

Completion of dematerialization by 2009 What will change?

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Reform of Securities Settlement System

• Significance of the Reform

- The reform started in June 2000 after the Financial System Council published a report about reform of the financial system

•To enhance the convenience of market participants and establish the basis for further development of the capital market by.....


- eliminating settlement risks
- lowering settlement costs
- improving the efficiency of settlement operations.



•To enhance international competitiveness

•To keep Japan's position as a global capital market.

Purpose of the Reform



Key Points

- DVP**

 - DVP for street-side and customer-side transactions.
 - The issuance of new stocks.
- STP**

 - The introduction of PSMS. (Pre-Settlement Matching System)
- Paperless**

 - Introduction of Paperless System.
 - Government Bonds
 - Commercial Paper
 - Corporate Bonds
 - Investment Trusts

⇒ The principal risk has been eliminated.

⇒ STP from trade matching to settlement was devised.

⇒ As the final stage of the paperless scheme, the dematerialization of stocks is underway.

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Paperless System for Stocks



- **Law regarding streamlining the settlement of trades of stocks and other securities**

Stock certificates

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Dematerialized stocks

June 9, 2004

→ Promulgation of the law


January, 2009

→ Target date for enforcement

- **The Law mandates that a new overall system be introduced including:**
 - a paperless system.
 - determination of shareholders' rights by way of recording in the books kept by account management institutions.
 - direct communication between issuers and CSDs.
 - account management institution scheme in a layered structure.

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Paperless System for Stocks



Benefits

For Shareholders:

- Lowers the risks of lost or stolen share certificates.
- Eliminates the need for
 - *delivery of physical certificates*
 - *physical registration of shareholders' names*
 - *exchange of share certificates in case of corporate reorganization*

For Issuers:

- Reduces the costs related to the issuance of stocks and handling of shareholders' matters.

For Securities Companies:


- Eliminates the need for delivery of physical certificates.

**Enhancement
of STP**

**Mitigation of
risks**

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New Services offered by JASDEC in the paperless share system



DVP for new issues

- ☐ DVP settlement for issuance of shares in public offering

New dividend distribution scheme


- ☐ Integrated account designation
- ☐ Broker account designation

Management of shareholders' information

- ☐ Shareholders' information managed by database
- ☐ Notification of general shareholders' list to the issuer
- ☐ Consolidation of shareholder information from various account management institutions
- ☐ Issuers may request provision of information regarding the shareholders
- ☐ Information provision as to the foreign ownership ratio

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Transition to Paperless system



Shares with JASDEC

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- No specific procedures are necessary.
- Shares are transformed into dematerialized form automatically.
- Holders will be able to trade shares from the enforcement date.

Shares outside JASDEC


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- Shares are transferred to a “Special account” at the time of enforcement date.
- In case the shareholders want to sell such shares, certain procedures need to be taken.

* About 20% of the issued shares which amounts to 70 billion shares are still kept in physical form.
 ** Such physical shares are kept in the vaults of securities companies / banks or kept by individual investors themselves.

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Role and Challenges in the Future



- Enhancement of STP
- New markets and financial products
- Value added information dissemination
- Globalization of Services

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Meet the needs of stakeholders CSDs serve

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