

**Minutes of the 15th Meeting of the Committee for
Reform of the Securities Clearing and Settlement System**

Date: Wednesday, July 7, 2004 from 13:30p.m. to 15:20p.m.

Venue: Meeting Room #1 of the JSDA

- Agenda:
1. Explanation on Law Concerning Dematerialization of Stock Certificates
 2. Deliberations by the Promotion Meeting for Reform of Securities Clearing and Settlement System
(Efforts of the meeting toward dematerialization of stock certificates)
 3. Deliberations in UNIDROIT
 4. Business progress in JASDEC
 5. Business progress in JGBCC
 6. Business progress in JSCC
 7. Revision of the milestones set in the report "Towards Japan Securities Settlement Systems and Infrastructure Reform"
 8. Others
 - (1) The holding of seminars on Dematerialization of Stock Certificates and publication of Q&A
 - (2) Publication of "Easy Guide for Reform of the Securities Clearing and Settlement System"
 - (3) The holding of a Promotion Forum for Reform of Securities Clearing and Settlement System

Minutes of Meeting

Following the introduction of new members, the meeting started.

1. Explanation on Law Concerning Dematerialization of Stock Certificates

Chairman Maeda began the meeting by commenting the followings.

"Law for partial amendments to Law Concerning Book-Entry Transfer of Corporate Bonds, etc. for the purpose of streamlining the settlement for trades of stocks, etc.", passed at the general meeting of the House of Councilors on June 2, 2004, was promulgated on June 9, 2004. A call for "Public Comment" concerning the

government ordinance, which put a part of the above law into effect on October 1, 2004, has been made by Financial Services Agency and Ministry of Justice. Since the new law is an issue of concern for the market participants, particularly for those who are engaged in practical business, and our efforts to promote smooth transition will be very important.

Chairman Maeda took this opportunity to ask the officials of the authorities concerned to give an explanation within the scope of their authority. Then the officials of Financial Services Agency and Ministry of Justice explained the present status and the points of concern for members.

- Summary of explanation

(Comments of FSA official)

- First of all, following information was provided; (about 40min)
 - (1) Overview of the securities clearing and settlement system reform and the procedures for book-entry transfer stocks from the legal point of view
 - (2) Procedures to convert to the new book-entry transfer system
- It is expected that the industry promote the additional use of electronic CP.
- The reform will not be completed by the reform of laws and should be achieved by both the government and private sector. Therefore, the industry should make continuous efforts toward securities settlement system reforms, particularly the promotion of STP.
- It is considered that the educational campaign is very important since the mechanism of laws and the procedures for smooth transition to the new book-entry system have a profound effect on a variety of people. I have been attending the seminars hosted by Promotion Center as a presenter across Japan, or writing articles for magazines. However, it should be noted that the cooperation from the financial industry, which is in the closest vicinity of customers, is very important to realize smooth transition through educational campaign.

(Comments of Ministry of Justice's official)

- The promulgation of the new law has reached 30% of the whole process of securities clearing and settlement system reform. The next challenge is to

develop the system, and it should be reflected on the details of government ordinances. Since there is a close connection between the establishment of government ordinance for enforcement of the new law and the construction of system infrastructures, it is requested that the industry speeds up the system development. Furthermore, it is necessary to tackle various issues immediately in “the working group for discussion on the implementation of dematerialization of stock certificates” established under the promotion meeting.

- There is a difference in the way the new law and the current CSD law handle the right of pledge. Under the new system, right of pledge shall be set up in a book-entry transfer account opened by the pledgee and shareholder’s title (the name of pledger) shall be recorded in the column for pledge in the account. The central securities depository shall send the notification of general shareholder’s list to issuers after the account management institution of pledgee notified the central depository center of the name of pledger.
- Fractional shares are newly applicable to the new book-entry system, and it is therefore necessary to construct the internal system of securities firm enabling the recording of fractional shares.
- There are still lots of details to work out including the way to fix shareholder’s rights in a list of shareholders of the issuers.
- Modernization of “Companies Related Laws (e.g. Commercial Law)” has been underway with the aim of passing the ordinary session of the Diet next year, and may cause a lot of changes in the related laws. The changes include an introduction of flexible way of reorganization. For example, a price against mergers can substitute cash, stocks of parent company or stocks of foreign corporations for stocks of reorganized company. Accordingly, it is necessary to establish the regulations relating to recording procedures in the book-entry system. And market participants should give careful consideration to the prescription of the new law as well as the modernization of “companies related laws” when discussing the development of system.

- Main opinions expressed by members
 - It seems that the new law covers the wide range of items including the protection of voting right for fractional shares, resulting from bona-fide acquisition of book-entry stocks caused by an excess record in the ledger of book-entry transfer account.
 - If shareholders hold physical stock certificates under other shareholder's name, the rights of stocks shall be maintained on special accounts opened by issuers under the name on the shareholder's list after the enforcement date of dematerialization. In this case, there is a possibility that some nominal owners sell those stocks to the third party. To protect the right of non-recorded shareholders, it is necessary to give educational campaign to shareholders in advance.
 - There are investors who prefer physical stock certificates. Although Japan Securities Depository Center, Inc. (JASDEC) is making efforts toward an increase in depositing stocks, a wide range of efforts, such as advertising campaign on the necessity and the benefits of the new book-entry system, will be required.

2. Deliberations by the Promotion Meeting for Reform of Securities Clearing and Settlement System.

(Efforts of the meeting toward dematerialization of stock certificates)

Chairman Maeda stated the followings.

As explained by the officials of authorities concerned, "Law Concerning Book-entry Transfer of Corporate Bonds, Stocks, etc." shall be enforced within 5 years after the promulgation of the law, and accordingly the implementation date of dematerializing stocks in the publicly-held corporations shall be set up. Therefore, it is necessary for the business sectors to take positive and concrete approach for the smooth transition and to deepen comprehensive understanding of market participants, particularly retail investors, through our efforts. To realize this, the working group has been established under the promotion meeting held on June 30, 2004 (The working group for discussion on the implementation of dematerialization of stock certificates), aiming at sharing the milestone and conducting advertising campaign for the new system. The discussions underway in the above working

group will be reported from the promotion meeting as required.

3. Deliberations in UNIDROIT

Deputy chairman Kanda reported on the current situation regarding UNIDROIT.

- Summary of report

UNIDROIT (The International Institute for the Unification of Private Law) is an independent intergovernmental organization that studies needs and methods for harmonizing private laws.

In response to “Hague Convention on the law applicable to certain rights in respect of securities held with an intermediary”, an unofficial study group was established in UNIDROIT and has been researching with consideration given to ratification.

As a result of the research, the draft of convention was created and presented to the industry in Frankfurt on May 4, 2004 and in New York on May 11, 2004 for exchanging opinions. In Japan, the presentation is scheduled at the end of July, and opinions from business sectors will be very appreciated.

The above-mentioned draft is not consulted between government yet, however, the final draft will be reported to the Governing Council of UNIDROIT in May 2005.

4. Business progress in JASDEC

Deputy chairman Murai made a report on the business progress in JADEC as follows.

- Summary of report

(The DVP System for Non-exchange Transaction Deliveries concerning stocks)

- JASDEC DVP Clearing Corporation (JDCC) established in June 2003, started DVP settlement service for non-exchange transaction deliveries (DVP for NETD) in May 2004. There are 62 DVP participants including 5 settlement banks at the moment.
- JASDEC appreciates the efforts toward the smooth implementation of the new system of all the party concerned.

- The number of DVP settlement is amounted from 60 to 80 thousands transfers or 800 million shares on a daily basis. The DVP settlement ratio stood at 60% of the total transfers or 40% of the total shares in NETD. However actual DVP settlement ratio may be accounted for 75% of the total transfers excluding those between same participants, etc.
- Amount of fund settlement is accounted for 1 trillion yen per day, and the actual amount of fund, which received through BOJ-Net after netting, stood at 13% of those.
- Since measures to increase net debit calculation frequency taken by Japan Securities Clearing Corporation (JSCC) attributed to the smooth liaison with DVP for exchange transactions, and synergistically lead to fast circulation of stock certificates, transfers of stock are completed 99% by noon.
- DVP for NETD reduces the securities settlement risk (particularly fund settlement risk) and leads to more efficient clearing and settlement operations.

(The Pre-Settlement Matching System)

- After the implementation of the Pre-Settlement Matching System (PSMS) for DVP for NETD, the next challenge is to provide the matching functions for JGBs, corporate bonds, etc. and electronic CP.
- The implementation of the matching functions for JGBs is scheduled for February 2005. If users of the PSMS request debt assumption or clearing services in Japan Government Bond Clearing Corporation (JGBCC) (1) the matched data in PSMS will be automatically transmitted to the system in JGBCC, and (2) all data relating to authorization of debt assumption or results of clearing, etc. will be returned to users through the network of PSMS.
- The book-entry transfer system with matching functions for corporate bonds, etc. and electronic CP is scheduled to go online in January 2006.

(Book-entry Transfer System)

(1) CP

- The book-entry transfer system for electronic CP was started in March 2003 and *Samurai* electronic CP issued by foreign corporations have been traded from April 2004. The outstanding amount indicates a little more than 10% of the issue amount of CP, including bills CP, however the tendency has been toward an increase in both the number of issuers and the outstanding amount.
- JASDEC expects that the use of electronic CP will increase toward the second half of this year since special measures concerning revenue stamp duty for bill CP will become null and void at the end of this fiscal year.

(2) Beneficial rights of Investment Trust

- JASDEC is currently discussing on the basic schemes of the book-entry transfer system and expects to enter a system development phase in this summer.
- JASDEC held seminars with the Japan Securities Dealers Association in Tokyo, Osaka and Nagoya in April 2004.
- JASDEC is currently conducting a working-level discussion on the conversion of the outstanding beneficial rights of investment trust to the book-entry transfer system with Investment Trust Association.

(3) Stock Certificates

- Dematerialization of stock certificates will cut the cost of managing shareholder's list for issuers and require measures to secure personal information. Thus, it has a profound effect on market participants.
- JASDEC thinks that the schedule is quite tight with a view to launching the new system in 5 years. Therefore the tentative understanding among the parties concerned should be reached by next summer.
- JASDEC would like to make efforts toward dematerialization of stock certificates by establishing sub-committee if required.

5. Business progress in JGBCC

JGBCC has been in development for the clearing operations for JGBs traded on the OTC market, planned in May 2005.

President Okitsu made a report on the current situation and future plan.

● Summary of report

(1) Capital increase

JGBCC was established on October 17 2003, and the office has been located in the 7th floor of the Tokyo Stock Exchange since April 2004.

At the time of foundation, 19 companies capitalized the company at 344 million yen. At present, 33 companies (including the existing shareholders) are going to invest additionally at the end of July, which is estimated to be 3 billion yen in total capital, with 1.67 billion yen in capital stock.

(2) Activities of the Steering Committee

Currently, the special committees were established by theme to work toward the detailed business issues.

(3) Business Collaboration

JGBCC has been discussing on the contents of agreement regarding electronic matching for government bonds with JASDEC.

JGBCC and JSCC signed a "Memorandum of Understanding" (MOU) for business collaboration. Under this agreement, JSCC will provide JGBCC with monitoring services for the credit risk and the financial status of JGBCC participants.

(4) Future Plan

JGBCC will conduct a connection test regarding matching services in JASDEC at the end of 2004, and the integration test will be followed with all participants, targeted for April 2005. And the system will go online in May 2005.

JGBCC requests continuous cooperation and advices from members since there are more challenges such as application of license or application for participation in the Bank of Japan

6. Business progress in JSCC

Mr. Fujisawa from JSCC made a report on the current situation and the future plan.

- JSCC has been providing clearing and related services for stock certificates since January 2003 and for derivatives traded on Tokyo Stock Exchange since February 2004, which resulted in 200 participants in total, including financial institutions.
- JSCC works toward improving the services, and is ready to actively cooperate in offering a help to other clearing organizations, if required.
- Based on the MOU signed in Dec.2003 among JSCC, JDCC and JASDEC, JSCC and JDCC established collaborative relations.
To be more specific, JSCC has begun providing JDCC with monitoring services, such as monitoring the financial status of JDCC participants, upon the inauguration of DVP for NETD in May 2004. JSCC offers the services to not only common participants but also single JDCC participants.
- JSCC and JGBCC signed the MOU for business collaboration on June 11, 2004. Under this agreement, JSCC will provide JGBCC with monitoring services for the credit risk and the financial status of JGBCC participants upon the inauguration of JGBCC operations.
- The common market participants of JSCC, JDCC and JGBCC will realize efficient operations, which centralize the business contact in JSCC and accordingly save them from going to JDCC and JGBCC in the future.
- Three parties agreed to examine possibilities for not only monitoring but also other business collaborations, and pursue the further discussion.

7. Revision of the milestones set in the report “Towards Japan Securities Settlement Systems and Infrastructure Reform”.

Revision of milestones, which was made in November 2002 to clarify the overall scheme, to list up the issues to be considered and to create a schedule toward

securities clearing and settlement system reform, was approved based on the reports made in the promotion meeting.

(Main Revisions: Legislation of dematerialization of stock certificates, the inauguration of DVP for NETD, the progress of corporate bonds etc., the progress at JGBCC, etc.)

The updated report will be posted on the website of Promotion Center.

8. Others

The Secretariat gave an explanation on the followings.

- (1) The holding of a seminar on dematerialization of stock certificates and publication of Q&A

The seminar on dematerialization of stock certificates is going to be held in 10 places across Japan. The booklet called "Transition to Dematerialization of Stock Certificates (Q&A included)" has been published.

(For the above Q&A, please refer to the website of Promotion Center.)

- (2) Publication of "Easy Guide for Reform of the Securities Clearing and Settlement System"

Promotion Center has created "Easy Guide for Reform of the Securities Clearing and Settlement System" and posted it on the website of Promotion Center.

- (3) The holding of a Promotion Forum for Reform of Securities Clearing and Settlement System

The Promotion Forum for Reform of Securities Clearing and Settlement System was held on March 11 and 12 2004.

(For the detailed information, please see the website of Promotion Center.)

Regarding this document, please contact to:

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