

Target Implementation Timing for Shortening of JGB Settlement Cycle to T+1

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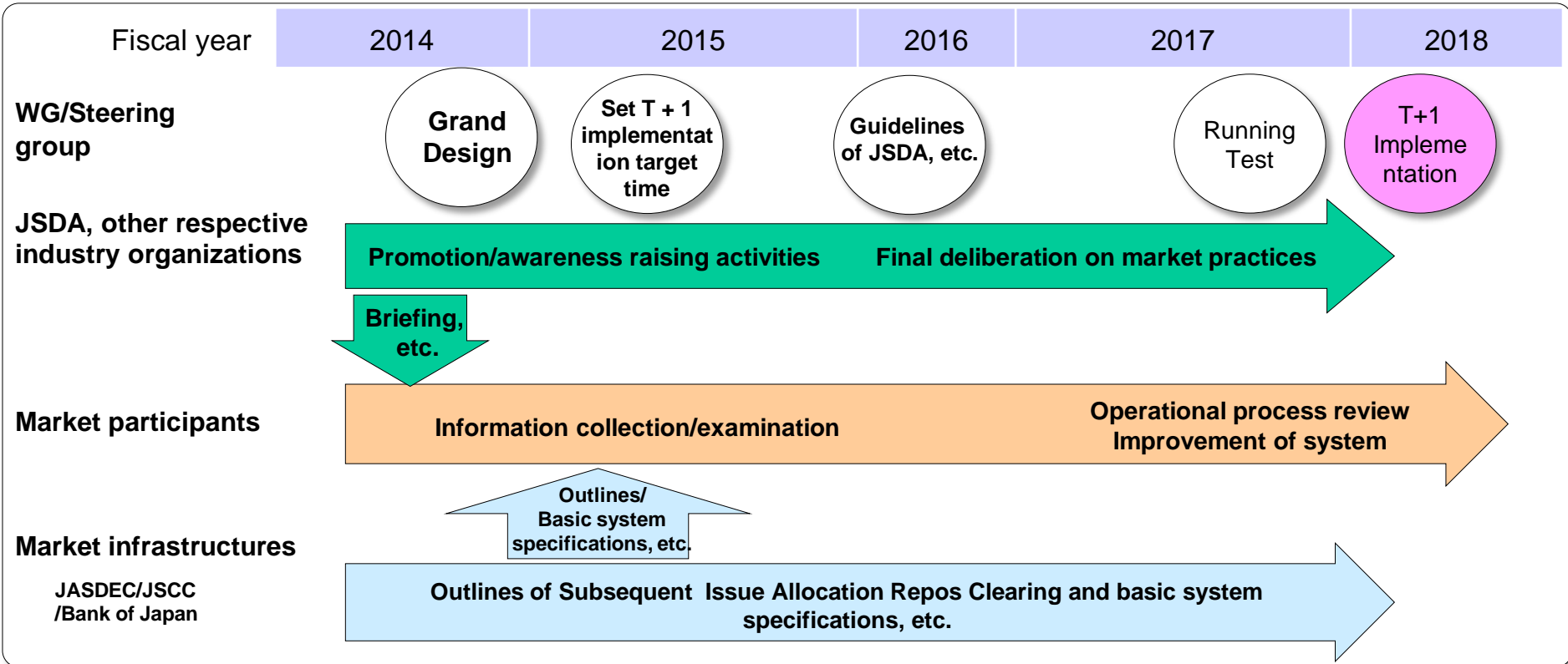
1. Target Implementation Timing for T+1

- The Working Group on Shortening of the JGB Settlement Cycle (WG) agreed to set the first half of FY2018 (*1) as the target implementation timing for T+1, based on the survey results from market participants .
 - The specific date of T+1 implementation will be decided after conducting sufficient comprehensive running tests (*2) from the fall of 2017.
 - *1 At the moment, the WG agreed that the market participants should proceed with the preparations assuming that the implementation date will be set right after the consecutive holidays in April or May of 2018
 - *2 The WG will consult with market participants and market infrastructures on the details (e.g. scope, duration, frequency) of the running tests.

- Along with the shortening of the settlement cycle to T+1, the standard agreement used in the Japanese repo market will be aligned to a form of repurchase agreement (the *Gensaki*) widely used overseas and in cross-border transactions. The transition from the current *Gentan* agreement (cash-secured bond lending transactions) to the *Gensaki* is aimed to take place on or before the implementation date of T+1.

- While transactions with non-residents are outside the scope of the T+1 implementation, the WG will encourage market participants to take appropriate measures in accordance with the policy discussed by major market participants to enable a faster and smoother settlement administration (see Attachment).

2. Timeline



Measures to Facilitate Settlement of Cross-Border Transactions

1. Current status and future outlook of the settlement cycle of non-resident transactions

(1) Current status of the settlement cycle of cross-border transactions

- Most of the transactions with non-residents are currently conducted under a T+3 or longer cycle even when a T+2 cycle is adopted for domestic transactions.

(Settlement cycle of transactions with non-residents)

T+0	T+1	T+2	T+3	>T+4	Total
0%	2%	26%	44%	27%	100%

(Note) A survey was conducted among top17 financial institutions that handle transactions with non-residents. The survey takes into account transactions conducted between September and November 2014.

- Nonetheless, after the T+2 implementation for domestic transactions, increasing number of transactions with non-residents are settled on a T+2 cycle. Going forward, with the progress of the discussions regarding T+1 implementation for domestic transactions, it is likely that a demand for an implementation of a T+2 cycle for non-resident transactions will increase.

(2) Measures to facilitate settlement of cross-border transactions

- Measures for reducing unmatched settlement instructions would be an immediate action that can be taken to enable a faster and smoother settlement of transactions with non-residents. According to the above survey, the main reasons behind unmatched settlement instructions arising from transactions with non-residents were account mismatch, differences over the adoption of the 5 billion yen division rule on the settlement amount, and differences over the adoption of pair-off. It would be beneficial for parties to agree more carefully and thoroughly on the details of settlement at the time of trade execution.
- In addition, it would also be essential to raise the awareness of the relevant parties regarding the compliance with the cut-off time in Japan to secure enough time for settlement matching.

2. Further measures and issues for discussion

(1) Measures to be taken before the T+1 implementation

(Outreach to overseas investors and custodians)

- 1) The market practice in Japan (the RTGS Guideline) recommends that the 5 billion yen division rule be taken into account at the time of trade execution and to split the agreement slips not to exceed 5 billion yen.
- 2) If the parties agree not to apply the 5 billion yen division rule to the agreement slips, parties are recommended to re-check with the counterparty both the trade amount and the settlement amount.

(Further issues to be discussed by participants in domestic markets)

- 3) Promotion on the use of JASDEC Pre-Settlement Matching System among domestic sub-custodians (including securities companies)
- 4) Sorting out the issues and encouraging relevant parties regarding the compliance of the current cut-off time (14:00)

(2) Further issues to be discussed in view of the post-T+1 implementation

Impact of the T+1 implementation on the settlement of domestic transactions and transactions with non-residents.