

# Strengthening Payment Systems in Asia

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Session II :The Sophisticated Payment Systems, Technologies and Associated Regulatory Issues

***The Bank of Japan's initiatives  
to strengthen the Japanese payment and settlement systems***

**Haruyuki Toyama**

Deputy Director-General

Payment and Settlement Systems Department, Bank of Japan

## **Abstract**

Liquidity is essential for smooth functioning of payment and settlement systems. Central banks are in a position to control the total amount of liquidity, and when markets do not function well, provide liquidity to individual financial institutions. Also, implementation of monetary policy is sustained by sound payment and settlement systems. Accordingly, central banks usually play important roles in keeping payment and settlement systems in good order. They operate RTGS systems with finality and oversee the private sector's payment and settlement infrastructures. In doing so, they endeavor to strike a high-level balance between safety and efficiency for the whole payment and settlement systems. The Bank of Japan does the same. G10 and other two central banks form the BIS Committee on Payment and Settlement Systems where they gather the participating central banks' expertise and experiences and decide on international standards including the Core Principles for Systemically Important Payment Systems. Along with these global move, the Bank of Japan has set a pace for reducing settlement risks, introducing the RTGS mechanism in 2001 and the liquidity saving feature in 2008 for the BOJ-Net and induced the private sector's operators to adopt risk reduction tools based on the international standards. Also, the Bank of Japan participates in coordinated oversight of CLS and SWIFT. These efforts reaped a reward when payment and settlement systems were not hampered by the failure of Lehman Brothers last fall. However, the incident revealed some rooms for improvement in exit processing and other procedures of payment and settlement infrastructures. In the middle-term perspective, globalization and tightened interdependencies among payment and settlement infrastructures have called for heightened interoperability and strengthened resiliency.