

## **Minutes of the 5th Meeting of the Promotion Meeting for Reform of Securities Clearing and Settlement System**

Date: Thursday, November 25, 2004 from 13:30p.m. to 14:55p.m.

Venue: Meeting Room #1 of JSDA

- Agenda:
1. Report on deliberations on “The Convention on the Law Applicable to Certain Rights in respect of Securities held with an Intermediary” (“The Hague Convention”)
  2. Deliberations in “the working group for discussion on the implementation of 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”.
  7. Others
    - (1) Deliberations on the government ordinances concerning dematerialization of stock certificates
    - (2) Report on “the result of questionnaire survey concerning the management of shareholders under the new book-entry transfer system” by Nippon Keidanren

### **Minutes of Meeting**

1. Report on deliberations on “The Convention on the Law Applicable to Certain Rights in respect of Securities held with an Intermediary” (“The Hague Convention”)

Following the previous meeting, opinions and ideas with regard to “The Hague Convention” were exchanged among members. Moreover, as main members of promotion meeting and custodians had working-level talks about “The Hague Convention” in Japan Securities Dealers Association the other day, the contents of meeting was reported.

(Report by Japan Securities Dealers Association)

The ratification of the Hague Convention by Japanese government will smoothly have market participants designate the applicable law concerning “proprietary aspect” in case of “dispositions” or “setting collateral” of indirectly held securities with intermediaries and thereby solve the problems that are not covered by the Article 10 of the Conflict of Laws of Japan (Hourei, Law No. 10 of 1898). So, The Hague Convention earned a positive reputation that it will make a progress in the conflict of laws in Japan.

On the other hand, it was also understood that the ratification of the Hague Convention would not solve all the business problems in securities clearing and settlement.

With respect to “comments and questions about substantive law”, which we have received so far, it is a issue that traditionally exists and has no direct bearing on the Hague Convention.

However, it is continuously important issue to be discussed for intermediaries that conducts international securities business. Therefore, we will individually or collectively discuss about the substantive law, including the revision of Japanese law if required, while following up the discussions underway in UNIDROIT.

2. Deliberations in “the working group for discussion on the implementation of dematerialization of stock certificates”

The secretariat reported on the discussions underway in the working group (How to determine the “implementation date” in the business world, advertising campaign toward the new system, etc).

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

JASDEC made a report on the current situation as follows.

- (1) The DVP System for Non-exchange Transaction Deliveries (DVP for NETD) concerning stocks, etc.

DVP for NETD started on May 17,2004 and JASDEC DVP Clearing Corporation conducts securities obligation assumption business as a clearing house. There are 62 DVP participants (banks, trust banks and securities companies). The number of the DVP settlement transactions is an average of 58 thousands transactions per day and the DVP settlement ratio stands at about 60%. However, the actual DVP settlement ratio may be accounted for 80% of the total transfers excluding non-DVP settlement transactions such as those between same participants. Notional amount of fund settlement is accounted for an average of 900 billion yen per day, and actual fund settlement amount , which received through BOJ-Net after netting, is an average of 100 billion yen per day, decreasing to about 12%.

- (2) The Pre-Settlement Matching System (Matching functions for JGBs trading.)

The connection test has started with users since November 2004 and will start providing matching functions from February 14 2005. Then, the integrated test will be conducted with Japan Government Bond Clearing Corporation (JGBCC) and the full-scale implementation is scheduled for May 2005 when JGBCC starts their business.

(3) Book-entry Transfer System (Realization of electronic trading of each securities)

a) Electronic CP

It has been 1 year and half since the book-entry settlement system for electronic CP started. *Samurai* electronic CP issued by foreign corporations have also been traded since April 2004. At present, the outstanding amount is accounted for about 2 trillion yen and 69 issuers applied to the book-entry system. JASDEC has been making efforts in advertising the book-entry system by holding seminar for issuers and aware of the necessity of measures to enhance customer convenience, which responds to increasing use of the system, on the grounds that special measures concerning revenue stamp duty for bill CP become null and void at the end of March 2005. In response to the commencement of book-entry transfer system of corporate bonds (targeted for January 2006), JASDEC intends to realize STP of DVP settlement scheme and perform a version upgrade of these systems.

b) Corporate bonds, etc

The System Connection Specification was published in May 2004 and the system test will be conducted with users from August 2005. Preparations are underway to implement the book-entry transfer system of corporate bonds (scheduled for January 10 2006). At the same time, JASDEC is currently discussing procedural steps toward the smooth and short-term transition to the dematerialization for various outstanding bonds (over than 200 trillion yen in amount) as well as a market rule under the new system.

c) Investment Fund

“The Investment Fund Book-entry Transfer System Outline” was completed in September 2004 and the seminar was held at the end of October. Based on the outline, the discussion is continuously underway from the aspects of both business and system establishment. The implementation is targeted for January 2007.

d) Stock Certificates

JASDEC recognizes the importance of developing and sharing a skeletal outline of a series of operations based on the new law with consideration given to needs of the concerned parties. Then, it is desirable to identify issues required to study the details and develop a road map to the future discussion.

It is essential to encourage depositing stocks with JASDEC as much as possible before the mandatory implementation date to ensure the smooth shift to the dematerialization.

#### 4. Business progress in JSCC

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

(1) The securities and exchange law requires that participants of JASDAQ shall deposit the participant money and/or securities (Shinninkin) in JASDAQ after it move to the Stock Exchange in December 2004. JSCC shall undertake business procedures regarding acceptance, management and return of these money and/or securities between JASDAQ and its participants, thereby JASDAQ participants could integrate these procedures in JSCC to improve the efficiency of their business management. JSCC would like to actively offer not only the services they have already undertaken but also the other services if they could improve the efficiency of business management.

(2) Since the DVP for NETD launched in May 2004, there has been remarkable tendency for early transfers of settlement-related stocks. At present, 90% of the total transfers between JSCC and participants, as for the exchange trading, are completed around 10a.m, which is 2 hours earlier than before.

This leads to the improvement of infrastructures toward the realization of STP and the shortening of settlement cycles in the future.

JSCC requests continuous cooperation in realizing early transfers from members.

#### 5. Business progress in JGBCC

JGBCC is currently preparing for the commencement of clearing operations of JGBs traded on the OTC market, targeted for May 2005. President Okitsu made a report on the current situation and future plan.

33 companies capitalized the company, which reached a little less than 3 billion yen in total capital and additional paid-in capital as of July 30 2004. There are 35 participants including securities companies, banks, brokerage firms, etc. as of September 2004.

Several committees have been held so far to have working-level discussions. At present, JGBCC is preparing for the inauguration of JGBCC in May 2005 by creating corporate manuals or executing the integrated test. JGBCC requests further understanding and cooperation from members.

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

The milestones were made in November 2002 to clarify the overall scheme, to list up the issuers to be considered and to create a schedule toward the realization of securities clearing and settlement system reform. To reflect changes that have occurred since June 2004, the milestones were partly revised. The revised milestones will be posted on the website of Promotion Center after due deliberations with the concerned parties.

7. Others

(1) Deliberations on the government ordinances concerning dematerialization of stock certificates

The official of Financial Services Agency reported that FSA is currently working on the government ordinances concerning dematerialization of stock certificates with the concerned parties (mainly procedures regarding fractional share and identification of multiple accounts holder under the same name, and regulations on stock holding by foreigners).

(2) Report on “the result of questionnaire survey concerning the management of shareholders under the new book-entry transfer system” by Nippon Keidanren  
Nippon Keidanren explained an overview of the result of questionnaire survey.

Regarding this document, please contact to:  
Reform Promotion Center For Securities Clearing And Settlement System  
Japan Securities Dealers Association  
TEL. 03-5649-3980  
Please note that this minutes is provisional and may be revised.