Interview with the President & CEO

JASDEC now and in the future

Haruhiko Kato
President & CEO

Q1. You have talked about a plan to replace the current system by January 2014. Can you tell us about the main features of the system and the development schedule?

At JASDEC, based on the expected lifetime of our system equipment, we plan to replace our systems by January 2014, five years after the dematerialization of stock certificates in Japan. At the same time we will improve reliability and efficiency, and provide a more convenient service for users. The main features of our new systems, along with the development schedule, are as follows.

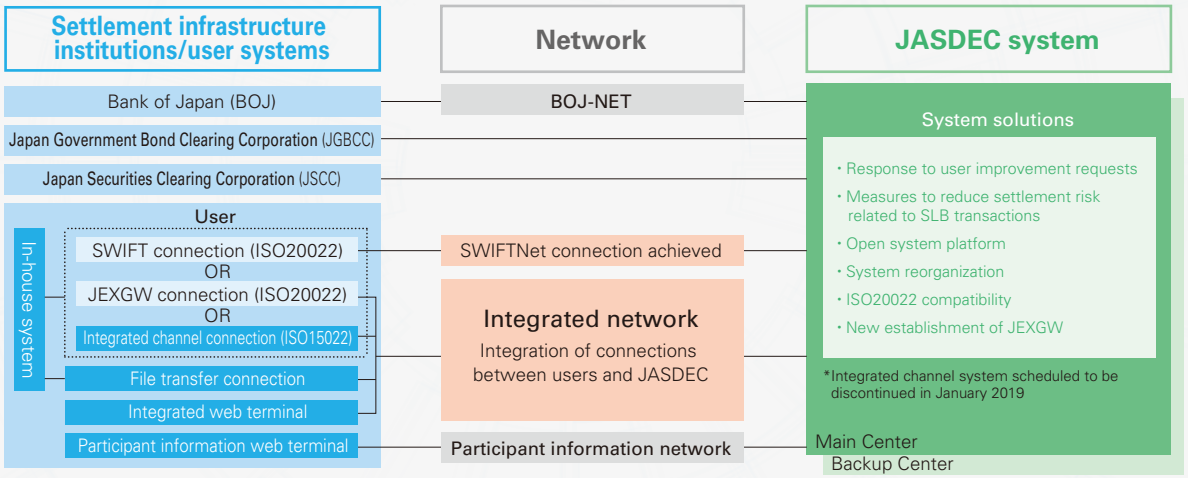
Main system features

A. Improved usability and reliability
We will take in requests regarding system and operating functions, and reflect law and tax system changes.

B. Reduced settlement risk
We will make the systems capable of handling risk reduction schemes for SLB (Stock Lending and Borrowing) settlement.

C. Reinforced system foundations
In order to provide improved reliability and efficiency, we will conduct a review of the system structure (open system platform, system reorganization, etc.).
Also, we aim to improve usability by developing a more logical network, such as by integrating connections for users who currently require multiple connections for different services.

D. International standards
For our Pre-Settlement Matching System and the Book-entry Transfer Systems, we will adopt the next-generation international standards, ISO20022. In addition to our independent network, we aim to improve market efficiency by enabling connections through the SWIFT network.



Development Schedule

For the period until June 2011, we collated requests for changes to system and operating functions. From July 2011 we will spend around two years developing the systems. During that time we will distribute outlines of system processes and specifications, and conduct guidance seminars. From July 2013, we will conduct connection tests, overall test, and system trial transition at users, settlement infrastructure institutions and JASDEC in preparation for the launch of full-scale operations in January 2014.

Year	2011		2012		2013		2014
Month	1-6	7-12	1-6	7-12	1-6	7-12	1
Development schedule	Requirement definition	System development				Connection/ overall test	Official launch

Q2: We understand that you have set up the Subcommittee for SLB (Stock Lending and Borrowing) Settlement. What are the issues that they are looking into?

At present, market participants such as securities companies, trust banks and other players are able to conduct securities lending and borrowing transactions using cash, negotiable securities, etc. as collateral ("SLB transactions"). However, there has been no DVP settlement system for SLB transactions, so these transactions have involved settlement risk. Actually, when Lehman Brothers went bankrupt in September 2008, the counterparties couldn't accept their receivable collateral from Lehman Brothers, even though they had already delivered the lending stocks to Lehman Brothers. It reinforced us the importance of mitigating the settlement risk involved in SLB transactions. Under such circumstances, in January 2010, FSA*1 published "Development of Institutional Frameworks Pertaining to Financial and Capital Markets" in which it noted that the strengthening of securities clearing and settlement systems was an urgent issue.

At JASDEC, even before the publication came out, we had already offered trade matching functions for SLB transactions in our Pre-Settlement Matching System (PSMS). In addition we had been looking into the ways to link PSMS to the Book-entry Transfer System for Stocks, etc. and thus to realize DVP settlement for SLB transactions. Following FSA's publication, we have set up "The Subcommittee for SLB settlement" in August 2010. The Subcommittee aimed to identify the functions necessary to mitigate the settlement risk involved in SLB settlement.

The Subcommittee for SLB settlement (with the participation of representatives from nine securities companies, five trust banks, one securities finance company, and observers from FSA, BOJ*2, JSDA*3, and JSCC*4) considered two ways to mitigate the settlement risks (principal risk in particular) in SLB settlement. One was the "concurrent settlement method ("block" DVP/DVD)" in which all the settlements related to SLB transactions and its collateral were performed concurrently and the other was the "transactional DVP settlement method" that used the DVP settlement system for Non-Exchange Transaction Deliveries (NETDs). In December 2010, the Subcommittee published "SLB Settlement Risk Mitigation Milestone," incorporating both methods. This year, the Subcommittee integrated the advantages of both methods and created a new measure.

The features of the measure are as follows;

1) Settlement scheme based on JDCC's DVP settlement services for NETDs
2) According to the current practice for margin calculation, JASDEC will automatically calculate the SLB settlement amount related to each new lending and return transaction
3) The difference between the margin requirement that is calculated by the market participants according to the current practice and SLB settlement amount that is calculated by JASDEC in 2) will be netted with the final settlement balance of DVP settlement services for NETDs
4) The functions of "pledged securities" in DVP settlement services for NETDs are remodeled to handle the securities that are used as collateral in the current SLB market

The Subcommittee is currently discussing the detailed specifications of the measure and the associated market practice. The measure is slated to enter service in January 2014 when we replace our current system.

*1 FSA: Financial Services Agency
*2 BOJ: Bank of Japan
*3 JSDA: Japan Securities Dealers Association
*4 JSCC: Japan Securities Clearing Corporation

Q3: What is your approach to Business Continuity Plan?

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 systems will enable business to continue to the greatest extent possible and will restore services rapidly if disruption is unavoidable.

Specifically, 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. Our BCP system includes robustly built data centers that have their own power generators and core systems with built-in redundancies. In case a really large-scale disaster or secondary calamity renders our main center inoperative, we have a backup center in a remote location. The business data in the main center is transferred to the backup center almost in real time, and in case the main center becomes unavailable due to disasters or system failures, the system can switch over to the backup system in about 90 minutes. We even have back-up office space to host our business operations should the head office become unusable.

During the Great East Japan Earthquake in March 2011, even though our head office was subjected to shaking of a little less than a "5" on the traditional Japanese earthquake scale of 1-7, there were no staff injuries or damage to our office, and we were able to maintain our operations. We will apply what we learned in this earthquake to make our business continuity system even stronger.