

# FEATURE 1

## FEATURE 1

## Expansion of services



### ➤ Reform of the Securities Clearing and Settlement System

In fiscal 2001, great progress was made for the reform of securities settlement system in Japan, following the report in June 2000 by the First Subcommittee of the Financial System Council, entitled "Reformation Plans of Securities Settlement Systems in the 21st Century." Based on the report, discussion on the legal framework of securities system in the paperless environment was preceded effectively.

In June 2001, the Law Concerning Book-Entry Transfer for Short-Term Corporate Bonds was formulated for the issuance of commercial papers in a dematerialized form, and the Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities was amended to change the legal status of a central securities depository into a corporation.

Furthermore, the unified legislation of the issuance of corporate bonds, government bonds and beneficial certificates of investment trust, while the Registration Act for Corporate Bonds is to be terminated, was discussed, and the Law Concerning Book-Entry Transfer for Corporate Bonds was enacted in June 2002 by amending the Law Concerning Book-Entry Transfer for Short-Term Corporate Bonds. Along with this legislation, a clearing organization for securities transactions was legally defined in the Securities and Exchange Law.

Consequently, all the necessary legislations have been completed to issue all marketable securities on a book entry basis, including stock certificates. Issuance of stock certificates in a dematerialized form is under discussion for legislation in the future.

### ➤ Pre-Settlement Matching System

JASDEC has started the discussion on the implementation of the Pre-Settlement Matching System since the establishment of the Pre-Settlement Matching System Task Force in July 1999, and has effectively preceded the discussion and necessary system development. The 1st phase of 1st stage of PSMS for stock transactions by domestic institutional investors became operational in September 2001.

Subsequently in February 2002, PSMS was expanded to include convertible bonds and other types of trades such as initial offerings and secondary offerings as well as the trades by non-resident, when the 2nd phase of the 1st stage was implemented.

# FEATURE 1

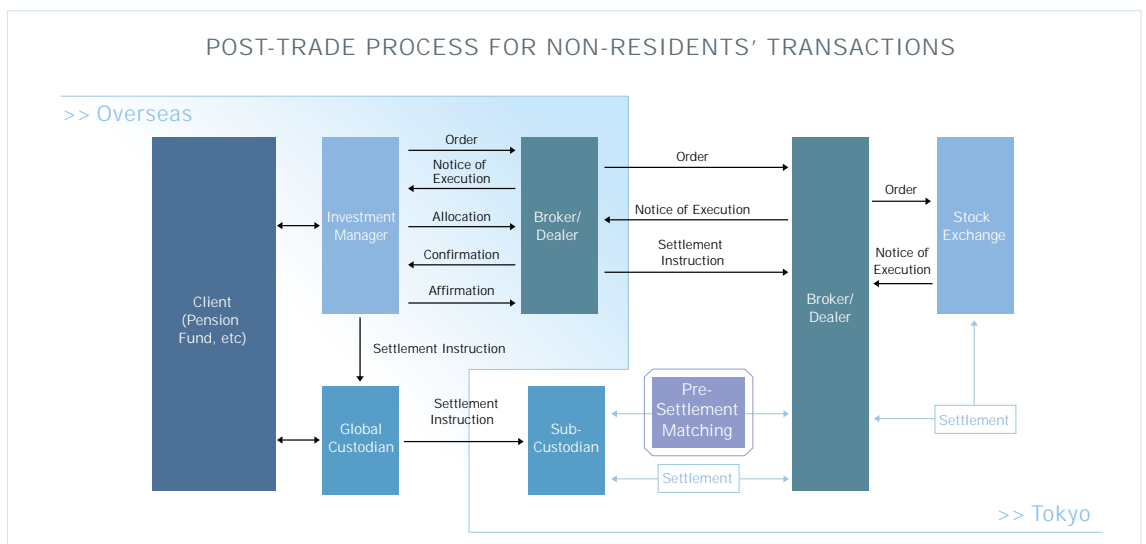
## ➤ Concept of Pre-Settlement Matching System

### 1) STP for the Securities Settlement Environment Typical in Japan

As long as the institutional transactions are concerned, it is quite common that the institutions that perform investments and the institutions that perform settlement are different entities not only in Japan but also in other countries. However, typical in Japan is that trust banks retain the rights and obligations for the confirmation of the investment. For this reason, PSMS was developed to realize the straight-through processing (STP) suitable to the specifics of the securities settlement environment in Japan.

### 2) Establishment of Japanese Standards in Conformity with Global Standards

Securities markets have been globalized so quickly. Until recently, securities settlement systems used to be constructed on the vernacular architecture of data syntax and codes, which can be only used in the domestic market, but settlement systems must be created in the future that incorporate the factor of connectivity to overseas counterparts. To achieve this, PSMS was developed based on ISO 15022 for data syntax, BIC for user and financial institution identification codes, and ISIN for securities identification codes.





### 3) Matching on Trade Date (T+0 Matching)

While PSMS was implemented under the T+3 environment, this aims to complete the matching of the trades on the trade date, T+0, to keep pace with the movement of securities industry to shorter settlement cycle, T+1.

We believe that completion of trade matching on T+0 will help increase the convenience for the investment trust management services. To be precise, open-end investment trust is required to calculate and announce the Net Asset Value (NAV) every day, which should be done accurately and promptly. The PSMS provides facilities to match the investment instruction data sent by investment trust companies and trade report data sent by securities companies on a real time basis, and then sends matched data to trust banks. This enables trust banks to smoothly and accurately calculate the NAV and match such NAV calculated by investment trust companies more quickly and accurately.

### 4) Connecting to DVP System

The discussion to implement a delivery versus payment settlement system for the trades other than the stock exchange transactions is now underway. When the DVP settlement system is implemented, the matched settlement instruction data in PSMS will automatically be sent to DVP settlement system, thereby completing the settlement process without any manual interventions.

### 5) Digitization and Dematerialization

Digitization of trade data and dematerialization or immobilization of securities is the prerequisite for bringing STP into operation. As a practical step for this development, an amendment to the Ordinance of the Cabinet Office was issued on October 1, 2001, which allows securities companies to send trade reports to their customers in the electronic or magnetic form through PSMS with the condition of agreement of customers.

## ➤ Expansion of PSMS

The 3rd phase of 1st stage of PSMS has been under development, so as to include the futures, options, government bonds and NAV for investment trusts, which is expected to be in operation in spring 2003.