

## PRINCIPAL POLICY ON CORPORATE GOVERNANCE

As Japan's only central securities depository, JASDEC has a social obligation to adhere to a basic management responsibility that hinges on the creation of a highly secure, efficient and convenient securities clearing and settlement infrastructure.

Consequently, our principal policy on corporate governance requires us to undertake business activities that satisfy the wide-ranging needs of clients who utilize the Group's systems, from participants—securities companies, financial institutions and other users of our book-entry transfer services—to investors, and to ensure that these activities are highly transparent and characterized by fairness and integrity. Moreover, as the organization responsible for the infrastructure of securities clearing and settlement in Japan, we must earn and uphold a solid reputation for reliability.

## STATUS OF POLICY IMPLEMENTATION

### MANAGEMENT STRUCTURE AND OTHER CORPORATE GOVERNANCE SYSTEMS TO FACILITATE EXECUTIVE DECISION-MAKING, THE EXECUTION OF OPERATIONS AND THE IMPLEMENTATION OF AUDITS

#### CORPORATE STRUCTURES

**BOARD OF DIRECTORS** The Board of Directors comprises 18 members. A key requirement of the Board of Directors is to demonstrate a suitably balanced approach to business, guided by wide-ranging perspectives, including user-oriented views as well as business-oriented ideas on preserving operational neutrality and impartiality. To fully reflect the opinions of users in our business activities and to ensure discussions based on fairness and integrity, 10 of the 13 external directors are selected from eligible participants in the Company, and the remaining three external directors belong to a stock-issuing company, academia and the legal profession. Through such a functional system, all directors can be evaluated against their effectiveness in executing their respective duties.

In principle, the Board meets once a month to decide basic management policies.

**BOARD OF AUDITORS** JASDEC maintains a corporate auditor system. As of publication of the annual report, the Board of Auditors comprises three members, two of whom are selected from eligible participants—one each from a securities firm and a financial institution—and all three auditors, including the standing auditor, are external auditors, in accordance with prevailing legislation.

The Board of Auditors meets once a month. However, in line with auditing plans and the direction established by the Board of Auditors, auditors will also attend important meetings, including those of the Board of Directors, and will execute audits of directors by assessing the status of services and assets to ascertain the effectiveness of directors in executing respective duties.

**ADDITIONAL COMMITTEES** To accurately reflect the needs of system users in our operations, we established the Committee for Business Operations as a unit independent from other corporate structures, such as the Board of Directors. This committee addresses pertinent issues related to the business of the Company, based on queries from the Board of Directors, and assigns topics to the eight subcommittees under its control.

These subcommittees are responsible for a specific segment of operations and each comprises members who are actually involved in these operations. JASDEC applies results raised by each subcommittee to various operational issues that will facilitate early realization of securities clearing and settlement system reform in Japan.

To foster greater operational transparency, JASDEC, when appropriate, posts summaries of these discussions and other information on its web site and on the book-entry portal for participants.

As a key instrument in the infrastructural development of the securities market, we strive for an extremely high level of fairness and integrity in our activities. To this end, we established the Advisory Committee, which enables the president to see the bigger picture regarding the administration of a securities clear-

ing and settlement system by accessing the extensive knowledge of experts in financial and securities systems.

JASDEC DVP Clearing Corporation (JDCC), a wholly owned subsidiary, maintains a business philosophy similar to that of JASDEC. JDCC set up the Committee for DVP Operations to study pertinent issues regarding operations and works to reflect the needs of users of the DVP settlement system for NETDs in its services. In addition, the company provides JASDEC's Board of Directors with updates on issues deemed pertinent by its own Board of Directors to ensure consistency in the activities of the two companies.

A summary of other corporate governance systems and the business structure at JASDEC is presented below.

#### **RISK MANAGEMENT SYSTEM**

The business activities of JASDEC will be further concentrated in accordance with the expansion of the scope of certain operations, and, in order to mitigate the influence of further manifestation of business-related risk in specific areas, we must make our risk management system more efficient and well structured.

As the pillar of Japan's securities clearing and settlement infrastructure, we are pushing ahead with the implementation of a companywide risk management system that includes the establishment of a risk management committee, chaired by the president, as well as the execution of system audits and the development of a business continuity plan (BCP) for use in times of emergency.

#### **INTERNAL CONTROLS AND AUDITS BY CORPORATE AUDITORS AND THE ACCOUNTING FIRM**

JASDEC's internal controls include reports to the Board of Directors, as necessary, that describe the activities of the Risk Management Committee, which regularly monitors the status of all types of risk. Reports are also prepared on the status of improvements and progress related to risk management and other aspects of risk management within the Company.

In regard to audits by corporate auditors, the standing auditor routinely attends important meetings, such as those of the Board of Directors and the Executive Committee, comprising managing directors, and examines internal documents requiring executive approval. The standing auditor will also perform audits, in accordance with auditing plans and policies established by the Board of Auditors, and provide the other corporate auditors with updates on the progress of such activities at the meeting of corporate auditors, which is scheduled to take place monthly.

Non-standing auditors attend Board of Directors' meetings and check on the status of duties executed by directors. They also assess the level of duties executed by directors, based on several sources, including updates from the standing auditor on auditing activities.

JASDEC assigns staff specifically to assist corporate auditors in their audits.

Corporate auditors also investigate accounting audits in close cooperation with the Company's accounting firm. This effort includes hearing reports from accounting auditors on auditing plans and the results of audits.

The certified public accountants who execute our accounting audits are Hiroyuki Yamasaki and Tsutomu Nobuta (designated partners under Article 34-10-4 of the Certified Public Accountant Law). They are employed by ChuoAoyama PricewaterhouseCoopers and execute accounting audits, including checks of financial documents, based on Article 2-1 of the old Law of Exceptional Provisions to the Commercial Code Concerning the Audit, etc., of Stock Companies. Mr. Yamasaki and Mr. Nobuta have audited JASDEC's accounts for five consecutive years and one year, respectively.

Five certified public accountants and five junior accountants help with accounting audit procedures.

No items of particular regard, such as serious irregularities or instances of illegal behavior, have been found.