

Japan Securities Depository Center, Inc.

FEATURE 2



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New businesses under development

Commercial Papers

The Law Concerning Book-Entry Transfer for Short-Term Corporate Bonds was formulated in June 2001 to respond to growing industry-wide requests for the creation of book-entry transfer system for short-term corporate bonds, namely commercial papers (CPs), in dematerialized form in Japan.

Following this legislation, the Committee for Reform of the Securities Clearing and Settlement System of the Japan Securities Dealers Association (JSDA) studied the feasibility of DVP settlement for CPs at the request of the Japan Business Federation (former Keidanren). JSDA asked JASDEC in December 2001 to study for achieving a Gross-Gross Type DVP system for CPs.

Responding to the participants' requests in the market, JASDEC set up the CP Working Group under the Committee for New Projects in January 2002 and started discussions to implement the system requested. In March 2002, JASDEC drew up the outline of book-entry transfer system for CPs and are now undertaking to draw up the operational scheme and develop the computer systems necessary to launch the system in 2003.

Two major characteristics have to be highlighted concerning the book-entry transfer system of CPs: realizing book-entry transfers in dematerialized form and implementing a Gross-Gross Type DVP system.

First, in this system, physical papers are not issued from issuance through redemption, and the right of the CP holders is recorded and transferred between the accounts of securities companies or banks opened at JASDEC. Investors, therefore, are required to open an account at such entities, while issuers are requested to provide JASDEC with a summary of the issuance and the names of the underwriters.

Second, a book-entry transfer of CPs at JASDEC can be connected with cash settlement at the Bank of Japan to achieve the settlement of CP trades on a DVP basis. Specifically, JASDEC temporarily records the amount of CPs to be delivered on the memorandum ledger until receiving the notice of fund transfer from the Bank of Japan, then, executes the book-entry transfer of such amount from the deliverer's account to the receiver's account.

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➤ Delivery versus Payment

Delivery versus Payment (DVP), a system for ensuring performance of security deliveries and fund payments, is essential for reducing settlement risks as well as promoting STP. JASDEC is working on an introduction of a DVP settlement system for non-exchange transaction deliveries, which are the significant part of the book-entry deliveries at JASDEC.

We plan to introduce a "Gross-Net" scheme. 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. The basic framework of our plan is modeled after the DVP system used by the Depository Trust & Clearing Corporation (DTCC) in the United States. We aim to build a risk management system that can compare to the best practices in the world.

The DVP system will be run by a JASDEC subsidiary (clearing organization). Under the system, the subsidiary will be the central counterparty for both deliverer and receiver through novation. If a DVP instruction satisfies all the conditions for executing DVP (executing conditions), securities subject to the delivery are delivered from the deliverer's account to the subsidiary's account. For each participant, all the payable amounts for receipts of securities and all the receivable amounts for deliveries of securities will be offset and the remaining balance will be paid to or received from the subsidiary. Securities to be received shall be delivered from the subsidiary's account to the receiver's account if the receiver fulfilled the payment.

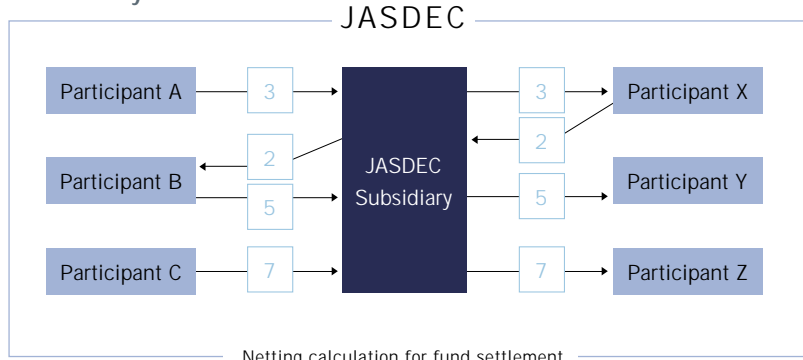
In case a DVP participant fails to make payment, the shortage of fund will be covered by the participant fund and borrowing from banks to minimize the systemic risk. To limit the size of such a default and to recover the fund applied to make up the default, net-debit cap and assurance asset will be set for each DVP participant.

The DVP system will be implemented by the end of March 2004. We are making efforts to implement the system as soon as possible by further discussing on the details of the scheme and taking the development of computer system into account.

DVP SYSTEM FOR NON- EXCHANGE TRANSACTION DELIVERIES

Gross-Net Type

>> Security Deliveries



Transfer of data to BOJ

>> Fund Payments

