

**Minutes of the 17th Meeting of the Committee for
Reform of Securities Clearing and Settlement System**

- Date: Wednesday, July 6, 2005 from 2:00p.m. To 3:05p.m.
- Venue: Meeting Room #1 of JSDA
- Agenda: 1. Deliberations in the Promotion Meeting for Reform of Securities Clearing and Settlement System
2. Deliberations on the government ordinances concerning dematerialization of stock certificates
3. Business progress in JASDEC
4. Business progress in JSCC
5. Business progress in JGBCC
6. Revision of the milestones set in the report “Towards Japan Securities Settlement Systems and Infrastructure Reform”.

Minutes of Meeting

1. Deliberations in the Promotion Meeting for Reform of Securities Clearing and Settlement System

The secretariat made a report on the deliberations in “the working group for discussion on the implementation of dematerialization of stock certificates” that is under the control of “the Promotion Meeting for Reform of Securities Clearing and Settlement System” (deliberations in each member group, how to determine the “implementation date” in practical business field, campaign for dissemination and enlightenment towards the new system and others).

Concerning “implementation date” when electronic management of stock certificates of listed companies is introduced, in practical business field, when it comes to consider a shift of system data and others, there is a large number of opinions saying that a weekend that has more than three days off is suitable for it since a certain length of time is necessary to complete it. Taking it into account, to easily have recognition and dissemination of general investors for the implementation date and not to overlap the period of shareholders’ meetings or settlement term of many descriptions, “implementation date” is effectively suggested to be January 1st, 2008 or on January 1st, 2009.

2. Deliberations on the government ordinances concerning dematerialization of stock certificates

The official of Financial Services Agency explained that regarding the government ordinances concerning dematerialization of stock certificates, a certain direction has been agreed in the deliberation organized by Financial Services Agency from August in 2004 to March 2005 involving those who are in working level as attached in “Principles confirmed in the meeting of the government ordinances concerning electronic management of stock certificates”, “Regarding the handlings of descriptions that have limit on share holdings for aliens (memo)”

In addition, as future schedule, it was explained that it is expected that main contents of the government ordinances are taken into debate in this summer, and in autumn, confirmed by consulting with related parties.

3. Business progress in JASDEC (Japan Securities Depository Center, Inc.)

Concerning the efforts in JASDEC towards the reform related to the electronic management of various securities, deputy chairman Omae (managing director of JASDEC) made a report as following.

Summary of report

(1) Response to electronic management of stock certificates

- In response to the fact that a certain direction for the functional range required to central securities depository under a new law has been indicated in the review meeting of the government ordinances organized by Financial Services Agency, JASDEC organized “operation committee” on April 14th and started the practical deliberation for the realization of new system of transfers of stocks and a smooth shift from the current system to the new one.

- To be more precise, it has been decided that “subcommittee for electronic management of stock certificates” would be established under the operation committee asking their participation to those who are of not only securities firms and banks as account management institution but also each related business category in infrastructural sectors such as issuers, transfer agents, stock exchange, securities finance company and clearing institution. Financial Services Agency and Ministry of justice are participating as observers. In addition, JASDEC expects to make efforts to disclose the information by posting proceeding summaries and data of the subcommittee on its website to be seen by anyone.

- The subcommittee held the first meeting on April 26th. Since it has a large range

of agenda, the set up of sectional committees according to main subjects and simultaneous parallel deliberations in them have been asked in May to June.

- Currently, following four sectional committees are set up. A) “Sectional committee of book-entry transferred stocks” that is for deliberation concerning new system of transfers of stocks, which is expected to be operated by central securities depository under a new law B) “Sectional committee of data center” that is for deliberation concerning standardization of information and practical business of data center C) “Sectional committee of book-entry transferred warrant bonds” that is for deliberation concerning equity products except stocks. D) “Sectional committee of shift” that is for deliberation concerning practical business and system in order to make a smooth shift from the current system to the new one.
- With a prospect of around March of next year, “system outline” is wished to be determined. Meanwhile, if possible around in September, the halfway of deliberation progress is expected to be summarized.

(2) Book-entry transfer system for short-term bond (Electronic CP)

- Concerning book-entry transfer system for short-term bond, referred to as electric CP, full two years has passed since the system has started.
In March of this year, special measures for stamp duty on bill CP have come to abolition and an external environment has largely changed, and recently, a large number of issuers have applied to participate in the system. As a result, as of the end of June, there are 341 applied issuers and there are 266 actual issuers out of it.
- 61 institutional appliers directly opened book-entry transfer account in JASDEC as central securities depository. As categories of business, they are banks, securities firms, trust and banking companies and call loan dealers. In addition, many of final investors such as institutional investors open their accounts in these institutional appliers and purchase electronic CP
- The number of issued descriptions is 5121 and the outstanding issue is 18 trillion and 300 billion yen. It seems that modification of handling on tax led a stroke of the shift from bill CP to electronic CP.
- At present, book-entry transfer system for short-term bond, phase II that is scheduled to be started in January of next year is under development of JASDEC.

After being started, more convenience will be expected, for example, pre-settlement matching system of JASDEC will be able to be used and direct connection to the computers of users is possible and it seems that this gives a contribution to the spread of the system.

(3) Book-entry transfer system of corporate bonds

- Based on “Outline of book-entry transfer system of corporate bonds”, for the start in January 2006, at the same time of the development of book-entry transfer system of corporate bonds, explanation to issuers and handling for the smooth shift to book-entry transfer system of already-issued bonds are in preparation.
- To be more precise, the system development has been completed and the internal specific assurance test is in progress. From August to the end of this year, connection test and total operation training will be performed with the users of book-entry transfer system of corporate bonds. In addition, operating rules and handling charge are in progress for adjustment and the approval has been given from the authority on June 29th. In this month, the official application procedure to participate in the system for institutional appliers and agents of issuer and payer and agreement procedure of issuers are scheduled to start the reception in stages according to each participating configuration.
- In addition, concerning shifting procedure of already-issued bond, it will be scheduled after next year, however, at present deliberation for the office work procedure details are in progress in order to complete the smooth shift by the end of 2007.
- At present, the market of public and cooperate bond except Japanese government bond has the scale of 200 trillion yen in outstanding issue and over 50 thousand in descriptions. In order to respond to this scale of market, to be largely taken advantage of book-entry transfer system of cooperate bond, enlightenment of system such as organizing briefing session for related people will be put on an effort from now on.

(4) Book-entry transfer system of investment fund

- Book-entry transfer system of investment fund is scheduled to be started in January 2007, a year after the start of the book-entry transfer system of cooperate bonds and, in response to the outline announced officially in September of last year, aspects of practical business and system are in deliberation.

- In January of this year, general outline of system proceeding was officially announced and at present, development of “system connection specification” by the end of August is in continuous deliberation.
- Concerning the shift procedure for already-issued investment fund, the deliberation with business related people has been in progress. From the viewpoint of not only receiving the full benefit of book-entry transfer system but also minimization of dual custody of spot investment trust and book-entry transfer investment trust, in order to perform the efficient and early shift, a method of office work proceeding that makes a shift all together at the same time of implementation of the system has a priority and précised deliberation is under the stage.

(5) Pre-Settlement Matching System

Since February 14th of this year, the transaction matching system for repo transaction on Japanese government bond has been provided. Since Japan Government Bond Clearing Corporation has started its operation in May, matched data and various distributed data of JGBCC are operating simultaneously with the system.

(6) The DVP System for Non-exchange Transaction Deliveries

Concerning The DVP System for Non-exchange Transaction Deliveries, it has been running smoothly since it started in May of last year. The number of DVP transaction settlement per a working day is more or less 60 thousand and it could be said that it is becoming established as a securities clearing and settlement system of our country.

4. Business progress in JSCC

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

Summary of report

(1) Cooperation with other clearing institutions

In June of last year, a basic agreement with JGBCC has been stroked concerning a business link and it was agreed that the monitoring operation that had been performed towards its participants by JGBCC would be entrusted with JSCC; however, it has been officially started in accordance with the start of its operation. This has come to enable the participants of three clearing institutions including JSCC together with JDCC (JASDEC DVP Clearing Corporation) as a subsidiary of

JASDEC (Japan Securities Depository Center, Inc.) to complete notification and report to all these clearing institutions by submitting various types of document to JSCC as a contract for permission.

(2) Activities for the promotion of STP

In the case the participants deposit transaction margins or clearing funds by collateral securities to JSCC, it was possible to deposit them by cash securities, however, since there was rarely such case in reality, it has been requested to voluntarily refrain from depositing cash securities since June 1st of this year for the purpose of further improvement of the efficiency of office work. In fact, as of today, deposit balance of cash securities is none.

In addition, concerning cooperate bonds, the book-entry transfer system is scheduled to be implemented in JASDEC in January of next year and, in accordance with it, concerning bonds that are subject to the book-entry transfer system, JSCC makes a shift to the settlement by account transfer of JASDEC.

Concerning deposit and reimbursement by collateral securities for transaction margins or clearing funds, JSCC corresponds in order to make account transfer of JASDEC as well.

(3) Recent fail occurrence of stocks in JSCC

The rate of failure occurrence in settlement in JSCC was less than 1% in February of this year that showed highest rate in the recent history, however, it recently tends to continue increasing slightly.

JSCC considers that as a basic stance towards fail, fail is exceptional for the establishment of credibility of market and it is accepted only in unavoidable cases since the price formation of transactions in the market are based on that its delivery is operated on the settlement day that is 4 days after the transactions.

Being based on this point of view, JSCC is monitoring daily settlement situation and conducting hearings to the participants when necessary. In addition, JSCC tallies up the fail occurrence on an as-needed basis and makes an individual quarterly request for the reduction to the participants that are recognized to have a large number of fails.

In addition, JSCC lies down a regulation that allows to do researches on their structures of execution of duty of those who have dull reaction without much improvement to this reduction request and to give advisory to them in case it is judged to be a problem.

The implementation of this measure had not been officially announced, however, along the way, JSCC refreshes the instruction of improvement in the case no

improvement is recognized in those who have been already given the advisory, and laid down a regulation allowing the announcement of the implementation of this measure to other participants.

JSCC's stance towards failure is expected to be understood within the country, however, since the idea towards failure in overseas markets is not necessarily uniform according to each market, in order to have overseas investors understood, JSCC's stance towards failure is posted on its website in English as well and it is useful in the case there is necessity of explanation for overseas investors.

5. Business progress in JGBCC

JGBCC has started its operation on May 2nd of this year. President Okitsu made a report on the current situation.

Summary of report

- JGBCC has obtained a license of securities debt underwriting business from Financial Services Agency in April of this year and has started the operation on May 2nd. Participants consist of 34 companies. JGBCC has cooperation with JASDEC on matching operation and with JSCC on monitoring participants. The operation is going well without any systematic trouble.

- Concerning the operation status, monthly statistic report is made. Its website is scheduled to be established and this is expected to promote the information disclosure of monthly statistic report. Until it is launched, the information is disclosed by using some space of website of Reform Promotion Center for Securities Clearing and Settlement System.

- Concerning the operation status, debt-underwriting amount has a scale of 449 trillion yen in May and 640 trillion yen in June, and it has been increased a bit more than 40% within this one month. Concerning June, average daily amount is 29 trillion yen. This amount of debt underwriting includes buying and selling in sales transaction and both of start and end in repo transaction, in short, all the transaction movements of JGB has been added. "The comparison with the transaction volume of the entire market" is based on the figure declared by Japan Securities Dealers Association and only start transaction is counted in repo transaction. Concerning sales transaction, JGBCC covers 56.8% that is more than 50% of debt underwriting in the market. Concerning repurchase agreement transaction, JGBCC covers 2.7% and the percentage of the operation of Bank of Japan is high. These figures are due to the fact that there are not necessarily many transactions by the participants.

Concerning debt-credit transaction and repo transaction, JGBCC covers 34.4%.

- Concerning “The situation of DVP settlement” of “JGB and fund settlement”, the mechanism is to deal through netting for the underwritten debt and make settlement for the rest. The amount is 116 trillion yen in May and 172 trillion yen in June, and it has been increased a bit less than 50% in June compared with the one in May. The daily amount is 8 trillion yen. The number of transaction in June is 2471 per day.
- Concerning “fail occurrence”, the total number is 158 cases in May and 37 cases in June. May has a great number but this is due to the fact that there were various technical problems with the shift, however, they have been settled within a month. In July, since it is going in almost same number as in June, it is considered to be settled into the steady movement.
- Concerning the “netting effect”, settlement ratio after netting is calculated on underwritten amount base and on the amount of money base, and the ratio is about same in both bases. It is 32.4% in May and 28.6% in June; therefore it means that about 70% has been dealt through netting.
- Expecting to aim at defacto standard of JGB settlement as a future issue, JGBCC would like the participants to use it more and more as a basic infrastructure. JGBCC would like to promote the enrichment of assortments of dealing object and others in accordance with the participants’ needs to increase the number of participants in larger range of business categories, then to increase the percentage of share in the total dealing amount.
- To start business is not a goal. In the entire movement of the reform promotion for securities clearing and settlement system, JGBCC would like to work on it aiming at better infrastructure in terms of the improvement of the convenience of the participants and the safeness of settlement in the future as well.

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

The secretariat made a report as following.

To reflect the situation that has been since November of last year, a part of the contents of the milestones set in the report “Towards Japan Securities Settlement Systems and Infrastructure Reform” has come to be revised (main revision: JGBCC started its operation in May 2005, subcommittee for electronic management of stock certificates

has been established in JASDEC in April 2005 and others) and the revised one will be posted on the homepage of Reform Promotion Center for Securities Clearing and Settlement System. (Please refer to the attachment)

Regarding this document, please contact to:

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