

Management Message



JASDEC services combine excellent usability and efficiency with high standards of reliability and security. We are continually working to enhance the functionality of our various systems and to strengthen our risk management.



Japan Securities Depository Center, Inc. (JASDEC) provides securities settlement infrastructure, that is essential for financial and capital markets. We are constantly aware of the importance of risk management in this role, and we are continually working to strengthen our business continuity management as part of our wide-ranging efforts to ensure the reliability of our systems. In addition to this commitment to reliability, we also contribute to the growth and success of investors, issuers and market intermediaries through our efforts to enhance the convenience, efficiency and security of our services. We place particular emphasis on the introduction of new services, improvements in the efficiency of operations relating to securities settlements, measures to counter the various risks that are inherent to markets and the expansion of international activities.

Initiatives in fiscal 2011

JASDEC undertook a range of initiatives in fiscal 2011 (to March 31, 2012).

First, we continued to expand the range of products we handle. In particular, we have enabled issuance of J-Sukuk (Islamic financial instruments similar to bonds) using our transfer systems. This innovation was made possible by changes to the Japanese tax system to accommodate J-Sukuk and was the result of close collaboration among all concerned. Since April 1, 2012, it has been possible to handle J-Sukuk through the Book-entry Transfer System for Corporate Bonds using a special purpose trust beneficiary rights structure.

In regard to the Book-entry Transfer System for Stocks, etc., in August 2011, we began to handle Japanese Depository Receipts (JDRs), which have exchange-traded notes (ETNs) as trust assets. We are also improving our systems to support commitment-type rights offerings in relation to share options.

We further enhanced the functionality of our systems by improving temporary suspension functions for transfer requests relating to stocks, etc., enhancing the ease with which users can manage settlement processes. We also decided to introduce a Tolerance Matching function to the Pre-Settlement Matching System (PSMS) for non-residents' transactions.

While our facilities were not damaged in last year's Great East Japan Earthquake, we took the opportunity to strengthen our business continuity plan (BCP) by reviewing our manuals, including the manual concerning the establishment of a BCP Countermeasure Office to ensure a timely and flexible response in the event of a disaster or system failure. Other actions included verification of our business continuity management, system failure response training and business continuity training at our back-up office.

We were also very active internationally during the year under review. Activities included information exchanges and other initiatives to strengthen our relationships with overseas settlement institutions. In April 2011, the World Forum of CSDs (WFC) was established to take over the activities of the CSD Contact Group as a forum for information exchange and discussion among the world's five regional CSD associations. At the first WFC meeting in September 2011, JASDEC was given responsibility for planning and administration as the secretariat of the WFC, and our Chairman served as Vice-Chairman of the forum. In September 2011, we signed a memorandum of understanding providing for information exchange and mutual cooperation with the Russian CSD, National Settlement Depository.

Current priorities

In fiscal 2012 (to March 31, 2013), we will continue to implement a range of projects under the medium-term business plan announced in March 2012. Our priorities under that plan are to provide services with high levels of convenience, efficiency and reliability, to reinforce our business fundamentals and to strengthen the competitiveness of financial and capital markets. Measures under this plan will include the establishment of schemes to mitigate settlement risks relating to stock lending transactions, and a review of system participation procedures, with the specific aims of simplifying processes for users of our systems and providing integrated access points. We will also make preparations for the transition to our next-generation system, including the replacement of some of our mainframe IT infrastructure with open system platforms and a review of system structures. In addition, we will develop a more robust business continuity plan, adopt ISO20022, and improve the efficiency of our information gathering and distribution processes for corporate actions (CAs) by issuers, such as the announcement of financial results, capital increases, dividend payments and M&A. Described below are two of the priority projects on which we are working currently.

Application of ISO20022

We are currently making preparations for the replacement of our systems in 2014. We have decided to move toward international standardization by applying ISO20022, which is the next-generation message standard scheme for the financial industry. In preparation for the adoption of ISO20022, we have been participating in the development of the standard through participation in the ISO/TC68

Securities Standard Evaluation Group (SEG), and through coordination with SWIFT and interested parties in Japan. This involvement allows us to ensure that items required for the Japanese market are reflected in ISO20022. Where necessary, we also consider changes to practices that are unique to Japan.

Our preparations for the replacement of our systems also include numerous enhancements to our services, such as the introduction of SWIFTNet, which is widely used in other countries, the provision of tolerance matching function for non-residents' transaction, introducing use of the DVP settlement system for stock lending transactions, and the enhancement and expansion of statistical data.

Efficient dissemination of CA information

We are currently assessing improvements to the functionality and efficiency of CA information dissemination service in collaboration with the Tokyo Stock Exchange (TSE). Specifically, we aim to expand the content of the Tokyo Market Information (TMI), the information distributing service of TSE, by adding JASDEC information about basic information on corporate bonds and investment trusts, CA information relating to foreign stocks, etc. In addition, we plan to disseminate CA information about Japanese stocks using the ISO20022 standard.

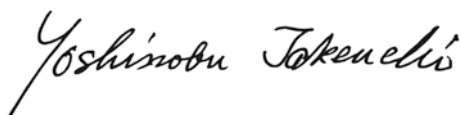
These improvements will provide users with one-stop access to a wide range of information, including CA information about Japanese securities, in the form of digital data that includes the international format. This will allow efficient Straight Through Processing (STP). We will start to implement these initiatives in 2014.

Strengthening risk management in financial and capital markets

Financial supervisory authorities are now working globally to strengthen risk management systems targeting financial institutions and financial market infrastructure throughout the world. These efforts are based on recent experiences, including the financial crisis triggered by the Lehman shock. In the area of securities settlement infrastructure, there are plans to introduce mandatory compliance with the Principles for Financial Market Infrastructures, which were

published by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) in April 2012. As one of the financial market infrastructures, JASDEC is committed to the further improvement of risk management under the supervisory guidelines that will be compiled by the Financial Services Agency under the Principles for Financial Market Infrastructures.

The management and staff of JASDEC will continue to contribute to the development of financial and capital markets through continual innovation in response to user needs and structural and environmental changes in Japan and overseas. We look forward to the continuing support and cooperation of all concerned.



Yoshinobu Takeuchi, Chairman



Haruhiko Kato, President & CEO