



Yoshinobu Takeuchi  
President & CEO

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## INDISPENSABLE TO SECURITIES CLEARING AND SETTLEMENT SYSTEM REFORM

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### OVERVIEW

On June 17, 2002, JASDEC opened a new chapter in its corporate history with the commencement of services as a stock company. Through this transformation, we have gained the governance function of shareholders, which will increase management transparency and strengthen our financial position. We are now able to engage in strategic activities with greater flexibility, including the ability to diversify financial resources.

To more accurately address the needs of users under our new structure, we assembled a Board of Directors on which the majority of members are representatives from participant companies. We also established the Committee for Business Operations to ensure that comments from users are reflected in all aspects of our business activities.

Our transformation into a stock company has also afforded administrative merits, such as heightened awareness of the importance of cost reduction and improvement in operating efficiency.

It is our ongoing objective to provide users with an expedient securities clearing and settlement system. Toward this end, we have identified four goals—to promote securities clearing and settlement system reform; to encourage greater use of securities depository and book-entry transfer services; to reinforce operating systems and ensure security; and to reduce the cost burden on participants—and we have embarked on several strategic projects to ensure successful implementation of each goal.

As part of this effort, we began providing book-entry transfer services for commercial paper in March 2003, in accordance with the amended Law Concerning Book-Entry Transfer of

*JASDEC posted a corporate milestone, and Japan achieved steady progress in securities clearing and settlement system reform.*

Corporate and Other Debt Securities (Transfer of Corporate Debt Securities Law). Also in March 2003, we implemented the Securities Information Tracing System (SITRAS) for lost stock certificates, paralleling revision of the Commercial Code and the subsequent introduction of a registration system for lost stock certificates.

Furthermore, we launched an advertising campaign using newspapers, television and other media to encourage individual investors to utilize our securities depository and book-entry services.

As a result, the number of shares in custody topped 200 billion, settling at 203.1 billion, as of March 31, 2003. This represented 59.1% of all outstanding shares in Japan.

### THEMES IN THE REFORM OF JAPAN'S SECURITIES CLEARING AND SETTLEMENT SYSTEM

*Paralleling liberalization and globalization of financial markets, JASDEC has made risk control and higher efficiency in securities settlement its highest priorities.*

In recent years, we have taken to compiling the many recommendations and proposals for enhancing the safety and efficiency of securities clearing and settlement systems that have been issued by such international organizations as the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions (CPSS/IOSCO), the International Securities Services Association (ISSA); and the Group of Thirty (G30).

JASDEC fully supports these recommendations and advocates appropriate responses and implementation of required processes in Japan. We have been successful in many areas already, and we will strive to realize those areas still outstanding.

Of issues related to the securities clearing and settlement system that require attention in Japan, three are of particular importance.

The first issue is cost to users, in terms of both money and time, which arises because clearing and settlement functions are divided according to type of securities, such as stocks, government bonds, corporate bonds and investment trusts.

The second issue is realization of STP, viewed as the key to reducing settlement risks and curbing costs. Currently, the shift toward shorter settlement periods has become a worldwide trend. Already, many markets in Europe and Asia have adopted the T+2 cycle. A shorter settlement period is also preferred for Japan to make the market safer, more convenient and more competitive with overseas markets. The introduction of STP is indispensable to shorter settlement periods, but Japan lags behind other countries, especially in the establishment of an infrastructure for a delivery versus payment (DVP) settlement system for trades other than exchange trades, a crucial component of STP.

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**Straight-through processing (STP)** An electronic system with little or no human intervention for handling all trade-to-settlement processes involved in securities transactions.

The third issue is the standardization of trading data and the harmonization of communication protocols that will facilitate the processing of securities clearing and settlement following completion of securities transactions.

As Japan's central securities depository, JASDEC will aggressively tackle these issues from various approaches, including expansion of eligible securities and reform of the securities clearing and settlement system infrastructure.

## NEW BUSINESSES

In the area of eligible securities, in 2001 we expanded our depository services to include Real Estate Investment Trust (REIT) and Exchange Traded Fund (ETF) beneficiary certificates, as well as bonds with subscription warrants for new shares (convertible bonds). We further augmented the range of eligible securities in March 2003 with commercial paper issued in dematerialized form. We are also making headway in our preparations to handle corporate straight bonds and investment trust beneficiary certificates, both of which will be issued and traded in a paperless environment.

In September 2001, we launched the Pre-Settlement Matching System (PSMS), which functions as an important building block of the STP infrastructure. Since then, we have expanded the scope of applicable securities and trades. The first phase targeted stock transactions by domestic institutional investors. The second phase focused on trades by non-residents and trades on bonds with subscription warrants for new shares. In May 2003, we implemented the third and final phase of the first stage of the PSMS with the addition of a matching function for government bonds and exchange-traded futures and options.

The second stage of PSMS development is now under way. In this stage, we aim to connect to the DVP system for non-exchange transaction deliveries (NETD) that is scheduled to go online in May 2004. With the establishment of a clearing agency for government bonds, we are looking into the potential of a matching function used by the agency for government bonds and other securities.

In our effort to promote STP, we are pushing ahead with preparations geared toward implementation of the DVP system for NETD. To date, we have identified major points for processing, established a subsidiary to act as a clearing agency, and continued system development activities.

A revision of the Commercial Code has been broached that would lead to dematerialization of stocks in 2009. We are looking into the creation of an infrastructure that will facilitate the introduction of this new paperless system.

*Seeking to build a securities clearing and settlement system to international standards, JASDEC is aggressively tackling various issues.*

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[Pre-Settlement Matching System \(PSMS\)](#) Please refer to page 8.

[Delivery versus payment \(DVP\)](#) Please refer to page 8.

## USER-ORIENTED SERVICES

We have always endeavored to expand operations and cut costs to users through greater operating efficiency and steady fee reductions. Because profits were higher than initially anticipated for the term in review, we offered refunds to participants at the fiscal year-end. Comparing average custody fees in 1991, when we began operations, and today after the recent refund, we find that fees have dropped 94%. We plan additional reductions on fees, including custody, deposit and book-entry transfer fees, to lessen the cost burden carried by participants.


We utilized the opportunity afforded by our transformation into a stock company to reaffirm three business principles. The first is to ensure highly transparent business activities that place the users first and foremost. This principle has always been absolutely fundamental to our operations. The second is to provide capabilities on a par with overseas central securities depositories. The third is to extend highly reliable, cost-effective services.

*System fortification and security as well as reduced cost burdens are the most valued aspects of the services we provide to users.*

JASDEC will redouble its efforts to raise its deposit ratio and realize securities clearing and settlement system reform in Japan. Specifically, we will strive to pinpoint the needs of users, participants and investors with even greater accuracy, make the clearing and settlement system infra-

structure more user friendly, and further refine our capabilities.

On behalf of senior management and all the employees of JASDEC, I ask for the continued support of all parties that utilize and benefit from our operations, including shareholders, participants and issuers.



June 2003  
Yoshinobu Takeuchi  
President and CEO