

Minutes of the 12th Meeting of the Committee for Reform of the Securities Clearing and Settlement System

Date: Thursday, November 21, 2002 from 3:00 p.m. to 4:45 p.m.

Venue: Meeting Room #1 of the JSDA

Agenda: 1. Regarding the Report on the Reform of the Securities Clearing and Settlement System.

2. Others

(1) Working Group for the Realization of the Establishment of a Clearing Institution for JGBs.

(2) Progress of the Deliberations on the Reform of the Securities Settlement System

Minutes of Meeting

Because there had been changes in committee members, the meeting was started after introductions were made.

1. Regarding the Report on the Reform of the Securities Clearing and Settlement System.

Chairman Maeda began the meeting by commenting that since the last meeting the Working Group on Promoting Reform of the Securities Settlement System, a subcommittee of the Committee, which has been planning to use consulting firms from its inception to clarify the overall scheme, list up the issues to be considered, and create a reform schedule, had reported that it had commissioned a survey report on a joint basis from Accenture Corporation and TradeWin Co.,Ltd. The core members of the Working Group worked with the consulting companies on the project. Since the Report had been prepared according to the materials distributed to everyone at the meeting, Chairman Maeda felt that the person in charge of the project from the consulting companies should explain its contents. In accordance with his wishes, the person in charge from Accenture Corporation gave a presentation of the details of the report. Following the presentation, Mr. Murai, Managing Director of the JASDEC, made a presentation on the deliberations of the company regarding recent clearing practices.

After discussion, the Committee approved the contents of the Report on the Reform of the Securities Clearing and Settlement System. In addition, the Secretariat explained how it planned to use the Report as part of its educational program to promote the reform of the securities clearing and settlement system.

(For the Report, please see attachments)

- Main opinions expressed regarding the Report

- With its electronic network for the settlement of regional, corporate, and other non-JGB

bonds, Japan Bond Settlement Network Co., Ltd., acts as one type of intermediate body linking investors and registration institutions. I think that the smooth conversion from registered to non-registered bonds is a key point in the reform of non-JGB bond settlement. Because there will be some difficulties with the switchover to the new system, those responsible for the corporate bond registration system need to look at the change not as a problem for individual companies but for all those involved with the market in order to effect a smooth transition to a new system at low cost and without loss of convenience for participants.

--As stated in the Report, a variety of problems remain, requiring adjustments across the industry and product categories. For that reason, the nature of the organization that is promoting reform is important. An organization needs to be built where those involved with the market can participate in a unified and cooperative manner across the industry. I would like to call for those involved to extend their utmost efforts and cooperation in continuing to push forward with the project.

--There are many problems to be solved. For market participants, there are problems related to system development, and even if participants pursue their individual proposals, it will be necessary to establish an organization to coordinate these efforts overall. In the past, such efforts were focused around the JSDA, but in future I would also like to have a wide range of people related to the industry that are from outside the securities industry itself participate actively in the debate. This will make the discussions more clearly unbiased, and the participation by a wide range of people in the industry will encourage even fuller participation than in the past.

--We now face the introduction of paperless securities, an issue that will strongly impact on stock certificate issuing bodies. For that reason, I would like to see a forum for discussion established that would involve related industries even more than in the past.

--Establishing the desired framework for the reform of the securities settlement system cannot be done by the securities industry alone. The cooperation of banks, trust banks, life insurance companies, and other financial institutions as well as stock certificate issuing bodies is necessary. I also believe that this cooperation will have to include personnel. For that reason, I think it is very important to strengthen the cross-industry organization. Therefore, I think another key point is that offices supporting reform need to have a cross industry point of view. In this sense, I would like to ask for the understanding and cooperation of all in the likely reorganization of the operations of the Reform Promotion Center for Securities Clearing and Settlement System.

2. Others

- (1) The Working Group for the Realization of the Establishment of a Clearing Institution for JGBs

A report was made a while ago on the state of the deliberations of this working group. The Secretariat, therefore, explained progress since the report, and the following were the main items.

- Seventeen companies applied to be participants in the new deliberative body on the realization of the establishment of a clearing institution for JGBs. The first meeting of the body is set for Wednesday, November 27, and the schedules of participants are being coordinated.
- The new deliberative body is a voluntary meeting of companies that intend to invest in the clearing institution. Since it is through that the body will have a substantial impact on reform of the securities settlement system, the body is scheduled to report on an appropriate basis to the Committee.
- To provide as much public disclosure as possible on the deliberations of the new deliberative body, it will be necessary to raise the awareness of participants. The Secretariat, therefore, will encourage the members of the body to make use of the JSDA's Web site to disclose the content of the deliberations on an appropriate basis.

Having reached a satisfactory juncture with the completion of its report on the state of deliberations, the Group for the Realization of the Establishment of a Clearing Institution for JGBs dissolved itself.

(2) Progress of the Deliberations on the Reform of the Securities Settlement System

Regarding progress in the deliberations on the reform of the securities settlement, Chairman Maeda commented that along with the enforcement of the Law Concerning Book-Entry Transfer of Corporate Bonds, etc., on January 6 next year, a target date of January 27 had been set for the termination of the current clearing and settlement system for JGBs and the switchover to the new paperless clearing and settlement system. He said that among the legal framework issues that we are currently facing is the establishment of a paperless system. Deliberations on this topic have been ongoing in the Justice Ministry's Legislative Council Corporate Law Subcommittee since September of this year. Since Mr. Shiseki, Counsellor for Civil Affairs Minister's Secretariat of Ministry of Justice, who acts as the secretary of that subcommittee, was present, Chairman Maeda wanted to take the opportunity to ask Mr. Shiseki to explain the deliberations of that committee within the scope of his authority. Mr. Shiseki then gave an explanation of the subcommittee's current deliberations.

- Main opinions expressed regarding (1) and (2) above.

--The structure of the paperless equity shares system will have an extremely large impact on the securities business, and I expect that it will force a change in the structure of the business. Since there are probably some problems that can be avoided by planning the structure of the new system, I would like to see specific discussions held within the JSDA, JASDEC, and other bodies regarding the set up of the system.

--In the Report of the Working Group for the Realization of the Establishment of a Clearing

Institution for JGBs, it was commonly recognized that the clearing institution should be established as soon as possible. In addition, it was decided to pursue further deliberations under a new body with the goal of establishing the clearing institution sometime in March 2005. Even though the discussions are now to proceed under the new deliberation body, I would ask that the points set out by the previous Working Group be followed, and that all those involved dedicate their full energies to a quick as possible start to the operations of the clearing institution.

Please note that this outline is provisional and may be revised.