

‘JASDEC now
and in the future’

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Q1: Eighteen months have passed since the dematerialization of stock certificates in Japan. What key system issues are you looking to address in the post-dematerialization environment?

Our top priority is to ensure the continued stable operation of all our systems in the new dematerialized context. Having said that, it is clear that the Central Securities Depositories (CSDs*1) of the main markets outside Japan provide a multitude of services to deal with the complexity and sophistication of financial and securities transactions. In addition to providing a framework to support book-entry transfers for settlement of simple securities transactions, they provide systems to support the book-entry transfer of securities associated with various asset-backed financing structures, and have systems aimed at optimizing the funds and securities used for settlement. They implement international standards for the sake of advancing the adoption of STP (Straight Through Processing) as well as gathering and disseminating information on corporate actions and other key issues. So they offer many services that we currently do not.

Given that the main players (the so-called 'global players') in all the systems operated by JASDEC command very large shares, we believe that reforms are needed to strengthen and increase the competitiveness of our country's settlement systems by constantly keeping an eye on trends at overseas CSDs.

There are lessons to be learned from the response by the clearing and settlement infrastructure agencies to the failure of Lehman Brothers in September 2008. Our belief is that,

although Japan's settlement systems functioned effectively, centred on the Central Counterparty (CCP*2) system established to avert risk and the Delivery versus Payment (DVP*3) system, the situation has now changed. Having witnessed the failure of major global financial institutions, we need to revise our assumptions that risk management could be a function of the mutual reliance between the international markets.

At JASDEC, we aim to engage further in risk management by conducting feasibility studies on target areas, closely considering the operating environment and market needs, and progressing issues to the next stage as appropriate.

Note 1: CSD

A Central Securities Depository is an organization that conducts administrative operations for account-based book-entry transfers related to the movement (and registration) of securities corresponding to the delivery of spot stocks traded on securities exchanges. CSDs conduct safekeeping of such securities in a concentrated manner on behalf of individual investors in the securities and thus help eliminate the 'paper-crisis' of back-office settlement by securities companies and other financial institutions.

Note 2: CCP

A Central Counterparty is an organization set up with the aim of reducing the risks of, and obstacles to, settlement by providing settlement guarantee services between the seller and the buyer in securities transactions.



Q2: What specific measures are you are taking to forge stronger relationships with overseas CSDs?

In overseas markets, the movement toward smoother cross-border settlement in Europe and the US continues to influence the securities markets of Asia. This has led to discussion on the formation or reorganization or a variety of bodies, characterized by the establishment of the International Central Securities Depository (ICSD*4) and the building of links between CSDs. As globalization continues, information sharing between overseas CSDs, CCPs and related international agencies has increased, and we think this issue is set to become even more important.

In May 2009, JASDEC took part in the 10th Conference of CSDs in Budapest, Hungary. We participated in panel discussions about the views of the CEOs of each region on future prospects for CSD and the regulatory problems faced from a CSD perspective, and we also hosted an 'Interim Meeting,' which we had proposed as a forum to allow the representatives of regional CSDs to exchange views. Our focus here was to ensure that a constant flow of information was maintained and that discussions took place concerning topics based on a common awareness of the issues faced. Separately, JASDEC has acted as convener of the Asia-Pacific Central Securities Depository Group's (ACG) 'Information Exchange Task Force' and has organized cross-training seminars for administrative staff to further interpersonal relationships and promote the exchange of business-related information. The 11th such meeting was the seminar held in July 2009, hosted by the Bangladesh CDBL in Dhaka. The 13th General Meeting of ACG was held in Hanoi,

Vietnam, in October and the main theme was 'Promoting the Development of Cross-border Linkage between ACG Members.' In addition to the discussion groups and presentations, further consideration and debate was focussed on how to make the ACG a more responsive and consistent organization. These international meetings provide valuable opportunities for promoting intercourse and coordination between CSDs, and we will continue to play an active role in them.

Moreover, in terms of relationships with individual CSDs, we have formed MOUs with 12 overseas CSDs: DTCC in the USA, TDCC in Taiwan, KSD in Korea, SD&C in China, CDSL/NSDL in India, CDC in Pakistan, TSD in Thailand, MCDR in Egypt, MSCH&CD in Mongolia, VSD in Vietnam and KSEI in Indonesia. On the basis of these memorandums, which are aimed at furthering information exchange and mutual cooperation, we entered into fixed-term information exchange agreements with Korea's KSD and China's SD&C last year and also accepted trainees from Thailand to facilitate the development of technical support expertise in that country. In addition, we have constructed so-called CSD links with DTCC in the USA, Clearstream in Germany and KSD in Korea and are operating local custody for overseas securities along with other functions.

JASDEC aims to contribute to the development of Japan's securities markets as well as provide support to the fast-growing securities markets of Asia, and we intend to continue deepening our relationships with all overseas organizations.

Note 3: DVP

Delivery versus Payment is the process of linking the delivery of securities and the payment of the consideration funds in a transaction (on the basis of mutually binding terms).

Note 4: ICSD

An International Central Securities Depository is a securities book-entry transfer organization conducting concentrated, network-based settlement of international transactions for securities from various countries. The ICSD itself does not conduct safekeeping of securities but operates book-entry transfers by linking together, either directly or indirectly, the CSDs of various countries.



Q3: Can you outline your approach to business continuity planning?

The fundamental aim of our Business Continuity Plan (BCP) is to minimize the impact on all JASDEC's participants and stakeholders in the settlement infrastructure if some kind of disaster or compromising incident should occur. Our goal is to enable business to continue to the greatest extent possible and to restore services rapidly if disruption is unavoidable. Specific aspects of our business continuity structure include having back-up centre facilities in remote locations to cover for any failure of the main centre, and a robust data centre that has built-in redundancy of core systems. We have clear BCP implementation, operation and emergency communication procedures, a disaster strategy coordination headquarters on standby, and provisions in place for the delegation of authority. Data at the main centre is backed up remotely almost in real time, and the system is designed to enable a full switchover to the back-up system within about 90 minutes. We even have back-up office space to host our business operations should the head office become unusable.

Our BCP of course prioritizes the safety and security of our staff in disaster situations, and we conduct regular training drills based on a number of disaster scenarios.

The recent health scares over new strains of influenza viruses have focused attention on this aspect of business continuity, and we were already well prepared with hygienic supplies and other necessary equipment when the global H1N1 virus became a global concern, having incorporated this possibility into our BCP and implemented appropriate staff training. Looking ahead, we intend to create an even more robust BCP structure, capable of keeping JASDEC up and running in the widest possible range of circumstances.

