



# **Book-Entry Transfer System for “Corporate Bonds” - for Issuers -**

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**Japan Securities Depository Center, Inc.**



# Background of

# Book-Entry Transfer System for “Corporate Bonds”

## 1.1 Reform of Securities Settlement System

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- Securities Settlement System is a basic infrastructure in securities market that would affect international competition in the global securities market.
  - Concern over delay in Japanese market for this movement, compared to Europe, U.S.A. and Asia.
- Different legal frameworks for different securities types make Securities Settlement System different.
- A number of recording agents under Recording System for Corporate Bonds, etc. and the management of certificate types and serial numbers make daily operation complex.
- Reduction of settlement risks and business operation efficiency has not been improved due to lack of DVP\*<sub>1</sub> and STP\*<sub>2</sub>.

\*1 Delivery Versus Payment (DVP):

A System that simultaneously attaches specific conditions to the delivery of and payment for securities. International standards, recommended by the G30 and other organizations, require the application of a DVP system to all securities settlements to eliminate settlement risk.

\*2 Straight-Through Processing (STP):

An electronic system that eliminates human intervention from all trade-to-settlement processes involved in securities transactions.



# Legal Framework of Book-Entry Transfer System for “Corporate Bonds”

## 2.1 The Law Concerning Book-Entry Transfer of Corporate Bonds, etc.

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- **Book-Entry Transfer System by balance management**
  - Maintenance of smooth settlement by introduction of Book-Entry Transfer System which enables right transfers by electronically recording the increase and the decrease of the balance in the Transfer Account Book, instead of the management of serial numbers done in current procedure.
- **Multi-layer Holding Structure**
  - Multi-layer holding structure shall be composed of Book-Entry Transfer Institution, Account Management Institutions and investors. Account Management Institutions can be positioned in multi-layer holding structure in order to enable flexibility of business development for Account Management Institutions and affiliation among international institutions.
- **Assurance of Settlement Finality/Investors Protection**
  - Provision for Investors Protection in case of recording error in Transfer Account Book by Account Management Institutions, etc. while maintaining settlement finality by bona fide acquisition.
  - Write-off and payment obligation by Account Management Institution, etc., joint assurance of payment obligation by Account Management Institutions which investors open account, and Participant Protection Trust.



## 2.2 The Law Concerning Book-Entry Transfer of Corporate Bonds, etc.

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- Complete Dematerialization
  - Issuers are able to issue in dematerialized form and investors are not allowed to request issuance of bond certificates.
  - Reduction in issuance cost is expected, because no certificates are needed, including sample bond certificates and spare bond certificates.
- Abolition of Recording System for Corporate Bonds, etc.
  - Law on Recording of Bonds, etc. shall be abolished on the date determined by the cabinet order within 5 years after January 6, 2003 (Acceptance Completion Day).
  - Bonds that shall be issued after Acceptance Completion Day shall not be issued in recorded forms.
  - Recording System for Corporate Bonds, etc. is still available only for outstanding recorded bonds.
  - After Acceptance Completion Day, bonds shall only be issued either in book-entry form or in physical form.



## 2.3 The Law Concerning Book-Entry Transfer of Corporate Bonds, etc. (Transition Scheme to Book-Entry Bonds)

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- Resolution or decision by Issuers of transition to Special Rule Corporate Bonds, etc.
  - “Special Rule Corporate Bonds, etc.” are corporate bonds, etc. that the Issuer had decided to issue in recorded and physical bonds by Acceptance Completion Day, and for which the Issuer has resolved or decided to apply the provisions of the Law Concerning Book-Entry Transfer of Corporate Bonds, etc. after the issuance of relative bonds.
- Transition application to Book-Entry Transfer Institution by Bondholders
  - Bond certificates or recording status certificates shall be presented.
- Record in Transfer Acceptance Book (in Book-Entry Transfer Institution)
  - Bondholder’s name and serial numbers, etc. shall be recorded in Transfer Acceptance Book.
  - Once the recording in Transfer Acceptance Book is completed, the bonds shall become book-entry bonds and the relative bond certificates shall become invalid.
  - JASDEC shall send the notice of record completion to the Issuer and the recording agent.
- Record in Transfer Account Book (in Book-Entry Transfer Institution and the Account Management Institution)



## 2.4 Preferential Tax Treatment

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- Preferential Tax Treatment\* to investors shall only be applied to book-entry bonds on and after January 6, 2008.
  - Preferential Tax Treatment shall not be applied to either in recorded bonds or physical bonds.
  - Preferential Tax Treatment shall not be applied to any book-entry bonds converted from outstanding recorded or physical bonds on and after January 6, 2008 also.



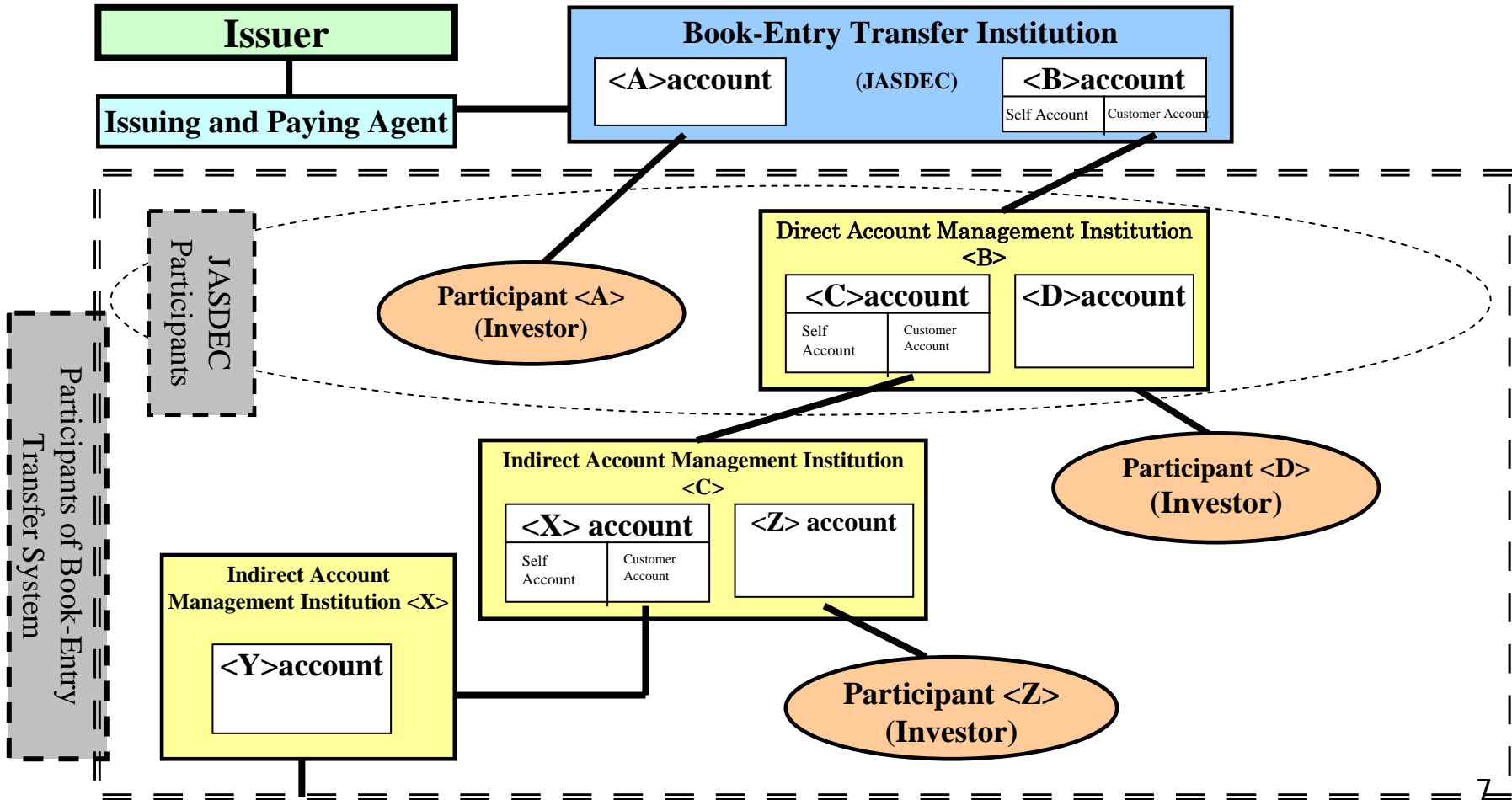
- The end of 2007 shall be the de facto deadline for investors to complete the transition of their recorded and physical bonds to book-entry bonds.

\* Tax exemption to investors such as tax exempt corporation and the “Maruyu” tax exempt savings system, etc..

# Outline of Book-Entry Transfer System for “Corporate Bonds”

## 3.1 Participants of Book-Entry Transfer System

\* Issuer shall entrust Issuing and Paying Agent for system connection to JASDEC and daily business operations.





## 3.2 Eligible Corporate Bonds, etc.

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- JASDEC shall handle various types of “Corporate Bonds” regardless of public offering, private offering, currency and etc..
  - Eligible securities are below:  
(prescribed in Article 2, Paragraph 1 of the Law Concerning Book-Entry Transfer of Corporate Bonds, etc.)
    - Corporate Bonds\*1\*2
    - Municipal Bonds
    - Investment Company Bonds prescribed in the “Law Concerning Investment Trust and Investment Company”\*2
    - Corporate Bonds issued by mutual companies prescribed in the “Insurance Business Act” \*2
    - Specified Corporate Bonds prescribed in the “Law Concerning Liquidization of Assets” \*1\*2
    - Rights that should be represented by bond certificates issued by companies under a special law \*2
    - **Rights that should be represented by bond certificates issued by any governments or companies in foreign countries (i.e. Samurai Bonds and Shogun Bonds) \*1\*2**
- \*1 Excluding corporate bonds with subscription rights or excluding securities with the characteristics of bonds with subscription rights.
- \*2 Excluding securities redeemable with stock certificates, etc..
- JASDEC shall not handle bonds issued outside Japan. (i.e. Euro Bonds)



### 3.3 Eligible Corporate Bonds, etc.

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- Book-Entry Bonds shall fulfill following issuing conditions:
  - The value of each corporate bond has to be ¥ 1,000 or more with increment of ¥ 1,000 and equalized.
    - Value of each corporate bond = Unit for book-entry transfer
    - For Special Rule Corporate Bonds, etc. with multi-unit certificate, the certificate with a minimum value shall be the value of each corporate bond.
  - Total issue amount has to be ¥ 10 million or more.
    - As for Special Rule Corporate Bonds, etc., JASDEC shall handle issues which total issue amount is less than ¥ 10 million.
  - Fix date redemption or methods of interest calculation in conformity with JASDEC's rules is accepted (mentioned afterwards).
  - Currencies prescribed by ISO4217 are acceptable.

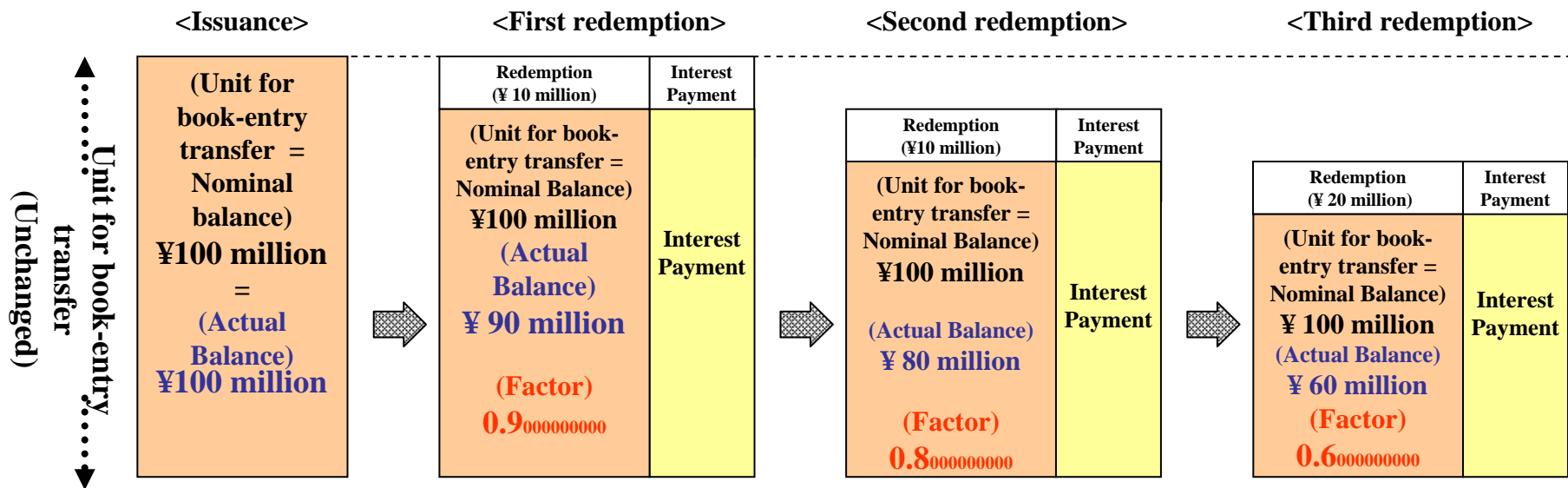
### 3.4 Handling of Fix Date Redemption

- Fix date redemption is available by maintaining the actual balance calculated by using “Factor”.

Value of each corporate bond – Total of previously paid fixed date redemption amounts  
with respect to value of each corporate bond

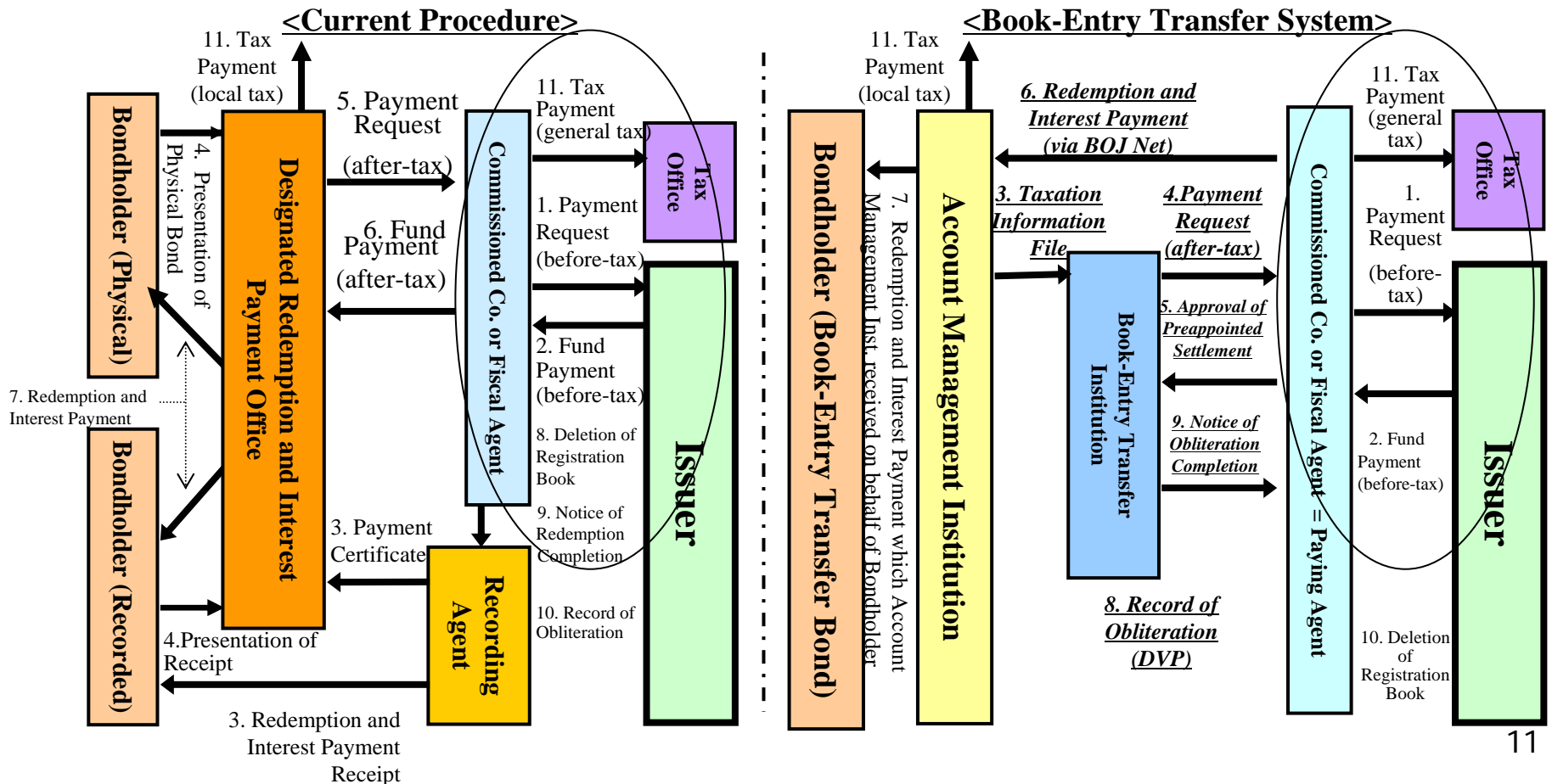
$$\text{Factor} = \frac{\text{Value of each corporate bond} - \text{Total of previously paid fixed date redemption amounts with respect to value of each corporate bond}}{\text{Value of each corporate bond}}$$

*Image:*



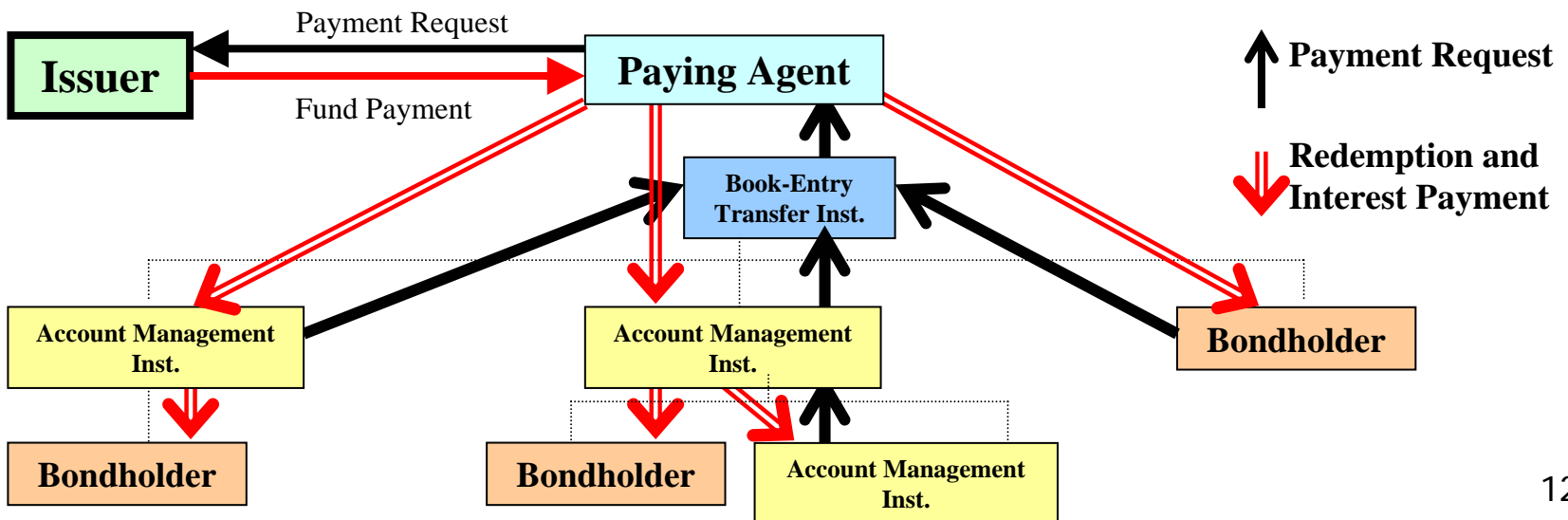
## 3.5 Redemption and Interest Payment

- Comparison between current procedure and book-entry transfer system



### 3.6 Redemption and Interest Payment

- Issuer shall make fund payment to Paying Agent (similar to current procedure).
- Redemption and interest payment to bondholders shall be made via multi-layer holding structure by the order of Paying Agent → Account Management Institution → bondholder
  - Bondholder shall entrust in advance the Account Management Institution to receive the redemption and interest payment on their behalf.
  - All Account Management Institutions that have relative issue recorded in Transfer Account Book shall be involved in redemption and interest payment operation. In book-entry transfer system, there shall no longer be designated redemption and interest payment office.





## 3.7 Redemption and Interest Payment

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- Interest shall be calculated by multiplying balance, interest rate and terms of interest calculation period, etc., not by summing up the amount of interest per bond certificate done in current procedure.
  - In practice, interest shall be calculated by multiplying balance and “amount of interest per one denomination” which Issuing and Paying Agent notifies to JASDEC.
- Relevant-parties shall pay the redemption and interest, calculated based on balance mentioned below:
  - Issuer → Paying Agent;  
The total issue amount of the applicable book-entry bonds
  - Paying Agent → JASDEC Participants;  
The amount of the applicable book-entry bonds in each Classified Account of each JASDEC Participant in JASDEC’s Transfer Account Book.
  - Account Management Institution → Bondholders;  
The amount of the applicable book-entry bonds in each account of the bondholder in the Transfer Account Book maintained by the Account Management Institution.
- All fractional numbers are rounded down.
- The difference occurred to Participants arising from calculation shall not be adjusted.
  - There is a possibility that a difference may occur in a case when fractional numbers arise in interest amount, depending on interest rate or terms of interest calculation period.



## 3.8 Redemption and Interest Payment

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- Interest for Special Rule Corporate Bonds, etc. shall be calculated based on the amount of interest per bond certificate defined before the transition, to eliminate the difference in interest amount due to the transition to book-entry bonds as possible.
  - For Single-unit certificate:  
Interest amount shall remain unchanged between before and after the transition.
  - For Multi-unit certificate:  
Interest amount shall be calculated based on certificate with the minimum value.  
→ There is a possibility that a difference may occur between before and after the transition due to fractional numbers in interest amount.
    - In case of issues which all fractional numbers are rounded down, no increase in interest payment for Issuers shall occur.
    - Issuers and bondholders shall participate in Book-Entry Transfer System for “Corporate Bonds” with acceptance of such handling regarding interest calculation and payment.

Example:

Interest Rate; 1% per annual    Terms of interest calculation period; 170/365 days

Issue which all fractional numbers are rounded down

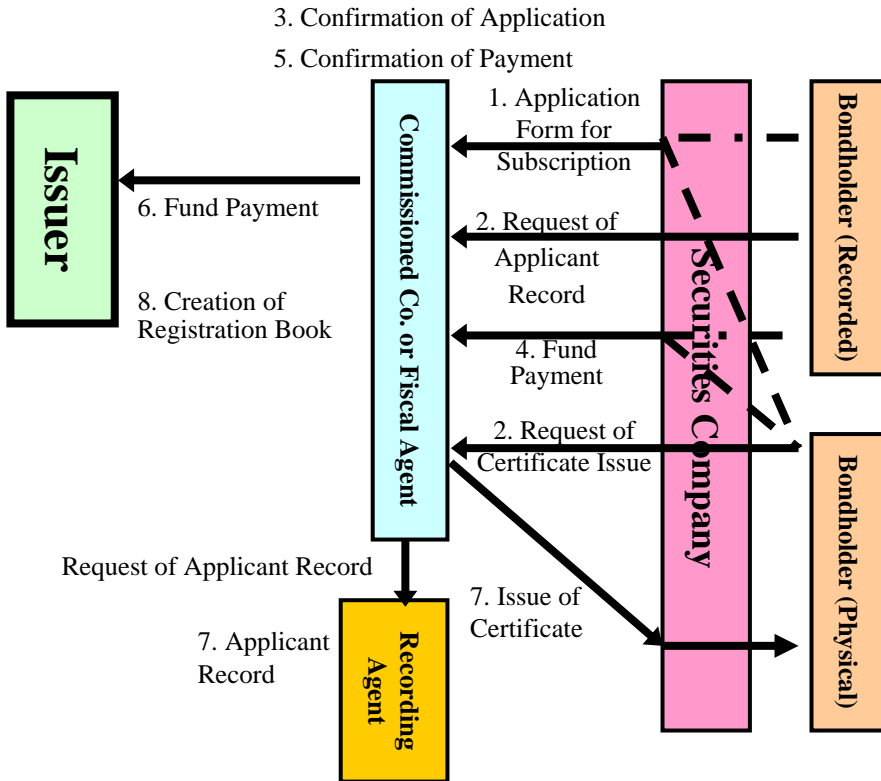
Bondholders with ten certificates of ¥ 1 million: **(before transition)** ¥46,570 **(after transition)** ¥46,570

Bondholders with one certificate of ¥10 million: **(before transition)** ¥46,575 **(after transition)** ¥46,570

### 3.9 New Issue

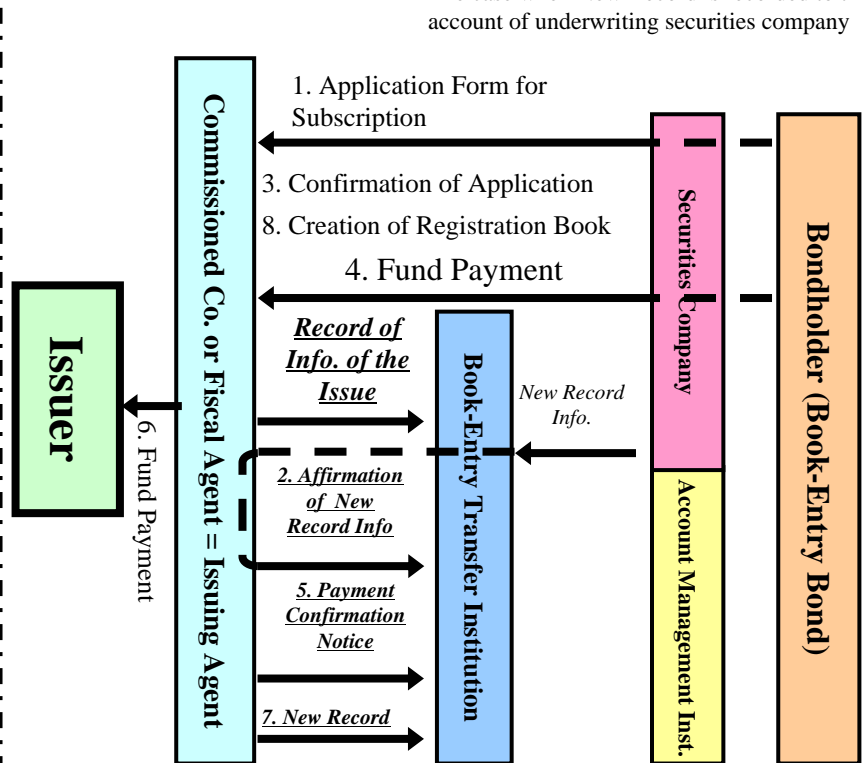
- Comparison between current procedure and book-entry transfer system

#### <Current Procedure>



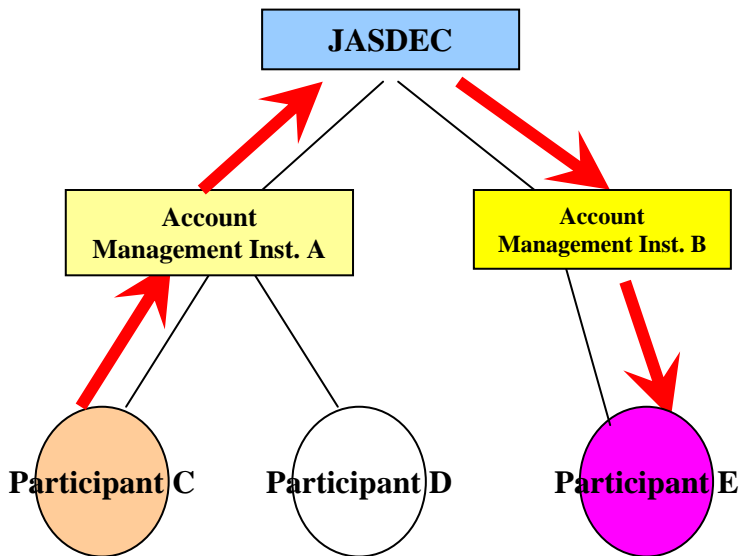
#### <Book-Entry Transfer System>

The case when New Record is recorded to the self account of underwriting securities company



### 3.10 Book-Entry Transfer

- **Procedures for transfer under book-entry transfer system are as follow:**
  - **Investors need to open an account at Account Management Institution (ex. securities companies/banks) in order to hold book-entry bonds.**
  - **Acceptance of collateral shall be made by transfer to recipient's self account.**



→ Route of information regarding book-entry transfer

#### <Book-Entry Transfer from Participant C to Participant E>

1. Participant C shall apply for the book-entry transfer of the issue to Account Management Institution A (the nearest upper-positioned institution).
2. Account Management Institution A shall record the decrease of the issue in the account of Participant C and report the transfer application of the issue to JASDEC (the nearest upper-positioned institution), because A is not the upper-positioned institution of Participant E.
3. JASDEC shall record the increase of the issue in the customer account of Account Management Institution B (the nearest upper-positioned institution of Participant E) and the decrease in the customer account of Account Management Institution A.
4. Account Management Institution B shall record the increase of the issue in the account of Participant E.



## Participation Procedures for

# Book-Entry Transfer System for “Corporate Bonds”

### 4.1 Submission of Consent Notice to JASDEC by Issuers, etc.

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- Following procedures are necessary for the Issuers to participate Book-Entry Transfer System for “Corporate Bonds”:
  - Submission of Consent Notice on handling of book-entry bonds and necessary forms to JASDEC by the Issuer.
  - Appointment of Issuing and Paying Agent.
  - Resolution or decision for application of the provisions of Law Concerning Book-Entry Transfer of Corporate Bonds, etc..
- Submission of Consent Notice (signed by the Representative of the Issuer) and Appointment Notice of Issuing and Paying Agent.
  - For corporate bonds issued by Japanese companies, the application of the Law Concerning Book-Entry Transfer of Corporate Bonds, etc. shall be made by the resolution at a meeting of the board of directors (No submission of board meeting minutes necessary).
  - For bonds other than corporate bonds issued by Japanese companies, **(such as bonds issued by governments and companies in foreign countries, i.e. Samurai Bonds and Shogun Bonds)**, the procedure of resolution or decision of the application of the provisions of the Law will be the same as the procedure of that of the new issuance.



## 4.2 Submission of Consent Notice to JASDEC by Issuers, etc.

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- Issuers with Issuer Code (numbered by Securities Identification Code Committee) may submit comprehensive Consent Notice regarding outstanding issued bonds and bonds that shall be issued in the future.
  - Above condition shall be applied to public companies, local governments, government corporations that issue public offering bonds, private companies that issue public offering bonds, foreign governments and foreign companies.
  - Issuers submit the Appointment Notice of Issuing and Paying Agent with Consent Notice. Issuers are able to appoint more than one Issuing and Paying Agent.
- Issuers with no Issuer Code submit Consent-Appointment Notice for every issue.
  - Above condition shall be applied to Issuers and vast majority of local government corporations that do not issue public offering bonds.
  - Combined Consent Notice is acceptable for issues with same issuing date.
  - Combined Consent Notice is also acceptable regardless of the day of issue for outstanding bonds.



### 4.3 Points to Remember

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- After submission of Consent Notice to JASDEC, all transactions regarding issuance, interest payment and redemption, etc. of book-entry bonds shall be made by Issuing and Paying Agent.
    - Information of the Special Rule Corporate Bonds, etc. shall be recorded in JASDEC by the end of March, 2006.
  - Reception of Consent Notice will start from September 2005, in order to accomplish smooth transition to book-entry bonds.
- \* Without consent to JASDEC from the Issuer, investors shall not be able to convert their recorded or physical bonds to book-entry bonds, even if they wish to do so.  
Issuers' cooperation to submit Consent Notice to JASDEC would be greatly appreciated.



## 5. Temporary Schedule

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- August - December, 2005
  - System Connection Test to JASDEC by Issuing and Paying Agents and JASDEC Participants (excluding Issuers)
- September 1- November 15, 2005
  - **Submission of Consent Notice to JASDEC (Procedures for Issuers)**
- January 10, 2006
  - Start of operation of Book-Entry Transfer System for “Corporate Bonds”
- April - November, 2006
  - Most of physical bonds will be converted to book-entry bonds
- November, 2006 - April, 2007 (until the end of October 2007 for some issues)
  - Almost all of recorded bonds will be converted to book-entry bonds
- January - December, 2007
  - Transition for recorded and physical bonds that are not converted during the above transition period



# About JASDEC

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- Date of Incorporation January 4, 2002
- Company Name Japan Securities Depository Center, Inc.
- Registered Head Office 1-1, Nihombashi Kayaba-cho 2-chome, Chuo-ku, Tokyo 103-0025, Japan
- Purpose
  1. Business relating to the custody of securities
  2. Business relating to the book-entry transfer of securities
  3. Business that the central securities depository is permitted to perform under the Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities (CSD Law)
  4. Business accompanying or related to the businesses mentioned in the preceding three items
- Capital ¥ 4.25 billion (Shareholders' equity ¥ 10.6 billion)
- Common Stock Issued 8,500 shares
- President and CEO Yoshinobu Takeuchi
- Number of Shareholders 193
  
- History
  - November 1984 CSD Law was enforced.
  - December 1984 Japan Securities Depository Center (JASDEC) was founded as a not-for-profit foundation.
  - October 1991 JASDEC began offering its depository services for stocks.
  - September 2001 JASDEC implemented the Pre-Settlement Matching System.
  - November 2001 JASDEC started handling of corporate convertible bonds.
  - June 2002 All central custody and book-entry transfer business were transferred to the new, incorporated entity and the former entity was dissolved.
- January 2003**
  - The Law Concerning Book-Entry Transfer of Corporate Bonds, etc. was enforced and JASDEC was designated as a Book-Entry Transfer Institution under the Law.**
  - March 2003 JASDEC inaugurated its Electronic Commercial Paper Book-Entry Transfer System.
  - June 2003 JASDEC established JASDEC DVP Clearing Corporation. (JDCC)
  - May 2004 JASDEC commenced DVP Settlement Services for non-exchange transaction deliveries, which JDCC undertakes.



## To Contact Us

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