

# Corporate Governance

## Our Basic Policy on Corporate Governance

JASDEC fully recognizes its social obligation as the central body for the provision of the infrastructure for securities clearing and settlement, which is an important base of the capital markets. Accordingly, JASDEC has determined a basic management policy of providing a highly secure, convenient and efficient service. To this end, we ensure that our system meets the needs of users, including investors, issuing companies and market

intermediaries. We also make sure that our activities promote corporate transparency and that our business operates with fairness and accountability, in line with the public needs of our function. Our commitment to corporate governance is to earn and maintain a solid reputation for reliability as the central organization responsible for creating and operating the infrastructure for securities clearing and settlement in Japan.

## Overview of implementation of corporate governance practices

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

### ◇ Corporate Structure

#### Board of Directors

The Board of Directors is composed of 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, nine of the 14 external directors are selected from JASDEC participants. The remaining five external directors come from an issuing company and a related organization, or from the Japan Securities Dealers' Association, academia and the legal profession, enabling the Board to conduct vigorous discussions from a broad perspective in consideration of the public good. In principle, the Board meets once a month to decide basic management policies and discuss other key issues.

#### Business Operations Committee

Separately from the Board of Directors and the Board of Auditors, JASDEC has set up the Business Operational Committee to fully reflect the needs of system users in our operations. The Committee examines important issues related to the business of JASDEC, based on queries from the Board of Directors, and has ten subcommittees under its control. Each subcommittee is responsible for a specific segment of operations, and is composed of members who are actually involved in the field. JASDEC applies the opinions provided by each subcommittee to various operational issues. JASDEC discloses summaries of discussions and other information by the committees to relevant parties for greater operational transparency.

As the provider of key infrastructure elements for the securities market, we are required to operate the system with an extremely high level of fairness and accountability. To achieve this end, we have established the Advisory Committee, which is composed of experts in financial and securities systems. The committee advises JASDEC's president from a broad perspective about wide-ranging issues relating to securities clearing and settlement system operations.

JASDEC DVP Clearing Corporation (JDCC), JASDEC's wholly owned subsidiary, operates in accordance with 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 non-exchange transaction deliveries (NETDs). In addition, JASDEC's Board of Directors receives reports regarding issues decided by JDCC's Board of Directors to ensure consistency in the activities of the two companies.

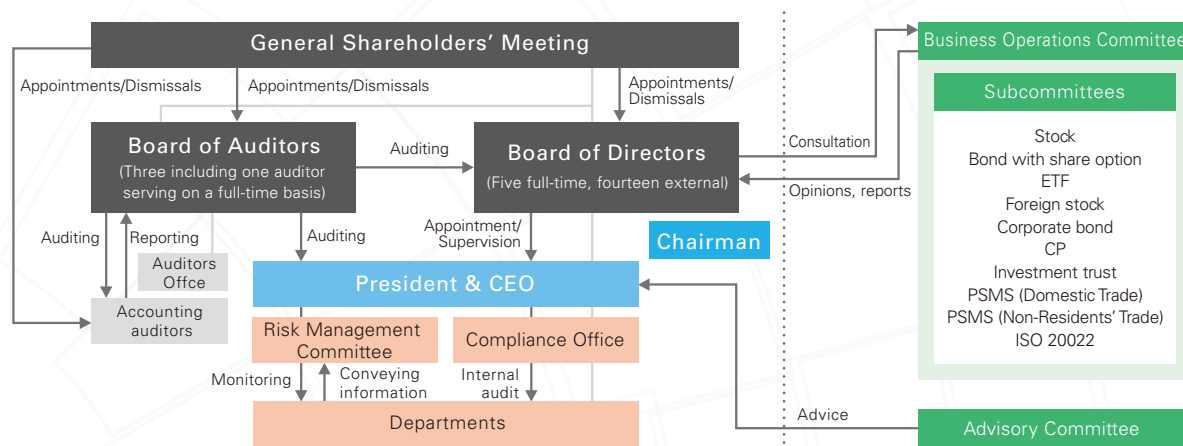
An outline of JASDEC's management structure and corporate governance systems is presented on the next page.

#### Board of Auditors

JASDEC employs the corporate auditor system for corporate governance instead of the committee system, as provided for in the 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.

In principle, the Board of Auditors holds a regular meeting each month. In line with auditing plans and the basic policies established by the Board of Auditors, auditors attend important meetings, including those of the Board of Directors, and assess the status of services and assets to perform audits of directors. To ensure that audits are effective, auditors work closely with directors and conduct regular exchanges of opinions, including through meetings with the representative directors.

## Overview of JASDEC's Management Structure and Corporate Governance Framework



### ◇ Risk Management System

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

### ◇ Internal Audits, Corporate Audits, and Accounting Audits

JASDEC has established the Compliance Office, and internal auditing accomplished primarily through onsite surveys based on the audit plan, to assess the effectiveness of operational procedures. For corporate audits, an auditor serving on a full-time basis routinely attends important meetings, such as those of the Board of Directors and the Executive Committee (comprised of managing directors serving on a full-time basis) and examines circulars intended to obtain approvals of decisions by persons in charge. The full-time auditor performs audits in accordance with the auditing plans established by the Board of Auditors, and provides the other Corporate Auditors with updates on the progress of auditing activities at the meeting of Corporate Auditors, which takes place monthly.

Auditors serving on a part-time basis attend meetings of the Board of Directors and monitor the directors' execution of their duties. They also assess the legality of business operations by reviewing reports on auditing activities from the full-time auditor.

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 the 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 the Companies Act: Yohei Kishi and Naoto Saito (designated members of a limited liability partnership under Article 34, Paragraph 10-5 of the Certified Public Accountants Law).

They are employed by Ernst & Young ShinNihon LLC, a member firm of Ernst & Young Global, and execute accounting audits, including checks of financial documents, based on the Companies Act.

It is our understanding 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

We expect directors and Corporate Auditors to fully demonstrate the skills involved in successfully executing their responsibilities. Additionally, to retain top-level professionals, we have set limits 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.