

# Opening Remarks

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It is a great pleasure to welcome all of you to the Bank of Japan today. This Conference is the sequel to the First Joint Central Bank Research Conference held in Washington D.C., November 1995. The First Conference discussed the theoretical and technical issues regarding risk measurement methods and systemic risk mechanisms. The Second Joint Central Bank Research Conference on Risk Measurement and Systemic Risk is organized by the Bank of Japan in collaboration with the Bank for International Settlements, the Bank of England, the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of New York. It is being held as part of continuing efforts by central banks to conduct research into the robustness of financial systems and market mechanisms under stress.

At our Bank, the staff researchers at the Institute for Monetary and Economic Studies worked to prepare this Conference in close collaboration with the researchers of co-hosting institutions. As Director of the Institute, I greatly appreciate the enthusiastic devotion of the staff researchers and researchers of co-hosting institutions in organizing this Conference and wish to extend my heartfelt welcome to all of you who have participated.

The Institute for Monetary and Economic Studies was established in 1982 to commemorate the centennial of the Bank of Japan. The late Haruo Mayekawa, who was the Governor of the Bank at the time, proposed the establishment of the Institute in the hope that it would enhance the ability of basic researches. The following are excerpts from his remarks presented at the inauguration of the Institute.

“Basic researches can be compared to roots of a tree. They may not enjoy a high profile but are very important. A clear theoretical understanding of the financial and economic mechanisms is the fundamental basis for understanding the essential forces behind each phenomenon. This will help us recognize, for example, what type of side-effects myopic policy actions may entail in the long run.”

What the late Mayekawa had in mind at the time, I believe, was mostly related to monetary policy management. But central banks that have hard times in finding the extremely narrow path to achieve both systemic risk aversion and moral hazard prevention may read Mayekawa’s comment in the context of the relation-

ship between prudential policy and basic research.

It is very difficult for central bank researchers engaging in studies of financial market mechanisms and system design to seek an adequate balance between intensive theoretical analysis and pragmatic market flavor and also incorporate in their studies an extensive and global point of view. In the past few years, our Institute and co-hosting institutions have vigorously tackled this difficult task. We would like to take advantage of this Conference as a significant step forward, continue to pursue such extensive and intensive research and contribute to the evolution of financial markets.

The focus of our studies is vividly reflected in the program of this Conference. The discussions are kicked off by Session One titled “Sources of Systemic Disruption and Contagion,” followed by four consecutive sessions that consider market microstructure and market participants’ behavior and by Session Six that sheds light on the relationship between “Systemic Risk and Central Banking.” The last session will conclude the whole debate of this Conference with a panel discussion joined by market participants, academic scholars and central bank officials.

I hope the discussions promote “a better understanding of market dynamics during periods of stress,” as is stated in the Conference main theme, and provide effective clues for central banks in understanding developments in the market and determining the appropriate actions during periods of stress in the financial system. If it proves to be so, then we can regard Mayekawa’s wishes expressed at the start of the Institute as mission accomplished in the most successful way.

I am confident that the next two days will witness productive and exciting debate that meets our expectations. I sincerely hope that our efforts pave the way for various intellectual circles of continuing dialogue, including the Third Joint Central Bank Research Conference, to develop and help to resolve many of the problems that confront us.

Thank you very much.