

Basic Policy on Risk Management

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Japan Securities Depository Center, Inc. and JASDEC DVP Clearing Corporation (collectively “JASDEC Group”), in working to contribute to a robust and reliable settlement infrastructure, has established the following basic risk management policy.

1. Aim

The purpose of this basic policy is to outline the categories, definitions, departments in charge and functional framework of risk management pertaining to risks within JASDEC Group, as well as clarifying the overall risk management policy and responsibilities of directors and employees so that a corporate culture that respects risk management as a key role in the settlement infrastructure can be embedded into directors and employees.

2. Definitions

- (1) In this document, 'Risk' refers to any matter with the potential to cause loss to JASDEC Group or damage to stable operation of settlement infrastructure provided by JASDEC Group.
- (2) The categories (hereinafter, 'risk categories'), definitions and departments in charge of risks managed by JASDEC Group are as outlined in the appendix.
- (3) In this document, 'Risk management' refers to gaining an accurate understanding of risks and taking the necessary measures in response to those risks.

3. Overall policy on risk management

- (1) JASDEC Group emphasizes the importance of risk management, and will strive to instill this emphasis in each department and office (note: 'department and office' refers to each operational unit with the JASDEC Group organization).
- (2) JASDEC Group, in order to ensure sound management of operations, will take comprehensive measures to manage each risk, while ensuring that the increasing diversity and complexity of operations is reflected appropriately in the risk management structure.
- (3) JASDEC Group shall periodically specify, analyze and appraise operational risk, service stability and efficiency risk, business risk and financial risk, and will implement risk countermeasures and monitor the status of risk management as necessary. In the event that a risk materializes, JASDEC Group shall identify the cause, take measures to prevent recurrence and, with due consideration of available management resources, endeavor to minimize risk to the entire Group.
- (4) JASDEC Group shall remain highly cognizant of the particular importance of managing information system risk, and shall endeavor to minimize this risk by using standardized administrative procedures for planning, development and operations of information systems, maintaining a consistent level of information system quality, and preparing a robust and up-to-date emergency response framework in case of disaster, damage or cyberattacks.
- (5) Directors and employees shall maintain a high awareness of risk, and endeavor to ensure that business operations are carried out properly at all times, based on an understanding that the materialization of risks could significantly damage JASDEC Group assets and bring about significant losses.
- (6) Each department and office shall endeavor to conduct proper risk management, and if a risk materializes in the course of conducting operations

shall promptly report to the Integrated Risk Management Council while taking necessary measures to minimize the impact of the materialized risk.

4. Functional framework of risk management

(1) Board of Directors

The Board of Directors decides the scope of risks managed by JASDEC Group, the risk management structure and overall policy with regard to risk management, and makes the final decision on important risk management matters.

(2) Risk Committee

The Risk Committee comprises a majority of members who are not involved in the execution of JASDEC Group operations, and provides advice and support to the Board of Directors on overall risks pertaining to JASDEC Group.

(3) CRO

The Chief Risk Officer (hereinafter, 'CRO') oversees risk management for JASDEC Group. The CRO has responsibility for providing direction and supervision of risk management activities and reports the status of risk management to the Risk Committee.

(4) Integrated Risk Management Council

The Integrated Risk Management Council deliberates and decides on key risk management matters and periodically monitors and reports to the Board of Directors on the status of risk management.

(5) Risk Management Department

The Risk Management Department promotes JASDEC Group risk management, undertaking Group-wide risk management while reporting on the status of risk management to the CRO and the Integrated Risk Management Council.

(6) Departments in charge of specific risk management

Departments in charge of specific risk management promote risk management of the risk categories assigned to each such Department, conducting comprehensive risk management within the risk categories while reporting on the status of risk management to the Risk Management Department.

(7) Departments exposed to certain risks

Departments exposed to certain risks manage the risks of which each such Department has operational responsibility, and report on the status of risks to their respective Departments in charge of specific risk management.

(8) Internal Audit Office

The Internal Audit Office audits the risk management status reports.

5. Review, revisions and deletions to Basic Policy

- (1) In principle, the validity and appropriateness of the Basic Policy is reviewed more than once annually and revised as appropriate if deemed necessary.
- (2) Revisions or deletions to the Basic Policy are based on decisions by the Board of Directors. However, minor revisions to terminology or wording may be undertaken at the direction of the CRO.

Appendix

Risk Category	Departments in charge of specific risk management	Risk Definition	
Operational risk		Risk of loss to JASDEC Group, damage to stable operation of settlement infrastructure, or information leakage provided by JASDEC Group arising from information system failure, inadequate internal processes, or disruption caused by human error or external factors.	
	Information system risk	System Planning and Management Department	Risk of loss of information system effectiveness, user trust, security, efficiency or compliance caused by inappropriate use of information system, failure in system development, a flaw in the information system including system crash and malfunction, or cyberattacks.
	Business Processing risk	Risk Management Department	Risk of unintended, delayed or suspended business processes arising from failure to conduct proper operations, accident or fraud by directors or employees.
	Accident & Disaster risk	General Administration Department	Risk of damage to JASDEC Group or danger to directors and employees of the Group arising from accident, unlawful entry, threats, natural disaster, pandemics or other such events.
	Personnel risk	General Administration Department	Risk of insufficient human resources, loss of motivation, moral hazard or other such impacts arising from inappropriate HR policy or worsening of the work environment.
	Compliance risk	General Administration Department	Risk of business management or legal problems arising from failure to comply with laws & regulations and internal rules or transaction contracts, or unfavorable contracts.

Risk Category	Department in charge of specific risk management	Risk Definition
<p>Service stability and efficiency risk</p> <p>Book-Entry Transfer System for Stocks, etc.</p> <p>Custody Service for Foreign Stock Certificates, etc.</p> <p>Book-Entry Transfer System for Corporate Bonds, CP and Investment Trusts</p> <p>Pre-Settlement Matching System</p> <p>DVP Settlement Services for NETDs</p>	<p>Book-Entry Transfer Department</p> <p>Post-Trade Services Department</p> <p>JASDEC DVP Clearing Corporation</p> <p>Business Administration Department</p>	<p>Risk of being unable to provide continuous, stable and efficient service due to inadequate rules or procedures, or inappropriate management of services.</p> <p>DVP Settlement Services for NETDs includes credit risk and liquidity risk to JASDEC Group as a result of default or insufficient liquidity arising from the bankruptcy or worsening of financial position of a DVP participant.</p>
<p>Business risk</p>	<p>Corporate Strategy Department</p>	<p>Risk of worsening of business performance arising from the impact of reputational or publicity issues, poor implementation of business strategy, ineffective response to competition, loss caused by entry into new business areas or other business factors.</p>
<p>Financial risk</p>	<p>General Administration Department</p>	<p>Risk of worsening of financial position arising from decline in fee income, increase in expenses, inappropriate budget planning or implementation, or deficient tax or accounting treatment.</p>