

# The Bank's Other Operations

---

## **I. Enhancement of Payment and Settlement Systems and Market Infrastructure**

- A. The Role of the Bank of Japan in Payment and Settlement Systems
- B. The Bank's Initiatives to Enhance Payment and Settlement Systems
- C. The Bank's Initiatives to Improve Market Infrastructure

---

## **II. Issuance, Circulation, and Maintenance of Banknotes**

- A. Banknotes
- B. Coins

---

## **III. Services Relating to the Government**

- A. Overview
- B. Treasury Funds
- C. Japanese Government Securities
- D. The Bank's Transactions with the Government

---

## **IV. International Operations**

---

## **V. Research and Statistics**

- A. Research
- B. Statistics

---

## **VI. External Relations**

- A. Overview
- B. Reports Made to the Diet
- C. Relations with the Media and the Public
- D. Information Disclosure

---

## **VII. Business Continuity Arrangements**

## 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. 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 fully functional throughout fiscal 2006 in an environment where the volume of transactions for settlement increased following the termination of the quantitative easing policy and raising of the policy interest rate.

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) at the Bank for International Settlements (BIS).

### 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 2006 continued to improve the various payment and settlement services it provides, taking into account advances in information and communications technology and changes in financial institutions' business models. It also continued to contribute actively to various initiatives and sought to develop a common understanding with relevant parties, with the aim of further enhancing Japan's payment and settlement systems so that they provide a supportive infrastructure for advancing financial services in Japan.

#### 2. Progress of the next-generation real-time gross settlement (RTGS-XG) project

The Bank has made progress with the RTGS-XG project for the BOJ-NET Funds Transfer System (BOJ-NET FTS), including system development. The project aims to introduce liquidity-saving features into the BOJ-NET FTS, and to modify the system to incorporate the large-value payments that are currently processed by two private-sector deferred net settlement systems.

In fiscal 2006, the Bank identified the operational requirements for implementing the first phase of the RTGS-XG project, and on December 4 released the functional specifications. This first phase, scheduled for fiscal 2008, involves the introduction of liquidity-saving

features into the BOJ-NET FTS, and migration of payments processed through the Foreign Exchange Yen Clearing System (FXYCS), which are currently settled primarily on a deferred net basis, to the new BOJ-NET FTS. The Bank supported the relevant parties by providing information that would help them make necessary adjustments to their systems and operational procedures. For example, the Bank began publication of a series of newsletters related to the RTGS-XG project in June 2006.

### **3. Introduction of PC-based connection for the BOJ-NET**

In November 2006, the Bank introduced PC-based BOJ-NET connection. Unlike dedicated BOJ-NET terminals, the new connection method achieves enhanced functionalities, a shorter implementation period, and a reduction in initial costs.

### **4. Revision of current account services and cash services**

The Bank offers cash services at its Head Office and branches to financial institutions that hold current accounts with the Bank.

On July 14, 2006, the Bank established a task force to review its current account services and cash services. The task force discussed ways for the Bank to continue to fulfill its mission to secure the smooth provision of cash in light of the recent changes in financial institutions' cash-related operations, such as diversification in their branch strategies and the increase in outsourcing of cash transportation operations. It examined related issues at the Bank-wide level, and on March 2, 2007, released a public consultation paper that proposed the following points.

First, the Bank will allow a wide range of entities, not limited to their headquarters or branches, to have access to services offered at the Bank's Head Office and branches. And second, the range of entities to which financial institutions can outsource the deposit/withdrawal of banknotes with/from the Bank will be extended to include private security companies providing cash transportation services.

### **5. Operation of the JGB book-entry system**

In order to facilitate procedures for those who applied for an account at the Bank so as to participate in the JGB book-entry system, the Bank decided on May 23, 2006, to amend the "Requirements for Establishing Direct Participants' Accounts and Customers' Accounts and Requirements for Admission as Indirect Participants and Foreign Indirect Participants in the JGB Book-Entry System" (hereafter the Requirement), with immediate effect.

On March 30, 2007, the Bank again amended the Requirement in response to the implementation of domestic regulations on capital adequacy that were established based on the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" released by the Basel Committee on Banking Supervision in June 2004. The amendment became effective on March 31, 2007.

### **6. 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, the Bank supported the

introduction of a delivery-versus-payment (DVP) mechanism for the settlement of dematerialized investment trusts by linking the BOJ-NET FTS with the Japan Securities Depository Center (JASDEC) system. The link went live on January 4, 2007, together with the start of the JASDEC Book-Entry Transfer System for Investment Trusts. The Bank also continued to work with JASDEC and other relevant parties toward the introduction of a DVP mechanism for stock issuance settled through the new book-entry transfer system for stocks (scheduled for January 2009) based on the law concerning book-entry transfer of corporate bonds, stocks, and other securities.<sup>1</sup>

### **C. The Bank's Initiatives to Improve Market Infrastructure**

In fiscal 2006, the Bank took initiatives to improve the functioning and efficiency of the infrastructure in the money market and credit markets, and to promote innovation in financial services and market transactions.

After the termination of the quantitative easing policy in March 2006 and the subsequent raising of the policy interest rate in July from "effectively 0 percent" to "around 0.25 percent," participants in the money market were concerned that, when it came to smoothly increasing the trading volume, there were uncertainties associated with individual market participants' operational capabilities and the market infrastructure.

Given such concerns among market participants, the Bank closely examined transactions in the money market throughout fiscal 2006, and released its findings in three issues of "Financial Markets Report—Supplement"<sup>2</sup> so as to ease uncertainty and facilitate trading among market participants, as well as to share awareness of matters related to the enhancement of market functioning. Based on these findings, the Bank announced in February 2007 a six-month initiative aimed at enhancing market functioning, in which it cooperated with market participants to examine and enact practical measures to address the following issues: expanding the depth of the market, i.e., increasing the number of market participants; promoting more effective links between markets; and achieving smoother and more efficient interest rate formation. Specifically, the Bank established a working group to deliberate on the release of benchmark rates for repo transactions. It also held a forum in March 2007 to identify issues to be addressed in order to enhance market functioning and to develop a common understanding with market participants on the measures needed to achieve it.

As for credit markets, the Bank supported efforts to improve the functioning of bond markets other than the JGB market, and to develop new credit channels such as securitization and syndicated loans. For example, the Bank participated in a working group held by the Japan

1. Stocks and other equity securities will be settled through the new book-entry transfer system for stocks between issuer companies and underwriting securities companies on a DVP basis by linking the delivery of newly issued securities and the corresponding payment. For stocks and other equity securities traded in the secondary market, a DVP mechanism has already been introduced for settlement between financial institutions.

2. Released on August 9 and September 25 in 2006, and on April 19, 2007. The full texts in English are available on the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

Securities Dealers Association (JSDA) on implementing the Prepayment Standard Japan (PSJ) model<sup>3</sup> for residential mortgage-backed securities and also took

part in meetings held by the Ministry of Land, Infrastructure and Transport on improving the residential mortgage market.

## 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 of the Law). They are widely used for payment and settlement. As of the end of fiscal 2006, the amount outstanding of banknotes issued (banknotes in circulation) was 75.9 trillion yen, up 1.2 percent from a year earlier. In volume, this amounted to 12.77 billion banknotes, up 1.0 percent from a year earlier (Table 1).

As of the end of fiscal 2006, the total amount outstanding of the new series of Bank of Japan notes (10,000, 5,000, and 1,000 yen denominations) issued since November 1, 2004, was 56.3 trillion yen. In volume, this amounted to 8.21 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.<sup>4</sup> Third, the Bank destroys soiled or damaged banknotes,<sup>5</sup> and stores banknotes in its vaults. And fourth, the Bank exchanges damaged notes for new ones (Article 48 of the Law).

#### 2. Volume of banknotes handled

Both the Bank's receipts and payments of banknotes increased in fiscal 2006, registering a year-on-year increase since summer 2006. There were 10.64 billion banknotes received, up 2.0 percent year on year, and 10.77 billion banknotes paid, up 5.1 percent from the previous year (Table 3).

3. The PSJ model is the standard used in Japan for describing the expected prepayment speed for residential mortgage-backed securities. The JSDA began releasing figures based on this model in July 2006.

4. 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 2006, there were 112 such machines in operation. In fiscal 2005, the Bank began installing new banknote examination machines with increased flexibility for detecting counterfeit banknotes. In fiscal 2006, the Bank continued to replace old machines with the new ones at its Head Office and branches.

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

During this period, the Bank examined 10.53 billion banknotes (down 5.9 percent from the year before), of which 4.16 billion banknotes (down 12.6 percent) were shredded. The Bank received 5.6 million damaged banknotes (down 13.4 percent) in exchange for new ones.

In fiscal 2006, the Bank ordered a total of 3.50 billion banknotes from the National Printing Bureau, which is an incorporated administrative agency.<sup>6</sup>

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. The center is equipped with an integrated processing system, which automates all the operations, from the receipt of banknotes to their custody, examination, and payment, thereby achieving 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 its Head Office, in cooperation with BOJ account holders.

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

The Bank implemented the following measures to secure confidence in the currency, which is the sixth strategic goal stated in the MTSF.

In fiscal 2006, the Bank continued to pay to BOJ account holders basically only new series notes so as to facilitate the transition to the new series. The Bank was able to achieve this by stockpiling a sufficient amount of new series notes, through obtaining new notes from the National Printing Bureau as promptly as possible and through efficiently examining new series notes returned to the Bank.

New series notes (10,000, 5,000, and 1,000 yen denominations) thus made up 74.9 percent of total banknotes in circulation at the end of fiscal 2006, and the share of new series notes returning to the Bank increased to 95.2 percent of total banknotes returned, reflecting a continuing smooth transition from the old series to the new series (Table 4).

Given the smooth transition to new series notes, the Bank announced in January 2007 that, from April 2, 2007, it would not pay old series notes (namely, the 10,000, 5,000, and 1,000 yen notes issued between November 1984 and March 2007).

The Bank maintained the cleanliness of banknotes in circulation. Specifically, the Bank adopted stricter standards to determine whether returned banknotes were fit for recirculation so as to enhance the cleanliness of banknotes to be recirculated. On January 30, 2007, the Policy Board decided to order 3.30 billion

6. The total manufacturing cost of 3.50 billion banknotes amounted to 55.60 billion yen.

banknotes from the National Printing Bureau in fiscal 2007 with a view to maintaining the cleanliness of banknotes in circulation.

The Bank implemented various other measures to ensure the safe and secure use of the currency and other means of payment. Specifically, the Bank was active in advancing research and promoting public understanding 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.

Through these efforts, the number of counterfeit banknotes discovered nationwide in 2006 decreased significantly to 4,288, down 7,915 from the year before, and of these, counterfeited new series banknotes numbered 1,488, according to statistics from the National Police Agency.

## **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 2006, the amount outstanding of coins (coins in circulation) was 4.5 trillion yen, up 0.8 percent from a year earlier. In volume, this amounted to 91.84 billion coins, down 0.1 percent from the previous year.

### **2. Volume of coins handled**

In fiscal 2006, the volume of coins that the Bank received from BOJ account holders amounted to 3.03 billion coins, up 3.0 percent from the previous year, and coins paid out by the Bank totaled 2.96 billion coins, up 0.6 percent. The volume of new coins the Bank received from the Ministry of Finance was 1.21 billion coins, up 1.4 percent from a year earlier. The volume of damaged coins received for exchange was 16.4 million coins, down 8.5 percent year on year (Table 5).

Table 1

**Banknotes in Circulation<sup>1,2</sup>**

	Denomination	End of fiscal 2005		End of fiscal 2006	
			Percent of total		Percent of total
Value (tril. yen)	10,000 yen	68.4	91.3	69.3	91.4
	5,000 yen	2.5	3.4	2.6	3.4
	2,000 yen	0.4	0.6	0.3	0.4
	1,000 yen	3.4	4.6	3.5	4.6
	Others	0.2	0.2	0.2	0.2
	<b>Total</b>	<b>75.0</b>	<b>100.0</b>	<b>75.9</b>	<b>100.0</b>
Number of banknotes (bil.)	10,000 yen	6.84	54.1	6.93	54.3
	5,000 yen	0.50	4.0	0.51	4.0
	2,000 yen	0.22	1.7	0.16	1.2
	1,000 yen	3.42	27.1	3.52	27.6
	Others	1.65	13.1	1.65	12.9
	<b>Total</b>	<b>12.64</b>	<b>100.0</b>	<b>12.77</b>	<b>100.0</b>

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

2. Percentages do not add up to 100 because of rounding.

Table 2

**New Series Banknotes in Circulation as of the End of Fiscal 2006<sup>1</sup>**

	Denomination	New series	Reference: total of new and old series
Value (tril. yen)	10,000 yen	51.7	69.3
	5,000 yen	1.9	2.6
	1,000 yen	2.6	3.5
	<b>Total</b>	<b>56.3</b>	<b>75.4</b>
Number of banknotes (bil.)	10,000 yen	5.17	6.93
	5,000 yen	0.39	0.51
	1,000 yen	2.65	3.52
	<b>Total</b>	<b>8.21</b>	<b>10.97</b>

Note: 1. Percentages do not add up to 100 because of rounding.

Table 3

**Volume of Banknotes Handled**

bil. banknotes, except where otherwise noted

	Fiscal 2005	Year-on-year change (percent)	Fiscal 2006	Year-on-year change (percent)
Payment	10.24	-15.3	10.77	+5.1
Examined	11.19	+5.4	10.53	-5.9
Shredded	4.76	+19.6	4.16	-12.6
New notes purchased	4.08	±0.0	3.50	-14.2
Exchanged (mil.)	6.5	-14.1	5.6	-13.4



Table 4

**New Series Banknotes<sup>1</sup> in Circulation: Changes in Percentage Converted and Percentage Returned<sup>2</sup>**

percent, end of month

	2006				2007
	Mar.	June	Sep.	Dec.	Mar.
Percentage converted	68.2	70.1	71.7	75.2	74.9
Percentage returned	88.6	91.3	93.8	93.0	95.2

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 2005	Year-on-year change (percent)	Fiscal 2006	Year-on-year change (percent)
	Receipt	2.94	+7.6	3.03
Payment	2.95	+1.5	2.96	+0.6
From the Ministry of Finance	1.19	-2.3	1.21	+1.4
Exchanged (mil.)	18.0	+5.1	16.4	-8.5

**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 78–79).

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 2006 included (1) expanding the use of electronic applications for the disbursement of treasury funds; and (2) encouraging greater use of electronic

payments by individuals and firms. The Bank also continued to strengthen business continuity measures for treasury funds operations.

Against this background, steady progress has been made in streamlining the online processing of treasury funds. The share of treasury funds disbursement that is processed online has risen since the launch of online disbursement of national tax refunds in September 2006. Similarly, the share of total payments by individuals and firms made electronically has been on a steady uptrend, although it still remains low. The corollary is a steady decline in the share of paper-based processing of the receipt/disbursement of treasury funds.

#### **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, in September 2006, began online disbursement of national tax refunds from the National Tax Agency (NTA) to financial institutions holding payees' accounts.<sup>7</sup>

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 as the government reviewed its

plan for introducing the necessary systems.

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

Almost all government taxes and fees can now be paid through the electronic payment system.<sup>8</sup> The number of agent institutions<sup>9</sup> that can accept such payment has continued to increase and now exceeds 90 percent of all agent institutions (Table 6).

In cooperation with relevant government agencies, the Bank has been working toward expanding the use of electronic payment by, for example, publicizing each increase in the number of agent institutions that can accept such payment, with the aim of raising awareness of the electronic payment system among payers of government taxes and fees, thereby promoting the use of electronic payment.

Looking at the actual number of transactions, the use of electronic payment has been increasing steadily, and in February 2007 it exceeded 1 percent of the total for the first time.

#### **c. Strengthening business continuity measures**

As part of its initiatives to enhance its business continuity arrangements, the Bank continued in fiscal 2006 to conduct drills to improve its preparedness for any emergency. With respect to treasury funds operations, the Bank put in place concrete procedures to deal with a system disruption, and conducted, as in the previous year, a drill that simulated disruptions in

7. The Bank worked to connect Japan Post to the network, and online disbursement of national tax refunds from the NTA to payees' accounts held with Japan Post began in May 2007.

8. 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).

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

the unified system for electronic recording and transferring of treasury funds<sup>10</sup> and in the system for electronic receipt of treasury funds.<sup>11</sup> In addition, the Bank further enhanced the back-up capability of these systems.

### 3. Agents

The number of treasury agents remained the same as at the end of the previous fiscal year: 544, as of the end of March 2007. The number of revenue agents decreased from 40,062 to 39,807, while that of revenue sub-agents increased from 1,407 to 1,456.

## C. Japanese Government Securities

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. The Bank's Transactions with the Government

### 1. Amendment of the principal terms and conditions concerning the Bank's transactions with the government

On October 27, 2006, in light of the introduction of six-month FBs, the Bank decided to amend the principal terms and conditions concerning its transactions with the government to ensure that they continue to be conducted appropriately.

### 2. Underwriting of JGSs for refunding

On December 15, 2006, the Bank decided its policy regarding the underwriting of JGSs to refund those held by the Bank that mature in fiscal 2007 as follows: the Bank shall underwrite treasury bills (TBs) to refund, of

10. 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 implements electronically receipts, disbursements, recording, and transferring of treasury funds for the accounts of all government agencies in Japan.

11. 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.

those JGSs held by the Bank that will mature during fiscal 2007, interest-bearing JGBs amounting to 9,655.914 billion yen in face value.

The Bank underwrote one-year TBs to refund interest-bearing JGSs held by the Bank maturing in fiscal 2006 as listed in Table 7, in line with its decision

of December 15, 2005. Except for those TBs that had been sold, all of the one-year TBs underwritten by the Bank in fiscal 2005 to refund interest-bearing JGBs that the Bank held were redeemed in cash after reaching maturity in fiscal 2006.

Table 6

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

		Agent institutions operating treasury agents and revenue agents <sup>1</sup>
Fiscal 2003	Jan. 19–26, 2004	335 (79%)
Fiscal 2004	July 20, 2004	335 (80%)
	Oct. 18, 2004	349 (84%)
Fiscal 2005	Jan. 4–Feb. 14, 2005	350 (85%)
	Apr. 18–May 6, 2005	358 (87%)
	July 19, 2005	364 (88%)
	Oct. 17, 2005	366 (89%)
Fiscal 2006	Jan. 16–30, 2006	373 (92%)
	Apr. 17–May 8, 2006	373 (92%)
	July 18, 2006	375 (92%)
	Nov. 1, 2006	374 (92%)
	Jan. 4–15, 2007	377 (94%)

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 2007, there were 29 agent institutions operating revenue sub-agents that can also accept electronic payment.

Table 7

**Amount of TBs Underwritten by the Bank in Fiscal 2006**

Date of underwriting		Face value of one-year TBs underwritten (bil. yen)
2006	Apr. 20	601.06
	May 22	639.48
	June 20	5,505.80
	July 20	620.46
	Aug. 21	523.34
	Sep. 20	2,639.34
	Oct. 20	602.26
	Nov. 20	389.00
	Dec. 20	2,515.92
2007	Feb. 20	268.24
	Mar. 20	2,346.08
Total		16,650.98

#### IV. INTERNATIONAL OPERATIONS

The Bank conducts operations in the field of international finance, such as foreign exchange transactions, including those involved in managing the Bank's foreign currency assets, as well as business related to assisting foreign central banks and international organizations in their investment in yen. The Bank also compiles and disseminates Japan's balance of payments statistics and conducts international operations, such as foreign exchange intervention, on behalf of the government. 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 Group of Seven (G-7) countries, the Group of 20 (G-20) countries, the BIS, the Financial Stability Forum, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), and ASEAN Plus Three. Moreover, the Bank's Center for Monetary Cooperation in Asia (CeMCoA), which was established to promote monetary cooperation in Asia, engages in activities to this end, strengthening technical cooperation and staff training, and conducting joint research on Asia with researchers from outside the Bank.

At international forums in fiscal 2006, such as meetings of the G-7 countries and of central bank governors of the Group of Ten (G-10) countries at the BIS, the Bank took part in discussions on the following topics: (1) the outlook for the U.S. and world economies; (2) global current account imbalances; (3) trends in prices of energy and natural resources; (4) the possibility

of excessive risk-taking behavior in international financial markets; and (5) reforms of international organizations such as the International Monetary Fund (IMF) and the World Bank. At the Committee on the Global Financial System at the BIS, the Bank participated in the compilation of a report entitled "Institutional Investors, Global Savings and Asset Allocation." Meanwhile, at the BIS Markets Committee, the Bank actively participated in discussions on trends in international financial markets, particularly foreign exchange markets, and the domestic financial markets of major economies, with the Director-General of the Bank's Financial Markets Department taking his turn as the Chair.

The Bank's CeMCoA conducted research activities, organizing workshops involving experts from both inside and outside the Bank, and published selected findings. It also hosted an international symposium, "Ten Years after the Asian Currency Crisis: Future Challenges for the Asian Economies and Financial Markets," on January 22, 2007, to discuss the future challenges faced by Asian economies and financial markets, and to promote further international cooperation among them.

Furthermore, as part of its technical assistance to and cooperation with foreign central banks, the Bank held workshops on topics covering issues such as central banking services, including systems for banknote issuance, and underinvestment in Asia, as well as holding research and staff training seminars. The Bank also increased the number of staff it dispatched to seminars held by foreign central banks (Table 8).

Table 8

**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 2005	46 (359)	42 (283)	7 (12)	7 (12)
Fiscal 2006	55 (413)	45 (296)	17 (22)	15 (20)

**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 2006, with the aim of following through on the major issues and action plans outlined in the "Action Plans for Fiscal 2006," 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 (see "The Bank's Management Strategy: Framework and Progress" Section I on pages 10–17).

The findings are published in the Bank's various reports including the *Monthly Report of Recent Economic*

*and Financial Developments*, the *Outlook for Economic Activity and Prices*, which is released biannually in April and October, the *Financial System Report*, the *Financial Markets Report*, and the *Regional Economic Report*. The Bank's research papers are also available in the *BOJ Reports & Research Papers*, the *Bank of Japan Working Paper Series*, the *Bank of Japan Review Series*, and research papers released by the Institute for Monetary and Economic Studies (IMES), namely those published in *Monetary and Economic Studies*, and the *IMES Discussion Paper Series*.<sup>12</sup>

Moreover, the Bank invites researchers from central banks and international organizations as well as academics to attend the conferences, workshops, and symposiums it organizes.<sup>13</sup>

To support historical research on monetary and economic issues, the Bank operates the Currency Museum and the Archives.<sup>14</sup>

12. Papers and statistics as well as lists of the Bank's publications in English are available at the Bank's web site (<http://www.boj.or.jp/en/index.htm>) and at the IMES web site (<http://www.imes.boj.or.jp/english/index.html>).

13. The proceedings of the international conferences are available at the Bank's IMES web site.

14. 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 13,000 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

The Bank actively reviewed and revised its statistics, as scheduled, to improve their quality. These activities accorded with the first strategic goal in the MTSF to strengthen its policy planning capabilities. In fiscal 2006, the Bank conducted one of its regular periodic

revisions of the sample firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), prepared for the revision of the base year for the Corporate Goods Price Index scheduled for implementation around the end of 2007, and expanded the scope of components and items in the balance of payments statistics.

## 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 2006," namely, to promote better understanding of the policies and business operations of the Bank and related financial and economic issues, the Bank has widened the range

of its explanatory activities targeting 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)<sup>15</sup> 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, 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 in fiscal 2006, and explained its policies and answered questions at committees of both houses of the Diet, the

<sup>15</sup> 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.



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 31 days (23 of which involved appearances by the Governor) in fiscal 2006.

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 9).

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 2006

In line with the basic thinking described above, the Bank

undertook the following media and public relations activities in fiscal 2006.

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

Given the increasing significance of the Internet as a means of communication and an increase in the use of the Bank's web site, the Bank took the following measures to further develop its web site contents.

- (a) The Bank established a new item on its web site in April 2006, called "*Quiz de Manabou! Nippon Ginko*" (literally, "Let's learn about the Bank of Japan through a quiz!"). This aims to provide information about the Bank's history and operations in a user-friendly quiz format (available only in Japanese).
- (b) Another new item established on the Bank's web site in April 2006 was entitled "*Nippon Ginko to Watashitachi no Kurashi—Okane to Kin'yu no Hataraki wo Manabu—*" ("How the Bank of Japan affects our daily lives: learning how money and finance work"; available only in Japanese). This was designed as teaching material for use by teachers of civics at junior high schools.

In addition, the Bank produced and promoted for educational use a cartoon book on financial literacy called "*Nichigin Kids—Manga de Tanoshiku Manabou Okane no Iroiro!*" ("The *Nichigin*<sup>16</sup> Kids: A fun way to learn about money"; available only in Japanese). This made use of material and characters from "*Nichigin Kids*," a web site designed for children.

16. "*Nichigin*" is a colloquial abbreviation in Japanese for "Bank of Japan."

(2) Ongoing activities to promote financial literacy

The Bank continued to hold seminars for schoolteachers and organized in-house tours for families with children at its Head Office and branches. In addition, in June 2006 the Bank announced its hosting of the second essay and presentation contest primarily for college students, called the "BOJ Grand Prix." Participants in the contest competed on topics in the fields of economics and finance, and the final round was held in December 2006. The Bank also played an active role in educational events held by the CCFSI, such as the Festival for Promoting Financial Literacy Education in December 2006.

(3) Continuation of the Bank's CI<sup>17</sup> 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 (CI), in April 2004, the Bank released a proposal (in Japanese), entitled "CI Improvement Strategy." In fiscal 2006, 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. One example was the October 2006 event, "The Spirit and Tradition of Japan—A Message from Nihonbashi, at the Heart of the Nation's Culture and Economy," in

which the Bank hosted a panel discussion on the theme of the event followed by a *Bunraku* play (*Bunraku* is Japanese traditional puppet theater).

(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 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 related to 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 its provisions.

In fiscal 2006, the Bank received requests for information as indicated in Table 10.

17. 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 9

**Number of Page Views Visitors Accessed on the Bank of Japan Web Site**thous. page views<sup>1</sup>

	Fiscal 2004		Fiscal 2005		Fiscal 2006	
		Year-on-year change (percent)		Year-on-year change (percent)		Year-on-year change (percent)
Number of accesses	48,084	+29.7	53,461	+11.2	60,639	+13.4
Of which: English web site	5,268	+39.7	6,460	+22.6	8,788	+36.0

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

Table 10

**Number of Requests for Information Disclosure<sup>1</sup>**

	Total number of requests received	
	Head Office	Branches
	14	0

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 to ensure smooth implementation of its responsibilities in times of disaster and other emergency situations.

In September 2006, the Bank revised and made public its disaster management operation plan.

At the same time as fulfilling its duties as a principal organization designated by the government and required to continue performing its essential economic functions in times of disaster in the "General Principles Relating to Countermeasures for Earthquakes Directly below the Tokyo Metropolitan Area" released in September 2005, the Bank ensured that it would be able to continue critical operations even in situations such as where its Head Office was not available for normal operation by implementing the following measures: enhancing procedures and facilities for continuing operations at alternative operation sites; and strengthening its

framework for ensuring the availability of key staff in times of disaster and other emergency situations.

In order to ensure the effectiveness of its business continuity arrangements, the Bank conducted various exercises, including those related to the functioning of the disaster management team and those for dealing with system disruptions. It also participated in an annual exercise organized by the government, and reviewed emergency communication arrangements with the government. The Bank also continued to strengthen the backup capabilities of its computer systems.

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, 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. With regard to the money market (the call market), BCP arrangements were established in April 2006 under the leadership of the Japanese Bankers Association. The Bank is involved in these arrangements; in times of disaster, the Bank will provide information, for example, on what measures it will take and on the status of its business operations, and discuss with relevant parties the extent of the damage and any recommendations for temporary modifications to transaction practices. The BCP arrangements also included the operation of a BCP-designated web site, which was put to practical use on August 14, 2006, during the massive blackout in Tokyo and neighboring prefectures, proving effective both for gathering information on the extent of damage and for information sharing. Furthermore, in September 2006, the Bank, along with relevant parties, took part in the first market-wide exercise using the web site.

In securities markets, consultations on how to improve BCP arrangements have made progress under the leadership of the JSDA. Specifically, in April 2006, a forum was established to discuss BCP in securities markets, comprising a council as well as sub-committees on (1) BCP management, (2) exchange transactions, (3) over-the-counter transactions involving public and corporate bonds, and (4) over-the-counter stock transactions. The Bank participated in many of these committee meetings. At the forum, participants exchanged views on measures

to be taken for securities markets, discussing issues such as the role of the command center and the development of the BCP-designated web site, as well as measures to be taken for individual markets. In October 2006, the sub-committee on exchange transactions released a report of its findings, while interim reports were released by the other sub-committees.

In foreign exchange markets, the Sub-Committee on Business Continuity Plan was established in May 2006 under the Tokyo Foreign Exchange Market Committee (TFEMC), and there was progress in deliberations on how to improve BCP arrangements, including the methods used for information sharing. Meanwhile, the Sub-Committee on Settlements under the TFEMC deliberated on how BCP in foreign exchange markets should be coordinated with BCP for settling yen funds in foreign exchange transactions such as BCP for the CLS system<sup>18</sup> and the FXYCS. The Bank participated in discussions held by these sub-committees.

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 2006." With the aim of enhancing the overall business continuity capability of the financial system, the Bank examined whether each financial institution had established the necessary business continuity arrangements taking into account the impact a disruption of its operations would have on the financial system. It found that, in addition to major banks and large foreign banks, an increasing number of other financial institutions have established back-up facilities (computer centers and offices).

18. A cross-border payment system that enables simultaneous settlement in multiple currencies, irrespective of time zones.