October 2009
Japan Securities Dealers Association

Japanese Economy and Securities Market

I. Japanese Economy

(Macroeconomic trends)

In 2008, Japan's economy fell into deep recession in the second half of the year under the impact of the appreciation in the yen, the Lehman shock, and other factors. Real GDP growth was minus 0.7%, contracting for the first time since 2002. Although conditions remained difficult in 2009, the seasonally adjusted GDP for the second quarter announced on September 11 was a positive 0.6%, moving into the plus column for the first time in 5 quarters and suggesting that the economy had bottomed out.

Looking at a breakdown of GDP in 2008, both private and public demands suffered negative growth, with notable declines in such areas as housing investment in the private sector and capital investment.

While exports were up 1.8% on the year, they fell on a quarterly basis starting with the second quarter and continued to do so until the first quarter of 2009, where they were down 22.5%. Following this downturn, exports to Asia recovered. Similar to GDP, exports rebounded into the plus column in the second quarter for the first time in 5 quarters, increasing 6.4% and indicating that the decline in exports had been halted.

Import levels were almost flat compared with the previous year throughout 2008. On entering 2009, however, imports fell heavily, declining 5.1% in the second quarter.

(Trends in employment conditions)

In 2008, employment conditions in Japan were affected by the global economic downturn sparked by the financial crisis in the United States. Because of the sudden worsening of employment conditions, the unemployment rate rose for the first time in six years, edging up 0.1% to 4%. The labor demand to supply ratio (number of available jobs to job seekers) fell under 1.0 times for the first time in three years, to 0.88 times. Among reasons given by job seekers for not being employed, "the desired type of work or job conditions are not available" or "even on an unconditional basis, work is not available" increased. At the end of July 2009, the unemployment rate was 5.7% and the labor demand to supply ratio was 0.42 times, signifying continued harsh employment conditions.

(Commodity price trends)

In 2008, commodity prices climbed driven by the hike of influence of crude oil prices, which hit a historical high. The corporate goods price index and the consumer price index (excluding perishable goods) both increased substantially compared with the previous year, rising 4.6% and 1.5%, respectively. On the other hand, the corporate goods price index for July 2009 was 102.9 (base year 2005), falling 8.5% from July last year and marking the second consecutive month of record declines. In addition to a reaction to the high prices of crude oil last year, these decreases can mainly be attributed to a drop in demand due to the economic stagnation. However, the corporate goods price index increased compared with the previous month for the first time in 11 months, suggesting that the brakes have been applied to its recent continuing decline. The consumer price index in July 2009 was 100.1 (base year 2005), down 2.2% from July last year, representing a record decrease. This trend suggests that escaping the deflationary trend will not be easy.

(Interest rate trends)

Short-term interest rates were generally stable during 2008, moving in a tight band around 0.5% during the period from 2007 to October 2008. At the Monetary Policy Meeting of the Bank of Japan on October 31, however, it was decided to reduce the target rate to 0.3%. This move was made in recognition of the importance of ensuring stability in domestic financial markets in the light of a notable increase in tension in international financial and capital markets. Following this rate cut, the BOJ Monetary Policy Meeting in December reduced the target rate further to 0.1%.

Continuing on from 2007, the long-term interest rate moved in a generally downward path up to mid-April 2008 under the impact of worsening U.S. economic indicators and other factors. The rate then surged based on observed interest rate hikes in Japan and overseas as well as inflationary concerns. At one point in June, the long-term interest rate climbed close to 1.9%, but later retreated amid heightening uncertainty about the direction of the Japanese economy following interest rate cuts and additional financial stimulus measures introduced by BOJ and the government. Reflecting these concerns, the rate fell to the 1.1% level by the end of the year. Since then, the long-term interest-rate has rallied slightly and was 1.35% at the end of June 2009.

(Outlook)

Although the Japanese economy is expected to rebound from its current floor based on a recovery in production due to progress with inventory adjustments, particularly in the manufacturing industry, and on economic stimulus measures by the government, negative factors such as the deterioration in employment conditions and in personal income remain. Therefore, a full-scale economic recovery is not expected to get under way until the second half of 2010.

<Table 1> Major Economic Indicators

Change from the previous period(Quarterly is seasonally adjusted)

(Major Economic Indicators) (%)

	2008				2009		CY2007	CY2008
	1-3	4-6	7-9	10-12	1-3	4-6		
GDP	1.0	▲ 1.1	▲ 1.0	▲ 3.5	▲ 3.1	0.6	2.3	▲ 0.7
Domestic Demand	0.4	▲ 0.8	▲ 0.8	▲ 0.6	▲ 2.2	▲ 1.0	1.2	▲ 0.9
Private Demand	0.8	▲ 0.7	▲ 1.1	▲ 1.2	▲ 3.0	▲ 1.7	1.5	1.0
Private Consumption	1.3	▲ 1.0	0.1	▲ 0.7	▲ 1.2	0.7	0.7	0.6
Private Residential Investmen	4.6	0.0	3.5	2.6	▲ 5.7	▲ 9.5	▲ 9.7	▲ 7.6
Private Non-Resi. Investment	1.3	▲ 1.7	▲ 4.9	▲ 7.1	▲ 8.5	▲ 4.8	5.7	▲ 3.9
Public Demand	▲ 1.0	▲ 1.4	0.1	1.5	0.6	1.1	0.1	▲ 0.6
Government Consumption	▲ 0.3	▲ 0.7	▲ 0.2	1.3	0.1	▲ 0.3	1.9	0.8
Public Investment	▲ 3.4	▲ 5.1	1.7	2.2	2.6	7.5	▲ 7.3	▲ 6.9
Exports of Goods & Services	6.0	▲ 4.1	▲ 0.8	▲ 13.6	▲ 22.5	6.4	8.4	1.8
Imports of Goods &Services	3.0	▲ 3.1	0.2	2.5	▲ 14.9	▲ 5.1	1.5	0.9
GDP Deflator (year-to-year)	▲ 1.3	▲ 1.5	▲ 1.5	0.7	0.9	0.5	▲ 0.6	▲ 0.9

(source) Cabinet Office

<Table 2> Employment Conditions

(Employment Conditions)

	2008				2009		CY2007	CY2008
	1-3	4-6	7-9	10-12	1 - 3	4 - 6		
Unemployment Rate(%)	3.8	4.0	4.0	4.0	4.4	5.2	3.9	4.0
Job-offers to Seekers Ratio(Ratio(Times	0.98	0.92	0.85	0.76	0.59	0.45	1.04	0.88

(Note)Date is seasonally adjusted.
(source)Ministry of Internal Affairs and Communications,Ministry of Health,Labour and Welfare

(Financial Assets of Households)

The financial assets of households at the end of FY2008 amounted to ¥1,410 trillion, losing approximately ¥54 trillion year in its second consecutive year of contraction. Lower stock evaluation figures due to the drop in stock prices since the start of the financial crisis in September 2008 were at fault. Financial assets of households were about ¥133 trillion less than their peak at the end of FY2006.

Major shifts in the composition of financial assets of households included Shares & other equities, Investment trusts, and Currency and deposits. Proportions of Shares & other equities and Investment trusts dropped sharply to 5.6% (¥79.6 trillion) and 3.3% (¥47.2 trillion) from 8.2% (¥119.7 trillion) and 4.3% (¥63.0 trillion) last year. On the other hand, the proportion of Currency and deposits rose to 55.8% (¥786.4 trillion) from 52.9% (¥775.3 trillion) last year.

<Table 3>The Composition of Financial Assets of Households

	FY2006	FY2007	FY2008	Jun 2009	FY2008 (Amount) (¥ trillion)	Jun 2009 (Amount) (¥ trillion)
Financial Assets of Household	1,543.7	1,464.5	1,410.4	1,441.3	1,410.4	1,441.3
Currency and deposits	49.8%	52.9%	55.8%	55.2%	786.4	796.3
Bonds	2.5%	2.7%	2.8%	2.7%	39.4	39.2
Trust beneficiary rights	0.3%	0.3%	0.2%	0.2%	3.4	3.4
Investment trusts	4.2%	4.3%	3.3%	3.5%	47.2	49.9
Shares & Other Equities	13.0%	8.2%	5.6%	7.1%	79.6	101.8
Insurance and pension reserves	25.9%	27.5%	28.2%	27.2%	397.3	392.4
Overseas Portfolio Investment	0.6%	0.6%	0.4%	0.5%	5.7	6.7
Others	3.6%	3.5%	3.6%	3.6%	51.0	51.3

(source) Bank of Japan

II. Securities Market

1. Equities

The number of new listings declined again in 2008, falling by a substantial 24.8%, to 91 companies. The continued decline likely reflects the credit crunch caused by the financial crisis and the heightened wariness among investors of putting money into start-up companies in view of the successive scandals among them in recent years. Looking at the trend among new listings, of the 91 companies listed in 2008, 49 companies made capital increases by public offerings. Of these companies, the opening price fell below the initial public offering price for 26 companies (53.1%), clearly reflecting the slump in the IPO market.

Figures for 2009 reveal continued difficult conditions. The number of new listings as of the end of August 2009 was only 23, less than half of the number of listings in the corresponding period a year earlier.

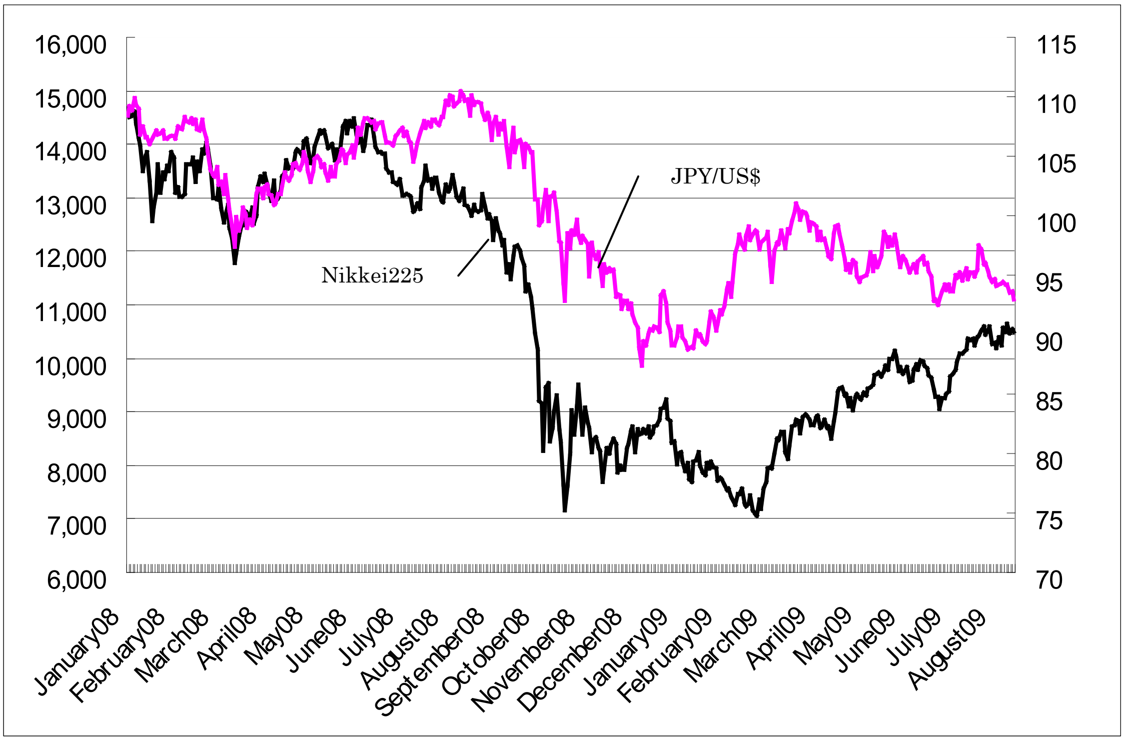
Looking at an overview of the stock market in 2008, the market moved with the U.S. dollar exchange rate in the first half. In response to the strong yen conditions that began in the previous year and prevailed during January to March, the Nikkei 225 Stock Average sunk from 14,000 to 11,000. The appreciation of the yen itself arose from the announcement of an emergency rate cut by the U.S. Federal Reserve Board (FRB) in August 2007. This measure closed the gap between U.S. and Japanese interest rates, causing significant selling off of dollars and buying of yen by investors who had been involved with the yen carry trade. Entering 2008, the appreciation of the yen continued, with the yen to U.S dollar rate falling from 108 yen at the beginning of the year to reach 95.77 yen on March 17, a level last hit in August 1995. In April, the dollar recovered on the strength of the FRB's emergency measures to recapitalize major U.S. securities firms rumored to be going bankrupt, rising to the ¥105 mark on May 2. On the other hand, the stock market saw a flurry of buying on dips during this period, with the stock market index rebounding to 14,000. Following this recovery, the stock market index fluctuated between 13,000 to 14,000 until the end of June.

However, the second half of 2008 saw the emergence of a great deal of turmoil in the market due to the financial crisis. To begin with, Emergency Economic Stabilization Act rejected in the U.S. Congress on September 29, the Dow Jones Industrial Average Index lost a record 777 points, falling into a declining trend. In response, the Tokyo stock market also collapsed, with the Nikkei 225 Stock Average plunging from a high of 12,062 on September 29, to a low of 6,994 on October 28, falling through the 7,000 level temporarily. Following this plunge, the index moved generally in the 8,000 range, reaching 8,859 in the final trading session of the year.

At the start of 2009, news of the U.S. government's takeover of major financial institutions at the end of February caused a resurgence of concerns in financial markets that pushed the closing Nikkei 225 Stock Average on March 10 down to 7,054, its lowest point since October 1982. Following this low, fiscal stimulus measures by the Japanese government and progress with inventory adjustments by Japanese corporations helped the stock average recover to the 10,000 level in June, where it stayed up to the end of August 2009.

The daily average trading volume in 2008 on the Tokyo Stock Exchange was about

2.2 billion shares, approximately the same level as in the previous year. The daily average trading value, however, was trimmed by about 700 billion yen from last year because of the lower stock prices, falling to 2.3 trillion yen. As of the end of July 2009, the daily average trading volume remains the same at about 2.3 billion, but the daily average trading value has fallen further to about the 1.6 trillion yen level.



<Table 4> Key Statistics for Stocks (TSE 1st, 2nd & Mothers)

(billions.shs, ¥ trillion)

Year	No. of Listed Companies*	Newly Listed	Total Market Value* (¥ trillion)	Trading Volume (billions of shares)	T.Volume. (daily avg) (billions of shares)	Trading Value (¥ trillion)	T.Value. (daily avg) (¥ trillion)	TOPIX
2006	2,391	113	549.8	502.5	2.026	673.8	2.717	1,681.07
2007	2,389	65	483.8	562.1	2.294	752.2	3.070	1,475.68
2008	2,373	54	283.4	555.1	2.265	576.3	2.352	859.24
2009 (1 -6)	2,349	13	309.1	291.6	2.695	190.2	1.820	929.76
2009.7	2,337	1	317.1	50.2	2,283	33.3	1.820	950.26

Note: *as of end of year

(source) TSE Monthly Statistics Report

Looking at a breakdown of transactions by type of investor for 2008 (total of Tokyo, Osaka and Nagoya exchanges), foreign investors held the largest market share.

Comparing net transactions by investors, individual investors became net buyers for the first time in 18 years because of active buying in the wake of the financial crisis caused by the perception that stocks were selling at a discount. Trust banks also became net buyers—for the first time in 6 years—due to growth in their pension fund management business and other factors. Trust banks were the largest net-buyers at 4.5 trillion yen. Business companies remained net-buyers for the fourth consecutive year, bettering last year's 1.5 trillion yen to reach 1.6 trillion yen.

Among net-sellers, after 7 consecutive years of net-buying, foreign investors fled the Japanese equities market because of the deepening financial crisis, reversing the past trend substantially by posting net sales of 3.2 trillion yen.

Considering trends in the first half of 2009, foreign investors continued to hold the largest share of the market. Moreover, against the backdrop of the recovery in the stock market, they have returned to the market as net-buyers. All other categories of investors also are showing more confidence, continuing their net-buyer positions or reducing their net-seller positions.

<Table 5> Market Share & Trading Balance by Types of Investors
-Tokyo, Osaka, Nagoya -

Year	Member Account	Individuals	Foreigners	Investment Trusts	Business Co.s	Life & Non-life	BKs	Trust BKs	Others
Market Share									
2006	26.6%	23.8%	39.8%	1.7%	1.5%	0.2%	0.1%	5.3%	1.0%
2007	26.4%	19.1%	44.8%	1.9%	1.3%	0.2%	0.1%	5.0%	1.2%
2008	26.7%	16.7%	46.4%	1.9%	1.0%	0.2%	0.1%	5.0%	2.0%
2009 (1-6)	26.7%	22.1%	38.1%	2.4%	1.2%	0.3%	0.1%	5.8%	3.3%
2009.7	25.1%	23.1%	39.2%	2.5%	1.0%	0.3%	0.1%	4.9%	3.8%
Net Selling (-)/Buying (+) (¥billion)									
2006	-292	-4,381	5,529	1,707	2,019	-150	157	-3,318	-1,277
2007	-1,617	-3,229	5,423	-545	1,556	68	-211	-1,683	32
2008	-3,537	982	-3,709	301	1,632	-329	-36	4,503	-194
2009 (1-6)	-1,309	639	1,749	14	84	-127	-127	2,281	-54
2009.7	-193	-605	1,010	-9	-66	-69	-6	-61	-32

(Source) TSE Monthly Statistics Report

2. Bond Market

(1) Primary Market

Total issuance of public and corporate bonds amounted to 159.2 trillion yen in 2008, decreasing 17.2 trillion yen, or 9.8%, from a year earlier.

Annual issuance of Japanese government bonds (JGBs), which account for a major portion of the market, declined to 125.7 trillion yen in 2008, down 14.7 trillion yen, or 10.5% from the previous year. It was the first time JGB issuance had fallen below 130 trillion yen since 2000, eight years ago. In addition to the trend toward curtailment of interest expenses by reducing outstanding balances, the drop can be attributed to the government's debt management policies, such as decreasing refunding bonds issuance by lengthening average term to maturity and buying back existing JGBs and continuing its reduced issuance of new financial resource bonds.

Issuance of public bonds other than JGBs was almost on a par with the previous year. Issuance of municipal bonds amounted to 5.8 trillion yen, while issuance of government-guaranteed bonds and fiscal investment and loan program agency (FILP agency) bonds were each 4.4 trillion yen.

Looking at the private sector, corporate bond issuance edged down 0.3 trillion yen, to 8.8 trillion yen. The decline resulted from deteriorating demand for corporate bonds, reflecting the stronger risk avoidance trends emerging among institutional investors following the bankruptcy of Lehman Brothers in late September. Supported by continued active issuance of samurai bonds by U.S. issuers, non-resident bond issuance amounted to 2.3 trillion yen, remaining almost the same as in the previous year.

In the first half of 2009, JGB issuance was on a par with that in 2008. On the other hand, corporate bond issuance rose to 6.1 trillion yen amid a trend among corporations toward greater use of corporate bonds to raise funds from the market. This active issuance is expected to continue in the second half. The greater issuance appears to be the result of a recovery in demand for corporate debt by investors who had previously fled to safer assets, because of a cooling off of concerns about the direction of financial markets following the implementation of strong economic stimulus measures by major countries around the world.

(2) Secondary Market

The public and corporate bond market fluctuated substantially compared with 2007, but still remained strong throughout 2008 reflecting a sense of a downturn in the economy and the global financial crisis. The interest yield on 10-year JGBs declined along with progressive buying in view of the anxiety in credit markets, falling to 1.215% on March 26, after which yields recovered along with the rapid emergence of inflationary concerns caused by the sharp hikes in prices of crude oil and other resources, with the yield on 10-year JGBs climbing to 1.895% on June 19.

Entering the second half, inflationary concerns receded with the drop in crude oil prices, but indications of economic recession strengthened given the poor performance of economic indicators announced in July. Consequently, the public and corporate bond market remained on strong ground. In mid-September the bankruptcy of the major U.S. investment bank, Leman Brothers, accelerated the so-called "flight to quality," but, on the other hand, the emergency economic stimulus measures of various governments prompted a buy-back trend among risk assets. Accordingly, the secondary market entered a period of turmoil up until early October.

Following that period, the yields on JGBs continued to test the downward depth of the market, amid progressive buying, particularly of long-term bonds, based on successive rate cuts by the central banks of Japan, the United States, and European countries as well as the introduction of various measures to increase liquidity. The yield on 10-year JGBs at the end of 2008 fell to 1.155% on December 30.

In 2009, the market was soft due to concerns about increased issuance of government debt to cover additional fiscal stimulus measures combined with indications of a coming economic recovery. During this period, the yield on 10-year JGBs rose to 1.5% in early June. After that, there was some buy-back of positions, resulting in the yield falling back down to 1.305% on August 31.

Total trading volume (OTC trading, including Repos) of bonds in 2008 retreated somewhat from the record high of 12,096 trillion yen set in the previous year, declining 6.7% to 11,288 trillion yen, but maintaining its high level.

<Table 6> Public and Corporate Bond

(¥ trillion)

Year	Trading Volume(face value)			Issuing Amount			
	JGB	Others	Total	Public Debt Securities (JGB) (1)	Corporate Bonds (2)	Non-Resident Issues(Yen-denominated)	Total (3)
2006	8,881	271	9,152	190.6(175.6)	7.4	0.7	210.1
2007	11,890	206	12,096	155.1(140.4)	9.2	2.2	176.4
2008	11,118	169	11,288	140.5(125.7)	9.2	2.3	159.2
2009 (1-6)	4,408	59	4,468	75.2*(67.2*)	6.1*	0.6*	84.3*
2009.7	747	9	756	13.8*(12.5*)	1.3*	0.2*	15.7*

(Source) Japan Securities Dealers Association

Notes: 1. JGBs do not include bonds placed in the public sector or treasury bills redeemed during the year. Public bonds other than JGBs comprise municipal, government-guaranteed, and FILP agency bonds (including regional public corporation bonds).

2. Corporate bonds comprise straight corporate bonds (including investment company bonds), convertible-type bonds with subscription rights (CBs), and asset-backed corporate bonds.

3. The above figures include bank bonds, private placement corporate bonds and private placement government bonds, so they do not add up to the overall total.

4. Issuance amounts for the first half of 2009 and for July 2009 are provisional figures.

3. Investment Trust

The major trend in investment trusts in 2008 was affected by the impact of the collapse in stock prices due to the global financial crisis. Newly offered stock investment trusts totaled only 14.5 trillion yen, less than half of that of the previous fiscal year, and net assets fell to 40.8 trillion yen, contracting by 38.8% year on year. Similarly, newly offered bond investment trusts dropped 32.0%, to 38.8 trillion yen, with net assets dropping below 10 trillion yen, to 8.6 trillion yen. As a result, at December 31, 2008, the total assets of investment trusts amounted to 52.1 trillion yen, dropping 34.6%. It was the first time in six years that total net assets had contracted, an event that last happened in 2002.

Looking at the first half of 2009, net assets of stock investment trusts made a comeback supported by the recovery trend in the stock market—at the end of July 2009 net assets had gained about 6.5 trillion from the end of 2008 to reach 47.3 trillion yen, while net assets of public offered investment trusts in total had risen to 58.7 trillion yen.

<Table 7> Changes in Assets of Investment Trusts (¥ trillion)

Year	Total	Stock Investment Trusts			Bond Investment Trusts			MMFs		
		Sales	Repurchases	Assets	Sales	Repurchases	Assets	Sales	Repurchases	Assets
2006	68.9	28.1	13.6	55.6	59.9	60.8	10.5	1.2	1.5	2.6
2007	79.7	35.0	19.2	66.7	57.1	57.6	10.0	1.9	1.7	2.9
2008	52.1	14.5	12.0	40.8	38.8	40.2	8.6	1.3	1.6	2.6
2009 (1-6)	57.0	6.8	6.0	45.8	17.1	17.2	8.6	0.5	0.6	2.5
2009.7	58.7	1.5	1.1	47.3	3.3	3.2	8.8	0.1	0.09	2.5

(Source) The Investment Trusts Association, Japan

III. Industry Topics in 2008 and 2009

1. Various Measures to Establish Trustworthy and Robust Financial and Capital Markets

Based on the lessons learned from the turmoil in the financial and capital markets triggered by the subprime loan problem in the United States, Japan has revised the Financial Instruments And Exchange Act (FIEA) and other related laws to introduce official regulation for credit rating agencies, to set up systems to promote the resolution of disputes related to financial services and to make it possible to establish commodity markets on financial instrument exchanges (the revised law was promulgated on June 24, 2009 and is scheduled to be enforced on a date determined by government ordinance within one year from the promulgation).

(Measures introduced by the revised law)

Establishing fair and transparent markets

- Introducing official regulations for credit rating agencies

Enhancing protection of market users

- Creating an out-of-court dispute resolution system for the financial services field (financial ADR system)
- Revising procedures for switching between special investors (professionals) and the general investors (amateurs)
- Introducing obligation for segregated management of OTC Securities-Related Derivatives

Establishing a fair and highly convenient market infrastructure

- Reciprocal combination of financial instrument and commodity exchanges
- Revising disclosure regulations

2. Establishment of Self-Regulatory Rules, and Issuing of Guidelines to Members

It has been pointed out that improving the transparency of securitized products transactions is an important measure for dealing with the medium- to long-term issues arising from the financial crisis caused by the subprime loan problem in the United States. In March 2009, the JSDA formulated self-regulatory rules stipulating the establishment of systems to ensure the traceability of securitized products.

As of May 2009, the JSDA began operation of the Japan-Insider Registration & Identification Support System (J-IRISS) to prevent insider trading among its members. Through the system, JSDA is enforcing a self-regulatory rule that requires members to confirm at least once a year the name, date of birth, and address on the records of their customers that trade equities, etc. of listed companies, etc.

Furthermore, from the point of view of contributing to enhancing investor protection, the JSDA considered the setting up and outsourcing operations of a non-profit organization (NPO) to serve as a new financial alternative dispute resolution (ADR) body for financial products in cooperation with other organizations covered by the Financial Instruments and Exchange Act. The purpose behind this action is to build a more industrywide and comprehensive complaints and dispute resolution service. Going forward, following its approval as an investor protection body under the Financial

Instruments and Exchange Act and its approval under the ADR promotion law, which promotes the use out-of-court dispute resolution methods, the NPO plans to begin complaints and dispute resolution services.

3. Revision of Securities-Related Tax System

From the perspective of the continued disproportionately-large share of savings in household financial assets over the last few years, the fact that the shift from savings to investment is still only mid-way, and that Japan is striving to maintain the international competitiveness of its markets, it is clear that we require a financial and securities tax structure in Japan that adequately incorporates measures to promote securities ownership. Consequently, we have worked focusing on a continuation of the current preferential tax rate (10%) on capital gains and dividends from listed securities and the unification of taxation systems for financial products in our annual fiscal tax revision requests.

The fiscal tax revisions for fiscal 2009 included a three-year extension of the preferential tax rate of 10% on capital gains and dividends from listed securities and measures regarding the creation of a preferential tax system (Japanese version of the individual savings account (ISA)) for small amounts of investment capped at one million yen annually. The details of the ISA system are to be discussed in future.

4. Electronic Registration of Stock

Reduction of settlement-related risks and costs, and improvement of the convenience of the system for users are necessary to establish confidence in the reliability, security, and efficiency of the securities settlement system—the core infrastructure of the market. These attributes are essential to the development of a stable Japanese securities market and the reinforcement of its international competitiveness.

To date, we have introduced electronic registration (paperless) systems for commercial paper, Japanese government bonds, corporate bonds, and investment trusts. With the January 2009 conversion of listed stocks and other equities to an electronic registration system, the reform of the securities settlement system has reached an important turning point.

5. Japan Securities Summit

To promote Japan's securities markets overseas, the JSDA held the 1st Japan Securities Summit in London in January last year. Following its success, we held the 2nd Japan Securities Summit in Hong Kong in March 2009 in cooperation with the Hong Kong Securities Association Ltd. Although the event was held at a time when the world faced serious economic conditions and stock markets were slumping, over 300 people attended the event, primarily from Hong Kong securities companies, financial institutions, and institutional investors (there were also about 20 press-related people at the event). Participants actively exchanged opinions and many voiced their appreciation of the event. The JSDA plans to hold the 3rd Japan Securities Summit in Singapore in March 2010.

6. Creating a Business Continuity Plan (BCP) for the Entire Securities Industry

During the year, we considered what measures would be necessary for our BCP for the entire securities industry in the event of the occurrence of a epidemic of a new strain of influenza (avian influenza) in addition to those necessary for traditional disasters such as large-scale earthquakes. In November 2008, we conducted research on the necessary number of employees required to continue operation of the major business activities that securities companies should maintain should an epidemic of a new strain of influenza occur. We also listed up laws and regulations required for flexible enforcement to ensure smooth business execution under these conditions.

More recently, we are keeping in close contact with the relevant authorities regarding measures to deal with the new strain of influenza (H1N1) that emerged in spring 2009, working to stay up to date with the status of the epidemic.