

Schedule for Financial System Reform

I. Expansion in means of asset investment

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001
1. Enhancements to investment trusts					
1) Introduction of general securities accounts (CMA)	Made necessary deregulation and introduce on October 1.	Further improvements in product attractiveness (salary/amendment concerning salaries effected September 10)			
2) Introduction of company-type investment trusts		<u>Establish the general institutional framework</u> (Investment Trust Law) (law took effect on December 1)			
3) Introduction of privately-placed investment trusts		<u>Stipulate privately-placed investment trusts in law</u> (Investment Trust Law) (law took effect on December 1)			
4) Introduction of over-the-counter sales of investment trusts by banks and other financial institutions	Store space lent for "direct sales by investment trust companies" (Introduced on December 1 after sales rules was finalized)	<u>Sales by banks themselves</u> (Securities and Exchange Law) (law took effect on December 1)			
2. Full liberalization of securities derivatives	Tokyo Stock Exchange and Osaka Stock Exchange Introduction of options on individual stocks (on July 18)	<u>Introduce over-the-counter securities derivatives</u> (Securities and Exchange Law) (Law on Foreign Securities Law Firms) (law took effect on December 1)			
3. Enhance attractiveness of stocks	Expanding use of stock options (law took effect on June 1) Promoting share buy-backs as a means of writing down profits (law took effect on June 1)				
4. Smaller minimum investment lots for stocks	Have already articulated how the Commercial Code is to be interpreted regarding conditional changes in the Articles of Incorporation (July 31)				
5. Streamlining of foreign equity listing by using DRs	Introduced DR-based trading in listed foreign equities (June 1)	<u>Designate DRs as securities</u> (Securities and Exchange Law) (law took effect on December 1) Revision of listing standards (December 1) (Tokyo Stock Exchange)			
6. Improved access to trading and quotation information	Eliminated the system that gives access to real-time information only to branches in the vicinity of the market (October 1)	Tokyo Stock Exchange: Enhancement of market information (November 30)			▶

II. Facilitation of corporate fund-raising

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001
1. Introduce new corporate bond products	Perpetual bonds (clarified interpretation of the Commercial Code) (July 31)	<u>Introduce bonds linked to share-price indexes</u> (enhanced laws related to over-the-counter derivatives on securities) (law took effect on December 1)			
2. Expand use of ABS		<u>Review issues concerning protection against third party claims and established of SPC</u> (enhanced laws related to SPC) (law took effect on September 1)			
3. Promote use of MTN	Measures taken (Clarified that boards could delegate representative directors, and improved system for registering issues) (May 30)				
4. Facilitate listing and initial public offering	Introduced book-building method (modified association and exchange rules) (September 1)	<u>Move to after-the-fact notifications for equity listings</u> (Securities and Exchange Law) (law took effect on September 1)			
5. Revision of listing standards		December 1 (Osaka Stock Exchange) January 1 (Tokyo Stock Exchange) February 1 (Nagoya Stock Exchange)			
6. Strengthen registered over-the-counter market functions.	Introduced share lending system (modified association rules) (July 1)	<u>Alter the characterization of registered over-the-counter market as a "supplement"</u> (Securities and Exchange Law) (law took effect on December 1)			
7. Deregulation unlisted and unregistered equities market	Introduced margin trading and date-of-issue trading (October 27)	Introduction of market maker system (alteration of association rules) (December 1)			
		Revision of OTC registration standards (alteration of association rules) (December 1)			
	1) Permit securities companies to handle unlisted and unregistered equities	Ban lifted (modified association rules) (July 1)			
2) Permit investment trusts to investment in unlisted and unregistered equities	Ban lifted (amended ministerial ordinance and enhanced association rules) (September 1)				

III. Provide a wider variety of services

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001
1. Eliminate restrictions on the range of business open to securities companies	General securities accounts (introduced October 1)	<u>Eliminate compartmentalization</u> (Securities and Exchange Law) (Law on Foreign Securities Firms) <u>Introduce wraparound accounts</u> (Securities and Exchange Law) (Law on Foreign Securities Firms) (law took effect on December 1)		(Financial System Reform Law)	
2. Liberalize brokerage commissions		Reduce to in excess of ¥50 million (April 1)	<u>Full liberalization on October 1, 1999</u>		
3. Reform of the rating organization system		<u>Eliminate the obligation for member insurer of the rating organization to use premium rates calculated by the rating organization</u> (Law Concerning Non-Life Insurance Rating Organization) (law amended July 1)			
4. Strengthen asset investment business	Permitted investment trusts to invest in unlisted and unregistered equities (amended ministerial ordinance and enhanced association rules) (September 1)	<u>Introduce outside consignments</u> (Investment Trust Law) (Law for Regulating Securities Investment Advisory Business) <u>Review business regulations</u> (Investment Trusts Law) (Law for Regulating Securities Investment Advisory Business) <u>Switch from approvals to notifications for investment trust deeds</u> (Investment Trust Law) (law took effect on December 1)			
5. Expand the range of fund raising for banks			Allowing banks to issue straight bonds on October 1, 1999		
6. Expand the range of fund-raising for finance companies (<u>Allowing to issue bonds for financing funds for lending</u>)				Law on Bond Issuance for Financial Companies (law took effect on May 20)	
7. Reform market-entry regulations					
1) Switch from licensing to registration system for securities companies		(law took effect on December 1)			
2) Switch from licensing to authorization for investment trust companies		(law took effect on December 1)			
3) Promote competition across sectorial walls					
• Expand range of business permitted securities subsidiaries and trust-banking subsidiaries	All business except equities-related (October 1)		<u>Eliminate all regulations on October 1, 1999</u> (Financial System Reform Law)		
• Permit cross-sectorial competition between insurance companies and other financial institutions		<u>Entry of insurance companies into securities business and securities companies into insurance business accelerated</u> [Insurance Business Law, Banking Law] (laws took effect on December 1)	Entry of Insurance companies into banking business (Financial System Reform Law) (From October 1, 1999)		<u>Achieve all objectives By March 2001</u>
8. Over-the-counter sale of insurance by banks				Aim to lift ban on handling of certain products in 2001	
9. Utilization of holding companies (HCs)	<u>Enacted two laws on HCs</u> (December 5), took effect (March 11)				

IV. Create efficient markets

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001
1. Improve exchange trading and review exchange market operations	Improved trading systems within the exchange (November 14)	<u>Formulate merger rules for securities exchanges</u> (Securities and Exchange Law) (law took effect on December 1) Improvement of trading systems within the exchange for amortization of company's own stock (December 1, 1999)			
2. Abolish requirement of consolidation of order-flow for listed securities		Abolish the requirement of consolidation of order-flow for listed securities (<u>Formulate fair trading rules</u>) (Securities and Exchange Law) (law took effect on December 1)			
3. Strengthen the functions of the registered over-the-counter market (repeat)					
4. Deregulate unlisted and unregistered equities market (repeat)					
5. Introduce proprietary trading systems (PTSs)					
6. Create share-lending system		<u>Review rules on margin rates</u> (Securities and Exchange Law) (law took effect on December 1)			
7. Enhance clearing and settlement system		Formulate rules for share lending (December 1)			
8. Promote reduction of Settlement risk	Expanded and enhanced system trading (August 4) Bond delivery and settlement system (JB-NET) (December 22) Same-day cash delivery (December 1)	<u>Enhance notifications from custodial and registrar institutions to issuing companies of actual shareholders</u> (Equity Custody and Transfer Law) (law took effect on December 1)			
		<u>Clarify the legal validity of close-out netting contracts</u> (Close-out Netting) (law took effect on December 1)			

V. Assure fair trading

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001
1. Formulate and enhance fair trading rules		<u>Formulate fair trading rules for new product introductions</u> (Securities and Exchange Law) (law took effect on December 1) <u>Review rule for short selling</u> (Securities and Exchange Law) (law took effect on October 23)			
2. Strengthen punitive measures		<u>Formulate rules for forfeiture of illicit profits from insider trading etc.</u> (Securities and Exchange Law) (law took effect on December 1)			
3. Formulate regulations to prevent conflicts of interest	Strengthened punitive measures against insider trading etc. (Enacted Law on Punitive Measures for Financial Matters on December 3; took effect on December 30)	<u>Formulate rules against conflicts of interest</u> (Securities and Exchange Law) (Law on Foreign Securities Firms) (Investment Trust Law) (Law for Regulating Securities Investment Advisory Business) (law took effect on December 1)			
4. Enhance disputes-settlement system		<u>Enact arbitration procedures</u> (Securities and Exchange Law) (law took effect on December 1)			
5. Expand and enhance the definition of securities					
6. Enhance disclosure system	Have taken steps for the beneficiary certificates for financial-institution loan-asset trusts (amended government ordinance, effective June 1)	<u>Designate DRs covered warrants and ABSs by SPCs as securities</u> (Securities and Exchange Law) (law took effect on December 1)			
1) Switch to consolidated reporting	Published opinion paper on reviewing consolidated financial statements (June 6) Published opinion paper on setting standards for the creation of interim consolidated financial statements and consolidated cash flow statements (March 13)	Phased in from the business year beginning April 1	Move to full implementation		
2) Formulate accounting standards for financial products		Accounting standards for tax effect accounting (January 1, 1999 (voluntary))	Achieve all objectives from the business year started on April 1, 1999		
		Published opinion paper on accounting standards for research and development costs	Achieve all objectives from the business year started on April 1, 1999		
		Accounting standards for retirement allowances (June 16) Accounting standards for financial instrument		To be phased from the business year started on April 1999	Achieve all objectives

VI. Ensure soundness of intermediaries and prepare system for dealing with failures

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001
1. Review capital adequacy requirements		<u>Review in conjunction with expansions in range of business</u> (Securities and Exchange Law) (Law on Foreign Securities Firms) (law took effect on December 1)			
2. Enhance financial-institution disclosure		<u>Formulate clear withdrawal procedures if below a set ratio</u> (Securities and Exchange Law) (Law on Foreign Securities Firms) (law took effect on December 1)			
3. Prepare rules of bank and insurance subsidiaries		<u>Enhance disclosure requirements on banks and others</u> (Banking Law etc.)			
4. Prepare framework to protect customers in the event of failure		<u>Obligate disclosure by securities companies</u> (Securities and Exchange Law) (Law on Foreign Securities Firms) (law took effect on December 1)			
1) Thorough separation of accounts	Enacted for futures and options trading (October 29)	<u>Clarify the scope of subsidiaries</u> (Banking Law) (Insurance Business Law) Review rules on margin rates (law took effect on December 1)			
2) Creation of Investor Protection Fund		(Securities and Exchange Law) <u>Enhance overall legal system</u> (Securities and Exchange Law) (Law on Foreign Securities Firms) (law took effect on December 1)			
3) Enhancement of bankruptcy procedures		<u>Incorporate under the Securities and Exchange Law, establish and expand system</u> (Securities and Exchange Law) (law took effect on December 1)			
4) Creation of Policy-holders Protection Corporation		<u>Create special procedures for securities company bankruptcies and reorganizations</u> (Law for Improving the Reorganization and Bankruptcy Procedure for Financial Institutions) (law took effect on December 1)			
		<u>Creation of Policy holders Protection Corporation in order to protect policy-holders</u> (Insurance Business Law) (law took effect on December 1)			
Review securities taxation		Reduce the rate of the securities transaction tax and the bourse tax on April 1, 1998.	Elimination of the securities transaction tax and the bourse tax on April 1, 1999.		

Notes

1. Shading indicates measures that are not taken.
2. Underlines indicate measures requiring amendments to laws.