T+2 Settlement In Japan's Stock Market

Japan Securities Depository Center, Inc.

June 2023

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I. Issues (Toward T+2 Settlement)

- The "Working Group on Shortening Settlement Cycle for Stocks" was established with discussions toward T+2 settlement held for about a year starting in 2015. JASDEC participated in the discussions as the secretariat of the Customer Side Sub WG.

Working Group

Street Side
Sub Working Group

Customer Side Sub
Working Group **(JASDEC)**
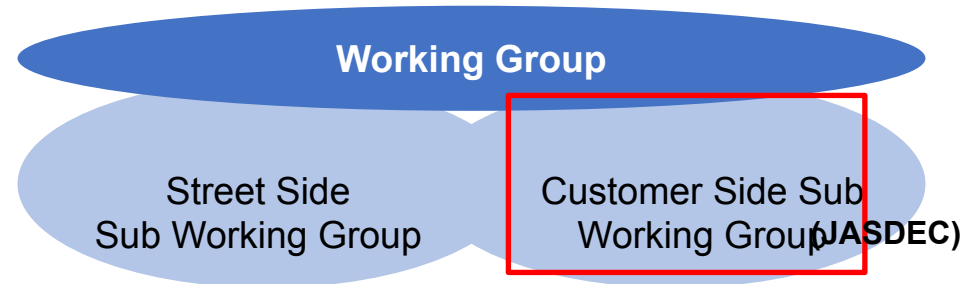
- Because of the expected increase in failures due to shorter settlement cycles, the Customer Side Sub WG discussed the four main points (see next slide for details).

- As a result of the WG's discussions, it was decided not to undertake a major construction or revision of the system and services, but to focus on the following:
  - ✔ Standardization and streamlining of current work flows and procedures
  - ✔ Proactive release of information to stakeholders

II. Sub WG Response Policy

1. **Acceleration and improvement of accuracy for non-resident transactions**

    To disseminate information widely to market participants, including those overseas, and to encourage them to establish systems to avoid failures.

2. **Standardization and efficiency of stock lending transactions**

    To improve the convenience of T+1 and T+0 stock lending transactions, the time available for execution will be secure. In addition, liquidity will be improved by encouraging wider market participation.

3. **Restructuring for failure rules**

    Develop policies to avoid failures and guidelines on how to handle failures when they occur.

4. **Rescheduling clearing and settlement infrastructure timeframes**

    While there are pros and cons to extending various time limits for transaction completion, only a small impact on failure rates can be expected from extending time limits alone, so <u>a review aligned with shifting to T+2 settlement was not undertaken</u>.

III. JASDEC's Response

❑ **Response to JASDEC's activities is as below:**

✔ Modification of business rules and manuals

✔ Flexibility of rights relief measures in case of failures on the vesting date for exchange trades (Securities held by securities finance companies as collateral can be used in transfers after the settlement cut off time.)

❑ **JASDEC's system-related response is detailed below:**

✔ Revision of checking specifications based on assumed T+3 settlement (no impact on external connection specifications)

✔ Assuming a double settlement date, verification of system capacity with actual equipment →Requested cooperation from key institutional stakeholders to control timing of sending related messages, etc. due to potential processing delays identified

Last day execution at T+3

Double Settlement Date

First day execution at T+2
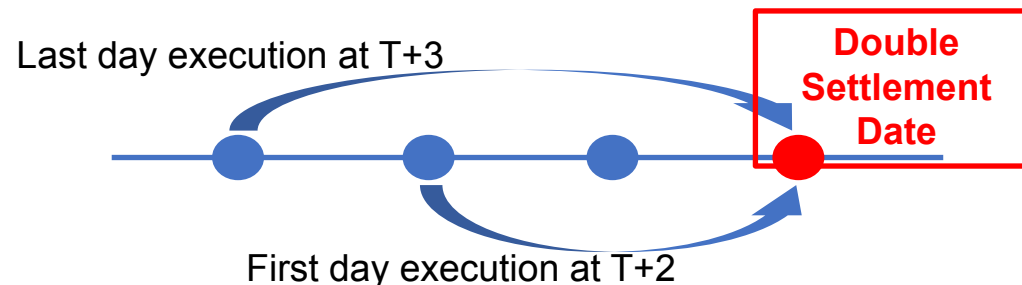
IV. Carry Over Issues (Toward T+1 Settlement)

- **Further streamlining of stock lending transactions**

  Encourage further use of DVP for stock lending and continue to review system processing related to DVP for stock lending.

- **Prevention of fail rate descent**

  As a more fundamental measure, consider establishing a mechanism to enable netting of DVP settlement for exchange transaction and non-exchange transaction.

- **Extension of Settlement Cut Off Time**

  Continue to consider extending the settlement cut off time until sufficient effect can be expected.

- **Remedy for failures on the vesting date**

  In addition to remedies for economic losses through negotiations between the parties, consideration that goes beyond the practical is needed for relief of substantial shareholder rights such as voting rights.

Thank you!