

The Bank's Review of Fiscal 2013

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I. INTRODUCTION

In March 2013, the Bank of Japan formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2013–2015." The Bank conducted its daily business operations for fiscal 2013 in accordance with these Strategic Priorities, which comprise the set of issues to be addressed and concrete measures to be taken during this period.

This section provides a brief review of economic and financial developments and decisions made at monetary policy meetings (MPMs) in fiscal 2013, followed by a detailed evaluation of the Bank's progress made during the year.

In March 2014, the Bank formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018." From fiscal 2009, it formulated the Strategic Priorities within a framework covering a three-

year period and updated them every fiscal year. The Bank has decided to adopt a new five-year framework for the Strategic Priorities for fiscal 2014–2018, the content of which will be kept basically unchanged for the whole period, with a view to (1) clarifying the Bank's objectives to be achieved over the medium term and (2) evaluating its performance properly. The Bank plans to conduct an interim review during the five-year period in order to address any changes in its environment. It will revise the content flexibly in response to any significant changes in its environment.

The Bank will make public performance reviews of measures taken under the Strategic Priorities every fiscal year in the *Gyomu Gaikyo Sho* (Outline of Business Operations).¹

II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS AND MONETARY POLICY MEETINGS²

A. First Half of Fiscal 2013 (April–September 2013)

1. Economic developments

a. Looking back at the first half of fiscal 2013, Japan's economic activity returned to a moderate recovery path around mid-2013 as domestic demand remained resilient mainly due to the effects of monetary easing as well as various economic measures and as overseas economies gradually headed toward a pick-up.

Exports had generally been picking up on the back of the aforementioned development in overseas economies. As for domestic demand,

public investment continued to increase and the pick-up in housing investment had become evident. Private consumption remained resilient as consumer sentiment turned favorable, with some improvement also observed in the employment and income situation. Business fixed investment, which had continued to show some weakness until the first half of fiscal 2013, picked up gradually as corporate profits improved. Reflecting these developments in demand both at home and abroad, industrial production returned to a moderate increasing trend.

b. The year-on-year rate of change in the domestic

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018," see Appendix 2 on pages 86–91.

2. The review provided here comprises excerpts from the summaries of the latest two issues of the *Semiannual Report on Currency and Monetary Control* submitted to the Diet in December 2013 and June 2014. The full texts of both issues in Japanese and summaries in English are available on the Bank's web site.

corporate goods price index (CGPI) turned positive at the beginning of fiscal 2013 and moderately picked up its pace of increase thereafter, on the back of developments in international commodity prices and foreign exchange markets. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) turned positive around mid-2013, and its pace of increase accelerated thereafter. Inflation expectations appeared to be rising on the whole.

2. Financial developments

- a. Money market rates, including longer-term ones, remained stable at low levels.

Long-term interest rates rose toward late May mainly against the background of rises in U.S. long-term interest rates and Japanese stock prices. Thereafter, they declined moderately, even in a situation where U.S. and European long-term interest rates increased, as the Bank of Japan progressed with its Japanese government bond (JGB) purchases under quantitative and qualitative monetary easing, and were in the range of 0.6–0.7 percent at end-September.

The Nikkei 225 Stock Average continued to go up toward mid-May mainly in response to the rise in U.S. stock prices and the depreciation of the yen, but declined thereafter mainly on the back of profit-taking sales by investors. After mid-June, it fluctuated mainly on the back of movements in U.S. stock prices and was around 14,500 yen at end-September.

In the foreign exchange market, the yen depreciated against the U.S. dollar toward mid-May mainly due to the release of U.S. economic indicators that were stronger than market expectations and speculation about the direction

of U.S. and Japanese monetary policy, but thereafter the yen appreciated in view of the decline in Japanese stock prices. After mid-June, the yen fluctuated mainly reflecting speculation about the direction of U.S. monetary policy and developments in Japanese stock prices, and at end-September it traded at the 97–98 yen level against the U.S. dollar. The yen depreciated against the euro toward mid-May but fluctuated thereafter, and at end-September it traded at the 132–133 yen level against the euro.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms continued to be on an improving trend. In the CP market, issuing conditions remained favorable. Likewise, issuing conditions generally continued to be favorable in the corporate bond market.

Firms' credit demand had increased moderately, mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks had risen somewhat, and was in the range of 2.0–2.5 percent in September. The year-on-year rate of change in the amount outstanding of corporate bonds had been positive. Meanwhile, the year-on-year rate of change in that of CP had been negative.

- c. The monetary base (currency in circulation plus current account balances at the Bank) had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth was at around 45 percent in September. The year-on-year rate of growth in the money stock (M2) had risen somewhat and was in the

range of 3.5–4.0 percent in September.

3. MPMs

- a. Seven MPMs were held in the first half of fiscal 2013.

At the MPMs held on April 3 and 4 and on April 26, the Policy Board judged that Japan's economy had stopped weakening and had shown some signs of picking up. At the MPM held in May, it judged that the economy had started picking up. At the June MPM, it judged that the economy had been picking up. At the MPMs held in July and August, it judged that the economy was starting to recover moderately. At the September MPM, it judged that the economy was recovering moderately.

- b. In its conduct of monetary policy, the Policy Board decided at the MPM held on April 3 and 4 to introduce quantitative and qualitative monetary easing as follows.

Namely, the Bank will achieve the price stability target of 2 percent in terms of the year-on-year rate of change in the CPI at the earliest possible time, with a time horizon of about two years. In order to do so, it will enter a new phase of monetary easing both in terms of quantity and quality. Upon changing the main operating target for money market operations from the uncollateralized overnight call rate to the monetary base, the Bank will double the monetary base and the amounts outstanding of JGBs as well as exchange-traded funds (ETFs) in two years, and more than double the average remaining maturity of JGB purchases. The specifics of quantitative and qualitative monetary easing are as follows.

- (1) The adoption of the "monetary base control"

With a view to pursuing quantitative monetary

easing, the main operating target for money market operations was changed from the uncollateralized overnight call rate to the monetary base. The guideline for money market operations was set as follows: "The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60–70 trillion yen."

- (2) An increase in JGB purchases and their maturity extension

With a view to encouraging a further decline in interest rates across the yield curve, the Bank will purchase JGBs so that their amount outstanding increases at an annual pace of about 50 trillion yen. In addition, JGBs with all maturities including 40-year bonds will be made eligible for purchase, and the average remaining maturity of the Bank's JGB purchases will be extended from slightly less than three years to about seven years—equivalent to the average maturity of the amount outstanding of JGBs issued.

- (3) An increase in ETF and J-REIT purchases

With a view to lowering risk premia of asset prices, the Bank will purchase ETFs and Japan real estate investment trusts (J-REITs) so that their amounts outstanding increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively.

- (4) The continuation of quantitative and qualitative monetary easing

The Bank will continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside

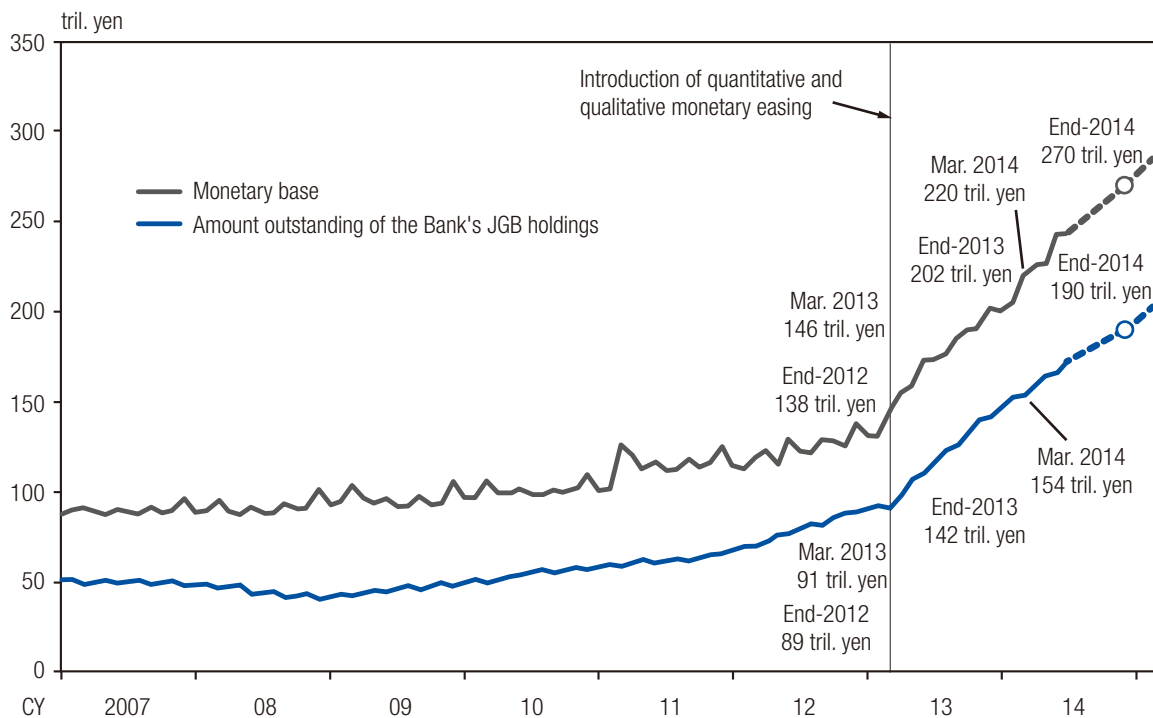
and downside risks to economic activity and prices, and make adjustments as appropriate.

In addition, with the introduction of quantitative and qualitative monetary easing, the Policy Board decided on the following: (i) the termination of the Asset Purchase Program; (ii) the temporary suspension of the "banknote principle"; and (iii) in order to facilitate the massive JGB purchases and significantly large-scale provision of the monetary base, the Bank will set forums for enhanced dialogue with market participants in order to exchange views pertaining to money market operations and market transactions more generally.

As for the funds-supplying operation to support financial institutions in disaster areas, the Policy Board decided to extend by one year the periods for which both (i) the funds-supplying operation to support financial institutions in disaster areas and (ii) the amendment to temporary rules regarding the eligibility standards for debt of companies in disaster areas remain effective.

At all the subsequent MPMs, the Policy Board decided to maintain the aforementioned guideline for money market operations, specified as (1), and continued its purchasing policies based on (2) and (3) under quantitative and qualitative monetary

EXPANSION IN THE MONETARY BASE AND JGB HOLDINGS¹



Note: 1. Figures are rounded to the nearest trillion yen.
Source: Bank of Japan.

easing. It also confirmed the continuation of quantitative and qualitative monetary easing, specified as (4).

B. Second Half of Fiscal 2013 (October 2013–March 2014)

1. Economic developments

- a. Looking back at the second half of fiscal 2013, Japan's economic activity continued to recover moderately in association with a virtuous cycle among production, income, and spending, mainly due to the effects of monetary easing as well as various economic measures. A front-loaded increase in demand prior to the consumption tax hike was observed toward the end of the fiscal year.

Exports had generally picked up on the back of developments in overseas economies until around end-2013, but leveled off more or less thereafter mainly due to temporary downside factors. As for domestic demand, private consumption and housing investment remained resilient with improvement in the employment and income situation. In these segments of the economy, the front-loaded increase in demand prior to the consumption tax hike was also observed. Public investment continued to increase, and the pick-up in business fixed investment became increasingly evident as corporate profits improved, turning to a moderate increase. Reflecting these developments in demand both at home and abroad, industrial production followed a moderate increasing trend and, after the beginning of 2014, increased at a somewhat accelerated pace.

- b. The year-on-year rate of change in the CGPI remained positive at around 2 percent, on the back of developments in international commodity

prices and foreign exchange markets. The year-on-year rate of change in the CPI (all items less fresh food), after turning positive around mid-2013, accelerated its pace of increase toward around end-2013 and was around 1¼ percent thereafter. Inflation expectations appeared to be rising on the whole.

2. Financial developments

- a. Money market rates, including longer-term ones, remained stable at low levels.

Long-term interest rates were generally stable in the range of 0.55–0.75 percent, as the Bank of Japan progressed with its JGB purchases under quantitative and qualitative monetary easing. More concretely, long-term interest rates climbed somewhat toward end-December, on the back of rises in U.S. long-term interest rates and Japanese stock prices, but declined after the beginning of January. After early February, they were more or less flat—partly because U.S. long-term interest rates were generally unchanged—and were in the range of 0.6–0.7 percent at end-March.

The Nikkei 225 Stock Average increased toward end-December with the depreciation of the yen, while U.S. stock prices continued to rise, marking their highest levels. After the beginning of January, the Nikkei average declined with the appreciation of the yen, at a time when U.S. and European stock prices fell; thereafter, it fluctuated mainly reflecting the situation in Ukraine and was in the range of 14,500–15,000 yen at end-March.

In the foreign exchange market, the yen depreciated against the U.S. dollar toward end-December mainly on the back of the release of U.S. economic indicators that were stronger

than market expectations and the change in U.S. monetary policy, coupled with the rise in Japanese stock prices. After the beginning of January, the yen appreciated, as Japanese stock prices declined in a situation where investors' risk aversion was observed; thereafter, the yen generally leveled off and at end-March it traded at the 102–103 yen level against the U.S. dollar. The yen depreciated against the euro toward end-December mainly due to the release of European economic indicators that were stronger than market expectations. After the beginning of January, the yen temporarily appreciated but depreciated thereafter. At end-March, it traded at the 141–142 yen level against the euro.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms continued to be on an improving trend. Issuing conditions for CP and corporate bonds continued to be favorable.

Firms' credit demand had increased moderately, mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was in the range of 2.0–3.0 percent. The year-on-year rate of change in the amount outstanding of corporate bonds had been positive. Meanwhile, the year-on-year rate of change in that of CP had been negative.

- c. The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth was at around 55 percent in March. The year-on-year rate of change in the M2 continued to register relatively high growth of around 4.0 percent.

3. MPMs

- a. Seven MPMs were held in the second half of fiscal 2013.

At the MPMs held in October through December, the Policy Board judged that Japan's economy was recovering moderately. At the MPMs held in January through March, it judged that the economy had continued to recover moderately, and a front-loaded increase in demand prior to the consumption tax hike had recently been observed.

- b. In its conduct of monetary policy, the Policy Board decided at all the MPMs held in the second half of fiscal 2013 to continue with the following guidelines with regard to money market operations and asset purchases that were determined when quantitative and qualitative monetary easing was introduced in April 2013.

Guideline for Money Market Operations

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60–70 trillion yen.

Guidelines for Asset Purchases

- (1) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven years.
- (2) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively.
- (3) As for CP and corporate bonds, the Bank will continue with those asset purchases until their amounts outstanding reach about 2.2 trillion yen and about 3.2 trillion yen, respectively, by end-2013; thereafter, it will maintain those

amounts outstanding.

With regard to the future conduct of monetary policy, the Policy Board confirmed at all the MPMs held in the second half of fiscal 2013 the following: "The Bank will continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate."

At the February MPM, the Policy Board decided on the extension and enhancement of the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility) as well as the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility), which were due to expire shortly. Specifically, the Policy Board shared the recognition that it was

appropriate for the Bank to make the following enhancements and released an outline: (i) the deadlines for new applications under these facilities shall be extended by one year; (ii) the maximum amounts of the Bank's fund-provisioning under these facilities shall be doubled; and (iii) the duration of its fund-provisioning at a fixed rate of 0.1 percent per annum shall be extended from 1–3 years to 4 years. Based on the outline, at the March MPM the Policy Board approved the amendment to principal terms and conditions for the Loan Support Program.

In addition, at the February MPM, the Policy Board decided to extend the funds-supplying operation to support financial institutions in disaster areas affected by the Great East Japan Earthquake and the temporary rules regarding the eligibility standards for debt of companies in disaster areas by one year, respectively.

ENHANCEMENT OF THE LOAN SUPPORT PROGRAM¹

(1) Stimulating Bank Lending Facility

The Bank provides long-term funds at a low interest rate to financial institutions at their request, with a view to promoting their lending activity and helping stimulate credit demand from firms and households.

●Outline of the new program (starting from June 2014)

- There is no pre-set amount for the total loans provided by the Bank and for loans extended to each counterparty under this facility.
- The maximum amount of loans to each counterparty is set at twice the net increase in lending.
- The duration of loans is 4 years. Each year, counterparties have an option to make a prepayment.
- The interest rate on loans is fixed at 0.1 percent per annum for 4 years.

| | | Outstanding balance of loans | Number of borrowers |
|-------|----------------------|------------------------------|---------------------|
| Total | | 13,347.2 billion yen | 114 |
| | Major Banks | 9,496.2 billion yen | 7 |
| | Regional Banks, etc. | 3,851.0 billion yen | 107 |

(2) Growth-Supporting Funding Facility

The Bank provides long-term funds at a low interest rate to private financial institutions in accordance with their efforts in terms of lending and investment toward strengthening the foundations for economic growth.

●Outline of the new program (starting from June 2014)

- The maximum amount of the Bank's fund-provisioning under the main rules shall be doubled from 3.5 trillion yen to 7 trillion yen. The maximum amount of its fund-provisioning to each financial institution shall be increased from 150 billion yen to 1 trillion yen.
- The interest rate applied to the facility under the main rules and special rules for equity investments and asset-based lending, and small-lot investments and loans shall be fixed at 0.1 percent per annum for 4 years. Each year, financial institutions have an option to make a prepayment.

| | Main rules | Special rules for equity investments and asset-based lending (ABL) | Special rules for small-lot investments and loans | Special rules for the U.S. dollar lending arrangement |
|--------------------------------|---|--|---|---|
| Time of establishment | June 2010 | June 2011 | March 2012 | April 2012 |
| Total amount of loans | 7 trillion yen | 0.5 trillion yen | 0.5 trillion yen | 12 billion U.S. dollars |
| Outstanding balance of loans | 3,318.89 billion yen | 109.06 billion yen | 9.302 billion yen | 10,619.9 million U.S. dollars |
| Number of borrowers | 120 | 28 | 31 | 43 |
| Eligible investments and loans | Those with a size of 10 million yen or more | Equity investments and ABL with a size of 1 million yen or more | Those with a size of 1 million yen or more but less than 10 million yen | Those denominated in foreign currencies with a size equivalent to 100 thousand U.S. dollars or more |

Note: 1. Figures for "Outstanding balance of loans" and "Number of borrowers" in the tables are those after the disbursements in June 2014.
Source: Bank of Japan.

III. PROGRESS IN ADDRESSING ISSUES AND IMPLEMENTING ACTION PLANS

A. Matters Relating to the Conduct of Monetary Policy

1. The Bank will pursue aggressive monetary easing, aiming to achieve at the earliest possible time the "price stability target" introduced in January 2013. More specifically, the Bank will continue with its virtually zero interest rate policy and purchases of financial assets, as long as it judges it appropriate to do so. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending. Taking into consideration that it will take considerable time before the effects of monetary policy permeate the economy, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances. In support of such monetary policy conduct, the Bank will continue to enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad. To this end, the Bank will strengthen its analysis of the effects of monetary policy and their transmission through the economy, as well as the medium- to long-term analysis that it carries out taking account of structural changes at home and abroad. Taking a macroprudential perspective, the Bank will further strengthen its analysis of the effects of developments in global financial markets on Japan's financial and economic activity, as well as its analysis of movements in other risk factors such as the

accumulation of financial imbalances. It will also examine measures for money market operations.

- (1) The Bank introduced quantitative and qualitative monetary easing in April 2013 to achieve the price stability target of 2 percent in terms of the year-on-year rate of change in the CPI at the earliest possible time, with a time horizon of about two years. Under quantitative and qualitative monetary easing, the Bank has been pursuing unprecedented monetary easing both in terms of quantity and quality. It will double the monetary base and the amounts outstanding of its holdings of JGBs as well as ETFs in two years, and more than double the average remaining maturity of JGB purchases.
- (2) The Bank decided in February 2014 to double the scale of the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility, and to extend the application period for these facilities by one year.
- (3) To support these policy operations, the Bank conducted further research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad, including its analysis of the effects of monetary policy. Taking a macroprudential perspective, the Bank analyzed various risk factors such as the accumulation of financial imbalances, making use of indicators of financial imbalances and macro stress testing among its analytical tools.
- (4) Meanwhile, the Bank devised measures for money market operations to ensure the smooth functioning and stability of financial markets. The following are the major measures taken by the Bank.
 - (a) Relaxation of the terms and conditions of the securities lending facility.

- (b) Acceptance of electronically recorded monetary claims as eligible collateral for the Bank's provision of credit.
 - (c) Introduction of standing liquidity swap arrangements with the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, and the Swiss National Bank.
- (5) The Bank extended the deadline for new applications for loans under the funds-supplying operation to support financial institutions in disaster areas and the application period for the relaxation of the collateral eligibility standards for the debt of companies in disaster areas.

2. In support of the above research and analysis, the Bank will maintain closer contact with overseas authorities and will conduct more frequent exchanges of information regarding overseas economic and financial conditions at occasions such as international forums. The Bank will also deepen research and analysis not only with regard to advanced economies but also with regard to emerging economies.

- (1) The Bank, at international meetings, including those organized by the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD), exchanged information with overseas authorities with a view to better grasping overseas economic and financial conditions as well as developments in global financial markets. In addition, it obtained swift access to a wide range of information by making use of central bank networks particularly across Europe, North America, and Asia.
- (2) The Bank maintained close contact and frequent exchanges of information with other central banks and international organizations in Asia regarding economic and financial conditions in the region by

- participating in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the BIS Asian Consultative Council (ACC), the Tripartite Governors' Meeting of the Bank of Japan, the People's Bank of China, and the Bank of Korea, and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three).
- (3) The Bank participated in meetings held by the Financial Stability Board (FSB) on addressing shadow banking risks in securities lending and repo transactions and on financial benchmarks, playing an active part in the compilation of related reports and policy recommendations.

3. The Bank will conduct money market operations appropriately, with a view to maintaining financial market stability and the proper functioning of market mechanisms, while ensuring that its business operations are executed and systems are operated with precision and deliberation. It will also make sure that transactions with the government are properly conducted.

- (1) In its conduct of money market operations, the Bank increased the monetary base and the amounts outstanding of its holdings of JGBs under quantitative and qualitative monetary easing, while enhancing its dialogue with market participants.
- (2) The Bank smoothly conducted the Growth-Supporting Funding Facility, the Stimulating Bank Lending Facility, and the funds-supplying operation to support financial institutions in disaster areas.
- (3) The Bank ensured that transactions with the government were conducted properly, in accordance with the relevant laws and regulations.

4-1. As part of the above process, the Bank will deepen its theoretical and empirical analysis of the conduct of monetary policy and further consider strategies for disseminating

information on monetary policy and for communicating with market participants, taking into account related academic discussion and research developments at home and abroad.

4-2. The Bank will explain to the public effectively its thinking on the conduct of monetary policy and the findings of the research and analysis underpinning its policy decisions.

- (1) The Bank, taking into account academic research developments both at home and abroad, deepened its theoretical and empirical analysis of the conduct and effects of monetary policy, both its own and that of other central banks.
- (2) In order to achieve better understanding of updates to its monetary policy conduct, the Bank made available a web page entitled "'Price Stability Target' of 2 Percent and 'Quantitative and Qualitative Monetary Easing,'" in which it provided concise summaries and explanations of its policy schemes. It also released and regularly updated the results of funds-supplying operations.
- (3) With a view to deepening the understanding of its policy decisions, the Bank held a number of seminars for economists, in addition to forums for market participants aimed at enhancing dialogue and exchanging views.
- (4) In the April and October 2013 issues of the *Outlook for Economic Activity and Prices*, the Bank provided a detailed explanation of the recent domestic demand-led economic recovery as well as the background to the accompanying improvement in the employment and income situation and the rise in prices, as being crucial to its projections for economic activity and prices.
- (5) The Bank also made public the findings of its

research and analysis through, for example, the releases of the *Bank of Japan Review Series*, the *Bank of Japan Working Paper Series*, as well as various reports and research papers.

5. The Bank will engage in discussions on the structural problems faced by Japan's economy as well as on various systemic reforms related to monetary policy by, for example, participating in the relevant government advisory councils.

- (1) The Bank explained the monetary policy conduct for overcoming deflation at various governmental meetings including the Council on Economic and Fiscal Policy. The Bank also participated in, for example, the Financial System Council Working Group on the Provision of Risk Money to Emerging and Growing Companies.

6. The Bank will enhance its fundamental research within fields such as economics and finance, and across other fields related to the infrastructure of the financial system, such as law, accounting, and information security, as well as its research into financial history. It will make use of these findings in conducting monetary policy. The Bank will strengthen cooperation with other central banks, as well as academics and research institutes both at home and abroad, so as to steadily raise the quality of such research activities. Furthermore, the Bank will make efforts to efficiently manage the activities of the Archives and the Currency Museum and to offer services well tailored to users' needs.

- (1) In light of the global financial crisis of autumn 2008 as well as the issues faced by central banks around the world, the Bank conducted fundamental research on the macroeconomy and monetary policy from both theoretical and empirical perspectives as well

as on finance. Steady progress was also made in finance-related research, including research into legal and accounting systems, information security, and financial history.

- (2) The Bank hosted an international conference on the theme of financial crises and the global financial system in May 2013, and co-hosted a conference with the University of Tokyo in November on the theme of globalization and the resilience of Japan's economy. These conferences facilitated fruitful discussions between the Bank and distinguished academics, both domestic and foreign, as well as overseas authorities.
- (3) The Bank worked to improve both the user friendliness and administrative efficiency of its Archives, which have the status of "the National Archives of Japan, etc." as stipulated in the Public Records and Archives Management Act. Moreover, the Bank's Currency Museum implemented measures to enhance its services for visitors by, for example, extending its opening days and hours and holding themed exhibitions, as well as beginning work to renovate the facilities that display its collections.

B. Matters Relating to the Financial System

1. The Bank will promptly implement measures deemed necessary to maintain the stability of the financial system, including those as the lender of last resort.

- (1) During fiscal 2013, the Bank provided no loans pursuant to Articles 37 and 38 of the Bank of Japan Act (hereafter the Act).
- (2) The Bank decided to postpone for two years starting sales of stocks purchased from financial institutions under authorization pursuant to the proviso of Article 43 of the Act; it had previously decided to hold on to

these stocks until the end of March 2014.

2. With international discussion on maintaining financial system stability deepening, it is important for Japan to involve itself appropriately in establishing new international rules regarding financial regulation and supervision in view of their impact on, for example, the financial intermediation function. In addition, it is essential for individual countries and regions around the world to achieve steady progress in their respective efforts to attain financial system stability. Meanwhile, the scope of discussion at international forums has widened to include the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's experience. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.

- (1) At international conferences and other such occasions where macroprudential matters and the concrete framing and implementation of new financial regulations were discussed, the Bank explained its view mainly in light of Japan's past financial system-related experiences and the expected impact of these regulations on the financial intermediation function. It was also active in providing information in these areas, for example, through the release of the *Financial System Report*.
- (2) The Bank actively participated in discussions and information exchange within Asia, through its activities at the EMEAP Working Group on Banking Supervision as well as at various meetings such as

the ACC and ASEAN Plus Three, with a view to establishing a concrete framework for and implementing new financial regulations. In this way, the Bank contributed to the expansion of Asia's presence in international discussions, playing a significant part in (1) promoting information sharing in the region, and (2) analyzing the effects of the extraterritorial application of U.S. and European financial regulations as well as expressing joint views on this matter.

3. As part of the above efforts, the Bank will actively participate in discussions at various forums, such as meetings of the Group of Twenty (G-20), the Group of Seven (G-7), the FSB, and the Basel Committee on Banking Supervision (Basel Committee). The Bank will also actively exchange information with overseas authorities, including supervisory colleges. In this way, the Bank will engage positively in policy making processes to improve and ensure the stability of the global financial system. It will also play an active role in the domestic application of the conclusions of such international discussions, as well as in their practical implementation. Furthermore, the Bank will ensure it has an accurate grasp of how Japanese financial institutions are responding to changes in financial regulations.

(1) The Bank actively participated in discussions on strengthening the robustness of the global financial system at various international conferences, such as meetings of the G-20, the G-7, the FSB, and the Basel Committee. These included discussions on (1) the revision of the Basel regulatory framework, specifically, the review of trading book capital requirements, the securitization framework for

regulatory capital requirements, and the liquidity standard, as well as the introduction of a framework for controlling large exposures; (2) the establishment of a concrete framework for regulating systemically important financial institutions; (3) the development of cross-border resolution frameworks for financial institutions; (4) the compilation and expansion of data that contribute to financial system stability; (5) the assessment of the effects of over-the-counter (OTC) derivatives regulation; and (6) the regulation of repo transactions and financial benchmarks.

(2) At meetings including those of the G-20 and the FSB, the Bank made use of Japanese expertise in areas such as the interconnectedness of the financial system and the real economy to engage constructively in the drafting of well-balanced reforms aimed at maintaining the stability of the global financial system.

(3) The Bank actively exchanged information with overseas authorities on developments in the global financial system and business conditions at systemically important financial institutions, mainly through supervisory colleges. While strengthening ties with supervisory authorities at home and abroad and enhancing dialogue with financial institutions, the Bank played an active role in (1) working out the domestic application of and preparing for the practical implementation of new financial regulations such as those governing bank capital and liquidity, and (2) preparing the legislation for the establishment of an orderly resolution regime for securities companies and other such financial institutions under the amended Deposit Insurance Act.

4. Some financial institutions, mainly major banks, have actively expanded their global business and have been susceptible to developments in

overseas economies and global financial markets. Furthermore, the new capital requirements are being phased in from 2013. Under these circumstances, the Bank will ensure that it accurately grasps the business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).

- (1) The Bank worked to ensure that on-site examinations were conducted effectively and efficiently in line with its "On-Site Examination Policy for Fiscal 2013," by making use of information obtained through its off-site monitoring as well as selecting institutions to be examined based on their risk profiles and capital strength. The number of financial institutions examined in fiscal 2013 was 110.
- (2) With regard to off-site monitoring, the Bank kept abreast of developments in financial intermediation, taking into account the following: (1) the introduction of quantitative and qualitative monetary easing; (2) economic and financial developments both at home and abroad; (3) moves to introduce new financial regulations in other countries; and (4) active business expansion into Asia by financial institutions, particularly major banks. The Bank also worked to gain a better grasp of financial institutions' business conditions and risk profiles by, for example, analyzing the effects of the domestic application of new financial regulations such as capital adequacy ratio requirements. With a view to dealing with systemic risks more effectively, the Bank will work to ensure a

firm grasp of business conditions at systemically important financial institutions.

- (3) Making use of the feedback between its on-site examinations and off-site monitoring, the Bank facilitated necessary improvements in management procedures at individual financial institutions regarding their business activities and risks.
- (4) With a view mainly to enhancing the functioning of small business finance, the CAFT hosted seminars on supporting small firms expanding their businesses abroad as well as on utilizing electronically recorded monetary claims; it also organized workshops on commercial finance.

5. The Bank will continue to refine its methods for analysis and assessment of Japan's financial system in line with "The Bank of Japan's Initiatives on the Macroprudential Front," released in October 2011, and will communicate its findings to the public effectively.

- (1) In the *Financial System Report*, the Bank refined its methods for the comprehensive assessment and analysis of the stability of Japan's financial system from a macroprudential perspective, as described in "The Bank of Japan's Initiatives on the Macroprudential Front." Specifically, it expanded its analytical tools, for example, for macro stress testing, while also enhancing its analysis particularly of developments in financial intermediation after the introduction of quantitative and qualitative monetary easing.
- (2) The Bank enhanced its communication with the public by holding more seminars and meetings at home and abroad to explain the content of and exchange opinions on the *Financial System Report*. By releasing papers on business conditions at financial institutions, the Bank also facilitated communication with concerned parties regarding the maintenance of

financial system stability and the challenges facing Japan's financial institutions.

6. The Bank will make use of the findings of its on-site examinations and off-site monitoring as well as of its macroprudential analysis in developing financial system policies and implementing monetary policy.

- (1) The findings from the Bank's off-site monitoring and on-site examinations regarding the state of business operations and risk-taking at financial institutions, such as changes in the behavior and risk profiles of financial institutions after the introduction of quantitative and qualitative monetary easing, were reported to the Policy Board. This information was then utilized in implementing monetary policy. In the *Financial System Report*, the Bank assessed the stability of the financial system and examined the behavior of financial intermediaries, aiming to enhance the analysis used in its policy conduct.
- (2) The Bank supported financial institutions' efforts by (1) appropriately managing the Growth-Supporting Funding Facility and the Stimulating Bank Lending Facility and (2) putting effort into, for example, holding seminars on the utilization of electronically recorded monetary claims and disseminating related information.

C. Matters Relating to Payment and Settlement Systems and Market Infrastructure

1. With a view to ensuring the smooth operation of the Bank of Japan Financial Network System (BOJ-NET) as well as linked payment and settlement systems, the Bank will execute business and system operations related to the BOJ-NET, including the implementation of

business continuity arrangements, in an accurate and stable manner.

- (1) To ensure the smooth operation of the BOJ-NET and linked payment and settlement systems, the Bank executed business and system operations related to the BOJ-NET in an accurate and stable manner.
- 2. The Bank will conduct research and planning to promote improvement in the safety and efficiency of Japan's payment and settlement systems, and implement measures as necessary to respond to the following: (1) structural changes, such as the diversification of financial instruments and transactions, globalization of financial markets, and advances in information processing technology, as well as the resultant calls from market participants for payment and settlement systems that accommodate these changes; and (2) discussions, taking place both at home and abroad in the wake of the global financial crisis following the Lehman shock, on reviewing payment and settlement practices and reforming the framework for financial regulation and supervision.**
- (1) With regard to the review of international standards for payment and settlement systems, the Bank contributed to efforts by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) toward implementation of the "Principles for Financial Market Infrastructures." The efforts included monitoring how the principles were implemented in regulatory frameworks for financial market infrastructures in jurisdictions around the world and providing guidance on the recovery of financial market infrastructures as well as public quantitative disclosure standards. As part of international

initiatives to reform OTC derivatives markets, the Bank took part in forums and working groups made up of central banks and supervisory authorities, exchanging views on regulatory frameworks and specific measures carried out in each country.

(2) The Bank continued with research and analysis related to measures to improve the functioning of Japan's payment and settlement systems from a medium- to long-term perspective.

3. The Bank, together with relevant parties, will proceed steadily with the establishment of the new BOJ-NET. The Bank will work toward implementing the first phase of the new BOJ-NET project—covering auctions for money market operations and for the issuance of Japanese government securities (JGSs), as well as the transfer of JGSs associated with money market operations—around fiscal 2013, and the second phase—including settlement of funds and of JGSs—around fiscal 2015.

(1) With regard to the establishment of the new BOJ-NET, the Bank proceeded steadily with the system development process while managing the overall project properly.

(2) The Bank implemented the first phase of the new BOJ-NET project in January 2014, and it has since been operating the system smoothly and reliably.

(3) With regard to the second phase of the new BOJ-NET project, the Bank made available to financial institutions and other interested parties the details of the functions and system specifications. The Bank also proceeded with the planning of running tests, and made available an outline of the proposed tests.

(4) The Bank continued deliberations on the operating hours and business operations of the new BOJ-NET after implementing the second phase of the project.

Specifically, the Bank established a "Forum Towards Making Effective Use of the New BOJ-NET," comprising private financial institutions and other relevant parties. There, discussions were held on (1) effective use of the new BOJ-NET and, to that end, (2) the possible extension of the system's operating hours, as well as the length and timing of such an extension. The Bank then released details of its plans for public consultation based on the fruits of these discussions.

4. In accordance with its oversight policy, the Bank will firmly monitor the safety and efficiency of payment and settlement systems both at home and abroad as well as encourage relevant parties to make improvements, using the "Principles for Financial Market Infrastructures," the international standards for payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories.

(1) In accordance with its oversight policy, the Bank continued with its oversight of payment and settlement systems both at home and abroad in cooperation with relevant authorities. Specifically, the Bank promoted efforts toward the domestic implementation of the "Principles for Financial Market Infrastructures," while monitoring the systems and operations of the domestic financial market infrastructure and encouraging individual financial institutions to make improvements where necessary. In addition, the Bank established a new framework for cooperative oversight of overseas financial market infrastructures and actively participated in the new cooperative oversight arrangements as well as in the existing ones.

5-1. With a view to further enhancing the stability

and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and reinforcing market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad and by making use of the new BOJ-NET, scheduled to be phased in during fiscal 2013–2015.

5-2. The Bank will support market participants' efforts to reduce settlement risk and to enhance financial market functioning by, for example, preparing for the move to a T+1 JGB settlement cycle and enhancing the functioning of corporate bond markets and securitization markets.

- (1) The Bank, in discussion and cooperation with relevant parties at home and abroad, took the following initiatives to improve the financial market structures in Japan.
 - (a) With a view to reducing settlement risk in financial markets as a whole, the Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions.
 - (b) The Bank participated in meetings of the Working Group on Market Infrastructure for Corporate Bonds hosted by the Japan Securities Dealers Association (JSDA), and supported market participants' efforts to enhance the functioning of corporate bond markets.
 - (c) The Bank participated in discussions with market participants and other relevant parties on the management and regulation of financial benchmarks, thereby supporting their efforts to enhance and maintain the credibility of such benchmarks.

- (d) The Bank conducted the *Tokyo Money Market Survey*, working to disseminate to market participants information on developments in the Japanese money markets after the introduction of quantitative and qualitative monetary easing, and to share with them its understanding of the challenges to be met.

6. Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios such as those for large-scale earthquakes directly under Tokyo, the Bank will assess the current business continuity framework and improve contingency arrangements as necessary. It will also step up efforts to ensure the effective and efficient implementation of such arrangements, in cooperation with relevant parties, including ministries and government agencies as well as financial institutions.

- (1) The Bank assessed its business continuity framework in light of lessons learned in responding to the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios such as those for large-scale earthquakes directly under Tokyo, and considered what the Bank could do to improve its contingency arrangements.
- (2) In cooperation with financial institutions and other relevant parties, the Bank implemented street-wide exercises for the Japanese financial industry, and a joint exercise testing market-wide business continuity arrangements among the money market, the securities market, and the foreign exchange market, under the scenario of a large-scale earthquake.
- (3) With the aim of examining the efficacy of its business continuity arrangements and strengthening its contingency measures, the Bank continued to

conduct practical exercises under various disaster scenarios as well as exercises addressing system disruptions.

- (4) The Bank held seminars based on the results of a survey regarding financial institutions' backup computer centers, thereby encouraging the strengthening of their business continuity arrangements.
- (5) In response to the enactment of the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response, the Bank, as a designated public institution, formulated and released its operational plans for dealing with pandemic influenza and new infectious diseases.

7. The Bank will contribute to the stability of the international currency system by, for example, promoting efforts to ensure the stability of the currency system in Asia and strengthening cooperation with overseas authorities, especially central banks, through personnel exchange and technical assistance.

- (1) The Bank took the following actions so as to promote efforts to ensure the stability of the currency system in Asia, and to strengthen cooperation with overseas authorities, especially central banks.
 - (a) The Bank agreed on the establishment of cross-border collateral arrangements—i.e., arrangements whereby central banks in partner countries provide liquidity in their domestic currencies utilizing JGSs held at the Bank as collateral—with the Monetary Authority of Singapore and Bank Indonesia, respectively. The Bank also proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in such arrangements.

- (b) The Bank, through participating in EMEAP and the ACC, made efforts to ensure the stability of the currency system in Asia.
- (c) Under the framework of ASEAN Plus Three, the Bank, together with the Ministry of Finance, worked to further strengthen the regional financial safety net through various initiatives including the Chiang Mai Initiative Multilateralization (CMIM), and continued to contribute to the doubling of the total size of the CMIM as well as the introduction of a crisis prevention facility.
- (d) The Bank continued to actively promote the provision of technical assistance, the holding of seminars, and the exchanging of personnel with central banks and governments in Asia.

8. The Bank will work to appropriately manage risks associated with its foreign currency assets with an emphasis on a high degree of safety and liquidity. It will also obtain information on global financial markets via, for example, the monitoring of market developments involved in managing its foreign currency assets; the information will be utilized in conducting monetary policy.

- (1) The Bank managed its foreign currency assets appropriately, in accordance with the "Principal Terms and Conditions for the Management of Foreign Currency Assets."
- (2) The Bank obtained information on global financial markets via, for example, the monitoring of market developments involved in managing its foreign currency assets; the information was utilized in research and analysis to facilitate the conduct of monetary policy.

9. The Bank will, with precision and deliberation, carry out international operations on behalf of

the government and assist overseas central banks in their investment in yen assets.

- (1) The Bank consistently executed with precision and deliberation international operations on behalf of the government. It also offered appropriate assistance to overseas central banks, providing services relating to acceptance of yen deposits to facilitate their investment in yen assets.

D. Matters Relating to the Regional Economic and Financial Environment

1. The Bank will maintain a sound grasp of economic and financial conditions in each region, including the progress of rebuilding following the disaster caused by the Great East Japan Earthquake, through close and frequent communication with local businesses and financial institutions. The Bank will make use of its findings in its conduct of monetary policy and other actions. In addition, the Bank will take advantage of such occasions to communicate with local business communities and to provide a clear and accessible explanation of its view of economic and financial conditions both at home and abroad, as well as its thinking on the conduct of monetary policy.

- (1) The Bank worked to gain a more accurate grasp of economic conditions in each region by assigning responsibility for research and analysis for each prefecture within a given jurisdiction to designated staff not only in branches and local offices but also at the Head Office, and by increasing the frequency of meetings to exchange opinions with local businesses and chambers of commerce and industry.
- (2) With regard to rebuilding following the disaster caused by the Great East Japan Earthquake, the

Bank continued to work to keep a detailed grasp of, for example, how government rebuilding measures and shifts in credit demand have affected business conditions at financial institutions in the disaster-stricken areas, making use of its network of branches and offices in the disaster-stricken areas, such as in Sendai City and Fukushima City.

2. The Bank will continue its efforts to strengthen relations with local communities by sharing the results of research and analysis on regional economic and financial developments through, for example, the regular release of the *Regional Economic Report* and by carrying out public relations activities at its Head Office, branches, and local offices.

- (1) The Bank compiled and released each quarter its findings from research and analysis on regional economic developments in the *Regional Economic Report*.
- (2) The Bank continued to work to strengthen relations with local communities as follows. It disseminated the results of its research and analysis on regional economic and financial developments, for example, by organizing events such as speeches. It also undertook other public relations activities that provided opportunities to explain its policies and business operations as well as to gather more information on regional economic developments.

3. The Bank will strengthen its grasp of business conditions at regional financial institutions—including their performance as financial intermediaries—through its on-site examinations and off-site monitoring, and will carry out more in-depth discussions with regional financial institutions on issues relating to business conditions.

(1) With regard to business conditions at regional financial institutions, the Bank, at its Head Office and branches, gained a detailed grasp of changes in the behavior and risk profiles of financial institutions after the introduction of quantitative and qualitative monetary easing. The Bank actively held dialogue with top management at regional financial institutions on issues relating to business conditions such as the downtrend in core profitability and introduction of the new regulatory requirements for domestic banks' capital adequacy ratios. Moreover, the Bank kept suitably abreast of the situation with regard to regional financial institutions' management of the risks accompanying system development projects including the transition to a shared computer system, and urged improvement when necessary. It also released the results of a survey on computer system risk management.

4. The Bank will support regional financial institutions' efforts to improve their management of risks through, for example, local seminars organized by the Bank's CAFT.

(1) The CAFT hosted seminars in Tokyo and four other cities across Japan on themes such as the development of backup computer centers and management of information security. It also hosted seminars for regional financial institutions in Tokyo and seven other cities, which included presentations by the relevant divisions of selected financial institutions introducing their own risk management and internal auditing practices.

5. The Bank will continue to ensure the smooth and high-quality implementation of central banking operations in each region by executing all related business with precision and deliberation, thereby contributing to regional

economic and financial development.

(1) The Bank contributed to regional economic and financial activities, including those in the areas stricken by the Great East Japan Earthquake, by ensuring that all operations at its Head Office, branches, and local offices, including operational procedures necessary for implementing policy measures effectively, were executed with precision and deliberation.

E. Matters Relating to Banknotes, Treasury Funds, and JGS Services

1. Matters Relating to Banknotes

a. The Bank will continue to work toward securing confidence in banknotes and coins by executing with precision and deliberation all related business, for example, maintaining the cleanliness of banknotes in circulation and promoting the smooth supply of cash.

(1) The Bank maintained the cleanliness of banknotes in circulation by ensuring the smooth supply of clean banknotes at the windows of its Head Office and branches and by examining the banknotes it received. It conducted regular surveys of damaged banknotes, putting the results to use in its examination of banknotes.

(2) In order to strengthen the emergency response capability of its cash handling services, given recent experiences responding to events such as an outbreak of the H5N1 avian influenza and the Great East Japan Earthquake, the Bank continued its efforts to ensure it had the necessary quantity of banknotes at its Head Office and branches for maintaining circulation.

b. As part of the above efforts, the Bank will conduct further research on anti-counterfeiting

technologies and enhance the counterfeit detection features of cash processing machines. The Bank will also work to prevent counterfeiting by enhancing communication and cooperation with relevant parties, including ministries and government agencies at home as well as other central banks, and by improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.

- (1) The Bank steadily replaced its cash processing machines, such as automatic banknote examination machines, with those possessing a flexible counterfeit detection feature.

c-1. The Bank will work to improve the efficiency of its channels for supplying cash, including coins.

c-2. With regard to banknote examination, the Bank will examine the likely impact on the workload at its Head Office and branches from recent changes in the delivery routes of banknotes between financial institutions and the Bank. Based on this examination, and taking account of lessons learned in responding to the earthquake disaster, the Bank will proceed with its reappraisal of the following: the division of roles among its operating locations, such as the Head Office and branches; and the Bank's operational framework for examining banknotes. Through these efforts, the Bank will seek to make its operational framework in this area even more stable and efficient.

- (1) The Bank worked to maintain a firm grasp of trends in cash circulation through closer dialogue with private security and transportation companies—which have come to play an important role in cash

circulation—as well as with financial institutions. Based on information gathered, the Bank continued its review of the methods for transporting cash between its Head Office and branches, as well as among branches, with a view to improving efficiency.

- (2) With regard to banknote examination, the Bank proceeded with its reappraisal of the division of roles between its Head Office and branches, as well as among branches.

- (3) The Bank will continue to seek to make its operational framework in this area even more stable and efficient, in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank.

2. Matters Relating to Treasury Funds and JGS Services

a. The Bank will ensure the appropriate provision of treasury funds and JGS services by executing all related business with precision and deliberation.

- (1) The Bank ensured the appropriate provision of treasury funds and JGS services by executing all related business with precision and deliberation, while continuing work to improve its operational risk management.

b. The Bank, responding steadily to the various institutional changes surrounding treasury funds and JGS services, will contribute to the improvement of the convenience of services for the public as well as to efforts to reform the JGS market.

- (1) In cooperation with the relevant ministries and government agencies, the Bank responded steadily to matters such as the resumption of the issuance of inflation-indexed JGBs and the change in the frequency of issuance of JGBs for retail investors from a quarterly to a monthly basis.

- (2) Regarding the revisions to the tax system for

Japanese bonds scheduled to take effect in January 2016, the Bank, in cooperation with relevant parties, deliberated on necessary changes to the JGB book-entry system and then compiled and released an outline of the changes to be implemented.

- c. With regard to treasury funds and JGS services, the Bank will proceed with its reappraisal of the division of roles among its operating locations, such as the Bank's Head Office, branches, and agents, as well as the operational framework for these services, taking into account (1) effects of the expansion of direct electronic payment of taxes, tariffs, and fees to the government; (2) movements toward the centralized online payment of salaries for government employees; and (3) lessons learned from responding to the Great East Japan Earthquake. Through these efforts, it will seek to make its operational framework even more stable and efficient. It will also conduct a systematic review of related future initiatives including possible institutional changes.**

- (1) Regarding the concentration of services that use optical character readers (OCRs) for sorting and calculating revenue items to particular locations, the Bank established an operational framework in cooperation with financial institutions and launched the project in November 2013, as scheduled.
- (2) Meanwhile, the Bank worked to maintain a firm grasp of the business operations of its agents through dialogue. The Bank also implemented measures to enhance the stability and efficiency of operational procedures for treasury funds and JGS services at its Head Office, branches, and agents.
- (3) The Bank will continue to reappraise its operational framework for treasury funds and JGS services,

taking into account the likely changes in future workloads at its Head Office, branches, and agents.

F. Matters Relating to Communication with the Public

- 1-1. The Bank will work to improve the effectiveness of its communication with the public—taking into account the latest trends in technology—so as to gain broad public understanding both at home and abroad of its policies and overall business operations. As part of this effort, the Bank will continue to enhance its dissemination of English-language materials as well as reports and research papers it releases.**
- 1-2. Regarding its web site, the Bank will work to respond better to users' diverse needs and make further enhancements to the effectiveness of its communication with the public. With a view to promoting better understanding of central banking operations, the Bank will also work to enhance the quality, range, and presentation of contents on its web site.**

- (1) The Bank worked to enhance its communication with the public, mainly by providing a clear and accessible explanation of its thinking on the conduct of monetary policy, including quantitative and qualitative monetary easing, on various occasions and via a variety of communication channels: press conferences; speeches and meetings at home and abroad; interviews including those with foreign media; and publications on its web site. The Bank will further strengthen its communication with the public on its business operations as well as its monetary policy conduct in a clear and intelligible manner.
- (2) In accordance with the Act, the Bank submitted two issues of the *Semiannual Report on Currency and*

Monetary Control to the Diet in fiscal 2013, in June and December.³

- (3) Besides holding regular in-house tours of the Head Office, the Bank hosted various public relations events as follows: special in-house tours for families visiting with children during school holiday seasons in spring and summer; a new special in-house tour for junior high school students during the summer, providing opportunities for them to deepen their understanding of monetary policy through a simulation of a Monetary Policy Meeting; and public lectures and feature exhibitions about banknotes, the history of the Bank, and other related themes as well as in-house tours of the Old Building—designated as an important cultural property—in October and November 2013. In addition, the Bank gave 18 on-campus lectures to college students on the functions and operations of the Bank. As for the "BOJ Grand Prix"—an essay and presentation contest primarily for college students—there were 120 entries from 39 colleges across Japan. Meanwhile, the total number of in-house tour visitors to the Head Office was around 42,000 in fiscal 2013, a decrease of 6.5 percent from the previous fiscal year.
- (4) The Bank released a steady stream of up-to-date information in both English and Japanese on its web site. The number of page views on its web site rose to around 135 million, an increase of 16.9 percent from the previous fiscal year; of these page views, around 20 million were made to its English-language web site, an increase of 17.6 percent.
- (5) The Bank made efforts to improve the user-friendliness of its web site by launching a smartphone site. With

respect to the contents available on its web site, the Bank fully updated "*Oshiete! Nichigin*," a question-and-answer section explaining the Bank's policies and business operations in plain terms (available only in Japanese).

- (6) The Bank also remade its introductory video, which was released under a new title "The Bank of Japan in Our Daily Lives"; enhanced the content of *Nichigin*, the Bank's public relations magazine (available only in Japanese); and revised the public relations brochure, "Bank of Japan: Its Functions and Organization."

2. The Bank will take the opportunity of internal operational reviews to canvass and exchange opinions with relevant ministries and government agencies, financial and business communities, as well as a wide range of other involved parties, and to gain a clear understanding of outside parties' needs regarding the Bank's business operations. The Bank will take due note of these in its subsequent conduct of business operations.

- (1) In fiscal 2013, the Bank provided pertinent responses to around 6,700 inquiries and comments on a wide range of matters including the conduct of monetary policy (excluding letters or e-mails that were sent for the purpose of sales, illegible, or incorrectly addressed), representing a decrease of 27.3 percent from the previous fiscal year. The Bank also received and responded appropriately to requests for information disclosure.
- (2) The Bank continued to hold regular meetings about treasury services with financial institutions designated as agents permitted to offer such services in their branches and offices, as well as working-level meetings for BOJ-NET users linked to the Head

3. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2013, namely, the issues released in December 2013 and June 2014, can be found on pages 30–36. The full texts of these two issues in Japanese as well as the summaries in English are available on the Bank's web site.

Office; both types of meeting were established as channels for exchanging views on the Bank's business operations.

- (3) The Bank will continue to seek a better grasp of public opinion as well as public needs regarding its business operations from people and organizations across a wide range of fields.

3. With the aim of improving user-friendliness, the Bank will make appropriate refinements of the statistics it compiles in line with the principles of the Statistics Act (Act No. 53 of 2007). When refining statistics, it will take account of changes in the global financial and economic structure. The Bank will look to further strengthen its communication with the public, reinforce its collaborative links with international organizations, and cooperate with the government's statistical offices that have been working to improve the accuracy of the GDP statistics. It will also look to improve the systems involved in producing statistics.

- (1) Regarding statistics, the Bank proceeded with the following actions.

(a) A member of the Bank's senior staff, namely, an Associate Director-General, served as member of the Executive of the Irving Fisher Committee on Central Bank Statistics (IFC), and participated in international discussions regarding the compilation and use of statistics. In cooperation with relevant domestic parties, the Bank proceeded with refinements of statistics in line with proposals from the G-20 and the International Monetary Fund (IMF).

(b) The Bank started, one-by-one, to collect new source data to enhance the BIS statistics, namely, the International Locational Banking Statistics and

International Consolidated Banking Statistics.

- (c) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank reviewed survey items for introduction/removal, deciding, for example, to introduce a new survey on the inflation outlook of enterprises. The Bank also continued to look into different methodologies for sample design based on the Economic Census data and the Establishment Frame Database, a database which collects regularly-updated information on all establishments and enterprises.
- (d) The Bank drafted basic guidelines on revising the Flow of Funds Accounts Statistics (FFA) in line with the System of National Accounts, 2008 (2008 SNA), the latest version of the international statistical standard for the national accounts. In addition, taking account of international demand for the refinement of accounting statistics, the Bank reviewed and expanded the FFA through, for example, the reclassification of public and private sectors and the compilation of data series for the issuance and holding of bonds by remaining maturity.
- (e) The Bank proceeded with the arrangements for revising the base year for the corporate services price index (CSPI) from 2005 to 2010: it reviewed the price sampling and quality adjustment methods and released the final draft for the base-year revision.
- (f) The Bank made progress in its examination into the launch of a wholesale services price survey, one of the aims of which is to contribute to improving the accuracy of the System of National Accounts (SNA) statistics.
- (g) With regard to the balance of payments statistics, the Bank completed its system development for

conforming with the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6). It also supplied appropriate information on, for example, accompanying changes in the reporting of the data.

- (h) The Bank, as both a compiler and user of statistics, closely exchanged views with the government, which is responsible for compiling major sets of economic statistics such as the SNA, and also provided feedback.

4. In support of the activities of the Central Council for Financial Services Information (CCFSI) and Local Financial Services Information Committees (hereafter Local Committees), the Bank will continue to contribute to financial education and raise public awareness and understanding of financial and economic issues. To this end, the Bank will thoroughly evaluate the efficacy of the various approaches employed to date and concentrate future efforts on those that have proved the most effective and efficient, paying due attention to the particular characteristics of target recipients and cooperating closely with relevant parties.

- (1) As the secretariat of the CCFSI, the Bank supported the CCFSI's efforts to pursue the following actions in cooperation with Local Committees and relevant parties, including ministries, local public bodies, and financial and economic organizations.

- (a) In line with the report by the Study Group on Financial Education set up within the Financial Services Agency, in June 2013 the CCFSI established the Committee for the Promotion of Financial Education and promoted efforts to

address the issues identified in the report. The CCFSI also worked to forge links between consumer education and financial education by, for example, participating in the Consumer Education Promotion Council set up within the Consumer Affairs Agency.

- (b) Regarding support for the promotion of financial education, the CCFSI organized the following: festivals at five locations where children could learn about money with their families; open classes at 22 schools; seminars for school teachers and undergraduate and graduate students on teacher-training courses; and the nationwide distribution of teaching material targeted mainly at high school students (available only in Japanese). In addition, the CCFSI held essay competitions for students and teachers, as well as lectures for students at six universities.

- (c) In terms of raising awareness and understanding of financial and economic issues among the public, the CCFSI engaged in the following: the publication of a pamphlet for the middle-aged and the elderly (available only in Japanese); the launch of the CCFSI's smartphone site; and the dispatch of speakers to public lectures organized by Local Committees.

- (2) The Bank, as the secretariat of the CCFSI, supported the CCFSI's continued conduct of the *Survey of Household Finances* (available only in Japanese). It also contributed to the compilation of a report by the OECD and other organizations on national strategies for financial education in major economies around the world.