



Mandatory Dematerialization of Share Certificates of Listed Companies

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In accordance with new regulations, shares of companies listed on Japanese stock exchanges will be mandatorily dematerialized and become paperless effective January 2009. Physical share certificates of listed shares already issued will be invalid, and holdings and transfers of all listed shares will be managed electronically by entries in the books of accounts maintained by securities firms and other financial institutions. The new system after the dematerialization is called the electronic share certificate system or paperless share system.

Background

The *Companies Law* of Japan provides that holders of physical share certificates are presumed to be entitled to rights attached to the relevant shares, and that shares are transferred upon delivery of share certificates. Under the *Law Concerning Central Securities Depository and Book-Entry Transfer of Stock Certificates and Other Securities*, the Japan Securities Depository Center (JASDEC) is operating a depository and book-entry transfer system, under which shares can be transferred without delivering share certificates. A holder of shares may choose whether to hold such shares in the form of physical share certificates, or to deposit the share certificates with JASDEC and hold the shares through accounts maintained under the book-entry transfer system.

The *Law Concerning Book-entry Transfer of Corporate Bonds and Other Securities for the Purpose of Streamlining the Settlement of Trades of Stocks and Other Securities*, promulgated in 2004, provides that the paper-based share system will be abolished for listed shares on the effective date of this law, i.e. January 5 2009; thereafter, only the book-entry transfer system will be applicable to listed shares. On the same date, issuers of listed shares will be deemed to have abolished provisions in their articles of incorporation that require share certificates to be issued, and will become companies that do not issue share certificates with respect to listed shares. In principle, listed shares will be recorded in books of accounts called transfer account books, which are opened and maintained at account management institutions (i.e. securities firms and other qualified financial institutions operating book-entry transfer business under the system). Holders of shares are determined by the record of the transfer account books, and transfers of shares will become effective only when they are recorded in the transfer account books.

Transition for shareholders of physical share certificates

It is recommendable that a holder of physical share certificates open his/her trading accounts at a securities firm and deposit such share certificates with JASDEC through such securities firm well in advance of the effective date, i.e. January 5 2009. All physical share certificates of listed shares not deposited with JASDEC will be invalid as of that date. Information on such physical share certificates will be recorded on accounts called special accounts, which will be opened at financial institutions such as trust banks at the request of the issuers of such physical share certificates. Special accounts are not accounts for trading shares, but provisional accounts for the purpose of securing the rights of holders of non-deposited physical share certificates. Trading of shares recorded on a special account to a third party is prohibited; such shares must first be transferred to a trading account opened by the holder of such shares at a securities firm in order to be traded.

The name of the holder recorded in the special accounts is difficult to change. Therefore, holders of shares registered in the name of a third party should reregister the shares in their own names in the shareholders' registry before January 5 2009. If they fail to do so, the share certificates will be recorded in the special accounts in the third party's name, and it will be extremely burdensome to make changes.

The paperless share system eliminates the risk of loss or theft of share certificates, and is expected to allow safer and more efficient maintenance and trading of listed shares.

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