

August 16, 2002
Bank of Japan

The Self-Assessment Report on Transparency Practices for Monetary Policy

The Bank of Japan decided to release its self-assessment report of its transparency practices in the conduct of monetary policy based on the monetary policy part of the *Code of Good Practices on Transparency in Monetary and Financial Policies* developed and adopted by the International Monetary Fund (IMF) in 1999. The Bank has made every effort to enhance the transparency in monetary policy since the new Bank of Japan Law came into effect in 1998. The Bank hopes that the release of the self-assessment report will aid understanding of Japan's monetary policy framework at home and abroad.

The code identifies four broad categories for transparency in monetary policy: (1) clarity of roles, responsibilities, and objectives of central banks; (2) open process for formulating and reporting monetary policy decisions by central banks; (3) public availability of information of policies; and (4) accountability and assurances of integrity by central banks.

Strenuous efforts have been made to develop and adopt international standards particularly in the financial sector. The aim of these efforts is to strengthen the financial system and market infrastructure worldwide, thereby achieving global financial stability. The implementation of the above IMF code is considered to be beneficial, because it contributes to further enhancing transparency in the monetary policy frameworks.

The attached report describes the Bank's efforts on the enhancement of transparency in monetary policy in line with these international initiatives, based on the IMF code.

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SELF-ASSESSMENT OF TRANSPARENCY PRACTICES FOR MONETARY POLICY

1. Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy

1.1 The ultimate objective(s) and institutional framework of monetary policy should be clearly defined in relevant legislation or regulation, including, where appropriate, a central bank law.

- The ultimate objectives and institutional framework of monetary policy are clearly defined in the "Bank of Japan Law" (hereinafter "BoJ Law") and other relevant legislation. They are published in the official gazette and can be obtained in their entirety (in Japanese) from the Bank of Japan web site (<http://www.boj.or.jp>). Policy decisions by the Bank of Japan based on these laws and regulations are announced to the press and posted on the web site (in this document, "publish" refers to both press announcements and web site posting unless specifically noted otherwise).

1.1.1 The ultimate objective(s) of monetary policy should be specified in legislation and publicly disclosed and explained.

- The ultimate objectives of monetary policy are clearly specified in the BoJ Law.
- The BoJ Law defines the control of currency and money, i.e., the conduct of monetary policy, as one of the objectives of the Bank of Japan (Art. 1). In addition, "Currency and monetary control shall be aimed at, through the pursuit of price stability, contributing to the sound development of the national economy." (Art. 2)

1.1.2 The responsibilities of the central bank should be specified in legislation.

- The responsibilities of the Bank of Japan are clearly specified in the BoJ Law.
- The BoJ Law defines two objectives of the Bank of Japan: 1) to issue banknotes and to carry out currency and monetary control as the central bank of Japan; and 2) to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of an orderly financial system (Art. 1).

1.1.3 The legislation establishing the central bank should specify that the central bank has the authority to utilize monetary policy instruments to attain the policy objective(s).

- BoJ Law clearly specifies the scope of business in which the Bank of Japan may engage for the purpose of achieving the objectives of monetary policy (Art. 33). In other words, the Bank of Japan may use discounting on bills, making loans, buying

and selling of bonds, and other ordinary operations to achieve the objectives of monetary policy.¹ The specific methods utilized in these operations are determined by the Policy Board and are published in the form of the rules for conducting the Bank's business.

1.1.4 Institutional responsibility for foreign exchange policy should be publicly disclosed.

- The Minister of Finance has the responsibility for foreign exchange policy. The Bank of Japan, acting as an agent for the Minister of Finance to handle government financial operations, buys and sells foreign exchange on the accounts of the government in order to stabilize the exchange rate of the national currency. This division of responsibilities is clearly specified in relevant legislation ("Law Establishing the Ministry of Finance," Art. 4, s. 47-54; "Foreign Exchange Fund Special Account Law," Art. 6; BoJ Law, Art. 36, 40, para. 2).

1.1.5 The broad modalities of accountability for the conduct of monetary policy and for any other responsibilities assigned to the central bank should be specified in legislation.

- The BoJ Law specifies that the Bank of Japan's autonomy regarding currency and monetary control shall be respected, while requiring the Bank of Japan to endeavor to clarify to the public the content of its decisions, as well as its decision-making process concerning currency and monetary control (i.e., monetary policy) (Art. 3).
- The BoJ Law requires the Bank of Japan to produce and publish minutes and transcripts for each "Monetary Policy Meeting" at which the Policy Board makes decisions on monetary policy matters (Art. 20). In accordance with the provisions in this article, the Bank publishes minutes approximately one month after meetings and transcripts ten years after. The Bank of Japan publishes decisions made at the Monetary Policy Meetings on the same day that they are made, and calls press conferences for the chairman of the Policy Board (Governor of the Bank) if there are any changes in monetary policy.

In addition, the BoJ Law requires the Bank of Japan to submit to the Diet the "Semiannual Report on Currency and Monetary Control" (containing decisions of Monetary Policy Meetings and operations conducted by the Bank of Japan based on those decisions). The law also requires the Bank to endeavor to explain the report (Art. 54), and the Bank of Japan therefore furnishes the Diet with explanations of the background and concepts underlying monetary policy and the discussions held in the Monetary Policy Meetings over the past half year (the first or second half of the fiscal year). (The report is published at the same time it is submitted to the Diet.)

¹ The Bank of Japan may also conduct other business when necessary, conditional upon the authorization of the Minister of Finance and the Commissioner of the Financial Services Agency (BoJ Law, Art. 43). Note that the Commissioner of the Financial Services Agency has been entrusted with the competence by the Prime Minister (BoJ Law, Art. 61-2).

Furthermore, the BoJ Law requires the representatives of the Bank of Japan to attend sessions of the Houses of the Diet and their committees and to explain the state of the business operations and property when so requested, and the Bank of Japan does so.

- The Bank of Japan in principle publishes the agenda on the same day for decisions taken by the Policy Board on matters other than monetary policy. Decisions are also noted and published in the "Monthly Report of the Policy Board of the Bank of Japan" ("Rules of Procedures for the Policy Board Meetings," Art. 7).
- The Bank of Japan publishes the "Outline of Business Operations" containing an overview of individual business operations for the fiscal year (including matters other than monetary policy), Financial Statements, and an Annual Report on the Settlement of Accounts, as required by the BoJ Law (Art. 55).

1.1.6 If, in exceptional circumstances, the government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.

- The government does not have the authority to override decisions made by the Bank of Japan.
- The BoJ Law allows the Minister of Finance and the minister for economic and fiscal policy (or staff members designated by them as their delegates) to: 1) attend Monetary Policy Meetings and express views (or have their delegates express their views) (BoJ Law, Art. 19, para.1); 2) submit proposals regarding monetary control matters; and 3) request postponement of a vote on monetary control matter until the next Monetary Policy Meeting (Art. 19, para. 2). The Policy Board has the right to decide whether or not to accommodate requests for postponement (item 3 above) (BoJ Law, Art. 19, para. 3).

1.1.7 The procedures for appointment, terms of office, and any general criteria for removal of the heads and members of the governing body of the central bank should be specified in legislation.

- The BoJ Law clearly specifies the procedures for appointment, terms of office, and criteria for removal of the Governor of the Bank of Japan and the members of the Policy Board, which constitutes its highest decision-making body.
- The Policy Board has a total of nine members, of whom the Governor and two Deputy Governors are appointed by the Cabinet with the approval of both the House of Representatives and the House of Councilors of the Diet. Six other members are appointed by the Cabinet with the approval of the two houses of the Diet from among those with academic expertise or experience including experts on the economy and/or finance (Art. 23). The term of office for all Policy Board members is five years (may be reappointed; Art. 24). The Policy Board members shall not be

dismissed during their term of office against their will, unless any of the reasons prescribed by the BoJ Law applies to them, including adjudication of bankruptcy. (Art. 25).

1.2 The institutional relationship between monetary and fiscal operations should be clearly defined.

- The institutional relationship between monetary and fiscal operations is clearly defined in the BoJ Law, the Public Finance Law, and other relevant legislation (See below for details).

1.2.1 If credits, advances, or overdrafts to the government by the central bank are permitted, the conditions when they are permitted, and any limits thereof, should be publicly disclosed.

- The Public Finance Law (Art. 5) prohibits the Bank of Japan in principle from underwriting government bonds and making loans to the government. However, this does not apply to "special cases" within an amount determined by the Diet resolution (Public Finance Law, proviso to Art. 5, and BoJ Law, Art. 34, s. 1, 3). At present, "special cases" are limited to underwriting government bonds issued to refund maturing government bonds held by the Bank of Japan as a result of monetary operations. The amount here is disclosed to the public in the "General Provisions of the Government Budget²" submitted to the Diet.
- In addition to the above, the Bank of Japan may: 1)"make loans, without collateral, to finance the government's temporary borrowing permitted under the Public Finance Law or other laws concerning the government's accounting" (BoJ Law, Art. 34, s. 2 and Public Finance Law Art. 7, para. 1 [The latter provision covers the General Accounts only. There are similar legislative provisions for the Special Accounts]), and 2)"subscribe or underwrite Ministry of Finance bills and other bills issued for stopgap financing" (hereafter "Financing Bills (FBs)"; BoJ Law, Art. 34 s. 4, and Fiscal Law, Art. 7, para. 1 in the case of Ministry of Finance Bills [There are similar legislative provisions for other type of FBs]).³

As an example of subscribing to or underwriting Ministry of Finance bills, the Public Finance Law requires that all FBs⁴ and Bank of Japan borrowings, "be

2 The General Provisions provide general rules to be commonly applied to all of the components of the government budget.

3 There are three types of FBs: (1) Ministry of Finance bills, which are issued for the General Account; (2) Food bills, issued for the Food Management Special Account; and (3) Foreign Exchange Fund bills, issued for the Foreign Exchange Fund Special Account. These were previously issued separately as three distinct types of 60-day discount bills, but since fiscal 1999, the distinction at issuance has been abolished.

4 In April 1999, the method of issuing FBs has changed from "public offering at fixed rates with the BoJ underwriting the remainder" to a public tender system. Within this new framework, the BoJ may, in exceptional cases, underwrite FBs should there be unsold FBs remaining after the public tender, or should there be an unexpected demand for funds on the treasury. FBs exceptionally underwritten by

redeemed with revenues from the current fiscal year" (Art. 7, para. 2). The ceiling is "determined each fiscal year by Diet resolution" (Art. 7, para. 3). The ceiling must also be noted in the "General Provisions of the Government Budget" (Art. 22).

- The Bank of Japan publishes "Principal Terms and Conditions for Transactions with the Government" decided by the Policy Board in order to ensure appropriate administration of operations between itself and the government. There are three basic procedural areas defined: 1) handling of maturing government bonds held by the Bank of Japan (excluding FBs), e.g. the underwriting for refunding purposes requires prior Policy Board approval each fiscal year; 2) handling of underwriting and redemption of FBs, including yields at which they are underwritten, and 3) handling of government deposits, including remuneration method.

1.2.2 The amounts and terms of credits, advances, or overdrafts to the government by the central bank and those of deposits of the government with the central bank should be publicly disclosed.

- The Bank of Japan publishes the amount of credits it has extended to the government in "Monetary Base and the Bank of Japan's Transactions"⁵ statistics (published on the fifth business day of each month).

The government deposits with the central bank⁶ are also published in the "Monetary Base and the Bank of Japan's Transactions" statistics and in the "Bank of Japan Accounts" that constitutes a summary balance sheet published every ten days as of the end of 10th, 20th, and the last day of each month.

1.2.3 The procedures for direct central bank participation in the primary markets for government securities, where permitted, and in the secondary markets, should be publicly disclosed.

- The Bank of Japan does not in principle participate directly in the primary market for government securities. Procedures for underwriting government securities in exceptional cases are publicly disclosed (See 1.2.1 above).
- The Bank of Japan trades government bonds with financial institutions and others in the secondary market for the purpose of monetary operations, as provided for in the BoJ Law. The basic framework and procedures are decided by the Policy Board and are publicly disclosed ("Principal Terms and Conditions for the Outright Purchase/Sale of Short-term Japanese Government Securities", "Principal Terms and Conditions for the Purchase/Sale of Short-term Japanese Government Securities under Repurchase Agreements", "Principal Terms and Conditions for the Outright

the Bank of Japan are to be redeemed as quickly as possible from funds raised through publicly tendered issues.

⁵ See "A Guide to 'Monetary Base and the Bank of Japan's Transactions' " (Bank of Japan Policy Planning Office) for summaries of these statistics and explanations of their features.

⁶ The Bank of Japan handles treasury funds under the BoJ Law (Art. 35), the Public Accounting Law, and other relevant legislation. Treasury funds are managed as "government deposits" at the Bank of Japan.

Purchase/Sale of Japanese Government Bonds", "Principal Terms and Conditions for the Borrowing of Japanese Government Bonds against cash collateral", and other provisions).

1.2.4 Central bank involvement in the rest of the economy (e.g., through equity ownership, membership on governing boards, procurement, or provision of services for fees) should be conducted in an open and public manner on the basis of clear principles and procedures.

- Principles and procedures have been defined and published for Bank of Japan involvement in the rest of the economy.

There are cases in which the Bank of Japan subscribes to other economic entities' capital (for example, the Deposit Insurance Corporation of Japan). These cases are handled in accordance with the provisions of the BoJ Law, requiring a decision of the Policy Board and the authorization or approval of Minister of Finance and Commissioner of the Financial Services Agency. The fact of capital subscription is publicly disclosed, and name of the entities and amounts of subscription are published in the balance sheet and in an attached schedule that is found in the "Outline of Business Operations", and in other documents.

The BoJ Law (Art. 26) in principle prohibits Bank of Japan executives (other than Counsellors) from engaging in other paid positions. However, executives may serve concurrently other institutions when they are deemed by the Policy Board to meet all of the concurrent service conditions set out in the "Rules Regarding Ethical Disciplines"⁷. The Rules require that concurrent service not impair appropriate execution of the responsibilities of the executive. There have been cases of Bank executives being appointed to the decision-making bodies of other economic entities on an unpaid basis, and there are clear legislative provisions governing nomination rules in these cases.⁸

1.2.5 The manner in which central bank profits are allocated and how capital is maintained should be publicly disclosed.

- The manner in which the Bank of Japan's profits are allocated and capital is maintained is clearly defined in the BoJ Law (Art. 53) and other relevant legislation,

⁷ A code of conduct for Bank of Japan executives and staffs decided by the Policy Board in accordance with Article 32 of BoJ Law to ensure appropriate execution of their responsibilities (see 4.4 below).

⁸ Under the "Law to Establish the Cabinet Office," the Governor of the Bank of Japan is, *ex officio*, a member of the Cabinet's Council for Financial Crisis, and is currently appointed by the Prime Minister to the Council on Economic and Fiscal Policy. One of the Executive Directors of the Bank of Japan is a member of the decision-making bodies of the Agricultural and Fishery Co-operative Savings Insurance Corporation, the investor protection funds, and the policyholder protection corporations (The appointment is made by the head of each entity with the approval of the competent ministers). Furthermore, under the Deposit Insurance Law, an Executive Director of the Bank appointed by the Bank of Japan Policy Board may attend meetings of the decision-making body of the Deposit Insurance Corporation (Policy Board) and express opinions thereto.

in "Accounting Rules", decided by the Policy Board and publicly disclosed, and also in the "Significant Accounting Policies" section of the financial statements.

The BoJ Law sets out basic rules regarding reserve retention and distribution to the holders of Subscription Certificates when the Bank generates surpluses. The "Accounting Rules" (Art. 18) clarify standards for provisioning to the reserve against possible losses on securities transactions and/or foreign exchange transactions, as well as for legal reserves. It also contains guidelines on capital adequacy levels.

1.3 Agency roles performed by the central bank on behalf of the government should be clearly defined.

- The Bank of Japan basically plays two roles for the government as the central bank of Japan: 1) handling of Treasury funds, and 2) handling of the affairs of the government relating to currency and finance (BoJ Law, Art. 35 and 36). Operations performed by the Bank of Japan on behalf of the government include: treasury operations, government bond operations, custodial services for government-held securities, and foreign exchange market intervention as an agent of the government. The role of the Bank of Japan in these operations is clearly defined in the BoJ Law and other relevant legislation.

1.3.1 Responsibilities, if any, of the central bank in (i) the management of domestic and external public debt and foreign exchange reserves, (ii) as banker to the government, (iii) as fiscal agent of the government, and (iv) as advisor on economic and financial policies and in the field of international cooperation, should be publicly disclosed.

- The BoJ Law clearly defines roles for the Bank of Japan as the central bank of Japan that include: 1) handling of treasury funds in compliance with relevant laws and regulations (Art. 35), and 2) handling of the affairs of the government relating to currency and finance in compliance with relevant laws and regulations (Art. 36).
- For handling of treasury funds, the Bank of Japan's responsibilities are clearly defined in the BoJ Law (Art. 35), the "Public Accounting Law" (Art. 34), which sets the framework for the government's accounting, and other relevant legislation.

The Bank of Japan has three specific responsibilities: 1) administration of receipts and payments of funds associated with government revenues and expenditures; 2) funds accounting services to record receipts and payments to government deposit accounts corresponding to revenues and expenditures; and 3) calculation and tabulation services to organize and tabulate revenues and expenditures for individual government agencies and councils and to provide inquiry and confirmation services to government agencies.

- For handling of the affairs of the government relating to currency and finance, the Bank of Japan's responsibilities are clearly defined in relevant legislation that

include: 1) services relating to government bonds, 2) services for securities owned or held by the government, and 3) administrative management services for government foreign exchange funds. These are described more fully below.

- The Bank of Japan's responsibilities for government bond services are defined in the BoJ Law (Art. 36), the "Law Concerning Government Bonds", and other relevant legislation.

The Bank of Japan's specific responsibilities include: 1) government bond issuing services (notification of bidding, acceptance of bids, receipt of funds in payment, and other services); 2) government bond registration services; and 3) government bond principal and interest payment services (government bond interest payments and redemption, collection of government security interest coupons and certificates, and other services).

- The Bank of Japan's responsibilities for securities owned or held by the government are defined in the BoJ Law (Art. 36), the Public Accounting Law (Art. 35), and other relevant legislation. Specific services include custodial, receipt and payment, bookkeeping, and calculation and tabulation services for securities owned or held by the government.
- The BoJ Law (Art. 36 and 40) and the Foreign Exchange Fund Special Account Law (Art. 6) authorize the Bank of Japan to act as an agent commissioned by the government (Minister of Finance) to intervene in the foreign exchange markets for the purpose of stabilizing the exchange rate of the national currency, using funds held in the "Foreign Exchange Fund Special Account" of the government.

Assets held at the Foreign Exchange Fund Special Account, together with foreign currency assets held by the Bank of Japan on its own account, constitute the foreign exchange reserves of Japan. The Foreign Exchange Fund Special Account Law gives the Ministry of Finance the responsibility for the management of assets held at Foreign Exchange Fund Special Account. The Bank of Japan is commissioned by the Ministry of Finance to provide accounting services in accordance with this law.⁹

1.3.2 The allocation of responsibilities among the central bank, the ministry of finance, or a separate public agency, for the primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities, should be publicly disclosed.

- The Law Concerning Government Bonds and other relevant legislation allocate responsibilities between the Ministry of Finance and the central bank for primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trading in government securities (government bonds).

⁹ For reference, the foreign exchange assets held by the Bank of Japan itself are solely managed by the Bank of Japan under the "Basic Guidelines for the Management of External Assets Held by Bank of Japan" decided by the Policy Board. An outline of the procedures is publicly disclosed.

The Bank of Japan performs most of the services from primary market issuing to redemption under a commission from the government in accordance with this law and Ministry of Finance ordinances issued under the law (including the "Bank of Japan's Rules for Handling of Government Bonds") (see 1.3.1 above). Also, the Bank of Japan operates the JGB Book-entry System (system for transferring Japanese Government Securities) under an authorization of the Commissioner of the Financial Services Agency and the Minister of Finance based on the BoJ Law (Art. 39).

Meanwhile, the government (Ministry of Finance) determines the eligibility requirements for participating in bidding on primary issues of government securities (government bonds) and other matters related to primary issues (name and number, legal basis for each issue, issuing method, and other issuing conditions).

2. Open Process for Formulating and Reporting Monetary Policy Decisions

2.1 The framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be publicly disclosed and explained.

- The institutional framework for achieving the objectives of monetary policy is defined in the BoJ Law and other relevant legislation.
- The instruments of monetary policy are clearly defined in the BoJ Law as the Bank's business in which the Bank of Japan is permitted to engage for the purpose of achieving monetary policy (Art. 33). The procedures for monetary policy operations and the basic rules for the selection of counter parties and the execution of transactions are defined in the rules for conducting the Bank's business and other documents stating principal terms and conditions (see 1.2.3 above).
- The targets used in the conduct of monetary policy and the level of targets for money market operations are published immediately after Monetary Policy Meetings, regardless of whether or not changes have been made. If there are changes, a statement is also released explaining the background and intention of the changes.

2.1.1 The procedures and practices governing monetary policy instruments and operations should be publicly disclosed and explained.

- The procedures and practices governing monetary policy instruments and operations are decided by the Policy Board and are published.

The basic framework for monetary operations are defined and published in the principal terms and conditions for each operation (see 1.2.3 above). The Bank of Japan's market operations are in principle conducted through competitive auction. The Bank publishes the amount of competitive bid, the amount of successful bid, pro-rata rate or non-pro-rata rate, average successful bid rate, allocation on a pro-rata basis rate, and the method of determining the amount of successful bid.

The procedure through which the counter parties of operations are selected is defined and published in the "Selection Procedure for Counter Parties". Application for operation counter parties are regularly submitted and considered in light of the Selection Procedure, and the results are published.

The Bank maintains the Complementary Lending Facility as a permanent facility, and the procedures for it are published as the "Principal Terms and Conditions for the Complementary Lending Facility", which is decided by the Policy Board. The "Guidelines on Eligible Collateral", which contains the types of collateral accepted against loans and other types of credit as well as collateral pricing rules, is also decided by the Policy Board and is published.

- Easy-to-read explanations of the procedures and practices governing monetary policy instruments and operations (in Japanese) can be found in *Atarashii Nippon Ginko – Sono Kinou to Gyomu* (Functions and Operations of the Bank of Japan) (edited by the Bank of Japan Institute for Monetary and Economic Studies (IMES), December 2000. The full text is available from the IMES web site [<http://www.imes.boj.or.jp/>]).

2.1.2 The rules and procedures for the central bank's relationships and transactions with counter parties in its monetary operations and in the markets where it operates should be publicly disclosed.

- The Bank of Japan selects operation counter parties regularly in light of the "Selection Procedure for Counter Parties" established for each type of operation. These basic procedures include selection criteria, selection frequency, and other rules to which operation counter parties must adhere. The results of the selection (a list of selected operation counter parties) are published.

2.2 Where a permanent monetary policy-making body meets to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, information on the composition, structure, and functions of that body should be publicly disclosed.

- Decision making for the Bank of Japan is the responsibility of the Policy Board, which is a permanent body and the highest decision-making entity in the Bank. The Policy Board discusses monetary policy at regular Monetary Policy Meetings that are in principle held twice a month.

The BoJ Law and a cabinet order (Bank of Japan Law Enforcement Order) clearly define the organization and functions of the Policy Board. The Policy Board has formulated and published "Rules of Procedures for Policy Board Meetings" as required under Art. 18 of the BoJ Law.

2.2.1 If the policy-making body has regularly scheduled meetings to assess underlying economic developments, monitor progress toward achieving its

monetary policy objective(s), and formulate policy for the period ahead, the advance meeting schedule should be publicly disclosed.

- The Policy Board is a permanent body and the highest decision-making entity at the Bank of Japan. It holds regular Monetary Policy Meetings during which it assesses economic conditions, monitors the achievement of monetary policy objectives, and determines monetary policy.

The schedule for Monetary Policy Meetings is approved during the Monetary Policy Meetings held each March, June, September, and December, and is published in a half-year term beginning with the next month (Rules of Procedures for Policy Board Meetings, Art. 9).

2.3 Changes in the setting of monetary policy instruments (other than fine-tuning measures) should be publicly announced and explained in a timely manner.

- The Bank of Japan publishes all decisions immediately after Monetary Policy Meetings (even when there have been no changes to monetary policy).

The Bank of Japan issues a statement immediately after Monetary Policy Meetings in the event of a change in the monetary policy, in which it explains the background and intentions behind the change. The bank also holds a special press conference on the same day, at which the Governor, as the chair of the Policy Board, explains the changes that have been made to monetary policy and answers questions. Summaries of press conferences held by the Governor are posted on the Bank of Japan web site the next business day.

2.3.1 The central bank should publicly disclose, with a pre-announced maximum delay, the main considerations underlying its monetary policy decisions.

- The Bank of Japan publishes all decisions immediately after Monetary Policy Meetings even when there have been no changes to monetary policy.

The Bank of Japan issues a statement immediately after Monetary Policy Meetings in the event of a change in the monetary policy, in which it explains the background and thinking behind the change.

- In the first Monetary Policy Meeting each month, the Policy Board determines the "Bank's View" of economic and monetary developments that will serve as the basis for monetary policy decisions. This View is published in the "Monthly Report of Recent Economic and Financial Developments" and is made available to the public the next business day.
- A regular press conference is held two business days after the first Monetary Policy Meeting of each month, at which the Governor of the Bank of Japan explains monetary policy (including cases where there are no changes to policy) and answers questions. (As described above, special press conferences are held immediately after

Monetary Policy Meetings in the event of changes in monetary policy.) Summaries of press conferences held by the Governor are posted on the web site the next business day.

- The Bank of Japan publishes minutes of Monetary Policy Meetings approximately one month after meetings and transcripts ten years after.

2.4 The central bank should issue periodic public statements on progress toward achieving its monetary policy objective(s) as well as prospects for achieving them. The arrangements could differ depending on the monetary policy framework, including the exchange rate regime.

- At the Bank of Japan, Monetary Policy Meetings discuss economic and financial conditions and outlooks, the effects so far of monetary policy, the options for monetary policy, and the effects that can be expected from them. Minutes of these discussions are published approximately one month after the Monetary Policy Meeting.
- The Bank of Japan furnishes the Diet with a "Semiannual Report on Currency and Monetary Control" twice a year (June and December), in which it reviews monetary policy for the past half year (the first half or the second half of the fiscal year) and explains the background and thinking behind policy and the discussions held by the Policy Board. (This report is published at the same time it is submitted to Diet. See 1.1.5 above.)
- The "Outlook and Risk Assessment of the Economy and Prices" published twice a year by the Bank of Japan discusses the economic and price outlook and risks from a longer-term viewpoint on the assumption that the present monetary policy is maintained. The assessment includes reference tables on the Policy Board Members' forecasts (year-on-year growth in annual averages) for real GDP, the domestic Wholesale Price Index, and the Consumer Price Index (excluding fresh food).

2.4.1 The central bank should periodically present its monetary policy objectives to the public, specifying, inter alia, their rationale, quantitative targets and instruments where applicable, and the key underlying assumptions.

- As described in 2.4 above, the Bank of Japan regularly explains the background and thinking behind its monetary policy stance, the key underlying assumptions it uses, and the levels of major targets for market operations.

2.4.2 The central bank should present to the public on a specified schedule a report on the evolving macroeconomic situation, and their implications for its monetary policy objective(s).

- The Bank of Japan publishes the "Bank's View" of economic and monetary developments once a month. This View is determined by the Policy Board and forms the basis for monetary policy decisions. The View is in the "Monthly Report

of Recent Economic and Financial Developments", which is published the next business day after the first Monetary Policy Meeting of the month. In addition to the "Bank's View," the Monthly Report of Recent Economic and Financial Developments also contains detailed analyses of developments in the real economy and financial markets.

- The "Outlook and Risk Assessment of the Economy and Prices" published twice a year by the Bank of Japan discusses the economic and price outlook and risks from a longer-term viewpoint and includes reference tables on the Policy Board Members' forecasts (year-on-year growth in annual averages) for real GDP, the domestic Wholesale Price Index, and the Consumer Price Index (excluding fresh food).

2.5 For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favor of public consultations, within an appropriate period.

- The Bank of Japan conducts regular interviews with operation counter parties to seek suggestions and opinions on the way in which operations are conducted.

When institutions apply for operation counter parties, instructions on application forms encourage applicants to contact the Bank of Japan in writing if they have opinions on the counter party selection criteria and procedures.

- The Bank of Japan provides an adequate grace period from public announcement to implementation of new or modified operations procedures when they would have a significant impact on counter parties, and during this period it is customary to consult with and seek opinions from the market participants.

2.6 The regulations on data reporting by financial institutions to the central bank for monetary policy purposes should be publicly disclosed.

- The Bank of Japan requires financial institutions to furnish data for the purpose of preparing money stock statistics, deposit and lending statistics, and other statistics. These data are not collected under statutory authority. Rather, it is requested by the Bank of Japan and provided with the consent and cooperation of the counter party.
- The Bank of Japan explains the reporting forms and methods of compilation for major data reported by financial institutions in the "Guideline on filling the survey sheet of deposits, vault cash and loans and others".
- The Bank of Japan also conducts the "Short-term Economic Survey of Enterprises in Japan" (*Tankan* Survey) and the "Corporate Service Price Index". Financial institutions are also covered in these surveys, as respondents, and the surveys are conducted under the provisions of the Statistics Law (Art. 8) and other legislation, which require notification to the government (Minister of Public Management, Home Affairs, Posts and Telecommunications) of the purpose and content of the survey. Reporting forms and the like are published.

3. Public Availability of Information on Monetary Policy

3.1 Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards.

- Bank of Japan data publication is consistent with the "Special Data Dissemination Standards" (SDDS)¹⁰ published by the IMF.

The Bank of Japan provides SDDS-related data to the IMF's "Dissemination Standards Bulletin Board" (DSBB; <http://dsbb.imf.org>) in five areas: 1) Producer Prices (Wholesale Price Index), 2) Banking Sector (Deposit/Lending Statistics and money stock statistics), 3) Central Banking (Monetary Base and Bank of Japan Accounts), 4) Interest Rates (Official Discount Rate), and 5) Foreign Exchange Rates.

3.2 The central bank should publicly disclose its balance sheet on a pre-announced schedule and, after a pre-determined interval, publicly disclose selected information on its aggregate market transactions.

- The Bank of Japan performs its accounting and publishes its Financial Statements in accordance with the BoJ Law, the Bank of Japan Law Enforcement Order, the Bank of Japan Law Enforcement Regulation, the By-Law of the Bank of Japan, and the "Accounting Rules" decided by the Policy Board. These laws and regulations clearly define the timing of balance sheet preparation and publication.

The BoJ Law requires the Bank of Japan to prepare Balance Sheets for each six-month period, covering from April to September and from October to March, respectively. These Financial Statements, with the Executive Auditors' opinions attached, must be approved by the Minister of Finance within two months after the end of the relevant six-month period. The Bank of Japan must make these documents available at its head office and branches without delay after they have been approved by the Minister of Finance, and must allow public perusal thereof for a period determined as appropriate by the Policy Board (Art. 52).

¹⁰ SDDS is an international standard for financial and economic data publication formulated by the IMF in 1996. It applies to countries that have or intend to have access to international capital markets. SDDS describes best practices for four areas: 1) data (scope, periodicity, timeliness); 2) public accessibility; 3) integrity (publication of rules regarding data collection and publication, guidelines on data revision); and 4) quality (information on data processing methods and information sources etc.). The IMF allows the 50 countries that have announced their participation in SDDS to indicate that they are "SDDS Compliant" on their web sites. In addition to the Bank of Japan, the Cabinet Office, Ministry of Economy, Trade and Industry, Ministry of Health, Labour and Welfare, and Ministry of Finance participate in and cooperate with SDDS, with the Ministry of Public Management, Home Affairs, Posts and Telecommunications serving as liaison. Other IMF data publication standards besides SDDS include the "General Data Dissemination Standards" (GDDS) that provide a less strict standard covering all countries.

- Detailed information is also published on Bank of Japan transactions, including monetary control operations, as described below (see 3.2.2).

3.2.1 Summary central bank balance sheets should be publicly disclosed on a frequent and pre-announced schedule. Detailed central bank balance sheets prepared according to appropriate and publicly documented Accounting Rules should be publicly disclosed at least annually by the central bank.

- The Bank of Japan discloses a summary of the Balance Sheet as of the end of 10th, 20th, and the last day of each month by publishing the "Bank of Japan Accounts" in the official gazette and by posting it to the Bank's web site.
- The Bank of Japan prepares detailed Balance Sheets for each six-month period (April to September and October to March). (It also prepares Profits and Losses Statements for both six-month period and each fiscal year.) These Financial Statements, with the Executive Auditor's opinions attached, must be approved by the Minister of Finance within two months after the end of the relevant six-month period. The Bank of Japan must make these documents available at its head office and branches without delay after they have been approved by the Minister of Finance, and must allow public perusal thereof for a period of time determined as appropriate by the Policy Board (BoJ Law, Art. 52 para. 3). This period is defined as five years in the "Accounting Rules"(Art. 20 para. 2). These documents (in Japanese) are also included in the "Monthly Report of the Policy Board of the Bank of Japan and the Outline of Business Operations".

3.2.2 Information on the central bank's monetary operations, including aggregate amounts and terms of refinance or other facilities (subject to the maintenance of commercial confidentiality) should be publicly disclosed on a pre-announced schedule.

- The Bank of Japan publishes sources of changes in current account balances at Bank of Japan, in more detail, projections on the previous business day and results at the end of each business day.

The Bank of Japan's operations are in principle conducted through competitive auction. And the results thereof are published every time (for the media, and every month on the web site), including the amount of competitive bid, the amount of successful bid, pro-rata rate or non-pro-rata rate, average successful bid rate, allocation on a pro-rata basis rate, and the method of determining the amount of successful bid. (See 2.1.2.)

- The Bank of Japan publishes stock and flow amounts of its lending each month in the "Monetary Base and the Bank of Japan's Transactions" statistics described above. These statistics contain a breakdown of the Bank's lending as: loans performed as regular business (loans pursuant to Article 33 of the BoJ Law), loans requested by the Commissioner of the Financial Services Agency or the Minister of Finance in order to maintain an orderly financial system (loans pursuant to Article

38 of the BoJ Law), and loans to the Deposit Insurance Corporation, and others. This information can be also found in the schedule attached to the Bank's Financial Statements.

3.2.3 Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by the central bank should be publicly disclosed through an appropriate central bank statement when such disclosure will not be disruptive to financial stability.

- When the Bank of Japan provides loans pursuant to Article 38 of the BoJ Law following a request by the Commissioner of the Financial Services Agency or the Minister of Finance for the maintenance of an orderly financial system (so-called "special loan" by the Bank of Japan), the Bank publicly announces on the day of its decision that it extends special loan along with the name of the borrower. The Bank also publishes the terms and conditions of the loan in a timely manner. The Bank of Japan publishes the total outstanding amount of special loans by the Bank of Japan monthly in the above-mentioned "Monetary Base and the Bank of Japan's Transactions" statistics. The "Outline of Business Operations" contains further explanations of the borrowers of special loans, the terms and conditions of the loans and their repayment status. Reserve policies and the actual amount of reserves against possible losses on special loans are published in the Financial Statements and in the "Significant Accounting Policies" section that is attached to the Financial Statements.

3.2.4 Information about the country's foreign exchange reserve assets, liabilities and commitments by the monetary authorities should be publicly disclosed on a pre-announced schedule, consistent with the International Monetary Fund's Data Dissemination Standards.

- The government's foreign exchange reserves and other foreign currency assets, short-term net drains on foreign currency assets, and contingent short-term net drains on foreign currency assets are published by the Ministry of Finance each month in a manner consistent with the IMF's data dissemination standards (SDDS).

Note: The Ministry of Finance publishes on a quarterly basis total and daily amount of foreign exchange market intervention for the previous quarter.

3.3 The central bank should establish and maintain public information services.

- The BoJ Law requires the Bank to clarify to the public the content of its decisions as well as its decision-making process regarding currency and monetary control (Art. 3 para. 2), and defines a specific framework for doing so, including, as discussed above, publication of minutes and transcripts of Monetary Policy Meetings (Art. 20), submission of the "Semiannual Report on Currency and Monetary Control" to the Diet (Art. 54), and publication of the "Outline of Business Operations" (Art. 55).

In line with the principles of the BoJ Law, the Bank of Japan seeks to ensure a highly transparent policy making and operations by taking further steps toward disclosure beyond those required by law. These include publication in principle of all Policy Board decisions and scheduling of Governor's regular press conferences, dissemination of information over the Bank's web site, financial education activities in conjunction with the Central Council for Financial Information, and explanations of the Bank of Japan's policy framework and operations, and provision of financial information through a wide range of opportunities and means.

- In order to facilitate active public information services, the Bank of Japan has set up several sections designated for them. The Press Division in the Secretariat of the Policy Board is responsible for announcements to the media and business community. The Diet Liaison Division in the same office provides liaison functions for Diet members. The Public Relations Department responds to requests for information from the general public, manages the web site, and publishes wide variety of documents (including English-language documents).

3.3.1 The central bank should have a publications program, including an Annual Report.

- In addition to publishing all of the materials required by the BoJ Law (minutes and transcripts of Monetary Policy Meetings, "Semiannual Report on Currency and Monetary Control", the "Outline of Business Operations" and others. See 1.1.5), the Bank of Japan publishes the Monthly Report of Recent Economic and Financial Developments and a Semiannual (April and October) "Outlook and Risk Assessment of the Economy and Prices", which also discuss the conduct of monetary policy. Policy Board decisions not directly linked to monetary policy are in principle published in the *Nippon Ginko Seisaku Iinkai Geppo* (Monthly Report of the Policy Board of the Bank of Japan) of an explanation of agenda items and decisions taken.
- The Bank of Japan publishes survey and research findings in *Nippon Ginko Chousa Geppo* (Bank of Japan Monthly Bulletin) and "Monetary and Economic Studies" in Japanese, and "Annual Review" and "Bank of Japan Quarterly Bulletin" in English. The Bank also compiles and publishes a variety of statistics and statistical publications.
- The Bank of Japan announces a publication schedule at the end of each week covering the next four weeks. For statistical publications, the Bank of Japan announces on its web site the publication schedule for the next six months at the end of March, June, September, and December.

3.3.2 Senior central bank officials should be ready to explain their institution's objective(s) and performance to the public, and have a presumption in favor of releasing the text of their statements to the public.

- The Bank of Japan schedules a regular press conference for the Governor two business days following the first Monetary Policy Meeting of the month. It also holds special press conferences for the Chairman of the Policy Board (Governor) immediately after policy changes (and at other times whenever necessary). Summaries of these press conferences are posted on the web site the next business day.
- The members of the Policy Board (Governor, Deputy Governors, and other Policy Board members) regularly give speeches and attend meetings with local business communities throughout the country, and usually hold press conferences after these meetings. They also respond actively and positively to requests for interviews from the media. Speech texts usually become available quickly after the speeches, and press conference summaries are also published the next business day.

3.4 Texts of regulations issued by the central bank should be readily available to the public.

- The Bank of Japan does not have any legal regulatory authority and does not formulate legally-binding regulations. However, the "Law Concerning Reserve Requirement System" (Art. 4, para. 1) and other relevant legislation give the Bank the authority to determine, alter, and abolish reserve requirement ratio, the base dates, and others; and the "Temporary Interest Rates Adjustment Law" (Art. 2) gives it the authority to determine the maximum interest rate that financial institutions are allowed to offer/charge. The Policy Board makes these decisions (BoJ Law, Art. 15 para. 1, s. 3, Schedule to the BoJ Law, Art. 6). Policy Board decisions are published in the official gazette and on the web site to ensure public access.

4. Accountability and Assurances of Integrity by the Central Bank

4.1 Officials of the central bank should be available to appear before a designated public authority to report on the conduct of monetary policy, explain the policy objective(s) of their institution, describe their performance in achieving their objective(s), and, as appropriate, exchange views on the state of the economy and the financial system.

- As described above, the Bank of Japan furnishes the Diet with a "Semiannual Report on Currency and Monetary Control" as required in Article 54 of the BoJ Law, and provides explanations of this report (see 1.1.5). Based on the same article of the BoJ Law, the Bank responds to requests from the Diet for explanations of the status of its business operations and property.

4.2 The central bank should publicly disclose audited financial statements of its operations on a pre-announced schedule.

- As described below, the Bank of Japan publishes Financial Statements audited by its Executive Auditors according to a pre-announced schedule as required in the BoJ Law and other relevant legislation.

4.2.1 The financial statements should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.

- Executive Auditors perform audits of the Bank of Japan's Financial Statements as required under the BoJ Law (Art. 22, para. 3). Executive Auditors are appointed by the Cabinet (Art. 23, para. 3) for terms of 4 years (Art. 24 para. 1). Their positions are legally guaranteed the same as other executives.

Executive Auditors perform their duties independently from the Policy Board and Governor (Art. 15, para. 3) and may, if they deem it necessary based on the results of the inspection, submit their views to the Minister of Finance, the Commissioner of the Financial Services Agency, and/or the Policy Board (Art. 22, para. 4).

Summaries of audits are published in the "Outline of Business Operations".

Note: The accounts of the Bank of Japan are audited each fiscal year by the Board of Audit, an independent institution established under the Constitution. The Board of Audit Law mandates that all incorporated entities to which the government has subscribed the majority of capital including Bank of Japan be audited by the Board.

- As required under the BoJ Law (Art. 52), the Bank of Japan prepares Balance Sheets for each six-month period (April to September and October to March). It also prepares Profits and Losses Statements for both each six-month period and fiscal year. These documents, with the Executive Auditors' opinions attached, must be approved by the Minister of Finance within two months after the end of the relevant six-month period or the fiscal year (See 3.2.1). Notes on Significant Accounting Policies are also attached to the Financial Statements.

4.2.2 Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.

- The internal management procedures of the Bank of Japan are defined in the BoJ Law, the By-Law of the Bank of Japan, and the Organizational Rules of the Bank of Japan. All of these documents are published. Summaries of annual internal audits are also published and explained in the "Outline of Business Operations".

4.3 Information on the expenses and revenues in operating the central bank should be publicly disclosed annually.

- The Bank of Japan provides detailed explanations of the expenses and revenues associated with its operations in the Bank's Settlement of Accounts and in the Outline of Business Operations that are produced and published every fiscal year.

This information is also disclosed in the Profit and Loss Statements and attached schedules that are prepared and published every half fiscal year.

4.4 Standards for the conduct of personal financial affairs of officials and staff of the central bank and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.

- In light of the public nature of the business of the Bank of Japan, the BoJ Law (Art. 32) requires the establishment of rules regarding ethical discipline to ensure appropriate discharge of duties by executives and staff members. The rules regarding ethical discipline are to be reported to the Minister of Finance and publicly announced. Based on this provision, the Bank of Japan has formulated and published the "Rules Regarding Ethical Discipline" and the "Code of Conduct for the Bank of Japan Executives and Staff" (which prescribes the specifics of Rules Regarding Ethical Discipline).

The Rules Regarding Ethical Discipline require Bank of Japan executives and staff to "understand the public mission of the Bank of Japan and endeavor to discharge duties efficiently and with an emphasis on fairness." (Art. 2). In addition to this basic standard, the rules also define confidentiality obligations (Art. 6), restrictions on concurrent employment (Art. 7), and contain notes regarding external activities (Art. 9).

The Code of Conduct for the Bank of Japan Executives and Staff defines detailed ethical standards and limits/prohibition for external activities, including those for information disclosure and management, standards for speeches, writings, and publications, and limits/prohibition on dining, gifts, reception of special treatment, and activities for personal profit. The standards explicitly prohibit executives and staff from engaging in activities for personal profit that make use of confidential information learned in the course of their duties (Art. 7) and oblige executives and senior officials (head of departments level) to report all acquisitions and transfers of stocks, and income accruing therefrom.

4.4.1 Information about legal protections for officials and staff of the central bank in the conduct of their official duties should be publicly disclosed.

- Executives and staff of the Bank of Japan are given no special legal protection that would relieve them of civil liability for actions taken in the course of their duties.