

The Bank's Management Strategy: Framework and Progress

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I. IMPLEMENTATION OF ACTION PLANS FOR FISCAL 2006 AND PROGRESS TOWARD STRATEGIC GOALS

The Bank of Japan released the "Action Plans for Fiscal 2006" and conducted its daily business operations in accordance with the plans. The "Action Plans for Fiscal 2006" comprised the set of issues and concrete action plans that the Bank should tackle during fiscal 2006 in order to achieve the goals laid out in the "Medium-Term Strategic Framework for Fiscal 2005–2009" (MTSF). 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.

A. Progress toward Individual Strategic Goals

During fiscal 2006, the second year of the MTSF, the Bank took various actions to achieve more advanced central banking services. As a result, the Bank's development of the key infrastructure for achieving each of the eight strategic goals laid out in the MTSF was generally in line with expectations.

1. Strengthening policy planning capabilities

a. Action plan for fiscal 2006

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.

b. Implementation of the action plan

- (1) The Bank upgraded the quality of its analysis of developments in economic activity, prices, and the financial environment, thus helping ensure the appropriateness of its policy decisions. Specifically, the Bank conducted research and analysis as a basis for its assessment of developments in prices and the money stock as well as its deliberations on the future conduct of monetary policy following the termination of the quantitative easing policy in March 2006. The results were published in the *Bank of Japan Working Paper Series* and the *Bank of Japan Review Series*. The Bank further enhanced the quality of the *Regional Economic Report*, a quarterly report on regional economies, and the *Financial System Report*, a regular report on the stability and functionality of the financial system, which the Bank decided to release twice a year.
- (2) Reflecting the changes in the Japanese economy and increased global interconnection, the Bank further enhanced 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 by, for example, upgrading the quality of its analysis of developments in corporate behavior and land prices in response to continuing economic globalization. The Bank hosted its 13th international conference in June 2006, entitled "Financial Markets and the Real Economy in a Low Interest Rate Environment."
- (3) The Bank promptly made public the findings of

research conducted at the Center for Information Technology Studies (CITECS) of the Bank's Institute for Monetary and Economic Studies (IMES) by regularly hosting seminars and symposiums, and continued to share its understanding of information technology (IT) issues involved in financial transactions with relevant parties.

- (4) The Bank improved the user-friendliness of its Archives by making the Archive catalog available on its web site and revising its guidelines for visitors. Meanwhile, the Bank's Currency Museum held a feature exhibition and two special exhibitions.
- (5) The Bank reviewed and revised its statistics, as scheduled, to improve their quality. Specifically, in January 2007 the Bank released the final draft for revising the base year for the Corporate Goods Price Index to 2005, to be implemented in fiscal 2007, and in March added 1,400 sample firms to the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) following one of its regular periodic revisions of the sample firms. Moreover, 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 2006

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.

b. Implementation of the action plan

- (1) Regarding the Bank's systems for providing payment and settlement services, including the Bank of Japan Financial Network System (BOJ-NET), these were operated smoothly and remained fully functional throughout fiscal 2006; there were no system disruptions that seriously impeded the operation of outside systems.
- (2) The Bank upgraded the functions of the BOJ-NET as follows.
 - (a) In November 2006, the Bank introduced PC-based BOJ-NET connection for practical use by financial institutions holding current accounts at the Bank. The new connection method makes use of Internet technology and achieves enhanced functionalities, with improved security features.
 - (b) The Bank released the functional specifications for implementing the first phase of the next-generation real-time gross settlement (RTGS-XG) project of the BOJ-NET Funds Transfer System (BOJ-NET FTS), and started to develop necessary systems.
 - (c) In January 2007, the Bank introduced a delivery-versus-payment (DVP) mechanism for sales and repurchases of investment trusts, following the full dematerialization of investment trusts.
- (3) The Bank worked toward revising its current account services and cash services in response to diversified branch strategies at financial institutions. In March

2007, the Bank released a public consultation paper that proposed that a wider variety of offices of financial institutions and cash service providers be allowed to receive banknotes from or deposit banknotes with the Bank.

- (4) In terms of promoting further improvement in the safety and efficiency of private-sector payment and settlement systems, the Bank held a symposium in June 2006 in which it discussed the current situation and outlook for Japan's payment and settlement systems with academics and relevant parties. In addition, the Bank supported the initiatives of the banking and securities sectors to reinforce their risk management, and contributed to improving the safety of payment and settlement systems.
- (5) The Bank continued to move forward with initiatives for improving the functioning of Japanese financial markets. It released the "Financial Markets Report—Supplement," which summarized issues related to the functioning of and current transaction conditions in the money market following the termination of the quantitative easing policy in March 2006. In February 2007, the Bank announced its practical initiatives for enhancing market functioning, and held a forum in March to discuss issues in the money market with market participants.
- (6) The Bank improved the procedures governing its money market operations and acceptance of eligible collateral in order to conduct market operations more smoothly and improve the convenience of counterparties in these operations via the following measures.
- (a) In June 2006, the Bank introduced funds-supplying operations against pooled collateral in

order to make transactions related to bill purchasing operations, which were the Bank's main measures to provide funds at the time, paperless.

- (b) In February 2007, the Bank announced measures that enabled the Bank's counterparties to outsource the management of collateral to custodian institutions.
- (7) The Bank continued to modify 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. As a result, the volume of government taxes and fees paid electronically increased steadily.

3. Ensuring business continuity arrangements for emergencies

a. Action plan for fiscal 2006

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.

b. Implementation of the action plan

- (1) With a view to enhancing and making more specific the business continuity planning (BCP) at its Head Office in case of emergencies, the Bank continued to implement the following measures to ensure the continuity of critical operations should its Head Office be damaged and unable to function: improvement in arrangements for alternative operational bases; and

enhancement of its framework for summoning staff in times of disaster and other emergencies so as to ensure sufficient staff numbers for carrying out business continuity arrangements.

(2) The Bank continued to cooperate 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 disruption, by taking the following actions.

(a) The Bank actively supported the initiatives of market participants to develop BCP in the money market, securities markets, and foreign exchange markets, and 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, by participating in discussions at various meetings, development of BCP arrangements, and joint drills.

(b) The Center for Advanced Financial Technology (CAFT) at the Bank organized a seminar in September 2006 on the enhancement of BCP at financial institutions.

(3) The Bank improved drills in preparation for emergency operations by, for example, conducting joint drills involving financial institutions and government agencies, and participated in an annual exercise organized by the government. In September 2006, the Bank revised its disaster management operation plan in response to the law on measures to be put in place in case of earthquakes in the Japan and Kuril Island troughs.

4. Enhancing the functioning of the financial system

a. Action plan for fiscal 2006

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.

b. Implementation of the action plan

(1) The Bank contributed further to realizing more efficient and advanced financial services by conducting on-site examinations and off-site monitoring as well as holding seminars. Through its on-site examinations and off-site monitoring, the Bank shared understanding with financial institutions concerning the assessment of the economic value of their assets and quantification of 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. The CAFT organized two large-scale seminars dealing with topics such as improving the management of systemic risks, and also held seminars outside Tokyo at eight branches of the Bank. In addition, it hosted a workshop on analyzing operational risk scenarios that was attended by financial institutions and supervisory authorities from both Japan and overseas.

(2) The Bank reinforced its research and analysis into

financial system and risk management issues, and published its findings regularly. Specifically, the CAFT organized study groups on the management of credit risk, operational risk, and credit portfolios, to which it invited experts in the relevant fields, and published the results of their discussions. With a view to providing regular and timely updates of its findings, the Bank decided to release the *Financial System Report* twice a year, every spring and fall, while further improving the contents of its analysis of the financial system; it proceeded to publish this report in July 2006 and the following March 2007.

- (3) The Bank continued to participate in global forums on financial system policy, discussing issues such as the introduction of Basel II, which marks a revision of the international standards for capital adequacy.
- (4) The Bank encouraged more sophisticated financial data exchange with financial institutions by expanding the range of financial data it exchanged in the extensible business reporting language (XBRL) format.¹

5. Enhancing international operations and services in response to globalization

a. Action plan for fiscal 2006

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.

b. Implementation of the action plan

- (1) The Bank took active part in various international discussions on issues such as developments in the global economy and international financial markets, thereby strengthening central bank cooperation. The Bank participated in meetings of, for example, the Group of Seven (G-7) countries and the Bank for International Settlements (BIS), including meetings of governors of BIS member central banks, and meetings of subcommittees at the BIS, namely, the Committee of the Global Financial System and the Markets Committee.
- (2) The Bank further strengthened relationships with other central banks in Asia, with initiatives taken by the Bank's Center for Monetary Cooperation in Asia (CeMCoA) through the following activities.
 - (a) The Bank played an active role at gatherings of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), specifically, the EMEAP Governors' Meetings as well as various working groups set up under the auspices of the Governors' Meetings.
 - (b) CeMCoA held seminars/workshops on topics related to central banking services, targeting particularly central bankers from the Asia-Pacific region. The Bank welcomed staff from overseas

1. XBRL was developed to facilitate the exchange of financial data between computers.

central banks for research and training purposes, and dispatched its own staff to provide technical assistance/cooperation at seminars/workshops held by central banks overseas.

(c) CeMCoA hosted an international symposium, "Ten Years after the Asian Currency Crisis: Future Challenges for the Asian Economies and Financial Markets," in January 2007.

- (3) The Bank contributed to concrete measures to foster efficient financial markets and establish a stable currency system in Asia by implementing the Asian Bond Fund 2 and concluding a second Bilateral Swap Arrangement between the Bangko Sentral ng Pilipinas and the Bank, acting as the agent for the Minister of Finance of Japan. In October 2006, it organized a workshop on financial systems and structures in Asia involving experts from both inside and outside the Bank, and published its findings.
- (4) The Bank managed its foreign currency-denominated assets in full accordance with the appropriate principal terms and conditions.

6. Securing confidence in the currency

a. Action plan for fiscal 2006

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.

b. Implementation of the action plan

- (1) The Bank made progress in a smooth transition from the old series of banknotes to the new series introduced in November 2004.
- (2) The Bank maintained the cleanliness of banknotes in

circulation by adopting stricter standards to determine whether returned banknotes were fit for recirculation and thereby preventing damaged or worn banknotes from being returned to circulation. The Bank moved forward with consultations on how to improve the transparency and efficiency of the cash handling services it offers to financial institutions.

- (3) The Bank improved its counterfeit detection capability by continuing to replace old automatic banknote examination machines with the new ones with increased flexibility for detecting counterfeit banknotes first introduced in fiscal 2005.
- (4) The Bank conducted further research regarding security and counterfeit deterrence for currency and other means of payment, in cooperation with relevant institutions at home and abroad, including other central banks.

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

a. Action plan for fiscal 2006

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.

b. Implementation of the action plan

- (1) The Bank endeavored to secure public understanding by expanding the number of occasions, such as

executive and staff speeches, press conferences, and interviews, where it explains the Bank's policies and business operations, as well as further enhancing its web site contents. It also improved the accessibility and lucidity of its explanations.

- (2) The Bank's web site became temporarily inaccessible due to concentrated accessing with malicious intent by a great number of users, but the Bank took the necessary measures to maintain the integrity of the site.
- (3) The Bank worked to keep the public informed of progress with the various measures taken in accordance with the MTSF and the Action Plans. However, with media coverage of the Bank's business operations still limited, there remained room for further improvement.
- (4) The Bank made an active contribution to financial literacy education via its support for the activities of the Central Council for Financial Services Information (CCFSI), for example, releasing a report on programs for improving financial literacy (available only in Japanese) in March 2007 as well as by organizing various events.

8. Improving regional services

a. Action plan for fiscal 2006

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.

b. Implementation of the action plan

- (1) Making use of its nationwide network of branches

and offices, the Bank focused on faster distribution of the new series of banknotes with improved security features, prevention of damaged or worn banknotes from being returned to circulation, and public relations activities concerning the online processing of government expenses and revenues. In addition, the CAFT held seminars at eight branches of the Bank outside Tokyo, and supported regional banks' efforts to enhance their risk management skills.

- (2) As for business continuity arrangements in times of typhoons, floods, and earthquakes, 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. Management Resources and Organizational Management

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

The Bank's general and administrative expenses and costs for fiscal 2006 were in line with the budget, with the Bank improving 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 2007, the Bank has carefully examined overall expenditure to achieve a more streamlined budget while appropriating a significant portion to cover its MTSF.

2. IT investment

The Bank steadily carried out system development

projects necessary for fulfilling its MTSF, in particular, those for attaining safer and more efficient payment and settlement systems and market infrastructure, and ensuring business continuity arrangements for emergencies. Under this policy, and with due attention to the relevancy, urgency, and cost-effectiveness of each proposed measure, the Bank executed projects such as introducing PC-based BOJ-NET connection, promoting the RTGS-XG project for the BOJ-NET FTS, and improving the systems in place for expanding and enhancing the Bank's alternative operational bases.

The scale of system development for fiscal 2006 was 10,087 person-months² (including outsourced man-hours of 7,262 person-months), slightly lower than the level for the previous fiscal year (10,423 person-months).

3. Ceiling on the number of employees

The Bank made progress in raising the efficiency of existing business operations and outsourcing, and maintained the staff necessary to fulfill the goals of its MTSF without breaking the ceiling on the number of Bank employees for fiscal 2006, which was set at 5,245, down 15 from the previous fiscal year.

4. Organizational management

- (1) Through the examination and coordination of Bank-wide issues under the Management Committee, which was established in April 2005, the Bank evaluated the progress in implementing the MTSF and Action Plans for fiscal 2006 and, based on this evaluation, formulated the Action Plans for fiscal 2007.
- (2) The Bank completed the reorganization at all departments and offices at its Head Office, effective

as of July 2006, by abolishing the division system in the Currency Issue Department, the Operations Department, and the Administration Department (the last three departments that still had divisions) and introducing the more flexible section system.

- (3) With a view to helping staff to acquire diverse skills, the Bank actively conducted open recruitment of experienced workers for management positions and of students from universities abroad.
- (4) In order to ensure public confidence that the Bank's executives and staff perform their duties fairly, the Bank organized month-long campaigns and seminars on compliance in order to raise staff awareness of the issue and to improve understanding of the relevant laws and regulations. The Bank established internal rules governing the financial transactions and asset holdings of its executives in July 2006, with corresponding rules for its staff following in September 2006, and took measures regarding business trip expenses that were paid in excess in past fiscal years.
- (5) The Bank stepped up Bank-wide efforts to identify risks for all of its operations through measures such as the assessment of business processes, as well as encouraging the adoption of preemptive risk reduction measures.
- (6) The situation faced by the Bank in fiscal 2006 suggested that some organizational management issues remained to be addressed, and that the Bank should focus on further enhancing the fairness and precision with which it executed its business operations.

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

II. ACTION PLANS FOR FISCAL 2007

The Bank formulated the "Action Plans for Fiscal 2007" based on its progress toward the strategic goals stated in the MTSF and its implementation of action plans in fiscal 2006. 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 2007

Introduction

The Action Plans for Fiscal 2007 details the issues and concrete action plans that the Bank of Japan intends to tackle during the coming fiscal year, as well as the principles for the Bank's organizational management and the resources (i.e., its administrative expenses, resources for information technology [IT] investment, and human resources) to support implementation of the planned actions.

Fiscal 2007 will be the third year of the Medium-Term Strategic Framework (MTSF) for fiscal 2005–2009, which was formulated and released in March 2005.¹ The Bank therefore conducted an interim assessment of the MTSF by reviewing the progress made to date in achieving the goals specified in the MTSF, and formulated the Action Plans for Fiscal 2007 accordingly.

The MTSF lays out two core principles. The first is to pursue more advanced central banking services, in which regard the Bank has laid out eight strategic goals. In this area, during fiscal 2005 and 2006 the Bank's development of the key infrastructure for achieving each strategic goal was generally in line with expectations. Improving business operations, based on the eight strategic goals, to ensure consistency with changes in the financial and economic situation will remain a priority for the Bank.

The second is to ensure well-disciplined management at the Bank. This principle is based on the idea that efficient development of central banking services coupled with fair and precise execution of its business operations will secure public confidence in the Bank. This is, however, an area where challenges faced by the Bank last fiscal year suggest that some issues still remain to be addressed.

Based on the above interim assessment on the MTSF, in the Action Plans for Fiscal 2007, the Bank focused on the following: proceeding with measures to realize more advanced central banking services; and on the management discipline front, looking to identify ways of utilizing resources more efficiently as well as further enhancing the fairness and precision with which it executes its business operations.

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

I. Major Issues and Action Plans

Progress to date, as well as the major issues facing the Bank in fiscal 2007 and action plans to tackle them, is summarized according to the eight strategic goals laid out in the MTSF.

A. Strengthening Policy Planning Capabilities

The Bank conducted research and analysis on the following topics: developments in economic activity in the midst of structural changes; developments in financial markets during the ongoing changes in the financial environment; and the effectiveness of the monetary policy framework in the face of these developments. The Bank was active in sharing with the public its findings on these topics through the release of reports and organization of related conferences.

In fiscal 2007, the Bank will endeavor to enhance the quality of its analysis on developments in economic activity, prices, and the financial environment so as to make appropriate policy decisions in light of the ongoing changes in the economy and financial markets, particularly globalization, the prolonged economic expansion, and diversification of the channels for financial intermediation.

1. Upgrading the quality of its analysis of developments in economic activity, prices, and the financial environment as follows:
 - a. Enhancing the quality of its analysis of the effects of the ongoing globalization in the economy and financial markets on, for example, corporate behavior and the flow of funds.
 - b. Accurately analyzing corporate and household behavior in the light of the prolonged economic expansion, as well as the resultant impact on prices.
 - c. Further enhancing the quality of its analysis of new channels of financial intermediation and developments in, for example, emerging economies.
 - d. Reinforcing research and analysis of issues related to the financial system, so as to extend their contribution to the appropriate conduct of monetary policy.
2. Deliberating on and analyzing its conduct of monetary policy and the framework for money market operations in light of the ongoing changes in the financial and economic situation.
3. Strengthening the IT research capability of the Center for Information Technology Studies (CITECS) of the Bank's Institute for Monetary and Economic Studies (IMES) and releasing the findings promptly so as to share with the public its understanding of IT-related issues involved in financial transactions. Enhancing other activities of the IMES such as those of the Archive and the Currency Museum.
4. Improving the quality of statistics compiled by the Bank through scheduled reviews and revisions. Major actions to be taken are as follows:
 - a. Revising the sample firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) in accordance with the "Establishment and Enterprise Census" released in 2006 by the Ministry of Internal Affairs and

Communications, and deliberating on revising money stock statistics in the light of administrative reforms.

- b. Revising the base year for the Corporate Goods Price Index to 2005 and deliberating on the revision of the base year for the Corporate Service Price Index.
- c. Continuing to contribute to international initiatives to revise the *Balance of Payments Manual* to be released by the International Monetary Fund (IMF) in 2008.

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

The Bank made progress in further raising the sophistication of its payment and settlement services by, for example, promoting the next-generation real-time gross settlement (RTGS-XG) project of the Bank of Japan Financial Network System Funds Transfer System (BOJ-NET FTS), and making PC-based connection with the BOJ-NET available for practical use. It also made progress in improving the procedures involved in money market operations and enhancing the functioning of financial markets by, for example, reviewing issues of concern related to the functioning of the money market. The Bank's infrastructure for online processing of treasury funds (government expenses and revenues) is now almost complete. Meanwhile, further improvement in the safety and efficiency of private-sector payment and settlement systems was promoted, and the Bank encouraged shared understanding of related issues among parties concerned.

In fiscal 2007, the Bank will proceed with concrete measures to further raise the sophistication of its payment and settlement services and will deliberate on how to improve the BOJ-NET over the medium to long term, given the advancement of IT and changes in the business models employed by financial institutions. It will also take concrete steps to improve the functioning of financial markets to adapt to changes in the financial environment.

1. Ensuring the daily, smooth operation of its systems for providing payment and settlement services, including the BOJ-NET.
2. Upgrading the functions of the BOJ-NET as follows:
 - a. Promoting the RTGS-XG project of the BOJ-NET FTS, 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.
 - b. Deliberating on further improvement of the BOJ-NET over the medium to long term, including the redesigning of its infrastructure, to take account of needs both at home and abroad.
3. Working toward the revision of its current account services and cash services in response to diversified branch strategies at financial institutions, for example, by allowing a wider variety of offices of financial institutions and cash service providers to receive banknotes from or deposit banknotes with the Bank.
4. Continuing to take the initiative in promoting further improvement in the safety and efficiency of private-sector payment and settlement systems.

5. Stepping up efforts to enhance the functioning of the money market and deliberating with market participants on concrete measures needed to be taken. Concrete measures are as follows:
 - a. Deliberating on releasing benchmark rates for repo transactions and moving forward with procedures for improving money market data.
 - b. Supporting deliberations on how to encourage collateralized fund transactions.
 - c. Conducting research and analysis on the Overnight Index Swap (OIS) market.
6. Improving the procedures for money market operations and the acceptance of eligible collateral so as to conduct market operations more smoothly and improve the convenience of counterparties by formulating measures that enable them to outsource the management of collateral to custodian institutions.
7. Continuing its efforts to expand the use of the electronic treasury funds (government expenses and revenues) services.

C. Ensuring Business Continuity Arrangements for Emergencies

The Bank formulated its civil protection business plan in accordance with the Civil Protection Law, and based on this plan enhanced business continuity planning (BCP) for emergencies at the Bank's Head Office. The Bank also cooperated closely with relevant parties to guarantee the continuity of operations in financial markets, payment and settlement systems, and the financial system.

In fiscal 2007, the Bank will further improve its business continuity arrangements, and will continue to take the initiative in cooperative endeavors with concerned parties to enhance the business continuity facility of the overall financial market and its participant financial institutions.

1. Further enhancing BCP for emergencies at the Bank's Head Office as follows:
 - a. Reinforcing the necessary infrastructure at the Bank based on its civil protection business plan and the measures to be put in place in case of earthquakes in the Tokyo area.
 - b. Improving drills to address cases of system failure.
 - c. Formulating contingency plans for various types of emergency.
2. Further enhancing the business continuity facility of the overall financial market, payment and settlement systems, and financial system by continuing to take the initiative in efforts to improve existing arrangements. Actions to be taken are as follows:
 - a. Supporting financial institutions to phase in more practical measures such as enhanced drills.
 - b. Planning new joint drills involving financial institutions and government agencies.

D. Enhancing the Functioning of the Financial System

The Bank contributed to advances in financial technology in Japan by encouraging financial institutions' efforts to improve their management of risks in its on-site examinations and off-site monitoring, hosting activities organized

through the Bank's Center for Advanced Financial Technology (CAFT), and participating in discussions on financial systems held at global forums.

In fiscal 2007, the Bank will support initiatives of individual financial institutions to provide more efficient and advanced financial services better tailored to their needs and circumstances, taking into account recent changes in how they are managed. It will also deliberate on methods for assessing and analyzing overall risks in the Japanese financial system.

1. Further supporting financial institutions' efforts to provide more efficient and advanced financial services as follows:
 - a. Discussing more practical risk management and internal control systems at financial institutions, better tailored to their individual management circumstances, through its on-site examinations and off-site monitoring as well as seminars organized by the CAFT, and working to realize such systems.
 - b. Given developments in new business models, monitoring financial groups, and assessing and analyzing accompanying risks, on a consolidated basis.
2. Reinforcing research and analysis related to the financial system and risk management skills as follows:
 - a. Deliberating on methods for analyzing and assessing overall risks in the Japanese financial system.
 - b. Reinforcing analysis that takes account of new financing instruments and recent developments in the flow of risk capital.
 - c. Enhancing the *Financial System Report* so as to further contribute to the conduct of monetary policy.
3. Participating in discussions on financial system policy held at global forums, and making practical use of the insights gained to contribute to more efficient and advanced financial services.

E. Enhancing International Operations and Services in response to Globalization

The Bank strengthened cooperation with other central banks especially in Asia through, for example, discussions at the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). It also contributed to fostering and developing efficient financial markets in Asian economies through management of the Asian Bond Fund (ABF), improvement of the network of bilateral swap arrangements, and the activities of the Bank's Center for Monetary Cooperation in Asia (CeMCoA).

In fiscal 2007, the Bank will further strengthen cooperation with other central banks and play a prominent part in ensuring the stability of the international financial system, and in fostering and developing efficient financial markets in Asian economies.

1. Strengthening its relationship with other central banks and playing a prominent part at global forums on various issues such as developments in the global economy and international financial markets.
2. Promoting efforts to formulate and implement concrete measures to improve and expand the network of swap agreements in the Asian region, so as to foster and develop efficient financial markets in Asian economies and

enhance the stability of the currency system in Asia.

3. Further strengthening its ties with central banks and other authorities in Asia, especially through initiatives taken by the CeMCoA. Concrete measures are as follows:
 - a. Reinforcing research on medium- to long-term structural issues affecting Asia through such activities as seminars and joint research.
 - b. Continuing to strengthen technical assistance and personnel exchanges.
4. Managing the Bank's foreign currency assets in a stable and efficient manner.

F. Securing Confidence in the Currency

The Bank continued to secure confidence in the currency by rapidly distributing the new series of banknotes equipped with state-of-the-art security features and installing new automatic banknote examination machines with enhanced counterfeit detection features. It also conducted research on anti-counterfeiting technologies.

In fiscal 2007, the Bank will continue to enhance the smooth supply of banknotes as well as reinforce measures to maintain the cleanliness of banknotes in circulation. It will also continue to ensure the safe use of the currency and other means of payment.

1. Deliberating on new measures to maintain the cleanliness of banknotes in circulation based on data on damaged banknotes compiled and analyzed by the Bank, in order to prevent damaged or worn banknotes from being returned to circulation.
2. Continuing to enhance smooth banknote supply as follows:
 - a. Ensuring a stable and efficient supply of banknotes by continuously reviewing the Bank's operations related to examination and distribution of banknotes.
 - b. Further improving the transparency and efficiency of the Bank's cash handling services through close dialogue with financial institutions and cash service providers.
3. Improving the Bank's counterfeit detection capability through the installment of the new automatic banknote examination machines with enhanced counterfeit detection features.
4. Ensuring the security of the currency and other means of payment, and prevent counterfeiting as follows:
 - a. Enhancing communication and cooperation with relevant parties, including ministries and government agencies at home as well as other central banks, and conducting further joint research on anti-counterfeiting technologies.
 - b. Improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.

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

The Bank improved the plainness and accessibility of its explanations of its policies and business operations by

commencing publication of various reports, fundamentally restructuring its web site, and making the contents of its publications more interesting and attractive. It also contributed to financial literacy education by supporting activities of the Central Council for Financial Services Information (CCFSI), such as the release of a report on programs for improving financial literacy (available in Japanese only).

In fiscal 2007, the Bank will continue to improve the plainness and accessibility of its explanations of its policies and business operations from a variety of perspectives. It will focus particularly on enhancement of its web site contents.

1. Working toward expanding the breadth and depth of the information available on the Bank's policies and business operations as follows:
 - a. Further enhancing public understanding of the Bank's thinking concerning the conduct of monetary policy.
 - b. Promoting the dissemination of information on the Bank's various measures.
 - c. Expanding ways to acquire information on the public's interests and views regarding the Bank's policies and operations, and making use of them to improve its business operations and enhance its public relations activities.
2. Enhancing the Bank's conduct of its public relations activities, particularly speeches, and improving the plainness and accessibility of its explanations. Further developing the Bank's web site contents to this end.
3. Continuing to contribute to improved financial literacy education as follows:
 - a. Supporting the promotion and proliferation of activities based on the report on programs for improving financial literacy.
 - b. Producing teaching materials for schools and promoting their use, in cooperation with people engaged in education.

H. Improving Regional Services

The Bank made use of its nationwide network of branches and offices to share information, to conduct its policies and improve its business operations, and to gather information through research, as well as to return it to the regions through the regular release of the *Regional Economic Report*. It also contributed to financial literacy education in local communities by supporting activities carried out by local committees for financial services information.

In fiscal 2007, making effective use of the strengths of its nationwide network of branches and offices, the Bank will provide services appropriately tailored to individual regional circumstances for each of the strategic goals listed above.

1. Continuing to promote the smooth supply of clean banknotes.
2. Researching and analyzing information on regional economies accurately and making use of the results in the Bank's policy implementation, as well as disseminating information on the Japanese economy, including these

results, to individual regions.

3. Promoting activities to maintain the stability of regional financial systems and improving their functioning.
4. Strengthening the accountability of the Bank by thoroughly explaining its policies and business operations and promoting public relations activities.
5. Continuing to contribute to financial literacy education in local communities.
6. Enhancing business continuity arrangements.

II. Organizational Management and Management Resources

A. Organizational Management

The measures the Bank has taken to date concerning organizational management and the major issues and action plans for fiscal 2007 are as follows.

The Bank established the Management Committee and the Compliance Committee at the beginning of fiscal 2005. Through the examination and coordination of Bank-wide issues under the Management Committee, the Bank implemented the MTSF and Action Plans for each fiscal year, monitored its progress toward its published strategic goals, and assessed its achievements; meanwhile, it allocated management resources efficiently. In the meantime, deliberations within the Compliance Committee led to measures being taken, for example, to further raise executives' and staff's awareness of their obligations to comply with requisite laws and regulations in performing their duties, to reinforce the protection of personal information, and to enhance the management of information security. In addition, the Bank stepped up Bank-wide efforts to identify risks through measures such as the assessment of business processes, as well as to encourage the adoption of preemptive risk reduction measures. However, challenges faced by the Bank in fiscal 2006 suggest that some organizational management issues remain to be addressed.

In fiscal 2007, the Bank will make further efforts to raise the efficiency with which it uses management resources, establishing a firm basis from which to implement the measures needed to achieve the eight strategic goals laid out in the MTSF. At the same time, the Bank will seek to ensure that it retains public confidence by raising executives' and staff's awareness of their obligations to comply with requisite laws and regulations in performing their duties, and by executing operations with precision and stability.

1. Raising the efficiency of the Bank's use of management resources as follows:
 - a. Improving the flexibility with which it allocates human resources to reflect the contents of, and extent of progress in achieving, its action plans.
 - b. Assessing the effects of the new organizational system, under which departments are divided by section, the introduction of which was completed for all departments at the Bank's Head Office in July 2006. Also taking any measures necessary to improve the functioning of the system.
 - c. Reinforcing strategic recruitment activities aimed at acquiring staff with diverse skills by, for example, initiating open recruitment of experienced workers and of fresh graduates from universities abroad.

2. Ensuring the fairness of its business operations and organizational management by making sure that executives and staff are thoroughly aware of their obligations to comply with requisite laws and regulations in performing their duties.
3. Striving to execute all operations with precision and stability as follows:
 - a. Continuing to identify risks through measures such as the assessment of business processes, as well as to encourage the adoption of preemptive risk reduction measures. Continuing to take all necessary measures to ensure the stable operation of each information system by making efforts to maintain and improve quality at the stage of system development.
 - b. Strengthening the operational and management procedures of the Bank's web site through, for example, improvement of information security measures.
 - c. Ensuring that all operations are backed up by reliable practical knowledge, and executed with precision and stability.

B. Budget for General and Administrative Expenses and Costs

The Bank's budget for general and administrative expenses and costs for fiscal 2007 (the 123rd 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 2007 (excluding the cost of fixed-asset purchases and the contingency funds) decreased by 0.3 percent from the previous year to 219.1 billion yen, due mainly to the following decreases from the previous year: 4.9 percent in the cost of production of banknotes; 2.8 percent in expenses for transportation and communications; and 2.6 percent in other expenses and costs. On the other hand, administrative expenses for treasury business and government securities increased by 5.3 percent, personnel expenses by 1.7 percent, and expenses for maintenance and repairs by 18.1 percent from the previous year.
2. The Bank appropriated a total of 15.3 billion yen for fixed-asset purchases, a decrease of 1.9 percent from the previous year due mainly to the decrease in the cost for updating automatic banknote examination machines. The Bank appropriated 1.0 billion yen for the contingency funds in fiscal 2007, which was the same amount as in the previous year.

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 2007, the Bank sought approval on March 16, 2007 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.

C. IT Investment (Table 3)

The scale of system development for fiscal 2007 was set at 10,730 person-months³ (including outsourcing man-hours of 7,810 person-months), somewhat higher than the previous year (projected at approximately 10,100 person-months). The Bank will steadily carry out system development projects necessary for implementing action plans laid out in the MTSF, while it seeks to improve the efficiency of its system development by, for example, making use of new technology and evaluating the results of ongoing projects.

D. Ceiling on the Number of Employees

While ensuring that it has the staff necessary to deal with major issues and fulfill its action plans, the Bank will step up its efforts to achieve a net decrease in the number of its employees by, for example, streamlining, outsourcing, and increasing the efficiency of its business operations. This policy is also in line with the Administrative Reform Promotion Law. The ceiling on the number of Bank employees for fiscal 2007 was set at 5,080.⁴

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

4. The ceiling on the number of employees included both full-time and part-time employees until fiscal 2006. Starting from fiscal 2007, however, the Bank decided to set the ceiling only on the number of full-time employees, considering that the slimming down of personnel in accordance with the Administrative Reform Promotion Law targeted full-time executives and staff. For reference, the actual number of full-time employees was 5,129 at the beginning of fiscal year 2006, which was the peak during the fiscal year.

Table 1

Budget for General and Administrative Expenses and Costs for Fiscal 2007 (The 123rd Fiscal Year)

Item	Initial budget (thous. yen)	Share ¹ (percent)	Change from the previous year (percent)
Cost of production of banknotes	53,621,792	24.5	-4.9
Administrative expenses for treasury business and government securities	52,237,970	23.8	5.3
Personnel expenses	51,857,981	23.7	1.7
Remuneration of executives	445,705	0.2	2.1
Remuneration of staff	41,420,034	18.9	1.3
Retirement allowances	9,992,242	4.6	3.6
Expenses for transportation and communications	5,993,987	2.7	-2.8
Expenses for transportation	2,345,797	1.1	-0.9
Expenses for communications	3,648,190	1.7	-4.0
Expenses for maintenance and repairs	1,959,487	0.9	18.1
Other expenses and costs	53,387,699	24.4	-2.6
Cost of expendable supplies	1,928,118	0.9	-3.3
Expenses for electricity and water supply	2,261,849	1.0	-0.0
Leasing fees for buildings and equipment	12,003,254	5.5	-9.3
Expenses for maintenance of buildings and equipment	10,028,962	4.6	-1.0
Miscellaneous expenses	27,165,516	12.4	-0.2
Subtotal	219,058,916	100.0	-0.3
Cost of fixed-asset purchases	15,256,960	...	-1.9
Of which: Subject to the approval of the Minister of Finance ²	6,417,621	...	-0.5
Contingency funds	1,000,000	...	0.0
Total³	235,315,876	...	-0.4
Of which: Subject to the approval of the Minister of Finance ²	226,476,537	...	-0.3

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 30,857,688 thousand yen, a 4.7 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.C.

Table 2

Budget for General and Administrative Expenses and Costs for Fiscal 2002–2007

bil. yen

Item	Fiscal year	2002	2003	2004	2005	2006	2007
Budget for general and administrative expenses and costs ¹		219.2	222.8	226.0	222.3	219.6	219.1
Reference: Expenses for computerization		31.6	30.9	31.9	34.3	32.4	30.9
Cost of fixed-asset purchases		24.7	12.2	16.6	13.8	15.5	15.3
Total budget for general and administrative expenses and costs ²		245.0	236.0	243.7	237.2	236.2	235.3

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

2. Includes the contingency funds.

Table 3

Scale of System Development at the Bank

person-months

Fiscal year	2004 results	2005 results	2006 preliminary results	2007 projection
Scale of system development	10,214	10,423	10,100	10,730

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

The Bank released the MTSF 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 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 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 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-months in fiscal 2004 to 12,000 person-months over the five years of the MTSF. The Bank will seek to meet the needs for its services within the bounds of this constraint.

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 *Gyomu 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.³ This

committee is to be responsible for examining Bank-wide issues such as implementation of the MTSF and strengthening the functioning of the organization as a whole.

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

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.

d. Enhancement of compliance

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

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

4. The members of this committee comprise the Deputy Governors, the Executive Director in charge of personnel and corporate affairs, 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.

