

Minutes of the 8th Meeting of the Promotion Meeting for Reform of Securities Clearing and Settlement System

Date: Friday, April 21, 2006 from 10:30p.m.to 11:35p.m.

Venue: Meeting Room #1 of JSDA

Agenda

1. Deliberations in “the working group for discussion on the implementation of “Dematerialization of stock certificates””
2. Deliberations in JASDEC
3. Current situation with JSCC
4. Revision of the milestones set in the report “Towards Japan Securities Settlement System and Infrastructure Reform”
5. Guideline for words and descriptions used in publicity and enlightenment of dematerialization of stock (Scheme)

Minutes of Meeting

1. Deliberations in “the working group for discussion on the implementation of “Dematerialization of stock certificates””.

The secretariat office reported the current situation of the working group as follows;

(Summary of report)

- (1) “Communization of the milestone of the new system migration”

- ① ”Deliberation in discussion groups of the members”

The reports were made by the members (Trust Companies Association of Japan, Japanese Bankers Association, JSDA and JASDEC).

Each group has been studying the issues along with the themes reviewed by JASDEC’s subcommittee of Dematerialization of Stock Certificates and its four sectional committees. The groups then give suggestions and opinions as feedbacks to JASDEC’s subcommittee and four sectional committees.

- ② “Thrashing out items to be discussed for practical business (revised) and the deliberation group (scheme)”

The report was made based on the data.

③ “Summary of the practical schedule for the transition to the Dematerialization of the Stock Certificates”.

The report was made by JASDEC.

④ “Aimed date of the concurrently transition date for practical business”

Two of the suggestions for the date for the concurrently transition, among the other suggestions, are January 2008 and January 2009. That is because many holidays are available during the year change

After the discussion, the conclusion from the working group, is that January 2009 may be the best timing to set the concurrently transition date. This is also based on the fact that there are so many stocks which are not deposited with JASDEC, as indicated by the research result of the currently situation of stock custody (collateralized; about 10 billion, safekeeping/ not deposited with JASDEC; about 30 billion, paper certificates physically kept by share holders; about 60 billion (20 billion of that are not owned from the business law’s point of view). Further more, January 2009 seems the best timing considering the system schedule for the dematerialization as well as the publicity and enlightenment period for the general investors. The date will be discussed to be either 1st or 5th of January.

(2) Themes for reviewing “publicity and enlightenment for dematerialization of stock certificates”

① “The report of the current situation of publicity and enlightenment for dematerialization of stock”

The explanatory meetings for “Outline of establishment of Dematerialization of Stock Certificates” are to be held for securities companies and finance institutions from mid April through mid May 2006 in 10 cities.

“Forum for Promotion for Reform of Securities Clearing and Settlement System 2006” was held in Tokyo (15th – 16th. Feb. 2006) and Osaka (21st Feb. 2006). Over 700 people from securities companies and finance institutions participated.

② “Cross-industrial publicity and enlightenment for dematerialization of stock certificates”

The colored leaflet for shareholders has been created with cooperation of members of the working group, issuers, agencies and so on. This leaflet is planned to be enclosed with resolution notification to share holders from the most listed firms. The advertisement for this leaflet was put on news papers at the end of March. 2006.

In response to this, the call center has been established within the Reform Promotion Center, for expected inquiries from readers and shareholders.

(3) Others

Regarding the aimed “concurrently transition date”, the official date is to be decided by government ordinance and the timing for the announcement to the press is handled with comprehension of forthcoming Committee for Reform of Securities Clearing and Settlement System.

<<Questions, Opinions, etc>>

- ✓ Regarding the milestone, the concerned issues which affect the system architecture need to be more specific now that we only have less than three years for the system architecture, or two years if consider the test period. For example, the banks’ share collateral. This issue is affected not only by banks but also by securities companies, the potential custodians
- ✓ Securities industry is considering a publicity activity to promote the deposit with JASDEC, including that of stocks under custody of securities companies.

2. Deliberations in JASDEC

JASDEC made a report on the current status of two points.

(Summary of report)

1) Book-entry transfer system for Corporate Bonds

The system started on January. 10. 2006 as expected, and there are about 7,100 brands and the balance is over 7 trillion yen. It means that about one-third of the brands and about one-tenth of the total balance as there are over 60,000 corporate bonds and the balance is 220 trillion yen in total, and it is a good start.

The new system for the already-issued bonds has been prepared, and the transition of the paper certificates will start in the end of April. 2006, and the transition of the registered bonds in November 2006. The tax incentives for the paper certificates and the registered bonds, such as exclusion from taxation will end on January. 6. 2008, by when the transition must be completed. We would like to ask for continuous cooperation by everyone.

2) Outline of Dematerialization of Stock Certificates

The major points are as follows;

① Comparison of JASDEC’s system with the book-entry transfer system

With the book-entry transfer system, the issuers and the transfer institutions are connected directly with the account management institutions and shareholders directly underneath, which makes one channel.

② Class structure and the ledger of book-entry system

Class structure with multilevel has come true in the stock industry.

③ Management of the shareholders' information, etc in JASDEC

A unified format shall be used when JASDEC gathers and registers a shareholder's information since it requires usage of Kanji. We aim to use "JIS X 0213" and the letter code called "Unicode".

④ Procedure of the newly registration at the start of the system

It is a procedure of a case such as registration of a new listed firm.

⑤ Newly registration by DVP system at issuing

It is a flow chart regarding DVP at issuing, which is now available with stocks.

⑥ Reference of a book-entry transfer account

It says that you can check whether or not a payee's account exists prior to the process of book-entry transfer.

⑦ Transfer to a pledge account

Currently, if a shareholder "B" puts his stocks in pledge to his direct account management institution, "First Party", it is legally set up that the balance is recorded in a column for pledge of JASDEC (First Party's direct account management institution) as well as "B"'s name and address. With the new system, "B"'s code number, instead of his name and address in Kanji, will be recorded and his information will be referred when necessary.

⑧ Process of recording on accounts in event of reverse split

In event of reverse split, fractional figure is adjusted as follows; JASDEC combines all the shares and the last share is added to the account management institution with the highest balance.

⑨ Shareholders that are notified in Notification of General Shareholders' List to issuers

Who are notified in Notification of General Shareholders' List? There are column for shareholder and pledgee under an account of a shareholder "A". "A" shall be notified as a shareholder of shares which "A" has under a column for shareholder. However, if "B" is written as a pledgee in a column for pledgee, "B" shall be notified as a shareholder to an issuer.

⑩ Flow of Notification of General Shareholders' List, Individual Notification of Shareholders' List and request of information supplement

In future, there will be no requirement for change of reference code in the events such as change of account types or consolidation of securities companies and anonymity of collateral security will be kept. As an effect of the "paperless" system, it will be possible to notify beneficial shareholders to issues in 3 business days, a half of current necessary time.

⑪ Types and schedule of request on information supplement by issuers

Two patterns of request forms have been prepared. The one is "whole information supplement" which provide all the information including history of increases and decreases provided by all the account management institutions. The other is "partial information supplement" which provides a number of currently held shares directly to account management institutions.

⑫ Notification of collateral securities

In order to keep anonymity of collateral in the event of individual notification of shareholders or request of information supplement,

⑬ Interim announcement of descriptions that have limit on shareholding of aliens

Account management institutions are required to report to JASDEC everyday. However, it does need not to report if it establishes the account category for foreigners. The ratio of shares held by aliens is announced everyday on JASDEC's website.

⑭ System of dividend after transition to the book-entry transfer system

Expected convenience for shareholders, which is given by the dividend payment system with a new network, were discussed. Currently, a shareholder requests each issuer to pay dividend to a certain account for every brand, or the dividend is treated as postal money if there is no such request. For the new system, on the other hand, the process is done electrically using the hierarchical network structure. In addition, two new systems are also aimed to be available. The one is "Registered dividend account system", which the dividend for all the brands is automatically paid into an account specified by a shareholder in advance. The other is "Stock pro rata system", in which the dividend is paid in proportion to the balance. However, the latter system has to be reviewed more since the affect it gives to conversion of the transfer agent system is not confirmed. The systems is aimed to be approved by this summer and installed after the start of the book-entry transfer system.

⑮ Procedure of transition to the book-entry system

Depositing in advance is necessary for smooth transition of paper certificates to the new system. Paper certificates that are physically possessed count about tens of

billions at the moment. JASDEC will pursue enlightenment in cooperation with the Promotion Center while promoting the deposit to JASDEC

⑯ Upgrade of the data reported to shareholders prior to transition to the book-entry system

Practical business world aims the concurrently transition date to be in January. 2006. In order to function the data center properly, it is necessary that each account management institution, such as securities companies, give JASDEC the data of shareholders they hold. JASDEC will collect such data from account management institutions then tentatively combine to improve the accuracy of the system. JASDEC also hopes to pre-operate the data center putatively in October 2006.

⑰ Schedule for future

JASDEC plans to hold an explanatory meeting in June 2006, after releasing the system outline in the end of May, aims to present the connection specification in October 2006. The general test will start in spring of 2008 and will be carried out for about eight months.

3. Current situation of JSCC

The current situation of JSCC was reported as follows:
(Summary of report)

”Revision of Clearing Fund System”

The outline of the revision is based on the “self-responsibility principal, which means if a clearing participant fails to clear and causes JSCC a negative profit, such participant has to compensate with its own property. The core of the principal is the Clearing Fund which clearing participants deposit with JSCC. The Clearing Fund System currently changes required amount every month and this could be a problem as it may not be able to handle the fast change of a trading condition. For example, if a participant increases the commercial volume at short notice, the amount in the Fund is too small for the risk JSCC takes.

In addition, there is “Advisory for Clearing Institutions” issued by CPSS-IOSCO as an international advisory for clearing institutions. The advisory states that the certain criteria have to be met with requirements of the collateral system.

In response to above mentioned matters, following three points were mentioned for enhancement of Clearing Fund System.

First point is to make the change of the fund’s required amount earlier. Currently the amount is announced on the 10th of the month and applied from the 15th, while the

new system announces the amount on the forth business day of the month and applies it from the 5th business day.

Second point is to concretize the criteria for a temporary change in the required amount of the Clearing Fund. Currently it is possible to change the amount temporarily although there was no clear standard for the temporary change or no past record of it. Therefore the standard amount for the temporary change is now set to be: (a participant's outstanding within the last three days) x (fixed volatility). If the temporarily changed amount surpasses the Fund's required amount that time, the temporarily changed amount is considered as the Fund's required amount.

Lastly, the "fixed volatility", which is used to calculate the standard amount for the temporary change above, shall be a standard high enough to cover 99% of the volatility for two, three and four days at TOPIX in the last 60 days. It is set so in order to handle even wider volatility.

The revision of the Clearing Fund System is planned to start in July 2006. We hope that such correspondence as the revision will help the deposited amount to meet the risks JSCC takes and improve the self-responsibility options for the clearing participants. It will give the participants extra work with issues such as handling of collateral securities and the timing for depositing. However, this revision will lower the chances of the loss caused to JSCC by unexpected troubles with clearing participants, and enable participants to avoid mutual guarantee.

4. The revision of the milestones set in the report "Towards Japan Securities Settlement System and Infrastructure Reform"

There is no major change in the revision as the last promotion meeting was held only three months ago in January, 2006. The revised points are as follows;

(Milestone : refer to P9)

- 1) Summarization of "Outline of Dematerialization of Stock Certificate System" by JASDEC.
- 2) "ETF book-entry transfer system correspondence term" was specified to be January 2008.

<< Questions and opinions >>

- ✓ Securities industries would like to request more effective promotion on the deadline of the handling period the ETF in 2008. It is expected to have a lot of impact on securities companies as they have to separate client accounts from principal accounts.
- ✓ It was informed in the explanatory meeting of JASDEC that "ETF book-entry system" for the category of principal and agency would start earlier by one year. The simple

outline of the system shall be announced in June 2006.

5. Guideline for words and descriptions used in publicity and enlightenment of Dematerialization of Stock Certificates (Scheme)

Guideline for words and descriptions remain the same. In addition, the scheme of unified form of date was suggested and accepted. It is to avoid confusion in general investors with forms such as “Japanese calendar only” or “Japanese calendar/ Western calendar”. The suggested forms include “Western calendar only: 2009” and “Western calendar (Japanese calendar): 2009 (Heisei 21)”.

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Regarding this document, please contact:

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

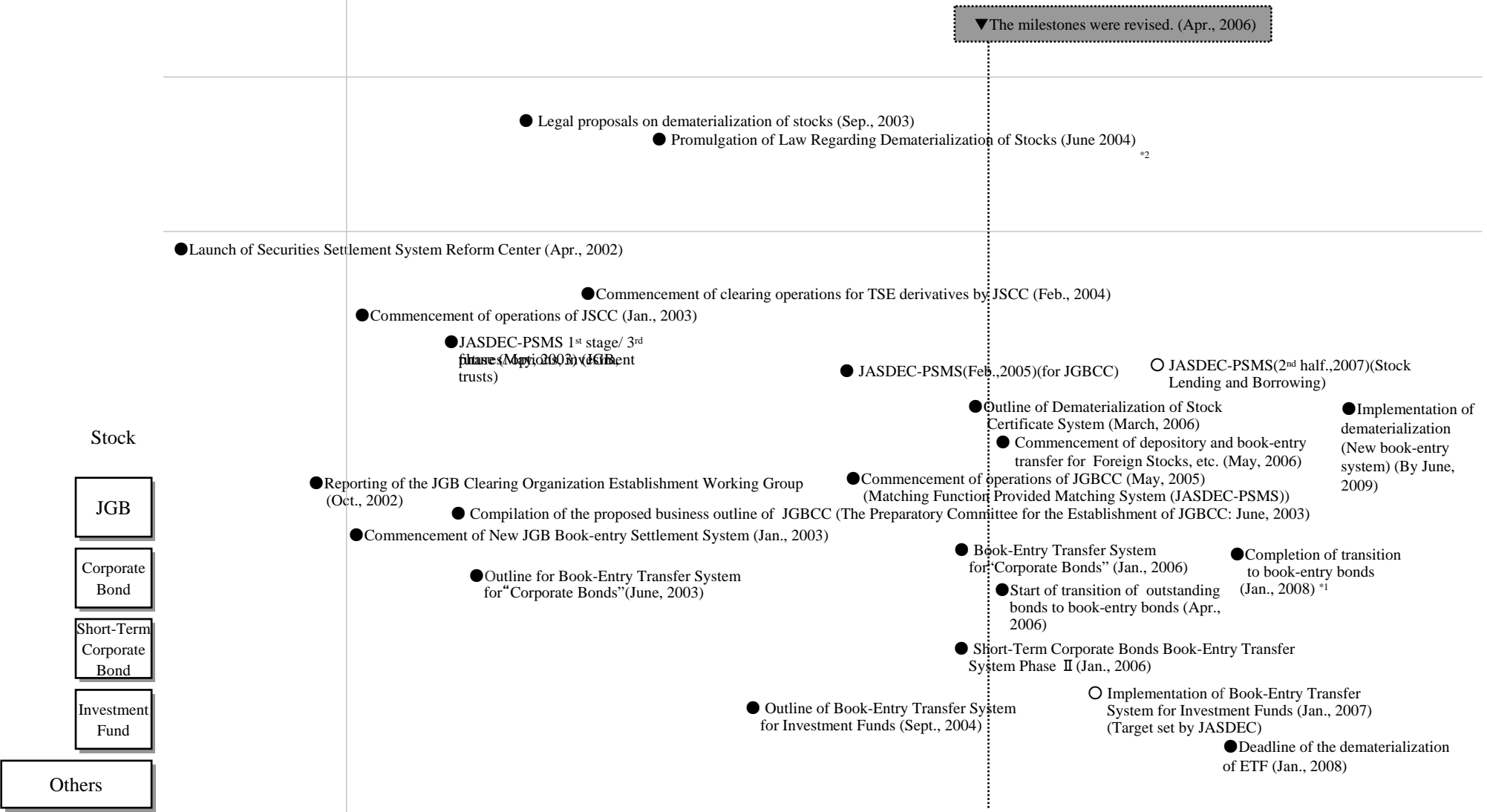
Figure 6-1 Securities Settlement Systems Reform Milestones (fixed or planned)

Revised in April 2006

● : Major milestone already set
 ○ : Major milestone currently planned
 △ : Major milestone tentatively set by JASDEC

2002(H.14)		2003(H.15)		2004 (H.16)				2005 (H.17)		2006 (H.18)		2007 (H.19)		2008 (H.20)		2009 (H.21)	
1~6	7~12	1~6	7~12	1~3	4~6	7~9	10~12	1~6	7~12	1~6	7~12	1~6	7~12	1~6	7~12	1~6	7~12

▼The milestones were revised. (Apr., 2006)



*1 The target for completion of conversion to Book-Entry Transfer system for "Corporate Bond" is January, 2008 due to taxation of outstanding corporate bonds at abolishment of the Bond Registration Law.

*2 Stocks of listed companies will be uniformly transferred to the dematerialization of stock certificates system on the day set by the government ordinance within 5 years after promulgation of a new law.

*3 SIA (U.S.) published that they postponed a decision about T+1 in June 2004