

September 15, 2022

Japanese Banks' Payment Clearing Network

Expansion of Qualification for Participation in the Zengin System

Japanese Banks' Payment Clearing Network (Zengin-Net, Chairperson: Matsuo Tsuji) decided at the board of directors today to expand the qualification for participation in the Zengin System. The participation was previously limited to deposit-taking financial institutions (i.e., banks); from October 2022, the System will accept funds transfer service providers (i.e., non-banks) as participants¹. This decision was based on the recommendation by the "Task Force for the Next-Generation Payment Systems". As a result of the decision, those non-banks wishing to participate in the Zengin System and completing the necessary procedures for such participation can realize funds transfers with participating banks. For other details, please see the attachment.

Furthermore, from the perspective of improving the convenience and raising the cost efficiency of both existing member banks and non-banks wishing to participate in the Zengin System, Zengin-Net will continue to examine the details for developing a new connection method using an application programming interface (API Gateway). API Gateway is expected to be developed while the current 7th Generation Zengin System is in operation² were certain conditions to be met.

As an operator of the Domestic Funds Transfer System³, which is part of

¹ This is subject to the approval of the relevant authority.

² The 7th Generation Zengin System is scheduled to be upgraded in 2027. The timing of the development of the API Gateway will be decided based on several conditions including the timing of funds transfer service providers' participation and the prospects for the transition of existing member banks.

³ The Domestic Funds Transfer System is a mechanism that connects domestic financial institutions online, enabling them to conduct funds transfer transactions. The Zengin System is the core system of the Domestic Funds Transfer System, and to participate in the Zengin System means to participate in the Domestic Funds Transfer System.

the social infrastructure, Zengin-Net will maintain the appropriate and stable operation of the Domestic Funds Transfer System and the Zengin System, as well as continue to work on sophisticating the Systems in response to the needs of payment users, participants in the Zengin System, and the society.



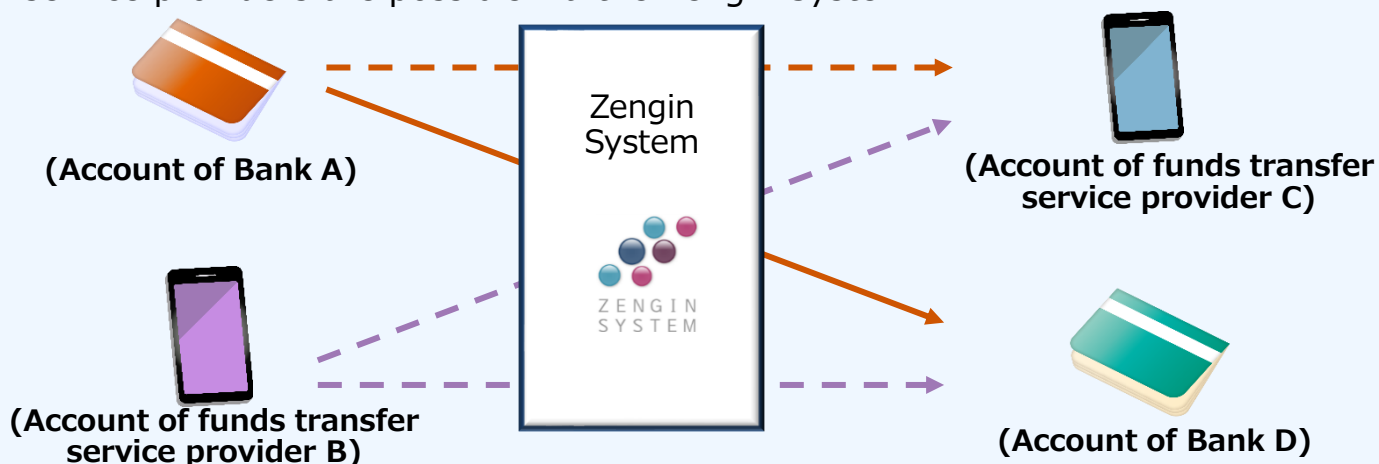
Expansion of Qualification for Participation in the Zengin System (1)

- In FY2020, the "Task Force for the Next-Generation Payment Systems" was established in Zengin-Net to discuss the ideal payment system with members, including academics, the Japan Payment Service Association, the Fintech Association of Japan, system vendors, relevant authorities, and banks.
- **The report released by the Task Force in January 2021 recommended that the qualification for participation, which had been limited to deposit-taking financial institutions, should be expanded to include funds transfer service providers (i.e., non-banks).**
- Based on this recommendation and trends in other countries among other factors, Zengin-Net had been discussing details with the relevant parties from both institutional and system aspects, and **decided to expand the qualification for participation to funds transfer service providers from October of 2022***.

*Subject to the approval of the relevant authority

[Illustrated Structure after Participation of Funds Transfer Service Providers]

- ✓ When a funds transfer service provider participates in the Zengin System, money transfers from a bank account to the account of the funds transfer service provider, from the account of the funds transfer service provider to a bank account, and between accounts of different funds transfer service providers are possible via the Zengin System.

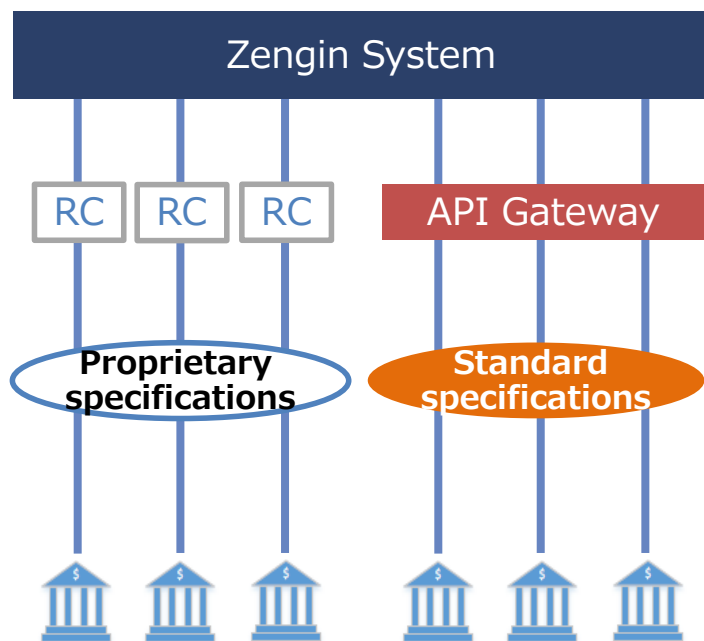




Expansion of Qualification for Participation in the Zengin System (2)

- In realizing the expansion of the qualification for participation to include funds transfer service providers, the participation requirements and participation methods were examined and arranged to maintain the stability and reliability of the Zengin System. Furthermore, from the perspective of reducing the burden on both existing financial institutions and funds transfer service providers, **Zengin-Net will continue to examine the details based on the policy of building a new connection method using an application programming interface (API Gateway) during the period the current 7th Generation Zengin System is in operation (up to 2027)**, assuming that certain conditions such as ensuring the maintenance of the current level of service are met.

[Overview of API Gateway]



- The standardization of connection specifications and connection flexibility can be achieved by utilizing API instead of connection via a relay computer (RC).
- At the Task Force, several funds transfer service providers have requested a connection method that utilizes API for easy connection.
- In addition to funds transfer service providers, existing member banks can use it.
- The time frame for construction will be decided based on some points including the timing of the funds transfer service providers' participation and the prospects for the transition of existing member banks.



Participation Requirements, Participation Process, etc.

- The requirements, methods, and process for participation in the Zengin System are the same for deposit-taking financial institutions and funds transfer service providers.

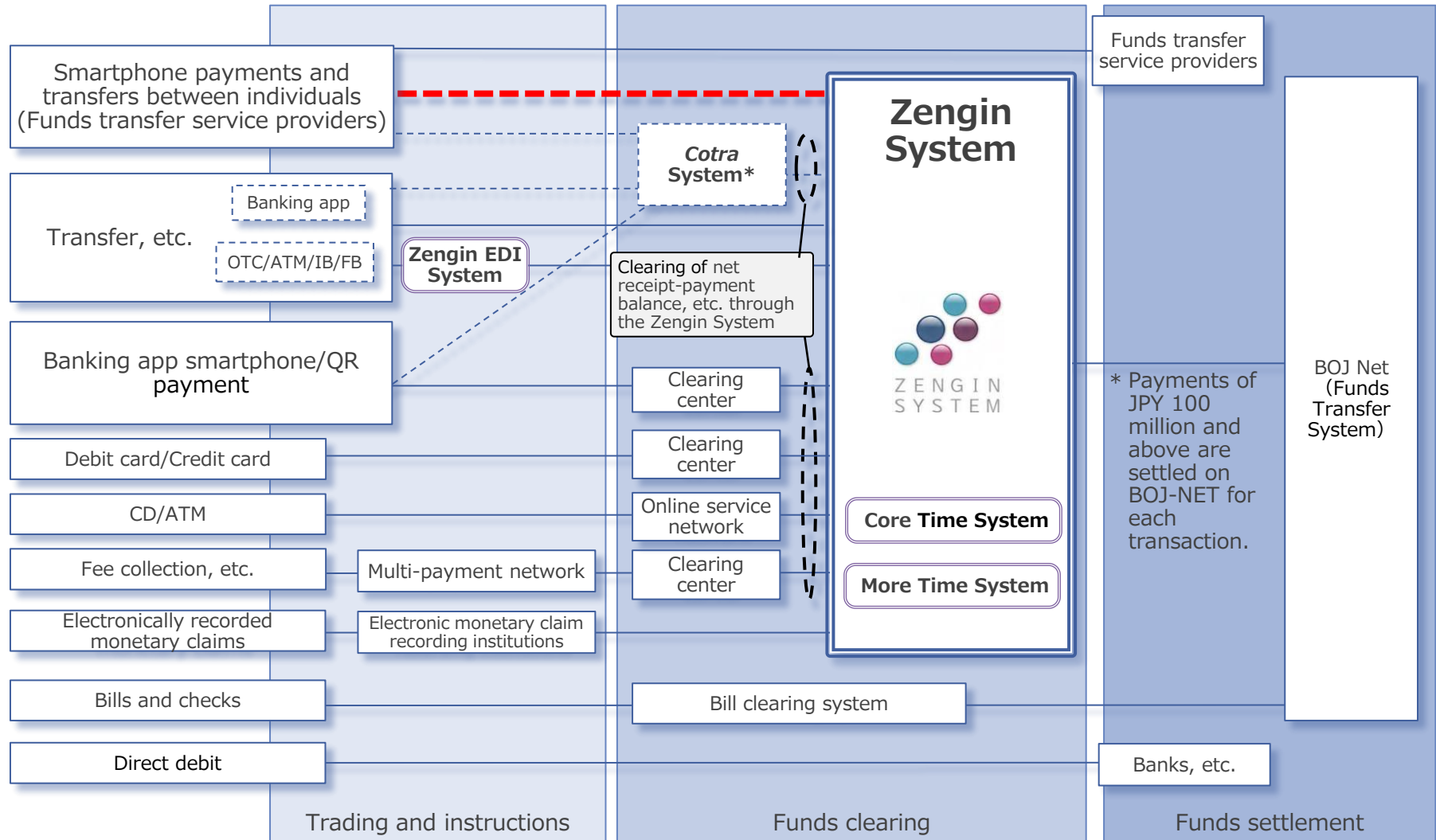
<p>Participation requirements</p>	<ul style="list-style-type: none"> • Deposit-taking financial institutions or funds transfer service providers • Amount of net assets is not negative • Preparation of management system and operating system that enable the appropriate execution of domestic fund transfer operations in accordance with laws and regulations, Operational Procedures, and other rules <ul style="list-style-type: none"> * Describing participation requirements after amendments to regulations of the Zengin-Net * At the same time, the Financial Services Agency plans to revise related administrative guidelines from the perspective of properly supervising funds transfer service providers participating in the Zengin System.
<p>Participation methods</p>	<ul style="list-style-type: none"> • To be selected from the following two methods: ✓ Clearing Participant (direct participant) <ul style="list-style-type: none"> * Funds are settled through the participant's current account with the Bank of Japan (BOJ). In the previous fiscal year, the BOJ outlined how it will address access to BOJ current accounts by funds transfer service providers. ✓ Agency Participant (indirect participant) <ul style="list-style-type: none"> * No BOJ current account is held, and funds are settled by entrusting settlement to another Clearing Participant.
<p>Participation process</p>	<ul style="list-style-type: none"> • The main process up to participation is as follows: Through taking these steps, necessary matters are confirmed from the viewpoint of whether it is possible to reliably execute domestic funds transfer transactions. Advance consultation with Zengin-Net is required for participation. <ol style="list-style-type: none"> (1) Application for membership (2) Deliberation and approval by the board of directors (3) In-house system development/Connection testing with the Zengin System (4) Connection determination (5) Start of connection <ul style="list-style-type: none"> * In the past, it took approximately 14 months from (1) application for membership thru (5) start of connection.



Appendix

Overview of Zengin-Net and the Zengin System

Overview of Payment System (from October 2022)



* The Cotra System is scheduled to start operation on October 11, 2022.



Overview of Zengin-Net and the Zengin System

◆ Japanese Banks' Payment Clearing Network (Zengin-Net)

- Funds clearing institution based on the Payment Services Act (In 2010, it became independent from the Japanese Bankers Association and became a general incorporated association. A nonprofit corporation.)
- Engages in the operation of the Zengin System and the Zengin EDI System, and the management of rules for domestic fund transfers.

◆ Zengin Data Telecommunication System (Zengin System)

- A system whereby nearly all deposit-taking financial institutions in Japan are connected to process real-time payments online.
- Realized 24/7-operation from 2018.

[Number of participating financial institutions, number of transactions, etc.]

Number of user financial institutions	1,149 institutions (banks, shinkin banks, credit cooperatives, agricultural cooperatives, Japan Post Bank, etc.) (as of the end of July 2022)
Number of branches	29,725 branches (as of the end of July 2022)
Number/Amount of transactions handled	Annual: Approx. 1.8 billion transactions/Approx. JPY 3,200 trillion Daily average: Approx. 7.5 million transactions/Approx. JPY 13 trillion (2021 results)

◆ Zengin EDI System (ZEDI)

- Implemented in December 2018. As of the end of July 2022, 1,017 institutions were connected.
- Supports XML messages (ISO 20022), the next-generation international standard. The amount of information that can be sent has increased dramatically.
- Not only transfer data but also information on business flows between companies can be sent, which is expected to contribute to the digitalization and streamlining of accounting processes of companies from order placement and delivery to payment.

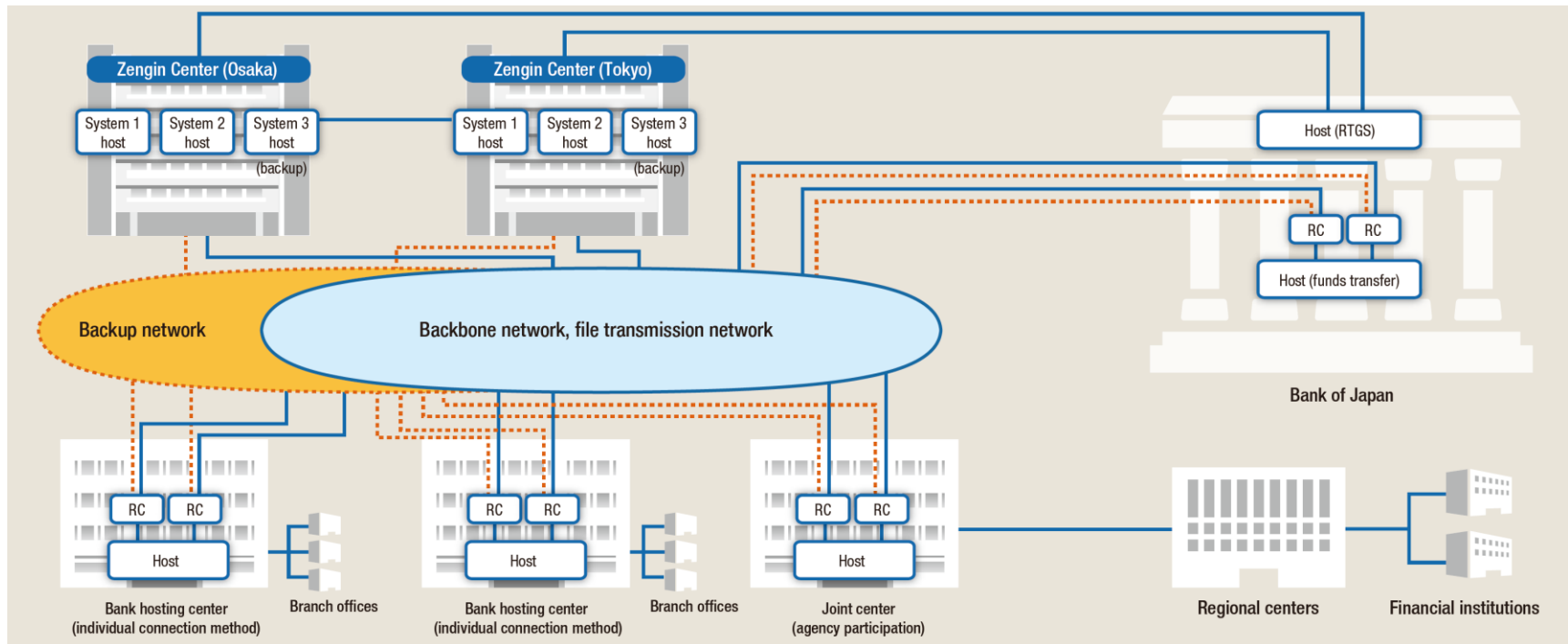
* Please refer to the website for details. <https://www.zengin-net.jp/en/>



Safety Measures of the Zengin System

- The Zengin System runs in parallel at the two Zengin Centers in Tokyo and Osaka. **Even if one center suspends operation due to failure or natural disasters, the other center can continue to operate.** The devices and communication lines that make up the system are **all duplicated.** In addition, a variety of drills are conducted every year with member banks to **prepare for natural disasters and failures.**
- For communication with member banks, **security was strengthened by using a closed area network.**
- **Settlement risk is avoided** by implementing measures including the Sender Net Debit Cap Scheme (deposit of collateral in line with the remittance amount), a system for providing liquidity (provision of funds at the time of default), and the BOJ-NET RTGS settlement for transactions of JPY 100 million and above.

[Configuration of the Zengin System]





History of Zengin-Net

1973	Start of operation of the Zengin System (there were 88 banks, including city banks and regional banks, at the time)
1979	Participation by mutual banks, shinkin banks, the Norinchukin Bank, etc. (there were 708 participating financial institutions at the time)
1984	Participation by credit cooperatives, labour banks, agricultural cooperatives, etc. (there were 5,479 participating financial institutions at the time)
2009	Japan Post Bank joined
2010	Establishment of Japanese Banks' Payment Clearing Network (Zengin-Net), a clearing institution based on the Payment Services Act
2018	Implementation of More Time System (realizing Zengin System operations on a 24/7 basis)
	Implementation of Zengin EDI System
2021	Introduction of Domestic Fund Transfer System Operational Costs (interbank commission of JPY 162 or JPY 117 per transaction → Domestic Fund Transfer System Operational Costs of JPY 62 per transaction)
2022	Expansion of qualification for participation to include funds transfer service providers
	Start of linkage with a frequent, small-amount payment system (<i>Cotra</i>)