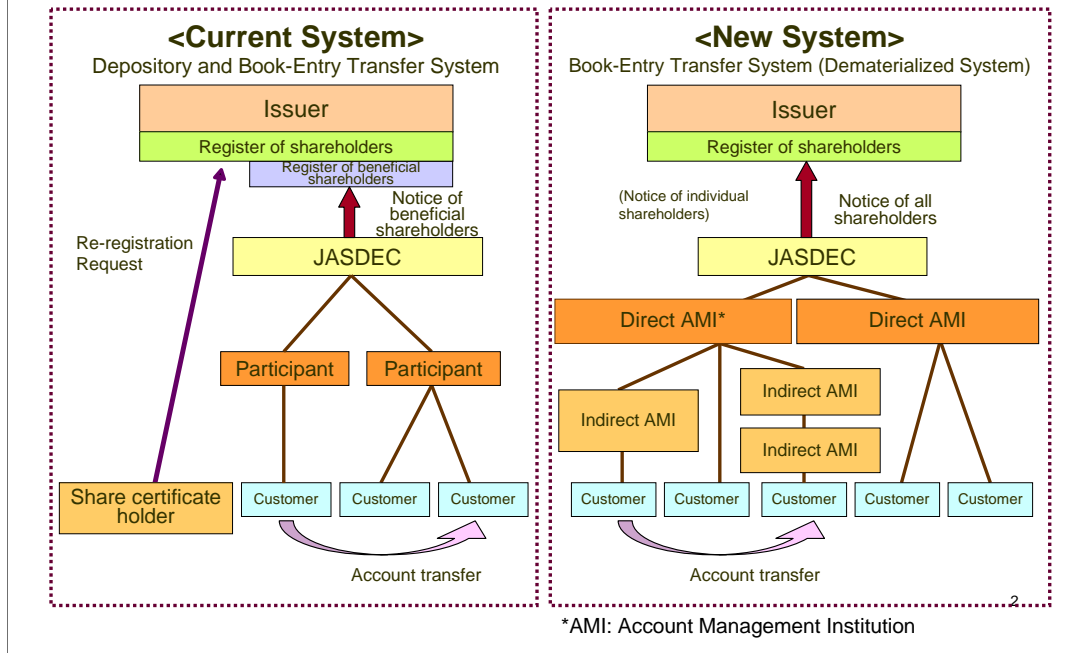


# Outline of Stock Dematerialization



Japan Securities Depository Center, Inc.

# Comparison between Current System and New System



## Comparing the current system and the new system

- Left: depository and book-entry transfer system (current system before dematerialization)
- Right: book-entry transfer system (new system after dematerialization)

## Physical certificates

- Current system: The depository and book-entry transfer system is established in an environment of the existence of physical share certificates. There are two types for holding share certificates: certificates deposited with CSD (JASDEC) and certificates not deposited with CSD. Shareholders have a choice between the two.
  - New system: There are no physical share certificates in the book-entry transfer system. All certificates are registered in the transfer account book. Shareholders do not have a choice.
- \* In the new system, only electrical records in transfer account book will assure ownership of stocks.

## Multitiered Structure

- Current system (Dual structure): CSD (JASDEC) opens participants' account for financial firms such as securities companies, and participants open customer accounts. Participants are positioned under CSD and customers are positioned under participants. (Special participants are an exception.)
- New system (Multitiered structure): An Account Management Institution (AMI) can open other AMI accounts. Direct AMIs are positioned under CSD and indirect AMIs are positioned under direct AMIs or other indirect AMIs.

## Register of shareholders and register of beneficial shareholders

- Current system: there are two types of registers: A register of shareholders and a register of beneficial shareholders
- New system: there is only one type of register: A register of shareholders (standardized according to the register of beneficial shareholders)

Name transfers on the register of shareholders are executed simultaneously by notice of all shareholders. There is no Individual re-registration process which exists in the current system.

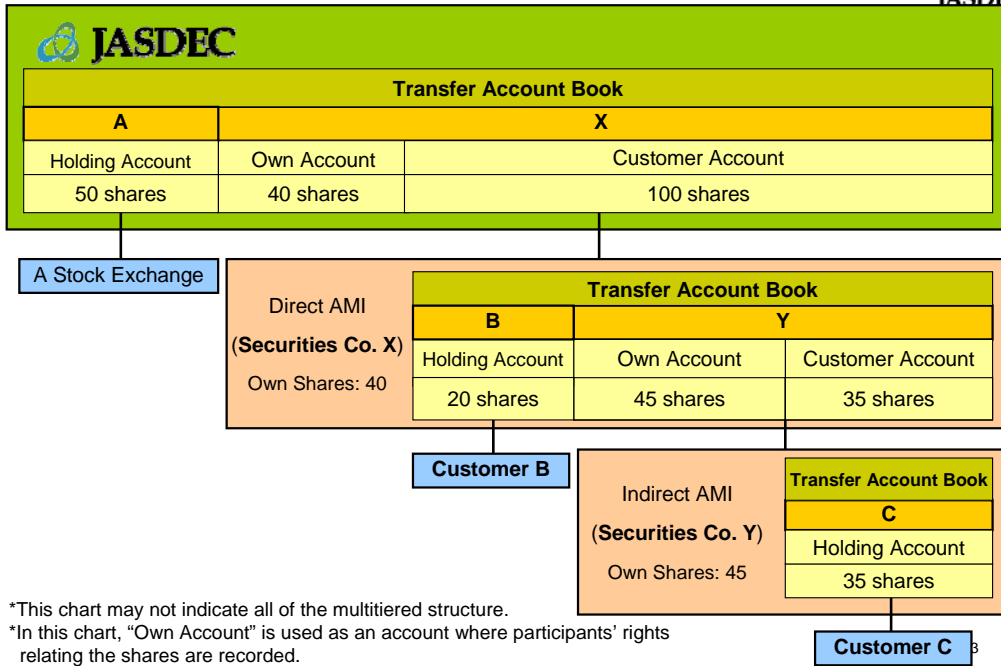
## Rights of minority shareholders, etc

- Current system: recording in the register of shareholders and the register of beneficial shareholders are requirements to assert against issuers.
- New system: recording in the transfer account book are requirements to assert against issuers.

The new system incorporates a mechanism for individual shareholder notifications.\*

\*Individual shareholder notifications: individual shareholders can notify issuers of their account status independently.

# Multitiered Structure and Transfer Account Book

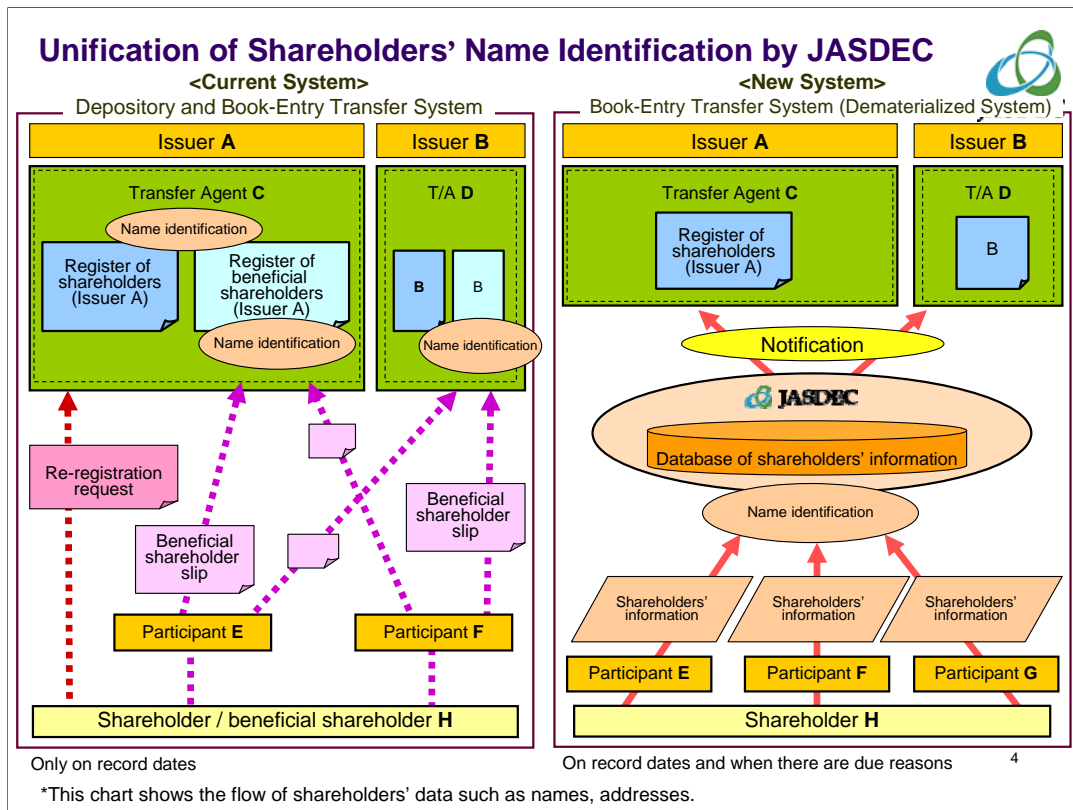


## Account Structure in Transfer Account Book

- CSD (JASDEC) and AMIs each hold transfer account books.
- CSD opens accounts only for banks, securities firms, stock exchanges, etc. Other corporations and individuals cannot open accounts in CSD.
- Accounts of participants which are AMIs in the transfer account book (in this case, Securities Co. X and Y) are separated into own accounts and customer accounts.
- Accounts of other participants and customers which are not AMIs in the transfer account book (in this case, A Stock Exchange, Customer B and C) are holding accounts.

## Handling of customer accounts

- The total amount of shares of participants and any Lower Positioned Participants is recorded in the customer accounts of AMIs.



**Comparison between current system and new system**

- Left: the scheme of name identification in depository and book-entry transfer system (current system before dematerialization)
- Right: the scheme of name identification in book-entry transfer system (new system after dematerialization)

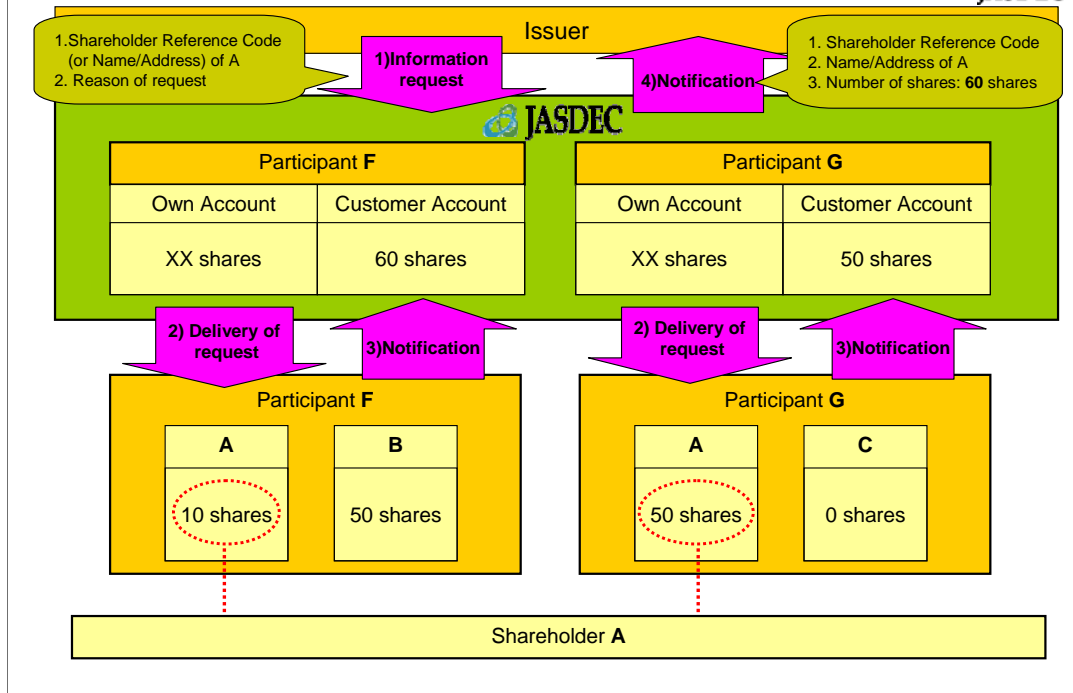
**Name identification in current system**

- Securities firms (Participant E and F) submit beneficial shareholder slips which include the data of beneficial shareholders (H) such as names, addresses, shareholder numbers, and registered seals.
- Beneficial shareholder slips are submitted for each issue. For example, if shareholder H purchases the shares of issuer A and B through participant E and F, a total of four beneficial shareholder slips will be prepared and submitted.
- Issuers (transfer agents) must deal with three kinds of name identification: 1) name identification in the register of beneficial shareholders, 2) name identification in the register of shareholders, 3) name identification between the register of beneficial shareholders and register of shareholders

**Name identification in new system**

- Securities firms (Participant E, F, G) electronically submit data on shareholders (H), such as names and addresses, to CSD (JASDEC).
- CSD integrates name identification across issues and unifies it for the data (notifying issuers of shareholders information).
- CSD sends this data to issuers (transfer agents) at the time of reporting shareholder information, such as notices of all shareholders.
- Issuers (transfer agents) revise their register of shareholders based on this data.

# Request for Information of Transfer Account Book



## Request for Information of Transfer Account Book

- This flowchart shows the steps in issuers' requests for information on transfer account books.

### Request by issuer

- The issuer asks participants to provide information on the transfer account book through CSD (JASDEC). ...1)

### Intermediacy by CSD

- CSD intermediates in the issuer's request for information on the transfer account book to AMIs. ...2)

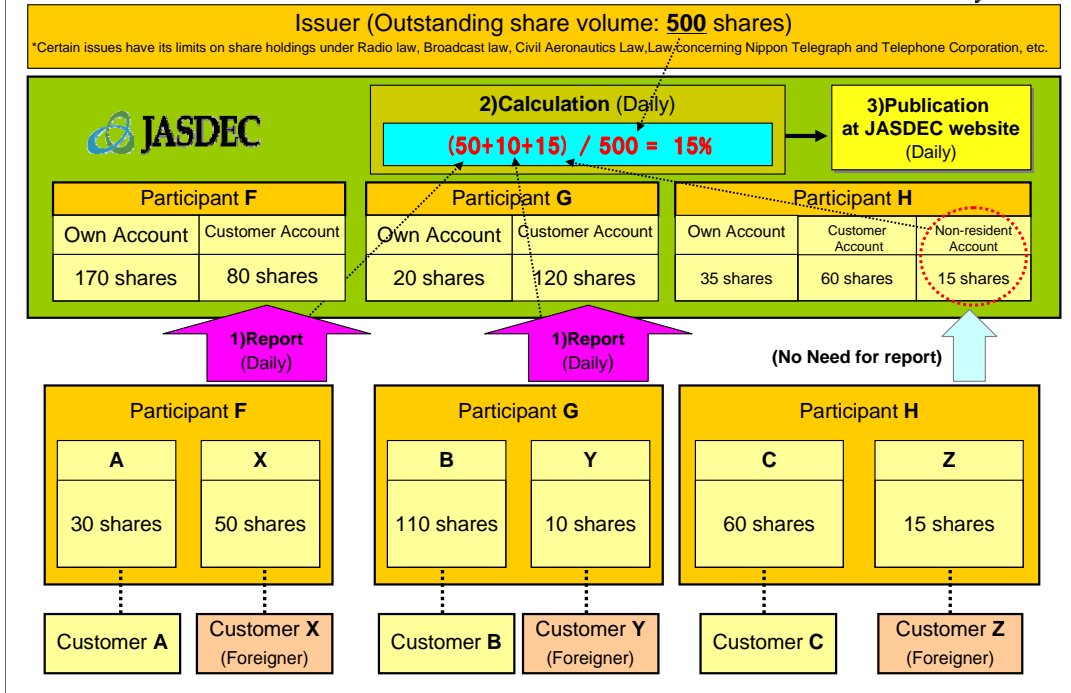
### Provision of information by AMIs

- AMIs provide information on shareholders who are subject to the request. ...3)

### Provision of information by CSD

- CSD collects information provided by AMIs and reports it to the issuer. ...4)

## Daily Report of FOL (Foreign Ownership Limitation) Issues



Flowchart showing daily reporting of Foreign Ownership Limitation (FOL) issues

- Each AMI reports the number of shares owned by foreign investors to CSD (JASDEC) on a daily basis. ...1)
- CSD calculates the foreign ownership ratio (ratio of direct holdings by foreign investors) ...2) and publishes it on the CSD website. ...3)

### Non-resident accounts

If AMIs open non-resident accounts which have a special function to record the balance of foreign-owned shares, AMIs do not need to make a daily report to CSD.



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[Disclaimer]

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