

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

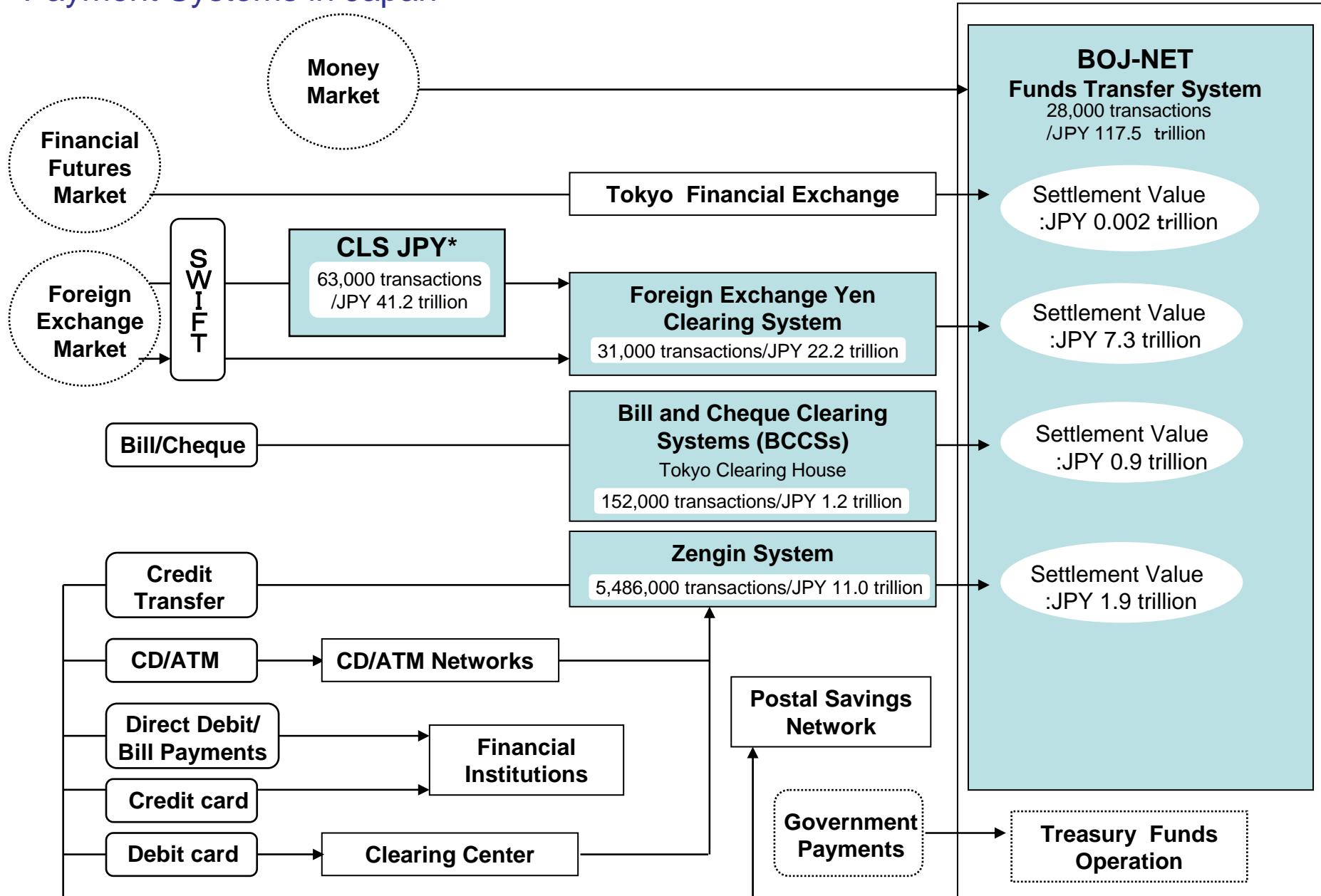
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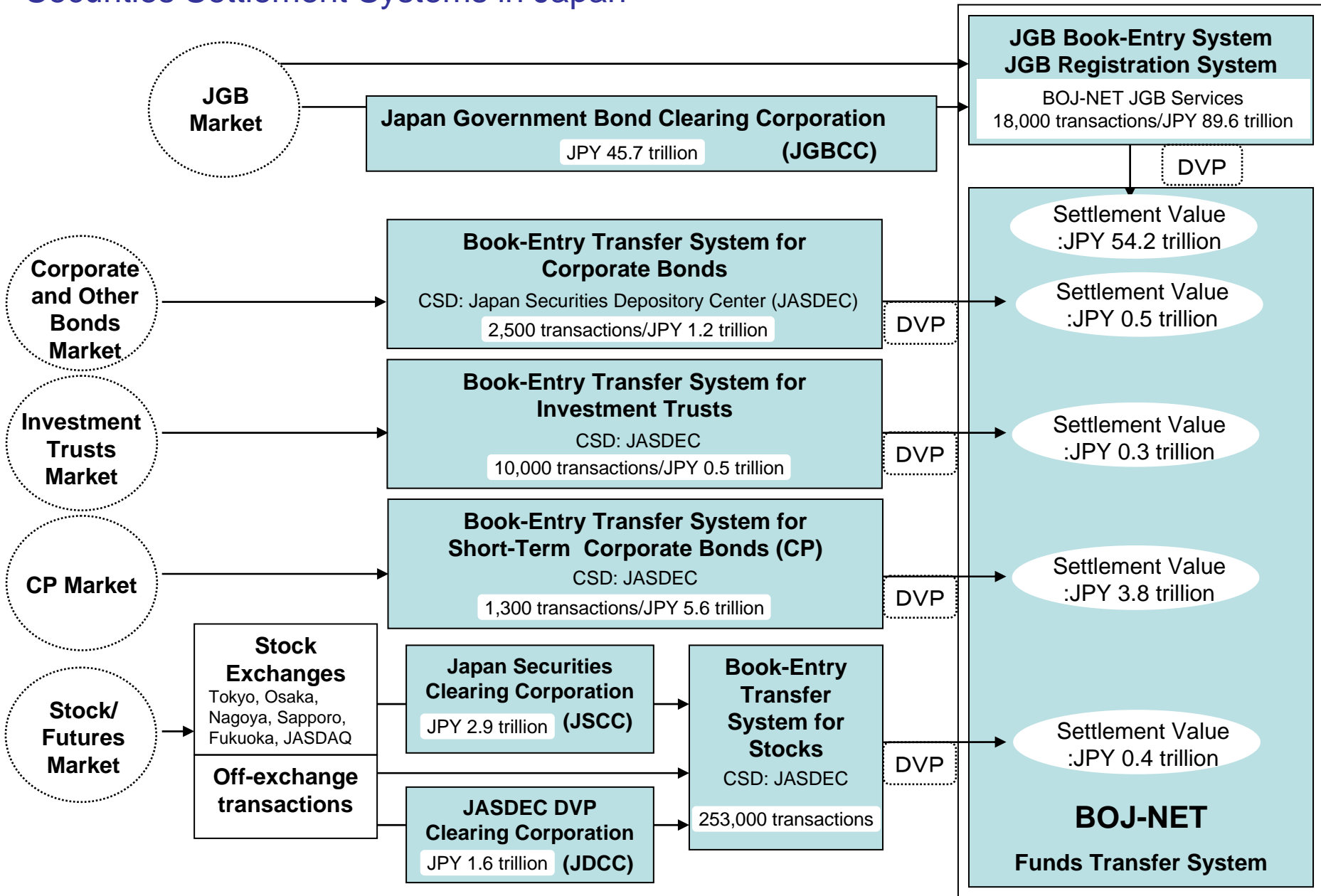
Payment Systems in Japan

※Daily average for 2008/Q1-Q3.



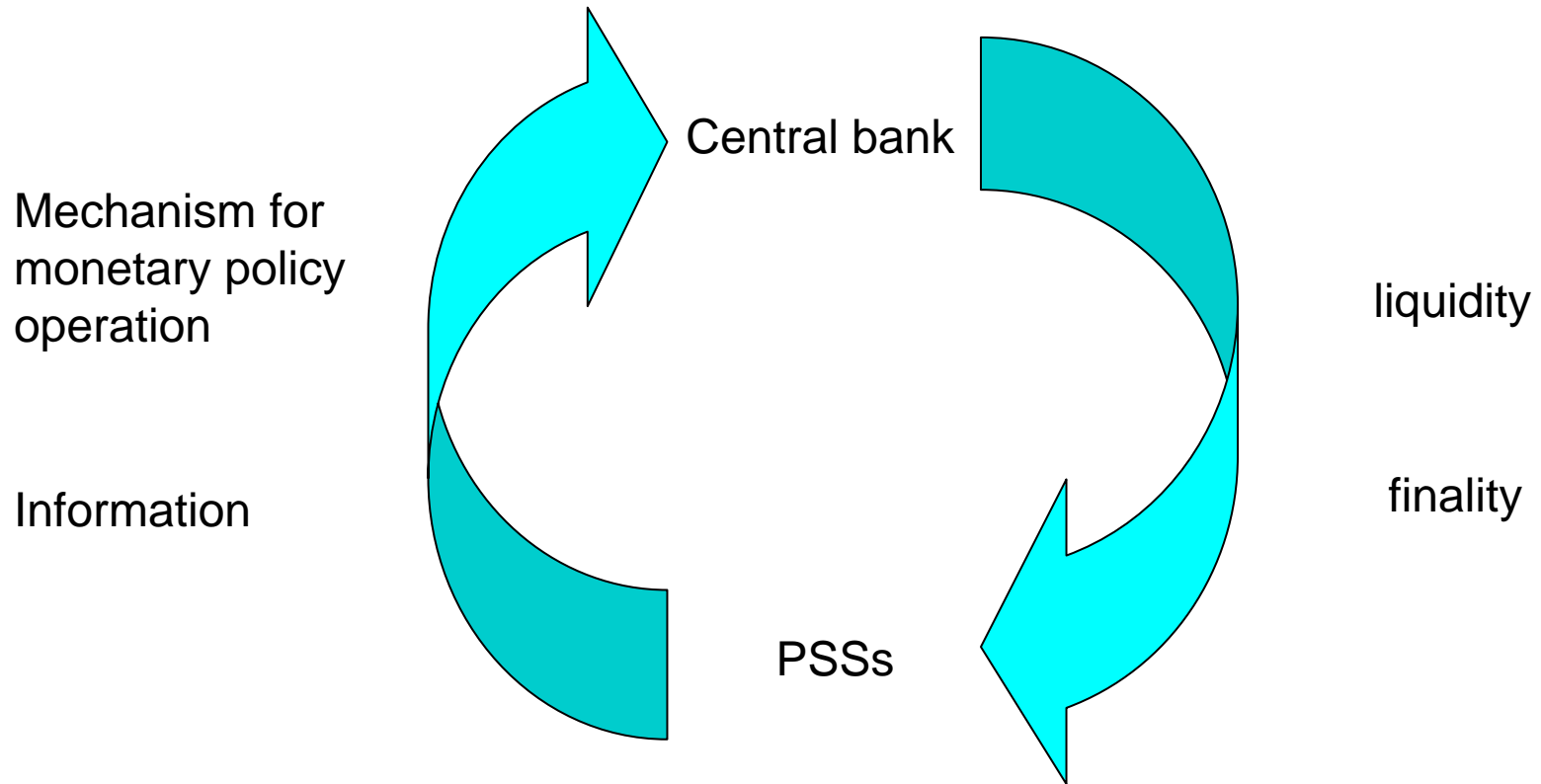
*Daily average for 2007.

Securities Settlement Systems in Japan



※Daily average for 2008/Q1-Q3. Figures for the CCPs show the amounts of settlement obligations accepted.

Central banks need safe and efficient payment and settlement systems (PSSs) for discharging their primary tasks while PSSs need central banks for safe and efficient operation.



When liquidity is dried up as we have seen in recent months, central banks will struggle to restore the functionality of payment and settlement systems.

- In the midst of heightened uncertainties, providers of liquidity demand higher risk premiums on interest rates, require safer collateral, or in extreme cases, terminate credit lines. Fund takers will have to sell their assets, if they can, or resort to their central banks for fresh money.
- Central banks normally aim to control the total amount of money by providing liquidity through money market operations, expecting that the market mechanism will distribute the said liquidity to those in need. When this basic role of markets does not work, central banks may have to resort to extraordinary measures that are not employed in normal times, taking over roles of banks in distributing funds in money markets and even providing credits to firms. We have witnessed a number of such measures adopted by some central banks during the ongoing turmoil.

Important outputs of the Committee on Payment and Settlement Systems

(Standards)

- Core Principles for Systematically Important Payment Systems (Jan 2001)
- Recommendations for Securities Settlement Systems (Nov 2001, joint work with the International Organization of Securities Commissions)
- Recommendations for Central Counterparties (Nov 2004, joint work with IOSCO)

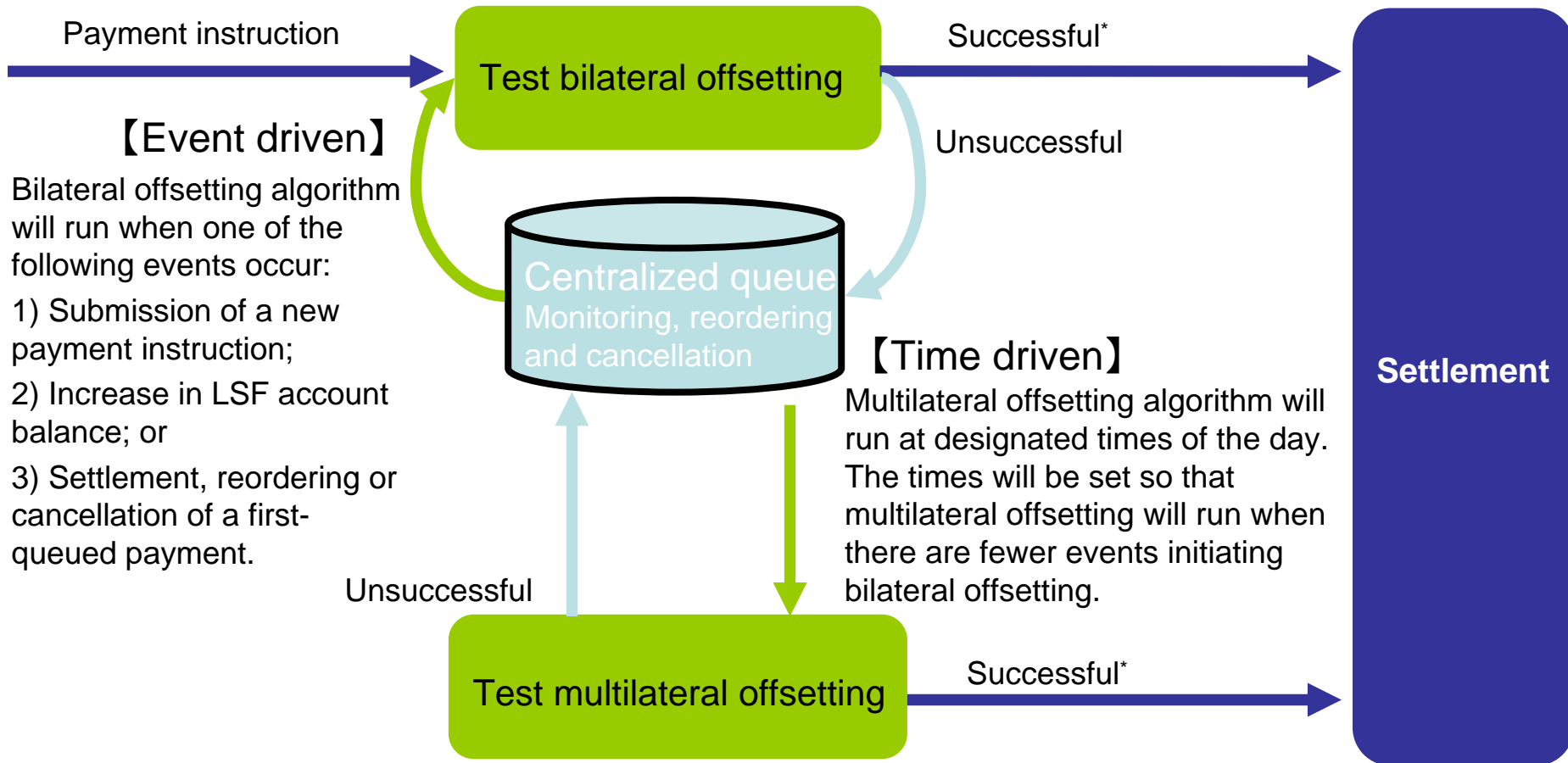
(Reports)

- Central bank oversight of payment and settlement systems (May 2005)
- New developments in clearing and settlement arrangements for OTC derivatives (Mar 2007)
- The interdependencies of payment and settlement systems (Jun 2008)

BOJ-Net is now installed with liquidity saving features.



Settlement process for LSF accounts



【Event driven】

Bilateral offsetting algorithm will run when one of the following events occur:

- 1) Submission of a new payment instruction;
- 2) Increase in LSF account balance; or
- 3) Settlement, reordering or cancellation of a first-queued payment.

【Time driven】

Multilateral offsetting algorithm will run at designated times of the day. The times will be set so that multilateral offsetting will run when there are fewer events initiating bilateral offsetting.

*Including simple gross settlement.

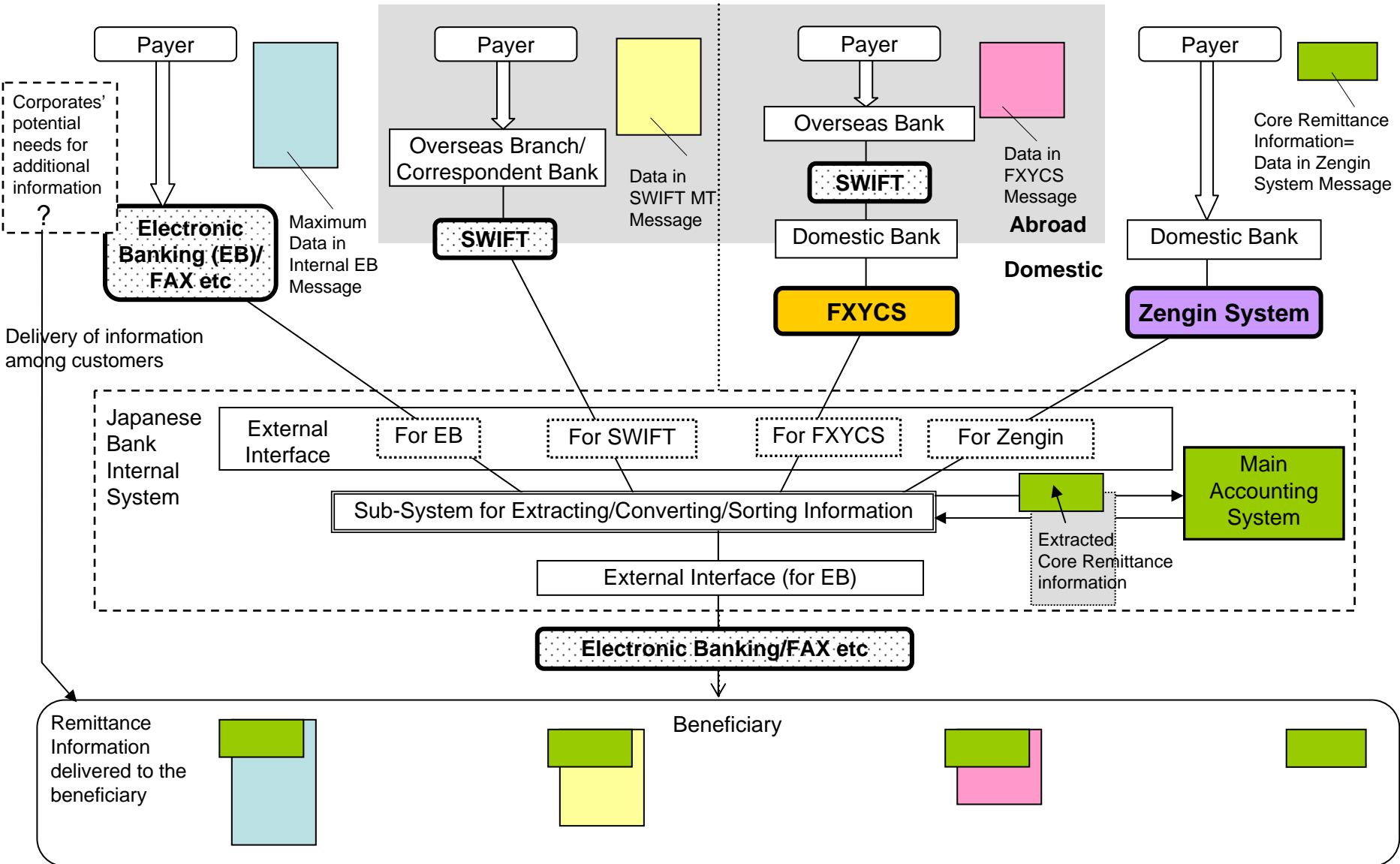
Lessons from the failure of Lehman Brothers

- Risk reduction mechanism regarded essential
- Rooms for improvements identified for expedited and orderly exit from payment and settlement systems
- Reduced functionalities in payment and settlement systems caused by curtailing or closing caps or lines for overdrafts
- Complexities arisen from the multi-layered corporate structure and the difference in bankruptcy regime among countries where LB placed establishments
- Fears grown over potential losses from CDS transactions and call for establishment of central counterparties and other mechanisms for post-trade processing

Remittance Information Delivered to the Bank's Own Customer

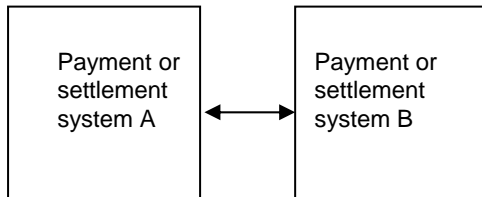
Internal Network → Internal Network

External Network → Internal Network

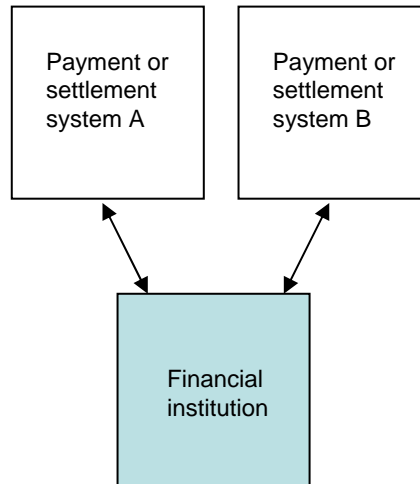


Form of Interdependencies

System-based interdependencies



Institution-based interdependencies



Environmental interdependencies

