

We are aggressively working to create the book-entry transfer systems of an enhanced securities clearing and settlement infrastructure in Japan.

“WE ARE FULLY AWARE OF OUR SOCIAL RESPONSIBILITIES AND WILL STRIVE TO REINFORCE OUR BUSINESS FOUNDATION.”

To date, the JASDEC Group has approached system reform with three key developments in mind. The first is to reinforce corporate governance. The second is to promote wider use of DVP as a means of minimizing principal risk in clearing and settlement operations and our matching system as the cornerstone of STP. And the third is to expand the range of eligible securities accepted and to promote dematerialization thereof.

Four years ago, in a bid to achieve a level of corporate governance more appropriate to a central securities depository, JASDEC shed its status as a not-for-profit foundation and became a stock company with participating companies as shareholders. We continue to pursue business activities that put users before all else.

“THE PURSUIT OF SAFETY, EFFICIENCY AND CONVENIENCE IN SECURITIES CLEARING AND SETTLEMENT IS AN ENDURING THEME.”

To reduce principal risk, we introduced a DVP settlement system for NETDs in May 2004 and simultaneously linked it with PSMS. Currently, clearing and settlement through this system accounts for nearly 60% of all book-entry transfers for NETDs, and participants regard the system as an important clearing and settlement tool.

We launched PSMS five years ago, and since then we have gradually expanded the range of products to which this function is applied. In February 2005, we

added a pre-settlement matching function for domestic government bond repos and *gensaki* on the premise of assumption of obligations by the Japan Government Bond Clearing Corporation, and in January 2006, we began providing a pre-settlement matching function for Corporate Bonds and CP.

“DEMATERIALIZATION OF STOCK CERTIFICATES WILL MARK THE FINAL STAGE OF REFORM.”

We seek to widen the scope of our business activities and better meet the expectations of users. Toward this end, we have endeavored to broaden the range of eligible securities we accept and, through advertisements in newspapers, television and other media, have worked to boost our custody ratio.

We have witnessed a dramatic rise in the volume of transactions handled by the book-entry transfer system for CP, which became operational in March 2003. To enhance convenience to users still further, we upgraded this system in conjunction with the start of the book-entry transfer system for Corporate Bonds.

The book-entry transfer system for Corporate Bonds was a noteworthy development in fiscal 2005, ended March 31, 2006. The system's application to newly issued bonds has steadily increased since it debuted in January 2006, and we expect a considerable amount of outstanding physical bonds and recorded bonds to undergo transition in fiscal 2006. In April, we launched a book-entry transfer system for foreign stocks.

*‘Toward the Final Stage of Domestic Securities
and Settlement System Reform’*

The book-entry transfer system for investment trusts will be launched in January 2007. As we pursue development of this system, we are promoting measures that will ensure the smooth conversion of existing physical certificates to dematerialized form.

For stocks—the last certificates to be dematerialized—we expect to have a book-entry transfer system in place by January 2009. We have already determined an outline and are now working to achieve system development within the desired timeframe.

The custody ratio under the prevailing system is well into the 80-percentile range, but it should be higher to facilitate conversion of paper stocks into dematerialized form. To achieve this task, we must promote greater awareness of book-entry services among issuers, brokers and investors.

At the same time, to ensure system security in line with the concentration of marketable securities and their conversion to dematerialized form is an issue of increasing priority. With the Bank for International Settlements’ Lamfalussy Standards in mind, we established a backup center already back in September 2000 to secure our systems. To reinforce information system management still further, we formulated our own security policy, based on such international standards as BS ISO/IEC17799 for information security management. In addition, we maintain a personal information protection policy to ensure that private data is handled appropriately.

In recent years, we have emphasized international activities, substantiated by our role in hosting the



9th General Meeting of the Asia-Pacific CSD Group (ACG) in Tokyo in November 2005. Looking ahead, we will join Korea Securities Depository and Taiwan Securities Central Depository Co., Ltd., in hosting the 9th Conference of Central Securities Depositories in Seoul, South Korea, in April 2007. In addition to these events, we sign memorandums of understanding with overseas central securities depositories, and will continue to promote greater harmonization with our counterparts abroad.

The JASDEC Group upholds management policies designed to ensure highly transparent business activities that place system users before all else and to provide services that are secure and exceedingly cost-efficient. These efforts will lead to higher custody ratios within the Group and accelerate securities clearing and settlement reform in Japan.

On behalf of the Board of Directors and employees of JASDEC, I ask for the continued support of our users, participants and investors as we work toward our goals.

June 2006

Yoshinobu Takeuchi

Yoshinobu Takeuchi
President and Chief Executive Officer