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Leading the Way to the Future

Special Feature

The Dematerialization of Stock Certificates

A New Era Begins for Stock Trading

In January 2009, a new Book-entry Transfer System for Stocks, etc. (hereinafter referred as to “the new system”) started. Under the new system, stock certificates of all outstanding shares listed on Japanese stock exchanges were dematerialized and converted to electronic records. It replaced the depository and book-entry transfer system (hereinafter referred as to “the former system”) that has supported the settlement of securities transactions in Japan since 1991. This change is referred to as the dematerialization of stock certificates.

It is now approximately five years since the promulgation of “the Law for Partial Amendments to the Law Concerning Book-Entry Transfer for Corporate Bonds and Other Securities for the Purpose of Streamlining the Settlement for Trades of Stocks and Other Securities” in 2004, which required the replacement of paper stock certificates with electronic records. During these years, JASDEC promoted the preparation of an orderly transition to the new system in cooperation with related parties. We continued to upgrade our business functions, including improved efficiency of administrative work and service enhancements in the former system. Meanwhile, the Subcommittee for Dematerialization of Stock Certificates was set up to review practical transition procedures to the new system, and JASDEC formulated plans for the new system, set up procedures for administrative transactions, conducted system development as well as operational tests, and requested shareholders to promptly deposit their stock certificates with JASDEC. As a result of these efforts, a smooth transition to the new system was successfully accomplished.

The dematerialization of stock certificates will help bring greater security, usability and efficiency to the Japanese stock market. In addition, with recent increased cross-border trading, it will make the market more attractive and reliable for overseas investors and participants to invest in, and strengthen Japan’s international competitive position.

In this special-feature article, we give an overview of the new system, and explain the benefits of the electronic record-keeping system.

○ An Overview of Dematerialized Book-Entry Transfer System for Stocks, etc.

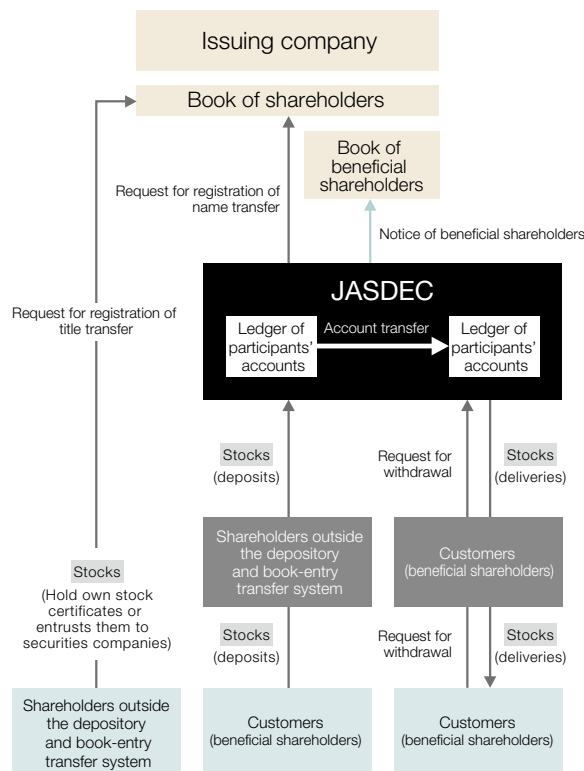
Under the new dematerialized Book-entry Transfer System for Stocks, etc., paper stock certificates issued by all Japanese companies listed on Japanese stock exchanges were abolished and became invalid. They have been replaced by electronic records registered and managed by computer systems within accounts opened at JASDEC or account management institutions (AMIs) such as securities companies and banks. Instead of stock certificates, records in computer systems represent share ownership. Transfer of shareholders' rights is also processed electronically based on the records in the accounts. This dematerialization system applies not only to stock certificates, but also to share options, bonds with share

option, investment units, preferred equity investments, and Exchange Traded Funds (ETFs).

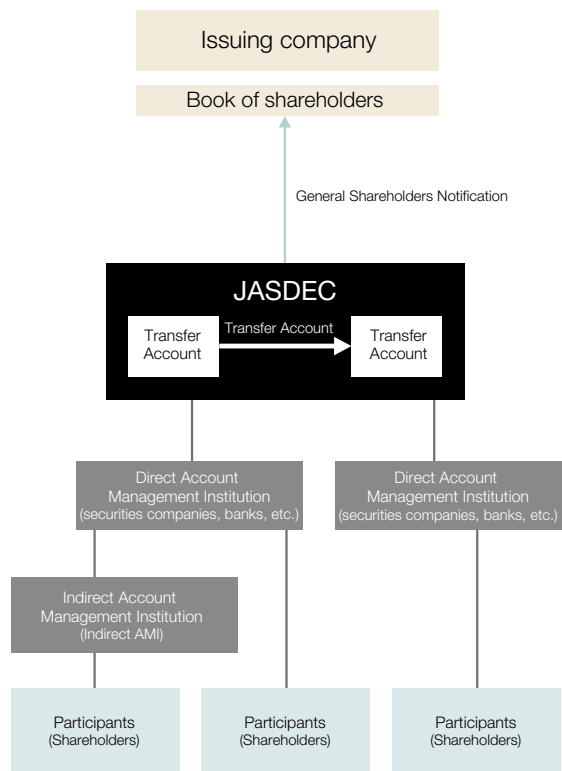
When starting the new system on January 5, 2009 (hereinafter referred to as the "enforcement date"), the total number of issues handled was 3,986.* The number of companies participating in the new system, including JASDEC participants, indirect AMIs and fund settlement corporations, was 420. Under the new system, foreign financial institutions designated by competent ministers can also take part in the system. As of the enforcement date, 21 foreign financial institutions were participating as indirect AMIs.

* Excluding Exchange Traded Funds (ETFs) for which JASDEC's Book-entry Transfer System was implemented in January 2008.

Former Depository and Book-Entry Transfer System



New Dematerialized Book-Entry Transfer System



○ The Main Benefits of Dematerialization

Elimination of Paper Certificates Reduces Costs and Risks

The dematerialization of stock certificates, etc. offers a number of benefits for all related parties, including issuing companies, shareholders, securities companies and banks. Firstly, it reduces costs and risks associated with paper certificates. Issuing companies no longer have to bear costs of issuance as well as management of paper certificates, and shareholders will have no

risks of loss and theft. Additionally, the risk of trading forged certificates is removed. Dematerialization also eliminates the need to deliver paper certificates for securities traded, leading to dramatic reductions in effort, time, and cost for securities transactions.

Centralized Management of Shareholder Data Brings Greater Processing Efficiency for Issuing Companies

Secondly, under the new system, JASDEC centralizes management of shareholder information to streamline issuing companies' clerical workload. For instance, when a shareholder utilizes two or more AMIs, under the former system, the administrator of the shareholder registry of each issuing company had to conduct name identification for the purpose of making correct entries in the shareholder registry and registry of beneficial shareholders. Under the new system, JASDEC carries out name identification of shareholders for all issuing companies, and based on the results, provides General Shareholders Notification to issuing companies (or administrators of the shareholder registry) for entry in the shareholder registry. Furthermore, the time taken by JASDEC under the new system to send notifications to issuing companies is reduced by half to three business days from the record date. This greatly contributes to administrative efficiency and cost reduction for issuing companies. In addition, under the new

system, issuing companies are able to request JASDEC to send shareholder information at any time subject to reasonable grounds, and to utilize up-to-date shareholder data for effective IR activities such as special benefit programs for shareholders on a quarterly basis.

For shareholders, meanwhile, in the event that they intend to present proposals at a general shareholders' meeting, they are entitled to exercise their rights as minority shareholders by requesting JASDEC through their AMIs which maintain the registry of their data to notify the issuing company of the number of shares they hold. The exercise of rights as minority shareholders is possible, even if they are not recorded in the shareholder registry of the issuing company. Issuing companies, for their part, can request JASDEC to provide information on specific shareholders to determine whether or not they are shareholders.

Diversification in Services for Dividend Receipt

Thirdly, services for dividend receipt have been diversified. Before the dematerialization, shareholders had to designate bank accounts to receive dividends for each issue, or submit dividend warrants mailed from issuing companies to financial institutions or post offices within a specified period. However, under the new system, once shareholders inform securities companies of their designated bank account before dividend

payment, all dividends payable on shares they hold will be transferred to the designated account. Additionally, depending on the balance of the accounts at securities companies as of the record date, shareholders can receive dividends through such securities companies. The same dividend services are available for beneficial rights of Exchange Traded Funds (ETFs) beneficiaries.

○ Urging Investors to Deposit Certificates with JASDEC to Achieve Full Dematerialization

Smooth and efficient depositing of stock certificates in JASDEC was a critical issue for the dematerialization of stock certificates. However, as of the end of March 2008, the number of shares in JASDEC’s custody stood at 84.3% of all outstanding shares listed on Japanese stock exchanges, and approximately 46 billion shares of stock certificates were yet to be deposited with JASDEC, of which approximately 13 billion shares were kept by individual investors on hand, and 12 billion shares were held by business corporations. Leading up to dematerialization, there were concerns that these stock certificates would not be deposited.

To encourage shareholders to promptly deposit certificates, a dematerialization campaign had been conducted, primarily by the Reform Promotion Center for Securities Clearing and Settlement System (a body set up jointly by JASDEC, the Tokyo Stock Exchange, Inc., and the Japan Securities Dealers Association). In the campaign, newspaper advertisements, television commercials, posters, pamphlets and so on were used to publicize the issue of dematerialization among shareholders. To avoid trouble caused by shareholders rushing to deposit their stock

certificates at the last minute before dematerialization, as well as a possible overload of clerical work for JASDEC and related parties, JASDEC strengthened cooperation in ensuring the prompt deposit of stock certificates with securities companies and banks that would be acting as deposit intermediaries for JASDEC.

As a result of these efforts, the percentage of shares in custody at the end of December 2008 rose to 91.1% of all outstanding shares, and the ratio (excluding immobilized shares) reached 94.9%. Thus, JASDEC managed to introduce dematerialization without major problems.

Stock certificates kept in hand without being deposited with JASDEC became invalid by dematerialization, but the management of stock ownership of the certificates is transferred to special accounts opened by issuing companies for these shareholders, primarily through administrators of shareholder registry, and their ownership rights are protected. However, with certain exceptions such as requests for the purchase of shares representing less than one unit, transactions of the shares held in the special accounts are not permitted. Shareholders are also required to follow certain procedures for the transfer of the stocks to ordinary accounts opened at AMIs.

○ Seeking Further Reform to Enhance Functions of System

In April 2009, JASDEC reorganized two subcommittees — the Subcommittee for Existing Business to review improving operational processes of the former system, and the Subcommittee for Dematerialization of Stock Certificates to study operational practices for dematerialization of stock certificates — into three subcommittees for specific products to examine further improvement of the new system: the Subcommittee for Stocks, the Subcommittee for Bonds with Stock Options and the Subcommittee for ETFs.

Dematerialization of stock certificates promises greater security, usability, and efficiency for the securities markets. Under the new

system, JASDEC is committed to the provision of a stable and reliable operational environment. JASDEC will carry out further improvement of the system reform in cooperation with related parties including shareholders, issuing companies, and AMIs while focusing on business initiatives to meet the ongoing needs and requirements of users. In addition, JASDEC is accelerating efforts to enhance its ability to perform as the world’s most advanced and user-friendly central securities depository. JASDEC will contribute to revitalizing Japan’s securities market and further enhancing its international status.

Outline of General Shareholders Notification

