

Our Basic Policy on Corporate Governance

As Japan's only central securities depository, JASDEC basically operates its business with a social obligation to provide a highly secure, efficient, and convenient infrastructure for securities clearing and settlement. Our principal policy on corporate governance requires us to ensure that our systems meet the wide-ranging needs of our clients, which include participants (securities companies, banks, and other users of our book-entry

transfer services) and investors. We also make sure that our activities promote highly corporate transparency and that our business operates with fairness and accountability, in line with the public needs of our function. As an organization responsible for creating and operating infrastructure of securities clearing and settlement in Japan, we strive to earn and maintain a solid reputation for reliability.

Overview of implementation of corporate governance practices

Framework for management structure and corporate governance to exercise business judgements, manage operations and implement audits

■ Corporate Structure

Board of Directors The Board of Directors comprises 19 members and is basically structured to achieve a balanced approach to business with user-oriented views, as well as business-oriented ideas on maintaining operational neutrality and fairness. To fully reflect the opinions of users in our operations, ten of the 14 external directors are selected from JASDEC participants. The remaining four external directors belong to issuing companies and related organization, academia and the legal profession.

In principle, the Board meets once a month to decide basic management policies and discuss other key issues.

Board of Auditors JASDEC has adopted a corporate auditor system, as stipulated in Companies Act. The Board of Auditors is made up of three auditors, two of whom are selected from eligible participants (one each from a securities company and a bank) and all three (including an auditor who is serving on a full-time basis) are external auditors.

The Board of Auditors has a regular meeting each month. In line with auditing plans and the basic policies established by the Board of Auditors, auditors also attend important meetings, including those of the Board of Directors and will perform audits of directors by assessing the status of services and assets to ascertain the validity and reliability of directors in executing their respective responsibilities.

To ensure that audits are effective, auditors are working closely with directors, through communications including meeting with the representative directors.

Business Operational Committees To fully reflect the needs of system users in our operations, the Board of Directors established the Business Operational Committee. The Committee independently examines important issues related to the business of JASDEC, based on queries from the Board of Directors, and has eight subcommittees under its control.

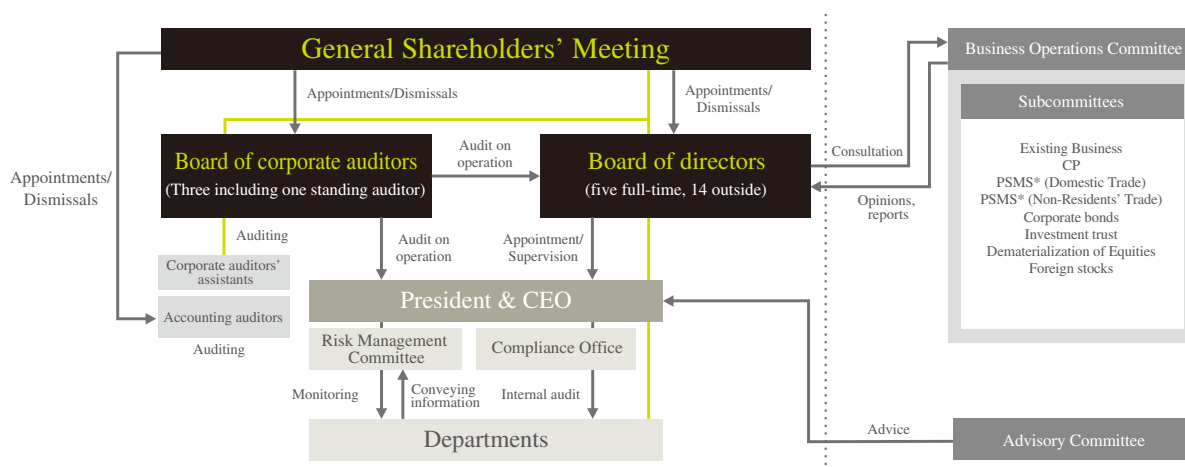
Each subcommittee is responsible for a specific segment of operations, and comprises members who are actually involved in the field. JASDEC applies the opinions provided by each subcommittee to various operational issues that will facilitate early realization of securities clearing and settlement system reform in Japan. JASDEC properly posts summaries of discussions and other information by the committees on its website to foster greater operational transparency.

As a key infrastructure for the securities market, we are increasingly focusing on an extremely high level of fairness and accountability in our activities. To achieve this end, we established the Advisory Committee, which comprises experts in financial and securities systems. The committee advises JASDEC's president from a broaden perspective about wide-ranging issues of securities clearing and settlement system operations.

JASDEC DVP Clearing Corporation (JDCC), JASDEC's wholly-owned subsidiary, maintains a business philosophy similar to that of JASDEC. JDCC has also set up a committee for reviewing important issues regarding DVP operations to reflect the needs of users of the DVP settlement system for NETDs. In addition, JASDEC's Board of Directors received reports regarding issues decided by JDCC's Board of Directors to ensure consistency in the activities of the two companies.

An outline of JADSEC's management structure and corporate governance systems is presented next page.

Overview of JASDEC's Management Structure and Corporate Governance Framework



Risk Management System

JASDEC has set up a Risk Management Committee, chaired by the president. It promotes to strengthen overall risk management, and regularly monitors internal control systems for various risks.

Internal Audits, Corporate Audits, and Accounting Audits

JASDEC established the Compliance Office and is steadily reinforcing its internal audit by practical survey based on the audit plan to ascertain the validity of business operations. For corporate audits, standing auditor routinely attends important meetings, such as those of the Board of Directors and the Executive Committee (comprising managing directors) and examines circulars intended to get approvals of decisions by persons in charge. The standing auditor performs audits in accordance with the auditing plans established by the Board of Auditors, and reports other corporate auditors with updates on the progress of auditing activities at the meeting of corporate auditors, which is scheduled to take place monthly.

Auditors serving on a part-time basis attend Board of Directors' meetings and check the responsibilities carried out by directors. They also assess the legality by reviewing reports from the full-time auditor on auditing activities.

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

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

JASDEC has two certified public accountants who perform accounting audits for JASDEC in the capacity of accounting auditor under Companies Act: Yohei Kishi and Naoto Saito (designated partners under Article 34,

Paragraph 10-4 of the Certified Public Accountant Law). They are employed by Ernst & Young ShinNihon, a member firm of Ernst & Young Global, and execute accounting audits, including checks of financial documents, based on the Companies Act. Mr. Kishi and Mr. Saito are assisted in their accounting audit by seven certified public accountants and 13 others (junior accountants and other assistants).

We recognize that no items of particular regard, such as serious irregularities or instances of illegal behavior, have been found through the execution of accounting audits.

Directors' and Corporate Auditors' Limit of Liability

To fully demonstrate the skills involved in successfully executing the responsibilities of directors and corporate auditors, and to retain top-level professionals, limits have been set on liability for damages incurred by directors and corporate auditors.

Resolutions on Election/Dismissal of Directors

The election of directors by resolution at the general meeting of shareholders is conducted in the presence of shareholders representing no less than one-third of voting rights held by eligible shareholders, and directors are elected by a majority vote of said shareholders.

The dismissal of directors by resolution at a general meeting of shareholders is conducted in the presence of shareholders representing no less than one-third of voting rights held by eligible shareholders, and directors are dismissed on a vote of no less than two-thirds of voting rights held by said shareholders.