

**(Provisional English Translation)**

**Demutualization Framework  
of  
Japan Securities Depository Center  
(JASDEC)**

**November 2, 2001**

**Committee for Reform of Securities Clearing and Settlement System  
Japan Securities Dealers Association**



Items	Description	Remarks
2 . Scope and Descriptions of Businesses	<p>Services to be provided by the new company are those as prescribed in the Law Concerning Central Securities Depository and Book-Entry Transfer, and those as prescribed in the Law Concerning Book-Entry Transfer of Short-Term Corporate Debts. And, other services related thereto are also included in the scope of businesses of the new company.</p> <p>( Services designated )</p> <ul style="list-style-type: none"> <li>● Law Concerning Central Securities Depository and Book-Entry Transfer [Article 4 ] <ul style="list-style-type: none"> <li>Services relating to custody of stock certificates</li> <li>Services relating to book-entry transfer of stock certificates</li> <li>Other services prescribed in the law as services which the central securities depository is to provide</li> </ul> </li> <li>● Law Concerning Book-Entry Transfer of Short-Term Corporate Debts [Article 8, Paragraph 1] <ul style="list-style-type: none"> <li>• Services relating to the book-entry transfer of short-term corporate debts</li> </ul> </li> </ul> <p>( Related services )</p> <ul style="list-style-type: none"> <li>● Law Concerning Central Securities Depository and Book-Entry Transfer [Article 4-2, Paragraph 1] <ul style="list-style-type: none"> <li>• Services related to securities depository and book-entry transfer (Services approved as such)</li> </ul> </li> <li>● Law Concerning Book-Entry Transfer of Short-Term Corporate Debts [Article 9, Paragraph 1] <ul style="list-style-type: none"> <li>• Services related to securities book-entry transfer (Services approved as such)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• A central securities depository in the future is expected to provide a wider range of functions with increasing added values to its securities depository and book-entry transfer services, one of which functions is to expand the types of eligible securities to all types of securities, taking into account the functions provided by central securities depositories overseas. As for deciding the scope of businesses, users will make their own decisions and take responsibility as well as initiative, taking into account the services, already having been provided by other entities, responsibilities to the public and public interests they discharge. And the plan so decided and formalized shall be successively launched.</li> </ul>

<b>Items</b>	<b>Description</b>	<b>Remarks</b>
	<p>All types of securities will be handled. However, in actual practice, the range of securities to be handled will be successively expanded to include one after another when a scheme of such securities has been formalized.</p> <p>When competent authorities establish ministerial ordinances, it is requested that those ordinances enable the flexible expansion of the business scope of the company.</p>	<ul style="list-style-type: none"> <li>• For the time being, the businesses to be implemented will include the depository and book-entry transfer services of stocks (including preferred investment securities and exchange traded funds (ETF) such as those linked to Nikkei 300; the same shall apply hereinafter) and convertible bonds (CBs), and the book-entry transfer service of short-term corporate bonds. In addition, as related services, pre-settlement matching system for stocks and CBs, delivery versus payment system and agency business for principal and interest payments pertinent to CBs will also be provided.</li> </ul>

Item	Description	Remarks
<p>3 . Capital, etc.</p> <p>(1) Amount of Capital Contribution, etc.</p>	<p>The amount of capital contribution shall, in principle, fall in the range from approximately 6 billion yen to 10 billion yen, which includes the amount to be invested to the system developments, enabling the anticipated scope of businesses in the future, and shall eventually be determined, taking into account the actual amount of the funds to be invested to the system developments for new services.</p> <p>Half of the capital contribution will be allocated as the nominal capital of the new company.</p> <p>When the government establishes cabinet ordinances, it is requested that such ordinances prescribe the minimum amount of capital and net assets of a central securities depository at the level of 500 million yen, respectively. (Eventually, the minimum amount of capital and net assets of a central securities depository have been prescribed as 500 million yen in the cabinet ordinance effected on October 12,</p>	<ul style="list-style-type: none"> <li>• Although it will depend on the scope of businesses to be provided by the new company, a central securities depository, a main provider of the securities clearing and settlement system, is expected to secure financial soundness and to establish a healthy financial base in light of the public responsibility and public interests. For this reason, at the time of foundation of the new company, it will be appropriate to raise the capital so as to make a ratio of capital against fixed assets higher than the average ratio of listed companies.</li> <li>• The policies relating to fund raising subsequent to the establishment will be determined by the board of directors from time to time.</li> <li>• The tax on the license registration is assessed based on the amount of capital at the time of foundation.</li> </ul>

	2001.)	
<b>Item</b>	<b>Description</b>	<b>Remarks</b>
(2) Scope of Capital Contributors	<p>Capital contributors to the new company at the time of foundation will be securities companies, banks and other direct users of the its services. However, as new businesses will be added in the future, organizations, such as investment trust companies, will be included among the capital contributors. In addition, it will be considered to seek capital contribution from issuing companies, who are the users of the securities depository and book-entry transfer system in a wider context.</p>	<ul style="list-style-type: none"> <li>• It is assumed unnecessary that any ministerial ordinance prescribes provisions that rule out certain types of capital contributors to the new company.</li> </ul>
(3) Proportion of Capital Contribution	<p>It is appropriate to set the proportion of capital contribution of each user at the time of foundation in accordance with the degree of its current usage of the services by each user, in principle.</p> <p>The degree of the usage of the services, the basis for determining each proportionate capital contribution, will be calculated based on the total amount (prior to rebate) of fees paid by the user for the services such as deposits, withdrawals, book-entry transfers and custody of stocks and other securities.</p> <p>The proportionate capital contribution will be reviewed at regular intervals (e.g. every two years).</p> <p>It is not obligatory for users to make capital contributions.</p>	

		company, which will acquire the businesses of t h e J a p a n
<b>Item</b>	<b>Description</b>	<b>Remarks</b>
(4) Elimination of the Control by Specific Persons	<p>In order to avoid substantial influence by small number of specific persons, capital contribution by one user will be restricted to some certain level.</p> <p>Restrictions on capital contribution will not be applied to stock exchanges and securities dealers associations, etc. in light of the public responsibility and public interest that they discharge, and of the functions to make additional capital contribution when some users refrain from contribution. However, the number of shares such organizations may hold, in principle, shall not exceed one third of the outstanding shares in relation to special resolution at the general meeting of shareholders.</p> <p>As an operation may become difficult because of the complexity of the shareholders' right structure when the types of stocks are issued, only common stocks will be issued, and preferred stocks will not be issued in principle.</p>	<p>Securities Depository Center (hereinafter referred to as "JASDEC"), will be based on 10 billion yen, the upper limit of capital contribution to the new company.</p> <ul style="list-style-type: none"> <li>• While referring to the Anti-Trust Law, upper limit of capital contribution by one user shall be 5 percent of the total capital contribution, in principle. However, the maximum amount of capital contribution per user shall be 500 million yen.</li> <li>• Even in a case stock exchanges, and securities dealers associations, etc. hold a relatively large number of shares, the number of directors representing such organizations shall be one for each organization, in principle.</li> </ul>
(5) Incentives to Capital		

Contribution	Certain amount of dividend to be regarded as the primary incentive to capital contributions will be paid to the shareholders on the best effort basis.	
--------------	--	--

Item	Description	Remarks
4 . Usage of Assets left in JASDEC	<p>Usage of assets left in JASDEC will be deliberately discussed so as for such assets to be granted to public organizations of both financial and securities industries, or to be used effectively for the reform of the securities clearing and settlement system. The Special Committee Concerning Demutualization of Securities Depository and Book-entry Transfer Organizations will determine the organization(s) to whom such assets should be granted, in light of the direction of discussions pertaining to the reform of the securities clearing and settlement system at the Financial Council of the Financial Services Agency.</p> <p>The transfer of JASDEC's remaining assets to the national treasury, which is provided in the Civil Code as the last resort, is not acceptable as it is contrary to the intention of initial contributors of the fund.</p>	<ul style="list-style-type: none"> <li>• Pursuant to the interpretation of the Civil Code and according to the precedents of the administration on public corporations, the donation of the assets left in JASDEC to a private stock corporation is not allowed.</li> <li>• The Special Committee will continue to exist until the organization(s) to whom the assets left in JASDEC is to be granted will be determined.</li> </ul>
5 . Business Plan and Forecast for Revenue and Expenditure	<p>While the new company, in principle, will be operated on a balanced revenue and expenditure basis, such measures as reviewing the fee structure and revising the fee level will be taken from time to time if necessary, taking into account the conditions of the businesses expected to be newly launched and the conditions of the securities market as well as the possible necessity of stable dividend payments.</p>	<ul style="list-style-type: none"> <li>• At the time of a system development in anticipation of the expansion of the business scope, the functions of each system should be made in common to the maximum extent so that it could contribute to the efficient use of the systems and to restraining of costs.</li> </ul>



Item	Description	Remarks
<p data-bbox="271 719 443 751">Qualification</p> <p data-bbox="203 1078 416 1198">(2) Auditors Number of auditors</p>	<p data-bbox="524 188 1301 268">In principle, directors shall be appointed according to the proportion of capital contributions aggregated by industry.</p> <p data-bbox="524 544 1301 667">The number of part-time directors (other than participant representatives) will be approximately 2 (from academia and an organization related to issuing companies).</p> <p data-bbox="524 719 1301 1023">In order to make the board of directors function effectively, it will be appropriate that the persons who are to be appointed as directors shall have deep knowledge of the securities clearing and settlement. (In case of participant representatives, each of those to be appointed shall be, in principle, a member of the board of a participant company and the like.)</p> <p data-bbox="524 1118 1301 1241">The number of auditors will be approximately 3 altogether, including 1 full-time auditor and 2 part-time auditors.</p>	<ul data-bbox="1330 188 2092 1463" style="list-style-type: none"> <li data-bbox="1330 188 2092 491">• While it is anticipated that the integration of group companies in the future will be furthered, such as the introduction of a holding company, the method for appointment of directors will be deliberated in light of changes of the conditions.</li> <li data-bbox="1330 411 2092 491">• In such a case, one of the alternative options for the future will be to have one director per company group.</li> <li data-bbox="1330 1118 2092 1374">• There must be more than 3 auditors, and one or more of the auditors should not be the persons who have assumed an office of director, executive officer or employee of the company or its subsidiary in the last 5 years prior to the appointment (Article 18, Paragraph 1, Special Law of Commercial Code).</li> <li data-bbox="1330 1385 2092 1463">• Currently, there are 3 auditors in JASDEC: 1 full-time auditor and 2 part-time auditors</li> </ul>

Item	Description	Remarks
<p data-bbox="271 363 443 392">Qualification</p> <p data-bbox="203 707 405 735">(3) Committees</p> <p data-bbox="271 751 427 780">Committees</p>	<p data-bbox="524 193 1301 308">Of two part-time auditors, one will be appointed from the securities industry and the other from the banking industry, in accordance with the current practices.</p> <p data-bbox="524 363 1301 651">As well as in the case of appointment of members of the board, it will be appropriate that the persons who will be appointed as auditors shall have deep knowledge on the securities clearing and settlement. (In case of participant representatives, each of those to be appointed shall be, in principle, a member of the board of a participant company and the like).</p> <p data-bbox="524 751 1301 1121">Besides the company organizations such as the board of directors, committees will be formed to reflect the opinions of participants to the business operation of the new company (e.g. a committee for new business, or subcommittees under it). In this case, the committees will be composed of persons who could accurately and fairly reflect the opinions and views of the practitioners (e.g., general managers, assistant general managers, or manager of a participant company).</p> <p data-bbox="524 1177 1301 1457">It will be determined by the new company which committees be established, including the management advisory committee mentioned in the subsection below, watching the next amendments to the Commercial Code applicable to the company organization and also the practices of overseas central securities depositories, such as DTC.</p>	

<b>Item</b>	<b>Description</b>	<b>Remarks</b>
Management Advisory Committee	<p>There was an opinion that a management advisory committee should be formed for the following functions;</p> <ol style="list-style-type: none"> <li>(1) To reflect minority opinions expressed by industries not represented by directors into the company operations,</li> <li>(2) To monitor and restrain the inducements of profit to be offered to specific participants or industries, and further,</li> <li>(3) To receive opinions and views on basic policy of the company management and operation of the securities depository and book-entry transfer system from various perspectives.</li> </ol> <p>There was another opinion that it would not be necessary to form a management advisory committee for the following reasons;</p> <ol style="list-style-type: none"> <li>(1) The new company is to be run under the corporate governance of shareholders and directors elected by participants,</li> <li>(2) The new company has a board of directors consisting of outside directors in order to secure the public interest, besides the directors representing participants.</li> </ol>	<ul style="list-style-type: none"> <li>• There was an opinion that the new company's decision on whether to establish a management advisory committee is dependent on the effectiveness of corporate governance by the directors including outside directors. In any case, attention must be paid to adequate measures for securing full transparency.</li> </ul>



Item	Description	Remarks
<p>8 . Procedures for Foundation and Method of Transfer of Business</p>	<p>Hereafter, an ad hoc committee for the preparation of the foundation of the new company should be formed shortly and necessary preparatory works for the foundation, such as deliberation on the appointment of initial promoters of the new company and other items, should be proceeded.</p> <p>The ad hoc committee for the preparation of the foundation of the new company will be made up of representative of industries which participants belong to (such representative shall be a member of the board of a participant company and the like) and the directors of JASDEC.</p> <p>Intending to file an application for the approval of transfer of business to the new company spontaneously responding to the full enforcement of the Amended Law Concerning Central Securities Depository and Book-Entry Transfer on April 1, 2002, the necessary procedures pertinent to the demutualization should be expeditiously proceeded.</p> <p>As the new company may not be able to commence the securities depository and book-entry transfer business immediately after the foundation, such a measure that capital contribution is to be made in two stages should be deliberated, so that the capital contribution could be effectively used. (It is necessary to confirm the appropriateness of the detailed schedule with competent authorities.)</p>	<ul style="list-style-type: none"> <li>• The procedures for the demutualization of JASDEC should be followed along with the lines of this report.</li> <li>• The ad hoc committee will be composed of two representatives from the securities industry, and one representative each from the banking industry, the trust bank industry, the stock exchanges, securities dealers association and JASDEC.</li> <li>• Before the new company acquires the business from JASDEC and commences its businesses, a certain period of time is required for announcement of transfer of businesses to the new company by JASDEC, inspection by inspectors of the assets to be acquired, and the examination by the authorities of the application for the approval of the transfer of business to the new company.</li> </ul>

Item	Description	Remarks
		<ul style="list-style-type: none"> <li>• Initially, the new company will be founded with limited subscription for the convenience of various procedures (The first stage of capital contribution; The new company will be founded by the initial promoters by the end of this year. ), and then the subscription up to full amount of capital will be made by the participants at the time when it becomes necessary.(The second stage of capital contribution; It will be expected shortly after the amended Law becomes effective on April 1, 2002.) In this process, deliberate consideration should be made to procedures of subscription and relations to authorized capital.</li> <li>• Before the first stage of capital contribution is effected, the detailed method of calculation for the proportion of the capital contribution of each participant (to be calculated based on the degree of usage of services) will be determined.</li> </ul>