

PRESIDENT'S MESSAGE

Overview

On June 17, 2002, the newly established the Japan Securities Depository Center, Inc. (JASDEC Inc.) took over all the businesses of Japan Securities Depository Center and started the operations on the same day. This resulted in a change of corporate governance and we intend to operate the businesses that meet and respond to the needs and requests of users appropriately and promptly and to increase of efficiency of the business management.

Looking back to fiscal 2001, great strides were made in the reform of securities settlement and clearing system in Japan. That year, we decided to change our corporate structure from a foundation to a stock corporation after ten years of operation as the Japan Securities Depository Center. In June 2001, the Law Concerning Book-Entry Transfer for Short-Term Corporate Bonds was formulated, and the CSD Law was amended to change the legal status of the central security depository.

In the wake of these legislative transformations, we have been pursuing appropriate measures to provide user-friendly securities settlement and clearing infrastructure and to strengthen the functions and security of the system.

Promoting the Greater Use of Depository Services

As of March 31, 2002, the number of shares in our custody reached 191.5 billion shares, or 53.5% of the total number of shares outstanding in Japan. With the custody balance of more than 50% of the outstanding shares, a long time target, we have been successfully reducing the cost of users, which encouraged more usage of our services by users.

In terms of public acceptance and infiltration of the depository services in Japan, however, we still lag behind some other countries where securities depository system have fully been developed and accepted. We intend to further reduce the users' cost to increase the amount of securities in custody by maintaining our promotion activities to individual investors as well as institutional investors through the newspapers, broadcasting and other media.



Reforming Securities Settlement System


It is a fundamental requirement to execute the delivery of securities and the payment of funds securely. In this respect, a delivery versus payment (DVP) system is one of the most important means to reduce the risks involved with settlement of securities transactions. We are now preparing to implement a DVP system for the settlement of non-exchange transaction deliveries. It is now scheduled to be implemented by the end of fiscal 2003, and we will facilitate our preparations including delineation of details of operational processing, setting up of our clearing subsidiary and development of necessary computer systems.

Demand to eliminate manual operations relating to securities transactions and to automate the entire process of the settlement of securities transactions has been growing stronger over the years. Introduction of an electronic straight-through processing (STP) is the key component for eliminating risks in manual operations and trimming the operational costs. Implementation of pre-settlement matching system (PSMS) is a step to introduce STP and PSMS has long been sought by the concerned parties who wish to automatically match the details of the large volume and value of trades by institutional investors.

In September 2001, after the two years of discussion and system development started in 1999, we launched the pre-settlement matching system, the 1st phase of the 1st stage for stock transactions by domestic institutional investors. Then, in February 2002, the 2nd phase of the 1st stage was implemented to include convertible bonds and other types of trades such as initial offerings, secondary offerings and the trades by non-resident. As PSMS is regarded as an important infrastructure to introduce STP as well as DVP in the future and to shorten the settlement cycles, we will be promoting and encouraging the market players to participate and further use PSMS.

In November 2001, we started to handle convertible bonds after the years of discussion. As of March 31, 2002, we held the convertible bonds with volume of ¥8,085.1 billion in our custody, which represented 88.8% of all convertible bonds in the market.

Furthermore, we started to handle the listed real estate investment trusts (REITs) and exchange traded funds (ETFs) when the stock exchanges introduced these securities in the market.



Responding to the strong requests from participants and issuers to expand the types of eligible securities to our operations, we have been discussing since January 2002 the operational procedures and the necessary system developments to initiate business operations for commercial papers (CPs) by the end of fiscal 2002. The implementation of the book-entry transfer system for CPs in dematerialized form is backed by the Law Concerning Book-Entry Transfer for Short-Term Corporate Bonds, which was formulated in June 2001.

As a next step, we have started to study the handling of corporate straight bonds and investment trust beneficiary securities both in dematerialized form.

Reducing Settlement Risks

When stock exchanges launched the DVP settlement system in May 2001, we upgraded the CPUs with the anticipation that relatively large part of the night batch processing of the book-entry transfers relating to the stock exchange trades would be largely shifted to the book-entry transfers on the settlement date on a real time basis. Additionally, we introduced storage facilities in May 2002 to greatly increase the operational capability to handle beneficial stockholder notification services.

Meanwhile, taking heed of the September 11th terrorist attacks in the U.S., we distributed to our participants the papers specifying the practical measures we will take in case of emergency. In April 2001, we conducted a training program based on the assumption that a disaster had occurred in Tokyo, and other training programs in February and March 2002, which were based on the scenario of a massive and long-time network failure resulting from system breakdown caused by the system software. More than 80 percent of our participants participated in those programs, attesting to their deep concern for risk management.

Furthermore, we have reviewed our security policy to strengthen the security of our overall business operations.

Reducing User Expenses

The number of shares in our custody has increased beyond our initial expectations. This enabled us to reduce custody fees twice in fiscal 2001. Also, we substantially discounted the transfer fees and depository fees for larger volumes, thereby alleviating users' financial burdens.

As more income was expected due to the continuing business expansion during the fiscal year, we rebated operational fees again this year. This resulted in a significant decline in our average custody fee rate after the rebate. We also introduced a declining fee schedule for large volumes for ETFs, the exchange traded funds.

At the beginning of fiscal 2002, we further reduced custody fees and extended additional scale in the declining fee schedule.

Responding to Globalization

Cross-border transactions in securities have been rapidly increasing following financial liberalization worldwide and technical innovations in the telecommunication and IT industries. Meanwhile, "Black Monday", market crash in 1987 highlighted the importance of risk management in securities settlement and improvement of efficiency of the settlement operations. Responding to the urgent needs of the market, global standards were proposed and well accepted to streamline securities settlement operations in each country. Some part of the securities settlement system in Japan is not fully in compliance with the global standards and there are more than few standing blocks to overcome. We are striving to provide satisfactory solutions to create our own securities settlement system that is fully in conformity with the global standards.

Shortening Settlement Cycles

At present, the securities transactions on the stock exchanges in Japan are settled on the third business day from the trade date, on T+3. Settlement on T+3 is now the global standards and some countries are trying to shorten the settlement cycles, T+2 or T+1. In order to create safe, convenient and globally competitive securities market, we are exerting our efforts to improve the infrastructure for the settlement of securities transactions, paving the way toward the shorter settlement cycles.

Summing up our business operations and strategies in fiscal 2001, we pledge to continue an in-depth study to meet the needs and requests from user participants and user customers by adding greater value to our securities depository system and by increasing the functions with the determination to accomplish the reform of the securities settlement and clearing system in Japan.

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Yoshinobu Takeuchi
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