the currency

a. Action plan for fiscal 2005

The Bank will implement various measures to ensure the safe and secure use of the currency and other means of payment, in light of the increasing number of crimes related to the counterfeiting of banknotes, coins, and cash cards.

b. Implementation of the action plan

The Bank made the utmost effort to rapidly and smoothly distribute the new series of banknotes equipped with state-of-the-art security features, with the result that, as expected, redesigned notes made up of 68.2 percent of total banknotes in circulation at the end of March 2006. The Bank continued to secure confidence in the currency by installing new automatic banknote examination machines with enhanced counterfeit detection features, and by conducting research on anti-counterfeiting technologies in cooperation with related entities such as ministries and government agencies.

Given that the proportion of new series banknotes in circulation rose considerably in fiscal 2005, the Bank will make efforts to maintain the cleanliness of the new series banknotes in circulation in fiscal 2006.

c. Concrete measures taken

- (1) The Bank promoted the faster distribution of the new series of banknotes introduced in 2004.
 - (a) The Bank made progress in a smooth transition from the old series banknotes to the new series.
 - (b) The Bank started publishing a monthly report on progress in replacing old series banknotes with the new series. The Bank released a research paper on this subject in November 2005 in the *Nippon Ginko Chousa Kiho* (Bank of Japan Research Bulletin)⁵ to mark the first anniversary of the introduction of the new series banknotes.
- (2) The Bank improved its counterfeit detection capability.

5. Summaries of some of the research papers were translated into English and published in the *Bank of Japan Quarterly Bulletin*.

- (a) The Bank began to install new automatic banknote examination machines with enhanced counterfeit detection features at its Head Office and branches in September 2005.
- (3) The Bank strengthened efforts to ensure the security and anti-counterfeiting of the currency and other means of payment.
 - (a) The Bank conducted research on anti-counterfeiting technologies in cooperation with related entities such as ministries and government agencies.
 - (b) In terms of its public relations activities, the Bank produced posters aimed at improving public understanding of anti-counterfeiting measures in November 2005 to mark the first anniversary of the introduction of the new series banknotes.

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

a. Action plan for fiscal 2005

In order to secure public understanding, the Bank will continue with efforts to expand its opportunities to explain the Bank's policies and business operations, and improve its explanatory materials to focus on plainness and accessibility.

b. Implementation of the action plan

The Bank improved its explanatory materials to focus on plainness and accessibility by fundamentally restructuring its web site, as well as by commencing publication of various reports, making the contents of its publications more interesting and attractive, accepting more visitors, and improving its In-House Tours. The Bank also worked energetically to improve financial literacy.

Specifically, not only did the Bank support the activities of the CCFSI, which regarded fiscal 2005 as the first year of promoting financial literacy education, it also began holding an essay and presentation contest primarily for college students, called the "BOJ Grand Prix." According to the MTSF, however, the Bank is required to improve publicity related to every business area in which it is involved, so that there remain issues to be addressed.

c. Concrete measures taken

- (1) The Bank worked toward timely publication of progress in measures listed in the MTSF and Action Plans.
 - (a) The Bank made efforts to release information promptly on its web site and hold timely press conferences.
 - (b) If the Bank is to fulfill the terms of the MTSF, namely, to introduce every activity in which the Bank is involved to as wide a public as possible, then there remain issues which need to be addressed.
- (2) The Bank promoted better understanding of the Bank through speeches and other means.
 - (a) The Bank fundamentally restructured its web site in March 2006.
 - (b) The Bank improved the efficiency of its public relations activities by, for example, holding lectures using video conferencing systems to connect Tokyo with other cities.
 - (c) The Bank improved its In-House Tours to make their contents more interesting and attractive by, for example, renewing its exhibition panels and introducing new commemorative stamps.

- (3) The Bank improved its international public relations activities.
 - (a) The Bank improved the English-language version of the *Outlook for Economic Activity and Prices* (the Outlook Report).
 - (b) The Bank published a large number of working papers dealing with Japan's economy and monetary policy in English.
- (4) The Bank contributed to improved financial literacy among the public.
 - (a) The Bank hosted a Festival for Promoting Financial Literacy Education in November 2005, in which Governor Toshihiko Fukui participated as a panelist.
 - (b) The Bank held its first essay and presentation contest primarily for college students, called the "BOJ Grand Prix," in which participants competed on topics in the field of economics and finance.
 - (c) The Bank delivered financial literacy classes at kindergartens and elementary, junior high, and high schools in 21 locations nationwide.
 - (d) In April 2005, the Bank further expanded the contents of "Nichigin Kids" ("Nichigin" is the abbreviation in Japanese for "Bank of Japan"), a web site designed for children (available only in Japanese).

8. Improving regional services

a. Action plan for fiscal 2005

In achieving the strategic goals listed above, the Bank will provide regional services, making effective use of its nationwide network of branches and offices.

b. Implementation of the action plan

Making use of its nationwide network of branches and offices, the Bank started release of the Regional

Economic Report (see Section II.A.1 on pages 14–16), and promoted the faster distribution of the new series banknotes with improved security features. The Bank contributed to activities to improve financial literacy. The Bank also took appropriate measures to continue its business operations in times of typhoons and heavy snows.

c. Concrete measures taken

- (1) The Bank promoted the faster distribution of the new series banknotes with improved security features, and encouraged the online processing of government expenses and revenues.
 - (a) The Bank promoted the faster distribution of the new series banknotes with improved security features. The Bank encouraged financial institutions entrusted with treasury funds services and government agencies to expand the use of the electronic services offered as well as promoted the online processing of government employees' remuneration.
- (2) The Bank made use of information gained through research on regional economic developments in the Bank's policy implementation, and strengthened monitoring activities to ensure the stability of regional financial systems and improve their functioning.
 - (a) The Bank started to release the Regional Economic Report in April 2005. With its release, the Bank was able to return information gained from its research to the regions, as well as to utilize it for monetary policy implementation.
- (3) The Bank ensured the accountability of the Bank by thoroughly explaining its policies and business

operations, and contributed to financial literacy in local communities.

- (a) Members of the Policy Board hosted meetings with business leaders on a nationwide basis, explaining economic and financial developments and exchanging opinions with business leaders in regional areas.
 - (b) The Bank strengthened its public relations activities by hosting anniversary events and improving its In-House Tours. The number of visitors to the Bank of Japan Otaru Museum increased to 96,909, up 10.9 percent from fiscal 2004, partly due to the extension of opening hours in winter.
 - (c) The Bank offered support at the branch/office level to lecture tours such as the nationwide "caravan" of finance lectures delivered by the CCFSI. It also actively delivered lectures to promote financial literacy on a nationwide basis.
- (4) The Bank enhanced business continuity arrangements.
- (a) The Bank developed business continuity arrangements at its branches and offices.
 - (b) In times of typhoons and heavy snows, the Bank did its utmost to keep its business operations running by requiring its staff to stay overnight at the Bank's facilities on a temporary basis. The Bank also announced and implemented emergency financial measures, in cooperation with the Ministry of Finance's local finance offices when necessary.

B. Evaluation of Management Resources and Organizational Management

To achieve the strategic goals set out in the MTSF, the Bank established a Management Committee, a Compliance Committee, the Financial Systems and Bank Examination Department, and the Payment and Settlement Systems Department. It also implemented organizational reform of its Head Office. Regarding the division system then in place in the Currency Issue Department, Operations Department, and Administration Department, the Bank made necessary arrangements to divide the departments by section.⁶ With this new organization, the Bank improved its management system to achieve a more flexible and strategic allocation of its management resources with, for example, early examination of the budgets for important large-scale projects and IT investment projects enabling issues to be considered from a Bank-wide viewpoint. In fiscal 2006, the Bank would divide the three departments by section and continue to make efforts to achieve more efficient organizational management by using the framework of the Management Committee.

Regarding the personnel system, the Bank introduced the reemployment system (the "senior staff system") for those who retired in and after April 2006 in response to the revision of the Law for the Stabilization of Employment of the Aged.

There is room for further improvement in terms of the stability and reliability of the Bank's conduct of daily business operations, given that corrections had to be made to the Bank's documents after their initial release.

⁶ The division system was abolished on July 14, 2006.

Making efforts in this area is also an important goal for fiscal 2006.

1. Settlement of accounts and budget for general and administrative expenses and costs

As for the Bank's general and administrative expenses and costs for fiscal 2005, in line with the budget, the Bank improved efficiency in overall expenditure while making disbursements necessary to cover the MTSF. Regarding the Bank's budget for general and administrative expenses and costs for fiscal 2006, the Bank has carefully examined overall expenditure to achieve a more streamlined budget while appropriating a significant portion to cover its MTSF through early examination of the budget for large-scale projects.

2. IT investment

The Bank prioritized IT investment that would contribute to fulfilling its MTSF: in particular, investment for attaining safer and more efficient payment and settlement systems and market infrastructure; and for ensuring business continuity arrangements in emergencies. Under this policy, the Bank executed projects such as developing new BOJ-NET terminals, promoting the RTGS-XG project for the BOJ-NET FTS and online processing of treasury funds, and strengthening the backup capabilities of the Bank's key computer systems. The Bank determined the priority and amount of human resources to be accorded to system development projects upon ascertaining their relevancy, urgency, and cost-effectiveness, from the viewpoint of achieving the goals set out in the MTSF.

As for managing system development, the Bank established a new section in the Information System Services Department and improved its business

procedures for request for proposal (RFP). This enabled the Bank to make precise requests when outsourcing systems-related work and to give careful instructions regarding the contents of development projects.

The scale of system development for fiscal 2005 was approximately 10,400 person-months (including outsourced man-hours of approximately 7,700 person-months), slightly higher than the level for the previous fiscal year (approximately 10,200 person-months).

3. Ceiling on the number of employees

While raising the efficiency of existing business operations, the Bank maintained the staff necessary to fulfill the goals of its MTSF within the ceiling on the number of Bank employees for fiscal 2005, which was set at 5,260. As a result, the number of Bank employees at the end of March 2006 was 5,057.

4. Organizational management

(1) The Bank established a Management Committee and a Compliance Committee in April 2005. The Management Committee, comprising the Deputy Governors and all Executive Directors, held 23 meetings in fiscal 2005, during which it examined and managed at the Bank-wide level issues related to the planning and implementation of the basic principles of the Bank's operations as well as those related to the appropriate functioning of the organization as a whole. The Compliance Committee, comprising the Deputy Governors, the Executive Director in charge of personnel and corporate affairs, the Director-General of the Internal Auditors' Office, and a legal expert from outside the Bank, held eight meetings in fiscal 2005. It examined the Bank's handling of information security and its maintenance

of its information systems according to the Law Concerning the Protection of Personal Information, from the standpoint of ensuring that executives and staff perform their duties fairly and in compliance with the relevant laws and regulations.

- (2) The Bank implemented the organizational reform of its Head Office, effective from July 2005, so as to achieve the strategic goals set out in the MTSF efficiently and effectively. The Bank established the Financial Systems and Bank Examination Department by merging the Financial Systems Department with the Bank Examination and Surveillance Department, and it also established the Payment and Settlement Systems Department.
- (3) Regarding the division system then in place in the Currency Issue Department, Operations Department, and Administration Department, the Bank made necessary arrangements to divide the departments by section (division systems had been in place in the Bank's other departments in the Head Office, but were abolished in July 2004) during fiscal 2006. As for the Bank's other departments in the Head Office, which have already introduced the new system, the Bank enhanced organizational flexibility by establishing ten new sections while merging or abolishing eight sections. The Bank renamed three sections as centers.
- (4) The Bank continued to make efforts both to improve practices and procedures in its business operations

and to enhance its knowledge management. Regarding the former, the Bank extended the term of the Operational Reform Task Force for one year and supported its Bank-wide efforts. Through steady application of such measures at its Head Office and branches, there were more than 100 cases where practices and procedures improved. To support these activities, the Bank introduced an award system. As for knowledge management, the Bank improved its system infrastructure for information sharing by introducing a Bank-wide intranet and developing a dedicated information-sharing system.

- (5) With a view to helping staff to acquire diverse skills, the Bank continued to promote active personnel exchanges between the Bank and firms in the private sector. From fiscal 2005, the Bank initiated open recruitment of experienced workers for management positions and of undergraduates of universities abroad.
- (6) In April 2006, the Bank introduced the reemployment system (the "senior staff system") in response to the revision of the Law for the Stabilization of Employment of the Aged.
- (7) There is room for further improvement in terms of the stability and the reliability of the Bank's conduct of daily business operations, given that corrections had to be made to the Bank's documents after their initial release.

III. ACTION PLANS FOR FISCAL 2006

The Bank formulated the “Action Plans for Fiscal 2006” based on its progress toward the strategic goals stated in the MTSF and its implementation of action plans in fiscal 2005. The Bank will evaluate its progress toward the strategic goals by reviewing its achievement

of its planned actions, and will release its evaluation 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.

Action Plans for Fiscal 2006

Introduction

The Bank of Japan has formulated the Medium-Term Strategic Framework (MTSF) for fiscal 2005–2009, which was released in March 2005.¹ The Action Plans for Fiscal 2006 comprises the set of issues and concrete action plans that the Bank should tackle during the coming fiscal year, the second year of the MTSF, in order to achieve the goals specified in the MTSF. It also details the principles for the Bank's organizational management and the resources (i.e., its administrative expenses, resources for information technology [IT] investment, and human resources) necessary to fulfill the planned actions.

During fiscal 2005, the first year of the MTSF, the Bank took various actions to pursue more advanced central banking services. To achieve its strategic goals, the Bank has improved its business infrastructure, for example, via the organizational reform of its Head Office including the establishment of the Financial Systems and Bank Examination Department and the Payment and Settlement Systems Department. The Bank will release in Japanese an evaluation of its progress toward the strategic goals stated in the MTSF in the *Gyoumu Gaikyo Sho* (Outline of Business Operations) in May 2006, excerpts of which will be translated into English and included in the *Annual Review* published every September.

After reviewing the progress made during fiscal 2005, the Action Plans for Fiscal 2006 was formulated with the aim of reinforcing the capability of the Bank so as to enhance its services while maintaining the two core principles and the eight strategic goals laid out in the MTSF.

I. Major Issues and Action Plans

The major issues facing the Bank in fiscal 2006 and action plans to tackle them are classified according to the eight strategic goals laid out in the MTSF.

1. Fiscal 2005–2009 is the period from April 2005 through March 2010.

A. Strengthening Policy Planning Capabilities

With the environment surrounding the economy and financial markets in and outside Japan undergoing significant changes, the Bank will endeavor to enhance the quality of its research and analysis on developments in economic activity, prices, and the financial environment in order to make appropriate policy decisions. The Bank will also conduct research into medium- and long-term issues that affect the outlook for the Japanese economy.

1. Upgrading the quality of its analysis of developments in economic activity, prices, and the financial environment.
 - a. Conducting research and analysis for policy planning, following the termination of the quantitative easing policy and the introduction of a new framework for the conduct of monetary policy.
 - b. Further strengthening the Bank's research capability with regard to Japanese financial markets, and the interdependence of the macroeconomy and the financial system, so as to enhance the quality of the Financial Markets Report, a semiannual report reviewing Japanese financial markets, and the Financial System Report, a regular report on the stability and functionality of the financial system.
 - c. Strengthening the quality of the Bank's analysis of regional economies and surveys of business conditions by making effective use of its nationwide network of branches and offices, so as to enhance the quality of the Regional Economic Report, a quarterly report on regional economies.
2. Further enhancing the quality of research and analysis into the effects of structural factors such as those affecting economic activity, prices, and the effectiveness of monetary policy, reflecting the changes in the Japanese economy and the increased global linkages.
3. Strengthening the Bank's IT research capability and promoting the dissemination of information and explanations to the general public through the Bank's Center for Information Technology Studies (CITECS). This is to be achieved, for example, by promoting research on information security and anti-counterfeiting technologies, and enhancing information sharing related to IT within the financial sector by strengthening ties among the entities concerned.
4. Enhancing the activities of the Archive and the Currency Museum.
5. Using scheduled reviews and revisions to improve the quality of statistics compiled by the Bank.
 - a. Preparing for the revision of the base year for the Corporate Goods Price Index to 2005, for release in 2007; revising the sample firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) in March 2007; and taking part in international initiatives to revise the Balance of Payments Manual to be released by the International Monetary Fund (IMF) in 2008.
 - b. Participating in the government's discussions on how to improve statistics.

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

The Bank will work to achieve further sophistication of its payment and settlement services, by making full use of advanced IT, and will also play an active role in promoting further improvement in the stability of private-sector payment and settlement systems. The Bank will also endeavor to improve the functioning of financial markets reflecting changes in the financial environment.

1. Ensuring the daily, smooth operation of its systems for providing payment and settlement services, including the Bank of Japan Financial Network System (BOJ-NET).
2. Upgrading the functions of the BOJ-NET as follows:
 - a. Introducing more user-friendly BOJ-NET terminals, equipped with improved security features, and employing Internet technology, to be available for practical use from around November 2006.
 - b. Promoting the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System, via two specific measures: the introduction of liquidity-saving features into the RTGS mode; and the modification of the system to enable it to incorporate large-value payments currently handled by private-sector deferred net settlement systems.
3. Working toward the revision of the Bank's current account services and cash services in response to diversified branch strategies at financial institutions.
4. Taking the initiative in promoting further improvement in the safety and efficiency of private-sector payment and settlement systems.
5. Moving forward with initiatives for improving the functioning of the money market, Japanese government securities (JGS) markets, and credit markets (e.g., the corporate bond and CP markets, the securitization market, and the syndicated loan market) by taking account of changes in the financial environment after the termination of the quantitative easing policy.
6. Improving the procedures of its money market operations and the acceptance of eligible collateral in order to conduct market operations more smoothly and improve the convenience of counterparties in these operations.
 - a. Achieving paperless transactions for outright purchases of bills, scheduled for around the middle of fiscal 2006.
 - b. Promoting the ongoing revision and improvement of procedures to accept private-sector debt as eligible collateral.
7. Modifying business procedures and computer systems to promote further progress in online processing of treasury funds (government expenses and revenues), and expanding the use of the electronic services offered.
 - a. Introducing collective online payment of tax returns, scheduled for September 2006.
 - b. Continuing to prepare for the introduction of services such as collective online payment of salaries for government employees.

C. Ensuring Business Continuity Arrangements for Emergencies

The Bank will develop and continually revise its business continuity arrangements and take the initiative in cooperative endeavors with relevant entities to enhance the business continuity ability of the overall financial market and its participant financial institutions.

1. Enhancing and making more specific the business continuity planning (BCP) for emergencies at the Bank's Head Office.
 - a. Improving the Bank's alternative operational bases for use should its Head Office be damaged and unable to function and further strengthening the backup capabilities of the Bank's computer systems.

- b. Ensuring the availability of personnel, and reinforcing the necessary infrastructure at the Bank to take account of the People Protection Law and the measures to be put in place in case of earthquakes in the Tokyo area.
2. Taking the initiative in cooperative endeavors with relevant entities to enhance the business continuity ability of the overall financial market, payment and settlement systems, and financial system, in the face of a possible disruption.
 - a. Encouraging financial institutions and other relevant entities to improve their business continuity arrangements and to enhance drills in preparation for emergency operations, in response to the diversification of risk factors, such as natural disasters and terrorist attacks, that might lead to business interruptions, as well as the formulation of international standards for BCP.
 - b. Supporting market participants' initiatives in business continuity arrangements by, for example, promoting cooperation between markets and supporting the operation of web sites for BCP.
3. Improving drills in preparation for emergency operations by, for example, conducting joint drills involving financial institutions and government agencies.
4. Formulating a business plan for the Bank, in response to the law on measures to be put in place in case of earthquakes in the Japan and Kuril Island troughs.

D. Enhancing the Functioning of the Financial System

The Bank will continue to put effort into its on-site examinations and off-site monitoring of overall financial institutions by placing more emphasis on enhancing the functioning and robustness of the financial system in Japan. It will also push forward with research and analysis in areas including the financial system and risk management skills. Through these efforts, the Bank will contribute to advances in financial technology in Japan.

1. Conducting on-site examinations and off-site monitoring of financial institutions, and hosting seminars organized by the Bank's Center for Advanced Financial Technology with a view to supporting private-sector initiatives toward providing more efficient and advanced financial services.
 - a. With regard to on-site examinations and off-site monitoring, enhancing assessments of the economic value of and risks involved in financial institutions' asset holdings and financial transactions. Encouraging financial institutions to practice integrated risk management and improve the functioning of their internal controls. Working toward the realization of risk management and profit/loss management that are appropriate given changes in the financial environment after the termination of the quantitative easing policy.
 - b. Expanding the number and improving the quality of open seminars organized by the Center for Advanced Financial Technology, including those held outside Tokyo, and introducing seminars held on a regular basis, with a view to further sharing understanding and exchanging views with financial institutions. These will provide opportunities for the Bank to contribute to the advancement of the financial institutions' management of risks and business activities.

2. Reinforcing research and analysis related to the financial system and risk management skills.
 - a. Promoting the dissemination of information on potential risk and the functioning of the financial system through efforts such as the enhancement of the Financial System Report.
 - b. Enhancing the quality of research and studies on advanced financial techniques and risk management methods, and publishing their findings.
3. Participating in discussions on financial system policy held at global forums, and applying the outcomes to contribute to more efficient and advanced financial services.
4. Supporting more advanced financial data exchange with financial institutions. Increasing the use of extensible business reporting language (XBRL) format in online financial data exchange.

E. Enhancing International Operations and Services in response to Globalization

In light of the ongoing trend of globalization in the economy and financial services, particularly the development of closer links between Japan and other Asian economies, the Bank will further strengthen cooperation with other central banks. The Bank will also implement measures to help ensure the stability of the currency system and foster financial markets in Asia.

1. Taking part in various international discussions on issues such as developments in the global economy and international financial markets and strengthening cooperation among foreign central banks.
2. Further strengthening the relationship with other central banks in Asia, with initiatives taken by the Bank's Center for Monetary Cooperation in Asia (CeMCoA), through the promotion of technical assistance, personnel exchanges, and such activities as seminars and joint research.
3. Promoting concrete measures in Asia to foster efficient financial markets and establish a stable currency system.
 - a. Planning and promoting projects to improve financial markets in Asia, following the launch of the Asian Bond Fund 2 (ABF2).
 - b. Considering more concrete measures to improve and expand the network of bilateral swap arrangements in the Asian region.
4. Managing the Bank's foreign currency assets in a stable and efficient manner.

F. Securing Confidence in the Currency

The Bank will enhance the smooth supply of banknotes and maintain the cleanliness of banknotes in circulation, as well as ensure the safe use of the currency and other means of payment.

1. Maintaining the cleanliness of banknotes in circulation by preventing damaged or worn banknotes from being returned to circulation.
2. Further enhancing smooth banknote supply by improving the transparency and efficiency of cash handling services offered to financial institutions by the Bank.

3. Improving the Bank's counterfeit detection capability through the installment in its branches of the new automatic banknote examination machines with enhanced counterfeit detection features first introduced in fiscal 2005.
4. Strengthening efforts to ensure the security of the currency and other means of payment, and prevent counterfeiting.
 - a. Enhancing communication and cooperation with related entities such as ministries and government agencies, and conducting further research on anti-counterfeiting technologies.
 - b. Improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.

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

In order to secure public understanding, the Bank aims to conduct its public relations activities from a broad point of view in a timely manner and will continue with efforts to expand its opportunities to explain the Bank's policies and business operations, and improve the quality of its explanatory materials.

1. Working toward publication of the progress in the measures listed in the MTSF and the Action Plans covering a wide range of the Bank's business operations. Endeavoring to acquire information on the public's interests and views on the Bank's policies and operations and making use of them to improve its business operations and enhance public relations activities.
2. Enhancing the Bank's conduct of its public relations activities, particularly speeches, and improving the accessibility and lucidity of its explanations. More specifically: making more active use of the Bank's web site; the introduction of new styles of speeches by executives and staff, including those inviting audience participation; and further improvement in the Bank's In-House Tours.
3. Contributing to better financial education among the public via the following:
 - a. Assisting financial education projects carried out by the Central Council for Financial Services Information.
 - b. Producing teaching materials for schools and promoting their use, in cooperation with people engaged in education.

H. Improving Regional Services

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

1. Promoting a smooth supply of clean banknotes, and encouraging the online processing of government expenses and revenues.
2. Researching and analyzing information on regional economies and making use of the results in the Bank's policy implementation, as well as disseminating information on the Japanese economy, including these results, to individual regions.
3. Ensuring the stability of regional financial systems and improving their functioning.
4. Strengthening the accountability of the Bank by thoroughly explaining its policies and business operations and promoting public relations activities.

5. Contributing to financial education in local communities.
6. Enhancing business continuity arrangements.

II. Management Resources and Organizational Management

A. Budget for General and Administrative Expenses and Costs

The Bank's budget for general and administrative expenses and costs for fiscal 2006 (the 122nd fiscal year) is as follows (tables 1 and 2).² Note that, while appropriating a significant portion of the budget to deal with the Major Issues and Action Plans outlined in the preceding section, the Bank has also thoroughly examined overall expenditure to achieve a more streamlined budget.

1. The Bank has made great progress in cutting costs. The budget for general and administrative expenses and costs for fiscal 2006 (excluding the cost of fixed-asset purchases and the contingency funds) decreased by 1.2 percent from the previous year to 219.6 billion yen, due mainly to the following decreases from the previous year: 12.6 percent in the cost of production of banknotes; 2.0 percent in the remuneration of executives; 0.4 percent in the remuneration of staff; 0.0 percent in expenses for transportation; 6.3 percent in expenses for communications; 11.2 percent in expenses for maintenance and repairs; 3.4 percent in the cost of expendable supplies; 5.3 percent in leasing fees for buildings and equipment; and 6.3 percent in miscellaneous expenses. On the other hand, administrative expenses for treasury business and government securities increased by 17.9 percent from the previous year due mainly to increases in the redemption of JGSs.
2. The Bank appropriated a total of 15.5 billion yen for fixed-asset purchases, an increase of 12.4 percent from the previous year. The increase is due mainly to the appropriation of the cost of the renovation of the Bank of Japan Naha branch. The cost for updating automatic banknote examination machines, however, decreased. The Bank appropriated 1.0 billion yen for the contingency funds in fiscal 2006, which was the same amount as in the previous year.

B. IT Investment

The scale of system development for fiscal 2006 was set at 10,400 person-months³ (including outsourcing man-hours of 7,600 person-months), more or less the same level as the previous fiscal year (projected at approximately 10,400 person-months). The Bank will complete the ongoing system development projects begun the previous fiscal year, and select new development projects and set operational tasks in accordance with basic policies specified below.

1. The Bank will steadily carry out system development projects necessary for fulfilling its MTSF for fiscal 2005–2009, in particular, those for attaining safer and more efficient payment and settlement systems and market infrastructure, and ensuring business continuity arrangements for emergencies.

2. The Bank prepares a budget for general and administrative expenses and costs every fiscal year. Its budget for core operations, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, Paragraph 1 of the Bank of Japan Law before the beginning of each fiscal year. For fiscal 2006, the Bank sought approval on March 17, 2006, and will implement the budget upon authorization from the Minister of Finance.

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

3. In system development, one person-month is the workload equivalent of one person working for one month.

2. The Bank will determine the priority and amount of human resources to be accorded to system development projects upon ascertaining their relevancy, urgency, and cost-effectiveness, and after reviewing the business and operational procedures to which the projects are to apply.
3. The Bank will seek to improve the efficiency of its system development by, for example, making use of new technology and evaluating the results of ongoing projects as well as integrating projects that use similar technologies.

C. Ceiling on the Number of Employees (Table 3)

While ensuring that the Bank has the staff necessary to fulfill its Major Issues and Action Plans, the Bank will make further efforts to raise the efficiency of existing business operations and achieve a net decrease in the number of employees. This policy will also be in line with the General Principles of Administrative Reform decided by the Cabinet in December 2005. The ceiling on the number of Bank employees for fiscal 2006 was set at 5,245, a decrease of 15 employees from the previous fiscal year.

D. Organizational Management

1. Through the examination and coordination, under the Management Committee, of Bank-wide issues, the Bank will implement the MTSF and Action Plans for each fiscal year, monitor its progress toward its published strategic goals, and assess its achievements; meanwhile, the Bank will allocate management resources efficiently.
2. Following deliberations by the Compliance Committee, the Bank will, for example, seek to raise executives' and staff's awareness of their obligation to comply with the requisite laws and regulations in performing their duties, to reinforce the protection of personal information, and to enhance the management of information security.
3. With the aim of enhancing organizational flexibility, the Bank will abolish the division system currently in place in the Currency Issue Department, Operations Department, and Administration Department in July 2006, and make necessary arrangements to divide the departments by section.
4. The Bank will continue to execute all operations with precision and stability, backed up by reliable practical knowledge. To this end, the Bank will seek to identify risks through measures such as the assessment of business processes and will encourage the adoption of preemptive risk reduction measures. The Bank will reinforce a proper monitoring and management of the operation of the BOJ-NET and other systems; make efforts to maintain and improve their quality through system development; and continue to take all necessary measures to ensure their stable operations.
5. Through operational restructuring in light of the advances in IT, constant review of business processes, and information sharing, the Bank will maintain its efforts to further raise the efficiency of operations and promote implementation of its high-priority action plans.
6. The Bank will continue to seek new staff with diverse skills and enhance staff training aimed at acquiring the highly specialized skills and a broad point of view required for a central bank. The Bank will also ensure that the reemployment system (the "senior staff system") introduced in response to the revised Law for the Stabilization of Employment of the Aged becomes firmly established.

Table 1

Budget for General and Administrative Expenses and Costs for Fiscal 2006 (The 122nd Fiscal Year)

Item	Initial budget (thous. yen)	Share ¹ (percent)	Change from the previous year (percent)
Cost of production of banknotes	56,380,138	25.7	-12.6
Administrative expenses for treasury business and government securities	49,621,135	22.6	17.9
Personnel expenses	50,978,491	23.2	0.6
Remuneration of executives	436,472	0.2	-2.0
Remuneration of staff	40,894,357	18.6	-0.4
Retirement allowances	9,647,662	4.4	5.0
Expenses for transportation and communications	6,166,293	2.8	-4.0
Expenses for transportation	2,367,316	1.1	-0.0
Expenses for communications	3,798,977	1.7	-6.3
Expenses for maintenance and repairs	1,659,295	0.8	-11.2
Other expenses and costs	54,830,040	25.0	-3.4
Cost of expendable supplies	1,993,635	0.9	-3.4
Expenses for electricity and water supply	2,262,929	1.0	1.4
Leasing fees for buildings and equipment	13,228,151	6.0	-5.3
Expenses for maintenance of buildings and equipment	10,131,612	4.6	7.0
Miscellaneous expenses	27,213,713	12.4	-6.3
Subtotal	219,635,392	100.0	-1.2
Cost of fixed-asset purchases	15,547,207	...	12.4
Of which: Subject to the approval of the Minister of Finance ²	6,448,968	...	-25.0
Contingency funds	1,000,000	...	0.0
Total³	236,182,599	...	-0.4
Of which: Subject to the approval of the Minister of Finance ²	227,084,360	...	-2.1

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 general and administrative expenses and costs, expenses for computerization amounted to 32,385,913 thousand yen, a 5.7 percent decrease from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

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

Table 2

Budget for General and Administrative Expenses and Costs for Fiscal 2001–2006

bil. yen

Item \ Fiscal year	2001	02	03	04	05	06
Budget for general and administrative expenses and costs ¹	205.5	219.2	222.8	226.0	222.3	219.6
Reference: Expenses for computerization	28.6	31.6	30.9	31.9	34.3	32.4
Cost of fixed-asset purchases	25.8	24.7	12.2	16.6	13.8	15.5
Total budget for general and administrative expenses and costs ²	232.4	245.0	236.0	243.7	237.2	236.2

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

2. Includes the contingency funds.

Table 3

Annual Ceiling on the Number of Employees for Fiscal 2001–2006

people

Fiscal year	2001	02	03	04	05	06
Ceiling on the number of employees	5,530	5,370	5,260	5,260	5,260	5,245

