

# THE OUTLINE OF THE DELIVERY VERSUS PAYMENT SYSTEM FOR NON-EXCHANGE TRANSACTION DELIVERIES

JUNE 2002  
JASDEC

## (SUMMARY)

The purpose of the delivery versus payment system (DVP) for non-exchange transaction deliveries (NETD) is to ensure payments of fund for book-entry deliveries of security. The system will be run by a subsidiary of JASDEC called JASDEC DVP CLEARING CORPORATION (JDCC) in this document.

Each book-entry delivery of securities will be processed on a trade-for-trade (gross) basis while payment of fund will be made on a net basis. For each DVP participant, all the payable amount for receipts of securities and all the receivable amount for deliveries of securities will be offset and the remaining balance will be paid to or received from JDCC. [Type  Gross = Net DVP]

In case a DVP participant fails to make payment, the shortage of fund will be covered by the participant fund and borrowing from banks to minimize systemic risk. To limit the size of such a default to an amount less than the amount of JDCC's liquidity resource, a maximum amount of net debit (net debit cap) will be set for each DVP participant. To recover the fund applied to make up the default, JDCC will liquidate assets (assurance assets) it holds for the defaulted DVP participant. The JDCC will not process a DVP instruction if it would take a DVP participant's net debit over the value of the assurance asset or the net debit cap.

The DVP system will be implemented by the end of March 2004. Efforts will be made to implement the DVP system as soon as possible taking the progress of the discussion on the details of the DVP scheme and the development of the computer system to support the DVP into consideration.

The implementation is subject to the approval from the competent ministers as well as the approval from the Bank of Japan (BOJ) to open a current account, to use the BOJ Financial Network System and Japanese Government Bond (JGB) Book-entry Delivery System.

\* This document outlines the securities and cash settlement procedure specified in the "IMPLEMENTATION DOCUMENT OF THE DELIVERY VERSUS PAYMENT SYSTEM FOR NON-EXCHANGE TRANSACTION DELIVERIES."

OUTLINE	NOTES
<p>1) DVP PARTICIPANT</p> <p>Only DVP participants (hereinafter called “participants”) may use DVP book-entries for NETD.</p> <p>2) OFFER OF A DVP BOOK-ENTRY</p> <p>2.1) DVP Instruction</p> <p>To make an offer of a DVP book-entry, a deliverer and a receiver shall send necessary information to JDCC.</p> <p>A receiver shall pay the settlement price in accordance with the rules of JDCC.</p> <p>2.2) DVP Order</p> <p>JDCC shall make a delivery order from the deliverer account to the JDCC account and a delivery order from the JDCC account to the receiver account based on the relevant DVP instruction.</p> <p>3) BOOK-ENTRY DELIVERY OF SECURITIES: Gross-basis, at JASDEC</p> <p>3.1) Summary</p> <p>3.1.1) “Execution” of a DVP book-entry</p>	<p>[DVP participant] A JASDEC participant may apply to JDCC for the qualification to participate in DVP for NETD. Upon approval by JDCC after examination, the JASDEC participant becomes a DVP participant of JDCC.</p> <p>[JDCC] A subsidiary of JASDEC established to manage the DVP for NETD. JDCC itself is planned to be a participant of JASDEC.</p> <p>[DVP instruction] A delivery instruction accompanied by information on the intention to perform a delivery of securities and a payment of its price through the DVP for NETD. It shall be made via a pre-settlement matching system.</p> <p>[Settlement price] The amount of money to be paid and received for the securities delivered through the DVP for NETD.</p>

If a DVP instruction satisfies all the conditions for executing DVP (executing conditions), securities subject to the delivery are delivered from the deliverer account to the JDCC account. This process is called “execution of a DVP book-entry.”

### 3.1.2) “Completion” of a DVP book-entry

If the receiving participant satisfies any of the conditions for completing DVP (completing conditions), the securities subject to the delivery are delivered from the JDCC account to the receiver account. This process is called “completion of a DVP book-entry.”



## 3.2) Executing Conditions

### 3.2.1) Conditions

A DVP instruction that satisfies all of the following conditions shall be executed.

- a. The balance of the securities to be delivered shall be more than or equal to the amount subject to the instruction.
- b. The execution of such a DVP instruction shall not cause the net debit of the receiving participant to exceed its net debit cap.
- c. The execution of such a DVP instruction shall not cause the value of

\* For the purpose of the DVP for NETD, JDCC will open an account at JASDEC to keep securities until the payment of the settlement price is assured.

\* A DVP order relevant to a DVP instruction that fails to satisfy any of the executing conditions shall be put into a recycle cue.

[Net debit] The excess value, if any, of the accumulated settlement price of securities to be received over the accumulated settlement price of securities delivered.

the assurance asset monitor of the delivering participant or the receiving participant to become negative.

\* Assurance asset monitor = Value of assurance asset  
– net debit

\* Assurance asset includes the following and is calculated for each participant.

- x) Amount of cash a participant deposits to the participant fund
- y) Value of securities-to-be-received (Haircut shall be applied.)

z) Value of pledged securities (Haircut shall be applied.)

### 3.2.2) The ways to satisfy executing conditions

- a. To decrease net debit by making settlement progress payment
- b. To increase assurance asset by pledging securities to JASDEC

### 3.3) Execution of a DVP Book-Entry

JDCC and JASDEC will carry out the following for a DVP instruction that satisfies all the executing conditions.

- a. A book-entry delivery of the relevant securities from the deliverer account to the JDCC account
- b. Notice to the receiving participant regarding the issue, amount and so on

This figure is calculated throughout a settlement day for each participant. Its maximum value (net debit cap) for a participant shall be determined based on the historical data of the settlement activity of the participant and reviewed daily.

[Securities-to-be-received] Those securities for which a DVP book-entry has been executed and held in the JDCC account at JASDEC. Securities-to-be-received shall be included in the deliverable securities and assurance asset of its receiver.

[Pledged securities] Securities pledged to JDCC. Securities deposited to JASDEC and Japanese government bonds will be able to be pledged.

\* Execution of a DVP book-entry will decrease the net debit of the deliverer.

[Settlement progress payment (credit)] Cash wired by a participant to the JDCC current account at the BOJ.

<p>with respect to the securities-to-be-received</p> <p>c. The following entries of the settlement price of the DVP instruction to the fund memorandum ledger</p> <ul style="list-style-type: none"> <li>a. Debit to the receiver and credit to JDCC</li> <li>b. Credit to the deliverer and debit to JDCC</li> </ul> <p>3.4) Completion of a DVP Book-Entry</p> <p>Securities-to-be-received shall be delivered from the JDCC account to the receiver account if one of the following conditions is satisfied.</p> <ul style="list-style-type: none"> <li>a. The securities-to-be-received are subject to a delivery order (including a DVP order) and the delivery order doesn't violate any of the executing conditions.</li> <li>b. The receiver becomes a participant payee.</li> </ul> <p>c. The receiver has become a participant payer and has made the payment.</p> <p>4) PAYMENT AND RECEIPT OF FUND: Net-basis, through BOJ-NET</p> <p>4.1) Amount of Fund to Be Settled</p> <p>A participant shall pay or receive its participant settlement amount.</p> <p>4.2) Payment and Receipt of Fund Between a Participant and a Settling Bank</p>	<p>* Credit and debit of settlement progress payment will also be recorded on the fund memorandum ledger.</p> <p>[Participant payee] A participant who has net credit at the end of a settlement day.</p> <p>[Participant payer] A participant who has net debit at the end of a settlement day.</p> <p>* It is necessary to obtain approval from the BOJ for opening current account and using the BOJ Financial Network System.</p> <p>[Participant settlement amount] The amount of net debit or net credit of a participant at the end of a settlement day.</p> <p>* The payment by a participant who designates a settling bank shall be confirmed by the settling bank's performance of its obligation.</p>
--	---

A participant who designates a settling bank shall pay or receive fund in accordance with its arrangement with the settling bank.

#### 4.3) Settlement of Fund Through the BOJ Financial Network System

##### 4.3.1) Amount of fund to be paid or received

- a. A participant who settles through its own current account at the BOJ shall pay or receive its participant settlement amount
- b. A settling bank that settles for other participants shall pay or receive its settling bank settlement amount.

##### 4.3.2) Order of payments

JDCC will pay funds to fund receivers only after JDCC has fully received funds from fund.

#### 5) DEFAULT PROCEDURE

##### 5.1) Liquidity Source to Complete Settlement

To make up the deficiency of fund due to a default by a participant, JDCC will maintain the following liquidity sources.

- a. Participant fund
- b. Bank commitment line

##### 5.2) Default Procedure

###### 5.2.1) Settlement day

JDCC will make up the deficiency of fund by using liquidity resources in the following order.

- a. Participant fund
- b. Borrowing from banks

\* A participant who designates a settling bank shall make payment to or receipt from its settling bank.

[Settling bank settlement amount] The aggregated end-of-a-settlement-day amount of net debit and net credit of a settling bank and participants designating the bank as their settling bank.

\* Systemic risk will be minimized by securing sufficient liquidity source.

\* The required participant fund for a participant shall be determined based on the historical data of the settlement activity of the participant and reviewed monthly.

\* In case there remains uncovered deficit after applying all the available participant fund and borrowing, JDCC may ask participant payee to postpone the payment of fund.

5.2.2) The following business day

In case the defaulting participant fails to pay its obligation by the designated deadline, JDCC will liquidate the assurance assets with respect to the defaulting participant to repay the borrowing from banks and recover the participant fund.

5.2.3) Net Loss Share Rule

In case the proceeds of the liquidation of the assurance assets with respect to the defaulted participant are not enough to repay the borrowing from banks and to recover the participant fund, participants who deliver securities using the DVP for NETD to the defaulted participant shall be responsible for the loss in proportion to the aggregated settlement price of each relevant participant.