

The Bank's Other Operations

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I. ENHANCEMENT OF PAYMENT AND SETTLEMENT SYSTEMS AND MARKET INFRASTRUCTURE

A. The Role of the Bank of Japan in Payment and Settlement Systems

The Bank of Japan provides safe and convenient settlement assets in the form of banknotes and deposits in financial institutions' current accounts held at the Bank (deposits in Bank of Japan [BOJ] accounts). In addition, the Bank conducts settlement for Japanese government securities (JGSs) in its role as the book-entry transfer institution in the Japanese government bond (JGB) book-entry system. To ensure the safety and efficiency of these services, the Bank operates a computer network system for the settlement of funds and JGSs, the Bank of Japan Financial Network System (BOJ-NET). The BOJ-NET remained online and fully functional throughout fiscal 2005.

To promote the smooth and stable operation of Japan's payment and settlement systems, the Bank encourages owners/operators of private-sector payment and settlement systems to enhance the safety and efficiency of their systems and cooperates with them to that end. Moreover, the Bank participates in various international discussions and initiatives related to payment and settlement systems, including those at the meetings of the Committee on Payment and Settlement Systems (CPSS) of the central banks of the Group of Ten (G-10) countries.

B. The Bank's Initiatives to Enhance Payment and Settlement Systems

1. Overview

To fulfill the second strategic goal of "attaining safer and more efficient payment and settlement systems and market infrastructure" set out in the Bank's "Medium-Term Strategic Framework for Fiscal 2005–2009" (MTSF), the Bank in fiscal 2005 continued to improve the various payment and settlement services it provides by pushing ahead with the introduction of new information and communications technology. It also continued to contribute actively to various initiatives to ensure that payment and settlement systems help to support the development of Japan's financial services. In addition, the Bank established the Payment and Settlement Systems Department, reinforcing its organizational structure to promote further development in payment and settlement systems in Japan.

2. Next-generation real-time gross settlement (RTGS) project of the BOJ-NET Funds Transfer System (BOJ-NET FTS)

Progress in information and communications technology has made it possible for payment systems to reduce risk while requiring less liquidity. Such innovative payment system designs have been implemented in many countries. Similarly in Japan, there is room to further enhance the safety and efficiency of the settlement of large-value payments. Against this background, the Bank announced on December 2, 2005, its "Proposal for the Next-Generation RTGS Project of the BOJ-NET Funds Transfer System."⁷

7. An overview in English is available at the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

The proposal discusses (1) the introduction of liquidity-saving features into the RTGS mode of the BOJ-NET FTS, and (2) the modification of the system to incorporate large-value payments that are currently processed by two private-sector deferred net settlement systems. Following public consultation, the Bank decided to implement the project and announced on February 3, 2006, the "Framework for the Next-Generation RTGS Project of the BOJ-NET Funds Transfer System."² The Bank plans to introduce liquidity-saving features into the BOJ-NET FTS and to incorporate large-value payments processed by the Foreign Exchange Yen Clearing System during fiscal 2008, followed by large-value payments processed by the Zengin System around 2011.

3. Development of PC-based connection for the BOJ-NET

The Bank has been pressing ahead with preparations for the conversion from the present dedicated BOJ-NET terminals to PC-based connection around November 2006. On November 30, 2005, the Bank presented revised specifications for the new connection, outlined procedures for the conversion and operational testing, and introduced the demonstration tool for the new BOJ-NET terminal interface.

4. Operation of the JGB book-entry system

In order to enhance the efficiency and transparency of the admission process for foreign indirect participants in the JGB book-entry system, the Bank implemented in July 2005 the full-fledged revision of the "Application Procedures for an Applicant Seeking

Approval as a Foreign Indirect Participant in the JGB Book-Entry System."

Meanwhile, the Bank decided on March 7, 2006, to allow the Government Pension Investment Fund to open an account in the JGB book-entry system as a direct participant that cannot establish a customer's account.³

5. Reform of securities settlement systems in Japan

In support of the progress being made to reform securities settlement systems in Japan, the Bank continued to provide operational and technical support to securities settlement systems to enhance their safety and efficiency. For example, in April 2005, the Bank gave the Japan Government Bond Clearing Corporation, which clears over-the-counter transactions involving JGSs, permission to hold a current account at the Bank and to access the JGB book-entry system and the BOJ-NET.

Furthermore, the Bank supported the introduction of a delivery-versus-payment (DVP) mechanism for settlement of "Corporate Bonds," that is, non-JGB bonds, such as corporate bonds, municipal bonds, government-guaranteed bonds, and samurai bonds, by linking the BOJ-NET FTS with the Japan Securities Depository Center (JASDEC) system. The link went live on January 10, 2006, together with the start of the JASDEC Book-Entry Transfer System for Corporate Bonds. The Bank also continued to work with the JASDEC toward the introduction of a DVP mechanism for the book-entry transfer of investment trusts (scheduled for January

2. Available only in Japanese at the Bank's web site (<http://www.boj.or.jp/>).

3. The former Government Pension Investment Fund was dissolved and reestablished on April 1, 2006, in accordance with the law, as an incorporated administrative agency taking over from its predecessor all rights and duties in connection with the management and investment of public pension funds. The new fund requested the Bank to establish a direct participant's account for it in order to replace the equivalent account held by its predecessor.

2007) based on the Law Concerning Book-Entry Transfer of Corporate and Other Debt Securities.

6. Publication of the Payment and Settlement

Systems Report

On March 6, 2006, the Bank published the first issue of the Payment and Settlement Systems Report.⁴ In view of the various changes that have taken place in the financial environment surrounding Japan's payment and settlement systems, the report (1) presents the findings of the Bank's analysis of trends in the transaction volume and value of Japan's payment and settlement systems, and provides information on the progress in reform of these systems; (2) identifies improvements that can be made to enhance the safety and efficiency of Japan's payment and settlement systems, and explains how system operators and the Bank are addressing them; and (3) introduces the Bank's work on payment and settlement systems with the aim of contributing to worldwide research on payment and settlement issues.

C. The Bank's Initiatives to Improve Market Infrastructure

In fiscal 2005, the Bank took initiatives to improve the functioning and efficiency of the infrastructure in the money market, the JGB market, and credit markets, and to promote innovation in financial services and market transactions.

In the money market, the Bank exchanged views with market participants on market functions that would ensure smooth financing and interest rate formation after

the termination of the quantitative easing policy in March 2006, assuming that financial institutions holding BOJ accounts, which had been obtaining funds mostly through the Bank's operations, would come to the market for financing.

As for the JGB market, the Bank took part in the Study Group for Bonds Repurchase Markets and supported the formulation of additional rules on market practices.

With regard to credit markets, the Bank supported efforts to improve the functioning of non-JGB markets and of the dematerialized CP market, and to develop new credit channels such as securitization, syndicated loans, and credit derivatives. For example, the Bank participated in the Financial Instruments Technical Committee of the Accounting Standards Board of Japan to discuss the modification of accounting standards for synthetic collateralized debt obligations,⁵ and also participated in a working group to develop a Japanese version of the prepayment speed assumption (PSA) model of the Japan Securities Dealers Association (JSDA) so as to introduce a standard PSA model for the mortgage-backed securities (MBS) market in Japan.⁶ Meanwhile, the Bank finished its Survey on the Securitization Market as well as a semiannual report on the securitization program as scheduled. The survey and report have been conducted for the purpose of facilitating and enhancing the efficiency with which securitized products were traded during the formative period, since May 2004, when there was limited availability of relevant information.⁷

4. An outline in English is available at the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

5. A synthetic collateralized debt obligation is a type of asset-backed security generated by combining a low-credit-risk asset, for example, a JGB, with credit derivatives.

6. The PSA model is a standard model used in the United States to describe the prepayment speed assumption employed in the MBS market.

7. From April 2006, the survey and report have been undertaken by the JSDA and the Japanese Bankers Associations (JBA).

II. ISSUANCE, CIRCULATION, AND MAINTENANCE OF BANKNOTES

A. Banknotes

1. Overview

The Bank issues banknotes (Bank of Japan notes) as stipulated in Article 46, Paragraph 1 of the Bank of Japan Law. Banknotes are issued and put into circulation when financial institutions withdraw them from their current accounts at the Bank. These banknotes are legal tender and hence can be used for payment without limit (Article 46, Paragraph 2). They are widely used for payment and settlement. As of the end of fiscal 2005, the amount outstanding of banknotes issued (banknotes in circulation) was 75.0 trillion yen, up 0.4 percent from a year earlier. In volume, this amounted to 12.64 billion banknotes, down 1.5 percent from a year earlier (Table 1).

As of the end of fiscal 2005, the total amount outstanding of the three new series of Bank of Japan notes (10,000, 5,000, and 1,000 yen notes) issued since November 1, 2004, was 49.7 trillion yen. In volume, this amounted to 7.34 billion banknotes (Table 2).

The Bank conducts the following operations to ensure the stability of banknote supply and to maintain public confidence in banknotes. First, the Bank receives/pays banknotes from/to financial institutions that hold current accounts at the Bank (BOJ account holders). Second, the Bank counts the banknotes

it receives from BOJ account holders, examines them to verify their authenticity, and checks their fitness for recirculation.⁸ Third, the Bank destroys soiled or damaged banknotes,⁹ and stores unissued banknotes in vaults. And fourth, the Bank exchanges damaged notes for new ones (Article 48).

2. Volume of banknotes handled

Both the Bank's receipts and payments of banknotes decreased during fiscal 2005, as demand for the new series of banknotes and withdrawal of the old series from circulation moderated following the year-on-year increase registered at the beginning of fiscal 2005. There were 10.43 billion banknotes received, down 10.3 percent year on year, and 10.24 billion banknotes paid, down 15.3 percent from the previous year (Table 3).

During this period, the Bank examined 11.19 billion banknotes (up 5.4 percent from the year before), of which 4.76 billion banknotes (up 19.6 percent) were shredded as part of the destruction of old series banknotes. The Bank received 6.5 million damaged banknotes (down 14.1 percent) in exchange for new ones.

The Bank ordered a total of 4.08 billion banknotes from the National Printing Bureau in fiscal 2005,¹⁰ the same as the previous high in fiscal 2004, in order

8. Banknotes are examined by automatic banknote examination machines, which break the bands of bundles of banknotes (a bundle consists of 1,000 banknotes) and examine banknotes individually. After examining the banknotes, the machines make new bundles of banknotes fit for recirculation and shred those that are damaged or too worn for recirculation. Each machine can process about 1,800 notes per minute. As of the end of fiscal 2005, there were 110 such machines in operation. In September 2005, the Bank began to install new automatic banknote examination machines with enhanced counterfeit detection features.

9. Soiled or damaged banknotes are destroyed by, for example, shredding or incineration. Currently, the Bank shreds them.

10. The Bank places orders for the manufacturing of banknotes to the National Printing Bureau, which is an incorporated administrative agency. The Bank then pays the manufacturing cost and receives the banknotes. In fiscal 2005, the total manufacturing cost of 4.08 billion banknotes amounted to 61.7 billion yen.

to secure as many new series banknotes as possible to ensure a smooth transition to the new series.

To enhance the accuracy and efficiency of its handling of banknotes in massive amounts at its Head Office and branches, the Bank has sought to streamline operations through mechanization.

To deal with particularly large amounts of banknotes handled at its Head Office, the Bank established a structure enabling it to carry out banknote operations at two locations, namely, its Head Office and the banknote operations center in Toda City, Saitama Prefecture. At the banknote operations center, which is equipped with an automated and integrated processing system, operations have in principle all been automated, from the receipt of banknotes to their custody, examination, and payment, to achieve accurate and speedy processing and increased security.

The Bank manages the high-tech systems at the center with due care so as to secure their stable operation. In preparation for a possible system disruption, the Bank conducts drills, such as shifting operations from the center to the Head Office, in cooperation with BOJ account holders. When such a system disruption occurred for a short period of time at the center during March 6 and 7, 2006, 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.

3. Facilitating the circulation of the new series of Bank of Japan notes

To facilitate the transition to the new series banknotes, the Bank continued to front-load orders from the National

Printing Bureau to the extent possible after the turn of the fiscal year in April 2005. The Bank also continued to pay to BOJ account holders only the new series notes, maximizing the use of banknote examination machines at its Head Office and branches throughout Japan so as to prepare new series notes for recirculation.

Redesigned 10,000, 5,000, and 1,000 yen notes thus made up 68.2 percent of total banknotes in circulation at the end of fiscal 2005, and the share of redesigned notes returning to the Bank increased to 88.6 percent of total banknotes returned, reflecting a continuing smooth transition from the old series to the new series (Table 4).

With a view to securing confidence in the currency, which is the sixth strategic goal stated in the MTSF, the Bank implemented various measures to ensure the safe and secure use of the currency and other means of payment. The Bank continued its active engagement in public relations activities aimed at improving public understanding of anti-counterfeiting measures, for example, by producing and distributing posters describing security features, giving lectures, and releasing a research paper detailing progress in replacing the old series of banknotes with the new series. The Bank has endeavored actively to advance research and promote public understanding regarding security and anti-counterfeiting of the currency and other means of payment, in cooperation with relevant institutions at home and abroad, including other central banks.

Through these efforts, the number of counterfeit banknotes discovered nationwide in 2005 decreased significantly to 12,203, down 13,655 from the year before, and of these, counterfeited new series banknotes

numbered just 479, according to statistics from the National Police Agency.

On January 31, 2006, the Policy Board decided to order 3.50 billion banknotes from the National Printing Bureau in fiscal 2006, in order to continue to ensure the smooth supply of new series banknotes and maintain the cleanliness of those in circulation.

B. Coins

1. Overview

As stipulated in the Law Concerning Currency Units and Issuance, coins are delivered to the Bank by the government, which has the authority to issue coins. Coins are put into circulation when BOJ account holders withdraw them from their accounts at the Bank. As of the end of fiscal 2005, the amount outstanding of coins (coins in circulation) was 4.5 trillion yen, up 0.0 percent from a year earlier. In volume, this amounted to 91.90 billion coins, up 0.0 percent from the previous year.

2. Volume of coins handled

In fiscal 2005, the volume of coins that the Bank received from BOJ account holders amounted to 2.94 billion coins, up 7.6 percent from the previous year, and coins paid out by the Bank totaled 2.95 billion,

up 1.5 percent. The volume of new coins the Bank received from the Ministry of Finance was 1.19 billion coins, down 2.3 percent from fiscal 2004. The volume of damaged coins received for exchange was 18.0 million, up 5.1 percent (Table 5).

As for the new nickel-brass 500 yen coins the Bank began to put into circulation in August 2000, counterfeits were found in large amounts in fiscal 2004. In response to this situation, the Ministry of Finance, the National Police Agency, the Financial Services Agency, Japan Post, and the Japan Mint joined with the Bank to form a committee to address the issue of the counterfeiting of 500 yen coins. This committee announced measures against counterfeiting on March 10, 2005. One of these measures was to ensure the good condition of coins in circulation. The Bank is expediting the withdrawal of damaged coins and the entry into circulation of new coins received from the Japan Mint. In addition, the Bank continues to closely examine coins received so as to eliminate counterfeits from circulation. Against this background, the volume of new 500 yen coins paid out in fiscal 2005 was 0.47 billion, up 33.3 percent from the year before, while receipts of new 500 yen coins were 0.33 billion, 41.4 times larger than the year before.

Table 1

Banknote Issuance

	Denomination	End of fiscal 2004 ¹	End of fiscal 2005		
		Percent of total	Percent of total	Percent of total	
Value (tril. yen)	10,000 yen	67.7	90.7	68.4	91.3
	5,000 yen	2.5	3.3	2.5	3.4
	2,000 yen	0.8	1.1	0.4	0.6
	1,000 yen	3.5	4.7	3.4	4.6
	Others	0.2	0.2	0.2	0.2
	Total	74.7	100.0	75.0	100.0
Number of banknotes (bil.)	10,000 yen	6.77	52.8	6.84	54.1
	5,000 yen	0.50	3.9	0.50	4.0
	2,000 yen	0.42	3.3	0.22	1.7
	1,000 yen	3.48	27.2	3.42	27.1
	Others	1.66	12.9	1.65	13.1
	Total	12.83	100.0	12.64	100.0

Note: 1. Figures cover both the old and new series of banknotes issued.

Table 2

New Series Banknotes Issued as of the End of Fiscal 2005

	Denomination	New series banknotes issued	Reference: total banknotes issued
Value (tril. yen)	10,000 yen	45.5	68.4
	5,000 yen	1.8	2.5
	1,000 yen	2.4	3.4
	Total	49.7	74.4
Number of banknotes (bil.)	10,000 yen	4.55	6.84
	5,000 yen	0.37	0.50
	1,000 yen	2.43	3.42
	Total	7.34	10.77

Table 3

Volume of Banknotes Handled

bil. banknotes, except where otherwise noted

	Fiscal 2004	Year-on-year change (percent)	Fiscal 2005	Year-on-year change (percent)
	Receipt	11.63	+5.2	10.43
Payment	12.09	+8.2	10.24	-15.3
Examined	10.62	-5.6	11.19	+5.4
Shredded	3.98	+40.6	4.76	+19.6
New notes purchased	4.08	+20.0	4.08	±0.0
Exchanged (mil.)	7.6	+28.3	6.5	-14.1

Table 4

New Series Banknotes¹ in Circulation: Changes in Percentage Converted and Percentage Returned²

percent, end of month

	2004	2005				2006
	Dec.	Mar.	June	Sep.	Dec.	Mar.
Percentage converted	22.2	42.9	55.0	61.0	67.6	68.2
Percentage returned	0.1	26.5	56.1	77.4	82.4	88.6

Notes: 1. The sum of the 10,000, 5,000, and 1,000 yen notes.

2. "Percentage converted" refers to new series banknotes as a proportion of total banknotes in circulation. "Percentage returned" refers to new series banknotes as a proportion of total banknotes returned to the Bank.

Table 5

Volume of Coins Handled

bil. coins, except where otherwise noted

	Fiscal 2004	Year-on-year change (percent)	Fiscal 2005	Year-on-year change (percent)
	Receipt	2.73	-13.9	2.94
Payment	2.90	-12.1	2.95	+1.5
From the Ministry of Finance	1.22	-12.3	1.19	-2.3
Exchanged (mil.)	17.1	-6.1	18.0	+5.1

III. SERVICES RELATING TO THE GOVERNMENT**A. Overview**

The Bank provides various services relating to the government, such as treasury funds and JGS services. Specifically, these are (1) receipt, disbursement, and accounting of treasury funds (the Bank classifies receipts and disbursements of treasury funds by the specific government account as well as by the individual government agency); (2) issuance of, and principal and interest payment on, JGSs; (3) operations relating to its role as the book-entry transfer institution in the JGB book-entry system; and (4) certain operations on behalf of the government in the field of international finance (see Section IV on pages 87–88).

Besides the above operations, the Bank engages in various transactions with the government, such as buying and selling JGSs. The Bank makes efforts to ensure the appropriateness of these transactions, giving due consideration to the principles for the extension of central bank credit to the government.

B. Treasury Funds**1. Treasury funds operations**

The Bank performs services relating to treasury funds in accordance with various laws and regulations (e.g., Articles 35 and 36 of the Bank of Japan Law as well as Articles 34 and 35 of the Public Accounting

Law). The Bank provides the following services: (1) receipt, disbursement, and accounting of treasury funds; (2) management of deposits of the Japanese government; and (3) custody of securities acquired by or submitted to the government.

Specifically, the government receives revenues such as taxes and disburses treasury funds when providing various services using its deposit at the Bank's Head Office. Such receipts and disbursements of treasury funds are accurately recorded by the Bank, classified not only by the specific government account but also by the individual government agency. These figures are checked each month to ascertain whether they match those calculated by the relevant government agencies. The results are reported to the Ministry of Finance and the Board of Audit.

The Bank makes projections of inflows and outflows of treasury funds and carries out operations relating to the issuance and redemption of financing bills (FBs) so as to facilitate the government's management of the cash in its account at the Bank. The Bank acts as the custodian of securities acquired by or submitted (as collateral or deposits) to the government. The Bank receives, delivers, and keeps in custody such securities on behalf of the government.

Government agencies are located nationwide and the Bank conducts transactions on their behalf by receiving/dispersing treasury funds from/to the public. For the convenience of the public and government agencies across the country and to ensure smooth treasury funds operations, the Bank designates, with the approval of the Minister of Finance, many branches and offices of financial institutions throughout the country,

as well as nationwide post offices of Japan Post, as agents and entrusts them with the receipt and disbursement of treasury funds.

There are several types of agents. The first type, "treasury agents," provides most kinds of treasury services on behalf of the Bank, including the receipt/disbursement of treasury funds and the handling of securities that are acquired by or submitted to the government, as well as JGS-related services. The second type, "revenue agents," is only empowered to receive national taxes and fiscal revenues. The third type, "revenue sub-agents," is entrusted by a revenue agent with receiving national taxes and fiscal revenues on its behalf.

2. Progress toward more streamlined online processing of treasury funds operations

The Bank has been working toward achieving more streamlined online processing of treasury funds operations for the convenience of the public and to enhance efficiency in the operations of related institutions. Treasury funds operations involve not only the Bank but also many government agencies and financial institutions, and advances toward digitization are being made with their cooperation. The process is not limited to the digitization of current operations, but also involves business process reengineering, streamlining, and standardization of such operations.

More streamlined online processing of treasury funds operations forms an integral part of the second strategic goal of "attaining safer and more efficient payment and settlement systems and market infrastructure" in the MTSF. Specific policy measures announced to this end in fiscal 2005 included (1) expanding the use of electronic applications for the disbursement of treasury funds;

(2) encouraging greater use of electronic payments by individuals and firms; and (3) strengthening business continuity measures for treasury funds operations. In addition, in September 2005, the Bank published a research paper examining progress and identifying remaining problems in streamlining the online processing.

Against this background, steady progress is being made in streamlining the online processing of treasury funds. About 80 percent of the processing of treasury funds disbursement is now implemented using magnetic tapes containing account data. The corollary is a steady decline in the share of paper-based processing. Similarly, about half of all treasury funds receipts are now paid by direct bank transfer, and this share is gradually rising, while the share of paper-based processing shrinks. Among such treasury funds receipts, although the share of total payments by individuals and firms made electronically has been increasing, it still remains low.

a. Expanding the use of electronic applications for government disbursement of treasury funds

Following the establishment, in April 2003, of a network connecting various institutions, from government agencies to financial institutions holding payees' accounts, the Bank pressed ahead in fiscal 2005 with preparations to centralize payments by processing online the disbursement of both national tax refunds and remuneration to government employees.

With regard to the disbursement of national tax refunds, the Bank, in cooperation with the National Tax

Agency, has been proceeding with preparations since fiscal 2004 to switch from processing using magnetic tapes to online processing. In fiscal 2005, the Bank worked on details of the system, which is scheduled to commence operation in September 2006.

With regard to centralizing the payment of remuneration to government employees, the Bank continued to work closely with relevant government agencies to determine issues such as how and when to implement the scheme. In February 2004, in its "e-Japan Strategy II Acceleration Package," the government announced its target of crediting the entire amount of government employees' remuneration directly to their bank accounts by the end of fiscal 2005. The Bank supported government initiatives by assessing the state of implementation in each region through its branches and agents, and by exchanging ideas with the government. According to a follow-up survey conducted by the National Personnel Authority and other government agencies in September 2005, the overall implementation rate of direct credits in all agencies was 99.6 percent, up from 91.5 percent in the previous survey in March 2005.

b. Expanding the use of electronic payment of government taxes and fees

Along with the commencement of the one-stop service for vehicle-ownership-related procedures¹⁷ in December 2005, vehicle inspection registration fees and the vehicle weight tax were added to the items for which electronic payment is possible (Table 6).¹² The number of agent

17. With the introduction of the one-stop service for vehicle-ownership-related procedures, it is now possible to conduct online the various procedures necessary for ownership of a vehicle. At present, the service is available for new vehicle registrations in six cities or prefectures (Tokyo, Saitama, Kanagawa, Shizuoka, Aichi, and Osaka).

12. The electronic payment system for government taxes and fees uses the privately owned Multi-Payment Network (MPN) and allows users to make electronic payments via Internet banking and financial institutions' automated teller machines (ATMs).

institutions⁷³ that can accept such payment has continued to increase and now exceeds 90 percent of all agent institutions (Table 7).

Looking at the actual number of transactions, although the use of electronic payment is on an upward trend, it still accounts for less than 1 percent of the total. For this reason, the Bank has been working toward expanding the use of electronic payment by raising awareness of the electronic payment system among payers of government taxes and fees. For example, the Bank publicizes each increase in the variety of taxes and fees that can be paid electronically and also each increase in the number of agent institutions that can accept such payment. In addition, the Bank released a study on the current status and issues related to online processing of treasury funds operations and distributed it via its Head Office and branches.

In addition, this study identified ways in which the user-friendliness of the electronic application process, a prerequisite for the use of electronic payment, can be improved. The Bank took initiatives to promote such improvement by providing information to relevant government agencies.

c. Rise in the fees paid for processing electronic payment of government taxes and fees

The Bank pays agents entrusted with treasury fund-related business a fee (agent institutions' general

expenses minus investment gains from the funds collected as government taxes and fees) that in principle is based on the notion of refunding business costs incurred. After assessing the actual situation at agent institutions with regard to the electronic payment of government taxes and fees,⁷⁴ the Bank decided in March 2006 to raise the fees it pays revenue agents for such government revenue-related electronic payment transactions by 52 percent beginning in the first half of fiscal 2006.⁷⁵ The amount by which the fee per transaction would be raised depends on the volume of business at each agent institution operating revenue agents. The maximum increase would be 29 yen (from 55 to 84 yen), while the average increase would be 18 yen (from 35 to 53 yen). In addition to the notion of reimbursing actual business costs incurred by agents, the increase in fees would provide a pecuniary incentive for agent institutions to adopt electronic payment. It is therefore expected that, combined with the efforts of the government and agent institutions to put the necessary equipment into place, the increase in fees will help accelerate the adoption of electronic payment.

d. Strengthening business continuity measures

As part of its initiatives to enhance its business continuity arrangements, the Bank continued in fiscal 2005 to conduct drills to improve its preparedness for any emergency. With respect to treasury funds operations,

73. Financial institutions and Japan Post whose branches/offices operate as agents. Each agent is designated by the Bank with the approval of the Minister of Finance.

74. With regard to investment gains from funds collected as government taxes and fees, when electronic payment was first introduced for government revenues, a two-day settlement period (i.e., settlement on the business day immediately following the one on which the revenue was collected electronically) was set for the transfer of funds from agent institutions to the Bank. This is shorter than the three-day settlement period for non-electronic payments. It was assumed that because the electronic debit of funds from payers' accounts at agent institutions is instantaneous, this would leave them a one-day period to invest the funds collected before transferring them to the Bank. However, assessment of the actual situation revealed that agent institutions require more time to collect funds and thus do not have time to invest them, because the number of ATMs allowing electronic payment is small and payers often use ATMs at financial institutions where they do not have an account.

75. The decision was carried out in April 2006.

the Bank put in place concrete procedures to deal with a system disruption, and conducted a drill involving agent institutions that simulated disruptions in the unified system for electronic recording and transferring of treasury funds,¹⁶ which commenced operation in fiscal 2003, and in the system for electronic receipt of treasury funds.¹⁷

3. Agents

The number of treasury agents decreased from 548 in fiscal 2004 to 544 in fiscal 2005, while the number of revenue agents shrank from 40,414 to 40,062 and that of revenue sub-agents fell from 1,457 to 1,407.

C. Japanese Government Securities (JGSs)

The Bank provides services relating to JGSs on behalf of the government. Such services are provided pursuant to Article 36 of the Bank of Japan Law, which stipulates that "the Bank shall handle the affairs of the government relating to currency and finance in compliance with the relevant laws and regulations" (e.g., the Law Concerning Government Bonds). Specifically, the Bank performs the following JGS services: (1) services relating to issuance, which include announcement of public auctions, acceptance of bids, and receipt of payments from successful bidders; (2) services relating to principal and interest payment and the collection of physical securities and coupons, and the exchange of damaged or worn physical securities; and (3) as the registrar of JGSs, services relating to registration of JGS holders' titles to the

securities. Some of these services are handled by several types of agent such as treasury agents, JGS agents, and JGS paying agents including post offices nationwide, which are designated by the Bank for the convenience of JGS holders.

In addition, the Bank manages the JGB book-entry system, acting as the book-entry transfer institution pursuant to Article 39 of the Bank of Japan Law, which stipulates that the Bank may conduct business deemed to contribute to the smooth settlement of funds among financial institutions. Under the system, the Bank performs the following services: new description/record, transfer, and payment of principal and interest.

D. Underwriting of JGSs for Refunding and Buybacks of Japanese Government Bonds by the Government Debt Consolidation Fund¹⁸

On December 15, 2005, the Bank decided its policy regarding the underwriting of JGSs to refund JGSs maturing in fiscal 2005 and 2006 that are held by the Bank, as well as its response to buybacks of JGBs by the Government Debt Consolidation Fund for these two years, with a view to protecting the liquidity of the Bank's assets in order to ensure the smooth functioning of monetary policy and to facilitate the efficient management of treasury funds.

The Bank decided to reduce the amount of underwriting of treasury bills (TBs) for the purpose of refunding

16. The unified system for electronic recording and transferring of treasury funds links the Bank's Head Office, branches, and treasury agents in a network. It electronically carries out all receipts, disbursements, recording, and transferring of treasury funds via accounts of all government agencies in Japan.

17. The electronic receipt system for treasury funds links the Bank, government agencies, and agent institutions in the MPN and aggregates information relating to electronic payment of government taxes and fees.

18. The Government Debt Consolidation Fund was established under the Special Account Law of the Government Debt Consolidation Fund for the purpose of government bond redemption.

TBs maturing in fiscal 2005, and to amend its policy regarding the underwriting of JGSs to refund JGSs held by the Bank that mature that year.

The Bank shall underwrite TBs to refund, of those JGSs held by the Bank that will mature during fiscal 2006, interest-bearing JGBs amounting to 16,557.366 billion yen in face value.

With regard to the Government Debt Consolidation Fund's buybacks of JGBs from the Bank in fiscal 2005, the Bank decided to sell 1,400 billion yen worth of JGBs to the fund without underwriting JGSs for the purpose of refunding. Also during fiscal 2005, the Bank sold JGBs to the fund with a total face value of 600 billion

yen with underwriting of TBs for the purpose of refunding according to the decision made in December 2004. As for the fund's buybacks in fiscal 2006, the Bank also decided to sell 5,500 billion yen worth of JGBs to the fund without underwriting JGSs for the purpose of refunding.

The Bank underwrote one-year TBs to refund JGSs maturing in fiscal 2005 as listed in Table 8. Except for those TBs that had been sold or had been refunded again with TBs underwritten by the Bank, all of the one-year TBs underwritten by the Bank in fiscal 2004 to refund interest-bearing JGBs that the Bank held were redeemed in cash after reaching maturity in fiscal 2005.

Table 6

Government Taxes and Fees for Which Electronic Payment Was Accepted

Fiscal 2003	Jan. 19, 2004	Fees to the government, labor insurance premiums, and spectrum user fees
	Mar. 22, 2004	National taxes (limited to certain regions) and tariffs
Fiscal 2004	Apr. 1, 2004	Social security premiums
	June 1, 2004	National taxes (nationwide)
	Mar. 7, 2005	Receipt and disbursement of money submitted to the government to be held in custody or as deposits
Fiscal 2005	Apr. 1, 2005	Fiscal Loan Fund
	Dec. 26, 2005	Vehicle inspection registration fees and weight tax (some procedures; limited to certain regions)

Table 7

Number of Agent Institutions Able to Accept Electronic Payment of Government Taxes and Fees

		Treasury agents and revenue agents ¹
Fiscal 2003	Jan. 19–26, 2004	335 (79%)
Fiscal 2004	July 20, 2004	335 (80%)
	Oct. 18, 2004	349 (84%)
	Jan. 4–Feb. 14, 2005	350 (85%)
Fiscal 2005	Apr. 18–May 6, 2005	358 (87%)
	July 19, 2005	364 (88%)
	Oct. 17, 2005	366 (89%)
	Jan. 16–30, 2006	373 (92%)

Note: 1. The percentage figures in parentheses indicate, among all of the agent institutions operating the Bank's treasury agents and revenue agents, the share of those that accept electronic payment of government taxes and fees. In addition, as of the end of March 2006, there were 24 agent institutions operating revenue sub-agents that can also accept electronic payment.

Table 8

Amount of TBs Underwritten by the Bank in Fiscal 2005

Date of underwriting		Face value of one-year TBs underwritten (bil. yen)
2005	Apr. 20	934.91
	May 20	884.11
	June 20	4,062.03
	July 20	877.44
	Aug. 22	702.37
	Sep. 20	5,777.75
	Oct. 20	870.41
	Nov. 21	971.76
	Dec. 20	3,019.20
2006	Jan. 20	474.14
	Feb. 20	495.75
	Mar. 20	2,396.48
Total		21,466.35

IV. INTERNATIONAL OPERATIONS

The Bank conducts operations in the field of international finance, such as foreign exchange transactions and management of the Bank's foreign currency assets, as well as business related to assisting foreign central banks and international organizations in their investment in yen. In addition, the Bank takes part in international discussions on the state of the world economy, and in measures to ensure the stability of financial markets and to improve their structure. The Bank participates in various forums, such as meetings of the Bank for International Settlements (BIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP),⁷⁹ the Group of Seven (G-7) countries, the Group of 20 (G-20) countries, the Financial Stability Forum, and ASEAN Plus Three

(China, South Korea, and Japan). The Bank also prepares Japan's balance of payments statistics and conducts international operations, such as foreign exchange intervention, on behalf of the government.

In fiscal 2005, the Bank concluded a bilateral yen-won swap arrangement with the Bank of Korea in line with the framework of the Chiang Mai Initiative and in pursuit of regional financial market stability in East Asia. At international forums, such as meetings of the G-7 countries and Meetings of Central Bank Governors of the G-10 Countries at the BIS, the Bank took part in discussions on the surge in crude oil prices and its effect, global current account imbalances, and the low and stable long-term interest rates in major

79. EMEAP comprises the central banks of eleven of the region's economies.

industrial countries. Among other major topics were the possibility of excessive risk-taking behavior in international financial markets and trends in the U.S. housing market. Moreover, at the Committee on the Global Financial System, which is a committee under the Meeting of Central Bank Governors of the G-10 Countries at the BIS, the Bank participated in the compilation of various reports, including reports on foreign direct investment in the financial sector of emerging market economies, and on housing finance in the global financial market.

In addition, the International Department of the Bank established the Center for Monetary Cooperation in Asia (CeMCoA) to further promote monetary cooperation in Asia. EMEAP began implementation of the Asian Bond Fund 2, which aims to foster Asian bond markets by investing in bonds denominated in local currencies.

Furthermore, the Bank held seminars and workshops to provide foreign central banks, mostly in Asia, with technical assistance/cooperation relating to central banking business. Topics covered issues such as central banking services, research and analysis on the Asian economic situation, and the compilation of balance of payments statistics. The Bank also dispatched staff to seminars held by central banks overseas, especially in Asia (Table 9).

Investment decisions regarding part of the Bank's foreign currency-denominated assets have been entrusted to external entities. Furthermore, the Bank started in July 2005 an online reporting system accessed via the Internet, to process notifications and reports on cross-border transactions required under the Foreign Exchange and Foreign Trade Law. The Bank is entrusted by the Minister of Finance with carrying out these operations.

Table 9

Technical Assistance (TA) and Technical Cooperation (TC)

number of cases; figures in parentheses are the number of people attending sessions hosted by the Bank in Japan and the number of staff dispatched to other countries

	TA and TC provided in Japan (group and individual)		TA and TC provided in other countries	
		Of which: from Asia		Of which: in Asia
Fiscal 2004	47 (445)	44 (323)	9 (9)	9 (9)
Fiscal 2005	46 (359)	42 (283)	7 (12)	7 (12)

V. RESEARCH AND STATISTICS**A. Research**

In order to implement monetary policy and carry out business operations effectively, the Bank conducts research on economic and financial conditions as well as the financial system and financial markets.

This accords with the first strategic goal stated in the MTSF to strengthen policy planning capabilities. In fiscal 2005, with the aim of following through on the major issues and action plans outlined in the "Action Plans for Fiscal 2005," the Bank endeavored to enhance the

quality of its research and analysis to gain a more accurate picture of economic developments from a broad range of perspectives, and to release the findings of such research and analysis to the public (see "The Bank's Management Strategy: Framework and Progress" Section II on pages 14–27).

The findings are published in the Bank's various reports including the *Monthly Report of Recent Economic and Financial Developments*, and the *Outlook for Economic Activity and Prices*, which is released biannually in April and October. The Bank's research papers are also available in the *Bank of Japan Quarterly Bulletin*, *Monetary and Economic Studies*, the Bank of Japan Working Paper Series, the IMES Discussion Paper Series, and the Bank of Japan Review Series.

In addition, the Bank started to release the Regional Economic Report from April 2005, with the aim of enhancing the quality of its economic research in support of policy implementation, and of sharing information gained from its research with the public. The report provides summaries of developments and recent topics related to regional economy on a quarterly basis, by making use of various economic data and anecdotal information gathered by the Bank's Head Office and branches.

In July 2005, the Bank started to release the Financial Markets Report to effectively capture developments in the Japanese financial markets and to establish a common basis for exchanging views on market

developments between the Bank and market participants both domestically and abroad. The report is published on a semiannual basis and reviews developments in the markets, the factors influencing market trends, supply-demand conditions, and changes in market infrastructure.²⁰

Given the increasing importance of IT, the Bank established the Center for Information Technology Studies (CITECS) as part of the Bank's Institute for Monetary and Economic Studies (IMES) on April 1, 2005, with the aim of promoting research and development on new information security technologies, information sharing related to IT within the financial sector, and also of contributing to the international standardization of financial technologies. The CITECS raises issues related to information security measures and increases the public's awareness and understanding of the importance of such measures, by disseminating knowledge and information obtained through its research activities on information security technologies in the financial sector. Moreover, the Bank invites researchers from central banks and international organizations as well as academics to attend the conferences, workshops, and symposiums it organizes. The proceedings of the international conferences are available to the public at the web site of the IMES (<http://www.imes.boj.or.jp/english/index.html>).

To support historical research on monetary and economic issues, the Bank operates the Currency Museum and the Archives.²¹

20. The full text in English is available at the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

21. The Archives and the Currency Museum are designated institutions whose preservation of historical documents meets the appropriate standards set by the Minister for Internal Affairs and Communications. These historical documents are made available to the public in accordance with the Law Concerning Access to Information Held by Incorporated Administrative Agencies, Etc. and other relevant rules and regulations. These documents are available only in Japanese. At the Archives, about 11,000 historical documents are organized and listed in a catalog. These documents date from the foundation of the Bank in 1882 to the 1950s.

B. Statistics

In order to strengthen its policy planning capabilities, the first strategic goal stated in the MTSF, the Bank actively reviewed and revised statistics compiled by the Bank, as scheduled, to improve the quality of statistics. In fiscal 2005, the Bank revised the base year for the

Input-Output Price Index of Manufacturing Industry by Sector and prepared for the revision of the base year for the Corporate Goods Price Index and the revision of the sample firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan).

VI. EXTERNAL RELATIONS

A. Overview

The Bank of Japan Law requires the Bank to clarify to the public the content of its decisions, as well as its decision-making processes, regarding monetary policy (Article 3, Paragraph 2). As a specific framework, the Law stipulates the following.

- (1) Releasing the minutes and transcripts of Monetary Policy Meetings (MPMs) (Article 20).
- (2) Reporting to and attendance at the Diet (Article 54).
- (3) Public announcement of the *Gyoumu Gaikyo Sho* (Outline of Business Operations) (Article 55).

In addition to compliance with the above, the Bank discloses information in accordance with the Law Concerning Access to Information Held by Incorporated Administrative Agencies, Etc.

In line with the seventh strategic goal stated in the MTSF and the "Action Plans for Fiscal 2005," namely, to promote better understanding of the policies and business operations of the Bank and related financial and economic issues, the Bank has broadened its

opportunities for promoting a better understanding of its activities among the general public as well as professionals. In addition, the Bank has endeavored to make its publications and releases better suited to the diverse needs and interests of their users. It has also cooperated with the Central Council for Financial Services Information (CCFSI)²² and associated local committees, for example, in promoting financial literacy among the general public.

B. Reports Made to the Diet

The Bank is required, under Article 54 of the Bank of Japan Law mentioned above, to attend and make reports to the Diet regarding the conduct of its policies, its operations, and its organizational management. The Bank takes an active stance on fulfilling this obligation.

Specifically, the Bank prepared and submitted two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet, in June and December, and explained its policies and answered questions

22. The CCFSI has its secretariat in the Bank's Public Relations Department. In cooperation with associated local committees, the Bank, local public bodies, and private organizations, the CCFSI provides financial and economic information to the public and supports efforts to improve financial literacy from a neutral and fair standpoint.

at committees of both houses of the Diet, the House of Representatives and the House of Councillors.

In addition, Bank officials, including the Governor, appeared before committees of both houses of the Diet when requested to answer questions. Appearances took place on a total of 30 days (17 of which involved appearances by the Governor) in fiscal 2005.

Bank officials also gave explanatory briefings to persons related to the Diet, as necessary.

C. Relations with the Media and the Public

1. The Bank's basic thinking

In keeping with the principles of the Law described above, the Bank aims to establish a high degree of transparency with regard to its conduct of policies and operations by taking the following steps to distribute information to the media and the public, in addition to its reports to the Diet.

- (1) Releasing public statements on most of the Policy Board decisions.
- (2) Having the Governor hold regular press conferences.
- (3) Providing information through the Bank's web site (Table 10).

In addition to the above, the Bank uses many different channels to keep the public informed not only about the Bank's conduct of policies and operations, but also about economic and financial developments. One such example is the Bank's activities in cooperation with the CCFSI, which aim to provide financial information.

2. Specific measures

a. Key issues in fiscal 2005

In line with the basic thinking described above, the Bank undertook the following media and public relations activities in fiscal 2005.

- (1) Systematic provision and promotion of communication tools and materials

The Bank fundamentally restructured its web site in March 2006, for the first time since it was established in November 1996. With the aim of further enhancing the accessibility of the information available on its web site and encouraging greater dissemination, the Bank took the following measures.

- (a) The Bank made available on its web site its introductory video, "*Shiruhodo Naruhodo! Nippon Ginko*" (available only in Japanese), in June 2005.
- (b) The Bank made available on its web site the full text of its public relations magazine *Nichigin* (a quarterly available only in Japanese) from September 2005.

In addition, as part of its efforts to introduce its public relations activities to a wider public, the Bank released in September 2005 "Public Relations Activities of the Bank of Japan and Its Approaches to Financial Literacy Education" in both Japanese and English. This paper summarizes systematically the Bank's public relations activities and its approaches to improving financial literacy.

- (2) Improvement of public relations activities related to financial literacy

The CCFSI announced that it would regard fiscal 2005 as the first year of promoting financial literacy education, and expanded its engagement in a wider range of activities, by, for example, holding seminars for schoolteachers. In addition, in September 2005 the Bank announced that it would hold its first essay and presentation contest primarily for college students, called the "BOJ Grand Prix," in which

participants would compete on topics in the field of economics and finance, with the final round to be held in March 2006.

(3) Continuation of the Bank's CI²³ activities

In order to pave the way for more accessible information releases as well as to examine its ideas and concrete plans for further enhancing its corporate identity, in April 2004, the Bank released a proposal (in Japanese), entitled "CI Improvement Strategy." In fiscal 2005, in line with the strategy, the Bank held a series of events in cooperation with a local community group, using the facilities of the Bank's Head Office. For example, in October 2005 it hosted a panel discussion on the theme of local revitalization followed by a solo violin concert.

(4) Expansion of regional public relations activities

The Bank, led mainly by the Regional Information Services section, which was established at its Head Office in fiscal 2004, expanded its regional public relations activities, with the Head Office, branches,

local offices, and the CCFSI cooperating in the following measures.

- (a) The Bank provided various public relations materials to its branches and local offices, for example, providing packages of banknotes for display purposes, assisting in the preparation of materials for speeches, and helping to create introductory videos of its branches.
- (b) The Bank promoted the sharing of information regarding public relations activities and financial literacy with all of its branches and local offices.

D. Information Disclosure

The Law Concerning Access to Information Held by Incorporated Administrative Agencies, Etc. took effect on October 1, 2002, whereupon the Bank began to disclose information in accordance with the terms of this law.

In fiscal 2005, the Bank received requests for information as indicated in Table 11.

Table 10

Number of Page Views Visitors Accessed on the Bank of Japan Web Site

thous. page views¹

	Fiscal 2003		Fiscal 2004		Fiscal 2005	
		Year-on-year change (percent)		Year-on-year change (percent)		Year-on-year change (percent)
Number of accesses	37,060	+18.9	48,084	+29.7	53,461	+11.2
Of which: English web site	3,771	+9.2	5,268	+39.7	6,460	+22.6

Note: 1. A page view refers to one request to load a single document from the Bank of Japan web site.

23. The term CI, which is an abbreviation of corporate identity, is generally used to clarify the philosophy governing a firm's management and business operations, helping both the public and its own employees to understand these better. The Bank uses this abbreviation as a term to describe the Bank's various public relations activities in a plain and friendly manner, in order to secure broad public interest in and understanding of its policies and operations.

Table 11

Number of Requests for Information Disclosure¹

	Total number of requests received	
	Head Office	Branches
	11	1
	12	

Note: 1. Number of requests including those received by mail.

VII. BUSINESS CONTINUITY ARRANGEMENTS

The Bank has put in place arrangements to prevent or minimize disruptions to its operations, as well as business continuity arrangements to ensure smooth implementation of its responsibilities in times of disaster.

In April 2005, the Bank established a task force to work for a year on strengthening business continuity arrangements (see "The Bank's Management Strategy: Framework and Progress" Section II on pages 14–27).

In September 2005, the government prescribed the "General Principles of Measures for Dealing with Major Earthquakes Centered in Tokyo." In the General Principles, the Bank is designated as one of principal organizations that must maintain its performance of essential economic functions in times of disaster. As a designated public institution according to the terms of the Civil Protection Law, the Bank is also expected to contribute to securing the stability of the lives of the public. Taking into account these expectations, the Bank continued to improve its business continuity arrangements in terms of operational procedures, facilities, and staff availability.

In March 2006, the Bank released its civil protection business plan in accordance with the Civil Protection Law.

In addition to the above efforts, 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.

The Bank actively supported the initiatives of market participants to develop business continuity planning (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. In the call market, the JBA and the Study Group for Activation of the Short-Term Money Market had made necessary arrangements for introducing a BCP-designated web site from April 2006. The Bank decided to assist in the operation of the web site by making information about the status of BOJ-NET operations available on it. With regard to securities markets, the Bank took part in discussions held by the JSDA and supported securities market participants in setting up a "BCP Forum." Meanwhile, in foreign exchange markets, the Bank participated in deliberations held by the Tokyo Foreign Exchange Market Committee

and jointly organized a "Seminar on Market Level BCP in Foreign Exchange Markets" for market participants in January 2006.

The Bank also ascertained the state of business continuity arrangements at financial institutions and other relevant parties based on the "On-Site Examination Policy for Fiscal 2005." Specifically, the Bank reviewed the actual responses taken by financial institutions when faced with large-scale natural disasters in fiscal 2004. The Bank then examined contingency arrangements, including their contingency plans and drills in

preparation for disruptions affecting either operational sites or wider areas, their backup facilities, and their channels for communication with the Bank and other parties concerned.

Finally, the Bank took part in deliberations concerning "High-Level Principles for Business Continuity," a consultation report released in December 2005 by the Joint Forum, an international forum comprising national authorities for the banking, securities, and insurance sectors.