



RAPID PROGRESS IN DEMATERIALIZATION

Domestic securities clearing and settlement reform has made progress toward the final goal: dematerialization of stock certificates. As the organization responsible for the infrastructure of securities clearing and settlement in Japan, the JASDEC Group is tackling several issues that will lead to the improved safety, efficiency and convenience of inherent systems.

TARGETS FOR 2009

MEDIUM-TERM THEMES

The JASDEC Group will concentrate on five themes over the next three fiscal years, but the No. 1 priority will be dematerialization of stock certificates.

PROGRESS IN DEMATERIALIZATION

Book-Entry Transfer System for Corporate Bonds In preparation for the start of a book-entry transfer system for Corporate Bonds* in January 2006, we are accepting consent notices from issuers, running a comprehensive connection test of the system, and designing procedures to ensure a smooth transition from outstanding issued bonds to book-entry transfer bonds.

* Eligible securities for Corporate Bonds are corporate bonds, municipal bonds, rights that should be represented on bond certificates issued by any government or by companies in foreign countries (excluding those with the characteristics of bonds with subscription rights), such as Samurai Bonds and Shogun Bonds.

Book-Entry Transfer System for Investment Trusts Working toward the implementation of a book-entry transfer system for investment trusts in January 2007, we are making headway in system development and exploring suitable approaches to ensure a smooth transition from existing paper certificates to a dematerialized system. Our perspective on exchange-traded funds (ETFs) is the same as that on the dematerialization of stock certificates.

Dematerialization of Stock Certificates To achieve dematerialization of stock certificates, we are exploring practical procedures and conversion techniques, in line with users' needs.

Book-Entry Transfer System for Dematerialized Commercial Paper To promote dematerialized commercial paper (CP), we will undertake enterprising promotional activities to raise recognition and use of the book-entry transfer system for dematerialized CP. We will also make improvements to the system by joint development with the book-entry transfer system for Corporate Bonds.

PROMOTING STP

We will expand the capacity of the PSMS to encompass contracts and settlement matching for Corporate Bonds and dematerialized CP.

RAISING NUMBER OF STOCK CERTIFICATES IN CUSTODY

We will undertake aggressive marketing campaigns, using the mass media and word of participants, to persuade more investors and issuers to grant us custody of stock certificates.

WIDER USE OF DVP SYSTEM FOR NETD

As we continue to survey and discuss the DVP system, we will strive to pinpoint suitable themes and then realize stated goals to establish and enhance the system and enrich service content.

STRENGTHEN GROUP CAPABILITIES

Medium- to Long-term Plan for Systems Seeking to build safe and efficient systems, we will formulate and implement medium- to long-term plans for systems geared to the dematerialization of stock certificates and the replacement of our account transfer system.

Reinforce Security Measures We will establish a structure to ensure uninterrupted operations in the event of an emergency and will redouble efforts to protect confidential information.

Stronger Ties with Overseas Counterparts JASDEC will foster closer ties to counterpart organizations abroad and create more opportunities for information exchange through to join the Asia Pacific CSD Group and CSD (International organization for CSDs).

FOR IMPLEMENTATION JANUARY 2006

BOOK-ENTRY TRANSFER SYSTEM FOR CORPORATE BONDS

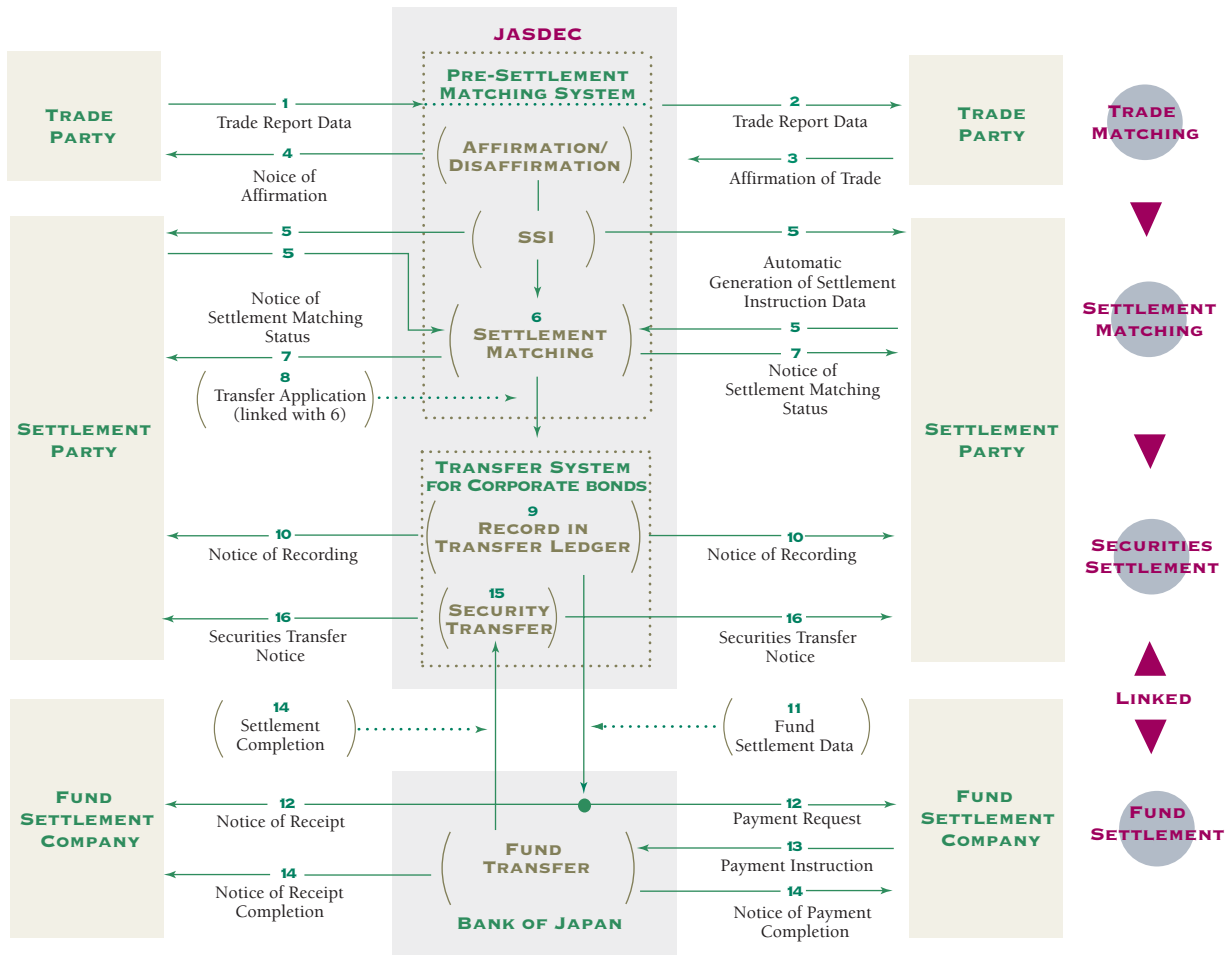
MAIN FEATURES OF THE SYSTEM

In Japan, the majority of Corporate Bonds transactions is settled by record being made in registration books maintained at registering agencies, which number 160. The fact that an estimated 10 million physical bonds are still in the custody of securities companies and financial institutions reflects the delay in the implementation of a settlement system for Corporate Bonds in Japan.

In January 2003, the introduction of the Law Concerning Development of Related Laws to Improve Securities Markets Through Reforms of Securities Settlement System facilitated the creation of a new settlement system for Corporate Bonds, etc. The completely paperless environment will require several changes: Corporate Bonds will be centralized at a single book-entry transfer institution; the custody procedures — from issuance to redemption, including transfers — will be revised, based on the management by balance recorded in a transfer account book. We also intend the implementation of DVP (gross-gross format known as BIS model 1) and STP by linking with PSMS.

Book-Entry Transfer System Based on Balance Management Under the prevailing registration system, registering agencies enter the denomination type and serial number as well as ownership in respective ledgers. Under the new book-entry system, transfer of ownership is executed by entering the net increase or decrease in the transfer account book, thereby expediting distribution.





Multi-Layer Holding Structure of Participation We are planning to diversify the forms of participation in the book-entry system to include participation through international connections. The multi-layer holding structure will be composed of book-entry transfer institutions, account management institutions and investors. Account management institutions are positioned in the multi-layer holding structure in order to facilitate flexibility of business development and to promote affiliation among international institutions.

Eligible Securities A variety of bonds are eligible (not including JGBs), regardless of whether the securities are public or private offerings. In addition, the system is flexibly designed and will accommodate floating-rate notes and foreign-currency-denominated bonds.*

- Corporate bonds
- Municipal bonds
- Specified Corporate Bonds prescribed in the Law Concerning Liquidization of Assets
- Rights that should be represented by bond certificates issued by companies under special law
- Rights that should be represented by bond certificates issued by any government or by companies in foreign countries (excluding those with the characteristics of bonds with subscription rights), such as Samurai Bonds and Shogun Bonds

*Notes:

1. Corporate bonds with subscription rights will become dematerialized when stocks are dematerialized.
2. Corporate bonds issued in overseas markets, such as Euro-yen Bonds are excluded from eligibility.



Smooth Transition of Outstanding Issued Bonds After the date determined by Cabinet Order (some time before January 5, 2008), the Law on Recording of Bonds, etc. will be abolished. Bonds will be issued either as book-entry transfer bonds, based on the new law, or physical bonds, based on the principles of the Commercial Code. Outstanding recorded bonds and physical bonds can be converted to book-entry transfer bonds by the consent of both issuer and investors.

From January 6, 2008, preferential tax treatment on interest income for such entities as tax-exempt corporations will be applied only to book-entry transfer bonds. Recorded bonds and physical bonds will no longer be eligible for preferential tax treatment. JASDEC will continue its efforts to promote book-entry transfer bonds.

FOR IMPLEMENTATION JANUARY 2007

BOOK-ENTRY TRANSFER SYSTEM FOR INVESTMENT TRUSTS

INVESTMENT TRUST MARKET IN JAPAN

Investment trusts were traditionally securities-style savings products for individual investors. But recently, investment trusts have attracted the attention of corporations seeking new approaches to fund management as well as products suitable for the Japanese version of the 401K retirement plans established in the United States. According to the Investment Trusts Association of Japan, net investment trust assets reached ¥59.3 trillion, as of March 31, 2005, substantiating the rising importance and growing prevalence of these financial products in Japan.

System Summary JASDEC aims to implement a book-entry transfer system for investment trusts, like those for CP and Corporate Bonds, in January 2007. With this system, subscription, transfer and redemption of beneficiary rights following the establishment, transfer and cancellation of investment trusts will be recorded in the transfer account book.

Book entry will ensure safety and efficiency in the settlement of investment trusts and support further growth of the investment trust market in Japan. In addition, dematerialization will eliminate paper-based beneficiary certificates, which are required under the current system, and thereby streamline administrative processes.



Advantages of the System The implementation of the book-entry transfer system for investment trusts should generate the following advantages.

- Lower administrative costs pertaining to the issue and certification of material beneficiary certificates.
- No more stamp duties charged when beneficiary certificates are issued.
- Reduced costs related to conveying and safekeeping certificates.
- A drop in various administrative and custodial costs that comes with the material existence of beneficiary certificates, including administrative costs for entering and maintaining beneficiary certificate ledgers as well as costs incurred to reconcile balances, enter denominations and void certifications at redemption.
- No risk of certificates being lost, stolen or counterfeited.
- Standardized, safer, more efficient settlement systems — such as STP, DVP settlement and smooth cash transactions — for subscription, partial redemption at maturity and transfer.

Eligible Certificates This book-entry transfer system for investment trusts will extend to beneficiary rights recognized under the Investment Trust and Investment Corporation Act but will not initially cover those foreign investment trusts established overseas or mother funds.*

Moving toward Implementation To facilitate the January 2007 implementation of the book-entry transfer system for investment trusts, JASDEC issued the Outline of Book-Entry Transfer System for Investment Trusts in September 2004, which describes the basic framework of the system, and the System Operation Outline for Investment Trusts in January 2005, which summarizes the processes involved. We will continue to explore the details of practical application and system development.

*Note:

Exchange-traded funds (ETFs) are different from other investment trusts. JASDEC's basic stance on ETFs, in the event settlement is carried out by the same procedures applied to stocks, is to use the same system platform used for stocks, and to pursue further improvements consistent with those applied to the book-entry transfer system for stocks.

FOR IMPLEMENTATION JUNE 2009

DEMATERIALIZATION OF STOCK CERTIFICATES

DEMATERIALIZATION OF STOCK CERTIFICATES IN JAPAN

The June 2004 promulgation of the Stock Settlement Rationalization Law — a law for partial amendment of the Law concerning Book-entry Transfer of Corporate Bonds and other securities for the purpose of streamlining the settlement for trades of stocks and other securities — enabled publicly held companies to eliminate stock certificates by stating in their articles of incorporation that they do not issue stock certificates. All listed companies will become non-stock-issuing companies, effective on a day within five years from the date (June 9, 2004) on which the Stock Settlement Rationalization Law was announced and as determined by government ordinance.

BASIC FORMAT OF NEW SYSTEM

The basic structure is as follows:

- Under the new book-entry transfer system, the attribution of ownership on stocks (shares in custody) will be made by entry into the transfer account book. The transfer of shares in custody will be executed by account transfer.
- Twice a year, in principle, the central securities depository — namely, JASDEC — will inform issuers of shares in custody about shareholders (general shareholders' notification), based on entries in the transfer account book. This service is similar to the one for beneficial shareholder notification under the current system in Japan, but it differs in that issuers can, if the cause is justified, request the central securities depository to issue a general shareholders' notification whenever necessary.
- Issuers draw up beneficial shareholder lists based on general shareholders' notification data. Under the prevailing securities custody and book-entry transfer system, stock certificates in the custody of the central securities depository are listed in the shareholders' register in the name of the central securities depository while actual shareholders are named in the beneficial shareholders' register. But under the new system, ownership information will be consolidated, with the names of actual shareholders recorded in the shareholders' registry .
- When issuers undertake stock-issuing activities, such as stock splits, bonus issues and mergers, the record of shareholders' accounts is automatically revised through procedures executed by the issuer and the central securities depository as well as the account management institution.
- When minority shareholders and single-unit shareholders wish to exercise rights on shares in custody, they must submit to their respective account management institution an application notifying the issuer of the data in the account transfer book. The central securities depository will then inform the issuer (specific shareholder notification) and within a specified period thereafter will prompt the issuer to exercise its rights.
- With justifiable cause, an issuer can request the central securities depository or an account management institution to provide information pertaining to items recorded in the account transfer book.

Future Tasks The Financial Services Agency began meetings in August 2004 to discuss governmental and ministerial ordinances related to dematerialization of stock certificates. To facilitate the establishment of practices and systems for this purpose, JASDEC will address the following tasks.

- Standardize information among the central securities depository, account management institutions, issuers and transfer agents.
- Establish a data center where the collection of actual shareholders' names can be consolidated in one place.



- Prompt shareholder responses by issuers, transfer agents and account management institutions and the central securities depository.
- Eliminate beneficial shareholder form and seal impression form.
- Create a more realistic and understandable fee structure for services provided.

IMPLEMENTED MARCH 2003

BOOK-ENTRY TRANSFER SYSTEM FOR DEMATERIALIZED CP

MAIN FEATURES OF THE SYSTEM

Dematerialized Format CP in the conventional paper form, or paper-based CP, is prepared in certificates, and these certificates must be delivered or presented to the assigned holder at settlement. In comparison, JASDEC's system totally dematerializes CP and records systematically the issuance, transfer and deletion in the transfer account book. Initially, the system handled only dematerialized CP issued by domestic companies, but from April 2004, the system has accepted dematerialized Samurai CP as well.

DVP Settlement JASDEC's book-entry transfer system for CP uses DVP (gross-gross format known as BIS model 1) settlement, linked to the Bank of Japan system. This system shortens the settlement period, removes the risks inherent in transporting certificates and eliminates the cost of custody — which were all drawbacks of the paper-based form — and makes settlement safer and more efficient.

Because requests for CP transfers are executed electronically, the settlement period could be shortened to T+0, essentially the same day a trade is initiated.

Furthermore, paper-based CP is subject to restrictions regarding circulation, since the stamp duty charged on each certificate encourages Issuers to cut the burden of cost by issuing large-denomination certificates. Dematerialized CP is not hampered by such restrictions, allowing issuance and circulation in smaller denominations, and thus providing greater investment flexibility.

Coinciding with the development of the book-entry transfer system for Corporate Bonds, JASDEC will work on enabling direct connection to users' mainframe computers, linking functionality with the PSMS and introducing a security queue function to ensure sufficient capacity to handle the growing CP market.

Note: Transaction results for fiscal 2004 are detailed on page18

