

**Minutes of the Joint Session of the  
24<sup>th</sup> Meeting of the Committee for Reform of the Securities Clearing and Settlement System  
and the  
12<sup>th</sup> Meeting of the Promotion Meeting for Reform of the Securities Clearing and Settlement  
System**

Date: Tuesday, September 8, 2009 from 1:00 p.m. to 2:00 p.m.

Venue: Meeting Room #1 of JSDA

Agenda: 1. State of the activities for establishing the electronic share certificate system

(1) Japan Securities Depository Center, Inc (JASDEC)

(2) JSDA

(3) Japanese Bankers Association (JBA) / The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(4) Mitsubishi UFJ Trust and Banking Corporation

(5) Nippon Keidanren

2. Future challenges for the securities clearing and settlement system

**Meeting Minutes**

- Message from Mr. Maeda, Chairman of the Committee for Reform of the Securities Clearing and Settlement System

The implementation of the electronic share certificate system for shares of stock of listed companies is the project of the century. It is a great pleasure to see this most sophisticated, world's best system being operated so smoothly. I feel proud of this system as it has shown Japan's fundamental strengths to the world.

- Message from Mr. Kanda, Chairman of the Promotion Meeting for Reform of Securities Clearing and Settlement System

With the efforts by the parties concerned, the electronic share certificate system has been successfully implemented. While the system has just started, I hope this clearing and settlement infrastructure will be smoothly and strongly developed in Japan.

1. State of the activities for establishing the electronic share certificate system

(1) Reports from JASDEC

- Since the book-entry transfer system for stocks started in January 2009, the electric share certificate system has been being operated smoothly without major problems.

- No material changes in the number of outstanding shares in the accounts have been observed since the start of the transfer system.

- The number of shares in special accounts, which is the simple sum of the numbers of outstanding shares in the classified accounts of transfer agents that can be assumed to be used as special accounts, was about 35.7 billion on the new registration day of January 26, 17.4 billion at the end of March, and 11.8 billion at the end of August. The number of special accounts, which is the sum of the numbers of registrations of user information of shareholders in the accounts mentioned above, was about 14.5 million on the new registration day, about 10.6 million at the end of February, and 9.71 million at the end of August although it does not necessarily represent the accurate number of shareholders as the identification of the names of shareholders for each issue was not performed and it included the accounts with no outstanding shares but not yet deleted.
- At the start of the system, a significant number of book-entry transfers were made to separate JASDEC's own accounts from clients' accounts. After that period, the numbers of transferred accounts and shares have been largely constant.
- Regarding the state of the notifications of all shareholders, conspicuous numbers of shareholders and issues were covered in April, when companies with a fiscal year ending March issue the notifications of all shareholders. The numbers of shareholders and issues covered by the notifications of all shareholders in July were a little larger than in other months as the notifications of all shareholders for the interim earnings report by companies with a fiscal year ending December and in response to the requests for preparing quarterly earnings report at companies with a fiscal year ending March were made.
- The number of notifications of individual shareholders increased in March and April with the general shareholders' meeting scheduled at companies with a fiscal year ending March.
- The number of requests for information on individual shareholders from issuing companies to JASDEC increased as the number of notifications of individual shareholders rose since issuing companies appear to be checking whether the shareholders remain the same after the notifications of individual shareholders.
- Regarding the implementation state of the operations for the book-entry transfer system for stocks, we think the system has been being operated stably without particular problems. From now on, discussions will be continued about, for example, the improvement of specifications of the user information system and the ETF programs.

## (2) Reports from JSDA

- To ensure that practical business such as handling of the address change notifications sent from clients (shareholders), transfer of shares from special accounts into general accounts at securities companies, and execution of minority shareholders' rights is established, each securities company attempted to improve internal rules, administrative procedures, etc. according to the operational rules of JASDEC and the "standard operations handling manual" of JSDA and engaged in familiarization to relevant divisions and sales personnel of the sales offices.

- For smoother practical business with clients and more efficient operations at securities companies, JSDA wants to review and ensure full application of the standard operations handling manual, etc.
- The Reform Promotion Center for Securities Clearing and Settlement System promoted familiarization and PR activities on the special account system, the acceptance deadline for transfer to special accounts, redemption of fractional shares, dividend receiving methods, and other procedures through newspaper and other advertisement while collaborating with issuing companies, trust banks (transfer agents), etc.
- JSDA intends to continue operating the call center for electronic share certificate system, a contact point for consultancy requests and inquiries from shareholders and individual investors, until the end of March 2010 to respond to their requests and inquiries.
- The implementation of the electronic share certificate system has significantly reduced the burden of securities companies' management operations such as depositing and clearing securities as well as the operational risk. It has also improved customer service by providing one-stop services for clients' (shareholders') address changes, the dividend receiving methods, and other procedures.

### (3) Reports from JBA / The Bank of Tokyo-Mitsubishi UFJ, Ltd.

- Share collateral transactions have been performed successfully without particular problems. There have been no reports showing material decline in the transaction volume after the implementation of the electronic share certificate system.
- With the previous burden of delivering and managing collateral share certificates eliminated, the benefit of the electronic share certificate system is expected to further spread over time.
- "Handling of such cases as where the company issuing the secured shares is converted from a listed company to a non-listed company," an agenda that remained to be continuously discussed, was compiled as "Considerations concerning collateral transactions in the new transfer system (responses to conversions of issuing companies)" and is published on JBA's web site.
- The following questions about share collateral transactions have been received:
  - Although the transfer request form prepared by JSDA was used, the securities company asked for some modifications.
  - Are there any rules about how to arbitrarily dispose of collaterals?
  - Are there any rules about how to handle multiple pledgers?

### (4) Reports from Mitsubishi UFJ Trust and Banking Corporation

- There were many changes in transfer agents' share handling operations such as preparation and maintenance of lists of shareholders, acceptance of various requests from shareholders, and methods for paying dividends.
- Although management of special accounts and book-entry transfer into or out of those accounts have been added as a new operation, generally, the operations have been performed smoothly

without major disruptions.

- The notifications of all shareholders have been received without major problems about schedule and data contents.

- While the implementation of the electronic share certificate system has increased the options for the dividend receiving methods, clerical operations have been performed without material problems.

- Clerical operations to deal with address changes or other notifications and redemption or additional purchase of fractional shares or other requests from shareholders are performed based on modification/request data sent from JASDEC. The operation has been successful in this aspect as well.

- Regarding requests for restoring registration from shareholders who have neglected the registration for shareholder changes, so far most of them have been independent requests from those shareholder registrations of whose shares are permitted to be restored until the deadline of one year from the date of implementation of the electronic share certificate system. The total number of requests received by transfer agents was about 650 in April and about 400 in July. The trend will continue to be closely watched.

- As for the state of special accounts, many book-entry transfer requests were concentrated in a short period partly because the deadline for accepting transfer of shares into special accounts in terms of taxation was the end of May 2009. However, as special processing for book-entry transfers accepted by the end of May and other actions were taken, no major disruptions occurred.

- Regarding inquiries from shareholders, many inquiries about special accounts have been received partly due to notifications of new registrations into special accounts sent in mid February. In May, when the depository of shares into special accounts was closed, inquiries about book-entry transfers and requests for issuing transfer certificates were concentrated.

- Excluding inquiries about procedures, inquiries about the addressee were most prominent in number.

- Although many inquiries were received at the start of the electronic share certificate system, the number of inquiries has declined to about half the level observed before the implementation of the electronic share certificate system, after the shareholders' general meetings in June.

#### (5) Reports from Nippon Keidanren

- Since some issuing companies still have a considerable number of special accounts and bear significant maintenance costs, efforts will continue to be made to reduce the number of special accounts.

- The organizational restructuring of issuing companies such as merger leads to a situation where multiple account management institutions exist for an issuing company as special account management institutions cannot be unified. Additionally, there is a restriction that when the agency

is changed, the special account management institution cannot be changed. Although it is argued that the only way to change the account management institution is for it to implement the company split specified in the Companies Act and spin off the management operations, a simpler way is desirable.

- It is desirable when a shareholder executes minority shareholders' rights, that the securities company should check whether there are outstanding shares of stock in the shareholder' account and report it in the receipt sheet if no outstanding shares exist.

- Others

- Message from the Financial Services Agency

- The dematerialization of share certificates is a long-term project that took four and a half years from the promulgation of the underlying law in June 2004 until the enforcement.

- As Mr. Kanda said, the dematerialization of share certificates is "just in the beginning" and efforts need to be continued for the smooth establishment of the electronic share certificate system. Financial Services Agency hopes parties concerned with the dematerialization of share certificates continue to ensure issues such as restoration of registration for special accounts and management and notification of shareholder information are properly dealt with.

- Financial Services Agency asks parties concerned for continued cooperation in order to build an infrastructure system with high security, efficiency, and convenience.

- Key Q&A

Q: The document provided by JASDEC reads that 1,475 notifications of individual shareholders were made for 48 issues in April 2009. Aren't they too many?

A: There were notifications of individual shareholders for collective shareholders' proposals against a certain issuing company with a fiscal year ending March. This pushed up the total number of notifications of individual shareholders.

## 2. Future challenges for the securities clearing and settlement system

### (1) Briefings from the executive office (JSDA)

- So far, for the reform of the securities clearing and settlement system, specific actions have been taken against four issues. The implementation of the electronic share certificate system in January 2009 has realized the dematerialization of major securities including short-term corporate bonds (CP), JGB, corporate bonds, investment funds, and share certificates. Regarding major securities, the DVP has been realized through JASDEC, securities clearing organizations, and the BOJ-Net in line with the dematerialization.

- Additionally, pre-settlement matching system of JASDEC has been organized and linked with the book-entry transfer systems for major securities, enabling STP covering processes from agreement

to matching and settlement, and improving operational efficiency. To further promote the STP initiative, efforts need to be made against issues such as further expansion of functions and target transactions of the system and international standardization of the message format, code system, etc.

- For shortening settlement cycles, the “Plan for Strengthening the Competitiveness of Japan’s Financial and Capital Markets,” published by the Financial Services Agency on December 21, 2007, specifies that shortening of the JGB settlement cycle should be pursued and discussions among market players should be promoted.

- “Lessons for Japan's payment and settlement systems learned from the collapse of Lehman Brothers Japan,” compiled by Bank of Japan in March 2009, reads that after an unprecedented number of failures that occurred in the JGB market and were originated in the settlement defaults caused by Lehman Brothers lead to a short-term but significant decline in the market liquidity among repurchase transactions, market players realized the importance of shortening of the JGB settlement cycle for building a more robust clearing and settlement system. Among the issues concerning the securities clearing and settlement system to be handled, the executive office intends to first organize and discuss the issues concerning shortening of the JGB settlement cycle.

## (2) Comments from attendees

### [1] Bank of Japan

- While ten years have passed since the necessity of shorting the current JGB cycle of T+3 was pointed out, actions related with the securities clearing and settlement system in the aspects of systems and infrastructure have been taken such as the establishment of laws related with the book-entry transfer settlement, the promotion of DVP, RTGS, and STP initiatives, and the introduction of the matching system.

- After experiencing disruptions concerning JGB transactions and settlements caused by the bankruptcy of Lehman Brothers in September 2008, market players seem to have refocused their agenda on this theme.

- If the settlement cycle is shortened, the safety of the JGB settlement in the entire market will be improved through reduction in unsettled outstanding trades, etc. Meanwhile, in terms of market trades, the functionality of the short-term financial market is expected to be improved through expansion of the repurchase market with shorter terms, etc.

- Bank of Japan realizes that these effects will enhance the potential of Japan’s financial businesses and securing them is a major challenge in the JGB market.

- Therefore, if market players start to discuss this issue, Bank of Japan will actively participate in the discussions. Bank of Japan also intends to enhance the functionality of the BOJ-Net, which we started to newly build, while considering the outcome of the discussions about this issue.

[2] JASDEC

- Regarding share certificates, dematerialization of Japan Depository Receipts (JDR) will also be promoted.
- Regarding other systems such as dematerialization of CP, corporate bonds, and investment funds, the pre-settlement matching system, and the DVP settlement system for non-exchange transaction deliveries, improvement and expansion of functions to meet with users' needs will continue to be promoted.
- Regarding STP, JASDEC will promote international standardization such as ISO20022 while considering further expansion of the STP initiative to include peripheral operations of agreement and settlement.
- The introduction of functions for supporting repurchase transactions, debt-credit transactions, and collateral management of general securities including equities is one of the themes to be discussed.

(3) Establishment of the “working group for discussing shortening of the JGB settlement cycle”

Hearing these comments, the executive office briefed on the establishment of the “working group for discussing shortening of the JGB settlement cycle.” Then, the proposals that discussions about shortening of the JGB settlement cycle should be continued and that a working group (WG) for identifying and discussing specific issues should be established under the Promotion Meeting for Reform of the Securities Clearing and Settlement System were submitted and both were approved without any objection.

The selection of the WG members was entrusted to Mr. Kanda, Chairman of Promotion Meeting for Reform of the Securities Clearing and Settlement System.

Note that after the establishment of the WG was approved, The Bank of Tokyo-Mitsubishi UFJ, Ltd, Chair Bank of JBA, made the following comments:

- A shorter JGB settlement cycle will contribute to reducing the settlement risk through lower unsettled outstanding trades. The price fluctuation risk, the cost of rebuilding positions after default, which was a concern in dealing with the effects of the bankruptcy of Lehman Brothers last year, can also be reduced.
- By increasing the transaction volumes in the T+0 and T+1 repurchase transaction markets through a shorter settlement cycle, vitalization of the short-term financial market with higher market liquidity can be expected.
- The bank intends to discuss practical business-level measures in the bank community at the newly established WG after identifying and organizing the benefit that can be expected from a shorter JGB settlement cycle and issues and problems to be overcome for the implementation from various perspectives.