Contents

Chapter I: Introduction ............................................................................................................. 1

A. Functions of the Bank of Japan .......................................................................................... 1
   1. The Bank in the daily lives of the people 1
   2. The Bank’s operations as “a bank” 2
   3. Issuing central bank money 3
   4. The central bank as the guardian of money 4

B. Outline of the Bank of Japan’s Business Operations ....................................................... 6
   1. Provision of cash, and of payment and settlement services 7
   2. Conduct of monetary policy 8
   3. Ensuring financial system stability 12
   4. Provision of government-related services 13

Box 1 Central Banks around the World ................................................................................. 15
Box 2 The Three Functions of the Bank of Japan as a Central Bank ................................. 16
Box 3 Monetary Policy Independence ................................................................................. 17
Box 4 Global Financial Crisis after Summer 2007 and Policy Measures Taken by the Bank of Japan ................................................................................................................. 19

Chapter II: Organization and Management of the Bank ................................................... 25

A. The Organization of the Bank of Japan ............................................................................. 25

B. The Policy Board ............................................................................................................. 34

C. Communication with the Public on Monetary Policy and Other Business Management ................................................................................................................................. 35
   1. Communication on monetary policy 35
   2. Accountability for policies and business operations other than monetary policy 36
   3. Other public relations activities 39
Chapter III: The Issuance, Circulation, and Maintenance of Bank of Japan Notes

A. Cash and the Bank of Japan
   1. Outline of cash and the issuance of banknotes
   2. Characteristics of banknotes
   3. History of the banknote issuance system

B. Circulation of Banknotes
   1. Flow of banknotes and the role of the Bank
   2. Fluctuation in demand for banknotes

C. Maintenance of Banknotes
   1. Maintaining and improving the convenience of banknotes
   2. Security measures for banknotes and international coordination

Chapter IV: Payment and Settlement and the Roles of the Bank of Japan

A. Roles of Payment and Settlement Systems
B. Major Payment Instruments
   1. Cash
   2. Demand deposits held at financial institutions
   3. BOJ account deposits
C. An Overview of Japan’s Payment and Settlement Systems
1. Overview of Japan’s payment and settlement systems 72
2. Payment systems 75
3. Securities settlement systems 82
4. Central counterparties (CCPs) 84

D. The Bank’s Business Related to Payment and Settlement ......................... 86
1. Provision of payment instruments and operation of payment and settlement systems 86
2. Oversight of private-sector payment and settlement systems 92
3. Enhancement of business continuity arrangements 96
4. International cooperation 97

Box 1  Number of Institutions Holding Current Account Deposits
at the Bank of Japan (BOJ Account Holders) 98
Box 2  Next-Generation RTGS Project 99
Box 3  Fails Practice for Bond Trading 101
Box 4  Payment and Settlement Terminology 102

Chapter V: Market Operations ............................................................... 105

A. Monetary Policy and Daily Market Operations ................................. 105
B. Framework of Market Operations ................................................... 106
   1. BOJ account deposits and money markets 106
   2. Supply and demand of BOJ account deposits 107
   3. Mechanism for determination of the overnight interest rate 113
C. Details of Market Operations ........................................................... 117
   1. Operations 118
   2. Bilateral market operation tools 126
D. Actual Business Procedures of Market Operations ............................ 129
   1. Flow of business procedures prior to the day of operations 129
   2. Flow of business procedures on the day of operations 130
E. Monitoring of Money Markets .......................................................... 135
   1. Market monitoring 135
   2. Compiling and releasing relevant statistics 136
F. International Cooperation ................................................................. 137
Chapter VI: The Bank of Japan’s Business for Ensuring Financial System Stability

A. Ensuring Financial System Stability ................................................................. 145
   1. Importance of financial system stability 145
   2. The Bank’s roles in ensuring financial system stability 146

B. Gauging Risks Borne by Individual Financial Institutions ......................... 148
   1. On-site examinations and off-site monitoring 148
   2. Relationship between on-site examinations and off-site monitoring 150
   3. Initiatives to develop advanced financial technology 151

C. Identifying Risks in the Entire Financial System .................................... 152
   1. Macroprudencce 152
   2. Financial System Report 154

D. Provision of Emergency Liquidity to Maintain the Stability of the Financial System ........................................................................................................ 155
   1. Function as the lender of last resort 155
   2. Other measures to ensure financial system stability 158

E. Global Initiatives ............................................................................................. 159

F. Practices in On-Site Examinations and Off-Site Monitoring ...................... 160
   1. Details of on-site examinations and off-site monitoring 161
   2. Legal framework and procedures for on-site examinations 165
   3. Off-site monitoring 170
| Box 1 | Central Banking Operations and the Financial System | 173 |
| Box 2 | Loans Provided by the Bank of Japan | 174 |
| Box 3 | Major Points of Revision to Financial Regulations and the Supervisory System | 176 |
| Box 4 | A Comparison of On-Site Examinations by the Bank of Japan and On-Site Inspections by the Financial Services Agency in the Case of Banks | 179 |
| Box 5 | A Case Study of the Bank of Japan’s Monitoring of Financial Institutions’ Liquidity Conditions | 180 |

**Chapter VII: Statistics, Research, and Studies** ........................................ 183

A. Compiling and Publishing Statistics .......................................................... 183

B. Research and Studies .............................................................................. 192
   1. Research 192
   2. Studies 197

| Box 1 | Statistics Compiled by the Bank of Japan and Registered with the Government | 199 |

**Chapter VIII: International Operations and Services** .............................. 201

A. The Bank of Japan’s International Operations and Services............... 201

   1. Global financial market expansion and global financial crises 202
   2. Contributions to the stability of the global economy and financial system 203

C. Transactions with Foreign Central Banks............................................... 205
   1. Transactions with foreign central banks and international organizations 205
   2. Technical assistance 206
   3. Promotion of monetary cooperation in Asia 206

D. International Operations Conducted on Behalf of the Government ...... 208
1. The foreign exchange market and purposes of foreign exchange intervention 208
2. The Bank of Japan’s business operations related to foreign exchange intervention and foreign exchange reserves 209
3. Procedures for foreign exchange intervention 210
4. Other business operations, including those conducted under the Foreign Exchange and Foreign Trade Act 211

Box 1 The Bank of Japan’s Participation in Major International Forums 213
Box 2 Institutional Design of Foreign Exchange Intervention: International Comparison 216

Chapter IX: Treasury Funds and Japanese Government Securities Services 219

A. Treasury Funds Services ................................................................. 219
   1. Government-related services of the Bank of Japan 219
   2. Treasury funds services and the agent system 219
   3. The flow of treasury funds services 222
   4. The significance of the Bank’s provision of treasury funds services 225
   5. Improvement in the efficiency of treasury funds services 226

B. The Government’s Cash Management ........................................ 230
   1. The government deposit balance’s fluctuations and the Bank of Japan’s operations 230
   2. The Bank’s services related to the government’s cash management 231

C. Services Related to JGSs ................................................................. 234
   1. Overview of the Bank of Japan’s JGS services 234
   2. Services related to the issuance of JGSs 239
   3. Services related to book-entry transfer of JGSs 242
   4. Services related to payment of principal and interest on JGSs 245
   5. Services related to the custody of securities 245

Appendixes .......................................................................................... 247

Appendix 1: Bank of Japan Act ............................................................. 247
Appendix 2: References for the Japanese Edition .................................. 272

Index ..................................................................................................... 275