

**Minutes of the 3rd Meeting of the Promotion Meeting
for Reform of Securities Clearing and Settlement System**

Date: Wednesday, June 30, 2004 from 10:00a.m. to 12:05p.m.

Venue: Meeting Room #1 of 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 Kanda began the meeting by commenting that "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 Kanda 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) (About 40min)

- First of all, following information was provided:
 - (1) Overview of the reform of securities clearing and settlement system and the procedures of book-entry transfer stocks from the legal point of view
 - (2) Procedures of converting to the new book-entry transfer system
- The official intends to put efforts into disseminating information on the new book-entry system by attending the seminars hosted by Reform Promotion Center For Securities Clearing and Settlement System (Promotion Center) as a presenter, or writing articles for magazines, since the mechanism of laws and the procedures for smooth transition have a profound effect on a variety of people. It is very important for the financial industry, which is in the closest vicinity of customers, to cooperate with the authority and to realize smooth transition through advertising campaign.
- The official encourages the industry to promote the use of electronic CP. The reform of securities clearing and settlement system will not be completed by the reform of law, and should be achieved by both the government and private sector. Moreover, the establishment of DVP and STP is so important that the industry needs to make continuous efforts.

(Comments of Ministry of Justice's official)

- The promulgation of the law this time may have completed the process by 30% on the way to establishment of the new book-entry transfer system. The most important work is to build up system infrastructures, which should be reflected on the details of government ordinances accordingly. It is good idea to establish "the working group for discussion on the implementation of

dematerialization of stock certificates”, comprised of representatives from various segments, under the promotion meeting. Since there is a close connection between the establishment of government ordinance for enforcement of new laws and system development of private sector, market participants are required to speed up system development.

- It is necessary to implement the new book-entry transfer system within 5 years, based on the law enforcement date. The new-book-entry transfer system for stocks is considered to be far more complicated mechanism in compared with those of corporate bonds, and will need more time to develop. Since the system must be linked not only to a central securities depository and account management institutions but also to transfer agents and issuers, it should be effective and useful for issuers at a minimum cost. Then the official requests the market participants to make efforts with consideration given to those points.
 - 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 “Law regarding Book-entry Transfer of corporate Bonds, Stocks, etc.” The Changes will include an introduction of flexible way of reorganization, such as flexibility of a price against mergers, and cases that stocks of parent company are issued as stocks of reorganized company. Accordingly, it is necessary to establish the regulations relating to recording procedures in the book-entry system, and to 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
 - Under the new book-entry transfer system, pledger’s information will be described on column for right of pledge in a book-entry transfer account opened by a pledgee. Is it different from the procedures of corporate bonds, etc.?
 - >> Under the current JASDEC (Japan Securities Depository Center, Inc.) system, an account for the right of pledge should be opened in the securities company where pledger (shareholder) holds their account.
 - However, under the new book-entry transfer system, it becomes necessary for pledgee to open a column for right of pledge in book-entry transfer account. The

same regulation has already been created for corporate bonds, etc., however, it is not necessary to describe pledger's information on column for right of pledge in the pledgee's account since general shareholder's notification concerning rights for profit-sharing does not exist.

- Are you going to make English handbooks or Q&A to explain for foreign global custodians or foreign investors?

->> From the global point of view, it would be very important to prepare the documents in English just for basic laws and regulations. However, we would like to discuss on this matter separately.

2. Deliberations by the Promotion Meeting for Reform of Securities Clearing and Settlement System (the promotion meeting)

(Efforts of the meeting toward dematerialization of stock certificates)

It is necessary for the business sectors to take positive and concrete approach for the smooth transition to dematerialization and to deepen comprehensive understanding of market participants, including retail investors, through our efforts.

To realize this, the working group has been established under the promotion meeting (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.

3. Deliberations in UNIDROIT

Chairman Kanda reported on the current situation regarding UNIDROIT.

- Summary of report

First of all, "Explanatory Report" of "Hague Convention on the law applicable to certain rights in respect of securities held with an intermediary" was created and sent to each country recently, which will be commented by each country before September and will be fixed thereafter.

Accordingly, this will be discussed at the legislative council in Ministry of Justice, with the consideration given to ratification.

The issue of UNIDROIT will apply to "Law Concerning Book-Entry Transfer of Corporate

Bond, Stocks, etc” in Japan and aims at harmonizing standards of practical law of each country. Currently, an expert meeting is unofficially held since the consultation between governments is not performed yet.

However, the draft of convention was created through the telephone meetings in April 2004, and the presentation was given to the industry in Frankfurt on May 4, 2004 and in New York on May 11, 2004 for exchanging opinions.

It is not necessary to pay attention to every detail because this is not a official convention, however, suggestions and questions from the industry would be appreciated.

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

JASDEC made a report on the current situation as follows.

- Summary of report

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

- JASDEC established JASDEC DVP Clearing Corporation (JDCC) in June 2003, which was licensed for securities obligation assumption business in April 2004. JDCC started DVP settlement service for non-exchange transaction deliveries (DVP for NETD) on May 17, 2004 after DVP for NETD was implemented on May 6, 2004. There are 62 DVP participants including 5 settlement banks at the moment.
- The number of the DVP settlement transactions are from 60 thousands to 80 thousands transactions, 800 million stocks on a daily basis. The DVP settlement ratio stands at 60% in terms of transfer and at 40% in terms of quantity. Fund settlement amount is 1 trillion yen per day, and the actual amount of fund, which received through BOJ-Net after netting, decreases to a little less than 15%.
- Since measures to increase net debit calculation frequency taken by Japan Securities Clearing Corporation (JSCC) attributed to the smooth liaison with Exchange DVP, and synergistically result in fast circulation of securities, transfers of stock are being completed 99% in the morning.

(The Pre-Settlement Matching System)

- The implementation of the Pre-Settlement Matching System (PSMS) for government bonds is scheduled for February 2005.

After Japan Government Bond Clearing Corporation (JGBCC) business starts, if users of the PSMS request debt assumption or clearing services in JGBCC, (1) the matched data in PSMS will automatically be sent to the system in JGBCC, and (2) all data relating to authorization of debt assumption or results of clearing, etc. will be sent to users through the network of PSMS.

- JASDEC issued “Specification of PSMS connection” for corporate bonds, etc. and commercial papers in May 2004.

Implementation of the matching functions for those securities is scheduled for January 2006, which will be connected to the book-entry transfer system for them.

(Book-entry Transfer System)

(1) CP

- The book-entry settlement system for electronic CP started its operation in March 2003 and *Samurai* electronic CP issued by foreign corporations have been traded from April 2004. 52 issuers consent to convert to the new system as of June 29, which has doubled to outstanding amount 355 issues, 1,718,742 million yen. This indicates a little more than 10% of whole CP including bills CP.
- 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.
- The new system with the function supporting CPU connection will operate in January 2006. (“Specification of PSMS connection” has been published in May 2004.)

(2) Corporate Bonds, etc. (Domestic bonds other than JGBs)

- The system development is currently underway and the system connection test will be conducted with users from August next year.
- JASDEC is currently working out procedural steps toward the smooth transition to the paperless system for outstanding bonds (over than 200 trillion yen in amount) with the concerned parties.
- The book-entry transfer system for corporate bonds, etc. will start in January 2006

and outstanding bonds will sequentially be converted.

(3) Beneficial rights of Investment Trust

- A subcommittee is continuously discussing on the planning of basic schemes of the book-entry transfer system.
- To implement dematerialization of beneficial certificates of investment trust, JASDEC is working out defining an overview of future investment trust settlement system. To be more specific, JASDEC recapped the major issues with 4 members including Investment Trust Management Company, Trustee Bank and Sales Company, made a report called “Investment Trust Subcommittee Report” in March 2004, and held seminars with JSDA (Japan Securities Dealers Association) in Tokyo, Osaka and Nagoya in April 2004.
- JASDEC is currently developing a basic scheme, such as recording or deleting procedures, and reviewing the details.

Working-level discussion on conversion of the beneficial rights of investment trust to the book-entry settlement system is underway with Investment Trust Association.

(4) Stock Certificates

- JASDEC thinks that 5-years is not sufficient to reach a consensus, to discuss the detailed business, to develop systems, and to test systems between JASDEC and market participants.
- JADEC called for the member’s cooperation in constructing useful and law-priced infrastructure, and would like to encourage depositing stocks with JASDEC as much as possible before the mandatory implementation date, to ensure the smooth transition to the paperless system.

● Main opinions expressed by members

- A member stated that the highest-priority should be given to the feasibility of the new system. In England, one project, on which a lot of money was spent, ended in failure, because people did not share the same view. The project must start by sharing same points of view.

- A member from Japan Business Federation (JBF) commented that they would like to discuss on the cost and schedule of dematerialization of stock certificates with the concerned parties, and to achieve smooth transition of outstanding bonds from JB net to JASDEC.

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 was opened in the 7th floor of the Tokyo Stock Exchange in 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, 670 million yen in capital stock.

(2) Activities of the Steering Committee

Currently, the working group and the special committee were established under the steering committee to work out toward the start of operations.

The working group shall discuss on the business-level issues shared by participants, such as market rules while the special committee shall discuss on the major issues, such as commissions regarding operations at JGBCC.

(3) Business Collaboration

JGBCC and JSCC signed a “Memorandum of Understanding” (MOU) for business collaboration.

Under this agreement, JSCC will provide JGBCC with clearing-related services, including monitoring the financial status of JGBCC participants and receiving regular financial reports and analysis based on the JGBCC’s standard, which will improve market users’ operational convenience as well as efficiency in JGBCC.

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

(4) Future Plan

JGBCC will conduct a connection test regarding matching services of government bonds in JASDEC from the end of this year.

Then, the integration test will be followed with all participants (including the Bank of Japan and the JASDEC) targeted for April 2005, and the system will operate from May 2005.

There may be more challenges such as application of license or application of transaction to the Bank of Japan, and therefore JGBCC requests continuous cooperation and advices from members.

6. Business progress in JSCC

Representative 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 their own 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 clearing-related services, including monitoring the financial status of JGBCC participants upon the inauguration of JGBCC operations.
This will save the common market participants of JSCC, JDCC and JGBCC from having to go to JDCC and JGBCC in the future, and improve efficiency in clearing operations.

- JSCC and JGBCC 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, 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 and posted on the website of Promotion Center.

As discussed in 1, Q&A is going to be published in English.

- (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.