

Consolidation Memo of Points of Issue in Earlier (or Tentative) Implementation of DVP (Delivery Versus Payment) for CP

December 5, 2001

Working Group on Promoting Reform of the Securities Settlement System

<i>Points</i>	<i>Opinions and Views</i>	<i>Comments</i>
1. Settlement verification system	<ul style="list-style-type: none"> Even with earlier implementation, it is desirable that a settlement verification system be in place, assuming a multi-layered system and T+0. 	<ul style="list-style-type: none"> We will continue to consider factors involved in the expansion of the settlement verification system of the CSD, including the development and testing periods and the burden on users.
2. Issuing scheme	<ul style="list-style-type: none"> As proposed by the Japan CP Association, it is preferable to implement a CSD-based DVP scheme to ensure a solid link between cash settlement and initial security record. There are no objections to proceeding in the direction of having the CSD use the real time numbering system needed to make T+0 issuance possible. 	<ul style="list-style-type: none"> For early implementation, we are considering a scheme utilizing an “issuing account” for issuing agents. This should also apply to straight bonds and others. We will need to discuss the matter with the Securities Code Committee, which is recognized by the ISO as Japan’s security code management body.
3. DVP settlement	<ul style="list-style-type: none"> Assuming that the CP market expands after early implementation, it is desirable that the financial services industry also proceeds separately with deliberations on making the BOJ-Net based cash settlement system (queue system, etc.) more sophisticated. Considering the positioning of the CP settlement payments and the money market products, it will be necessary to achieve immediate completion of transactions. As proposed by the Japan CP Association, we will consider system and procedural aspects of the DVP method assuming BIS Model 1 (RTGS). 	<ul style="list-style-type: none"> Independent of the queue function, it would be worthwhile in considering developed scheme of cash payment input by CSD and payment approval by purchasers. For the time being, we expect to maintain daily liquidity by utilizing the businesses of practitioners. In the future, however, if maintaining liquidity becomes a problem because of the substantial increase in volume, we plan to have BOJ supply liquidity to the market or consider introducing schemes to save liquidity, etc.
4. Redemption scheme	<ul style="list-style-type: none"> To accurately link money transfers with deregistration procedures (redemption), we believe that a CSD-based DVP-type scheme should be 	<ul style="list-style-type: none"> For early implementation, we are considering a scheme utilizing a “redemption account” for paying agents.

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	introduced.	
5. Market changes	<ul style="list-style-type: none"> We believe that when conducting tests of the different types of costs and business volume in future, it will be necessary to discuss these issues with those involved, including the issue of allocation of the cost burden by setting several projected scenarios on the CP market 	<ul style="list-style-type: none"> In discussing these issues, in order to develop a market that attracts participants, it is necessary to assume that those involved with the market will act positively in fulfilling their individual roles. Since forecasts of market size, etc., will influence the development of the system, it is desirable that people involved are included in CSD's discussions about its structure.
6. Implementation timeframe	<ul style="list-style-type: none"> Companies and financial institutions have been wishing for an electronic CP settlement system for some time now. Moreover, as a matter of policy, after the realization of a legal framework for an electronic CP settlement system, it is not acceptable that electronic CP settlement system is not ready in operation for a long period of time and, as members of the financial services industry, we also want to quickly realize this CP settlement system. Because it will be necessary to consider development and test periods, etc., it is currently difficult to accurately fix a date for release of the actual system, but based on the above points, we plan to aim for sometime during the fiscal year ending March 2003. Because participants will not be able to agree on functions that can only be used in a single layered system due to concerns of doubling up on required capital investment. Therefore, no matter when the release period, we want to proceed based on the assumption that the system will be a multi-layered system. We request the CSD to prepare an organization that they could announce the scheme for system as soon as possible in 2002, cooperated with the 	<ul style="list-style-type: none"> System and procedural aspects will have to be taken into consideration in deciding the schedule for implementing T+0, T+1 issuance. We cannot rule out a system release under a single layered legal framework. However, even under a single layered system, it should be possible to release the system in stages.

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	market participants, and to get market participants started on system development, based on the proposal by the Japan CP Association and the above points.	

Notes:

For information on the “Grand Design for an Electronic CP, etc., Settlement System” (Corporate Finance Association and Japan CP Association), see the home page of the Committee for Smooth Fund Raising by Corporations (<http://www.enkt.org/katudou/index.html>) (Japanese only).

Prepared by the support organization of this working group, this consolidation memo represents the results of the intense and short-term deliberations of market-related people regarding “Early Implementation” as stated in the “Grand Design for an Electronic CP, etc., Settlement System” proposed by the Corporate Finance Association and Japan CP Association to the DVP Settlement Scheme for CP Task Force, which was established on November 8, 2001. The memo was approved in a meeting held by the working group on December 5, 2001.