

Appendixes

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

In 1996, discussions on the comprehensive revision of the Bank of Japan Act were initiated by the then three-party coalition government. More discussions followed at the Central Bank Study Group (under Chairman Yasuhiko Torii, then President of Keio University), an advisory panel to the then Prime Minister Ryutaro Hashimoto set up in July 1996, and at the Subcommittee on the Revision of the Bank of Japan Act (under Chairman Ryuichiro Tachi, then Professor Emeritus of the University of Tokyo) of the Financial System Research Council (an advisory committee to the then Minister of Finance), set up in November 1996. Finally, in June 1997, the new Bank of Japan Act was enacted by the Diet and came into effect in April 1998.¹

Note: 1. The Bank of Japan Act was first enacted in 1942 and revised in 1949 to prescribe the establishment of the Policy Board and the abolition of an article requiring the permission of the government to set or change the official discount rate. Discussions on revising the Act were held during 1957–1960 and again around 1965; however, these discussions did not result in revisions being made.

Bank of Japan Act

(Unofficial translation by the government of Japan)

Enforced: April 1, 1998 (partially enforced: June 18, 1997)

Amended: June 22, 1998; December 15, 1998; April 1, 2000; January 6, 2001 (partially enforced: July 1, 2000); January 1, 2005; May 1, 2006; December 1, 2008

Chapter I General Provisions

Article 1 (Purpose)

- (1) The purpose of the Bank of Japan, or the central bank of Japan, is to issue banknotes and to carry out currency and monetary control.
- (2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of stability of the financial system.

Appendix

Article 2 (The Principle of Currency and Monetary Control)

Currency and monetary control by the Bank of Japan shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

Article 3 (Respecting the Autonomy of the Bank of Japan and Ensuring Transparency)

- (1) The Bank of Japan's autonomy regarding currency and monetary control shall be respected.
- (2) The Bank of Japan shall endeavor to clarify to the citizen the content of its decisions, as well as its decision-making process, regarding currency and monetary control.

Article 4 (Relationship with the Government)

The Bank of Japan shall, taking into account the fact that currency and monetary control is a component of overall economic policy, always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy shall be mutually compatible.

Article 5 (Public Nature of the Bank of Japan's Business and Its Autonomy)

- (1) In light of the public nature of its business and property, the Bank of Japan shall endeavor to conduct its business in a proper and efficient manner.
- (2) In implementing this Act, due consideration shall be given to the autonomy of the Bank of Japan's business operations.

Article 6 (Juridical Personality)

The Bank of Japan shall be a juridical person.

Article 7 (Head Office and Branch Offices, etc.)

- (1) The Bank of Japan shall locate its head office in Tokyo.
- (2) The Bank of Japan may, pursuant to an Ordinance of the Ministry of Finance and upon authorization from the Minister of Finance, establish,

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

relocate, or abolish offices including branch offices.

- (3) The Bank of Japan may, pursuant to an Ordinance of the Ministry of Finance and upon authorization from the Minister of Finance, establish or abolish agencies that perform a part of the Bank's business.
- (4) If an application for authorization set forth in the preceding two paragraphs has been filed but the Minister of Finance has denied it, he/she shall make public this denial of authorization and the reason therefor promptly, together with the content of the requested application.

Article 8 (Stated Capital)

- (1) The amount of the Bank of Japan's stated capital shall be one hundred million yen to be contributed to by both the government and non-governmental persons.
- (2) Of the amount of stated capital set forth in the preceding paragraph, the amount of contribution by the government shall be no less than fifty-five million yen.

Article 9 (Investment Securities)

- (1) The Bank of Japan shall issue investment securities for capital contribution pursuant to paragraph 1 of the preceding Article.
- (2) Other matters concerning investment securities set forth in the preceding paragraph, as well as matters concerning capital contribution in general, shall be specified by a Cabinet Order.

Article 10 (Transfer of Equity)

Contributories to the Bank of Japan's capital may, pursuant to a Cabinet Order, transfer their equity or put it in pledge.

Article 11 (Articles of Incorporation)

- (1) The Bank of Japan shall stipulate the following matters in its articles of incorporation:
 - (i) Purpose;
 - (ii) Official name;
 - (iii) Locations of the head office and branch offices;

Appendix

- (iv) Matters concerning the stated capital and contribution;
- (v) Matters concerning the Policy Board;
- (vi) Matters concerning officers;
- (vii) Matters concerning its business and the execution thereof;
- (viii) Matters concerning the issuance of banknotes;
- (ix) Matters concerning accounting;
- (x) Means for public notice and publication.

- (2) Any amendments to the articles of incorporation shall not come into effect unless authorized by the Minister of Finance and the Prime Minister.
- (3) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the authorization set forth in the preceding paragraph.

Article 12 (Registration)

- (1) The Bank of Japan shall register relevant matters pursuant to a Cabinet Order.
- (2) Matters to be registered as prescribed in the preceding paragraph may not be asserted against a third party unless having been registered.

Article 13 (Restriction on Use of the Bank of Japan's Name)

No person other than the Bank of Japan may use the name "Bank of Japan."

Chapter II Policy Board

Article 14 (Establishment)

A Policy Board (hereinafter referred to as the "Board" in this and the following Chapter) shall be established in the Bank of Japan.

Article 15 (Authority)

- (1) The following matters concerning currency and monetary control shall be decided by the Board:
 - (i) Determining or altering the basic discount rate and other discount rates pertaining to the discounting of negotiable instruments set forth in Article 33, paragraph 1, item (i), as well as the types and conditions of negotiable

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

- instruments pertaining to the said discounting;
- (ii) Determining or altering the basic loan rate and other loan rates pertaining to the loans set forth in Article 33, paragraph 1, item (ii), as well as the types, conditions, and value of collateral pertaining to the said loans;
 - (iii) Determining, altering, or abolishing reserve requirement ratios, the base date, and other matters prescribed in Article 4, paragraph 1 of the Act on Reserve Deposit Requirement System (Act No. 135 of 1957);
 - (iv) Determining or altering the guidelines for financial market control (currency and monetary control conducted through financial markets [including open market operations]) through such measures as the buying and selling of negotiable instruments, bonds, or electronically recorded claims (electronically recorded claims prescribed in Article 2, paragraph 1 of the Electronically Recorded Claims Act [Act No. 102 of 2007]; hereinafter the same shall apply in this item and Article 33, paragraph 1) prescribed in Article 33, paragraph 1, item (iii), as well as determining or altering the types, conditions, and other matters of negotiable instruments, bonds, or electronically recorded claims pertaining to the said financial market control;
 - (v) Determining or altering other guidelines for currency and monetary control;
 - (vi) Determining or altering the Bank of Japan's view on currency and monetary control, including its basic view on economic and monetary conditions which provides the basis for matters listed in the preceding items.
- (2) In addition to matters to be subject to the Board resolution as prescribed in the preceding paragraph, the following matters shall also be decided by the Board:
- (i) Making loans pursuant to Article 37, paragraph 1, and executing business pursuant to Article 38, paragraph 2;
 - (ii) Applying for authorization pursuant to Article 39, paragraph 1, and determining important matters concerning the business pertaining to the said authorization;
 - (iii) Conducting the buying and selling of foreign exchange to facilitate international financial business which the Minister of Finance specifies as constituting cooperation in the field of international finance as prescribed in Article 40, paragraph 3, initiating transactions with a foreign central bank, etc. (a foreign central bank, etc. prescribed in Article 41) pertaining to the business prescribed in the same Article, and executing transactions

Appendix

- pursuant to Article 42;
- (iv) Applying for authorization pursuant to the proviso of Article 43, paragraph 1, and determining important matters concerning the business pertaining to the said authorization;
 - (v) Determining the content of a contract concerning on-site examinations prescribed in Article 44, paragraph 1, as well as determining important matters concerning the implementation of on-site examinations for each business year;
 - (vi) Altering the articles of incorporation;
 - (vii) Preparing or altering a statement of operation procedures;
 - (viii) Establishing, relocating, or abolishing offices including branch offices and agencies;
 - (ix) Determining important matters concerning the Bank of Japan's organization and size of staff (excluding what is listed in the preceding item);
 - (x) Establishing or altering the standards for paying remuneration prescribed in Article 31, paragraph 1, as well as rules on service prescribed in Article 32;
 - (xi) Acquiring or disposing of real estate and other important property;
 - (xii) Making or altering a budget for expenses (a budget for expenses prescribed in Article 51, paragraph 1), preparing an inventory, balance sheet, profit and loss statement, and statement of accounts, and determining important matters concerning accounting including the appropriation of any surplus;
 - (xiii) Preparing a written report prescribed in Article 54, paragraph 1, as well as the outline of business operations prescribed in Article 55;
 - (xiv) Establishing or altering the rules prescribed in Article 59;
 - (xv) Determining matters to be decided by the Board pursuant to this Act or to be carried out by the Board pursuant to this Act or other laws and regulations;
 - (xvi) Determining matters which the Board finds particularly necessary, in addition to what is listed in the preceding items.
- (3) The Board shall supervise the execution of their duties by the officers (excluding Auditors and Counsellors in this paragraph) of the Bank of Japan.

Article 16 (Organization)

- (1) The Board shall be composed of nine members.

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

- (2) Board members shall consist of six Members of the Policy Board, the Bank of Japan's Governor and two Deputy Governors. In this case, the Governor and the Deputy Governors shall perform their duties as Board members independently of each other, irrespective of the provisions of Article 22, paragraphs 1 and 2.
- (3) The Board shall have a chairperson, who shall be elected by Board members from among themselves.
- (4) The chairperson shall exercise general control over Board business.
- (5) The Board shall designate, in advance, a member who shall perform the duties of the chairperson when the chairperson is prevented from attending to his/her duties.

Article 17 (Calling of Board Meetings)

- (1) Board meetings shall be called by the chairperson of the Board (or by the designated alternate prescribed in paragraph 5 of the previous Article; hereinafter the same shall apply in this Article, the following Article, and Article 20).
- (2) The chairperson shall, pursuant to a Cabinet Order, regularly call Board meetings at which the matters listed in the items of Article 15, paragraph 1 (hereinafter referred to as "monetary control matters" in this Chapter) are to be discussed.
- (3) The preceding paragraph shall not be interpreted as preventing a Board meeting for monetary control matters from being called on an ad hoc basis, when the chairperson finds it necessary, or when one-third or more of the total incumbent Board members find it necessary and request the chairperson to call such a meeting.

Article 18 (Management of Board Meetings)

- (1) The Board may neither meet nor vote unless the chairperson and two-thirds or more of the total incumbent Board members are present.
- (2) Matters shall be decided by a majority of votes cast by Board members who are present. When the votes are equally split, the chairperson shall make a final decision.
- (3) Except for those specified in this Act, procedures of meetings and other necessary matters concerning the administration of the Board shall be determined by the Board.

Article 19 (Attendance of Government Representatives)

- (1) The Minister of Finance or the Minister of State for Economic and Fiscal Policy prescribed in Article 19, paragraph 2 of the Act for Establishment of the Cabinet Office (Act No. 89 of 1999) (referred to as the “Minister of State for Economic and Fiscal Policy” in the following paragraph; in the case where the office is vacant, it shall be assumed by the Prime Minister) may, when necessary, attend and express opinions at Board meetings for monetary control matters, or may designate an official of the Ministry of Finance or the Cabinet Office, respectively, to attend and express opinions at such meetings.
- (2) The Minister of Finance, or a delegate designated by him/her, and the Minister of State for Economic and Fiscal Policy, or a delegate designated by him/her, may, when attending the Board meetings for monetary control matters, submit proposals concerning monetary control matters, or request that the Board postpone a vote on proposals on monetary control matters submitted at the meeting until the next Board meeting for monetary control matters.
- (3) When a request has been made to postpone a vote as prescribed in the preceding paragraph, the Board shall decide whether or not to accommodate the request, in accordance with the Board’s practice for voting.

Article 20 (Publication of Transcripts, etc.)

- (1) After each Board meeting for monetary control matters, the chairperson shall promptly prepare a document describing an outline of the discussion at the meeting in accordance with the decisions made by the Board, and make public the document following its approval at another Board meeting for monetary control matters.
- (2) The chairperson shall prepare a transcript of each Board meeting for monetary control matters in accordance with the decisions made by the Board, and make public the transcript after the expiration of a period of time which is determined by the Board as appropriate.

Chapter III Officers and Employees

Article 21 (Officers)

The officers of the Bank of Japan shall consist of six Members of the Policy Board, a Governor, two Deputy Governors, three or fewer Auditors, six or fewer

Executive Directors, and a small number of Counsellors.

Article 22 (Duties and Powers of Officers)

- (1) The Governor shall represent the Bank of Japan and exercise general control over the Bank's business in accordance with decisions made by the Board.
- (2) The Deputy Governors shall, in accordance with decisions made by the Governor, represent the Bank of Japan, administer the business of the Bank assisting the Governor, act for the Governor whenever he/she is prevented from attending to his/her duties, and perform the Governor's duties during a vacancy in the office of the Governor.
- (3) The Auditors shall audit the business of the Bank of Japan.
- (4) The Auditors may, when they find it necessary based on the audit results, submit their opinions to the Minister of Finance, the Prime Minister, or the Board.
- (5) The Executive Directors shall, in accordance with the decisions made by the Governor, administer the business of the Bank of Japan assisting the Governor and the Deputy Governors, act for the Governor when the Governor and the Deputy Governors are prevented from attending to their duties, and perform the Governor's duties during a vacancy in the office of the Governor and the Deputy Governors.
- (6) The Counsellors shall be consulted by the Board on any important matters concerning the Bank of Japan's business operations, and may express their opinions to the Board when they find it necessary.

Article 22-2 (Restrictions on Authority of Representation)

Restrictions on the authority of representation of the Governor or the Deputy Governors may not be asserted against a third party without knowledge of such restrictions.

Article 22-3 (Acts of Conflict of Interest)

The Governor or the Deputy Governors shall not have the authority of representation with regard to matters for which their interests and the interest of the Bank of Japan conflict with each other. In this case, the court shall appoint a special agent, upon a request from an interested person or a public prosecutor.

Appendix

Article 23 (Appointment of Officers)

- (1) The Governor and the Deputy Governors shall be appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors.
- (2) The Members of the Policy Board shall be appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors, from among persons with relevant knowledge and experience including experts on the economy or finance.
- (3) The Auditors shall be appointed by the Cabinet.
- (4) The Executive Directors and the Counsellors shall be appointed by the Minister of Finance based on the Board's recommendation.
- (5) If the term of office of a Governor, Deputy Governor, or Member of the Policy Board expires or a vacancy occurs in the office of any of these, and if the Diet is out of session or the House of Representatives has been dissolved and it is impossible to obtain the consent of both Houses, the Cabinet may appoint a Governor, Deputy Governor, or Member of the Policy Board, irrespective of the provisions of paragraphs 1 and 2.
- (6) In the case set forth in the preceding paragraph, the appointment shall be approved ex post by both Houses in the first Diet session after the said appointment. If the Cabinet fails to obtain such ex post approval, it shall immediately dismiss the said Governor, Deputy Governor, or Member of the Policy Board.

Article 24 (Officers' Terms of Office)

- (1) The terms of office shall be five years for the Governor, Deputy Governors, and Members of the Policy Board, four years for Auditors and Executive Directors, and two years for Counsellors. However, if a vacancy occurs in the office of a Governor, Deputy Governor, or Member of the Policy Board, the term of office for a substitute Governor, Deputy Governor, or Member of the Policy Board shall be limited to the remaining term of his/her predecessor.
- (2) The Governor, Deputy Governors, Members of the Policy Board, Auditors, Executive Directors, and Counsellors may be reappointed.

Article 25 (Guarantee of the Officers' Status)

- (1) Officers of the Bank of Japan (excluding Executive Directors in this

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

paragraph) shall not be dismissed against their will during their terms of office, except in the case prescribed in the second sentence of Article 23, paragraph 6 or in the following cases:

- (i) An officer has received a ruling of the commencement of bankruptcy proceedings;
 - (ii) An officer has received punishment under this Act;
 - (iii) An officer has been sentenced to imprisonment without work or a heavier punishment;
 - (iv) An officer has been deemed incapable of carrying out his/her duties due to mental or physical disorder by the Board (or by the Board and the Cabinet in the case of the Auditors).
- (2) The Cabinet or the Minister of Finance shall dismiss an officer of the Bank of Japan if he/she falls under any of the cases listed in the items of the preceding paragraph.
 - (3) In addition to the case prescribed in the preceding paragraph, the Minister of Finance may dismiss an Executive Director when the Board has requested the dismissal thereof.

Article 26 (Restriction on Officers' Acts)

- (1) An officer of the Bank of Japan (excluding Counsellors; hereinafter the same shall apply in this Article and Articles 31 and 32) shall not conduct any of the following acts during his/her term of office:
 - (i) Becoming a candidate for the Diet, for any local council, or for any elected public office;
 - (ii) Becoming an officer of any political body including a political party or actively engaging in political activities;
 - (iii) Engaging in other work that brings remuneration (excluding work that the Board finds as meeting the requirements specified by the rules on service prescribed in Article 32 as the standards of work that does not interfere with the proper execution of his/her duties as an officer);
 - (iv) Carrying out commercial business or other business for the purpose of pecuniary gain.
- (2) If an officer of the Bank of Japan becomes a candidate for the Diet, for any

Appendix

local council, or for any elected public office, he/she shall be deemed to have resigned as an officer of the Bank.

Article 27 (Appointment of Agents)

The Governor and the Deputy Governors may appoint agents, from among the Bank of Japan's Executive Directors or employees, who shall have the authority to act on behalf of the Bank in all juridical and non-juridical matters with regard to the business of the Bank's head office and branch offices.

Article 28 (Appointment of Employees)

The Bank of Japan's employees shall be appointed by the Governor.

Article 29 (Confidentiality Obligations of Officers and Employees)

The Bank of Japan's officers and employees shall not leak or misappropriate secrets which they have learned in the course of their duties. The same shall apply even after they have left the Bank.

Article 30 (Status of the Officers and Employees)

The Bank of Japan's officers and employees shall be deemed to be those engaged in public service pursuant to laws and regulations.

Article 31 (Standards for Paying Remuneration)

- (1) The Bank of Japan shall establish the standards for paying rewards (including the payment of money such as bonuses), salaries (including the payment of money such as bonuses), and retirement allowances (collectively referred to as "remuneration" in the following paragraph) to be paid to its officers and employees, as being consistent with the general standards prevailing in society, and shall report such standards to the Minister of Finance and, at the same time, make them public. The same shall apply when making any change to the standards.
- (2) Among the standards for paying remuneration prescribed in the preceding paragraph, those pertaining to officers shall be established in consideration of salaries, retirement allowances, and other circumstances of national public officers to whom the Act on Salaries of Government Officials with

Special Capacity (Act No. 252 of 1949) is applicable.

Article 32 (Rules on Service)

The Bank of Japan shall, in light of the public nature of its business and in order to ensure the proper execution of their duties by its officers and employees, establish rules on service for its officers and employees, such as rules on the obligations to devote themselves to their duties and to separate themselves from private enterprises, and shall report such rules to the Minister of Finance and, at the same time, make them public. The same shall apply when making any change to the rules.

Chapter IV Business

Article 33 (Regular Business)

- (1) In order to achieve the purpose prescribed in Article 1, the Bank of Japan may conduct the following business:
 - (i) Discounting of commercial bills and other negotiable instruments;
 - (ii) Making loans against collateral in the form of negotiable instruments, national government securities and other securities, or electronically recorded claims;
 - (iii) Buying and selling of commercial bills and other negotiable instruments (including those drawn by the Bank of Japan in this item), national government securities and other bonds, or electronically recorded claims;
 - (iv) Lending and borrowing of national government securities and other bonds against cash collateral;
 - (v) Taking deposits;
 - (vi) Conducting domestic funds transfers;
 - (vii) Taking safe custody of securities and other instruments pertaining to property rights, or certificates;
 - (viii) Buying and selling gold and silver bullion and carrying out business related to business set forth in the preceding items.

- (2) "Taking deposits" set forth in item (v) of the preceding paragraph refers to taking deposits based on a deposit contract.

Appendix

Article 34 (Loans, etc. to the National Government)

As the central bank of Japan, the Bank of Japan may, in addition to the business prescribed in paragraph 1 of the preceding Article, conduct the following business with the national government:

- (i) Making uncollateralized loans within the limit decided by the Diet as prescribed in the proviso of Article 5 of the Fiscal Act (Act No. 34 of 1947);
- (ii) Making uncollateralized loans for the national government's temporary borrowing permitted under the Fiscal Act or other acts concerning the national government's accounting;
- (iii) Subscribing or underwriting national government securities within the limit decided by the Diet as prescribed in the proviso of Article 5 of the Fiscal Act;
- (iv) Subscribing or underwriting financing bills and other financing securities;
- (v) Taking safe custody of precious metals and other articles.

Article 35 (Handling of Treasury Money)

- (1) As the central bank of Japan, the Bank of Japan shall handle treasury money, pursuant to laws and regulations.
- (2) When handling treasury money as prescribed in the preceding paragraph, the Bank of Japan may conduct the business necessary for this purpose in addition to the business prescribed in Article 33, paragraph 1.

Article 36 (Handling of National Government Affairs)

- (1) As the central bank of Japan, the Bank of Japan shall handle national government affairs concerning currency and finance, pursuant to laws and regulations.
- (2) When handling national government affairs as prescribed in the preceding paragraph, the Bank of Japan may conduct the business necessary for this purpose in addition to the business prescribed in Article 33, paragraph 1.
- (3) Expenses necessary for handling national government affairs as prescribed in paragraph 1 may be borne by the Bank of Japan, pursuant to laws and regulations.

Article 37 (Temporary Loans to Financial Institutions, etc.)

- (1) Irrespective of the provisions of Article 33, paragraph 1, the Bank of Japan may provide financial institutions (banks and other institutions engaged in the business of taking deposits, etc. [deposits and others prescribed in Article 2, paragraph 2 of the Deposit Insurance Act {Act No. 34 of 1971} and other deposits for savings] and in funds transfers in the course of trade; the same shall apply hereinafter) and other financial business entities specified by a Cabinet Order (hereinafter collectively referred to as “financial institutions, etc.”) with uncollateralized loans the amount of which is equivalent to the shortage of funds for a period no longer than the length of time prescribed by a Cabinet Order, when the relevant financial institutions, etc. unexpectedly experience a temporary shortage of funds necessary for payment due to accidental causes, including failures in electronic data processing systems, whereby their business operations may be seriously hampered if the shortage is not recovered swiftly, provided that the Bank finds the advance is necessary to secure smooth settlement of funds among financial institutions.
- (2) The Bank of Japan shall, when having provided loans as prescribed in the preceding paragraph, report to that effect to the Prime Minister and the Minister of Finance without delay.

Article 38 (Business Contributing to the Maintenance of Stability of the Financial System)

- (1) The Prime Minister and the Minister of Finance may, when they find it especially necessary for the maintenance of stability of the financial system, such as in the case where they find that serious problems may arise in the maintenance of stability of the financial system based on the consultation pursuant to Article 57-5 of the Banking Act (Act No. 59 of 1981) or other laws and regulations, request the Bank of Japan to conduct the business necessary to maintain stability of the financial system, such as to provide loans to the financial institution pertaining to the said consultation.
- (2) When a request has been made from the Prime Minister and the Minister of Finance as prescribed in the preceding paragraph, the Bank of Japan may conduct the business necessary to maintain stability of the financial system, including the provision of loans under special conditions, responding to the said request, in addition to the business prescribed in Article 33, paragraph 1.

Article 39 (Business Contributing to Smooth Settlement of Funds)

- (1) In addition to the business prescribed in Article 33 through the preceding Article, the Bank of Japan may, upon authorization from the Prime Minister and the Minister of Finance, conduct the business deemed to contribute to smooth settlement of funds among financial institutions in conjunction with the business prescribed in Article 33, paragraph 1, items (v) through (vii) or the business prescribed in Article 35, paragraph 2 or Article 36, paragraph 2.
- (2) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the authorization set forth in the preceding paragraph.

Article 40 (Buying and Selling of Foreign Exchange)

- (1) The Bank of Japan may, when necessary, buy and sell foreign exchange on its own account or as an agent handling national government affairs pursuant to Article 36, paragraph 1, and it may also buy and sell foreign exchange on behalf of foreign central banks, etc. (foreign central banks and those equivalent thereto; the same shall apply hereinafter) or international institutions (international institutions of which Japan has a membership, including the Bank for International Settlements; the same shall apply hereinafter) as their agent in order to cooperate with them as the central bank of Japan.
- (2) The Bank of Japan shall buy and sell foreign exchange as an agent handling national government affairs pursuant to Article 36, paragraph 1, when the purpose of the buying and selling is to stabilize the exchange rate of Japanese currency.
- (3) The Bank of Japan shall, when buying and selling foreign exchange on its own account or as an agent on behalf of foreign central banks, etc. or international institutions to cooperate with them as the central bank of Japan pursuant to paragraph 1, conduct the buying and selling for the purpose which the Minister of Finance specifies as constituting cooperation in the field of international finance, at the request, or upon the approval, of the Minister of Finance.

Article 41 (International Financial Business)

The Bank of Japan may conduct the following business with foreign central banks, etc. or international institutions in order to cooperate with them as the central bank of Japan:

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

- (i) Taking deposits pertaining to deposit money denominated in Japanese currency (deposits prescribed in Article 33, paragraph 2);
- (ii) Buying and selling national government securities in exchange for deposits received through the business set forth in the preceding item;
- (iii) Taking safe custody of securities, precious metals, and other articles;
- (iv) Carrying out intermediary, brokerage, or agency services for sales and purchases of national government securities conducted by the said foreign central banks, etc. or international institutions;
- (v) Other business specified by an ordinance of the Ministry of Finance as those deemed to contribute to the proper management of Japanese currency or assets denominated in Japanese currency held by the said foreign central banks, etc. or international institutions.

Article 42

In addition to the business prescribed in the preceding Article, the Bank of Japan may conduct the following transactions and other transactions necessary for cooperating, as the central bank of Japan, with foreign central banks, etc. or international institutions in the field of international finance, including the provision of international financial assistance, at the request, or upon the approval, of the Minister of Finance:

- (i) Substituting loan claims against foreign central banks, etc. which are held by the Bank for International Settlements;
- (ii) Providing credit to foreign central banks, etc. or international institutions.

Article 43 (Prohibition of Other Business)

- (1) The Bank of Japan may not conduct any business other than that specified by this Act as the business of the Bank; provided, however, that this shall not apply to the case where such business is necessary to achieve the Bank's purpose specified by this Act and the Bank has obtained authorization from the Minister of Finance and the Prime Minister.
- (2) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the authorization set forth in the preceding paragraph.

Article 44 (On-Site Examinations)

- (1) The Bank of Japan may, for the purpose of appropriately conducting or

Appendix

- preparing to conduct the business prescribed in Articles 37 through 39, conclude a contract with financial institutions, etc. which would be the counterparty in such business (hereinafter referred to as the “counterparty financial institutions, etc.” in this Article) concerning on-site examinations (examinations which the Bank carries out regarding the business operations and the state of the property of the counterparty financial institutions, etc. by visiting the premises thereof; hereinafter the same shall apply in this Article) (such contract shall meet the requirements specified by a Cabinet Order including those whereby the Bank shall notify and obtain prior consent from the counterparty financial institutions, etc. when carrying out on-site examinations).
- (2) The Bank of Japan shall consider the administrative burden incurred by counterparty financial institutions, etc. when carrying out on-site examinations.
 - (3) When a request has been made from the Commissioner of the Financial Services Agency, the Bank of Japan may submit the documents describing the results of the on-site examinations and other related materials to the Commissioner or have officials of the Financial Services Agency inspect them.

Article 45 (Statement of Operation Procedures)

- (1) The Bank of Japan shall prepare a statement of operation procedures and submit it to the Minister of Finance and the Prime Minister. The same shall apply when making any change to the statement.
- (2) The statement of operation procedures set forth in the preceding paragraph shall contain matters specified by a Cabinet Order, including those concerning the provision of loans.

Chapter V Bank of Japan Notes

Article 46 (Issuance of Bank of Japan Notes)

- (1) The Bank of Japan shall issue banknotes.
- (2) The banknotes issued by the Bank of Japan (hereinafter referred to as “Bank of Japan notes”) as prescribed in the preceding paragraph shall be legal tender and hence shall be used for payment without limits.

Article 47 (Types and Forms of Bank of Japan Notes)

- (1) The types of Bank of Japan notes shall be specified by a Cabinet Order.
- (2) The Minister of Finance shall decide the forms of Bank of Japan notes and publicly notify them.

Article 48 (Exchange of Bank of Japan Notes)

The Bank of Japan shall exchange, without fees, Bank of Japan notes rendered unfit for further circulation due to defacement, mutilation, or other causes, pursuant to an Ordinance of the Ministry of Finance.

Article 49 (Printing and Cancellation of Bank of Japan Notes)

- (1) The Bank of Japan shall determine the procedures for printing and canceling Bank of Japan notes and submit those procedures to the Minister of Finance for approval. The same shall apply when making any change to the procedures.
- (2) The provisions of Article 7, paragraph 4 shall apply mutatis mutandis to the approval set forth in the preceding paragraph.

Chapter VI Accounting

Article 50 (Business Year)

The business year of the Bank of Japan shall run April 1 through March 31 of the following year.

Article 51 (Budget for Expenses)

- (1) Every business year, the Bank of Japan shall make a budget for expenses (limited to those specified by a Cabinet Order as not hampering the currency and monetary control; hereinafter such budget shall be referred to as a “budget for expenses”), and submit it to the Minister of Finance for authorization before the business year begins. The same shall apply when making any change to the budget.
- (2) If the Minister of Finance finds it inappropriate to authorize the budget for expenses submitted as prescribed in the preceding paragraph, he/she shall make prompt notice to the Bank of Japan to that effect along with the reason therefor, and make public the details of the submitted budget for

Appendix

expenses and the said reason.

- (3) When the notice as prescribed in the preceding paragraph has been made, the Bank of Japan may express its opinions to the Minister of Finance or, if necessary, make public the said opinions.

Article 52 (Financial Statements, etc.)

- (1) The Bank of Japan shall prepare an inventory of property and a balance sheet for each six-month period running from April through September and from October through March and prepare a profit and loss statement for each business year as well as for each six-month period mentioned above, and submit these documents (hereinafter referred to as “financial statements”) attached with Auditors’ written opinions thereon to the Minister of Finance for approval within two months after the relevant six-month period or the business year has elapsed.
- (2) When submitting the financial statements for a business year to the Minister of Finance as prescribed in the preceding paragraph, the Bank of Japan shall attach a statement of accounts for the business year and the Auditors’ written opinions thereon.
- (3) When having received the approval from the Minister of Finance as prescribed in paragraph 1, the Bank of Japan shall, without delay, keep the financial statements, the statement of accounts set forth in the preceding paragraph, and the Auditors’ written opinions set forth in the preceding two paragraphs at its head office and branch offices and make them available for public inspection for a period determined by the Policy Board as appropriate.

Article 53 (Appropriation of Surplus)

- (1) The Bank of Japan shall reserve, as a reserve fund, five-hundredths of the surplus resulting from the settlement of profits and losses for each business year.
- (2) Irrespective of the provisions of the preceding paragraph, the Bank of Japan may, when it finds it especially necessary, reserve the money which exceeds the amount prescribed in the preceding paragraph as a reserve fund, upon authorization from the Minister of Finance.
- (3) The reserve fund reserved as prescribed in the preceding two paragraphs shall not be disposed of, except to cover losses incurred by the Bank of Japan or to be appropriated for dividends as prescribed in the following paragraph.
- (4) The Bank of Japan may, upon authorization from the Minister of Finance,

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

pay dividends to contributories out of the surplus resulting from the settlement of profits and losses for each business year; provided, however, that the rate of dividend payments against paid-up capital may not exceed five-hundredths per annum.

- (5) After deducting the amount reserved as prescribed in paragraphs 1 and 2 and the dividend payments prescribed in the preceding paragraph from the surplus resulting from the settlement of profits and losses for each business year, the Bank of Japan shall pay the remaining surplus to the national treasury within two months after each relevant business year ends.
- (6) The government may have the Bank of Japan make the payment to the national treasury for each business year as prescribed in the preceding paragraph, partially during the said business year, by estimate, pursuant to a Cabinet Order.
- (7) The amount of the payment to the national treasury pursuant to paragraph 5 shall be treated as losses when accounting the amount of income prescribed by the Corporation Tax Act (Act No. 34 of 1965) and the amount of income pertaining to the business tax prescribed by the Local Tax Act (Act No. 226 of 1950).
- (8) In addition to what is prescribed in the preceding three paragraphs, necessary matters concerning the payment to the national treasury pursuant to paragraph 5 shall be specified by a Cabinet Order.
- (9) The provisions of Article 7, paragraph 4 shall apply *mutatis mutandis* to the authorization set forth in paragraphs 2 and 4.

Chapter VII Reporting, etc. to the Diet

Article 54 (Reporting to and Attendance at the Diet)

- (1) The Bank of Japan shall, approximately every six months, prepare a written report on the Policy Board resolutions regarding the matters listed in the items of Article 15, paragraph 1 and conditions of business operations that the Bank has conducted based thereon and submit it to the Diet through the Minister of Finance.
- (2) The Bank of Japan shall endeavor to explain to the Diet the written report set forth in the preceding paragraph.
- (3) The Bank of Japan's Governor or the chairperson of the Policy Board, or a representative designated by them, shall attend the sessions of the House of Representatives, the House of Councillors, or their Committees when requested by them, in order to explain the state of the Bank's business opera-

tions and property.

Article 55 (Publication of an Outline of Business Operations)

When having received the approval regarding financial statements for each business year as prescribed in Article 52, paragraph 1, the Bank of Japan shall prepare, without delay, an outline of its business operations for the business year and make it public along with the said financial statements and a statement of accounts for the said business year.

Chapter VIII Rectification, etc. of Illegal Acts, etc.

Article 56 (Rectification of Illegal Acts, etc.)

- (1) The Minister of Finance or the Prime Minister may, when he/she finds that the Bank of Japan, its officers or employees have violated or are likely to violate this Act, other laws and regulations, or articles of incorporation, request the Bank to take the measures necessary to rectify such acts.
- (2) When a request has been made from the Minister of Finance or the Prime Minister as prescribed in the preceding paragraph, the Bank of Japan shall promptly take measures which the Policy Board finds necessary, such as rectifying the said acts, and report those measures to the Minister of Finance or the Prime Minister.

Article 57 (Audit at the Request of the Minister of Finance or the Prime Minister)

- (1) The Minister of Finance or the Prime Minister may, when he/she finds that the Bank of Japan, its officers or employees have violated or are likely to violate this Act, other laws and regulations, or articles of incorporation, request the Auditors of the Bank to audit such acts and other necessary matters and report the results thereof to the Minister of Finance or the Prime Minister.
- (2) When a request has been made from the Minister of Finance or the Prime Minister as prescribed in the preceding paragraph, the Auditors of the Bank of Japan shall promptly audit such matters and report the results thereof to the Minister of Finance or the Prime Minister and also to the Policy Board.

Article 58 (Reports, etc.)

The Minister of Finance or the Prime Minister may, when he/she finds it necessary in light of the conditions of the business operations of the Bank of Japan, request the Bank to submit a report or relevant materials.

Chapter IX Miscellaneous Provisions

Article 59 (Rules)

The Bank of Japan shall, when having established rules regarding the organization or other matters other than those specified by this Act separately, report such rules to the Minister of Finance without delay. The same shall apply when making any change to the rules.

Article 60 (Dissolution)

- (1) The dissolution of the Bank of Japan shall be specified separately by an Act.
- (2) In the case where the Bank of Japan has been dissolved, when the residual assets of the Bank exceed the amount of paid-up capital, the residual assets equivalent to the excess amount shall belong to the national treasury.

Article 60-2 (Jurisdiction over Cases Concerning Appointment of Special Agents)

Cases concerning the appointment of special agents shall be under the jurisdiction of the District Court which exercises jurisdiction over the location of the head office of the Bank of Japan.

Article 61 (Mutatis Mutandis Application of the Act on General Incorporated Associations and General Incorporated Foundations)

The provisions of Article 4 and Article 78 of the Act on General Incorporated Associations and General Incorporated Foundations (Act No. 48 of 2006) shall apply mutatis mutandis to the Bank of Japan.

Article 61-2 (Delegation of Authority)

The Prime Minister shall delegate the authority under this Act (excluding Article 19) to the Commissioner of the Financial Services Agency except for those prescribed by a Cabinet Order.

Article 62 (Delegation to a Cabinet Order)

In addition to what is prescribed in this Act, matters necessary to implement this Act shall be specified by a Cabinet Order.

Chapter X Penal Provisions

Article 63

Those who have leaked or misappropriated secrets in violation of Article 29 shall be punished by imprisonment with work for not exceeding a year or a fine not exceeding five hundred thousand yen.

Article 64

Those who have failed to conduct an audit pursuant to Article 57, paragraph 2, or have failed to make a report pursuant to the same paragraph or have made a false report shall be punished by a fine not exceeding five hundred thousand yen.

Article 65

- (i) Having failed to obtain the authorization from the Minister of Finance or from both the Minister of Finance and the Prime Minister, or the approval from the Minister of Finance, as required by this Act (excluding the provisions of Article 43, paragraph 1);
- (ii) Having failed to make a report to the Minister of Finance or to both the Minister of Finance and the Prime Minister as required by this Act, or having made a false report;
- (iii) Having failed to make public what is required by this Act, or having made it public falsely;
- (iv) Having neglected to register in violation of a Cabinet Order prescribed in Article 12, paragraph 1;
- (v) Having been engaged in other work that brings remuneration or having carried out commercial business or other business for the purpose of pecuniary gain in violation of Article 26, paragraph 1;
- (vi) Having conducted any business other than that specified as the business of the Bank of Japan in violation of Article 43, paragraph 1;
- (vii) Having violated Article 48;
- (viii) Having failed to keep the financial statements, the statement of accounts,

Appendix 1 Bank of Japan Act (Act No. 89 of June 18, 1997)

or the Auditors' written opinions or having failed to make them available for public inspection in violation of Article 52, paragraph 3;

- (ix) Having failed to reserve a surplus as a reserve fund in violation of Article 53, paragraph 1;
- (x) Having disposed of a reserve fund in violation of Article 53, paragraph 3;
- (xi) Having paid dividends in violation of the proviso of Article 53, paragraph 4;
- (xii) Having failed to make a report as required in Article 56, paragraph 2 or having made a false report;
- (xiii) Having failed to submit a report or materials as required in Article 58 or having submitted a false report or false materials.

The Bank of Japan's officers or employees shall be punished by a non-penal fine not exceeding five hundred thousand yen when falling under any of the following items:

Article 66

Those who have violated Article 13 shall be punished by a non-penal fine not exceeding five hundred thousand yen.

Appendix 2 References for the Japanese Edition

Chapters I and II

Chuo Ginko Kenkyukai, “*Chuo Ginko Seido no Kaikaku – Hirakareta Doku-ritsusei wo Motomete* (Reform of the Central Banking System – Toward Independence and Transparency),” *Chuo Ginko Kenkyukai Houkokusho*.¹

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Shiono, Hiroshi, chief ed., *Nipponginkou no Houteki Seikaku – Shin Nichiginho wo Fumaete* (Legal Characteristics of the Bank of Japan – Based on the Revised Bank of Japan Act), Koubundou Publishers Inc.¹

Shirakawa, Masaaki, *Gendai no Kinyu Seisaku* (Modern Monetary Policy in Theory and Practice), Nikkei Publishing Inc.¹

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Nippon Ginko Ken Kenkyukai, *Okane Monoshiri Hakase* (Doctor of Money), Tokiwa Sohgo Service Inc.¹

Chapter IV

Bank of Japan, *Kessai no Genri* (Principles of Payment and Settlement).²

Bank of Japan, Payment and Settlement Systems Report. Released about once a year.³

Chapter V

Bank of Japan, Financial Markets Report. Released semiannually.³

Bank of Japan, Money Market Operations in Fiscal 2009. Released in the following fiscal year.³

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Chapter VI

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Appendix 2 References for the Japanese Edition

Chapter VII

Umeda, Masanobu and Kiyohito Utsunomiya, *Keizaitoukei no Katsuyou to Ronten* (Usages and Issues of Economic Statistics), Toyo Keizai Inc.¹

Chapter VIII

Nippon Ginko Kokusaishushi Tokei Kenkyukai, *Nyumon Kokusaishushi* (Introduction to Balance of Payments), Toyo Keizai Inc.¹

Chapter IX

Ministry of Finance, Financial Bureau, Debt Management Report. Released annually.³

¹ Available only in Japanese.

² Available only in Japanese on the Bank's website at <http://www.boj.or.jp/index.html>.

³ Available on the Bank's website at <http://www.boj.or.jp/en/index.htm>.

