

Disclosure Report for
Principles for financial market infrastructures



Japan Securities Depository Center, Inc. (JASDEC)

August 2023

About this document

The purpose of this document is to assess and publicly disclose the circumstances of Japan Securities Depository Center, Inc. (JASDEC), based on the annex "Principles for financial market infrastructures: Disclosure Frameworks and Assessment Methodology" to *Principles for financial market infrastructures* formulated by the Committee on Payment and Settlement Systems of the Bank for International Settlements (BIS/CPSS*) and the International Organization of Securities Commissions (IOSCO).

* The Committee on Payment and Settlement Systems (CPSS) changed its name to the Committee on Payments and Market Infrastructures (CPMI) in September 2014.

Responding institution	Japan Securities Depository Center, Inc.
Jurisdiction(s) in which the FMI operates	Japan
Regulatory authorities	The Financial Services Agency The Ministry of Justice The Ministry of Finance (for the rules regarding Participants Protection Trust only)
Oversight organization	The Bank of Japan
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This disclosure can also be found at	https://www.jasdec.com/en/about/office/disclosure/index.html
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This English translation has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text will be definitive in case of any divergence in the meaning.

Abbreviation

The table below shows the abbreviations used in this document.

AMI	Account Management Institution
BCP	Business Continuity Plan
BIS	Bank for International Settlements
BETS	Book-entry Transfer System
BOJ	Bank of Japan
BOJ-NET	Bank of Japan Financial Network System
CCP	Central counterparty
CISO	Chief Information Security Officer
CP	Short-term corporate bond (Commercial paper)
CPMI	Committee on Payments and Market Infrastructures *The Committee on Payment and Settlement Systems (CPSS) changed its name to the Committee on Payments and Market Infrastructures (CPMI) in September 2014.
CPSS	Committee on Payment and Settlement Systems
CRO	Chief Risk Officer
CSD	Central securities depository
DVP	Delivery versus payment
ETF	Exchange traded fund
FIAMI	Foreign Indirect Account Management Institution
FISC	The Center for Financial Industry Information Systems
FMI	Financial market infrastructure
FOP	Free of Payment
FSA	Financial Services Agency, The Japanese Government
GDPR	General Data Protection Regulation
IOSCO	International Organization of Securities Commissions
IT	Information technology
ITIL	Information Technology Infrastructure Library
JASDEC	Japan Securities Depository Center, Inc.
JDCC	JASDEC DVP Clearing Corporation
JDR	Japanese Depository Receipt
JGB	Japanese Government Bond
JSCC	Japan Securities Clearing Corporation
LVPS	Large-value payment system
NETDs	Non-Exchange Transaction Deliveries
PFMI	Principles for financial market infrastructures

PS	Payment system
PSMS	Pre-Settlement Matching System
REIT	Real Estate Investment Trust
RTGS	Real-time gross settlement
SLO	Service Level Objective
SSS	Securities settlement system
STP	Straight Through Processing
TR	Trade repository
Transfer Act	Act on Book-Entry Transfer of Corporate Bonds and Shares

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I. Executive summary

JASDEC is a central securities depository (CSD) that operates the book-entry transfer system (BETS) managing completely dematerialized (paperless) records of the ownership of stocks listed on Japanese stock exchanges, commercial paper (CP), corporate bonds and municipal bonds, investment trusts and other securities. JASDEC is also a securities settlement system (SSS) that enables the transfer of the ownership that are recorded in the book-entry transfer account registry in the BETS. JASDEC reduces the risks and burdens associated with the management of ownership and settlement of these securities, and the organization strives to offer highly reliable, convenient and efficient services to investors, issuers, and market intermediaries, to contribute to the development of financial and capital markets.

Following the formulation of the *Principles for financial market infrastructures* (PFMI), Japanese regulatory authorities required FMIs to act in accordance with the PFMI in December 2012. In response to these decisions, JASDEC organized and made the necessary improvements to ensure that JASDEC complies with all applicable PFMI principles, including the reform of corporate governance structure and of risk management structure. This document is based on the "Disclosure Frameworks and Assessment Methodology" which is the annex to the PFMI, and publicizes the details of the application of the PFMI within JASDEC.

Participants

Participants (JASDEC participants) who directly own accounts in JASDEC are mostly financial institutions such as securities companies, banks, trust banks and cooperative financial institutions. In the BETS, these financial institutions, as Account Management Institutions (AMIs), open accounts for each investor and administer the balances of these accounts. AMIs may be direct AMIs who open accounts in JASDEC, or they may be indirect AMIs who open accounts in other AMIs.

The securities that JASDEC handles in its BETS are limited to those that JASDEC has been given consent to handle by the issuer of the securities. In addition to these AMIs and securities issuers, JASDEC also carries out management in response to notifications from institutions including agents who act on behalf of issuers and fund settlement corporations that use the Bank of Japan Financial Network System (BOJ-NET) for Gross-Gross DVP (Delivery versus Payment) settlement (DVP Model 1) on behalf of AMIs.

Regulatory framework

JASDEC is designated by the competent ministers, the Prime Minister and the Minister of Justice to be the book-entry transfer institution, based on the Act on Book-Entry Transfer of Corporate Bonds and Shares (the Transfer Act). The Transfer Act stipulates that the Prime Minister delegates the authority to regulate JASDEC to the Commissioner of the Financial Services Agency (FSA). JASDEC's important rules such as its Business Regulations, are regulated by the Commissioner of the FSA and the Minister of Justice (the Minister of Finance is also in charge of matters relating to Participants Protection Trust). Among the authorities delegated to the Commissioner of the FSA, the authority to implement inspections is in turn delegated by the Commissioner of the FSA to the Securities and Exchange Surveillance Commission.

In addition, the Bank of Japan (BOJ), which is the central bank, has released *The Bank of Japan Policy on Oversight of Financial Market Infrastructures* that states that PFMI is to be applied as the standard used to assess the safety and effectiveness of systemically important FMIs. The BOJ, as the central bank, implements *oversight* of Japanese FMIs.

Main risks and risk-management frameworks

Although JASDEC is an SSS, it uses the DVP Model 1 in DVP settlement. This model uses a real-time gross settlement (RTGS) mechanism: after the balance of the securities to be settled is secured at JASDEC, the book-entry transfer of the securities is made linked to the corresponding funds settlement carried out via BOJ-NET, which means that JASDEC does not bear the credit and liquidity risks associated with settlement. (Among the settlements involved in the trading of stocks, etc., for customer-side settlements, JASDEC offers a Gross-Net DVP settlement (DVP Model 2) in which JASDEC's subsidiary, JASDEC DVP Clearing Corporation (JDCC), assumes the obligation as a central counterparty (CCP). In addition, for broker-side settlements, where stocks, etc. are traded via an exchange, a Net-Net DVP settlement (DVP Model 3) is offered by Japan Securities Clearing Corporation (JSCC) as a CCP).

This means that business processing risk, information system risk and compliance risk are the major risks that JASDEC manages.

JASDEC has set out its Basic Policy on Risk Management that covers the basic aspects of its risks, to enable management of risks. JASDEC has also established an Integrated Risk Management Council which is presided over by JASDEC's Chief Risk Officer (CRO) and attended by JASDEC executives and employees.

In its Basic Policy on Risk Management, JASDEC describes the details of risks, determines which department is responsible for managing each type of risk, and sets

up a reporting structure to the Integrated Risk Management Council. In addition, the status of risk management is reported to the Board of Directors periodically (twice a year). The risk management structure is reviewed as necessary.

A Risk Committee has also been set up below the Board of Directors. The majority of the members of this Committee comprises persons who do not execute the operations of JASDEC and JDCC, and it is the role of this Committee to advise the Board of Directors in matters of overall risk concerning JASDEC and JDCC.

Other related activities

In addition to the BETS based on the Transfer Act, JASDEC operates additional businesses as a book-entry transfer institution under the stipulations of the same Act. In this capacity, it operates: a) Custody Services for Foreign Stock Certificates, etc. for the custody, transfer and settlement of foreign securities that are listed on domestic stock exchanges, and b) Pre-Settlement Matching System (PSMS) that, after the execution of trades, matches information concerning trade and settlement. In PSMS, in addition to the matching of securities that JASDEC handles, JASDEC also provides pre-matching functions for the clearing of Japanese Government Bonds (JGBs) that is carried out by JSCC.

II. Summary of changes to disclosure

JASDEC's first disclosure of information based on CPSS-IOSCO's "Principles for financial market infrastructures: Disclosure Frameworks and Assessment Methodology" was made on July 28, 2015, and has been updated every year since. A summary of the changes made since the previous disclosure (August 2022) is as follows.

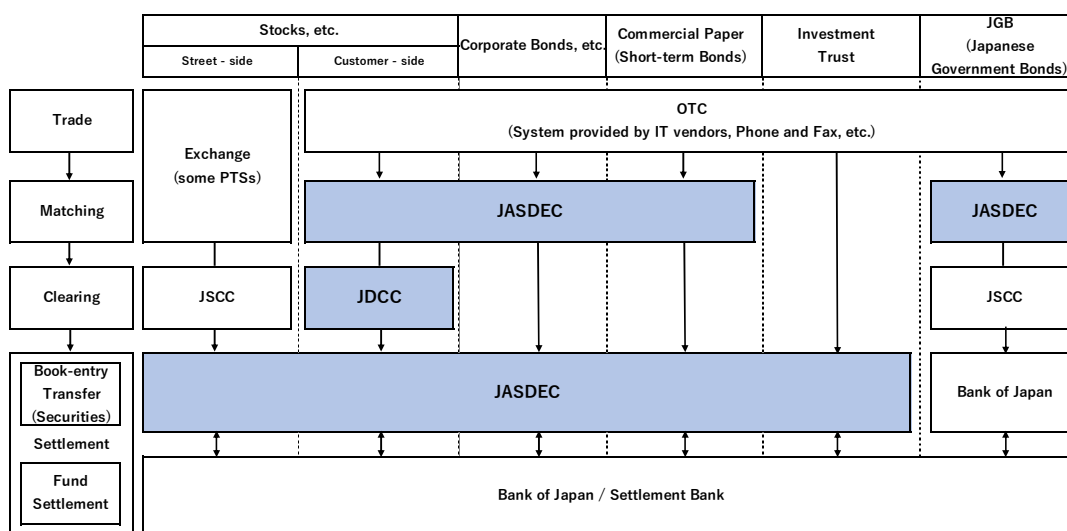
- Regarding risk management procedures, the description has been revised to reflect the change in the number of meetings of the Integrated Risk Management Council. (For details refer to Principle 3 (Framework for the comprehensive management of risks), Key Consideration 1).
- The description regarding the URL has been updated in accordance with the renewal of JASDEC's website (July 2023).

III. Overall summary of FMIs

1. Summary of JASDEC

JASDEC, as the central securities depository (CSD), administers the rights relating to stocks, etc., issued in Japan and listed on the stock exchanges (including convertible bonds, exchange traded funds (ETFs), real estate investment trusts (REITs), Japanese depository receipts (JDRs), etc.), bonds (corporate bonds, municipal bonds, etc.), short-term corporate bonds (CP), investment trusts, and foreign securities that are listed on domestic stock exchanges. In addition, as a securities settlement system (SSS), JASDEC is responsible for the settlements of these securities via book-entry transfer. JASDEC offers an electronic matching service (PSMS) that electronically matches trade and settlement data to enable the straight-through processing (STP), from trading to eventual settlement. JASDEC also offers DVP settlement services via its subsidiary JDCC for use in customer-side transfers of listed securities.

【The role of JASDEC in Japanese Securities Market】



【Statistical Data】

<https://www.jasdec.com/en/statistics/index.html>

2. An overview of the organization of JASDEC

JASDEC is a user-owned corporation whose basic management policy requires it to undertake user-oriented operational management as well as emphasize corporate governance, from the point of view of investors, issuers, market intermediaries and other market participants. JASDEC and its subsidiary JDCC comprise JASDEC Group. JDCC is a CCP that runs DVP settlement system for Non-Exchange Transaction Deliveries (NETDs: transfers other than stock exchange trades, where JSCC carries out DVP settlement as a CCP).

The Transfer Act requires the book-entry transfer institution to be a stock company that has a board of directors, board of company auditors (or an audit and supervisory committee or a nominating committee, etc.) and a financial auditor. JASDEC fulfills these requirements.

JASDEC's Board of Directors is composed of a majority of outside directors who are participant shareholders, with the remainder being independent directors who have no relationship with JASDEC and directors who are also executive officers of JASDEC. This structure has been adopted to ensure that JASDEC operates in the public interest and carries out operations that are user-oriented. The following committees operate under the Board of Directors: the Nominating Committee, Compensation Committee, Audit Committee, and Risk Committee.

In addition, to ensure that the needs of its participants are reflected to an even greater extent, JASDEC has Advisory Committees made up of its major participants and other stakeholders, which discuss the rules along with its major procedures and services.

3. An overview of laws and regulations

(1) Organizational form and holding structure

JASDEC is a stock company based on the Companies Act, and was established in January 2002. Its shareholders are mostly participants who own accounts with JASDEC. In principle, ownership in JASDEC is proportional to the degree of use of its services. The securities dealers association, stock exchanges and holding companies that have JASDEC participants as subsidiaries are exceptions to this principle.

(2) Legal basis for major activities

JASDEC is a book-entry transfer institution designated under the Transfer Act by the competent ministers, namely the Prime Minister and the Minister of Justice. The Transfer Act is a uniform securities settlement legislation that provides for the transfer of rights through the book-entry transfer of dematerialized securities.

In the Transfer Act, the activities of the book-entry transfer institution are, in principle, limited to book-entry transfer business and there are restrictions on additional business; however, the institution can conduct additional business if it receives approval from the Commissioner of the FSA, who has been delegated the authority to do so by the competent minister (the Prime Minister) and from the Minister of Justice.

JASDEC, with the approval of the Commissioner of the FSA and the Minister of Justice to conduct additional business based on the Transfer Act, operates its PSMS and its Custody Services for Foreign Stock Certificates, etc. for the custody, transfer and settlement of foreign securities listed on domestic stock exchanges.

(3) Regulatory and supervisory framework

JASDEC is a book-entry transfer institution, based on the Transfer Act. The Transfer Act is the main law that regulates JASDEC. JASDEC is also regulated by Government ordinances based on the Transfer Act, as follows.

- Order for Enforcement of the Act on Book-Entry Transfer of Corporate Bonds and Shares ("Orders for the enforcement of the Transfer Act")
- Order on Supervision of General Book-Entry Institutions
- Order on Book Entry of Corporate Bonds, Shares
- Order Regarding Account Management Institutions
- Order Regarding Participants Protection Trust

Under the Transfer Act, the competent minister is defined to have the authority, with respect to book-entry transfer institution, that includes the following: ordering an institution to report on its activities and finances or to supply data and materials

concerning its activities and finances and to accept on-site inspections; ordering an improvement of business operation; rescinding designation; and ordering a business transfer.

The competent ministers are the Prime Minister and the Minister of Justice; however, the Minister of Finance is also a competent minister for matters relating to Participants Protection Trust. In addition, the authorities of the Prime Minister are partially delegated to the Commissioner of the FSA, with the exception of the authority to designate or cancel a book-entry transfer institution, etc. Of those authorities delegated to the Commissioner of the FSA, the authority to demand reports and data, and the authority to implement on-site inspections are re-delegated to the Securities and Exchange Surveillance Commission (however, the Commissioner of the FSA may still reserve the authority to demand reports and data).

The FSA has produced and published its *Comprehensive Guidelines for Supervision of Financial Market Infrastructures - Clearing Organizations, Fund Clearing Organizations, Book-entry Transfer Institutions, and Trade Repositories* - covering the supervision of FMIs including book-entry transfer institutions.

In addition, the BOJ, which is the central bank, has released *The Bank of Japan Policy on Oversight of Financial Market Infrastructures*, which states that PFMI is to be applied as the standard used to assess the safety and effectiveness of systemically important FMIs. The BOJ, as the central bank, implements *oversight* of Japanese FMIs.

4. Overview of JASDEC's institutional design and business operation

The series of flows in the securities market, from the trade execution to the eventual settlement, can roughly be divided up into four stages: buying and selling, matching, clearing, and settlement. Of these stages, the agent responsible for buying and selling functions is called the "market," the agent responsible for clearing functions is called the "CCP," and the agent responsible for settlement functions is known as the "settlement institution."

The delivery of stocks and other securities traded on the exchanges in Japan takes place on the fourth business day including the date of the trade (T+3), with the transfer between the account of the securities company, etc. and the JSCC account both opened at JASDEC. The delivery between the customer and the securities company, etc., is carried out through the transfer between the securities company account and customer's account that has been opened at the securities company, etc.

Buying and selling

- The buying and selling of securities takes place at the exchange or over the counter (OTC).

Matching

- In trading involving institutional investors, the details of the trade and settlement are affirmed by the parties involved.
- JASDEC operates PSMS that automatically matches the data concerning the trade and the settlement, with the exception of street-side trades.

Clearing

- In the trading of stocks, government bonds, etc., the CCP aggregates multiple trades and confirms the securities to be delivered and the funds needed for the payment of the securities, for each settlement party and each settlement day.
- JDCC of the JASDEC Group operates DVP Settlement System for Non-Exchange Transaction Deliveries, as the customer-side CCP for stocks, etc.

Settlement

- Settlement normally takes place through the book-entry transfer.
- Settlement may be via FOP (Free of Payment) in which the delivery of the securities is separate from the payment of the funds, or may be via DVP (Delivery versus Payment) in which delivery and payment are linked.
- As the CSD, JASDEC is responsible for settlements in the securities markets of Japan, other than the settlement of government bonds. Depending on the type of security, JASDEC operates "Book-entry Transfer System (BETS) for Stocks, etc.," "BETS for Corporate Bonds," "BETS for Short-term Corporate Bonds," "BETS for Investment Trusts," and "Custody Services for Foreign Stock Certificates, etc."

Although the "Custody Services for Foreign Stock Certificates, etc." (hereinafter, 'the Services' in this paragraph) is outside the scope of application of the Transfer Act, the rules of JASDEC that are based on the Transfer Act and have been approved by regulatory authorities are applied to the Services, resulting in the equivalent level of operation and risk management to that of the BETS for Stocks, etc. In addition, only a very small proportion of JASDEC activities involve the Services so there is limited risk of an event occurring during JASDEC's offering of the Services, and it affecting other JASDEC activities or operation of other systems or having an effect on the market. With these points in mind, only the specific risks of the Services and their management in "Principle 10: Physical deliveries", "Principle 13: Participant-default rules and procedures" (partially), "Principle 16: Custody and investment risks", "Principle 17: Operational risk", and "Principle 20: FMI links" are described and other explanations are omitted.

IV. Disclosure under each principle

Principle 1: Legal basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.

Material aspects and relevant jurisdictions

- JASDEC is managed in accordance with the Transfer Act, Civil Code, Companies Act and other Japanese laws.
- JASDEC has been designated as a book-entry transfer institution as defined by the Transfer Act. As the CSD for stocks, ETFs, REITs, JDRs, corporate bonds, municipal bonds, short-term corporate bonds, investment trusts, etc., JASDEC operates BETS in which the settlements relating to the rights shown on these securities are recorded in JASDEC's book-entry transfer account registry. As a CSD for which legal certainty is required, important aspects of JASDEC's business include the ownership of rights, finality (transfers and pledges), dematerialized (paperless) agreements, the default of AMIs, and arrangements for DVP settlement. JASDEC's handling of these matters is governed by the Transfer Act and its own Business Regulations, etc.
- Japanese law is applied to JASDEC's book-entry transfer business. Foreign Indirect Account Management Institutions (FIAMIs) give consent to JASDEC that its handling of FIAMIs is governed by Japanese law, and that JASDEC shall have the Tokyo District Court to have exclusive jurisdiction over litigation in the event of a dispute.

Legal basis for each material aspect

- Important aspects of the CSD's business are stipulated by the Transfer Act, to maintain a high degree of legal certainty.
 - For stocks, etc.: The Transfer Act Article 128 (Ownership of Rights), Article

- 140 (Transfer), Article 141 (Pledge), Article 128 (Book-Entry Transfer Shares: Dematerialization), Article 42, which shall apply *mutatis mutandis* in Article 46 (Default of AMIs); and
- For corporate bonds, etc.: The Transfer Act Article 66 (Ownership of Rights), Article 73 (Transfer), Article 74 (Pledge), Article 67 (Book-Entry Transfer Corporate Bonds: Dematerialization), Article 42, which shall apply *mutatis mutandis* in Article 46 (Default of AMIs)
- In addition, JASDEC offers DVP settlement that is linked to fund settlement in the BOJ. Its operation is specified in JASDEC's Business Regulations. (Details are listed in "**Principle 12: Exchange-of-value settlement systems**").
 - For stocks, etc.: Business Regulations concerning Book-Entry Transfer of Stocks, etc. Article 52, Article 181, Article 204, Article 271, Article 272
 - For corporate bonds, etc.: Business Regulations Relating to Corporate Bonds, etc. Articles 39 to 42, Articles 46 to 50, Articles 54 to 58, Article 58.10 to 58.13, Article 58.18 to 58.22, Article 58.27 to 58.29, Article 58.39 to 58.42, Article 58.51 to 58.54

Key consideration 2

An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.

- Regulations, major procedures and services at JASDEC are formulated with the deliberation of Advisory Committees made up of its major participants. During this deliberation process, JASDEC considers the compliance of these procedures and services with related laws and regulations, and seeks legal analysis from legal experts (lawyers) when necessary.
- JASDEC's Articles of Incorporation and important rules such as its Business Regulations, require the approval of the Commissioner of the FSA and the Minister of Justice (Transfer Act Article 17). In addition, any implementing rules such as Enforcement Rules of Business Regulations are required to be notified to the Commissioner of the FSA and the Minister of Justice (Order on Supervision of General Book-Entry Institutions, Article 37 Paragraph 1 No. 6).
- In addition, the Commissioner of the FSA and the Minister of Justice may, if necessary, order improvements to be made to JASDEC's important rules, contracts and procedures (Transfer Act Article 21).

Key consideration 3

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

- JASDEC discloses its rules, important operational procedures, procedural documents, etc. to the public general via its website.
- When JASDEC amends any of these, it notifies its participants of the changes and their details, and publishes them on its website. When publishing information on its website, JASDEC appends them with reference materials containing diagrams, etc., where necessary, to facilitate the understanding of viewers.

Key consideration 4

An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.

Enforceability of rules, procedures and contracts

- JASDEC's rules, consents with participants and main procedures are formulated through the process in accordance with the Transfer Act, such as the approval of the Commissioner of the FSA, the Minister of Justice and other officials, to have a high degree of certainty.
- FIAMIs give consent to JASDEC that its handling of FIAMIs is governed by Japanese law, and that JASDEC shall have the Tokyo District Court to have exclusive jurisdiction over litigation in the event of a dispute.

Degree of certainty for rules and procedures

- JASDEC's rules, consents with participants and main procedures are formulated through the process of discussing and reaching consensus by the Advisory Committees made up of JASDEC's major participants, and after receiving approval for these matters from the Commissioner of the FSA, the Minister of Justice and other officials or notifying them of these matters, in accordance with the Transfer Act.

- Measures based on JASDEC's rules and procedures have never been invalidated, overturned or suspended.

Key consideration 5

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.

- JASDEC's BETS are operated in accordance with the Transfer Act, which is Japanese law, and are not operated under multiple jurisdictions.
- When a FIAMI (a foreign financial institution, etc.) participates in the BETS, JASDEC and the FIAMI shall agree through JASDEC's rules and the documents that are required to be submitted to JASDEC when participating that the law governing the rights and obligations of both parties concerning the BETS shall be Japanese law. The scope of this provision covers the relationship of rights and obligations between JASDEC and the AMI. Specifically, since the provision is applicable to the procedures for book-entry transfer and the fee payment, etc., JASDEC has confirmed with legal experts that the risk of interference from foreign laws is low. To be prepared for the unlikely event where a discrepancy in the relationship of rights and obligations between JASDEC's Business Regulations and foreign law arises, FIAMIs are required to give consent to JASDEC that its handling of FIAMIs is governed by Japanese law, and that JASDEC shall have the Tokyo District Court to have exclusive jurisdiction over litigation in the event of a dispute.

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

- JASDEC has a Corporate Philosophy and a Basic Management Policy that is based on the Philosophy. These are shown on JASDEC's website.

<Corporate Philosophy>

Recognizing our public role as a provider of important settlement service in the capital market, we aim to provide reliable, convenient and highly efficient services that help improve capital market functions and contribute to the development of society.

Accordingly, we will strive to stay closely attuned to business environment and structural changes in the domestic and international capital markets, and undertake constant reform to improve services from the point of view of investors, issuers, market intermediaries and other market participants.

<Basic Management Policy>

1. Undertake user-oriented operational management as well as emphasize corporate governance, from the point of view of investors, issuers, market intermediaries and other market participants.
2. Keep business environment and structural changes in the capital market firmly in mind and provide globally recognized best practice in settlement services at a moderate price, by acting rapidly and flexibly to improve and reform operations as well as reducing cost and enriching financial resources.
3. Ensure continuous and stable operational management, such as creating a corporate culture that emphasizes risk management, from the standpoint of concentrating operations in settlement infrastructure while expanding the scope

of services.

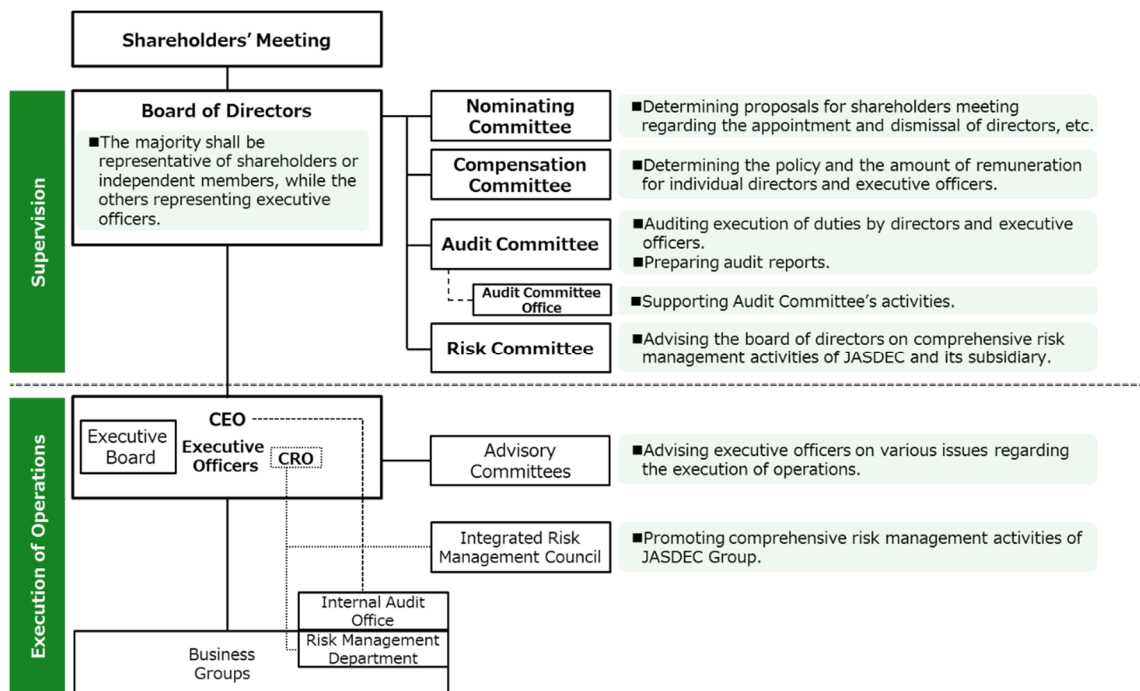
4. Recognize the public nature of our operations and ensure active disclosure and management transparency.

- Based on its above-mentioned Corporate Philosophy and Basic Management Policy, JASDEC's Board of Directors resolves to formulate medium-term management plan..
- In addition, in accordance with the Companies Act, the business performance of JASDEC in each financial year is compiled in the form of an annual business report. After receiving approval from the Board of Directors, this is submitted to the Annual Shareholders' Meeting, and evaluated.

Key consideration 2

An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

【Corporate governance framework】



Governance arrangements

- JASDEC's Basic Policy on Corporate Governance is one of its basic policies covering the management of its organization. This policy stipulates the composition and functions of JASDEC's Board of Directors, the duties of its committees, the structure of its execution, and other matters.
- This policy lists the following four points concerning JASDEC's fundamental approach to governance.

- The corporate philosophy of JASDEC is to stay closely attuned to environmental and structural changes in the domestic and international financial and capital markets, and carry out user-orientated business operations benefitting investors, issuers and market intermediaries. To achieve this JASDEC operates under a governance framework centered on JASDEC's participant shareholders and a business framework designed to reflect the needs of JASDEC's participants.
- JASDEC's organizational structure is that of a Company with Nominating Committee, etc., providing a clear separation of functions between business supervision and execution of operations in accordance with the Companies Act, based on international principles and practices.
- JASDEC enhances the transparency and fairness of the decision-making process as well as the effectiveness of business supervision through widespread use of legally designated committees and other bodies, centered on external directors. The board of directors also seeks to increase the speed and efficiency of business management by delegating operational decision-making to executive officers.
- JASDEC endeavors to reflect the opinions of relevant parties in JASDEC's business operations and developments by having Advisory Committees comprising participants and other such stakeholders.

Disclosure of governance arrangements

- JASDEC discloses its Basic Policy on Corporate Governance on its website.

Key consideration 3

The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.

Roles and responsibilities of the board

- In its Basic Policy on Corporate Governance, JASDEC sets forth the functions, etc., of its Board of Directors as follows.

- The board of directors decides on important management matters mainly regarding the items specified in article 416 of the Companies Act, such as decisions on fundamental management policies including medium-term management plan and monitoring of their progress, and the appointment and dismissal of members of each committee, executive officers, and representative executive officers. The board of directors also oversees the duties of executive officers, etc., from a position independent of business operations.
- Decisions on matters such as the payment of dividends are made by the board of directors without seeking approval at Shareholders' Meetings.
- In principle, the board of directors delegates its authority to executive officers to the extent allowed by the Companies Act, excluding share-related matters, business reorganization or other items pertaining to the company's fundamental structure.

- Furthermore, each director in the Board of Directors is subject to the laws of the Companies Act regarding conflicts of interest between themselves and JASDEC as a stock company, as illustrated by the following two points.
 - Directors with a special interest in the resolution of the Board of Directors may not participate in the vote.
 - Directors who are engaged in competitive transactions or who are carrying out any transactions with JASDEC for himself/herself or for a third party shall report the material facts with respect to such transactions to the Board of Directors without delay after such transactions.

- In addition, JASDEC has the following committees under the Board of Directors: the Nominating Committee, Compensation Committee, Audit Committee, and Risk Committee. Of these, the Nominating Committee, Compensation Committee, and Audit Committee have a majority of members who are outside directors. These committees have the following roles and responsibilities.

(Nominating Committee)

- The Nominating Committee, in addition to determining the content of proposals submitted to the Shareholders' Meeting concerning the appointment or dismissal of directors, also plays a role in strengthening corporate governance by deciding the criteria for the appointment or dismissal of directors or executive officers, and approving the details of proposals submitted to the Board of Directors, which includes the selection of the representative executive officers and appointment or dismissal of executive officers.

(Compensation Committee)

- The Compensation Committee decides the policy used to determine the amount of remuneration, etc., for individual directors and executive officers. In addition, the Committee decides the details of remuneration awarded to individual directors and executive officers.

(Audit Committee)

- The Audit Committee supervises the duties of the directors and executive officers and prepares audit reports.

- Meanwhile, the majority of the members of the Risk Committee comprises persons who are not involved in the execution of JASDEC Group operations. Eligibility for membership of this committee includes specialists, executive officers and other persons who are not directors.
- The role of the Risk Committee is to advise the Board of Directors in matters of overall risk concerning JASDEC Group.

Review of performance

- As mentioned above, the Nominating Committee decides the details of the proposals for appointment/dismissal of directors that are submitted to the Shareholders' Meeting, as well as the criteria for the appointment/dismissal of directors.

- Based on the proposals for appointment/dismissal of directors that the Nominating Committee decides, the shareholders at the Shareholders' Meeting evaluate the performance of JASDEC's entire Board of Directors and of individual directors, and decide upon the appointment/dismissal of individual directors.

Key consideration 4

The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).

- In its Basic Policy on Corporate Governance, JASDEC sets forth the structure, etc., of its Board of Directors as follows.

(Composition)

- JASDEC's board of directors comprises a majority of outside directors who are participant shareholders, with the remainder being independent directors and directors who concurrently serve as executive officers. This composition is aimed at facilitating user-orientated business operations and ensuring that JASDEC's business serves as a public utility.
- Outside directors who are participant shareholders are in principle appointed from major shareholders based on the frequency of their usage of JASDEC systems.

(Number of directors)

- JASDEC's Articles of Incorporation limits the size of the board of directors to no more than 14 members, with the aim of increasing the effectiveness of business supervision and promoting substantive deliberation.

(Director qualifications and requirements, etc.)

- The nominating committee sets the selection criteria for directors and executive officers in order to ensure proper supervision by the board of directors.
- Independent directors must have no relationship (capital, business, personal or other) with JASDEC or related companies.

※All selection assessments are made with reference to grounds for disqualification by the provisions of relevant laws and also the Financial Service Agency's 'Comprehensive Guidelines for Supervision of Financial Market Infrastructures – Clearing Organizations, Fund Clearing Organizations, Book-entry Transfer Institutions, and Trade Repositories'.

- Based on the above-mentioned policy, the membership of JASDEC's Board of Directors comprises 8 outside directors who are participant shareholders, 2 independent directors, and 2 directors who concurrently serve as executive officers of JASDEC, making a total of 12 directors. In addition, JASDEC discloses which of its directors are outside directors or independent directors.
- The remuneration to be paid to each director as an incentive is decided by the Compensation Committee, as mentioned earlier, based on the Committee's policy for setting remuneration for individual directors.
- In addition, to enable JASDEC to attract outstanding personnel to be directors, JASDEC's Articles of Incorporation allows the Company to conclude agreements with outside directors or independent directors to limit these directors' liability for damages incurred as a result of negligence in their duties.

Key consideration 5

The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.

Roles and responsibilities of management

- In its Basic Policy on Corporate Governance, JASDEC sets forth the structure of its execution in its management as follows.

- In principle, the board of directors delegates its authority to executive officers to the extent allowed by the Companies Act, excluding share-related matters, business reorganization or other items pertaining to the company's fundamental structure.
- The executive board, comprising all the executive officers, deliberates and decides on important business matters, including those delegated to them by the board of directors.
- The allocation of executive officer duties is decided with due consideration given to maintaining mutual supervision of business groups and ensuring the independence of internal auditing and overall risk management.

Experience, skills and integrity

- As mentioned above, the Nominating Committee and Compensation Committee bear the following responsibilities in the evaluation and appointment/dismissal of JASDEC's management.

- The nominating committee, in addition to deciding on the appointment and dismissal criteria for executive officers, also confirms the content of proposals submitted to the board concerning matters such as the selection of representative executive officers, and the appointment and dismissal of executive officers.
- ※ All selection assessments are made with reference to grounds for disqualification by the provisions of relevant laws and also the Financial Service Agency's 'Comprehensive Guidelines for Supervision of Financial Market Infrastructures – Clearing Organizations, Fund Clearing Organizations, Book-entry Transfer Institutions, and Trade Repositories'.
- The compensation committee sets policies on the determination of the amount of remuneration, etc., for executive officers. The committee also decides on the individual remuneration awarded to executive officers.

Key consideration 6

The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.

Risk management framework

- To ensure the soundness and reliability of its settlement infrastructure, JASDEC has taken basic matters relating to the risk management of the JASDEC Group and has defined them in its Basic Policy on Risk Management and has disclosed them on its website.
- The Basic Policy on Risk Management clarifies the categories of risk that is managed in the JASDEC Group, as well as the definitions of risk, the management departments and offices responsible, and the organization's risk management structure. JASDEC makes clear its overall policies for risk management and the

responsibility of its executives and employees, to cultivate a corporate culture in which risk management is understood to be a key aspect of settlement infrastructure.

- Details about JASDEC's risk-tolerance policies, responsibilities and accountability for risk decisions, responses to decision-making in crises and emergencies, and other details of Basic Policy on Risk Management are given in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 1.**"
- Basic Policy on Risk Management is decided by the resolution of the Board of Directors. In principle, the effectiveness, appropriateness and other aspects of the policy are considered at least once a year and revised if deemed necessary.
- When considering the effectiveness, appropriateness and other aspects of the Policy, the issues are discussed by the Integrated Risk Management Council chaired by the CRO, and also independently by the Risk Committee. The Committee gives advice to the Board of Directors.

Authority and independence of risk management and audit functions

- The roles, responsibilities, authority, reporting lines and resources of the risk management are set forth in the Basic Policy on Risk Management.
- The roles, responsibilities, authority, reporting lines and resources of the audit functions are set forth in the Basic Policy on Corporate Governance as follows.
 - JASDEC has an Audit Committee of which the majority of members are outside directors.
 - The Audit Committee supervises the duties of the directors and executive officers and prepares audit reports for the Board of Directors.
 - To improve auditing function and effectiveness of the Audit Committee, JASDEC operates an audit committee office that has its own dedicated staff to assist the auditors. The content of the agenda to be discussed at the Audit Committee is explained in advance to the Audit Committee members who are outside directors.

Key consideration 7

The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

Identification and consideration of stakeholder interests

- In its Basic Policy on Corporate Governance, with the objective of contributing to the enhancement of user-orientated operations, JASDEC sets up Advisory Committees that are able to provide advice and opinion regarding the matters of business operations to executive officers as requested or otherwise deemed necessary.

Disclosure

- On its website, JASDEC publishes its medium-term management plan resolved by its Board of Directors.
- In addition, based on this medium-term management plan, important decisions made by management regarding JASDEC systems, rules and procedures, etc., are notified to participants and disclosed on the JASDEC website.
- Furthermore, in principle, materials and summaries of proceedings of the Advisory Committees held prior to these important decisions are also shown to participants.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

(Applicable FMIs : PS、CSD、SSS、CCP、TR)

Key consideration 1

An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.

Risk management policies, procedures and systems for the risks that arise in or are borne by the FMIs

- To ensure the soundness and reliability of its settlement infrastructure, JASDEC has taken basic matters relating to the risk management of the JASDEC Group and, following the resolution of the Board of Directors, has defined them in its Basic Policy on Risk Management as follows. This policy is disclosed on JASDEC website.
- Furthermore, JASDEC does not provide credit or payment guarantees to its participants. Therefore, JASDEC is not exposed both to credit risk and liquidity risk that could be arisen from its participants and their clients, and these risks are outside its scope of management.

* Refer to "**Principle 4: Credit risk**" and "**Principle 7: Liquidity risk**."

< Basic Policy on Risk Management >

Japan Securities Depository Center, Inc. and JASDEC DVP Clearing Corporation (collectively "JASDEC Group"), in working to contribute to a robust and reliable settlement infrastructure, have 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)

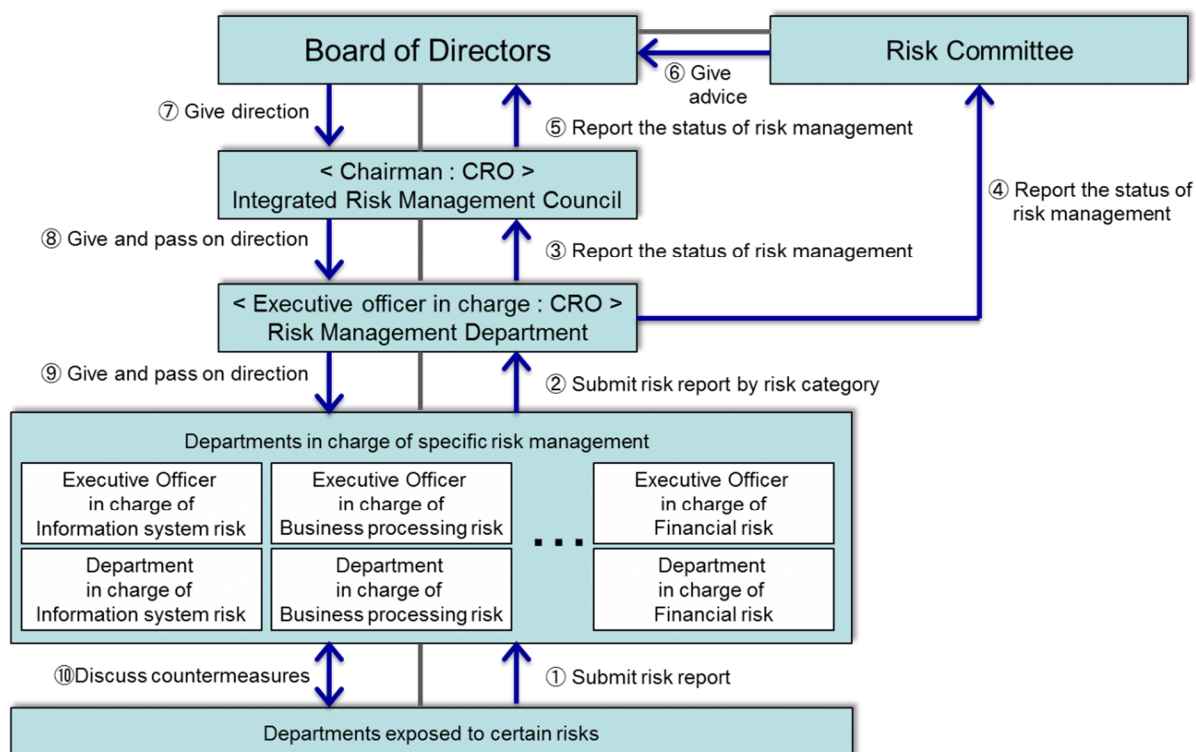
Risk Category	Departments in charge of specific risk management	Risk Definition
Operational risk		Risk of loss to JASDEC Group, that of damage to stable operation of settlement infrastructure provided by JASDEC Group or that of information leakage, arising from information system failure, inadequate 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	Departments in charge of specific risk management	Risk Definition
Service stability and efficiency risk		Risk of being unable to provide continuous, stable and efficient service due to inadequate rules or procedures, or inappropriate management of services. ※ 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.
BETS for Stocks, etc. Custody Service for Foreign Stock Certificates, etc.	Book-Entry Transfer Department	
BETS for Corporate Bonds, CP and Investment Trusts		
PSMS	Post-Trade Services Department	
DVP Settlement Services for NETDs	JASDEC DVP Clearing Corporation Business Administration Department	

Risk Category	Departments in charge of specific risk management	Risk Definition
Business risk	Corporate Strategy Department	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.
Financial risk	General Administration Department	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.

- To achieve its Basic Policy on Risk Management, JASDEC decides what matters it needs to implement to manage risks within the JASDEC Group, and then establishes its Rules for Risk Management to properly achieve this objective. The main content of this risk management process is as follows.

【Risk management flow】



Procedures concerned with the identification, analysis and assessment of risk

- Departments exposed to each risk identify, analyze and assess the risks in that department, then report their findings in a risk report to each department in charge of specific risk management.
- Each department in charge of specific risk management checks the prepared reports arranged into risk categories, and, if necessary, consults with each department exposed to the risk about the details and amends the reports.
- Each department in charge of specific risk management submits the risk report to the Risk Management Department reflecting the results of its consultation and amendments made with each department exposed to the risk.
- The Risk Management Department checks the risk reports prepared by each department in charge of specific risk management, and, if necessary, consults with each department in charge of specific risk management about the details and amends the reports.

Risk management procedures

- Departments exposed to each risk manage the risk and report the status of their risk management to each department in charge of specific risk management.
- Each department in charge of specific risk management inclusively manages the risk that it is responsible for, and reports the status of its management of that risk to the Risk Management Department.
- The Risk Management Department inclusively manages the overall risks of the JASDEC Group. The Department semiannually reports the risk management status to the CRO and to the Integrated Risk Management Council.
- The Integrated Risk Management Council periodically monitors the management of risk within the Group, and reports the risk management status to the Board of Directors semi-annually.
- The CRO reports the risk management status to the Risk Committee semi-annually.
- The role of the Risk Committee is to advise the Board of Directors in matters of overall risks concerning JASDEC Group.

Review of risk management policies, procedures and systems

- The Basic Policy on Risk Management is decided by the resolution of the Board of Directors. In principle, the Board reviews the effectiveness, appropriateness and other aspects of the policy at least once a year and revises it if deemed necessary.
- When considering the effectiveness, appropriateness and other aspects of the policy, the issues are discussed by the Integrated Risk Management Council, chaired by the CRO, and also independently by the Risk Committee. The Committee gives advice to the Board of Directors.
- The Board of Directors, Risk Committee and the Integrated Risk Management Council periodically receive reports about the risks in the JASDEC Group overall so they can get a clear understanding of major changes and other risk-related matters.

Key consideration 2

An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.

- JADEC has adopted the following approach to the risks brought to it by its participants. Through timely systems tests and daily management of account balances, JASDEC is pursuing appropriate management of participant-related risks.
 - JASDEC does not bear credit risk, by multi-tiered participation arrangements based on the Transfer Act. Regarding credit risk, in accordance with Article 11, Paragraph 2 of the Transfer Act, each AMI jointly guarantees to their participants (clients) the performance of all the obligations that the Upper Positioned Institutions of such AMI assume.
 - To identify the range of impact of business processing risk and information system risk to JASDEC, when an indirect AMI applies to JASDEC the applicant and all the Upper Positioned Institutions of such indirect AMI submit an application or registration statement that describes the tiered structure. This enables the participants to recognize the tiered structure and also enables JASDEC to gain an understanding of it.
 - To minimize the effects of information system risk, JASDEC advises parties that are connected to its systems that they must comply with the rules for using JASDEC's systems and be subjected to system tests when they participate in the systems. JASDEC also recommends to them that they prepare lines and work terminals that can be replaced in the event of failure, etc.
 - JASDEC conducts daily checking of a) the total amounts of value in the JASDEC Participant's account for each security in the book-entry transfer account registry, and b) the total number of that security being issued (in the case of stocks, the total number of stocks in the book-entry transfer account registry and the total number of issued stocks). Direct AMIs and indirect AMIs also check the amounts of value in their book-entry transfer account registry (or number of stocks in the case of stocks), and notify JASDEC if there are any discrepancies. With this framework, JASDEC is able to confirm that the balances in its book-entry transfer system overall are correct.

- In addition, when JASDEC approves an AMI, it confirms that the Institution satisfies the requirements of the Transfer Act. In the Transfer Act, entities that are permitted to conduct book-entry transfer business of AMIs as an auxiliary business under their respective regulating statutes are regarded as entities capable of being AMIs. AMIs are supervised by supervisory authorities on the basis of their respective regulating statutes. In addition, as described in "**Principle 18: Access and participation requirements, Key consideration 3,**" JASDEC conducts verifications and other measures indirectly by monitoring direct AMIs that are the Upper Positioned Institutions in the multi-tiered participation structure and connected to JASDEC's systems. This ensures the appropriateness of the AMI's activities and BETS is built on the assumption of proper management.

Key consideration 3

An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.

Material risks

- In accordance with the policies and procedures in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 1,**" JASDEC identifies and manages risks to or from parties with which JASDEC has interdependencies.
- Parties with whom JASDEC has interdependencies are two CCPs: JDCC (JASDEC's subsidiary) and JSCC, and the BOJ that settles funds in DVP Model 1.
- Significant risks that JASDEC might face could arise if there were a failure in the system, etc. of a party with interdependencies, which could harm JASDEC's operations.
- Conversely, significant risks that JASDEC might cause to a party with interdependencies could arise if there were a failure in JASDEC's systems, etc., which could harm the other party's operations.

Risk management tools

- To cope with failure in the systems, etc. of JSCC and the BOJ, which is a party outside the JASDEC Group and one with which JASDEC has interdependencies, JASDEC has prepared alternative steps to take as well as a manual that describes the steps to be taken when facing system failure (System Operation Manual for Disaster and Long System Failure). In addition, if JASDEC develops interdependent relationships with new parties, it will identify in advance the risks related to that party.
- This manual is reviewed at least once a year, and revised if necessary. JASDEC holds tests annually with its relevant outside parties, including its participants, to verify its procedures under the scenario that a switch from its main center to the back-up center has occurred.

Key consideration 4

An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.

Scenarios that may prevent an FMI from providing critical operations and services

- As described in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 1,**" JASDEC continuously identifies and manages the risks in its organization, based on its Basic Policy on Risk Management and other rules.
- It is to be noted that JASDEC is not exposed to credit risk and liquidity risk, and the level of influence of custody and investment risks is limited.
* Refer to "**Principle 4: Credit risk**", "**Principle 7: Liquidity Risk**" and "**Principle 16: Custody and investment risks.**"
- Based on the business risks and operational risks that JASDEC identifies, the organization has identified scenarios that may prevent JASDEC from providing critical operations and services.

- Specifically, the following scenarios have been identified, and the criteria for triggering the recovery plan regarding these scenarios have been established.
 - Bona fide acquisition of securities due to JASDEC's excessive record
 - Obligation of compensation for loss as a result of litigation
- These scenarios could comprise multiple risks in combination that JASDEC has identified.

Recovery or orderly wind-down plans

- To respond to the risk scenarios identified above and to enable recovery, JASDEC assumes that it will allocate insurance proceeds, freeze investment, cut back on personnel costs and other expenses, raise its fees, and increase capital (through shareholder or third party allocation, etc.).
- These responses are likely to enable JASDEC to maintain a necessary capital level and continue its critical operations and services. Furthermore, in the unlikely event that JASDEC is unable to cope with the scenario, or if it is foreseen that it will be unable to cope, JASDEC assumes that it will consult with the relevant parties, including authorities, about making an orderly wind-down.
- In principle, risk scenarios and measures to respond to them are assessed for effectiveness and appropriateness at least once a year in light of ongoing identification and management of risks, and, if necessary, can be reviewed by a resolution of the Board of Directors.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

(Applicable FMIs : PS, SSS, CCP)

Key considerations

1. An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.
2. An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.
3. A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.

※ Key considerations 4, 5 and 6 are abbreviated because their coverage is CCP only.

7. An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and

procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.

- JASDEC does not grant credit to its participants, nor does it offer fail cover or other loans for securities; therefore it is not exposed to credit risk of its participants that would require management.
- In addition, as the SSS administrator, JASDEC provides DVP Model 1 in settlement (details of this appear in "**Principle 12: Exchange-of-value settlement systems**"). This model uses a real-time gross settlement (RTGS) mechanism: after the balance of the securities to be settled is secured on JASDEC's side, JASDEC transfers the securities in accordance with the corresponding funds settlement carried out via BOJ-NET. This means that JASDEC does not bear the credit and liquidity risks associated with the settlement process.
- Furthermore, among the settlements involved in the trading of stocks, etc., for customer-side settlements, JASDEC's subsidiary JDCC offers a Gross-Net DVP settlement (DVP Model 2) and assumes the obligation as the CCP. JASDEC does not bear any credit risks for these settlements. In addition, among the settlements involved in the exchange trades of stocks, etc., for broker-side, JSCC offers a Net-Net DVP settlement (DVP Model 3) and assumes the obligation as the CCP. JASDEC also does not bear any credit risks for these settlements.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

(Applicable FMIs : PS, SSS, CCP)

- JASDEC does not grant credit to its participants; therefore it is not exposed to credit risk of its participants and so has not set up a scheme to receive collateral from participants.

(Refer to "**Principle 4: Credit risk.**")

Principle 6: Margin

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

(Applicable FMIs : CCP)

- JASDEC is a CSD and a SSS, which are not applicable to this principle.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

(Applicable FMIs : PS, SSS, CCP)

- JASDEC does not provide credit or settlement guarantees to its participants, therefore it is not exposed to credit risk and does not bear the liquidity risk occurring during the settlement process.

(Refer to "**Principle 4: Credit risk.**")

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

(Applicable FMIs : PS, SSS, CCP)

Key consideration 1

An FMI's rules and procedures should clearly define the point at which settlement is final.

Point of settlement finality

- In the Transfer Act, at the moment the holding column or pledge column in the receiving participant's account in the book-entry transfer account registry is increased, a transfer or pledge effect comes into force and this can be asserted against third parties (Transfer Act Article 73 and 74 (Book Entry Transfer Corporate Bonds), Article 127.16 and 127.17 (Book-Entry Transfer Beneficial Interest), Articles 140 and 141 (Book-Entry Transfer Shares), Articles 174 and 175 (Book-Entry Transfer Share Options), Articles 205 and 206 (Book-Entry Transfer Corporate Bonds with Share Options). In addition, even if the deliverer is a non-right holder, if the receiver acts in good faith without gross negligence, they can acquire the rights (Transfer Act Article 77, Article 127.20, Article 114, Articles 178 and 209). This finality of the BETS comes about through the legal certainty guaranteed by the Transfer Act and its related laws. After the transfer is carried out, it is irrevocable and is unaffected by bankruptcy legislation.
- The point of finality is the point at which the transfer request, etc., becomes irrevocable (i.e., the handling deadline) as the book-entry transfer is decided to be recorded in the book-entry transfer account registry at this point. JASDEC's handling deadlines of various applications including transfer requests are stipulated in the appendix of Enforcement Rules of Business Regulations shown on its website.

Finality in the case of links

- In the DVP Model 1 settlement system that JASDEC offers, the settlement of funds at the BOJ (the central bank) and JASDEC's securities transfer are systematically linked. In specific terms, the balance in the JASDEC Participant's account subject to DVP settlement (the balance subject to DVP settlement) is locked. When the JASDEC system receives the message that the corresponding fund settlement has taken place on BOJ-NET, the balance locked within the JASDEC system is transferred. By tying the securities transfer with the fund settlement that has finality, the final settlement of funds and securities is enabled.

Key consideration 2

An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.

Final settlement on the value date

- Based on JASDEC's Business Regulations and Enforcement Rules, book-entry transfers are carried out in real time basis throughout the day and become instantly final. In the case of transfer requests from the previous days where the book-entry transfers are performed in batches at night, the transfers become final at 8:00 p.m. on the business day preceding the date of settlement.
- In JASDEC's BETS, final settlements have never been deferred until the following business day.

Intraday or real-time final settlement

- When book-entry transfers take place in real time they are immediately notified to the participants. If they are transferred in batches at night, then the participants are notified at 3:00 a.m. on the day of settlement.

Key consideration 3

An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

- The handling deadlines of various applications including transfer requests are defined in the appendix of Enforcement Rules of Business Regulations for JASDEC's BETS. On or after the handling deadline, the transfer cannot be canceled, either systematically or based on the rules in Enforcement Rules of Business Regulations.
- Transfer request can be canceled before 8:00 p.m. on the previous day of the settlement date if such request was made on the previous days of the settlement date. Transfer request made on the previous days or on the settlement date can be canceled on the settlement date only if such request is queued.
- FOP settlements may be canceled prior to the transfer at the request of the deliverer. However, in DVP settlement, after matching in the PSMS and during the period until the transfer, the settlement may be canceled prior to the transfer only by request from both the deliverer and the receiver. Furthermore, in DVP settlement, after linkage to the BOJ and in the period until the fund settlement, the cancellation needs to be made on BOJ-NET.

Principle 9: Money settlements

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.

(Applicable FMIs : PS, SSS, CCP)

Key considerations

1. An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.
2. If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.
3. If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalization, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.
4. If an FMI conducts money settlements on its own books, it should minimize and strictly control its credit and liquidity risks.
5. An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.

- JASDEC does not engage in fund settlement with its participants.
- However, in the DVP Model 1 settlement that JASDEC offers, BOJ-NET offered by the BOJ (central bank) is used, and the fund settlement with the participant (or the fund settlement bank used for fund settlement by the participant) is made using central bank money (Fund settlement of DVP Model 1 settlement that JASDEC offers is in Japanese yen only). Fund settlement at the BOJ (the central bank) and the book-entry transfer of securities at JASDEC are both executed by RTGS.

- The selection of the settlement method is left to each market participant; however, as described in *the Market Practices for Real-Time Gross Settlement of Short-Term Corporate Bonds, etc.* (by the Short-term Money Market Activation Study Group) and the *Book-Entry Transfer Guidelines for Corporate Bonds* (by the Japan Securities Dealers Association) that are both codes of conduct for market participants, it is recommended that market participants who are able to use DVP settlement select DVP settlement whenever possible.

Principle 10: Physical deliveries

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

(Applicable FMIs : CSD, SSS, CCP)

Key consideration 1

An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.

- Although the securities that are handled in JASDEC's BETS are dematerialized (i.e., paperless) based on the Transfer Act, some of the foreign securities that are handled in JASDEC's Custody Services for Foreign Stock Certificates, etc., exist as paper certificates in their own countries, and their custody and management is entrusted to overseas CSDs and custodians. It is extremely rare for the transfer to involve the physical certificates of foreign securities; however, if this is to happen, it is clearly stated in the direction document, etc. with which participants give instructions to JASDEC to deliver the physical certificates, that they will not bring legal action against JASDEC in the event that the physical certificates are stolen, lost or destroyed in the transfer, provided that JASDEC is not grossly negligent.

Key consideration 2

An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.

- (Refer to "**Principle 16: Custody and investment risks, Key considerations 1, 2 and 3.**")

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.

(Applicable FMIs : CSD)

Key consideration 1

A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.

Safeguarding the rights of securities issuers and holders

- In the Transfer Act, the ownership of the rights to the securities handled in JASDEC's BETS is determined from the records of the book-entry transfer account registry that JASDEC and the AMIs possess. The participant (or its client) can retain the rights provided that they are recorded in the book-entry transfer account registry. JASDEC does not take custody of securities, etc., on behalf of the participant (or its client).
- In the BETS, if there were to be an excessive record by an AMI and a third party were to acquire this excessive record amount in good faith so that the total balance recorded in the BETS were to exceed the issued balance of that security, then the system for the deletion of this excess by the AMIs, etc. who made the excessive record is stipulated in the Transfer Act and the rules of JASDEC, protecting the issuer of that security from any effect of the excessive record.

Prevention of the unauthorised creation or deletion of securities

- Under the BETS, new securities (new records) are created by the issuer. Securities are deleted at the request of the participant. These requests are made via the system connections between JASDEC and the issuer (the issuing agent) or the participant (JASDEC Participant). The processes that take place in the system to record new securities or delete securities are completed automatically.

Periodic reconciliation of securities issues

- Reconciliation of all the balances of each issue recorded in JASDEC's BETS is performed daily. In addition, in accordance with JASDEC's rules, daily reconciliations of the balances recorded in the book-entry transfer account registries are made, both between JASDEC and its direct AMIs, and between direct AMIs and indirect AMIs.

Key consideration 2

A CSD should prohibit overdrafts and debit balances in securities accounts.

- In JASDEC's BETS, processes are in place to ensure that no transfer can occur if the deliverer has no outstanding balance in their account. This prevents the creation of overdrafts or debit balances in securities accounts.

Key consideration 3

A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilize or dematerialize securities.

- The stocks, corporate bonds and other securities that JASDEC's BETS handle are completely dematerialized (i.e., paperless) in accordance with the Transfer Act.

Key consideration 4

A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.

- Since the participants on JASDEC's or the AMI's book-entry transfer account registry have direct custody of the rights registered to them, there are no custody risks in JASDEC's BETS.

- To protect the rights of the security issuer and owner, there is a daily reconciliation and management of the balances recorded in JASDEC's book-entry transfer account registry. In addition, the AMI bears responsibility for any damages due to incorrect entries, etc., in its records. A participant protection system ("Participants Protection Trust") has been set up so that even if an AMI were to fail to take such responsibility and defaulted, the owners' rights would be protected to a certain degree.
- Including this framework, matters that need to be provided in JASDEC's Business Regulations are set down in law. JASDEC's major rules and contracts, including its Business Regulations require the approval of the Commissioner of the FSA and the Minister of Justice (Transfer Act, Article 17, etc.). In addition, implementing subordinate rules including Enforcement Rules of Business Regulations also need to be notified to the Commissioner of the FSA and the Minister of Justice (Order on Supervision of General Book-Entry Institutions Article 37 Paragraph 1 No. 6) to ensure compliance with the legal framework.
- JASDEC has insurance cover in case it becomes responsible for an excessive record and has to cancel the excess records.

Key consideration 5

A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.

- JASDEC cannot open its own accounts, under the Transfer Act. (This does not include accounts that JASDEC has to open in order to carry out its obligations as the book-entry transfer institution in relation to excessive record under the Transfer Act.)
- Under the Transfer Act, the accounts of the AMIs in JASDEC's book-entry transfer account registry are classified and managed as either a) "Proprietary Accounts" whose ownership is registered to an AMI itself, or b) "Customer Accounts" whose ownership is registered to a customer of an AMI.

- The accounts in the book-entry transfer account registry of the AMIs are also classified and managed as "Proprietary Accounts" or "Customer Accounts," under the Transfer Act and JASDEC's Business Regulations. In addition, the Business Regulations stipulate that the transfer of the balance of a Customer Account happens after the participant (client) who has the balance requests to the Nearest Upper Positioned Institution to have the balance to be transferred.

Key consideration 6

A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.

- The Transfer Act imposes restrictions on the additional business of JASDEC as a book-entry transfer institution. If JASDEC receives approval from the competent minister that such other businesses are related to book-entry transfer business and will not hinder the proper and reliable operation of JASDEC's book-entry transfer business, then JASDEC may also concurrently engage in these businesses. JASDEC's additional businesses include activities associated with settlement matching (PSMS), and Custody Services for Foreign Stock Certificates, etc.
- These additional businesses that JASDEC performs are not subject to credit risk or liquidity risk. However, JASDEC has risk management systems to cope with other risks that may arise from these additional businesses.

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

(Applicable FMIs : PS, SSS, CCP)

Key consideration 1

An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.

- JASDEC offers a DVP Model 1 scheme for settlement when shares are issued; when corporate bonds and commercial paper (CP) are issued, distributed or redeemed; and when investment trusts are established or cancelled. This model is a RTGS mechanism: after the balance of the securities to be settled is secured on JASDEC's side, JASDEC transfers the securities in accordance with the corresponding funds settlement carried out via BOJ-NET. This linkage occurs through the connection between JASDEC and the BOJ system. The linkage is automatic, and the finality of the settlement of the securities and funds is essentially simultaneous.
- Among the settlements involved in the trading of stocks, etc., for customer-side settlements, JDCC (JASDEC's subsidiary) offers a Gross-Net DVP settlement (DVP Model 2), assuming the obligation as the CCP. For broker-side settlements, JSCC offers a Net-Net DVP settlement (DVP Model 3) and assumes the obligation as the CCP.

Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

(Applicable FMIs : PS, CSD, SSS, CCP)

Key consideration

1. An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.
2. An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

Participant default rules and procedures

- The AMIs that participate in JASDEC's BETS are required to be financial instruments business operators including securities companies or financial institutions including banks, under the Transfer Act and JASDEC's rules. Even if these AMIs default and are unable to be financial instruments business operators or licensed financial institutions, they are taken to be AMIs within the scope of completing the book-entry transfer business (Transfer Act Article 42, which shall apply mutatis mutandis in Article 46), and have an obligation to continue their business within the scope of the Business Regulations formulated by JASDEC. If an AMI defaults, etc., there are no specific procedures for JASDEC or the AMI's Nearest Upper Positioned Institution to follow.
- If a JASDEC Participant is no longer able to continue as a financial instruments business operator, etc., then JASDEC, under its Business Regulations, will close the Participant's accounts (both "Proprietary Accounts" and "Customer accounts"). The Participant must transfer the balances recorded in its accounts to the accounts of other participants by the date that the accounts are to be closed. JASDEC notifies the AMIs in its Business Guidelines, etc. that such institution will continue to be regarded as an AMI, and an annual review of the necessary measures to be taken by JASDEC in the event of a default of an AMI is conducted to ensure smooth continuity of business. If necessary, rules and manuals will be revised. JASDEC also

notifies the AMIs of points that they need to consider in the event of a default, for the purpose of requesting them to revise their operational structures so that they will continue the business smoothly, and to verify the feasibility of these points.

Use of financial resources

- Under the Transfer Act, the AMI has an obligation to cancel excessive record if the AMI were to cause an excessive record to occur. If the AMI were to default without canceling the excessive record and it has Lower Positioned AMIs, then such Lower Positioned AMIs must bear responsibility jointly and severally for compensating the participants (clients) for damages suffered as a result. (In case where there are no Lower Positioned AMIs, Participants Protection Trust is set up as a safety net.) These arrangements ensure that JASDEC will not suffer damage because JASDEC is the Upper Positioned Institution of all AMIs, and so JASDEC does not bear the risk of participant default.

- In JASDEC's Custody Services for Foreign Stock Certificates, etc., where the Transfer Act does not apply, JASDEC rules stipulate as follows:
 - If there is a shortage in the deposits of foreign stock certificates, etc., due to the actions of an AMI for Foreign Stock Certificates, Etc. and it is clear that such AMI cannot supplement or replace those foreign stock certificates, etc. due to the default, JASDEC and other AMIs for Foreign Stock Certificates, Etc. will compensate the shortage. In specific terms, this compensation shall be done in the following order: ① insurance payouts from damage insurance contracts that JASDEC has concluded in advance; ② compensation by JASDEC (an amount that JASDEC's Board of Directors decides, being no larger than JASDEC's surplus); ③ compensation by all AMIs for Foreign Stock Certificates, Etc. equally, at the time of the incident, and ④ compensation by the AMIs for Foreign Stock Certificates, Etc. in proportion to the balance in the previous 12-month period of the securities with the shortage.

Key consideration

3. An FMI should publicly disclose key aspects of its default rules and procedures.
4. An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.

- An annual review of the necessary measures to be taken by JASDEC in the event of a default of an AMI is conducted to ensure smooth continuity of business. If necessary, rules and manuals will be revised. JASDEC also notifies the AMIs of points that they need to consider in the event of a default, for the purpose of requesting them to revise their operational structures so that they will continue the business smoothly, and to verify the feasibility of these points. These are to cover the various measures to be taken in the event of a default.

Principle 14: Segregation and portability

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

(Applicable FMIs : CCP)

- JASDEC is a CSD and a SSS, which are not applicable to this principle.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

- In its Basic Policy on Risk Management, JASDEC classifies general business risk into the following categories.
 - Business risk: 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.
 - Financial risk: Risk of worsening of financial position arising from decline in fee income, increase in expenses, inappropriate budget planning or implementation, deficient tax or accounting treatment or other issues.
- The policies and procedures for the identification and management of each risk, including general business risk, are given in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 1.**"
- The Board of Directors formulates medium-term management plan for whole JASDEC Group, and it also formulates annual business plan and budget to put the medium-term management plan into effective.

Key consideration 2

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

- JASDEC conducts financial management to maintain a stable and ample amount of liquid net assets funded by equity so that it can continue operations and services as a going concern. JASDEC does this by taking into consideration the risks that it bears and the changes in the environment.
- JASDEC continuously identifies and manages its risks exposures. Although it is difficult to envisage the sudden outflow of current liquid assets or equity impairment to JASDEC considering the nature of the risks that it bears, JASDEC has identified scenarios in which it could become unable to offer critical operations and services, and measures to be taken in its recovery in the event of these scenarios, based on the risks that it has identified.
 - * For details, refer to "**Principle 3: Framework for the comprehensive management of risks, Key consideration 4.**"
- JASDEC decides the amount of liquid net assets funded by equity it will hold in consideration to the risk scenarios it has identified and the nature of its recovery measures.

Key consideration 3

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

Resources for recovery plan

- The details of JASDEC's recovery plan appear in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 4.**"
- Based on the approach described in "**Key consideration 15.2,**" JASDEC maintains at least the following level of liquid net assets funded by equity as financial resources.

Minimum required amount = Annual operating expenses (excluding depreciation expenses) for 9 months + 15% of annual operating income

* The annual figure producing the greatest above total is adopted among the actual figures from the previous 5 business years and the planned figures from the next 5 business years in the medium-term management plan.

- Actually, non-consolidated figures for the financial year ended March 31, 2023, show that JASDEC's retained earnings (57,894 million yen), net assets (66,394 million yen) and liquid net assets on a net basis (39,902 million yen) exceeded the minimum required amount (8,756 million yen).
- For reference, JASDEC is not exposed to credit risk or liquidity risk.
* Refer to "**Principle 4: Credit risk**" and "**Principle 7: Liquidity risk.**"

Key consideration 4

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

- As described in “**Key consideration 15.3,**” JASDEC in the financial year ending March 31, 2023 had net liquid assets on a net basis of 39,902 million yen, compared with a minimum required amount of 8,756 million yen.
- JASDEC holds the majority of this amount (39,568 million yen) in the form of cash and deposits, and does not invest in securities and other assets as of March 31, 2023.
* Refer to "**Principle 16: Custody and investment risks, Key consideration 4.**"
- Once every three months, JASDEC's executive officers check the details of the organization's net liquid assets funded by equity.

Key consideration 5

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

- The details of JASDEC's recovery plan appear in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 4.**"
- JASDEC assumes its measures to raise additional equity by allocating insurance proceeds, freezing investment projects, cutting back on personnel costs, raising its fee charges, and increasing capital (through shareholder or third party allocation, etc.). Of these measures, the use of insurance widens the cover given to the risks that JASDEC faces.
- In addition, JASDEC's risk scenarios and measures to respond to them are, in principle, assessed for effectiveness and appropriateness at least once a year in light of ongoing identification and management of risks, and, if necessary, can be reviewed by a resolution of the Board of Directors.

Principle 16: Custody and investment risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

(Applicable FMIs : PS, CSD, SSS, CCP)

Key consideration 1

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.

- All the securities that are handled in JASDEC's BETS are dematerialized (i.e., paperless) and there is no custody of participants' physical assets.
- In JASDEC's Custody Services for Foreign Stock Certificates, etc., the actual custody and management of the foreign security certificates are entrusted to an overseas CSD or custodian. When these institutions are selected, their management systems of the certificates are first validated based on matters to be checked that JASDEC has predetermined. In addition, based on the list of predetermined check points, JASDEC performs entrusted overseas CSDs' and custodians' due diligence periodically by sending questionnaires or interviewing.

Key consideration 2

An FMI should have prompt access to its assets and the assets provided by participants, when required.

- Among the items mentioned above that are checked concerning the overseas CSDs and custodians of foreign security certificates, JASDEC sets items to check the segregation of assets in the overseas CSDs and custodians, their internal controls, and the handling in the event of a default and, for example, makes sure that a creditor of a defaulting overseas CSD or custodian does not have the right to lay a claim on the assets that such defaulting overseas CSD or custodian is looking after; or the likelihood that all client assets will be temporarily frozen in the event of a default.

Key consideration 3

An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.

- In its Custody Services for Foreign Stock Certificates, etc., based on the above-mentioned points, JASDEC checks the ratings assessment by ratings agencies and other information regarding the overseas CSDs and custodians, to verify that there are no concerns about custody risk.
- Furthermore, JASDEC selects several overseas CSDs or custodians of foreign security certificates and does not entrust the centralized custody and management of all issues to a single institution.

Key consideration 4

An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

- To ensure soundness and reliability as the settlement infrastructure, JASDEC has established a "Basic Policy on Risk Management" and emphasizes risk management through the establishment of its risk management system. JASDEC also emphasizes risk management in the investment of its own assets, limiting instruments to bank deposits, Japanese Government Bonds, and government-guaranteed bonds to ensure security and liquidity.

Principle 17: Operational risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

Identification and management of operational risk

- In its Basic Policy on Risk Management, JASDEC classifies operational risk into the following categories.
 - Information system risk: 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 of unintended, delayed or suspended business processes arising from failure to conduct proper operations, accident or fraud by directors or employees.
 - Accident & disaster risk: 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: 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: Risk of business management or legal problems arising from failure to comply with laws & regulations and internal rules or transaction contracts, or unfavorable contracts.

- The policies and procedures for the identification and management of risks, including operational risk, are given in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 1.**"
- In addition, JASDEC ensures the availability of an alternate office as well as redundancy in its hardware, network, and computer center, so that such facilities cannot be single point of failure.

Policies, processes and controls

- Of those risks classified as operational risk, JASDEC manages business processing risk, personnel risk and information system risk using the following policies, processes and controls.

(Business processing risk)

- JASDEC has set forth the following management policies to ensure appropriate business processes.
 - ✧ Preparation of manuals and checklists, etc., to prevent administrative errors and the carrying out of administration in accordance with these.
 - ✧ Administration using a two-person system and use of checklists to prevent any administrative errors.
 - ✧ Conducting administration after confirming the personnel related to said administration (including personnel in other departments and offices and outside of JASDEC) and the scope of each of their duties to prevent administrative processes falling out of alignment.
 - ✧ An understanding in advance of scale of influence of any administrative errors made by JASDEC or a related party, to enable rapid responses to administrative errors.
 - ✧ Prior coordination between one or more staff in response to exceptional business procedures to prevent errors.
 - ✧ In the event of an administrative error, work to correct the error undertaken with a direct supervisor aware of the method, etc., in order to prevent a recurrence of said error.
 - ✧ Identification, analysis and assessment of risks in advance, prior to business processes being added, changed or eliminated (including division of roles), with relevant changes being included in manuals and checklists, etc., and training programs implemented for people in charge.
 - ✧ Proper handover with takeover documentation when a person in charge

changes due to personnel transfers, etc., and training of their replacement.

- ✧ Review of manuals and checklists at least once a year so that they do not become out of date.
- ✧ Training programs at least once a year to overcome lack of understanding or lack of awareness on the part of people in charge.
- ✧ Regarding administration of outsourcing companies, at least once a year, interview the outsourcing companies, carry out investigations, and take other necessary supervisory measures, in order to prevent administrative errors being made by such outsourcing companies.
- ✧ Continuous review of administrative processes (at least once a year). Elimination of unnecessary administration, and promotion of work simplification and automation.

(Personnel risk)

- While paying attention to the balanced age structure of the workforce and their suitability to JASDEC's businesses, a constant number of new graduates is employed each year to ensure that operations may continue indefinitely. After granting employment, job rotation is adopted for new employees to whom mandatory rotation assignment to Business Operations Group and IT System Group is applied so that they can become properly responsible for JASDEC businesses. JASDEC informs its staff of the skills and roles expected of them and has educational and training programs to develop those skills and roles.
- To reduce risk arising from the departure or unavailability of personnel, JASDEC prepares manuals covering each operation and prevents reliance on single individuals.
- Periodic training in aspects of compliance is given to prevent inappropriate practices by employees. Work regulations set forth types of disciplinary actions and their methods of application to prevent fraud. In addition, if an employee is to be subject to disciplinary action, JASDEC will refer him/her to the disciplinary committee, and carry out disciplinary measures in accordance with a report from the committee.

(Information system risk)

- By making clear the management procedures regarding changes to its information systems, JASDEC ensures the uniform operation of its information systems. The procedures incorporate the ITIL approach, which is

global best practice in IT service management.

- In addition, projects to upgrade information systems are developed in accordance with JASDEC's System Development Standards. These system development standards divide a development project into phases: the project planning phase, requirement definition phase, development phase, inspection and approval test phase, comprehensive operation test phase, transition phase, and servicing phase. For each of the phases, the standards clarify the deliverables, assessment methods and other relevant matters.

Key consideration 2

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.

Roles, responsibilities and framework

- In its Basic Policy on Risk Management, JASDEC sets forth the roles, responsibilities and framework for the management of each type of risk, including operational risk. The details are given in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 1.**"
- The Basic Policy on Risk Management is decided by resolution of the Board of Directors. In principle, at least once a year the effectiveness, appropriateness and other aspects of the Policy are reviewed, and it is revised if deemed necessary.
- When reviewing the effectiveness, appropriateness and other aspects of the Policy, consultation is given by the Integrated Risk Management Council, chaired by the CRO, and also independently by the Risk Committee, which gives advice to the Board of Directors.

Review, audit and testing

- JASDEC reviews, audits and tests its systems, operations policies, processes and controls used in operational risk management, as follows.

(Review and testing)

- JASDEC reviews at least once a year whether or not it needs to change its

internal rules concerning operational risk management, considering the actualized risks and the changes to the environment, both inside and outside of the organization.

- JASDEC reviews at least once a year whether or not it needs to revise its System Operation Manual for Disaster and Long System Failure. It also conducts a test each year in which it switches over from its main center to its backup center and verifies the procedures involved. This test involves companies outside of JASDEC, including participants.

(Auditing)

- JASDEC has an internal audit division that is independent of the operational departments of the organization. The internal audit division audits each department to see whether the department is following internal rules and Business Regulations, and audits the status of risk management, including operational risk.
- JASDEC's internal audit division has developed a medium-term system audit plan and conducts an internal audit of its important systems at least once a year. For matters that require specialized knowledge, the internal audit division utilizes professionals outside JASDEC if deemed necessary.

Key consideration 3

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.

- JASDEC stipulates and discloses the following two points in its Basic Management Policy, to ensure that it takes appropriate and timely measures, and achieves operational reliability.
 - Ensure continuous and stable operational management, such as creating a corporate culture that emphasizes risk management, from the standpoint of concentrating operations in settlement infrastructure while expanding the scope of services.
 - Recognize the public nature of JASDEC's operations and ensure active disclosure and management transparency.

- Since the majority of JASDEC operations are performed by processing systems, JASDEC has set targets related to system operation rates and indices to maintain operational reliability. It periodically measures and assesses these operation rates, and reports the findings to its Board of Directors.
- JASDEC has formulated internal rules concerning the development and operation of its information systems. As shown below, these ensure a high level of operational reliability.
 - In system development, JASDEC assesses the level of quality at each stage in the development process (requirement definition, development, testing, etc.). If necessary, it conducts load tests, user tests and other tests to ensure reliability.
 - In the operation of its systems, JASDEC constantly monitors and assesses the use of disks, CPUs and memory, adding resources when a threshold is reached. JASDEC also has internal rules concerning the steps to take in response to system failure, to minimize the time taken until recovery.

Key consideration 4

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

- JASDEC sets limits on the number of transactions when it replaces information systems. This is based on the average volume and maximum volume of past actual data, as well as forecasts of future processing volume.
- In addition, before changing its existing systems, JASDEC verifies that there will be no problems with processing performance associated with the change.
- As mentioned earlier, JASDEC manages capacity during the normal operation of its systems. It constantly monitors and assesses the use of disks, CPUs and memory and adds resources when a threshold is reached.

Key consideration 5

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.

Physical security

- JASDEC has set strict rules for the granting of authority to enter offices and computer centers and for controlling entry/exit.
- In particular, JASDEC does not disclose the location of its computer centers, and strictly controls access to them. This prevents unlawful physical access to the computers and helps prevent attacks from external sources.
- JASDEC utilizes the voluntary standards for the safety of financial information systems, which are set by The Center for Financial Industry Information Systems (FISC); *Security Guidelines on Computer Systems for Banking and Related Financial Institutions*, and has set up a physical security framework for its computer centers where its systems are installed.

Information security

- To ensure information security, JASDEC has set forth its General Principles of Information Security Policy and a range of internal rules concerning the organization's approach to the issue of information security. JASDEC's General Principles of Information Security Policy consists of the following five principles, and is disclosed on the JASDEC website.
 1. Establishment of administrative control for information security
 2. Establishment of thorough control system for information security
 3. Advancing the understanding of information security
 4. Implementation and maintenance of internal audits
 5. Enforcement of control over contractors
- Administrative control for information security is structured around a Chief Information Security Officer (CISO) appointed to integrate the information security of the Group.

- In accordance with the Act on the Protection of Personal Information and other related Japanese laws and regulations, as well as the EU's General Data Protection Regulation (GDPR), JASDEC has established its Policy on Personal Information Protection and has created internal rules. JASDEC's Policy on Personal Information Protection is disclosed on its website.
- Information security is taken very seriously at JASDEC, particularly with regard to information system development, maintenance and operation. JASDEC operates and adheres to Rules regarding Information Security Measures.
- JASDEC has set up information systems within its computer centers that are designed to ensure robust physical security. Measures are in place to prevent data leakage through the removal of system devices. In addition, all persons who need to take data outside of the computer centers require authorization from the manager. There are frameworks in place to prevent unlimited access by the person in charge and the leakage of information that could occur as a result.
- JASDEC has designed its dedicated systems and network for the management of personal data, and carries out data encryption and strict access management.
- JASDEC also utilizes the above-mentioned *Security Guidelines on Computer Systems for Banking and Related Financial Institutions* (facility standards) published by FISC as specific safety measure guidelines in the setting up and operation of information systems.

Key consideration 6

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.

Objectives of business continuity plan

- JASDEC's Basic BCP (Business Continuity Plan) Policy is disclosed on its website.
- The fundamental idea in this policy is that in the event of a significant business disruption, JASDEC Group will continue to conduct business as far as possible, or resume business operations as soon as possible in order to minimize the effect on JASDEC participants and related entities.
- The policy clarifies the risks that are supposed to be addressed by the policy, and the scope of the policy. The policy stipulates how JASDEC is to respond to each of the following categories of disaster: regional disasters/local disasters/system failures. The policy also has provisions for the establishment of framework for emergency preparedness in terms of organizations, personnel, means, facilities, and information systems, etc.
- In addition, JASDEC has set out its Basic Policy on Response to System Failure to enable the organization to make a rapid and efficient system recovery in the event that transaction processing is disrupted by failures of systems or network connections of JASDEC Group, JSCC, the BOJ or users. JASDEC discloses this policy on its website.

Design of business continuity plan**Recovery goals**

The Basic BCP Policy sets an approximate recovery time objective of under two hours (this is the target time taken from the halt of the operations due to the occurrence of a supposed risk (widespread disasters due to a natural disaster, epidemic, or disruption of social infrastructure; isolated disasters due to fire, or terrorist attack; and system failures within the Group, etc.) until the recovery of the operations). JASDEC has laid down various internal rules (including its BCP Countermeasures Rules) regarding

specific aspects of business continuity.

- In addition to the Basic BCP Policy, the Basic Policy on Response to System Failure states that, "For instructions received from users up until the occurrence of system failure, transactions will be completed within the business day on which system failure occurred, and in principle will not be carried over to the next business day."

Information system construction

- JASDEC has set up the following redundant information systems to ensure that the above-mentioned target is achievable and there is no hindrance to its business continuity.
 - JASDEC's information system built-in redundancy as preparation for cases where a problem occurs in the main center's information systems. When a system failure occurs, JASDEC switches over to the backup system throughout an automatic and instant process (or through a rapid manual process).
 - If the main center is affected by a disaster, then the processes switch over to the information system in the backup center. A recovery time objective of two hours is set for the restoration of operations.
- In each redundant information system, the data in the information systems of the main center and the backup center is synchronized through constant replication. When the systems switch over, one concern is that the data being processed at that moment of switchover may not correctly reflect results generated from the process.
- To address this issue, JASDEC has defined the following points in its "Systems Operation Manual for Switching to JASDEC's Back-up Centers in the case of Disaster or Other Unforeseen Circumstances" that is disclosed to its participants.
 - JASDEC's participants are required to confirm whether or not the data that they input has been processed to completion when the systems switch over.
 - If the systems switch over while the input data is being processed, the data may not be properly processed, so participants need to have alternative means of confirmation, including maintaining multiple connection interfaces. Participants need to resume operations after checking that the data has been completely processed.

- JASDEC has processes that enable participants to check the state of processing of data in JASDEC's systems in a timely manner.

Responding to supposed risks

- In the event of a supposed risk occurrence, effective communication within and outside the organization with important stakeholders and the authorities is important; therefore, JASDEC has prepared an in-house manual that clarifies specific steps to take in the event of a supposed risk occurrence, including setting up a BCP Countermeasure Office, confirming the situation, communicating with the public, communicating both within JASDEC and with entities outside the organization, and restoring operations.
- If there are concerns of supposed risks having a negative impact on the JASDEC Group's business operations, the BCP Countermeasure Office will be set up within JASDEC. This office will assess the situation within JASDEC, compile information, and distribute communications and directions within the JASDEC Group.
- In addition, frameworks have been set up to communicate information about JASDEC's business operation status, its systems running status and future responses and other issues, to participants, supervisory authorities, stock exchanges, and FMIs outside of the JASDEC Group (BOJ, JSCC), etc.

Secondary sites

- JASDEC established the Osaka office as an alternative office. Additionally, JASDEC has identified priority business operations to be maintained and restored, and has established procedures for resuming operations within a target recovery time. In order to take appropriate measures in the event of the supposed risk, staff is stationed in the Osaka office, and daily business operations are carried out in both the head office and the Osaka office.
- Based on the Basic BCP Policy, while taking into account the geographical factors, JASDEC has established a backup center, where JASDEC personnel will be able to continue operations even in the event of its main center being rendered inoperable.
- The backup center has the necessary resources, processing performance and functions to ensure that JASDEC can continue its operations even if the main center becomes inoperable.

- In addition to these measures, JASDEC offers connection functions via Web-based terminals that participants are required to install. These functions can be used as an alternative to real-time connections between systems, so that participants can continue to use the main functions of JASDEC's information systems in the event of a supposed risk occurrence—even if the participant's internal systems or normal communication lines have failed.

Review and testing

- JASDEC periodically carries out the following drills to review and test that business continuity and contingency arrangements are functioning effectively.
 - Practice drills to check the safety of executives and employees, on the assumption that a regional disaster has occurred.
 - Drills to set up the BCP Countermeasure Office and carry out decision-making in accordance with the situation, on the assumption that regional disaster/local disaster/system failure have occurred.
 - Drills involving participants in system operation continuity when the switch-over to the backup center is made, on the assumption that the main center has been impacted by a disaster.
- In accordance with the Basic BCP Policy, at least once a year tests are carried out covering switching from the main system to the backup system both in the main center, switching from main center systems to backup center systems, and other such tests.
- These tests involve not only participants but also companies that provide the connectivity service between participant systems and JASDEC systems, as well as relevant FMIs (BOJ, JSCC, JDCC). By confirming whether or not business continuity can be maintained and by checking the procedures in place when a disaster occurs, these tests assess and verify the effectiveness of JASDEC's BCP.

Key consideration 7

An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.

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Risks to the FMI's own operations

- The policies and procedures for the identification and management of each risk, including risks to the FMI's own operations are given in **"Principle 3: Framework for the comprehensive management of risks, Key consideration 1."**

- JASDEC understands the following risks to its own operations that might arise from its major participants, other FMIs (BOJ, JSCC, JDCC, overseas CSDs), service providers (contractors entrusted with information system development, maintenance and operation, overseas custodians), and utility companies (telecommunications companies, power companies).
 - The risk that the system failure, etc. of a major participant prevents a significant part of the day's settlements from being completed
 - The risk that the system failure, etc. of another FMI (BOJ, JSCC, JDCC, overseas CSDs) will cause problems for JASDEC's business operations
 - The risk that administrative errors, etc. by a service provider (contractors entrusted with information system development, maintenance and operation) will cause JASDEC's system failure
 - The risk that administrative errors, etc. by a service provider (an overseas custodian) will cause problems for JASDEC's business operations
 - The risk that the suspension of service by a utilities company (a telecommunications company or a power company) will prevent the operation of JASDEC systems

- JASDEC has taken the following steps to reduce these risks.
 - JASDEC constantly monitors the status of connections between its systems and those of other FMIs. JASDEC has structures in place to enable rapid contact to be made if a situation arises that will affect JASDEC.
 - In cases where the specifications of the connections with the systems of participants or with other FMIs are changed, or new systems or services are launched, JASDEC carries out user tests in advance, to check the system connections, business procedures, etc.
 - JASDEC conducts annual due diligence to its overseas CSDs and overseas custodians.
 - JASDEC holds weekly or monthly meetings with its service vendors entrusted

with information system development, to confirm the progress and quality level of data system development. In addition, with respect to information system maintenance and operation, JASDEC has concluded SLOs (Service Level Objectives) with its outside contractors, and checks the status of their contracted operations at least once a month.

- JASDEC has prepared for the event of a suspension of service by a utility provider (a telecommunications company or a power company) through redundancy in its networks and by having its own in-house power generation facilities.

Risks posed to other FMIs

- The policies and procedures for the identification and management of each risk, including risks that JASDEC could pose to other FMIs, are given in "**Principle 3: Framework for the comprehensive management of risks, Key consideration 1.**"
- Significant risks that JASDEC might pose to other FMIs (BOJ, JSCC, JDCC) could come about if there was a failure, etc., in JASDEC's systems, etc. which could harm other FMI's operations.
- To reduce the possibility of these risks, JASDEC constantly monitors the status of connections between its systems and those of other FMIs. JASDEC has a structure in place to enable rapid contact to be made if a situation arises that will affect other FMIs.
- JASDEC participates in an annual system failure practice drill conducted by the BOJ, as well as conferences, committee meetings and other events organized by the Japan Securities Dealers Association and the Japanese Bankers Association, which are concerned with the setting up of market-wide BCPs. Other FMIs also participate in JASDEC's annual disaster training drill, to foster cooperation between these organizations.

Principle 18: Access and participation requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

Participation criteria and requirements

- Article 14 of the Transfer Act prohibits a book-entry transfer institution from treating particular participants or issuers in a discriminatory manner, and requires that they conduct their business fairly. The participation requirements are stipulated in the Transfer Act and in JASDEC's Business Regulations, and fair and open access is enabled.

- Entities participating in BETS as AMIs must be the following (Transfer Act, Article 44, Paragraph 1, each item).
 - 1 Financial instruments business operators as prescribed in Article 2, paragraph (9) of the Financial Instruments and Exchange Act (limited to a person who conducts the type I financial instruments business prescribed in Article 28, paragraph (1) of the same Act (excluding type I business operator handling small amount public offering electronically prescribed in Article 29-4-2, paragraph (9) of the same Act))
 - 2 Banks specified under Article 2, paragraph (1) of the Banking Act (Act No. 59 of 1981) (including branches which obtained a license from the prime minister under Article 4, paragraph (1) of the same Act pursuant to the provisions of Article 47, paragraph (1) of the same Act)
 - 3 Long-term credit banks stipulated under Article 2 of the Long-Term Credit Bank Act (Act No. 187 of 1952)
 - 4 Trust companies
 - 5 The Shoko Chukin Bank, Ltd.
 - 6 The Norinchukin Bank

- 7 Agricultural cooperatives and federations of agricultural cooperatives which operate the business under Article 10, paragraph (1), item (iii) of the Agricultural Cooperatives Act (Act No. 132 of 1947)
 - 8 Fisheries cooperatives operating the business under Article 11, paragraph (1), item (iv) of the Fisheries Cooperatives Act (Act No. 242 of 1948), federations of fisheries cooperatives operating the business under Article 87, paragraph (1), item (iv) of the same Act, fishery processing cooperatives operating the business under Article 93, paragraph (1), item (ii) of the same Act and federations of fishery processing cooperatives operating the business under Article 97, paragraph (1), item (ii) of the same Act
 - 9 Credit cooperatives and federations of cooperatives operating the business under Article 9-9, paragraph (1), item (i) of the Small and Medium Sized Enterprise, etc. Cooperatives Act (Act No. 181 of 1949)
 - 10 Shinkin Banks and federations of Shinkin Banks
 - 11 Labor Banks and the federations of Labor Banks
 - 12 Persons other than those listed in the preceding items, who are permitted to manage another person's bonds, etc. on a regular basis under the laws and regulations of Japan and are specified by an Ordinance of the Competent Ministry.
 - 13 Parties licensed or registered or otherwise subjected to a similar disposition under the provisions of the laws and regulations of a foreign state concerning the management of another person's bonds, etc. or of the rights similar to bonds, etc. in said foreign state and are designated by the competent minister in Japan.
- If directly participating in JASDEC's BETS, a participant must meet the following standards in the Business Regulations. (Business Regulations concerning Book-Entry Transfer of Stocks, etc. Article 18; Business Regulations concerning Book-Entry Transfer of Corporate Bonds, etc. Article 16 (Opening of JASDEC Participant Accounts))
 - 1 Be a person to whom/which any of the items of Article 44, Paragraph 1 of the Transfer Act applies (with respect to any person prescribed in Item 13 of the same paragraph; however, this shall be limited to a person admitted especially by JASDEC) or a person admitted especially by JASDEC (limited to judicial persons);
 - 2 JASDEC Participation Applicant's becoming a JASDEC Participant is not likely to adversely affect the reputation of the book-entry transfer system or its efficient operation.

- In its Rules for Using JASDEC's Systems, JASDEC may conduct tests of participants' systems as necessary, to confirm the operation processing performance of participants.

Key consideration 2

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least-restrictive impact on access that circumstances permit.

Justification and rationale of participation criteria

- As described in "**Key consideration 18.1,**" the requirements for participation as an AMI are specified by the law (Transfer Act Article 44, Paragraph 1). For direct participation stipulated in JASDEC's Business Regulations and approved by the authorities, JASDEC limits the participation criteria to a minimum, such as "JASDEC Participation Applicant's becoming a JASDEC Participant is not likely to adversely affect the reputation of the book-entry transfer system or its efficient operation."

Disclosure of criteria

- The participation criteria in JASDEC and the restrictions are stipulated in JASDEC's Business Regulations and its Rules for Using JASDEC's Systems, and are generally disclosed on its website. (Rules for Using JASDEC's System are disclosed only in Japanese.)

Key consideration 3

An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

Monitoring compliance

- In its Business Regulations, JASDEC requires participants to immediately give it notification when any of matters notified to JASDEC in the application for participation are changed (including requirements defined in the Transfer Act). JASDEC may conduct tests of participants' systems as necessary, for example following changes to JASDEC systems, to confirm the operation processing performance of these systems. In addition, JASDEC may, if considered necessary to ensure appropriate operation of the book-entry transfer business, require participants to provide reports and data for JASDEC, and if JASDEC deems that the business operations of a participant needs to be improved, JASDEC shall issue recommendations to the participant to improve its business operations, and the participant shall be obliged to report to JASDEC about the measures it will take to effect improvement.
- JASDEC shall compile a list of participants who make errors, etc. in their daily business operations and shall manage the situation accordingly. If JASDEC deems that the business operations of a participant need to be improved, JASDEC shall require the participant to take the measures as described in the preceding paragraph.

Suspension and orderly exit

- JASDEC may take steps to have a participant withdraw from its BETS, such as closing the participant's accounts, based on the Business Regulations disclosed on its website, if the participant violates its participation requirements or fails to satisfy them. Participants, who withdraw from JASDEC's BETS through such measures as the closing of their accounts, are required to transfer balances recorded in those accounts to the accounts of other participants, in the period before the withdrawal. For AMIs who become unable to satisfy the legal requirements listed in "**Key consideration 18.1**," their obligations relating to the termination of their business are specified in the Transfer Act, Article 42, which shall apply mutatis mutandis in Article 46.

Principle 19: Tiered participation arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.

Tiered participation arrangements

- In the Transfer Act, a direct AMI may have accounts opened for other AMIs. A multi-tiered participation arrangement is thus formed in which there are direct AMIs (whose accounts have been opened by a book-entry transfer institution) with indirect AMIs existing below them as Lower Positioned Institutions. There are no limitations to the number of tiers.
- Within such arrangement, indirect AMIs shall also effectively be participants that are covered by the regulations of JASDEC. Indirect AMIs, in their procedures for applying to approval to be AMIs, are required by JASDEC to provide JASDEC with their company name, address, name of their representative, the names of all Upper Positioned Institutions, and the contact of their manager and person in charge of the book-entry transfer operations. They are also required to notify JASDEC of any changes to this information (excluding changes to the names of all Upper Positioned Institutions).

Risks to the FMI

- In the BETS, the book-entry transfer institution and the AMIs manage the balances of the securities owned by the participants. The risk of administrative errors (excessive record) by an AMI is prevented by law from being passed on to Upper Positioned AMIs or to the book-entry transfer institution, so the tiered participation arrangement does not pose a risk to JASDEC (the book-entry transfer institution).

- JASDEC has adopted the following approaches to the assumed risks.
 - (1) JASDEC does not bear credit risk, by multi-tiered participation arrangement based on the Transfer Act. Regarding credit risk, in accordance with its Business Regulations that are based on Article 11, Paragraph 2 of the Transfer Act, each AMI jointly guarantees to the participants (clients) the performance of all the obligations that the Upper Positioned Institutions of such AMI assume.
 - (2) To identify the range of impact of business processing risk and information system risk to JASDEC, when an indirect AMI applies to JASDEC the applicant and all the Upper Positioned Institutions are required to submit an application or registration statement that describes the tiered structure. This enables the participants to recognize the tiered structure and also enables JASDEC to gain an understanding of it as well.
 - (3) To minimize the effects of information system risk, JASDEC tells parties that are connected to its systems that they must comply with the Rules for Using JASDEC's Systems and be subjected to system tests when they participate in the systems. JASDEC also recommends to them that they prepare lines and work terminals that can be replaced in the event of failure, etc.
 - (4) JASDEC conducts daily checking of a) the total amounts of value in the JASDEC participant's account for each security in the book-entry transfer account registry, and b) the total number of that security being issued (in the case of stocks, the total number of stocks and the total number of issued stocks). Direct AMIs and indirect AMIs also check the amounts of value in their book-entry transfer account registry (or number of stocks in the case of stocks), and notify JASDEC if there are any discrepancies. Using this framework, JASDEC is able to confirm that the overall balances in its BETS are correct.

- When JASDEC approves an AMI, it confirms that the Institution satisfies the requirements of the Transfer Act. In the Transfer Act, entities that are permitted to conduct book-entry transfer business of AMIs as an auxiliary business under their respective regulating statutes are regarded as entities capable of being AMIs. AMIs are supervised by supervisory authorities on the basis of their respective regulating statutes. In addition, as described in "**Principle 18: Access and participation requirements, Key consideration 3,**" JASDEC conducts verifications and other measures indirectly by monitoring direct AMIs that are the Upper Positioned Institutions in the multi-tiered participation structure and connected to JASDEC's systems. This ensures the appropriateness of the AMI's activities and BETS is built on the assumption of proper management.

Key consideration 2

An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.

- There is a quasi-mandate relationship between direct AMIs and indirect AMIs in the relaying of the participant's (client's) transfer request, etc. to JASDEC. JASDEC identifies which indirect AMI is in the lower position of which direct AMI, based on the indirect AMI's approval procedures.

Key consideration 3

An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.

- Due to the characteristics of the tiered participation structure, indirect participants do not pose a credit risk to JASDEC. Through getting the picture of the actual tiered participation structure, JASDEC gains an understanding of the scope of influence that any risk of failure of the systems used by its main AMIs and their operational risk may have. JASDEC reduces information system risk by conducting system tests for the participants whose systems need to be connected to JASDEC, when they participate in the BETS and when deemed necessary.

Key consideration 4

An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.

- As described in "**Key consideration 19.1,**" the tiered participation arrangement does not pose any risk to JASDEC.

Principle 20: FMI links

An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

(Applicable FMIs : CSD、SSS、CCP、TR)

Key consideration 1

Before entering into a link arrangement, and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.

- The transfer of stocks and other securities in Japan, between JSCC (the street-side CCP)/JDCC (the customer-side CCP) and their clearing participants, uses JASDEC's BETS. JASDEC is linked to both CCPs and these are vertical link between CSD and CCP. Since JASDEC's BETS is completely paperless, there is no custody risk, which means that risks arising from these links are limited to operational risks. JASDEC works very closely with JSCC and JDCC to reduce the operational risks stemming from the links.
- JASDEC functions as the investor-side CSD regarding foreign securities listed on domestic stock exchanges in its Custody Services for Foreign Stock Certificates, etc. and forms links with the CSDs on the issuer's side through the opening of direct or indirect accounts. When a new link is made, JASDEC validates their management systems of securities based on predetermined check points. In addition, based on the list of predetermined check points, JASDEC periodically performs due diligence for the linked entities with which JASDEC has its own account directly by sending questionnaires or interviewing. JASDEC continuously identifies, monitors and manages any risks that may arise from the linked entities. These check points described in "**Principle 16: Custody and investment risks, Key consideration 1, 2 and 3,**" cover a wide range of matters, so that JASDEC can comply with other principles in the PFMI. When carrying out due diligence, JASDEC checks matters relating to operational risk, custody risk and governance.

Key consideration 2

A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.

- The jurisdictions where JASDEC has links involving foreign securities are Hong Kong, South Korea, Luxembourg, Malaysia, the UK and the US, and elsewhere. Matters concerning the local custody of securities are stipulated in a) the custodial agreements that have been concluded with the overseas CSD or custodian under the applicable laws in each country and b) the regulations of the overseas CSD.
- When opening accounts with an overseas CSD or custodian, JASDEC confirms the local legal and administrative scheme, and if necessary seeks the views of local authorities and the written opinions of experts.
- After the link is established, JASDEC periodically conducts due diligence, as mentioned earlier, and collects information concerning the laws, etc., in each country so that it can manage and maintain the legal basis for the link.

Key consideration 3

Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.

- Not applicable.

Key consideration 4

Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.

- There is no provisional transfer of securities between JASDEC and the CSDs to which it has links involving foreign securities.

Key consideration 5

An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.

- When a new link involving foreign securities is established, JASDEC validates their management systems of securities based on predetermined check points. In addition, based on the list of predetermined check points, JASDEC performs due diligence periodically by sending questionnaires or interviewing, and takes ample precautions to ensure that the rights of participants are provided a high level of protection.
- JASDEC manages and confirms on a daily basis any changes in the balances of securities corresponding to local deposits and deliveries. In addition, JASDEC on a monthly basis reconfirms all book-entry transfers and changes in balances related to corporate action (CA) during the month.

Key consideration 6

An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

- Refer to "**Principle 16: Custody and investment risks, Key consideration 1, 2 and 3.**"

Key consideration 7

Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.

Key consideration 8

Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time.

Key consideration 9

A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.

- JASDEC is a CSD and a SSS, which are not applicable to these Key considerations.

Principle 21: Efficiency and effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

- JASDEC's Basic Management Policy requires it to undertake user-oriented operational management as well as emphasize corporate governance, from the point of view of investors, issuers, market intermediaries and other market participants.
- In its Basic Policy on Corporate Governance, with the objective of contributing to the enhancement of user-orientated operations, JASDEC sets up Advisory Committees that are able to provide executive officers with advice and opinion regarding business operations as requested or otherwise deemed necessary.
- In principle, materials and summaries of proceedings of the Advisory Committees are disclosed to participants.

Key consideration 2

An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

- JASDEC conducts its business in accordance with its Corporate Philosophy of offering highly reliable, convenient and efficient services.
- In more specific terms, since the majority of JASDEC services are performed by

information systems, JASDEC has set targets related to system operation rates, as indices to maintain the reliability of information systems. It periodically measures and assesses these operation rates, and reports the findings to its Board of Directors.

* Refer to "**Principle 17: Operational risk, Key consideration 3.**" for details.

Key consideration 3

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.

- In accordance with JASDEC's Corporate Philosophy and Basic Management Policy, the Board of Directors formulates the medium-term management plan and the annual business plan.
- Moreover, executive officers are delegated the authority to make decisions concerning the execution of business. These executive officers carry out business in accordance with the medium-term management plan and the annual business plan, and report on the progress of the plans and their execution of businesses to the Board of Directors.
- Based on these reported results, the Nominating Committee and Compensation Committee appoint or dismiss executive officers and review their performance at least once a year.
- JASDEC steadily conducts its business each fiscal year, in accordance with its medium-term management plan and annual business plan.

Principle 22: Communication procedures and standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.

Communication procedures

- Internationally acceptable communication procedures, such as HTTP, TCP/IP and MQ are used in communications between JASDEC and its participants.
- In its additional business of running its Custody Services for Foreign Stock Certificates, etc., which is a cross-border business, JASDEC opens accounts with a CSD or custodian of each issuing country of the foreign securities. SWIFT is used in communications of settlement instructions, etc. between JASDEC and these institutions in the issuing countries.

Communication standards

- The real-time system connections between JASDEC and its participants can use XML messaging in conformity with the international ISO 20022 standard.
- JASDEC uses FIN messaging in conformity with the ISO 15022 standard in its Custody Services for Foreign Stock Certificates, etc., which is a cross-border business, in communications of settlement instructions, etc. with the CSDs and custodians in the issuing countries.
- For transmitting files, JASDEC uses its own message formats and defines the data in the connection specifications. However, some of these formats give consideration to compatibility with XML messaging that meets the international ISO 20022 standard.

- JASDEC enables the use of BIC (Business Identifier Code) to identify counterparties, etc. and ISIN (International Securities Identification Number) to identify issues of securities. These are widely used as international standard codes.

Principle 23: Disclosure of rules, key procedures, and market data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

(Applicable FMIs : PS, CSD, SSS, CCP, TR)

Key consideration 1

An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.

Rules and procedures

- JASDEC discloses all the following rules and procedures for BETS, separately by stocks and corporate bonds, etc. on its website and other points of contact. (Some documents are disclosed only in Japanese.)
 - Business Regulations
 - Enforcement Rules of Business Regulations
 - Business Guidelines
 - BETS participation procedures, procedures for changes in participation or withdrawal from BETS
- JASDEC also discloses its rules for the use of its PSMS, tables of fees, and use procedures on its website.
- JASDEC has set up Advisory Committees, made up of its major participants, which discuss JASDEC's rules, major procedures and services. JASDEC has an established system to introduce rules and services after examination by the Advisory Committees. This framework moderates the diverse interests among the participants, and enables JASDEC to reflect these wide-ranging needs in its business. As a result, the rules and procedures that JASDEC has introduced are regarded as being clear and comprehensive.

- In principle, materials and summaries of proceedings of the Advisory Committees are disclosed to participants.

Disclosure

- JASDEC's Basic BCP Policy, which contains rules and procedures concerning actions to take in the case of non-routine, though foreseeable, events, is disclosed on the JASDEC website. This lists JASDEC's basic response policy (to continue operations to the greatest extent possible, and to switch to a backup center if necessary). For information about JASDEC's response to participant default, refer to "**Principle 13: Participant-default rules and procedures, Key consideration 3**"

Key consideration 2

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.

- JASDEC has created a connection specification document about its system design and operation, and discloses this to its system users. JASDEC decides important matters that will directly affect the operation of its systems, through the discussions carried out by above-mentioned Advisory Committees and through appropriate in-house processes. These processes are generally disclosed on JASDEC website.
- JASDEC has stipulated participant rights, obligations and risk in its Business Regulations, Enforcement Rules of Business Regulations, and Business Guidelines and discloses on its website.

Key consideration 3

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.

- In addition to disclosing its Business Regulations, Enforcement Rules of Business Regulations, and Business Guidelines, JASDEC requires new participants to submit consents stating their agreement to comply with these regulations and guidelines. When JASDEC is to introduce a new service, it holds study sessions for its participants as necessary.
- If JASDEC decides that a participant's business methods need to improve, it sends the participant its recommendations. JASDEC participants are obliged to follow JASDEC's rules and procedures. JASDEC may close a participant's accounts or reprimand them if it decides that the participant has violated JASDEC rules or decides that such action is necessary to ensure the proper and smooth operation of its book-entry transfer business.

Key consideration 4

An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.

- JASDEC discloses its rules covering fees for each of its systems, as well as a table of fees, on its website.

Key consideration 5

An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO Disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.

- JASDEC discloses information responding to CPSS-IOSCO's *Disclosure framework for financial market infrastructures*, at least once every two years.
- In addition, on its website JASDEC discloses monthly statistical data including the account balances and number of transactions in each of its systems.
- JASDEC also discloses its General Principles of Information Security Policy and its Basic BCP Policy on its website.
- Furthermore, JASDEC is actively involved in enhancing its English-language website and disclosing important information in English, including disclosure based on PFMI.

Principle 24: Disclosure of market data by trade repositories

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.

(Applicable FMIs : TR)

- JASDEC is a CSD and a SSS, which are not applicable to this principle.

V. Related links

Links related to laws and regulations

Japanese Law Translation Database system (Ministry of Justice)	https://www.japaneselawtranslation.go.jp/?re=02
Financial Services Agency	https://www.fsa.go.jp/en/index.html
Ministry of Justice	https://www.moj.go.jp/ENGLISH/index.html
Ministry of Finance	https://www.mof.go.jp/english/index.htm

Links related to JASDEC

JASDEC	https://www.jasdec.com/en/index.html
– Company data	https://www.jasdec.com/en/about/office/index.html
– Activities report	https://www.jasdec.com/en/about/action/index.html
– Risk management initiatives	https://www.jasdec.com/en/about/security/index.html
– About the systems (Outline and fee, etc.)	
BETS for Shares, etc.	https://www.jasdec.com/en/system/less/index.html
BETS for Corporate Bonds	https://www.jasdec.com/en/system/sb/index.html
BETS for CP	https://www.jasdec.com/en/system/cp/index.html
BETS for Investment Trusts	https://www.jasdec.com/en/system/fund/index.html
Custody Services for Foreign Share Certificates, etc.	https://www.jasdec.com/en/system/foreign/index.html
PSMS	https://www.jasdec.com/en/system/finance/index.html
– Regulations	https://www.jasdec.com/en/rule/index.html
– Statistical data	https://www.jasdec.com/en/statistics/index.html
– Participant list	https://www.jasdec.com/en/system-participants/search_html.html

Links related to JDCC

JDCC	https://www.jasdec.com/en/about/jdcc/index.html
– DVP Settlement Services for NETDs	https://www.jasdec.com/en/system/dvp/index.html
– Regulations and fees	https://www.jasdec.com/en/rule/dvp/index.html

Information disclosure based on "Principles for financial market infrastructures"
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