

## ***Independence and Accountability of Central Banks: In the Case of the Bank of Japan***

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### **Abstract**

The expansionary balance-sheet policy, which the Bank of Japan has continually implemented, recently induces the discussions as to governance of the BOJ. This paper attempts to reconsider the effects of the balance-sheet policy of the BOJ from the viewpoint of governance of central banks. At first the paper describes the historical developments of the organization of the BOJ, and explicates the current structure of governance of the BOJ. Subsequently, it clarifies the risk factors of the current balance-sheet policy of the BOJ, and discusses independence and accountability of central banks. The paper indicates that under the current governance structure of the BOJ, enhancement of the accountability by making the BOJ disclose additional matters in its annual financial report is necessary to minimize the future risk regarding its financial health.

**Keywords:** accountability, governance, balance-sheet, independence, BOJ

## **I Introduction**

Under circumstances of global financial crises, especially after the collapse of Lehman Brothers in September 2008, central banks of major countries have expanded their balance sheet significantly by purchases of Long-term Government Bonds (LGBs). The Federal Reserve Board, the Bank of England, the European Central Bank, and also the Bank of Japan (BOJ) chose the balance-sheet policies, in face of their particular environments. Among others, the balance-sheet policy of the BOJ is in larger scale and has long-term duration as compared with that of other central banks.

Recently, we can find the critical arguments regarding the effects of the balance-sheet policy carried out by the BOJ (for example, Kawamura, 2017). This situation also invokes discussions for the issue of “governance of central banks,” which has been intensively discussed in the Bank for International Settlements (Central Bank Governance Group, 2009).

The latest balance-sheet policy of the BOJ is one of the monetary policies of quantitative and qualitative easing (QQE), which is the first of the three arrows released by the Abe administration, so-called “Abenomics” in April 2013. But this policy is so “bold” and “different dimensional,” largely differing from the conventional monetary policies, involving the large risk for the future.

We argue that the issue of governance of central banks lies behind recent discussions with regard to the balance-sheet policy of the BOJ. Especially problems arise regarding independence and accountability of the BOJ.

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This paper attempts to reconsider the effects of the balance-sheet policy of the BOJ from the viewpoint of governance of central banks. At first the paper describes the historical developments of the organization of the BOJ, and explicates the current structure of governance of the BOJ. Subsequently, it clarifies the risk factors of the current balance-sheet policy of the BOJ, and discusses independence and accountability of central banks.

## II The BOJ and its Organization (History)

The BOJ was established in 1882 under the Bank of Japan Ordinance for the purpose of amortizing the inconvertible bank-notes which had been issued in greater volume for the Seinan Civil War of 1877, as well as stabilizing the currency values, and establishing modern credit system through institution of national banking system centered on central bank.

The organization of the BOJ under the BOJ Ordinance was in many ways similar to that of the company limited by shares in company law.<sup>1)</sup> A lot of managerial matters including elections of the executive directors and the auditors were decided at the shareholders' meetings. With regard to determination of discount rates or amount of the drafts and amount of reward for the officers, the directors board, which was composed of the governor, the deputy governor, and the executive directors decided. However, the government had involvement with personnel affairs regarding the BOJ's officers. The governor was appointed under the authority of the Emperor, and the appointment of the deputy governor also needed permission from the Emperor. The executive directors and the auditors were elected at the shareholders' meetings and appointed by the government.

During the wartime period, under the national mobilization system, the Bank of Japan Act taking on the character of strong state control was promulgated in 1942. Thereby the BOJ was reorganized from "the corporation in stock company form" to "the corporation based upon special law" with capital of 100 million yen (contribution by the government shared 55 per cent). Accordingly, the shareholders of the BOJ under the BOJ Ordinance were transferred to the "contributors" to the BOJ under the BOJ Act. At the same time the shareholders' meeting was abolished, and the Act newly stipulated that the governor and the deputy governor shall be appointed by the Cabinet, and the executive directors shall be recommended by the governor and appointed by the Finance Minister, and that the government shall have the power to dismiss the BOJ's officers.

After World War II, the Supreme Commander for the Allied Powers at first provided for the Japanese government the "Banking Board" proposal concerning governance of the BOJ, which proposed creation of governmental agency with the authority regarding supervision for financial institutions in general as well as national finance. Thereafter, Joseph Dodge, the financial adviser to the SCAP, instead, proposed for creation of the Policy Board outside the BOJ with a mission of making decisions as to the BOJ's policy. However, ultimately, in May 1949, the BOJ Act was partly revised so that the Policy Board was newly created *within* the BOJ, thereby transferring the highest decision-making function from the governor to the Policy Board.<sup>2)</sup> And the directors board, originated in the BOJ's articles of incorporation, and having substantive control over the decision-making of the BOJ, was retained within the BOJ's organization.

During the 1990s with economic depression after the burst of bubble economy and bad loan problems as a background, it came to be recognized that one monetary policy could have crucial impacts upon both national and international economy, and that it was important for central bank to obtain confidence from the citizens. And in proceeding structural reforms of financial and monetary system and progressing globalization of the economy, to obtain confidence from global markets having a respect for market principles became one of the important

issues regarding the monetary policies. In these changing environments, reform of the central banking system was considered necessary. The Study Group on Central Bank, which was organized as a private advisory group under the Prime Minister for this purpose, summarized that the issue of most urgent importance was assurance of independence of the BOJ, stressing the independence with “transparency” (Study Group on Central Bank, 1996). Finally, the BOJ Act was amended in June 1997 in the light of strengthening independence of the BOJ, particularly ensuring transparency about implementation of the BOJ’s monetary policies. Thereby independence and neutrality of the Policy Board was heightened. At the same time the directors board was abolished so that the Policy Board became a singular Board.

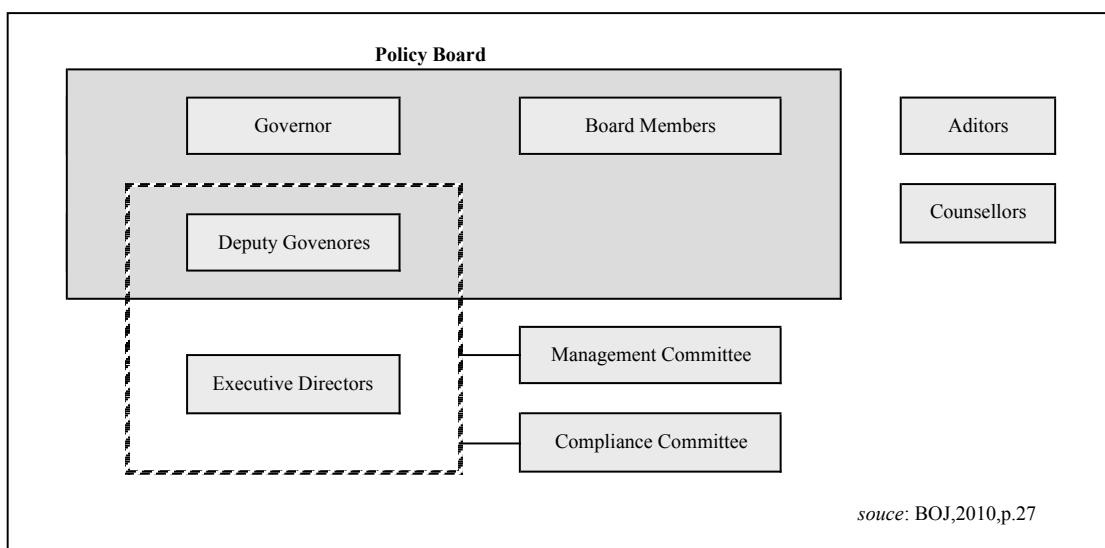
### III Present Governance Structure of the BOJ

#### 3.1 Organization

Under the amended BOJ Act, the Policy Board determines the guideline of currency and monetary control, and sets the basic principles for carrying out the BOJ’s business operations. The Policy Board also has supervisory function. The Act stipulates that the Board shall supervise the execution of their duties by the BOJ’s officers, except for the auditors and the counsellors (Article 15 (3)).

The Policy Board consists of the governor, two deputy governors, and six Board members (amounting to nine members). The governor, the deputy governors, and the Board members shall be appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors (Article 23 (1), (2)). The term of office is five years for each member (Article 24 (1)), and the members are not dismissed against their will during their terms of office (Article 25 (1)).

Moreover, the auditors (*kanji*<sup>3)</sup> are appointed by the Cabinet, and audit the business operations of the BOJ, and may, when they find it necessary based on the audit results, submit their opinions to the Finance Minister, the Prime Minister or the Board (Article 22 (3), (4)). The number of the auditors is three or fewer, and the term



**Figure 1:** Organization Chart of the BOJ

of office is four years. And, the executive directors and the counsellors are appointed by the Finance Minister based on the Policy Board's recommendation. The counsellors are part-time officers, which are expected to have advisory function and are customarily elected from the business circles.

Further, for internal governance, in April 2005, the BOJ established two independent committees, the management committee and compliance committee outside the Policy Board. The management committee, which consists of the deputy governor and the executive directors examines and manages the bank-wide issues regarding its business operations. The compliance committee, consisting of members appointed by the governor from among the deputy governor and the executive directors, the director-general of the internal auditors' office, and legal experts, ensures that BOJ's officers and employees perform their duties fairly and in compliance with the relevant laws and regulations.<sup>4)</sup>

### 3.2 Supervisory Function

Of the officers and committees mentioned above, the auditors are expected to have the most important supervisory function over the execution by the BOJ's officers. The following figure represents recent appointees (**Figure 2**). Seemingly it may be customary that of three auditors, two are from the BOJ and one is from the Ministry of Finance. Further the auditors don't constitute the audit committee in general terms. It appears to be recognized that they have not collectively rather individually the supervisory responsibilities. Thus, although the auditors should assume significant role within the governance scheme of the BOJ, it is, in reality, unlikely to play an effective supervisory role over the BOJ's business operations.

### 3.3 Governance for Enhancing the Accountability

While the BOJ is ensured the independence by the BOJ Act, at the same time it is expected to accomplish the accountability (Article 3, 20). The accountability which the BOJ Act requires to the BOJ (that is, "ensuring transparency" implied in the wording of Article 3) is construed as adequately fulfilling its duties of publicity and disclosure of information.<sup>5)</sup>

The Study Group report which had substantial effects on the 1997 amendment of the BOJ Act indicates that although the BOJ needs to be ensured strong independence or neutrality in implementing the monetary policy, the BOJ cannot exist independently of the Diet and Cabinet, under our government system that the Diet represents the Japanese citizens or sovereigns and the Cabinet exists with confidence from the Diet. Upon this ground, the report contends that the BOJ has the accountability to the citizens and the Diet through transparent operations of its policy, and thus stresses the independence with transparency to the BOJ.<sup>6)</sup> More particularly, this argument implies that in the realm of central banking, the bank should fulfill its accountability by ensuring high level of transparency as to the decision-making process of monetary policies. According to the Study Group, for this purpose, by providing timely information to global markets through several media, the BOJ activities should be given strong confidence from the markets. Thereby effectiveness of the monetary policies would be improved.<sup>7)</sup>

Probably it was commonly recognized that with regard to the accountability of central bank the corporate accountability model could not apply due to significance of its mission to be fulfilled. In fact, the issue as to accountability of the BOJ tended to be discussed in the light of the public accountability of governments exclusively.

Year	Auditor (BOJ)	Auditor (MOF)	Auditor (BOJ)
2004		Mr. Mitsuya Suzuki(MOF) (2004.2-2008.1)	Mr.Yasutada Sasaki(BOJ) (2005.4-2009.3)
2005			
2006			
2007	Mr. Toshiharu Murayama(BOJ) (2007.9-2011.8)	Mr. Makoto Hosomi(MOF) (2008.2-2012.1) (2012.2-2016.1)	Mr.Michio Masukawa(BOJ) (2009.4-2013.3)
2008			
2009			
2010	Mr. Kazuhito Osugi(BOJ) (2011.9.9-2015.8)	Mr. Makoto Hosomi(MOF) (2008.2-2012.1) (2012.2-2016.1)	Mr.Yuji Iino(BOJ) (2013.4-2017.3)
2011			
2012			
2013	Mr. Ryuichi Shogan(BOJ) (2015.9.9-2019.8)	Mr. Toshihiko Fujita(MOF) (2016.2-2020.1)	Mr.Ryota Yanagihara(BOJ) (2017.4-2021.3)
2014			
2015			
2016		Mr. Toshihiko Fujita(MOF) (2016.2-2020.1)	Mr.Ryota Yanagihara(BOJ) (2017.4-2021.3)
2017			
2018			
2019			

**Figure 2:** Auditors (*kanji*) appointed in recent years

Originally the BOJ was established as a stock company, that is, private institution.<sup>8)</sup> Nonetheless the BOJ has been regarded as a quasi-governmental agency because of specialty of its activities. Investment securities are issued for capital contribution to the BOJ, and these are now traded on the JASDAQ Securities Exchange. With respect to ownership right, under the current BOJ Act, the contributors to the BOJ's capital are entitled to have neither voting right nor right of rectifying the business operations of the BOJ, and both claim for dividends and claim for residual assets when the BOJ is dissolved are strictly limited. Therefore, the view that capital of the BOJ has little functional significance predominates.<sup>9)</sup> In the light of the supposition that the greater part of residual assets in the case of dissolution will belong to the Japan's national treasury, the "Japanese citizens" rather than the contributors to the capital can be regarded as the most central stakeholder of the BOJ.<sup>10)</sup>

The key questions in design of the accountability arrangements are *to whom* is the central bank accountable, *for what* is it held accountable, *how* is accountability accomplished.<sup>11)</sup> In the case of the BOJ, to whom is the bank accountable? As far as we can depend on the above analysis, the BOJ should be held accountable to the Japanese citizens.

Under the BOJ Act, the BOJ is also required to keep accounting records and prepare its financial statements including balance sheet. And when submitting the financial statements to the Finance Minister, the BOJ must attach a statement of accounts for business and the auditor's written opinion thereon (Article 52(2)). With regard to this aspect of accountability, it is arguable that "[a] cornerstone of public accountability with respect to resources is the integrity of external financial reporting."<sup>12)</sup> The external financial reporting of the BOJ is to be reviewed by the auditors (*kanji*). However, as discussed above, it is hard to expect such auditors to accomplish supervisory function like the audit committee under the board of directors of the private corporations.

From another aspect, some of the BOJ's financial documents are subject to audits by the Board of Audit.<sup>13)</sup> However, the legislative mandate of the Board of Audit of Japan is inherently to ensure the adequacy of financial management by continuously auditing and supervising financial management and to verify the final accounts of the expenditures and revenues of the State based on the results of audit.<sup>14)</sup>

In sum, it can be thought that in the context of central banking, the BOJ should be held accountable to the Japanese citizens. We must assess as to the current status of governance mechanism, especially, accountability arrangements of the BOJ from this perspective. Under the present governance structure, it is doubtful whether the BOJ can sufficiently accomplish its accountability for financial functions, except for monetary policy, and for resources to the Japanese citizens.

#### **IV Unconventional Monetary Policies by Central Banks: Balance-sheet Policy**

The BOJ has implemented unconventional monetary policies, including the so-called "balance-sheet policy," two times in the past. This policy is to buy large amounts of Long-term Government Bonds (LGBs) under zero interest-rate, resulting in enlargement of the balance sheet of central bank. The BOJ adopted the policy under the quantitative easing policy pursued from March 2001 firstly, and under QQE policy pursued from March 2013 secondly.

Under this policy, the balance sheet of the central bank was expanding by an increasing amount of the LGBs at the assets side and the deposits balance at the liabilities side, and such expansion may give rise to the various risks in the future. So this policy is allowed as short-term technique in case of emergency such as financial crisis. If central bank sticks to this policy thoughtlessly, the bank possibly will have to spend a lot of cost and time in the process of normalization. Therefore, central bank needs to establish certain self-regulatory system when it adopts a sort of the balance-sheet policy.

Under the balance-sheet policy, the maximum probable risk is the expanding maturity mismatch between assets and liabilities. The lengthening of the average remaining maturity of LGBs on the assets side is directly linked to the lengthening of duration, which means that there is a higher risk of bond prices falling if interest rates rise. In principle, central bank adopts the amortized cost method as the valuation method for LGBs. That method is that even if the market value of LGBs in hold falls due to a rate rise, no valuation loss is reflected on the balance sheet. The amortized cost method is a valuation method applied to held-to-maturity debt securities under corporate accounting standards, and the bank records the face value of LGBs on the assets side of the balance sheet and amortizes the difference between the acquisition cost and the face value, equally every period, until maturity. If the bank alters the holding objects from held-to-maturity to investment, the bank must change valuation method to mark-to market valuation. In the future, in the case of price decline of LGBs as a result of rising rates, the bank has to impair LGBs.<sup>15)</sup>

The risk of impairment of its balance sheet as a result of rising rates occurs on the liabilities side, too. This is because, under the supplemental reserve facility, the bank pays interest on the balance of current account deposits at the bank exceeding legal reserve requirements (so-called excess reserves). The risk may materialize when the bank has raised the rate of interest on these excess reserves. The balance of current account deposits at the bank is expected to rise. When the time comes for the bank to raise the interest rate on excess reserves after tapering easing, the bank's interest payments will increase and may squeeze its current account surplus.

## V Balance-sheet Policies adopted by the BOJ

### 5.1 Balance-sheet policy of the BOJ: 2001-2006

In Japan, under circumstances of the financial crisis caused by the burst of bubble economy at the end of the 1980s, the BOJ embarked on the balance-sheet policy in March 2001. Under the policy, the BOJ instituted the self-regulatory rule to limit its Long-term Japanese-government Bonds (LJBs) buying to the amount of bank notes in circulation. This rule, so called "the bank-note rule," was established in March 2001.<sup>18)</sup>

Bank-Note Rule : LGBs in hold < Bank-Notes in circulation

This rule was intended to avoid imbalance in the maturity structure of the BOJ's assets and liabilities. Also, for the BOJ, which had already embarked on an unconventional monetary policy, the bank-note rule could be regarded as the central bank's final indication of self-discipline against political pressure so as to prevent misunderstanding that the purchases of LJBs were for the purpose of fiscal financing.

<b>Balance Sheet as at March 31,2005</b>					
Asset	(Trili Yen)	(%)	Liabilities,Capital	(Trili Yen)	(%)
Long term bonds	63	40%	Bank notes	79	51%
Short term bonds	36	23%	Current accounts	33	21%
Bills bought	44	28%	Other Liabilities	42	27%
Others	49	31%	Capital	2	1%
Total	156	100%	Total	156	100%

**Figure 3:** Balance Sheet of the BOJ at 2005

As of the end of March 2005, the balance of LJBs in hold was up to 60 trillion yen, but the BOJ still complied with its self-regulatory rule and kept the balance of LJBs in hold under the bank notes in circulation. At that time, the BOJ also had another self-regulation in holding the assets.<sup>17)</sup>

- Soundness: the BOJ should hold the assets which have high sound credibility. LJBs are highest credibility assets.
- Neutrality: the BOJ should not affect the market pricing through holding the assets of the BOJ.
- Liquidity: the BOJ should keep liquidity about holding the assets when the BOJ decides to buy them.

The first balance-sheet policy, which the BOJ had implemented for the first time in major countries in 2001 was finally released in 2006, and the financial position of the BOJ could be normalized within 4 months after the release because the BOJ continued to comply with the self-regulatory bank-note rule.

## 5.2 Balance-sheet Policy of the BOJ under QQE: Removal of Bank-Note Rule from 2013 onward

The balance-sheet policy was evoked again. The monetary policy of the BOJ entered a new phase in April 2013. This is referred to as the policy of quantitative and qualitative easing (QQE), one of the drastic economic policies released by the Abe administration.

“Quantitative easing” in QQE is in the below three senses.

- Changing the main target for money market operations from the uncollateralized overnight call rate to the monetary base,
- Conducting money market operations so that the monetary at an annual pace of about 60-70 trillion yen,
- Doubling the money base and holdings of LJBs commercial paper, corporate bonds, exchange-traded funds (ETFs) and real estate investment funds (J-REITS).

“Qualitative easing” is in the sense that it consists of making LJBs with all maturities eligible for purchase, and more than doubling the average remaining maturities of LJBs purchases to 7 years, which is equivalent to the average maturity of LJBs issued.

And then the BOJ has accelerated the policy by introducing “minus interest” and “long-term interest manipulation,” after 2016. Consequently, the balance sheet of the BOJ of 2016 is as below.<sup>18)</sup>

Balance Sheet as at March 31,2016					
Asset	(Trili Yen)	(%)	Liabilities, Capital	(Trili Yen)	(%)
Long term notes	377	77%	Bank notes	100	20%
Short term notes	47	10%	Current accounts	378	77%
Bills bought	45	9%	Other Liabilitiess	12	2%
Others	21	4%	Capital	4	1%
Total	490	100%	Total	490	100%

Figure 4: Balance Sheet of the BOJ at 2016

The amount of holding LJBs are multiplied 4.6 times to that of the bank notes in circulation. This situation will affect the stability of fiscal administration. The weighted average return of LJBs is only 0.3%<sup>19)</sup> and if the BOJ raises short-term interest slightly such as 0.5%, the BOJ will have risk of “negative spread.” In addition, the BOJ’s balance-sheet impairment risk may occur on the liability side. This is because the burden of interest payments on the outstanding current account balance exceeding the required reserves (excess reserves) will expand. The reserves are over 320 trillion yen. In the process of terminating the balance-sheet policy, the BOJ will have to pay financial cost of around 3 trillion yen per year, assuming that negative spread between assets and liabilities will be only 1%. The net worth of the BOJ is only 7.6 trillion yen, the bank will be in excess debts within 2-3 years.<sup>20)</sup> The BOJ will have to pay additional interest to the private banks, and consequently the surplus of the BOJ will continue to decline. In this case, the Japanese citizens will have to bear the compensation for deficiency of the surplus.

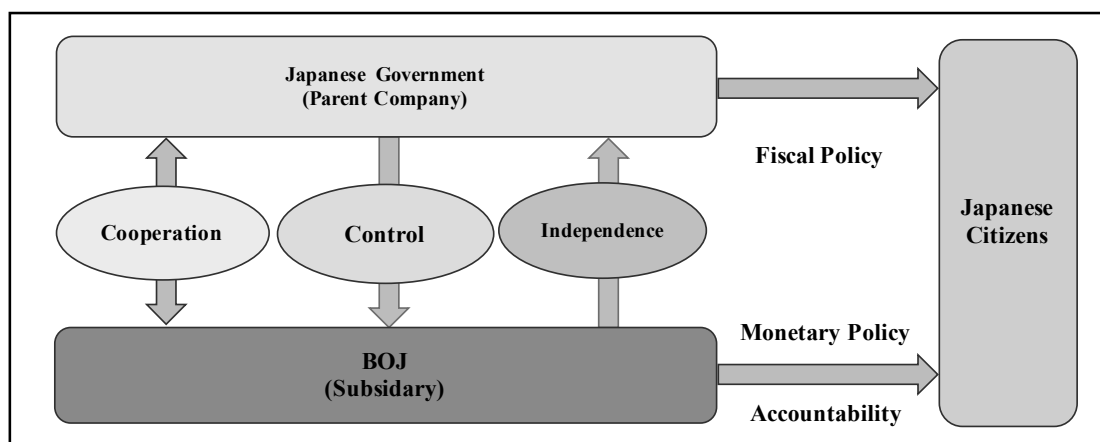
## VI Independence and Accountability of the BOJ

### 6.1 Independence and Accountability reconsidered

With the introduction of QQE, the BOJ temporarily abandon the self-regulatory bank-note rule and has continued the large-scale purchases of LJBs. As a result, the BOJ is now faced with the increasing risk



concerning the balance sheet. To solve the problem, the BOJ has to maintain the independence from the Japanese government and then reconstruct the self-regulatory system for the purpose of accomplishing accountability to related parties of the BOJ. The governance structure surrounding the BOJ is illustrated as below.



**Figure 5:** Governance of the BOJ

The Japanese government and the BOJ aim to achieve the financial stability and the growth of the Japanese economy in coordination. The relationship between the Japanese government and the BOJ is that the former controls the latter by substance because the government has 55% of the BOJ's capital and the governor and the deputy governor are to be appointed by the Cabinet. Thus the relationship is close to the parent-subsidiary relationship. On the other hand, the BOJ has to maintain the independence from the government so that it would not arbitrarily implement its financial policies.<sup>21)</sup>

To enhance the independence, the self-regulation of the BOJ has performed a very important function. Especially the bank-note rule under the balance-sheet policy had preventive effects upon the excessive financial or fiscal policies by the government. But under the balance-sheet policy after the introduction of QQE, the BOJ decided to temporarily abandon the bank-note rule and has dramatically expanded its purchases of LJBs. The BOJ should take responsibility for its own financial health. In this situation, adequately accomplishing the accountability to the Japanese citizens is very important in order to recover its financial health.

## 6.2 Accountability of Central Bank

The most important element of the accountability of central bank is to explain about its financial health to the citizens. In the case of performing the high-risk monetary policy such as the balance-sheet policy, the governor of central bank has to explain the recovery process about the financial health of the balance sheet, timely and in detail.

The Lehman shock brought about an unprecedented financial crisis around the world. After the shock, central banks of major countries such as the BOJ, the FRB, and the ECB introduced the balance-sheet policies. For

Balance Sheet as at December 31,2007					
Asset	(Bill \$)	(%)	Liabilities,Capital	(Bill \$)	(%)
Long term bonds	746	82%	Bank notes	792	87%
Short term bonds	94	10%	Other Liabilities	86	9%
Others	75	8%	Capital	37	4%
Total	915	100%	Total	915	100%

Balance Sheet as at December 31,2016					
Asset	(Bill \$)	(%)	Liabilities,Capital	(Bill \$)	(%)
Long term bonds	2,567	58%	Bank notes	1,463	33%
Mortgage-backed securities	1,795	40%	Deposits	2,216	50%
Others	91	2%	Other Liabilities	734	16%
			Capital	40	1%
Total	4,453	100%	Total	4,453	100%

**Figure 6:** Balance Sheets of the FRB

example, the FRB's balance sheets of 2007 before the shock and of 2016 after introducing the policy are as below, respectively.

The total asset amount of the FRB of 2016 expands to 5 times that of 2007. The FRB chairman from time to time commented on the "exit and restoring of financial health strategy" in the congressional testimonies (Federal Reserve Board, 2016). These comments were to the effect that by discontinuing to buy LGBs, they will successively mature and disappear from the FRB's balance sheet. Additionally, the FRB issued the discussion paper in 2013 (Seth *et al.*, 2013), which disclosed the process and simulation of restoring its financial health. This paper had positive impact on the market. These processes are considered adequate performance of the accountability by central banks. The ECB and the Bank of England also took similar action as the FRB.<sup>22)</sup>

On the other hand, the governor of the BOJ has not made any comment on the exit and restoring of financial health strategy after introducing the balance-sheet policy under QQE in 2013. The Diet did not urge to the governor to clarify the strategy, and the BOJ did not include the explanation about the strategy in its annual financial reports. These are serious problems regarding failure to accomplish the accountability. The BOJ will be unable to maintain its financial health for the long periods and it may result in large risk for the Japanese citizens.

To solve the problems, the disclosure system of the private corporations about the future risk will provide the hint. The private corporations disclose the growing strategy and the future risk in the Management Discussion & Analysis (MD&A) of its annual report. If the MD&A is included in the annual financial report of the BOJ, the contents may be as below.

- Disclosure of the internal transactions and the sensitivity analysis

The relationship between the Japanese government and the BOJ is close to the parent-subsidiary relationship in nature, and the purchases of JGBs are similar to the internal transactions. In the situation where the subsidiary is not distinct, significant internal transactions may be made for the purpose of improving the financial position and operating results of the parent company. The current large and long-term purchases of LGBs by the BOJ can be considered significant internal transactions. Therefore, the BOJ should disclose the scale of holding LGBs and the sensitive analysis about causing impairment of the financial health of the BOJ in the case of bank raising the interest rates step by step in the future.

- Disclosure of policy for the capital increase

If the BOJ raises the interest rate and discontinues the balance-sheet policy in the future, the exit and restoring of financial health strategy should be disclosed in the regular notes to the financial statements. In addition, to prevent the deficit of the BOJ, the policy for the capital increase should be disclosed.

These disclosures will provide useful information to the financial statements' users, ultimately the Japanese citizens.

## VII Conclusion

When central bank chooses unconventional monetary policies, the bank is exposed to the long-term risk about its financial health. Naturally enough, the bank must keep itself financially healthy. To ensure its financial health, it is important for the bank to maintain the independence from the government. But if central bank engages in expansionary balance-sheet policy, the bank is compelled to temporarily abandon its self-regulatory initiative. Eventually, it follows that central bank does not preserve the independence.

In this situation, accountability perspective will play an important role for central bank to direct itself towards recovery of its financial health. Central bank must be held accountable to the citizens by explaining about restoring strategy of its financial health. Every central bank, which adopted the balance sheet-policy, needs to put emphasis on the accountability. The FRB from time to time makes official comments on the exit and restoring of financial health strategy, but up to now the BOJ has never made such comments. Disclosure about the future risk is not required for central banks. If central bank explains about its related risk more positively, the accountability of central bank will be significantly improved. To search for effective means of disclosure, the corporate accountability arrangement would provide the hint.

## Notes

- 1) The first company law in Japan was enacted in 1890 (and effectuated partly in 1893) as being included in the Commercial Code.
- 2) Bank of Japan, 1985, pp. 267-323.
- 3) *Kanji* corresponds to *kansa-yaku* or corporate auditor in the private corporation in stock company form. It is broadly recognized that *kansa-yaku* has two distinct audit functions, financial audit function and operational audit function. Probably, this dichotomy notion is reflected in the BOJ's *kanji*.
- 4) Bank of Japan, 2011, p. 25, p. 29.
- 5) Research Panel, 2000, p. 38. The BOJ Act stipulates that the BOJ "shall *endeavor to clarify* to the citizen the content of its decisions, as well as its decision-making process, regarding currency and monetary control" (Article 3(2), Emphasis added).
- 6) Study Group on Central Bank, 1996, p. 6.
- 7) Study Group on Central Bank, 1996, p. 7.
- 8) The BOJ has been situated as an "authorized corporation" in Japanese law category. There is no definition as to "authorized corporation" in substantive law, but it is generally accepted that in administrative practices it includes the corporation, incorporated pursuant to individual Act and whose foundation shall need authorization by the related Minister with regard to its foundation or the articles of incorporation it

formulates.

- 9) Research Panel, 2000, p. 54.
- 10) *Ibid.*
- 11) Central Bank Governance Group, 2009, p. 136.
- 12) Central Bank Governance Group, p. 139.
- 13) The Board of Audit Act, Article 22(4); The Public Accounting Act, Article 36.
- 14) Board of Audit of Japan, Audit Activities: available at <http://www.jbaudit.go.jp/english/effort/>
- 15) Central bank has to impair LGBs when the price of LGBs falls sharply and are not expected to recover in the near future.
- 16) The rule was decided at the monetary policy meeting of the BOJ on March 2001.
- 17) BOJ, 2006, pp. 131-137.
- 18) BOJ, 2017, pp. 64-72.
- 19) *Ibid.*
- 20) Kawamura, 2017, p. 59.
- 21) Under the existing BOJ Act, the independence of the BOJ was ensured, and the loss coverage provision in the supplementary provisions of the old BOJ Act was eliminated. Under the current BOJ Act, the BOJ itself is responsible for its financial health.
- 22) Kawamura, 2014, pp. 81-82.

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