Annual Report 2012/2013

Securities and Exchange Surveillance Commission

JAPANESE GOVERNMENT

Message from the Chairman

The Securities and Exchange Surveillance Commission (SESC) is fulfilling its mission of ensuring the integrity of capital markets and protecting investors. This year is the 23rd year since its establishment in 1992.

Amid the restructuring of international regulatory frameworks, Japanese markets have been experiencing dynamic changes. For instance, a series of amendments has been made to the Financial Instruments and Exchange Act (FIEA), and innovations continue to be made in financial products and trading methods. In order for the SESC to conduct efficient and effective market oversight, it needs to respond appropriately to these changes. Two further issues for the SESC in connection with the inspection of financial instruments business operators are: (1) further improving its risk sensitivity with respect to the diverse business types of financial instruments business operators, to the characteristics of customers (personal investors, corporate pensions, etc.), and to financial instruments and transactions, which are becoming increasingly complex and diverse; and (2) strengthening its capacity for collecting and analyzing information accordingly. Moreover, the SESC will need to cooperate closely with overseas regulators in dealing with cross-border transactions, which are conducted frequently, and it will need to continue to take firm action against unfair trading and unlawful activities, etc. committed by professional investors in Japan and overseas.

Since sound market operation requires shared recognition of problems and close information exchange with self-regulatory organizations, relevant authorities and organizations playing important roles in market fairness, in addition to further strengthening its cooperative relationships with such organizations, the SESC aims to reinforce its dialogue with market participants and its dissemination of information to the market.

The SESC commits itself to pursuing its mission of being “feared by wrongdoers and trusted by ordinary investors.”

February 2014

Kenichi SADO
Chairman
Securities and Exchange Surveillance Commission

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1. Towards Enhanced Market Integrity

The Securities and Exchange Surveillance Commission (hereinafter referred to as “SESC”) is engaged in market surveillance under a mission of ensuring the integrity of capital markets and protecting investors.

The SESC for the 7th term was established in December 2010, and then announced “Towards Enhanced Market Integrity” as a medium-term activity policy (hereinafter referred to as “Activity Policy”) in January 2011. To make this Activity Policy “feared by wrongdoers and trusted by ordinary investors,” the SESC formulated three policy directions consisting of: (1) Market oversight with prompt and strategic actions; (2) Outreach activities for enhanced market integrity; and (3) Response to the globalization of markets. In addition, pursuant to these three policy directions, the SESC has also continued to strive to secure effective and efficient market surveillance with strong emphasis on prioritized items: (1) Comprehensive and proactive market surveillance; (2) Strict actions against market misconduct and false disclosure statements; (3) Timely and efficient inspections and investigations in response to disclosure violations; (4) Enhanced use of an administrative monetary penalty system; (5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected; and (6) Enhanced cooperation with self-regulatory organizations.

1. Activities in FY2012

During FY2011 (April 1, 2012 – March 31, 2013; the same applies hereafter), which is the period covered by this publication, the SESC was engaged in market surveillance as described below, based on its policy statement, and properly utilized the power, authority and human resources with which it has been vested.

With respect to routine market surveillance, the SESC continued its efforts aimed at achieving comprehensive and proactive market surveillance. This included accepting information from ordinary investors, etc., conducting market surveillance targeting primary and secondary markets, cooperating with overseas regulators in view of the globalization of markets, reviewing insider trading, manipulation of transactions and fraudulent means, and responding to new financial instruments, etc. Sometimes the information collected or the review of transactions would reveal certain conduct impairing the fairness of transactions. In these events, following an investigation and inspection by the relevant divisions within the SESC, the SESC would make a recommendation for administrative disciplinary actions or file a criminal accusation.

Inspections of financial instruments business operators and the like revealed cases in which a type I financial instruments business operator failed to take necessary and appropriate measures to prevent unfair trade with respect to the management of material non-public information, and had serious problems in managing and controlling systems. The inspections on type II financial instruments business operators also revealed cases in which an operator made false statement to customers in relation to the conclusion of fund contracts and their solicitation. In addition, the inadequacy of operational management systems was identified in the inspections of credit rating agencies. In cases where a serious violation of

laws or regulations was found, including these cases, the SESC has made recommendations for administrative disciplinary actions. Furthermore, from the perspectives of public interest and investor protection, the SESC has also filed petitions for court injunctions under Article 192 of the Financial Instruments and Exchange Act (FIEA) against financial instruments business operators which provided customers with false information for fund solicitation. Additionally, as a result of investigations and inspections of business operators engaging in business specially permitted for qualified institutional investors, etc., the SESC also announced the names of those who proved to have been engaged in financial instruments businesses without registration with the FSA, or involved in fraudulent appropriation of customers' assets, or to have violated the laws and regulations.

With respect to market misconduct, the SESC conducted swift and efficient investigations. The cases where it made recommendations for administrative monetary penalty payment orders included a case of insider trading by a director or employee of a listed company using information obtained during the course of his duties, and the first case of market manipulation corresponding to false trade with no intention of transferring the rights in its history. In addition, with respect to an unfair trade by both Japanese and foreign professional investors using cross-border transactions, etc., the SESC conducted close investigation of alleged market manipulation by an affiliate company of a hedge fund manager located in the United States as well as of insider trading committed prior to the announcement of a large public offering of new shares, in close collaboration with overseas regulators with the aid of a global framework for cooperation and information exchange. As a result, the SESC also made recommendations for administrative monetary penalty payment orders. Additionally, since it became clear, in the process of investigating insider trading committed prior to the announcement of a large public offering of new shares, that a financial instruments business operator had been repeatedly involved in investment management business without registration with the FSA through circumvention of laws and regulations, the SESC also made a recommendation for an administrative disciplinary actions against the financial instruments business operator.

With respect to the violation of disclosure requirements, the SESC conducted timely and efficient inspections and made recommendations to the FSA to order an administrative monetary penalty for cases related to material misstatements of securities reports and other financial reports. In one of the cases, the SESC made such recommendation pursuant to the results of disclosure inspection conducted for the case, with which the SESC filed a criminal complaint on the submission of false securities reports pursuant to the results of a criminal investigation. In the case where the SESC recognized material misstatements in financial reports as a result of inspection and the issuers failed to make the required revision despite the SESC urging them to do so, the SESC made recommendations to the FSA to order them to submit correction reports.

With respect to malicious offenses which impair the fairness of markets, the SESC actively made efforts in complicated and malicious cases, filing accusations against a case involving fraudulent finance in which the real estate system of contributions in kind was improperly used. Furthermore, with regard to a case of fraudulent means for the conclusion of discretionary investment contracts through the presentation of false performance and other

records to pension fund managers, the SESC continuously exposed a wide range of malicious criminal acts targeting both primary and secondary markets, including filing accusations against the perpetrators. In addition, since the investigation into the criminal case proved that the financial instruments business operator had been engaged in fraudulent means for the conclusion of discretionary investment contracts between clients and a discretionary investment business operator substantially controlled by the financial instruments business operator in order for the financial instruments business operator to solicit a fund substantially managed by the discretionary investment business operator, the SESC made a recommendation for an administrative disciplinary action against the financial instruments business operator.

With respect to the SESC's contribution to the development of market rules based on the market practice, the SESC made a policy proposal to the effect that the FSA should establish a statute which directly prescribes the obligation of credit rating agencies to ensure accuracy in disclosing credit ratings based on the cases identified by the SESC's inspections in order to protect investors who make use of credit ratings and to ensure the credibility of credit rating agencies that play an important role in financial and capital markets.

With respect to the enhancement of market discipline, the SESC has worked with financial instruments exchanges and financial instruments firms associations, etc., to share their respective awareness of problems through exchanges of information, such as regular meetings. In addition, the SESC has continued to actively engage in dialogue with market participants and disseminating information to the market so that the overall market discipline can be enhanced by the voluntary efforts of each market participant. Specifically, in order to encourage the building of internal control systems in the listed companies, the SESC made speeches at compliance forums for listed companies organized by different securities exchanges throughout Japan, and contributed articles to various public relations and mass media. The SESC also used the SESC Email Magazine in an effort to disseminate details of its activities, its awareness of problems and other information in a timely manner. Furthermore, in order to enhance the transparency of market surveillance administration and to encourage the self-discipline of market participants, in July 2012, the SESC published an edition of the *Casebook on the Administrative Monetary Penalties under the FIEA*, which is a compilation of preceding cases recommended to the commissioner of the JFSA for administrative monetary penalty.

2. Future Challenges

As described above, the SESC has been engaged in effective and efficient market surveillance making full use of its given authority and power appropriately for the past year.

On the other hand, given the dynamically changing environment surrounding the Japanese market, as seen in the situations where revisions of FIEA and innovative financial instruments and trades have advanced, coupled with the ongoing reconstruction of the international regulation framework, the SESC needs to address these changes appropriately in order to maintain effective and efficient market surveillance. In addition, in conducting inspections of financial instruments business operators, the SESC believes it essential to further enhance its ability to identify potential problems with consideration of the characteristics of diverse

business type of financial instruments business operators, the characteristics of customers (individual investors, corporate pensions, etc.), and the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly. Furthermore, the SESC is required to continue to respond harshly to unfair trade and illegal acts by both Japanese and foreign professional investors, while enhancing surveillance on frequently conducted cross-border trading in cooperation with overseas regulators.

The SESC will do its best to handle these challenges appropriately, perform more effective and efficient market surveillance in accordance with its activity policy, and sustain investors' confidence in the market for the further protection of investors.

January 18, 2011

Securities and Exchange Surveillance Commission

Towards Enhanced Market Integrity

- SESC's Policy Statement for the 7th Term* -

1. Mission

The Securities and Exchange Surveillance Commission (SESC) is committed to pursuing the following mission:

○ To ensure integrity of capital markets, and

○ To protect investors

2. Policy Directions

The Japanese capital markets have been experiencing dynamic changes. Global efforts to rebuild the international regulatory frameworks are ongoing based upon lessons learned from the global financial crisis. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods. In response to this rapidly changing market environment, and to continue to be "feared by wrongdoers and trusted by ordinary investors", the SESC is determined to pursue our mission through the following three policy directions.

(1) Market oversight with prompt and strategic actions

- Strategic use of our regulatory tools (e.g. market surveillance, inspection of securities firms and other regulated entities, administrative monetary penalty investigation, disclosure statements inspection and investigation into a criminal case) to make our actions more prompt and effective
- Timely and prompt response to changes in market environments, trends of violations, and international regulatory developments. Forward-looking and prompt response to emerging risks
- Enhanced cooperation with self-regulatory organizations (SROs) to increase the effectiveness of the multilayered market oversight activities

(2) Outreach activities for enhanced market integrity

- Contributing to the rule-making processes at the Financial Services Agency (FSA) and other relevant authorities by raising relevant regulatory issues identified through our market oversight activities
- Outreach to market participants, through SROs and other channels, to encourage their self-discipline for market integrity
- Closer communications with market participants, and more effective dissemination of information

(3) Response to the globalization of markets

- Closer cooperation with overseas regulators to conduct market oversight activities on a global basis, in response to growing cross-border transactions and international activities by investment funds and other market participants in today's highly-globalized markets
- More effective inspections of globally active and large-scale securities firms, utilizing the international supervisory frameworks
- Further developments of human resources and organizational structures at the SESC

The SESC believes that our efforts towards fair, transparent and quality capital markets should contribute to vitalizing the Japanese capital markets and their international competitiveness by implementing comprehensive and effective market oversight activities based on the policy directions set out above.

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* *SESC Chairman Kenichi Sado and Commissioners Shinya Fukuda and Masayuki Yoshida were appointed and started their new 3-year term on December 13, 2010*

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3. Policy Priorities

The SESC is determined to strategically mobilize its regulatory tools and resources with particular emphases on the followings in order to conduct effective and efficient market oversight.

(1) Comprehensive and proactive market surveillance

- Comprehensive and enhanced surveillance on both primary and secondary markets as well as on cross-border transactions in order to preclude any regulatory loopholes in market surveillance
- Extensive surveillance on suspicious transactions which, at first sight, do not appear to contravene rules and regulations
- Proactive market surveillance through collection of a wide range of information with analysis of backgrounds behind individual cases or market developments
- Taking appropriate actions against cross-border market abuse, through exchange-of-information frameworks amongst securities regulators, including investigation requests and enforcement action based upon information provided by overseas regulators

(2) Strict actions to market misconduct and false disclosure statements

- Taking strict actions against market abuse such as insider dealing, market manipulation, fraudulent means including abuse of financing in primary market, and false disclosure statements
- Contribution to the regulatory system related to market misconduct based upon surveillance results

(3) Timely and efficient inspections and investigations in response to disclosure violations

- Implementation of timely and efficient disclosure inspections and investigations in order to ensure that the market participants are fairly and equally provided with accurate corporate information without delay
- Encouraging a listed company or any other issuer, if it has made false disclosure statements, to exercise its initiatives for autonomous and timely disclosure of the accurate financial information to the market as well as encouraging the related parties to achieve such appropriate disclosure
- Taking appropriate actions against public offering of securities such as stocks and corporate bonds without filing securities registration statements, with enhancing cooperation with the FSA and the Local Finance Bureaus and, if necessary, seeking petitions for court injunctions (Article 192 of the FIEA)

(4) Enhanced use of administrative monetary penalty system

- Implementation of timely and efficient inspections and investigations, taking advantage of administrative monetary penalty system, for fraudulent trading, false disclosure statements and other violations
- Exercising initiatives in order to prevent market participants from committing violations by taking various measures such as proactive provision of information regarding case precedents of administrative monetary penalties

(5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected

- Implementation of efficient and effective inspections through developments of knowledge and inspection techniques corresponding to the characteristics of firms to be inspected
- Implementation of inspections of globally active securities firms, verifying the appropriateness of their internal control and risk management systems from a forward-looking perspective, in response to the introduction of consolidated financial regulations
- Taking appropriate actions against malicious financial firms such as fund dealers and investment advisors, verifying their operations and compliance from the perspective of investor protection
- Taking appropriate actions against unregistered entities selling unlisted stocks or other securities, in close cooperation with the FSA, the Local Finance Bureaus and investigative authorities through petitions for court injunctions (Article 192 of the FIEA)

(6) Enhanced cooperation with SROs

- Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors

2. Market Surveillance

1) Outline

1. Purpose of Market Surveillance

Market surveillance is positioned as the “entrance for information” at the Securities and Exchange Surveillance Commission (SESC), which aims not only to collect and analyze extensive amounts of information on overall financial and capital markets for the realization of comprehensive and proactive market surveillance corresponding to the changing environments surrounding the markets, but also to detect any suspicious or unfair transactions or services as early as possible by conducting market surveillance targeted at the primary and secondary markets. For the above reason, the SESC receives a wide range of information from the public, such as ordinary investors, on a daily basis, and promptly circulates this information to the relevant divisions within the SESC (or to the relevant division within the Financial Services Agency (FSA), etc. if the information relates to affairs under the jurisdiction of the FSA, etc.). The SESC also cooperates with self-regulatory organizations (SROs) to gather a variety of information related to financial and capital markets. Based on this information, the SESC analyzes the background of individual transactions and market trends, examines transactions for possible market misconduct, and reports to the SESC’s relevant divisions, if any suspicious transactions are discovered.

2. Activities Conducted in FY2012

Financial and capital markets have been facing challenges, such as the growth of electronic trading and high-speed transactions, the growing cross-border transactions and international activities by investment funds and other market participants, and the occurrence of fraud and misconduct in fundraising through stock market, etc. In facing these challenges, with a view to achieving comprehensive and proactive market surveillance, the SESC has, in FY2012, made efforts to enhance its various activities, such as receiving information from the public, conducting surveillance covering both primary and secondary markets, analyzing the causes behind the market trends and newly innovated financial instruments, and conducting examinations on suspicious transactions (such as insider trading, market manipulation, and fraudulent means, etc.).

2) Receiving Information from the Public

1. Outline

The SESC receives a wide range of information from the public, including ordinary investors and other market participants, as part of its information gathering from financial and capital markets.

Such information is important and useful because it reflects the candid opinions of investors, in the markets, and therefore can lead the SESC to exercise its authority to conduct inspections of securities companies and other entities, investigations of market misconduct, investigations of international transactions and related issues, inspections of disclosure documents, and investigations of criminal cases.

Therefore, the SESC receives information by a variety of means, such as telephone,

letters, visits and the internet, to hear from as many people as possible. To attract more information, the SESC has proactively called for information through various means, including public seminars led by officers of the SESC.

When information is provided on a dispute between a financial instruments business operator and an investor, and when the information provider seeks individual settlement of the dispute, while the information it might be effectively utilized in inspections or others activities by the SESC, the SESC basically refers the providers to the “Financial Instruments Mediation Assistance Center,” which provides a service on consulting for complaint / dispute resolution for customers of financial instruments business operators. In addition, the SESC also refers to appropriate consultation services for people who have complaints on commodity futures trading or other products that do not fall under the jurisdiction of the SESC.

2. Receiving Information

In FY2012, the SESC received 6,362 reports of information from the public, of which 23 reports were received by the Pension Investment Hotline (described below). The breakdown of the means used by the public in providing the information were 3,881 referrals via the internet, 1,883 by telephone, 346 in writing, 57 visits, and 195 referrals from the local finance bureaus, showing that referrals via the internet accounted for approximately 60% of the total.

In terms of the contents, there were reports on individual stocks (3,751), such as price manipulation, insider trading, or spreading of rumors, on issuers (436), such as suspicious financing or false statements with annual securities reports, etc., on financial instruments business operators for their sales practices or other issues (790), and on others (1,385), such as opinions, etc.

Among the reports related to individual stocks, suspicions of market manipulation (2,297) are most common, followed by suspicions of spreading of rumors / use of fraudulent means (990), and insider trading (252).

The reports on issuers were on false statements with annual securities reports, etc. (110), on suspicious financing (15), and on timely disclosure (51), etc.

Diverse information was also provided on financial instruments business operators for their sales practices or other issues, such as trouble in trading systems (37), inappropriate solicitations in light of the customer’s knowledge (11), etc.

The SESC receives approximately 6,000 to 7,000 items of such information. After circulation of the information to the relevant divisions within the SESC and the subsequent review of the details thereof, each relevant division at the SESC utilizes the information for market surveillance, inspections of securities companies and other entities, investigations of market misconduct, investigations of international transactions and related issues, disclosure statement inspections, investigations of criminal cases and other purposes, according to the degree of importance and usefulness.

〈Contact Address〉

SESC Information Reception Desk
Securities and Exchange Surveillance Commission
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3581-7868

Facsimile: +81-3-5251-2136
Internet: https://www.fsa.go.jp/sesc/watch/

The SESC receives information through its website, after making clear that it has thorough confidentiality controls in place for any personal information and detailed information that is provided by the information provider. This is for two reasons: (i) While in many instances information provided by a person directly involved in a case is of high importance and usefulness for market surveillance (see 3. below), an environment is needed whereby people can provide useful information with a sense of security, without any risk of the information provider being identified by a third party obtaining this useful information; and (ii) Revealing to a third party that information has been provided on a specific individual, issuer or financial instruments business operator, etc. has the potential to infringe upon the privacy of the individual, etc. or upon the rights, competitive position or other legitimate interest of the issuer or financial instruments business operator, etc.

In addition, given the results of inspection of Discretionary Investment Management (DIM) business operators that are entrusted to manage corporate pension funds, the SESC opened the Pension Investment Hotline within the SESC website on April 27, 2012, with the aims of intensively verifying the actual status of DIM business operators and enhancing the collection / analysis systems of the information regarding pension management for collecting important and useful information.

All of the information provided to the Pension Investment Hotline is delivered to pension professionals employed by the SESC for conducting active and high quality analyses. The SESC utilizes such analyzed data for efficient and effective inspections, including clarifying judgments on inspections of DIM business operators and verification criteria for the inspections.

In April 2013, the SESC showed specific examples of information which the SESC would like to receive from informants on the website of the Pension Investment Hotline.

〈Pension Investment Hotline〉
SESC Pension Investment Hotline Desk
Securities and Exchange Surveillance Commission
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3506-6627
E-mail: pension-hotline@fsa.go.jp
Internet: http://www.fsa.go.jp/sesc/support/pension.htm

[Examples of information]

(i) Information regarding suspicious management of assets by DIM business operators;
(ii) Information regarding inappropriate solicitation of discretionary pension fund management agreements;
(iii) Information regarding inappropriate provision of information for solicitation of discretionary pension fund management agreements;
(iv) Information regarding investment management by DIM business operators, without complying with agreements or commitments

[Points to be considered in providing the information]

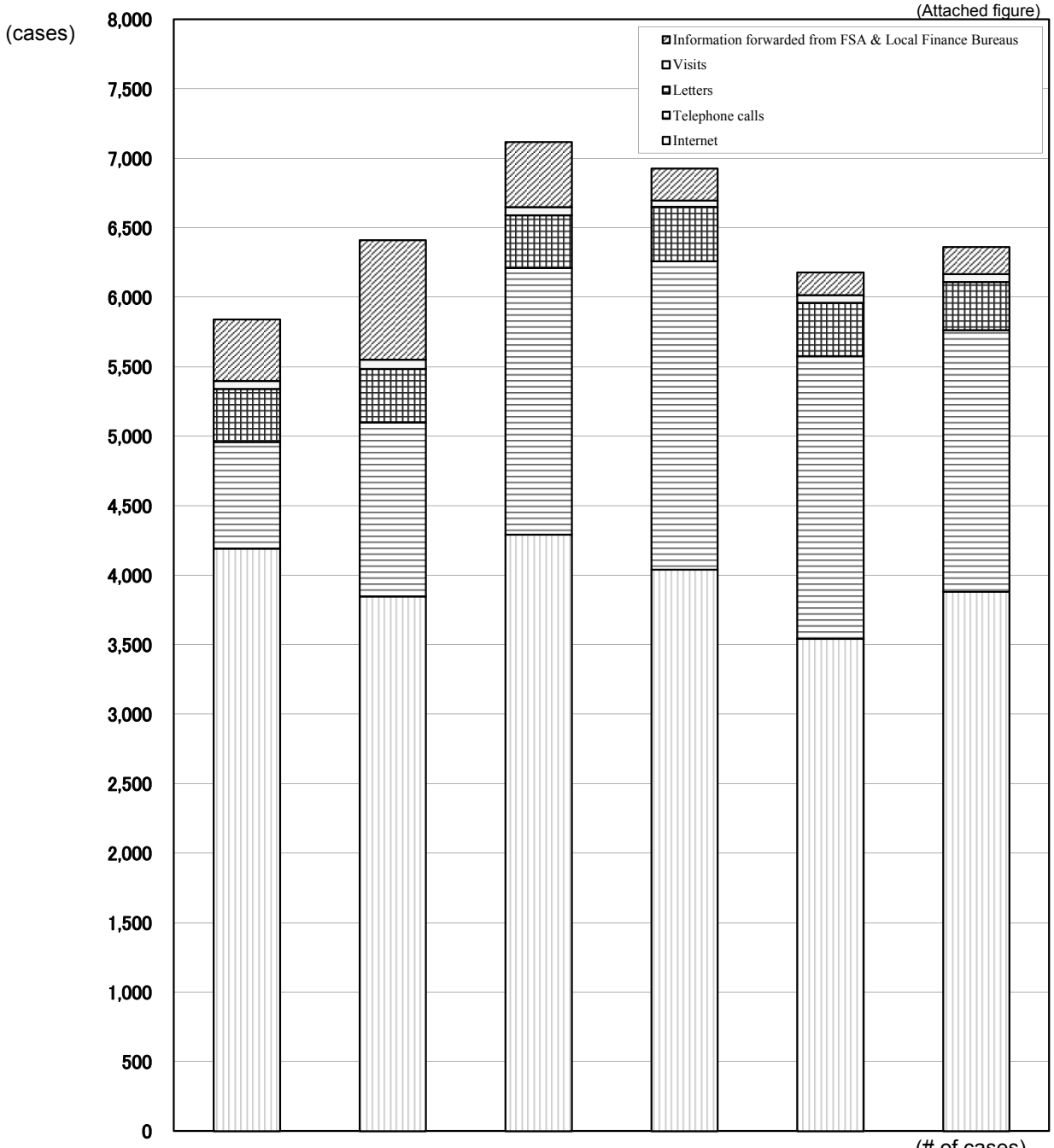
- Informants disclose their “names” in light of the provision of useful information;
- “Pension professionals” will listen to problems in the case that an informant provides specially detailed information.

Furthermore, the SESC set up a whistleblowing contact and also provides telephone counseling. The SESC makes it a rule to keep each informant’s information strictly confidential. In addition, pursuant to the Whistleblower Protection Act (enforced in April 2006), whistleblowers are protected from dismissal and other forms of disadvantageous treatment administered on the grounds that the person has reported information for the sake of public interest.

〈Contact Address〉
SESC Whistle Blowing & Advice
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3581-9854*
Email:koueki-tsuho.sesc@fsa.go.jp
Facsimile : +81-3-5251-2198
URL: http://www.fsa.go.jp/sesc/koueki/koueki.htm
* Whistleblowing is to be submitted in writing (mail correspondence, e-mail or FAX) whereas consultations are conducted by phone.

Information Received

(Attached figure)



(# of cases)

Category \ Business year / Fiscal year	2007	2008	2009	2010	2011	2012
Total	5,841	6,412	7,118	6,927	6,179	6,362
Pension Investment Hotline	–	–	–	–	–	23
Internet	4,193	3,847	4,293	4,040	3,543	3,881
Telephone calls	766	1,253	1,917	2,219	2,033	1,883
Letters	381	384	380	393	385	346
Visits	58	67	60	45	54	57
Information forwarded from FSA & Local Finance Bureaus	443	861	468	230	164	195

Note 1: Until BY2008, "business year basis" July-June. Starting FY2009, "fiscal year basis" April-March

Note 2: Pension Investment Hotline had started in April 2012

Received Information, Classified by Content

1. Old classifications

(Unit: cases)

Classification \ Year	2007	2008
[Individual stocks, etc.]		
A. Profit guarantee and loss compensation	5	3
		(1)
B. Insider trading	558	510
		(108)
C-1. Annual securities reports, etc. containing false statements	189	239
		(64)
C-2. Unreported offering	27	44
		(24)
D. Market manipulation	2,126	1,975
		(539)
E-1. Spreading rumors	995	814
		(185)
E-2. Other	712	1,204
		(303)
(Subtotal)	4,612	4,789
		(1,224)
[Sales practices of financial instruments business operators]		
F. Solicitation with decisive predictions	10	16
		(2)
G. Conclusion of discretionary account contracts	8	9
		(3)
H. Excessive solicitation to a large number of nonspecific customers	3	4
		(1)
I. Inappropriate solicitations in light of the customer's knowledge	7	32
		(14)
J. Unauthorized transactions	41	47
		(15)
K. Other	778	930
		(253)
K-1. Bucketing	-	-
		(-)
K-2. Irregularities in legal account books	6	0
		(0)
K-3. Trading in executive's or employee's own account	15	5
		(1)
K-4. Other legal violations	245	160
		(31)
K-5. Violation of self-regulatory rules	75	28
		(4)
K-6. Other item concerning sales stance	437	737
		(217)
(Subtotal)	847	1,038
		(288)
[Other]		
L. Opinion on SESC, etc.	35	29
		(8)
M. Opinion on securities administration or policy	36	120
		(46)
N. Other	311	436
		(186)
(Subtotal)	382	585
		(240)
Total	5,841	6,412
		(1,752)

2. New classifications

(Unit: cases)

Classification \ Year	2009	2010	2011	2012
A. Individual stocks				
a. Transaction constraints				
1. Spreading rumors or use of fraudulent means	627	608	813	990
2. Market manipulation	2,753	2,468	1,995	2,297
3. Insider trading	385	463	327	252
0. Other	50	58	80	201
b. Disclosure				
1. False statement in large holdings report	11	5	6	4
2. Not submitting large holdings reports	54	34	6	7
0. Other	9	4	0	0
(Subtotal)	3,889	3,640	3,227	3,751
B. Issuers				
a. Legal disclosure				
1. Unreported offering	45	29	19	21
2. Financing	143	64	20	15
3. Annual securities reports, etc. containing false statements	152	141	136	110
4. Not submitting annual securities reports, etc.	109	25	27	21
5. Internal controls report	2	5	10	0
6. Takeover bid without prior notice	14	3	1	0
0. Other	65	38	32	17
b. Association or securities exchange rules				
1. Timely disclosure	53	62	22	51
0. Other	2	3	5	6
c. Other				
1. Governance, etc.	27	17	19	8
0. Other	223	210	149	187
(Subtotal)	835	597	440	436
C. Financial instruments business operators				
a. Prohibited acts, etc.				
1. Solicitation with decisive predictions	20	16	18	19
2. Unauthorized transactions	57	17	19	22
3. Profit guarantee and loss compensation	4	3	6	3
0. Other legal violation	153	101	135	162
b. Business administration				
1. Inappropriate solicitations in light of the customer's knowledge	122	79	55	11
2. System related	141	219	76	37
0. Other item concerning sales practices	752	626	443	319
c. Accounting				
1. Irregularities in legal account books	20	22	32	13
2. Financial health, risk management	25	21	5	5
d. Association or securities exchange rule				
1. Violation of self-regulatory rules	12	3	19	10
e. Other				
0. Other	43	35	70	189
(Subtotal)	1,349	1,142	878	790
D. Other				
a. Opinion, request, etc.				
1. Opinion on SESC, etc.	34	77	362	296
2. Opinion on securities administration or policy	107	97	79	76
b. Other				
1. Unregistered business operators	208	258	277	192
2. Unlisted stock	471	732	559	376
3. Funds	29	70	46	58
0. Other	196	314	311	387
(Subtotal)	1,045	1,548	1,634	1,385
Total	7,118	6,927	6,179	6,362

(Note 1) Up to BY 2008 "Accounting period basis" was from July to June next year. From FY 2009, "Fiscal year basis" is from April to March next year.

(Note 2) Number of cases in the overlapping period of FY 2009 (April 2009 - June 2009) that were shifted to the "Fiscal Year basis" are shown in ( ) in FY 2008 .

(Note 3) Dual trading and bucketing prohibition regulations were eliminated in April 1, 2005.

3) Market Trend Analysis

1. Outline

The SESC broadly analyzes the background of individual transactions and market trends based on gathered information on financial and capital markets' trends and takes advantage of them to excercise timely market surveillance.

Specifically, for the purpose of dealing with fraud and misconduct in fundraising through stock market ("Fraudulent finance"), in addition to monitoring both primary and secondary markets, the SESC is also been engaged in comprehensive and proactive market surveillance, including assessment of the structure and influence to market of new financial instruments, etc.

2. Market Surveillance Covering Both Primary and Secondary Markets

(1) Responding to fraudulent finance

In recent years, cases of fraudulent finance have been detected in the primary market as well as in the secondary market. For example, a suspect acquires newly issued shares through fictitious capital contribution (paid-in by pretense money) or contributions in kind of overvalued real estate properties and so on, and then he/she sells the shares on the secondary market using a complex combination of insider trading, market manipulation, and spreading of rumors. In consequence, he/she obtains unfair profits. "Fraudulent finance" means these kinds of unfair transactions, consisting of inappropriate behavior both in the primary market in fundraising (issuing of new shares, warrants, etc.) and in the secondary market.

The allocation of new shares to a third party is a typical technique of such fraudulent finance. In general, the allocation of new shares to a third party is a method in which a listed company that needs to raise funds allocates new shares to specific persons and accepts investments from them. Compared with public offerings, the allocation of new shares to a third party is difficult for independent parties from the company and the third party to assess the procedure of fundraising. It could potentially cause inappropriate behavior, including cases where expenditure spent by the company issuing new shares could be flowed back to the persons and/or firms underwriting the allocation of new shares to a third party and used as contribution by them, or where a property contributed in kind could be excess fair value due to over-evaluation of assets. In addition, issuance of a lot of new shares via such fundraising could bring about a dilution of existing shareholders' interests. As a result, persons who are undesirable from the points of view of existing executives and shareholders of the company could take control of the company. And they could change the board members or make cash of the company flow out through an inappropriate financial transaction.

In close cooperation with securities transactions surveillance officers and securities auditors responsible for accepting the submission of securities registration statements or securities reports at local finance bureaus as well as with financial instruments exchanges (the listed company compliance division, the listing examination division and the market surveillance division), the SESC monitors fraudulent finance cases, covering both the primary and secondary markets through the collection and analysis of disclosed information on listed companies and information from financial instruments exchanges,

as well as information from ordinary investors and market participants, etc.

From the viewpoint of monitoring fraudulent finance, the SESC also endeavors to find the actual status of allocations of new shares to third parties by listed companies, through analyzing the results of prior consultations between the listed companies and local finance bureaus / financial instruments exchanges.

Fraudulent finance involves scrupulous planning to arrange a comprehensive scam where the misconducts in the primary market and secondary market are carefully connected. Therefore it is not easy for the SESC to carry out investigation on insider trading, market manipulation, spreading of rumors or false statements with annual securities reports, etc. The SESC has applied Article 158 of the Financial Instruments and Exchange Act stipulating fraudulent means to investigate the persons and firms related to fraudulent finance. Up to now, the SESC has filed criminal complaints in 7 cases.

(2) Analysis of issues underlying market trends

In tandem with the aforementioned collection and analysis of information on individual stocks or individual transactions, the SESC also collects and analyzes a wide range of information in order to grasp the context of market trends.

Focused areas of activities in FY2012 are as follows.

(i) Trends in non-commitment type rights offering

Rights offering (capital increase by gratis allotment of warrants) is a means of capital increase through the allocation of warrants to all existing shareholders without charge. Shareholders allotted the warrants in proportion to their existing holdings are entitled to purchase new additional shares directly from the company by exercising the rights within a defined period and making subsequent payment of the exercise value; such rights holders may sell their warrants in the market instead of exercising the rights. In cases where the current stock price of the company is higher than the sum total of the current market price of the warrant and the exercise price, investors have opportunities to make a profit through arbitrage by purchasing warrant, exercising the rights and sell the new shares on a timely basis.

Unlike other means of capital increase, such as public offering or the allocation of new shares to a third party, rights offering is said to have advantages for existing shareholders in avoiding the dilution of the existing holdings (if they don’t exercise their warrants, their holdings could be diluted. However they could compensate their losses by selling their warrants in the market.). While there are some requests for positive utilization of this scheme, market players have been increasingly interested in rights offering amid the ongoing revisions of statutes and systems.

There are two types of rights offering: the “commitment type” and the “non-commitment type.” In the commitment type rights offering, a company issuing new shares acquires any warrants unexercised after the exercise period, and the company sells them to the underwriters, and the underwriters should exercise the warrants and then sell the newly issued shares in the market. In the non-commitment type rights offering, any warrants unexercised are to be forfeited. In FY2010 and FY2012, since there were two issues of non-commitment type right offerings, the SESC collected and analyzed the information on stock price

movements of the underlying stock and the status of warrants on these two issues.

Also note that, while a case of non-commitment type rights offering indicates that a securities company, etc., was closely involved in the procedure of the capital increase, they are not responsible for underwriting the warrants unexercised and don't always need to be liable for examination or other assessment of the capital increase requirements. So like in the case of the allocation of new shares to a third party, non-commitment type rights offerings would not be verified or assessed by a third party with respect to the credit standing of the company and the use of funds, etc.

(ii) Reporting of material facts

The Securities Listing Regulations of financial instruments exchanges defines that "a listed company shall make efforts to carry out such faithful execution of business as strengthening prompt, accurate and fair disclosure of corporate information at all times from the viewpoint of investors with full recognition that timely and appropriate disclosure of corporate information to investors is the basis of a sound market for financial instruments."

For this reason, if material facts pertaining to a listed company under insider trading regulations are to be published in the morning edition of a newspaper, the listed company makes timely disclosure of the applicable information. In many specific examples of the initial timely disclosure indicate that listed companies issued a press release, or had a press conference, stating almost the same description as in the media report after the close of trading on the same day as the media report. This is accompanied by a press release issued on the same day with specific words like "This information was not provided by us," " No decision has been made in respect to this subject," or "In the event we make a decision on a subject, we will make a full disclosure in accordance with timely disclosure.".

Therefore, the SESC analyzed the situation of timely disclosure of corporate information during the period from late April 2012 to early May 2012, when with a high number of financial results of end-March 2012 were announced.

(iii) Other

Binary option contracts, especially those whose underlying assets are currency and are categorized as a type of over-the-counter financial derivative transactions, have grown steadily in transaction volume with individual investors in recent years, through the sales by foreign exchange margin trading brokers registered in Japan, Some binary option contracts could cause individual investors to become involved in excessively speculative transactions due to quick profit/loss determination. Given that binary option contracts are relatively new and the self-regulatory organizations have just launched their activities, the SESC has analyzed the trend in binary option contracts.

3. Surveys Aimed at Comprehensive and Proactive Market Surveillance, Including Assessment of the State of New Financial Instruments, etc.

The SESC conducted a wide range of timely surveys on the actual state of new financial instruments, transaction techniques and events, etc., that have been increasing in

importance in both domestic and overseas markets in recent years.

<Examples of analyzed cases in FY2012>

(1) Survey on new transactions in the market

Market players are interested in the accelerated speed of transactions and change in volatility through high frequency trading (HFT) and algorithmic trading. In addition, market attention is also drawn to the impacts of system trouble on the market, such as an incident of erroneous orders by Knight Capital in the United Sates that occurred in August 2012. For these reasons, the SESC conducted surveys on the state of HFT, etc., and regulatory activities in the United States and Europe. Furthermore, the SESC also conducted a survey on block trades (large volume of off-market trades between parties) that have been increasing among those who have intension to avoid the trend of the accelerated speed of transactions in the market.

(2) Survey on recent investor and issuer trends in the market

In terms of investor trends, the SESC also conducted surveys to confirm the changes in the trading strategies of investors, as well as the investment patterns and features of hedge funds and institutional investors in the current market environment.

Similarly, in terms of movements by listed companies, the SESC conducted surveys on the latest trend of merger and acquisition (M&A) and TOB..

Furthermore, the SESC conducted surveys to understand how the non-commitment type rights offerings have been utilized in the overseas markets.

(3) Understanding of unfair transactions newly emerged in the markets

The SESC conducted surveys on suspicious transactions using credit default swaps (CDS) and new financial instruments on the Internet in the United States and Europe.

The results of these surveys have been shared within the SESC and have proven useful in comprehensive and proactive market surveillance, including in responding to new financial instruments. Furthermore, the SESC has also exchanged information with the relevant FSA departments and with SROs, etc., in an effort to share its awareness of market surveillance issues and problems.

4) Market Surveillance Examination

1. Outline

In a market surveillance examination, which is conducted off-site to detect suspicious transactions, the SESC first extracts the following kinds of stocks based on its routine surveillance of market trends and on information obtained from various sources. The SESC then requests financial instruments business operators to provide detailed reports or submit materials related to the securities transactions.

(1) Stocks showing sharp rises or declines in price or other suspicious movements
(2) Stocks for which “material facts” were published which might have a significant influence on investors’ investment decisions
(3) Stocks that are topical in newspapers, magazines or on internet bulletin boards
(4) Stocks mentioned in information obtained from the general public

Next, based on these reports and materials, the SESC examines transactions with suspected market manipulation, insider trading or fraudulent means that impair market fairness. At the same time, the SESC examines whether the financial instruments business operators involved in these transactions have committed any misconduct, such as violating regulatory rules of conduct.

If these examinations reveal any suspicious transactions, they are reported to the SESC's relevant divisions for further investigation, etc.

2. Legal Basis

In market surveillance, when the SESC finds it necessary and appropriate for ensuring the fairness of financial instruments trading and protecting investors, it requests financial instruments business operators and other related persons to submit reports and materials on securities transactions. The authority delegated to the SESC is stipulated in the Financial Instruments and Exchange Act (FIEA).

3. Results of Market Surveillance Examination

(1) Results

The number of transaction surveillance examinations conducted by the SESC and the local finance bureaus in FY2012 are as follows.

The number of transactions examined		FY2012 (April 2012 - March 2013)	FY2011 (April 2011 - March 2012)
Total		973	913
	SESC	400	396
	Local Finance Bureaus	573	517
(Breakdown of examination items)			
Price Formation		84	73
Insider trading		875	819
Other matters (fraudulent means, etc.)		14	21

The SESC and the local finance bureaus conduct day-to-day surveillance of trading in the markets based on overall market movements, and, as part of the surveillance, examine particular transactions as necessary. Along with collecting information related to market surveillance, at the stage of market surveillance examination, the SESC strives to conduct swift and appropriate analyses of actual individual market transactions that are suspected of violating market fairness.

In addition, as a result of collection and analysis of information related to financing trends in the primary market, the SESC also examines suspected cases of fraudulent finance by fraudulent means, etc.

(2) Cases Examined

Following are some of the common examples of market surveillance examination.

(i) Examples of reasons for conducting examination related to insider trading of shares:

(a) After the announcement of Company A's takeover bid (TOB) for the shares of Company B, the share price of Company B rose significantly, so an examination was conducted into the transactions of Company B stock prior to the TOB. Moreover, a securities company informed the SESC of suspicious transactions using borrowed name accounts. Examination was carried out based on such information.

(b) When Company C announced a downward revision of its results forecast, its share price fell sharply. Then, transactions made prior to the announcement were examined.

(c) When Company D announced a share issuance by third-party allotment, its share price fell sharply. Then, transactions prior to the announcement were examined.

(d) When the SESC received information that "someone gained large profit through insider trading" in the shares of Company E, the SESC began to examine if there was insider trading involving a concerned contractor.

(e) Prior to the announcement of a public offering of new shares in Company F, the turnover of Company F stock increased, and the share price appeared to trend downward. Consequently, the SESC conducted a review into whether there had been insider trading.

(ii) Examples of reasons for conducting examination related to price formation:

(a) The price and trading volume of Company G shares rose sharply with no particular reason for the rise in price.

(b) As a result of reviewing the price formation for shares of Company H, a report was received from a financial instruments exchange that a specific client was suspected of manipulating the market using the technique of "*Misegyoku"* sham order transactions.

(c) With specific information on "*Misegyoku"* concerning the shares of Company I reported by an ordinary investor, the SESC confirmed orders placed with a financial instruments exchange, and found that several orders had been cancelled all at once.

(d) The SESC received a report on the fact that a specific person was conducting market manipulation concerning the shares of Company J.

(iii) Examples of reasons for conducting surveillance related to other aspects:

(a) The financial position of Company K did not improve even after repeated financing, and there was information about an unusually large sum of cash withdrawals. As such, an examination was carried out to check for fraudulent means, etc.

(b) With regard to Company L's announcement of financing with real estate contributed in kind, appropriateness of the appraisal value of the real estate contributed for the financing was found to be doubtful. As such, an examination was carried out to check for fraudulent means.

(c) After Company M had raised funds, information was received from a financial

instruments business operator, etc. that the shares of Company M were being sold in large quantities on the market. Consequently, the SESC conducted a review for fraudulent means, etc.

(d) Specific information was received that messages on several stocks, which were clearly contrary to fact, had been posted on internet bulletin boards, and that the share prices had fluctuated. Consequently, the SESC conducted a review from the perspective of the spreading of rumors, etc.

(3) Response to cross-border transactions

As seen in Japanese stock markets where the trading value of brokerage trading by foreign investors accounted for over 60% of overall brokerage trading in 2012, cross-border transactions in financial and capital markets are becoming matters of course. Under such circumstances, cooperation with overseas securities regulators has become essential. Therefore, the SESC has been making efforts to preclude any loopholes in market surveillance by collecting information on cross-border transactions, if necessary, from financial instruments business operators, even at the stage of market surveillance examination (see Chapter 9 for further details).

4. Close Cooperation with Self-Regulatory Organizations (SROs)

Day-to-day market surveillance activities are also conducted by SROs, such as Financial Instruments Exchanges, etc., and Financial Instruments Firms Associations. Their surveillance activities have a function of checking whether the market participants, etc. are carrying out their business operations in an appropriate manner. Through the market surveillance activities such as market surveillance examinations, the SESC cooperates closely with these SROs.

(1) Cooperation with Financial Instruments Exchanges, etc., and Financial Instruments Firms Associations

In addition to monitoring the price movements and orders instigated by investors in secondary markets in real time, financial instruments exchanges, etc., also conduct ex-post trade reviews of orders and transactions suspected of being in violation of a law or regulation. The results of these trade reviews are reported to the SESC as required, and views are exchanged. A system is also in place for financial instruments exchanges (Trading Examination Division)., to share information promptly with the SESC, especially in cases where unusual transactions are recognized that have a high possibility of constituting market misconduct. In the primary markets as well, cooperation between the SESC and the listing review and management divisions of financial instruments exchanges, is also promoted with regard to movements of listed companies.

The Japan Securities Dealers Association (JSDA), an authorized financial instruments firms association, in October 2008, made a partial amendment to the *Regulations Concerning Establishing a Sale and Purchase Management System for the Prevention of Market Misconduct* (effective in April 2009), requiring JSDA members to report to the SESC and to the JSDA if they become aware of possible insider trading. Based on this, since April 2009, the SESC has utilized the Trading Examination Results Reports received from JSDA members as initial information in its transaction reviews

pertaining to insider trading, and as reference information in transaction reviews that are already in progress. The JSDA also examines the sales and purchases of over-the-counter securities, and reports the results of these examinations to the SESC.

Furthermore, the JSDA also operates the Japan-Insider Registration & Identification Support System (J-IRISS), a system for registering and managing information on the executive officers of listed companies in order to prevent insider trading. SROs as well as the FSA and the SESC are making cooperative efforts designed to expand the number of listed companies participating in J-IRISS.

Specifically, in January 2011, Review Teams for the Prevention of Insider Trading were established at the JSDA and securities exchanges nationwide to conduct in-depth examinations on more effective measures for preventing insider trading. In June 2011, the results of this initiative were published in the *Report on the Review into the Use of J-IRISS for Preventing Insider Trading*. The FSA and the SESC participated in the Review Teams as observers.

In light of these developments, in June 2011, the Director-General of the Planning and Coordination Bureau and the Director-General of the Supervisory Bureau at the FSA, together with the Secretary-General of the Executive Bureau at the SESC, sent a joint letter to the Chairman of the JSDA and to the presidents and the chairpersons of the boards of directors at each exchange. The letter was entitled *Efforts for the Prevention of Insider Trading through the Use of J-IRISS and Other Means (Requests)*, and it called for cooperation to further promote action for the prevention of insider trading, such as through the utilizing the J-IRISS. In addition, the SESC has also supported various initiatives aimed at preventing insider trading, such as introducing its significance through various types of publicity activities.

Additionally, note that the registration rate of listed companies to J-IRISS is 71% as of March 31, 2013.

(2) Use of “Compliance WAN”

The “Compliance WAN” system uses a dedicated line connecting the network of nationwide securities companies with national securities exchanges, the JSDA, the SESC and with the local finance bureaus, and electronically transfers the transaction data. Before the use of “Compliance WAN”, transaction data was submitted by floppy disks, email and various other means; but by unifying these means into a single method utilizing a highly secure dedicated network, Compliance WAN has the following advantages:

(i) A reduction of risk of the leakage of personal information and the loss of storage media in the transfer of transaction data;

(ii) A reduction in the amount of time needed to request submissions and in the process to receive transaction data, leading to more efficient market surveillance activities; and

(iii) For securities companies, a possible reduction in costs for the submission of transaction data.

5) Future Challenges

The market surveillance operations collect and analyze a broad range of information on the overall financial and capital markets, and also examines transactions if necessary, thereby

functioning as the “entrance for information” for the SESC. The success of the ensuing inspections of securities companies, investigations of market misconduct, investigations of international transactions and related issues, disclosure statements inspections, investigations of criminal cases, disclosure statement inspections, and so forth depends on the outcomes of market surveillance. Therefore, not only will it be necessary to respond timely to market changes, but there is also a need to aim for effective and efficient market surveillance by prompt and appropriate responses against emerging risks.

Looking at current market trends, cross-border transactions have already become a part of everyday trading. For instance, in recent years, the majority of orders for trading on Japanese stock markets has been conducted from overseas, and the majority of trading is being performed by professional investors in Japan and overseas. In addition, trading methodologies including HFT have been highly advanced and new financial instruments are being developed. In order to grasp new methodologies of unfair transactions using such contracts and financial instruments, and to detect any cause of unfair transactions, it is necessary to collect a wider range of information and analyze and utilize it continuously.

In view of handling these challenges appropriately, the SESC needs to address the following issues and fulfill its mission as an “entrance for information” while cooperating with a wider range of market participants for market surveillance.

(1) Strengthening of response to cross-border transactions and professional investors in Japan and overseas

With respect to cross-border transactions, the SESC will actively collect information from overseas securities regulators, etc. In addition, the SESC will actively strive to grasp the market misconduct and misconduct carried out by professional investors in Japan and overseas who are well versed in investment techniques and who have ample funds to ensure appropriate market surveillance.

(2) Strengthening of response to shift to electronic trading and high-speed transactions

The SESC will pay close attention to new transaction patterns, etc., keeping a watchful eye on the trend toward faster transaction techniques and changes in volatility such as through HFT, etc., and algorithmic trading.

Furthermore, given that cases of market misconduct conducted via non-face-to-face internet transactions (“*Misegyoku”* sham order transactions, etc.) are frequently seen, the SESC will continue to strive to grasp these kinds of acts of market manipulation, and will work to cooperate and share its awareness of problems with SROs and other organizations.

(3) Response to new types of misconduct

Given the possibility that some new form of serious misconduct, such as fraudulent finance cases, could always be committed, the SESC will also pay close attention to the emergence of any new types of misconduct, while analyzing the problems behind the market trend in response to the changing environment surrounding the market.

(4) Establishment of more highly effective and valid systems for collecting, analyzing and utilizing information

For the purpose of market surveillance, it is essential for the SESC to collect information

on the trend of financial and capital markets broadly, then analyze the information collected and utilize them to this end. Therefore, the SESC will strive to expand and diversify external information sources, strengthen the capacity to analyze the information collected, and establish more highly effective and valid methods for market surveillance, inspections of securities companies and other entities, investigation of market misconduct, investigation of international transactions and related issues, disclosure statements inspection, investigation of criminal cases and other purposes after sharing the information among the relevant divisions within the SESC.

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3. Inspections of Securities Companies and Other Entities

1) Outline

1. Purpose of Inspections of Securities Companies and Other Entities

The objective of the inspections of securities companies and other entities for ensuring fairness and transparency of the Japanese capital and financial markets and protect investors is to ensure investor confidence in the markets, through conducting on-site examination of the business operations and financial soundness of financial instruments business operators, and by urging them to conduct businesses in accordance with laws, regulations and market rules on the basis of self-discipline, and fulfill the market intermediary function including duties as gatekeepers, in a proper manner.

2. Authority of Inspections of Securities Companies and Other Entities

(1) Since its inception in 1992, the Securities and Exchange Surveillance Commission (SESC) has conducted inspections to ensure fairness in financial transactions. Furthermore, in July 2005, when the revised Securities and Exchange Act (SEA, the predecessor of the Financial Instruments and Exchange Act (FIEA)), etc. came into force to reinforce market surveillance functions, the authority to inspect financial soundness of securities companies, financial futures dealers and others, and the authority to inspect investment trust companies and others, formerly conducted by the Inspection Bureau of the Financial Services Agency (FSA) were delegated to the SESC. At the same time, under the revised Financial Futures Trading Act (FFTA), companies dealing with foreign exchange margin trading (FX) were classified as financial futures dealers subject to the SESC inspection.

Since the FIEA came fully into effect in September 2007, regulated entities subject to the SESC inspection have been expanded to those engaged in sales or solicitation of equity units of collective investment schemes (funds) and those engaged in the management of these funds that primarily invest in securities or financial derivatives transactions. Furthermore, the SESC has been authorized to inspect those who provide services commissioned by financial instruments business operators, Financial Instruments Firms Associations and Financial Instruments Exchanges and others. Moreover, in April 2010, the authority to inspect credit rating agencies and designated grievance machinery, etc. was granted to the SESC. In addition, since November 2012, regulation and oversight on trade repositories (TRs) were introduced. Thus, the scope of inspections by the SESC has been expanded in recent years.

As for contents of inspections of securities companies and other entities, Article 51 of the FIEA was newly established when the FIEA came fully into effect in 2007. The Article had enabled the FSA to order a financial instruments business operator to improve its way of business conduct, when deemed necessary and appropriate for the public interest or for the protection of investors. Consequently, the SESC has conducted inspections focusing on internal controls, in addition to individual violations of laws and regulations.

(2) Based on the results of these inspections, the SESC may recommend to the Prime Minister and the Commissioner of the FSA that administrative disciplinary actions should be taken for ensuring the fairness of transactions, protecting investors and securing other

public interests.

In response to such a recommendation, etc., if appropriate, the Prime Minister, the Commissioner of the FSA, the Director-General of the Local Finance Bureau or any other competent authorities may take administrative disciplinary action, etc. against the inspected entity, such as an order for rescission of registration, an order for suspension of business, or an order to take business improvements, upon a formal hearing with the entity.

In addition, when the SESC recommendation is made against a sales representative of a financial instruments business operator, a registered financial institution, or a financial instruments intermediary service provider, a relevant Financial Instruments Firms Association to which the registration affairs of the relevant sales representative are delegated from the Prime Minister, if appropriate, may take disciplinary action, either rescinding such sales representative's registration or suspending such sales representative's licenses, if appropriate, upon hearings with the association member to which such sales representative belongs.

3. Activities in FY2012

The circumstances surrounding SESC securities inspections have undergone considerable changes. For example: (i) There has been a diversification and increase in the number of business operators subject to inspection; (ii) There has been a diversification and increased complexity in financial instruments and transactions; (iii) From the experience of the global financial crisis, there has been a greater need to prevent a securities group that engages in large and complex business operations as a group from falling into management crisis; and (iv) The use of IT systems in financial products and transactions, etc. has grown.

Given these situations, during FY2012, from the viewpoint of performing efficient, effective and valid inspections, the SESC has been trying to determine risk-based priorities for conducting inspections in consideration of each business category and other characteristics, introduce inspections with prior notice, and strengthen coordination with supervisory departments.

Under such circumstances, in FY2012, the SESC conducted inspections of 214 cases (commencement basis) (a total of 319 cases) and made recommendations for taking administrative disciplinary actions against 18 cases in which serious violations of laws or regulations were detected, including: failure to develop viable management system of material non-public information related to public offerings at leading securities companies; misappropriation of customer assets and the resulting shortage of the required value of assets deposited in segregated accounts at type I financial instruments business operators; and failure to develop viable business management systems at credit rating agencies. The SESC also notified points to be corrected at 102 business operators where problems were detected with respect to violations of laws and regulations and internal control structure, etc., including the above 18 cases.

With respect to securities groups, etc., that engage in large, complex group-wide business operations, including leading Japanese securities and foreign securities companies, the SESC, in cooperation with the FSA, overseas authorities and other organizations, has worked to improve the verification of internal control systems and risk management systems (hereafter referred to as "internal control systems, etc.") of such groups from a forward-looking perspective, with the aim of preventing the emergence of risks associated

with operations and financial standings.

With respect to inspections of discretionary investment management businesses operators, the SESC recognized it necessary to prioritize verifying their status of operations and compliance with laws and regulations in consideration of the business category and customer characteristics of corporate pension funds, given an inspection in FY2011 revealing that an investment management business operator, which was conducting a discretionary investment management business and entrusted with the management of corporate pension funds' assets, had, for many years, been operating its business while using false reports to conceal massive losses. Therefore, the SESC conducted intensive inspections of discretionary investment management businesses operators in cooperation with supervisory departments, based on the results of the sweeping surveys conducted by the FSA (see part 5) in this chapter).

With respect to the filing of a petition for court injunctions (Article 192 of the FIEA), the SESC, using the authority for investigations for such a petition (Article 187 of the FIEA), filed a petition against persons making notification for business specially permitted for qualified institutional investors (hereinafter referred to as "QII Business Operators") who provided false information about the conclusion or solicitation of fund contracts (see part 8) in this chapter).

With regard to 6 cases in which the SESC identified violations of the FIEA such as false information for sales or solicitation and misappropriation of customers' assets, the SESC made public the company names, representative names and conducts in violation of laws and regulations of 13 companies, including QII Business Operators.

While promoting these initiatives, the SESC made partial amendment of the "Inspection Manual for Financial Instruments Business Operators, etc." in the light of securing transparency in inspections (see part 3) in this chapter).

2) Basic Inspection Policy and Basic Inspection Plan

From 2009 onwards, an inspection year corresponds to a fiscal year, from April 1 and ending on March 31 of the following year.

In order to conduct securities inspections systematically, the SESC develops a Basic Inspection Policy and a Basic Inspection Plan for every inspection year.

The Basic Inspection Policy stipulates inspection priorities and other fundamental inspection policies for the relevant inspection year. The Basic Inspection Plan specifies the scope of inspections, such as the types and the number of entities to be inspected in that inspection year among entities subject to inspections.

The Basic Inspection Policy and the Basic Inspection Plan for FY2012 were published on April 27, 2012.

April 27, 2012
Securities and Exchange Surveillance Commission

Basic Securities Inspection Policy and Program for 2012

I. Basic Securities Inspection Policy

1. Basic Concept

(1) Role of securities inspections

The mission of the Securities and Exchange Surveillance Commission (SESC) is to ensure the fairness and transparency of the Japanese markets and to protect investors. Securities inspections play an important role to achieve this mission through on-site examination of the business operations and financial soundness of financial instruments business operators who act as market intermediaries.

Securities inspections need to enhance the examination of violations of laws and regulations, as well as the verification of the appropriateness of internal control systems underlying individual problems. In order to ensure investor confidence in the markets, financial instruments business operators, as gatekeepers, are expected to do business in accordance with laws, regulations and market rules and on the basis of self-discipline.

The SESC is required to continue to take firm actions against illegal activities that undermine the confidence in market fairness and transparency or damage investors' interests, by exercising its authority, human resources and abilities, and is thus required to play a role to alert the markets.

(2) Diversification and increase in the number of business operators subject to inspection

As a result of a series of regulatory reforms, including the enforcement of the Financial Instruments and Exchange Act (FIEA), the scope of securities inspections has diversified and the number of business operators subject to inspection has sharply increased to around some 8,000. In addition, as innovations are made in financial instruments and transactions, and as cross-border transactions and international activities of market participants, such as investment funds, become common, the financial instruments and transactions with which financial instruments business operators deal have become more diverse and complex.

Furthermore, as part of international financial regulatory reform, moves have been made in major countries aimed at the introduction and strengthening of the public regulation of credit

rating agencies. In Japan as well, the 2009 amendment of the FIEA led to the introduction of a registration system and other regulations on credit rating agencies in April 2010, bringing credit rating agencies under the scope of inspections.

Moreover, in addition to the business operators subject to inspection, the increase in damage to personal investors and consumers caused by the sale and solicitation of unlisted stocks and funds by unregistered business operators has been an emerging social problem of recent years. Based on the Consumer Basic Plan approved by the Cabinet in March 2010, and in close cooperation with relevant authorities, the SESC has also utilized its human resources for making proper use of securities inspections and its authority to file petitions for court injunctions and to conduct associated investigations against unregistered business operators who violate the FIEA.

(3) Expansion of the areas of verification

In view of the recent turmoil in the global financial markets, there have been discussions on financial regulatory reform aimed at preventing a recurrence of the financial crisis, and in cooperation with relevant authorities around the world, efforts have been advanced to comprehend businesses and risks of entire financial groups. Based on these efforts, with respect to the inspections of securities groups that engage in large and complex business operations as a group, more weight needs to be placed on verifying the financial soundness of the entire group and on the appropriateness of its internal control systems and risk management systems from the perspective of preventing management crises.

The advance of IT systems in recent years has enabled investors to access systems that process a large volume of diverse orders at high speed and to transact various financial instruments via the Internet, ordering systems and other means. As a result, the participation of personal investors in financial transactions has increased remarkably, and the execution of massive and complex transactions by institutional investors has also been spreading, thereby making it more important than ever to ensure the reliability of IT systems as a trading infrastructure. Furthermore, the trading systems of financial instruments exchanges and financial instruments business operators are highly public, and so if they were impeded in some way, they could have a significant impact on the market and on customer transactions. Therefore, the SESC's securities inspections need to focus on examining the appropriateness of IT system risk management.

Inspections conducted last fiscal year revealed a case in which an investment management

business operator who had been conducting a discretionary investment management business, entrusted with the management of corporate pension funds, had, for many years, been operating its business while using false reports to conceal massive losses. The case is a matter of vital importance, not only with regard to harming the interests of the corporate pensions and having a significant impact on the relevant companies and their employees, but also from the perspective of ensuring fairness and transparency of capital markets and protecting investors, which is the mission of the SESC.

Following the revelation of the state of affairs surrounding the management of corporate pension funds, with regard to business operators conducting discretionary investment management business (hereinafter referred to as "DIM business operators"), in consideration of their business types and the characteristics of their customers, it is recognized that a precise picture of their business and their compliance with laws and regulations need to be verified. Therefore, the SESC shall conduct intensive inspections of these DIM business operators based in part on the results of comprehensive surveys conducted by the Financial Services Agency (FSA) against DIM business operators.

With regard to persons making notification for business specially permitted for qualified institutional investors (hereinafter referred to as "QII business operators"), given that malicious cases leading to petitions for court injunctions against persons committing violations of the FIEA were confirmed, the SESC needs to verify such cases, making proper use of its authority to conduct securities inspections of such business operators, to file petitions for court injunctions and to conduct associated investigations.

(4) Efficient, effective and viable securities inspections corresponding to the characteristics of the business operators subject to inspection

Aimed at ensuring the fairness and transparency of capital markets and protecting investors, securities inspections are an important pillar of the market surveillance conducted by the SESC. As the business operators subject to inspection diversify and increase in number, and as the areas of verification expand, the SESC's system of inspection has improved and strengthened. However due to severe administrative and fiscal constraints, it is very much a situation which the overall ratio of business operators inspected to business operators subject to inspection (coverage) remains low.

Amid such circumstances, in order for the securities inspection to achieve its mission, the SESC will need to overcome such challenges as how to appropriately and effectively utilize

limited human resources, as well as how to conduct efficient, effective and viable inspections.

In dealing with such issues, the SESC has thus far focused on protecting personal investors, and it has also used such a perspective when determining the inspections priority.

In other words, the SESC has strived to regularly conduct inspections of type I financial instruments business operators (securities companies) who transact with a large number of investors, including personal investors, as well as inspections of business operators who manage investment trusts generated toward a large number of investors, including personal investors.

Furthermore, with regard to business types or financial instruments recognizing that a verification is necessary related to personal investors, the SESC has conducted intensive inspections sequentially, made recommendations for administrative dispositions, and where necessary, has made proposals for the revision of laws and regulations.

(Reference) Record of intensive inspections

- Business operators managing real estate investment trusts (J-REIT) (July 2006 – March 2010)
- FX business operators (November 2007 – June 2008)
- Fund dealers (June 2009 – September 2010)
- Investment advisors/agencies (March 2009 – January 2011)

Based on this course of action, when determining the inspection priority for individual business operators, the SESC is to collect and analyze a variety of information concerning the business operators subject to inspection corresponding to their business types, sizes, other characteristics and the market conditions at the time, and then to use a risk-based approach to decide which business operators to inspect, considering the market positions and inherent problems of the individual business operators in a comprehensive manner.

In addition, with regards to the implementation of inspections, the SESC also endeavors to sharpen the focus of its inspections and to develop inspection techniques accordingly.

With respect to last year’s inspections of DIM business operators entrusted with the management of corporate pension funds, various questions have been raised, including about

the timing of inspections and on how best to collect and utilize the information. Although the SESC has had a policy of conducting intensive inspections of DIM business operators as described in (3) above, in order to properly determine the inspection priority in the future, it will need to further increase its risk sensitivity for the diverse business types of financial instruments business operators, for the characteristics of customers (personal investors, corporate pensions, etc.) and for financial instruments and transactions which are becoming increasingly complex and diverse. It will also need to strengthen its capacity for collecting and analyzing information accordingly.

In terms of medium and long-term challenges, there have been some suggestions that Japan's current ratio of business operators inspected to business operators subject to inspection (coverage) should be verified to see if it is acceptable based on an international comparison, and that it should be further increased.

In response to such challenges, the SESC needs to conduct a broad, prospective examination on how to conduct more efficient, effective and viable inspections, including consideration, for instance, of the possibility of widening coverage by conducting inspections of randomly selected business operators for specific issues, and it needs to continuously work to strengthen its systems and capacity.

2. Inspection Implementation Policy

(1) Focuses of inspection for verification corresponding to the characteristics of business operators subject to inspection

1) Verifications focused on business type and other characteristics

A. Verification of the market intermediary functions of financial instruments business operators

To form fair, transparent and high-quality financial and capital markets, it is extremely important for financial instruments business operators to fully exercise their gatekeeper functions of preventing persons and entities that intend to abuse and misuse the markets from participating in financial and capital markets, through customer management, surveillance of transactions, and underwriting examination. The SESC will therefore focus on verifying whether financial instruments business operators are fulfilling these roles properly.

As part of these, with respect to the handling of anti-social forces, the SESC will, through information gathering, etc, examine whether business operators have developed

systems that prevent them from making transactions with anti-social forces. Furthermore, given that the proper identification of individuals and the appropriate reporting of suspicious transactions are important from the perspective of measures promoted under international cooperation against anti-money laundering and combating terrorist financing, the SESC will also examine whether business operators conduct customer identification properly when a new account is opened or when identity theft is suspected, whether they properly report suspicious transactions, and whether they have established systems for conducting these activities properly.

Furthermore, to encourage the smooth functioning and sound development of capital markets, the SESC will examine whether securities underwriting business, including underwriting examinations, information control, surveillance of transactions and distribution, is being carried out appropriately from the perspective of ensuring the fairness and transparency of capital markets and protecting investors. In particular, in connection with initial public offering, it will verify whether examination systems for the underwriting of new listings are functioning appropriately. In addition, as for financial instruments business operators that arrange and distribute securitized instruments and high-risk derivatives products, the SESC will examine their risk management and sales management systems.

B. Verification of the management of undisclosed corporate information (prevention of unfair insider trading)

From the perspective of preventing unfair insider trading, the SESC will focus on verifying whether financial instruments business operators control undisclosed corporate information strictly. Specifically, the SESC will verify whether the business operators have developed effective management systems with regard to the registration of undisclosed corporate information such as public stock offerings by listed companies and information firewalls, the surveillance of transactions by insiders, officers and employees, and the prevention of any improper use of information within the sales divisions.

C. Verification of the conduct that may hinder fair price formation

The SESC will verify whether there are any practices that could hinder the formation of fair prices by means of direct and brokered orders, and examine the transaction surveillance systems of financial instruments business operators to prevent such practices. In doing so, the SESC will verify whether effective transaction surveillance is

being done from the viewpoint of preventing unfair trading. In particular, the SESC will examine whether surveillance is being done, focused on specific dates, such as a pricing date for a public stock offering, and on specific trading times such as just before closing, or on specific customers who repeatedly place large orders that could affect price formation in the market, as well as whether measures are being taken to identify the original customers for orders consigned from foreign related entities. The SESC will also examine management systems (including the management of delivery failures) for short selling regulations (such as checking the indication of short selling, price regulations, the prohibition of naked short selling, and the obligation to deliver documents related to public stock offerings).

As far as financial instruments business operators operating online trading or providing electronic facilities for DMA (direct market access) are concerned, in view of the cases observed of market manipulation by means of "misegyoku" (false orders to manipulate prices) using Internet transactions, the SESC will examine whether the business operators have established effective trade surveillance systems that take account of the special properties of electronic transactions, such as customer orders feeding directly into the market.

D. Verification of the solicitation for investment

To protect investors and secure genuine and fair sales and solicitation operations, the SESC will focus on verifying whether financial instruments business operators are soliciting customers for investment in an appropriate manner and are taking good care of them.

Regarding verification of solicitation for investment, the SESC will verify, from the viewpoint of the principle of suitability, whether financial instruments business operators are appropriately soliciting for investment in light of customers' knowledge, experience, and holding assets, as well as investment purpose, and whether they are fully accountable for their solicitation in accordance with the characteristics of individual customers.

In particular, the SESC will also examine whether, upon sales and cancellations of investment trusts (including switching), appropriate explanations are being provided regarding important information that affects customers' investment decisions, such as product characteristics and risk characteristics, profits/losses, dividends, commissions

and investment trust fees.

For the sale of over-the-counter (OTC) derivatives transactions and complex structured bonds similar to OTC derivatives transactions, the SESC will examine whether appropriate explanations are being provided regarding important risks and other factors that affect decisions for investment in such products, including the projected maximum losses and the settlement money on cancellation.

In addition, the SESC will verify whether advertisements that are widely exposed to investors include any misleading indications regarding investment returns, market factors and the state of orders. The SESC will also examine the status of the complaint handling system, which is important for investor protection.

E. Verification of the appropriateness of business and legal compliance of investment management business operators

While investment management business operators are commissioned by investors to manage their assets for their interests, it is very difficult for the investors to directly verify how their assets are being managed. Therefore, from the viewpoint of investor protection, the SESC will examine investment management business operators' compliance with the relevant laws and regulations, including the fiduciary duty and due care of a prudent manager, and the effectiveness of their systems for managing conflicts of interest in relation to transactions with interested parties and the due diligence function.

Inspections conducted last fiscal year revealed a case in which a DIM business operator, entrusted with the management of corporate pension funds, acted to disclose false details with regard to solicitation for conclusion of a discretionary investment management contract, and also delivered customers with investment reports containing false details, thereby violating its fiduciary duty and harming the interests of the corporate pensions. In addition, a number of points have been raised with regard to corporate pensions: (a) Severe fiscal circumstances have continued, and, in particular, funds with shortfall of replacement account for 40% of all employees pension funds; (b) Multi-companies funds jointly established by small and medium-sized enterprises (SMEs) in the same industry account for most employees pension funds; and (c) Despite most corporate pensions having to pursue investment profits matching an assumed interest rate, the investment management system cannot necessarily be

prepared.

Previously, regarding investment management business operators, from the perspective of protecting personal investors, priority was given to inspecting investment management business operators conducting investment trust management business and investment corporation asset investment business. However, following the revelation of the state of affairs surrounding the management of corporate pension funds, with regard to DIM business operators, in consideration of their business types and the characteristics of their customers, namely corporate pensions, it is recognized that the precise picture of their business and their compliance with laws and regulations need to be verified.

Based in part on the results of comprehensive surveys conducted by the FSA against DIM business operators, the SESC will conduct intensive inspections of these DIM business in cooperation with supervisory departments.

The SESC will also strengthen its systems for collecting and analyzing information on pension fund management. Specifically, it will also set up a dedicated channel for collecting information of high importance and usefulness from external sources (Pension Investment Hotline), and will assign specialists in pension fund management. Moreover, the SESC will conduct active, high-quality analysis of information, and will reflect analysis in determining the inspection priority and in the focus of inspections.

F. Verification of the business management systems of credit rating agencies

From such perspectives as preventing conflicts of interest and ensuring the fairness of the rating process, the SESC will verify whether credit rating agencies have established business management systems, and whether they have appropriately disclosed information relating to their rating policy.

G. Verification of the compliance with laws and regulations by fund business operators

Regarding business operators engaging in the management and offering of interests of collective investment schemes (funds) (meaning investment management business operators engaged in self-management business and type II financial instruments business operators and QII business operators; hereinafter referred to as “fund business operators”), past inspections have found many cases of legal violations, such as

inappropriate account separation of fund's money and investors' (diversion of investors' money and unexplained expenditure), false explanations and notices, misleading indications, name-lending to unregistered business operators, and QII business operators selling and managing funds without satisfying the requirements of specially permitted businesses and thus requiring registration. In view of these circumstances, the SESC will examine their compliance with laws and regulations, including the appropriateness of business operations and account separation.

Furthermore, with regard to QII business operators, given that malicious cases leading to petitions for court injunctions against persons committing violations of the FIEA were confirmed, the SESC will verify such cases, making proper use of its authority to conduct securities inspections of such business operators, to file petitions for court injunctions and to conduct associated investigations .

H. Verification of the compliance with laws and regulations by investment advisors/agencies

Regarding investment advisors/agencies, many cases of legal violations have been identified in past inspections, including engagement in unregistered businesses, name lending to unregistered business operators and inappropriate provision of information to customers, due to a remarkable lack of basic legal knowledge and sense of legal compliance among their officers and employees. In view of these circumstances, the SESC will focus on examining their compliance with laws and regulations.

I. Verification of the functions of self-regulatory organizations (SROs)

As for self-regulatory organizations (SROs), the SESC will examine whether self-regulatory operations are effective and functioning appropriately, as well as whether they have systems necessary for exercising their functions properly. Specifically, the SESC will conduct verification with regard to the establishment of self-regulatory rules for their members, their regulatory enforcement such as on-site and off-site reviews and penalties, listing examination and transaction surveillance. In verifying listing examination, the SESC will also look at the SROs' measures to prevent anti-social forces from intervening in the financial and capital markets, including the collection of information on the involvement of anti-social forces in issuing companies and listed companies. Furthermore, in light of the significance of financial instruments exchanges as market infrastructure, the SESC will examine their systems for ensuring smooth and appropriate management of the financial instruments markets, such as IT

system risk management.

J. Response to unregistered business operators

In response to serious FIEA violations, such as sales and solicitations of unlisted stocks and funds by unregistered business operators, the SESC will strengthen cooperation with supervisory departments and investigative authorities, and, where necessary, will take appropriate action, such as making use of petitions for court injunctions and associated investigations.

2) Verification of internal control systems and financial soundness

A. Verification of internal control systems

In cases where an inspection shows problems related to business operations, the SESC will endeavor to understand the problems by examining the appropriateness and efficacy of the underlying internal control systems and risk management systems (hereinafter referred to as "internal control systems, etc."). In examining internal control systems, etc., the SESC will pay attention to whether there has been organizational involvement and commitment in the development of the systems, including involvement and commitment by the senior management.

In particular, given their market position and business characteristics, as far as securities groups that engage in large and complex business operations as a group are concerned, establishing internal control systems, etc. is regarded as important. Therefore, the SESC will, from a forward-looking perspective, focus its examination on the appropriateness of their internal control systems, etc., and it will perform appropriate inspections in response to the introduction of consolidated regulations and supervision of securities companies.

B. Verification of IT system risk management

In recent years, financial instruments business operators have become increasingly dependent on IT systems in their business operations. At the same time, online participation in securities transactions and FX trading has been spreading among personal investors. Thus, IT systems have become an important infrastructure of financial transactions.

Under these circumstances, it is very important to secure the stability of IT systems from the viewpoint of protecting investors and ensuring public trust in the market and in

financial instruments business operators. During its inspections, the SESC will examine the appropriateness and efficacy of the IT system risk management to prevent risks from being actualized, including erroneous order placement prevention, IT system troubleshooting, information security management, and oversight of outsourcing. The SESC will also verify the involvement of senior management in the development of the IT system risk management.

C. Verification of financial soundness

Past inspections on type I financial instruments business operators have shown cases seemingly attributable to a deterioration of financial conditions, such as the fraudulent diversion of trusts for the separate management of customer funds, the decrease in net assets and capital adequacy ratios below legal standards. Given this, when looking at suspected business operators, the SESC will focus its examination on the segregated management of customer assets and on net assets and capital adequacy ratios.

(2) Towards efficient, effective and viable inspection

1) Determining the inspection priority based on risks, taking business type and other characteristics into account

When selecting which business operators to inspect, the SESC will, in principle, determine the inspection priority based on the following principles corresponding to the market conditions at the time, taking into account the business types, sizes and other characteristics of the business operators subject to inspection.

When cross-sectoral issues in the market have been identified, the SESC will conduct special inspections flexibly, as appropriate, against those business operators subject to inspection which face the issues in common.

Prior to the inspection of individual business operators, the SESC will identify issues to be examined, and will conduct inspections with a focus on these issues.

A. Coverage of regular verification

Regarding those business operators subject to inspection that are type I financial instruments business operators (including registered financial institutions) conducting transactions with a large number of investors, including personal investors, thereby playing a central role in the market, and those that are investment management business operators commissioned by investors to manage assets in the interests of the investors,

in view of their position as pillars in the market, the SESC will, in principle, conduct regular inspections and verify their financial soundness and the appropriateness of their business operations.

In addition, regarding those credit rating agencies that assign credit ratings greatly affecting the investment decisions of investors and that publish and provide them to users widely, in light of their roles as information infrastructure in the financial and capital markets and in view of the aims of international financial regulatory reform, the SESC will, in principle, conduct regular inspections and verify their business management systems.

However, due to the human resources constraints of the SESC, given that it would be difficult to conduct regular inspections uniformly across all business types, the SESC will take such actions as adjustment of the frequency of inspections and the issues to be examined, while endeavoring to gain an accurate understanding of the overall picture of all business types in close cooperation with supervisory departments.
In particular, the SESC will conduct intensive inspections of DIM business operators as described in (1) 1) E above.

When selecting which specific business operators to inspect, in addition to actively collecting and analyzing information from supervisory departments and information received from external sources, the SESC will determine the inspection priority, taking into account changes in the market conditions, the market positions and inherent problems of the individual business operators in comprehensive manner.

B. Inspections conducted as needed

With regard to registered business operators subject to inspection other than those listed in A above (type II financial instruments business operators, investment advisors/agencies, financial instruments intermediaries, etc.), given their business types, sizes and other characteristics and the situation that the number of business operators subject to inspection is extremely large in comparison to the human resources of the SESC, the SESC will actively utilize information from supervisory departments and information received from external sources to determine the inspection priority individually, taking into account such factors as membership to the SROs and compliance with laws and regulations that have been amended as a result of proposals for necessary policies based on past intensive inspections.

Furthermore, with regard to QII business operators, the SESC will similarly determine the priority individually, and will conduct verifications, making proper use of its authority to conduct securities inspections, to file petitions for court injunctions and to conduct associated investigations.

C. Unregistered business operators

In response to serious FIEA violations by unregistered business operators, while observing the implementation of measures for effect on civil affairs and so forth which were introduced last November following the 2011 amendment of the FIEA, the SESC will, where necessary, determine the priority on a case-by-case basis as in B above, and appropriately implement investigations for petitions for court injunctions.

2) Implementation of effective inspection

A. Inspection with prior notice

In principle, the SESC initiates inspections without prior notice. The SESC, however, will give prior notice to business operators to be inspected, as necessary, taking into account the characteristics of their businesses, the focuses and the efficiency of inspection, and the reduction of burdens on the business operators being inspected in comprehensive manner.

B. Enhancement of interactive dialogue

Through interactive dialogue with the business operators being inspected, the SESC will strive to share the problems it perceives in their business operations. In particular, given that senior management is responsible for the development of internal control systems, etc., by exchanging opinions with them, the SESC will verify their perception of the problems, and encourage them to make voluntary efforts for improvement.

C. Firm action against conduct which hinders the efficacy of inspections

As understanding of the importance of interactive dialogue in inspections deepens, some refusal of inspection and other acts which hinder the efficacy of inspections have been observed. The SESC will take firm action against such acts in order to completely fulfill its mission.

3) Enhancement of cooperation with the FSA and local finance bureaus

With respect to the relationship with supervisory departments of the FSA and local finance

bureaus, the SESC will cooperate with them, such as by sharing information and their awareness of issues, through the timely exchange of information obtained in the course of supervision which is useful for inspections. Furthermore, for securities groups that engage in large and complex business operations as a group, the SESC will seek seamless cooperation between its on-site inspections and the supervisory departments' off-site monitoring.

With respect to the relationship with the Inspection Bureau of the FSA, from the perspective of sharing an awareness of issues and implementing smooth inspections of business operators that are within the same business group, the SESC will, as necessary, collaborate with the Inspection Bureau in initiating inspections of those business operators being inspected that constitute a financial conglomerate, and will exchange information with the Inspection Bureau.

With respect to overseas securities regulators, the SESC will strengthen cooperation with them, such as exchanging necessary information with regard to inspections of foreign-owned business operators operating in Japan and inspections of Japanese business operators that have offices or business connections overseas. In addition, the SESC will cooperate appropriately with major overseas securities regulators with regard to the inspection of credit rating agencies and to its involvement in "Supervisory Colleges" established in response to large, globally active securities companies.

Given the identified cases of fraudulent practices by fund business operators as well as the sale and solicitation of unlisted stocks and funds by unregistered business operators, the SESC will strengthen its cooperation with the supervisory departments and investigative authorities in order to respond to this situation.

4) Cooperation with self-regulatory organizations (the SROs)

With respect to the SROs, the SESC will further strengthen coordination between its inspection and the SROs' audits and examinations of their members so as to improve the effectiveness of the multilayered oversight activities over financial instruments business operators. From this perspective, the SESC will promote cooperation with the SROs, such as through the coordination of inspection programs, the exchange of information and training.

5) Revision and publication of the basic inspection guidelines and the inspection manual

From the perspective of taking firm action against acts which hinder the efficacy of inspections as well as implementing efficient and effective inspections, the SESC will revise the basic guidelines for securities inspection, which stipulate the procedures and basic matters for inspections, and it will revise the Inspection Manual for Financial Instruments Business Operators in accordance with regulatory reforms. The SESC will publish updated guidelines and manuals so as to improve the transparency and predictability of its inspections.

This Inspection Policy has been prepared in light of the situation surrounding the markets as of April 2012, and is subject to revision as necessary.

II. Basic Securities Inspection Program

1. Basic Concept

(1) The SESC shall formulate an inspection program in accordance with the Inspection Implementation Program. It should be noted that exceptional action may be taken in response to any changes in the market conditions and/or factors related to specific business operators.

(2) The SESC will work with the securities and exchange surveillance departments of local finance bureaus to conduct efficient and effective inspections, such as through the active use of joint inspections and the exchange of inspectors. The SESC will also make efforts to conduct inspections in an integrated manner and support the securities and exchange surveillance departments of local finance bureaus with respect to the sharing of inspection techniques and information and the processing of inspection results.

2. Basic Securities Inspection Program

Type I financial instruments business operators (including registered financial institutions), investment management business operators, and credit rating agencies	150 companies (including 110 to be inspected by local finance bureaus) (including intensive inspections of DIM business operators)
Type II financial instruments business operators, investment advisories/agencies, QII business operators, and financial instruments intermediaries, etc.	To be inspected as needed
SROs	To be inspected as necessary

Unregistered business operators	To be inspected as necessary

Note: The planned numbers of inspections above are subject to change due to the revision of the Inspection Program during this business year and/or the implementation of special inspections.

3) Amendment of Inspection Manual for Financial Instruments Business Operators, etc.

1. Background for Amendment

(1) Amendments related to investment advisory and agency businesses, etc.

The FSA made partial amendment of the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” given that criteria on adequate staffing were additionally included in the causes for refusal of registration of investment advisory/agency business operators due to a partial amendment of the FIEA; and that solicitation and description stances for the conclusion of investment trust contracts were defined as matters to be verified in the “Annual Supervisory Policy for Financial Instruments Business Operators, etc., for Program Year 2011.”

In consideration of problems, etc., found in these amendments and inspections, the SESC put out for public comments the proposed partial amendment of the “Inspection Manual for Financial Instruments Business Operators, etc.” (from July 10, 2012 to August 9, 2012), announced the amended manual on August 17, 2012, and utilized the manual for conducting inspections on September 1, 2012, and beyond.

(2) Amendment due to revised Act on Prevention of Transfer of Criminal Proceeds

The partial revision of the Act on Prevention of Transfer of Criminal Proceeds brought about a further enhancement of measures against criminals involved in terrorism financing and money laundering.

In consideration of the amendment, etc., above, the SESC put out for public comments the proposed partial amendment of the “Inspection Manual for Financial Instruments Business Operators, etc.” (from February 15, 2013 to March 18, 2013), announced the amended manual on March 26, 2013, and utilized the manual for conducting inspections from April 1, 2013 onward.

2. Points of Amendments

(1) Amendments related to investment advisory and agency businesses, etc.

(i) Given that criteria on adequate staffing are additionally included in the causes for refusal of registration of investment advisory/agency business operators, the SESC expanded the matters to be verified regarding internal control systems in the amended manual.

(ii) As verification items to assess the principle of suitability and the actual state of solicitation and transactions for investment trust contracts, the SESC added the management system of customer cards, etc., and the description or disclosure of dividends payable by investment trusts.

(iii) As verification items to evaluate the appropriateness of written materials, etc., for the solicitation of derivative transactions, etc., the SESC added the description and disclosure state of probable maximum loss and compensation for early contract termination, etc.

(iv) Other amendments required due to revision of laws and regulations- Prohibition of closing short positions after public offerings, etc.

(2) Amendment due to revised Act on Prevention of Transfer of Criminal Proceeds

In light of further enhancement of measures against criminals involved in terrorism financing and money laundering, the SESC added verification at the time of transaction and also amended the requirements given with additional items to be confirmed (the customer's intention to conduct a transaction) at the time of specific transactions with specified operators, such as financial instruments business operators.

4) Record of Inspections

(1) In FY2012, the SESC commenced inspections on 57 type I financial instruments business operators, 28 registered financial institutions, 36 investment management business operators, 3 credit rating agencies, 20 type II financial instruments business operators, 40 investment advisory and agency business operators, 21 QII Business Operators (hereinafter referred to as "QII business operators"), and 9 financial instruments intermediaries (see the Table below).

(2) Among the inspections completed during FY2012 (including those commenced in or before FY2011), the SESC made recommendations to the Prime Minister and the Commissioner of the FSA to take administrative disciplinary actions or other appropriate actions against 18 cases in which the SESC identified material violations of laws and ordinances. Based on the recommendations, the relevant supervisory departments already took administrative disciplinary actions, etc.

In addition, with respect to any problems detected in the inspections not limited to the cases subject to the above recommendations, the SESC notifies each of the financial instruments business operators and also the relevant supervisory departments of such problem with the aim of serving the objective of off-site monitoring.

Also note that the recommendation cases in FY2012 are described in part 7) in this chapter, and the main problems the SESC identified in the inspections completed in FY2012 are discussed in part 6) in this chapter. Additionally, for the purpose of timely transmission of information, disclosure recommendation cases are posted on the website upon occurrence, and the main problems are provided quarterly.

Type of business	Plan [Number of operators inspected] (Note 1)	Actual		Number of operators to be inspected (Note3) [Total] (Note.2)		Actual [Number of operators inspected] (Note 1) (completion)	Of which commenced in FY2012
		[Number of operators inspected] (Note 1) (Commenced)	[Total number of inspections] (Note 2) (Commenced)				
Type I financial instruments business operators	150 operators	57	61	285		50	14
Registered financial institutions		28	28	1,126		31	8
Investment management business operators		36	38	315		6	2
Investment corporations		0	0	53		1	1
Credit rating agencies		3	3	7		5	2
Type II financial instruments business operators	Inspected as needed	20	63	1,279		18	3
Investment advisory and agency business operators		40	87	1,051		38	13
QII business operators		21	29	3,017		14	2
Financial instruments intermediaries		9	10	743		6	0
Self-regulatory organizations	Inspected as necessary	0	0	11		0	0
Other	-	0	0	-		1	1
Total		214	319	7,887		170	46

5) Intensive Inspections of Discretionary Investment Management Businesses Operators

The inspection conducted in FY2011 revealed a case in which some investment

management business operators, entrusted with the discretionary investment management of corporate pension funds, provided false explanations with regard to solicitation for conclusion of discretionary investment contracts, and also delivered customers with investment reports containing false details, thereby violating its fiduciary duty of loyalty and harming the interests of the corporate pension funds.

Following the revelation of misconduct concerning corporate pension funds, since the SESC recognized it necessary to prioritize verifying their status of operations and compliance with laws and regulations in consideration of the business category and the customer characteristics of the corporate pension funds, the SESC and local financial bureaus have conducted intensive inspections of discretionary investment management businesses operators in FY2012 in cooperation with supervisory departments, based on the results of the sweeping surveys discretionary investment management business operators conducted by the Financial Services Agency.

As a result, since two operators proved to have violated the laws and regulations, the SESC recommended that the Prime Minister and the Commissioner of the FSA take administrative disciplinary actions against them (see parts 6) and 7) in this chapter).

(Note) In addition, the SESC also made a recommendation for an administrative disciplinary action against two other operators commenced prior to the intensive inspections, since the SESC detected they had been involved in violation of laws and regulations.

In addition, from the perspective of strengthening the system for collecting and analyzing information on pension fund management, the SESC set up a dedicated channel for collecting significant and useful information from external sources (Pension Investment Hotline),with assigned specialists in pension fund management. Active approaches and high-quality information analysis by the specialists are viable for placing the priority on inspections and clarifying the focus in inspections.

The SESC will continue to conduct intensive inspections of discretionary investment management businesses in collaboration with supervisory departments.

Specifically, in deciding which operators to inspect, the SESC will determine the inspection priority in a comprehensive manner, through active utilization and analysis of the information, etc., both from the supervisory departments and from external information, while taking into account changes in market environments, the market positions of each operator, and their inherent problems.

6) Summary of Inspection Results

1. Inspections of Type I Financial Instruments Business Operators

In FY2012 inspections on 81 type I financial instruments business operators (including registered financial institutions; the same applies hereafter in this chapter) were completed, and problems were found in 45 of them. Of these, 6 business operators had problems related to market misconduct, 12 had problems related to investor protection, 7 had problems related to financial soundness or accounting, and 33 had problems related to other

business operations.

(1) Problems related to market misconduct

Recommendation cases: Where the inspection result revealed a problem, e.g., violation of laws and regulations, and the SESC notified the inspected entity of the problem and recommended the Prime Minister and the Commissioner of the FSA to take administrative disciplinary action, etc., against the inspected entity. (The same applies hereafter.)

(i) Failure to take necessary and appropriate measures to prevent illegal transactions with regard to the management of material non-public information.

(See 7) -1- (1) in this chapter)

(See 7) -1- (4) in this chapter)

(ii) Soliciting customers by providing material non-public information with regards to trading of securities and other trading

(See 7) -1- (1) in this chapter)

(See 7) -1- (4) in this chapter)

Problem notice cases: Where the inspection result revealed a problem, e.g., violation of laws and regulations, etc, and the SESC notified the inspected entity of the problem. (The same applies hereafter.)

(i) Accepting an entrustment of purchasing listed preferred equity securities while knowing that the purchases would make the market fluctuate and create artificial prices not reflecting the actual demand.

(ii) Failure to take appropriate trading management to prevent the entity from accepting the performance of a series of transactions to create artificial market prices that do not reflect the actual market

(iii) Failure to take appropriate measures to notice concerning restriction of short-selling related to capital increase through public offering

(2) Problems related to investor protection

Problem notice cases

(i) Making representations that would cause a misunderstanding of important matters with respect to the conclusion of financial instruments transaction contracts or their solicitation;

(ii) Delayed delivery of a document upon conclusion of a contract, etc.;

(iii) Failure to disclose the amount of compensation for early contract termination for an OTC derivative transaction;

(iv) Inadequate internal control system for protecting investors, etc.;

(v) Making false statements to customers;

(vi) Provision of inappropriate information on rough estimate of profit and loss for the purpose of soliciting customers to sell an investment trust held and to reinvest the proceeds in another trust.

(3) Problems related to financial soundness or accounting

Recommendation cases

(i) Net assets and capital-to-risk ratio below the legal standards

(See 7) -1- (5) in this chapter)

(ii) Appropriation of required amount of separate management for its operational costs, etc.

(See 7) -1- (5) in this chapter)

(iii) High of insolvency risks

(See 7) -1- (5) in this chapter)

Problem notice cases

(i) Capital-to-risk ratio is less than 120%, or the like

(ii) Miscalculation of the capital-to-risk ratio, etc.

(4) Problems related to other business operations

Recommendation cases

(i) Continued intermediation of FX trading without making customers deposit money to satisfy a margin deficiency, upon occurrence;

(See 7) -1- (2) in this chapter)

(ii) Significant problems with the business operation;

(See 7) -1- (2) in this chapter)

(iii) False reporting in response to an order for production of reports

(See 7) -1- (3) in this chapter)

(iv) Provision of property benefits for compensation of losses or addition of profits for customers, etc.;

(See 7) -1- (3) in this chapter)

(v) False report to regulators

(See 7) -1- (5) in this chapter)

Problem notice cases

(i) Inappropriate handling of margin money deposited for margin transaction;

(ii) Inadequate operational system in placing orders from customers appropriately;

(iii) Failure to prepare financial instruments intermediary auxiliary book;

(iv) Failure to submit notification of changes with respect to the registration items;

(v) Submission of incorrect financial reports;

(vi) Failure to take necessary and adequate measures to prevent leakage or loss of personal information;

(vii) Failure to take adequate measures to exclude any transactions with anti-social forces;

(viii) Inadequate management system for protecting sensitive information;

(ix) Failure to submit a suspicious transaction report;

(x) Failure to take necessary measures for securities-related problematic conduct;

(xi) Inappropriate handling of margin money deposited for margin transaction;

(xii) Inadequate management of the electronic data processing system; and

(xiii) Inadequate internal control system to secure fair transactions regarding the placement of unsold foreign bonds.

2. Inspections of Type II Financial Instruments Business Operators

In FY2012, inspections on 18 type II financial instruments business operators were completed and problems were found in 9 business operators (including business operators which mainly engage in business other than type II financial instruments business and in

which problems were found related to type II financial instruments business). Of these, 3 business operators had problems related to investor protection, 2 had problems related to financial soundness or accounting, and 7 had problems related to other business operations.

(1) Problems related to investor protection

Recommendation cases

(i) Making false statements to customers in relation to the conclusion of fund contracts and their solicitation.

(See 7) -2- (1) in this chapter)

(ii) Having another person solicit or sell fund equities in the name of the Company;

(See 7) -2- (1) in this chapter)

(iii) Conducting significantly inappropriate acts on fund transactions;

(See 7) -2- (1) in this chapter)

(iv) Making false statements to customers in relation to the solicitation of private placements of equities in a collective investment scheme

(See 7) -2- (2) in this chapter)

Problem notice cases

○ **Breach of obligation to notify professional investors**

(2) Problems related to financial soundness or accounting

Problem notice cases

○ **Dealing of private placement without securing segregated management**

(3) Problems related to other business operations

Problem notice cases

(i) Registration information is different from the facts.

(ii) Failure to notify change of business description, upon occurrence of such event

(iii) Failure to notify change of parent company, upon occurrence of such event

(iv) Breaches of duty to verify identity

(v) Inadequate business operation system to perform Type II Financial Instruments Business

3. Inspections of Investment Advisory and Agency Business Operators

In FY2012, inspections on 38 investment advisory and agency business operators, and problems were found in 24 business operators (including the business operators mainly engaged in business other than investment advisory and agency business, in which problems related to investment advisory and agency business were found). Of these, 19 business operators had problems related to investor protection, 2 had problems related to financial soundness or accounting, and 15 had problems related to other business operations.

(1) Problems related to investor protection

Recommendation cases

(i) Unregistered handling of public offerings or private placements of equities in a

collective investment scheme

(See 7) -3- (1) in this chapter)

(See 7) -3- (3) in this chapter)

(ii) Significantly inappropriate solicitation

(See 7) -3- (1) in this chapter)

(iii) Significant problems with operational management in light of investor protection

(See 7) -3- (2) in this chapter)

(iv) Advertisement significantly different from the facts

(See 7) -3- (2) in this chapter)

Problem notice cases

(i) Defects in legal documents;

(ii) Defects in description in advertisement;

(iii) Inadequate payment of advance compensation at the termination of a financial instruments transaction contract;

(iv) Inadequate provision of the legal documents;

(v) Entrustment of investment advisory business to unregistered operator;

(vi) Organizing several QII Business Operators that do not meet requirements

(2) Problems related to other business operations

Recommendation cases

(i) Acceptance of deposit of money from customers

(See 7) -3- (4) in this chapter)

(ii) Violation of a business suspension order, inspection evasion and violation of business improvement order

(See 7) -3- (5) in this chapter)

Problem notice cases

(i) Inappropriate fulfillment of remedial measures related to a problem notice made at the previous inspection

(ii) Failure to notify change of operational procedure, etc.

(iii) Failure to post a sign

(iv) Failure to make explanatory documents available to public inspection

(v) Provision of property benefits for compensation of losses to customers, etc.

4. Inspections of Investment Management Business Operators, etc.

In FY2012, inspections on 7 investment management business operators, etc., were conducted, and problems were found in 4 business operators (including business operators mainly engaged in business other than investment management business, in which problems related to the investment management business were found). Of these, 4 business operators had problems related to investor protection, and 1 had problems related to other business operations.

(1) Problems related to investor protection

Recommendation cases

(i) Breach of duty of care concerning a discretionary investment contract

(See 7) -4- (1) in this chapter)

(See 7) -4- (2) in this chapter)
(See 7) -4- (4) in this chapter)

(ii) Indication of performance data on investments which was different from the actual results

(See 7) -4- (3) in this chapter)

(iii) Appropriation of money contributed by right holders

(See 7) -2- (2) in this chapter)

Problem notice cases

○ **Inadequate internal control systems to fulfill the fiduciary duty of loyalty for conclusion of discretionary investment contract**

(2) Problems related to financial soundness or accounting

Recommendation cases

○ **The amount of net assets does not meet the required and appropriate value for the public interest or protection of investors.**

(See 7) -2- (2) in this chapter)

5. Inspections of QII Business Operators

In FY2012, inspections on 14 QII business operators were completed, and problems were recognized in 14 of them (including business operators whose main business is not business specially permitted for qualified institutional investors, but for whom a problem related to business specially permitted for qualified institutional investors was recognized). Of these, 14 business operators had problems related to investor protection, and 8 had problems related to other business operations.

○ **Problems related to investor protection**

Public announcement cases: Where the inspection result of QII Business Operators revealed a problem, e.g., violation of laws and regulations, etc, and the names and other information of the operators were disclosed to the public since the SESC determined it appropriate to make the act publicly available in light of the seriousness and maliciousness of the conduct.

(i) Making false statements to customers in relation to the conclusion of private placements of equities in a collective investment scheme and their solicitation

(See 7) -7- (1) in this chapter)
(See 7) -7- (2) in this chapter)
(See 7) -7- (5) in this chapter)

(ii) Appropriation of money contributed to the fund

(See 7) -7- (1) in this chapter)
(See 7) -7- (3) in this chapter)
(See 7) -7- (4) in this chapter)
(See 7) -7- (5) in this chapter)
(See 7) -7- (6) in this chapter)

Problem notice cases

○ **Unregistered business operations related to type II financial instruments business and investment management business**

6. Inspections of Financial Instruments Intermediaries

In FY2012, inspections on 6 financial instruments intermediaries were completed, and problems were found in 2 of them. Of these, 1 had problems related to investor protection, and 2 had problems related to other business operations.

Recommendation cases

○ **Unregistered handling of private placements of equities in private placement investment funds**
(See 7) -5- in this chapter)

7. Inspections of Credit Rating Agencies

As a result of a revision of the FIEA, the registration system of credit rating agencies started in April 2010. Since September 2010, 7 companies (5 groups) have been registered as a credit rating Agency. The SESC started conducting a series of inspections of the credit rating agencies in April 2011 and completed the inspections in February 2013. As a result of these inspections, problems were found in all 7 agencies.

(Note) The above description includes two credit rating agencies whose inspections were completed in FY2011.

Recommendation cases

(i) Inadequate operational management systems where effective measures to verify and update assigned credit ratings in an appropriate and continuous manner were lacking
(See 7) -6- in this chapter)

(ii) Significant problems with business operations from the perspective of the public interest and investor protection
(See 7) -6- in this chapter)

Problem notice cases

(i) Inadequate development of rotation rules,

(ii) Inadequate measures for establishing functions to properly verify the appropriateness and effectiveness of the rating determination policy, etc.;

(iii) Inadequate measures for preventing conflicts of interest;

(iv) Inadequate measures for appropriately and promptly addressing complaints raised against credit rating agencies;

(v) Inadequate measures for implementing proper information management and maintenance of confidentiality;

(vi) Inadequate measures to prevent an ancillary business from being misperceived as the credit rating business; and

(vii) Failure to properly conduct credit rating business in compliance with the rating policy, etc.

7) Recommendations Based on the Results of Inspections, etc.

The cases in which the SESC made recommendations for administrative disciplinary actions, etc., in FY2012 are described below.

In addition, the SESC has announced company names, representative names, conducts in

violation of laws and regulations and other information, when the SESC detects any behaviors in violation of the FIEA and/or any problematic acts with regard to the protection of investors instead of recommendations since FY2012, because QII Business Operators are not subject to administrative disciplinary actions.

1. Recommendations Based on the Results of Inspections of Type I Financial Instruments Business Operators, etc.

(1) SMBC Nikko Securities Inc.

(Date of recommendation: April 13, 2012)

○ Failure to take required and appropriate measures to prevent market illegal transactions with regard to the management of material non-public information and inappropriate solicitation activities including acts of violation of laws and regulations

[Article 123(1)(v) of the Cabinet Office Ordinance on Financial Instruments Business, etc. (hereinafter referred to as the "FIB Cabinet Office Ordinance"), based on Article 40(ii) of the FIEA; and Article 117(1)(xiv) of the FIB Cabinet Office Ordinance, based on Article 38 (vii) of the FIEA]

[Overview]

A director and another officers of the Sales Division of SMBC Nikko Securities Inc. (the "Company"), who received material non-public information related to the public offering of Company A common stock, passed on the information to managers at retail branches without any clear instructions on strict treatment of the information and also skipped required procedures under the internal rules. As a result, several retail branches provided the information to clients for solicitation of the securities transactions. Since then, the Company's response still leaves considerable room for further improvement while it has shown a certain improvement.

In addition, another piece of material non-public information related to the public offering of Company B common stock was passed on to the general manager of the Sales Department by the department possessing the information, without undergoing the required procedures under the internal rules.

(2) FXCM Japan Securities Co. Ltd.

(Date of recommendation: June 19, 2012)

(i) Significant problems with the business operation

[Article 123(1)(xiv) of the FIB Cabinet Office Ordinance, based on Article 40(ii); and Article 51 of the FIEA]

[Overview]

○ Material problem detected with respect to system control and management

The SESC recognized that FXCM Japan Securities Co. Ltd. (the "Company") failed to formulate precise procedures and means required in the case of system failure. In addition, with respect to the control and management of the FX system, the SESC also detected that the Company, as a financial instruments business operator, also did not understand even the fundamental conditions of the FX system forming the basis of its business operations.

○ Careless customer service

There has been the frequent occurrence of system troubles. However, the SESC

confirmed the Company only handled the customers claiming or inquiring, and provide other customers involved therein with no solutions.

(ii) Continued intermediation of FX trading without making customers deposit money to satisfy a margin deficiency

[Article 117(1)(xxviii) of the FIB Cabinet Office Ordinance, based on Article 38(vii) of the FIEA]

[Overview]

The SESC detected many cases where the Company allowed customers subject to margin deficiency to continue FX trading even in cases where the amount of margin money deposited remained below the required value after the elapse of a certain reasonable period of time for such deficiency.

(3) Daiman Securities Co., Ltd.

(Date of recommendation: June 22, 2012)

(i) False reporting in response to an order for production of reports

[Article 52(1)(vi) of the FIEA]

[Overview]

Daiman Securities Co., Ltd. (the "Company") submitted the report about the measures for reoccurrence prevention of the violation of the laws and regulations conducted by sales representatives, respond to an order for production of reports from the regulator. However, the number of meetings with customers in the report wasfalse.

(ii) Provision of property benefits for compensation of losses or addition of profits for customers, etc.

[Article 64-5(1)(ii) and Article 39(1)(iii) of the FIEA]

[Overview]

The sales representative was entrusted by a customer to make discretionary stock investments on behalf of the customer in all aspects of the trading items including buying/selling of orders, issuance of stocks, trade volume, and price, and the transactions were made mainly on margin trading. , The sales representative provided property benefits for the appropriation of the losses or offset the losses with cash, etc. when there was a margin deficiency in the account due to valuation loss on open interest, or a loss from the settlement of the open interest on the margin buying by actual receipt of the stock purchased.

(4) Nomura Securities Co., Ltd.

(Date of recommendation: July 31, 2012)

(i) Failure to take necessary and appropriate measures to prevent illegal transaction with regard to the management of material non-public information related to public offerings of new shares

[Article 123(1)(v) of the FIB Cabinet Office Ordinance, based on Article 40(ii) of the FIEA]

[Overview]

An officer and a member of the internal control division at Nomura Securities Co., Ltd. (the "Company") were overly confident that the development and operation of the Company's system for managing material non-public information was appropriate, and thus would never cause any problems. As a result, regarding the "provision of

information across the Chinese wall," "aggressive attempts by sales personnel to obtain information from internal analysts," and "information-sharing within the institutional equity sales department," the internal control division was acknowledged to have failed to adequately exercise its preventive function, as exemplified by its failure to adequately identify the actual status of the management of material non-public information and the sales operation, and to check compliance with laws and regulations.

(ii) The practice of soliciting customers to trade in securities and conduct other forms of trading by providing material non-public information and other inappropriate business operations

[Article 117(1)(xiv) of the FIB Cabinet Office Ordinance, based on Article 38(vii) of the FIEA]

[Overview]

Managing Director A of the Company, who routinely obtained material non-public information from another department holding such information, is acknowledged to have obtained material non-public information related to the public offerings of new shares. Managing Director A, together with a subordinate, is acknowledged to have solicited a customer to trade shares and subscribe for publicly offered new shares by providing material non-public information before it was publicly announced. In addition, several similar cases were also identified.

(5) Initia Star Securities, Inc.

(Date of recommendation: December 5, 2012)

(i) Net assets and capital-to-risk ratio below the legal standards

[Article 52(1)(iii) and Article 53(2) of the FIEA]

[Overview]

Initia Star Securities, Inc. (the "Company") recorded a deposit account in amount of 214 million yen as of the inspection reference date, of which 200 million yen did not exist; the real amount was proved to be 14 million yen. The real amount of net assets as of the inspection reference date did not meet the minimum required value (50 million yen) as defined in Article 15(9)(i) of the FIB Cabinet Office Ordinance, based on Article 29-4(1)(v)(b) of the FIEA. Consequently, the capital-to-risk ratio was significantly lower than the minimum required ratio as defined in Article 46-6(ii) of the FIEA.

(ii) False report to the regulators

[Article 52(1)(vi) of the FIEA]

[Overview]

In reply to the order for production of the report from the Director General of the Kanto Local Financial Bureau, the Company misrepresented that its deposit balance was 220 million yen in the report submitted to the Director General. Moreover, the Company repeatedly made false statements in the monitoring survey based on an order for production of the report.

(iii) (iii) Appropriation of required amount of separate management for its working capital, etc.

[Article 43-3(2) of the FIEA]

[Overview]

The Company drew money deposited by customers from the segregated account for customers several times, and appropriated money in the amount of 125 million yen for loans, advances, or working capital for its own account.

In addition, there was the shortage of 116 million yen of the required amount for separate management, as a result of verification of the amount of money deposited by customers serving as the basis of calculating the required amount for separate management.

(iv) Concerns of insolvency

[Article 52(1)(vii) of the FIEA]

[Overview]

According to the statement of cash receipts and disbursement prepared by the Company on December 4, 2012, the amount of cash and deposits as of December 3 was around 16 million yen available as a resource for payment of expenses, etc. The SESC confirmed that the Company would be insolvent on December 25, 2012, based on expected income and expenses.

* In FY2012, in addition to the recommendations for administrative disciplinary action, based on the results of inspections of securities companies as shown in (1) through (5) above, the SESC also made a recommendation for administrative disciplinary actions against the type I financial instruments business operator as indicated below, based on the investigation results of criminal cases.

○**ITM Securities Co., Ltd.**
(Date of recommendation: August 3, 2012)

2. Recommendations Based on the Results of Inspections of Type II Financial Instruments Business Operators

(1) Sun Harvest Co., Ltd.
(Date of recommendation: October 12, 2012)

(i) Making false statements to customers in relation to the conclusion of fund contracts and their solicitation

[Article 38(1) of the FIEA]

[Overview]

Sales representatives at Sun Harvest Co., Ltd. (the "Company") made a false statement such as "dividends can be received each month" to customers when they solicited equities in a fund despite the fact that dividends, etc., were not guaranteed in nature.

(ii) Having another person solicit or sell fund equities in the name of the Company

[Article 36-3 of the FIEA]

[Overview]

The Company made sales representatives at Shinnihon Economy Investment Advisors Co., Ltd. to solicit fund equities in the name of the Company continuously.

(iii) Conducting significantly inappropriate acts on fund transactions

[Article 52(1)(ix) of the FIEA]

[Overview]

As a result of verifying the fund operation, the SESC confirmed: (a) an extremely inappropriate management of money contributed to the fund; (b) exceedingly inadequate monitoring of management of the invested businesses; and (c) highly improper treatment of dividends.

(2) Forex & Mineral Trading Co., Ltd.
(Date of recommendation: December 21, 2012)

(i) Making false statements to customers in relation to the solicitation of private placements of equities in a collective investment scheme
[Article 38(1) of the FIEA]
[Overview]
In solicitation of the fund, the Company explained to potential investors that it owned oil tanks, and its US branch, an investee of the fund, owned an oil concession and had already launched an oil drilling business. However, the inspection proved the explanation to be totally contrary to the facts.

(ii) Appropriation of money contributed by right holders
[Article 42(i) of the FIEA]
[Overview]
With respect to the fund managed by the Company, the Company withdrew money contributed by right holders and appropriated the money for expenses such as employees' compensation and expenditure for the chairman's privately owned business.

(iii) Net assets below the legal standards
[Article 52(1)(iii) of the FIEA]
[Overview]
The amount of net assets of the Company as of the inspection reference date did not meet the minimum required value (50 million yen) as defined in Article 15(9)(i) of the FIB Cabinet Office Ordinance, based on Article 29-4(1)(v)(b) of the FIEA after the correction of improper accounting procedures.

3. Recommendations Based on the Results of Inspections of Investment Advisory and Agency Business Operators

(1) Shinnihon Economy Investment Advisors Co., Ltd.
(Date of recommendation: October 12, 2012)

(i) Unregistered handling of private placements of equities in a collective investment scheme
[Article 29 of the FIEA]
[Overview]
Shinnihon Economy Investment Advisors Co., Ltd. (the "Company") was involved in business operations related to private placements of equities in a fund organized by Sun Harvest Co., Ltd. without registration as a type II financial instruments business as required by the FIEA.

(ii) Significantly inappropriate solicitation
[Article 52(1)(ix) of the FIEA]

[Overview]

When the sales representatives at the Company solicited private placements of interest in the fund, they pretended they were employees of Sun Harvest Co., Ltd., and provided the customers with false statements such that the fund's principle would never decline in value that, although the principle, etc., of the fund was not guaranteed in nature.

(2) Eureka Project LLC

(Date of recommendation: November 26, 2012)

(i) Significant problems with operational management in light of investor protection

[Article 51 of the FIEA]

[Overview]

○Intermediary of discretionary investment contract to unregistered operator

The Company solicited a discretionary investment contract with an unregistered investment management operator residing abroad to those who became acquainted at seminars and other events sponsored by the Company, as well as mediated their contracts..

○Conclusion of an investment advisory contract on behalf of an unregistered investment advisory/agency operator

The Company concluded an agency and service contract with A, an unregistered investment advisory / agency business operator, for the purpose of selling software that is developed by A for selecting stocks to invest in. On that basis, the Company solicited and sold the software to customers. However, given that A provided support and other services without involving the Company, the Company was acknowledged to be virtually acting as to conclude investment advisory contracts with customers on behalf of A.

(ii) Advertisement significantly different from the facts

[Article 37(2) of the FIEA]

[Overview]

In the advertisement of software posted on the Company's website, the Company advertised claims remarkably different from the facts, including providing fictitious stories about the users' experience of the software's performance.

(3) Kigyo Sekkei K.K.

(Date of recommendation: December 14, 2012)

○ Unregistered handling of public offerings or private placements of equities in foreign collective investment scheme

[Article 29 of the FIEA]

[Overview]

Kigyo Sekkei K.K. was involved in business operations related to solicitation or private placements of equities in a foreign collective investment scheme without the registration of type II financial instruments business as required by the FIEA.

(4) Major Invest Co., Ltd.

(Date of recommendation: March 15, 2013)

○ Acceptance of deposit of money from customers

[Article 41-4 of the FIEA (Behavior on and prior to September 29, 2007 shall be subject to Article 19 of the Securities Investment Advisory Business Law)]

[Overview]

Major Invest Co., Ltd. accepted the deposit of approximately 100 million yen in total by remittance to the bank account from customers or other related parties of the Company.

(5) Joule Co., Ltd.

(Date of recommendation: March 15, 2013)

○ Violation of a business suspension order, inspection evasion and violation of business improvement order

[Article 52(1)(vi) and Article 198-6(xi) of the FIEA]

[Overview]

Joule Co., Ltd. (the "Company") was ordered to suspend and improve its business operations by the Kinki Local Finance Bureau in November 2009, and submitted to the bureau a report describing remedial measures to prevent recurrence in respond to the operational improvement order. However, the SEC inspected the status of the fulfillment of the administrative disciplinary action, revealed the following problems:

・The Company concluded investment advisory contracts with two or more customers, while recognizing that it would be acting against the business suspension order during the business suspension period.

・The Company provided and explained forged data with the intent to conceal the above-mentioned misconduct from the inspector.

・There were false statements in the business improvement report that was submitted to the bureau, and no preventative measures were taken by the Company. Therefore, the Company was acknowledged to have violated the operational improvement order.

* In FY2012, in addition to the recommendations for administrative disciplinary actions, etc., based on the results of inspections of securities companies and other entities as shown above, the SESC also made recommendations for administrative disciplinary actions against the investment advisory/agency operator as indicated below, pursuant to the results of investigations of international transactions and related issues.

○ **Japan Advisory Limited Liability Company**

(Date of recommendation: June 29, 2012)

4. Recommendations Based on the Results of Inspections of Investment Management Business Operators, etc.

(1) United Investments Co., Ltd.

(Date of recommendation: October 10, 2012)

(i) Breach of duty of care concerning a discretionary investment contract

[Article 42(2) of the FIEA]

[Overview]

○ Inappropriate due diligence before investment in limited partnership for investment

With regard to due diligence prior to investment in a limited partnership for investment by United Investments Co., Ltd. (the “Company”), the inspection revealed that the Company had failed to conduct an adequate survey to verify whether the operator of the limited partnership was appropriate or not, and that the Company had a significantly insufficient structure to determine the detailed conditions of the private equity firms in which the partnership planned to invest.

○ Improper monitoring or other follow-up after the investment in limited partnership for investment

With respect to the monitoring of a limited partnership for investment after an investment therein, the Company failed to take appropriate measures, judging by the fact that the partnership made additional investment in a private equity firm whose initial public offering was called off without reasonable grounds. Therefore, the Company was acknowledged to have failed to monitor the limited partnership for investment appropriately.

(2) Stats Investment Management Co., Ltd.

(Date of recommendation: October 10, 2012)

(i) Breach of duty of care concerning a discretionary investment contract

[Article 42(2) of the FIEA]

[Overview]

○ Inappropriate due diligence before the investment in a limited partnership for investment

With regard to due diligence prior to investment in a limited partnership for investment by Stats Investment Management Co., Ltd. (the “Company”), the inspection revealed the inappropriate business operation of the Company, including the fact that the Company failed to make any specific survey on the earnings conditions of the partnership investing in private equity firms.

○ Improper monitoring after investment in limited partnership for investment

With respect to the monitoring of the limited partnership for investment after the investment, the Company was acknowledged to have failed to take appropriate measures, judging by the fact that the Company did not even know the change in the start and end of the fiscal year of the partnership.

(3) Vivace Capital Management Co., Ltd.

(Date of recommendation: December 7, 2012)

○ Indication of performance data on investments which was different from the actual results

[Article 117(1)(ii) of the FIB Cabinet Office Ordinance, based on Article 38(vii) of the FIEA]

[Overview]

Vivace Capital Management Co., Ltd. (the “Company”) provided customers with inappropriate solicitation materials concerning a discretionary investment contract, including indicating artificial performance data as an actual one of existing customers.

(4) Shinsei Investment Management Co., Ltd.

(Date of recommendation: December 7, 2012)

○ Breach of duty of care concerning a discretionary investment contract
[Article 42(2) of the FIEA]
[Overview]
Although the preferred equity securities and other assets, which Shinsei Investment Management Co., Ltd. (the “Company”) bought based on a discretionary investment contract, had market value and price information available with ease, the Company failed to make adequate assessment of the buying price.

5. Recommendations Based on the Results of Inspections of Financial Instruments Intermediaries

○ **FPL Asset Management Ltd.**
(Date of recommendation: December 14, 2012)
○ Unregistered handling of private placements of equities in investment funds
[Article 29 of the FIEA]
[Overview]
FPL Asset Management Ltd. solicited customers to buy private placement investment funds managed by entities other than the entrusting financial instruments business operators, etc.

6. Recommendations Based on the Results of Inspections of Credit Rating Agencies

○ **Standard & Poor’s Ratings Japan K.K.**
(Date of recommendation: December 11, 2012)
(i) Inadequate operational management systems where effective measures to verify and update assigned credit ratings in an appropriate and continuous manner were lacking
[Article 306(1)(vi)(g) of the FIB Cabinet Office Ordinance, based on Article 66-33(1) of the FIEA]
[Overview]
Since Standard & Poor’s Ratings Japan K.K. (the “Company”) failed to appropriately take stock of the information having a significant impact on the monitoring credit ratings assigned by the Company related to securitized products, some cases were identified where incorrect credit ratings had been assigned for a significant period of time. Furthermore, the Company has failed to implement adequate preventive measures after the occurrence of problematic cases.
(ii) Significant problems with business operations from the perspective of the public interest and investor protection
[Article 66-41 of the FIEA]
[Overview]
The SESC's inspection revealed that the Company had significant problems, including releasing an incorrect credit rating different from the one the Company had actually determined. Since the Company failed to formulate internal reporting systems upon the occurrence of erroneous publication, no one therefore reported to the Compliance Department and, thus, preventive measures were not taken appropriately.

7. Announcement of the Results, etc., of Inspections of QII Business Operators

(1) RB Investment & Consulting Co., Ltd.

(Announcement date: October 16, 2012)

(i) Making false statements to customers in relation to the conclusion of financial instruments transactions and their solicitation

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

[Overview]

With regard to a report on the investment performance of a limited partnership for investment that was used for solicitation of the financial instrument transaction, it was identified that RB Investment & Consulting Co., Ltd. (the "Company") had made false statements to customers in relation to the conclusion of financial instruments transactions and their solicitation, including a description of the likelihood of a private equity firm allocated in the portfolio as if it were already scheduled for initial public offering, contrary to the fact that it had not yet been determined at all.

(ii) Significantly inappropriate business operations of limited partnerships for investment other than Partnership A and Partnership B from the perspective of the public interest and investor protection (diversion of money other than for the purpose of managing the partnership)

[Overview]

Although a loan to individual borrowers was not included in the purposes of the limited partnership for investment that was concluded with overseas investors, the Company granted a loan to an individual acquaintance without collateral, diverting the assets of the partnership, including the resources for dividends.

(2) Knowledge Capital Inc.

(Announcement date: October 16, 2012)

○ Making false statements to customers in relation to the conclusion of financial instruments transactions and their solicitation

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

[Overview]

It was identified that Knowledge Capital Inc. (the "Company") had made false statements to customers in relation to the conclusion of financial instruments transactions and their solicitation, including the delivery of proposal materials containing misstatements, the details of which are as follows:

- The Company announced an business operation that had not been planned within the scope of business as the business operator of the limited partnership for investment.
- The Company indicated six issues in which it was not involved as its track record of initial public offerings, including some that were listed prior to the establishment of the Company.

(3) JP Atlas Co., Ltd.

(Announcement date: December 12, 2012)

○ Appropriation of money contributed to the fund

[Overview]

Without providing an explanation to the equity investors, JP Atlas Co., Ltd. transferred an amount of money exceeding the fees as defined in the anonymous partnership agreement from the contribution deposit account of the anonymous partnership to its own expense account, and appropriated the money for its employees' remuneration, etc.

(4) Standard Society K.K.

(Announcement date: December 12, 2012)

○ Appropriation of money contributed to the fund

[Overview]

Without providing an explanation to the equity investors, Standard Society K.K. transferred an amount of money exceeding the fees as defined in the anonymous partnership agreement from the contribution deposit account of the anonymous partnership to its own expense account, and appropriated the money for its employees' remuneration, etc.

(5) Bell Prime Investment Co., Ltd.

(Announcement date: February 7, 2013)

(i) Making false statements in relation to the conclusion of financial instruments transaction contracts and their solicitation

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

[Overview]

Bell Prime Investment Co., Ltd. (the "Company") solicited a fund to customers using solicitation materials, etc., with a description such that the fund would conduct FX investment using a proprietary automatic dealing system, and that customer funds would be segregated appropriately. However, the inspection proved the description was totally contrary to the facts.

(ii) Partial appropriation of money contributed to the fund through loan commitment contrary to the business purpose.

[Overview]

The Company stipulates its business purpose as "self-management of foreign exchange margin transactions" in the anonymous partnership contract of the fund. However, the Company executed a loan to Company A under the loan agreement, which was contrary to the business purpose and corresponded to a partial appropriation of the money contributed to the fund.

(6) Wise Capital LLC and 6 other limited liability companies

(Announcement date: March 1, 2013)

○ Involvement of misconduct by giving implicit approval to an unregistered operator for appropriation of money contributed to the fund it managed

[Overview]

Wise Capital LLC, MJ Investment LLC, MAIDO Investment Partnership LLC, Horizon Partner LLC, As-Light LLC, DreamX LLC and Franchise Kikin LLC. (hereinafter, collectively the "Group") had an unregistered operator (without

registration as a type II financial instruments business as required by the FIEA) solicit the interests of anonymous partnership contracts in which each of the Group acted as a business operator. In addition, the unregistered operator diverted the money contributed for purposes completely different from those to be invested as defined in the anonymous partnership contracts, and also appropriated money for its expenses that had nothing to do with the partnership's target investments or related expenses.

With regard to such misconduct by the unregistered operator, Horizon Partner LLC, As-Light LLC, DreamX LLC and Franchise Kikin LLC. failed to comprehend how the contributed money was managed and maintained, and Wise Capital LLC, MJ Investment LLC and MAIDO Investment Partnership LLC participated in the misconduct by giving implicit approval to the unregistered operator for appropriation of the contributed money.

8) Petitions for Court Injunctions against Unregistered Business Operators, etc.

With regard to unregistered business operators and QII Business Operators involved in fraudulent business (hereinafter referred to as "Unregistered Business Operators, etc."), the FSA and the SESC have taken actions such as provision of information to police agencies, etc., issuance of warning letters to Unregistered Business Operators, etc., and announcement of names of such business operators, followed by actions of investigating authorities, because of the difficulty of applying the FSA / SESC's usual administrative disciplinary actions such as supervision and inspection against them, unlike business operators that have registered under the FIEA.

However, as damage to investors in recent years due to illegal sales of unlisted stocks is expanding, and fund equities by Unregistered Business Operators, etc., have been recognized as a social problem, the FSA and SESC have been expected to make use of petitions to the court for injunctions against Unregistered Business Operators, etc., under Article 192 of the FIEA (hereinafter referred to as "Article 192 petition" in this section) and investigations therefor under Article 187 of the FIEA (hereinafter referred to as "Article 187 investigation" in this section).

Upon the filing of a petition from the SESC, when a court finds that there is an urgent necessity and that it is appropriate and necessary for the public interest and investor protection, the court may enjoin a person who has conducted or will conduct an act in violation of the FIEA, from the acts stated above.

Articles similar to Articles 192 and 187 of the FIEA have existed from the time when the Securities and Exchange Act was enacted in 1948, referring to U.S. securities legislation, but they had not been utilized for a substantial amount of time. An amendment to the FIEA in 2008, however, delegated the authority for the Article 192 Petition and the Article 187 Investigation to the SESC, which is routinely monitoring illegal financial activities through market surveillance and inspections. In addition, an amendment to the FIEA in 2010 introduced severe fines of up to 300 million yen against corporations that violate a court injunction, in order to ensure the effectiveness of the injunction. From the viewpoint of prompt and flexible responses, the SESC has also become able to delegate the authority for the Article 192 Petition and the Article 187 Investigation to the Director-General of a Local Finance Bureau, etc.

Furthermore, an amendment to the FIEA in 2011 has expanded regulations concerning

unregistered business operators as follows:

- Nullification, in principle, of a sales and purchase contract, etc. in cases where an unregistered business operator has made a sale or other type of transfer of unlisted securities;
- Prohibition of acts for solicitation and advertisement by unregistered business operators (imprisonment with work for not more than one year, a fine of not more than one million yen);
- Increased penal provisions for unregistered business operators
  Before revision: Imprisonment with work for not more than three years, a fine of not more than three million yen
  After revision: imprisonment with work for not more than five years, a fine of not more than five million yen;
- Penal provisions against corporations conducting business without registration or without license made heavier than provisions for persons
  ⇒ For a corporation conducting financial instruments business without registration: a fine of not more than 500 million yen; and
- Previously, an Article 192 petition was only possible at the district court governing the domicile of the respondent. Now, an Article 192 petition can also be filed with the district court governing the place where the offense is committed (expansion of jurisdiction for Article 192 petitions).

In response to these institutional developments, the SESC worked vigorously to collect and analyze information on Unregistered Business Operators, etc., in cooperation with the supervisory departments of the FSA and local finance bureaus as well as investigative authorities. Then, in FY2010, the SESC filed an Article 192 petition, for the first time since the introduction of the system, against a company and its officers who had been in the business of soliciting unlisted stocks without registration, and this resulted in an order being issued by the court. The SESC successively endeavored to work in line with these institutional developments.

In addition, since FY2012, even in cases where the SESC does not file an Article 192, it has made public the company name, representative name, conducts in violation of laws and regulations and other information, if the results of the Article 187 investigation reveal any act of violation of the FIEA or any problem in the light of the protection of investors.

The following is a list of cases in FY2012 where the results of an Article 192 petition and an Article 187 investigation were announced.

(1) Petitions for Court Injunctions, etc.

○ **F-SEED Co., Ltd**

(Petition date : March 22, 2013)

[Overview]

F-SEED Co., Ltd. (QII Business Operators; hereinafter referred to as “Company F”), solicited a lot of customers as investors to buy an anonymous partnership organized by Company F, under instructions given by Employee A of Company F who was responsible for the overall operational management of the anonymous partnership organized by Company F. However, the inspection revealed significant differences between the indication described in the pamphlets delivered to customers for solicitation and the

actual facts regarding the fees payable to the business operator and the payment of distributions.

In addition, Company F and Employee A significantly diminished and impaired the value of the contribution money, with the result that there would be no fund-raising means other than accepting additional contributions. Given these circumstances, Company F and Employee A were acknowledged to be most likely to repeat the same violation described above.

Therefore, on March 22, 2013, the SESC filed an Article 192 petition with the Nagoya District Court for an injunction against Company F and Employee A for violations of the FIEA (making false statements to customers in relation to the solicitation of financial instrument transaction contracts when engaging in operations of private placements as set forth in Article 63(1)(i) of the FIEA).

In response to this petition, the Nagoya District Court issued an injunction against Company and Employee A on April 11, 2013, as per the content of the petition.

(2) Announcement of Investigation Results

○ **MJ Holdings Co., Ltd.**

(Announcement date: March 1, 2013)

[Overview]

MJ Holdings Co., Ltd. (hereinafter referred to as “Company M), without registration as a financial instruments business, solicited the interests of anonymous partnership contracts in which each of Wise Capital LLC, MJ Investment LLC, MAIDO Investment Partnership LLC, Horizon Partner LLC, As-Light LLC, DreamX LLC and Franchise Kikin LLC. acted as a business operator. In addition, Company M diverted the money contributed to the partnerships for purposes completely different from the investments as defined in the anonymous partnership contracts, and also appropriated the money for its expenses that had nothing to do with the partnership’s target investments or related expenses.

The case was announced to the public since these conducts were problematic in that they violated the FIEA and threatened the protection of investors, and it was deemed appropriate to make the action publicly known in light of the seriousness and maliciousness of the conduct.

9) Future Challenges

In inspections of securities companies and other entities, the SESC needs to address the challenge of restoring the confidence of market intermediary functions from investors, given the series of serious cases that have recently been revealed such as AIJ case and the problems in the management systems of material non-public information that have been revealed in insider trading cases related to public offerings, while adjusting to environmental changes including diversification and the increase in the number of business operators subject to inspection.

The SESC has the measures shown below in the Inspection Policy and the Program for 2013 (see next page) that were announced on April 16, 2013. The SESC will perform efficient, effective and valid inspections using its limited human resources in a timely and

effective manner, while sharing awareness of problems and information among and in cooperation with supervisory departments of the FSA on a timely basis. On that basis, the SESC will endeavor to encourage financial instruments business operators to manage sound and appropriate business operations in order to provide market intermediary functions appropriately.

(1) In order to properly determine inspection priorities, the SESC will further enhance its ability to identify potential problems with consideration of the characteristics of diverse business types of financial instruments business operators, the characteristics of their customers, and the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly.

(2) The SESC will continue the intensive inspections of discretionary investment management businesses in FY2013. Practically, the SESC will reinforce the efforts concerning Pension Investment Hotline (specialists' active approach to information providers; their interactive method of collecting information and their high-quality analyses; and utilization the information for placing the priority on inspections and clarifying the focus in inspections).

(3) With regard to large-scale securities groups that engage in complex business operations as a group, the SESC will constantly monitor the status of the group's business operation as a whole and verify the internal control system with seeking seamless cooperation between its on-site inspections and the supervisory departments' off-site monitoring.

(4) With respect to small to mid-sized financial instruments business operators categorized as type II financial instruments business operators and investment advisory / agency business operators, it is pointed out that the situation where no securities inspections have been conducted for many of the small and medium-sized business operators for a long period of time constitutes a risk to investor protection. Therefore, it is necessary to increase the proportion of inspected business operators (the coverage of the inspection) by taking measures including introducing new measures to check the setup status of their operational systems as early as possible after their registration.

(5) With respect to fund operators and unregistered operators, the SESC will appropriately utilize the authority to conduct securities inspections and investigations necessary to file petitions for court injunctions. If violations of the FIEA or impairing investor protection are identified, the SESC will, where necessary, file petitions to the court for injunctions etc., and publicize the company names, representative names, conducts in violation of laws and regulations, and other relevant information.

(Provisional Translation)
April 16, 2013
Securities and Exchange Surveillance Commission

The Securities Inspection Policy and the Program for 2013

I. Securities Inspection Policy

1. Basic Direction

(1) Role of securities inspections

The mission of the Securities and Exchange Surveillance Commission ("SESC") is to ensure fairness and transparency of the Japanese capital and financial markets and to protect investors.

The objective of securities inspections for the achievement of this mission is to ensure investor confidence in the markets, through conducting on-site examination of the business operations and financial soundness of financial instruments business operators ("FIBOs"), and by urging them to conduct businesses in accordance with laws, regulations and market rules on the basis of self-discipline, and play the market intermediary function including duties as gatekeepers, in a proper manner.

Therefore, the SESC should, through securities inspections, examine FIBOs' compliance of laws and regulations, and verify the internal control systems behind individual problems.

The SESC will continue to take rigorous actions against illegal activities that undermine confidence in the fairness and transparency of the markets or impair investors' rights, by exercising its own authority and mobilizing all its human resources and capabilities, and will thus play a role in sending alerts to the markets.

(2) Environmental changes, surrounding securities inspection —diversification and increase in the number of BOs—

As a result of a series of regulatory reforms, including the implementation of the Financial Instruments and Exchange Act ("FIEA"), business operators subject to inspection ("BOs") have diversified and they have increased to around some 8,000 in total. In addition, technological developments in finance, and prevalent cross-border transactions and international activities of market participants, such as investment funds, lead to more diverse and complex financial instruments and transactions being dealt by FIBOs.

In the wake of the recent global financial turmoil, authorities around the world have been making efforts to be able to ascertain the business and risks of entire financial groups. Under these circumstances, it is necessary to constantly monitor the groups' financial soundness as a whole for large-scale securities groups that engaged in complex business operations as a group.

It has become more important than ever to ensure the security of IT systems as a trading infrastructure, because individual investors have increased transactions via the Internet, and institutional investors have increased the execution of massive and complex transactions, using the systems that process a large volume of diverse and high speed orders.

In particular, a systems failure at a financial instruments exchange or FIBO could have a significant impact on the market and on customer transactions. Therefore, the IT system needs intensive verification in terms of the appropriateness of risk management.

(3) Challenges surrounding securities inspections

Recently, securities inspections have revealed cases of extremely serious violations of laws and regulations in succession with regard to market integrity and investor protection, such as the AIJ incident, a case in which the Japan Investor Protection Fund had to make compensations, and the insider trading cases concerning public stock offerings.

These cases caused serious damage to investors' confidence in the market intermediary function of FIBOs.

In the light of this circumstance, securities inspections need not only verify the compliance of individual laws and regulations, but also urge FIBOs to improve compliance posture and professional ethics in the course of business management and internal control activities, in order to recover investors' confidence in the market intermediary functions.

In addition, there have been many cases of illegal sales and solicitation of unlisted stocks and funds by unregistered business operators causing losses to personal investors and consumers, resulting in social problems in recent years. Therefore, as for unregistered business operators and persons making notification for business specially permitted for qualified institutional investors ("QII business operators"), committing violations of the FIEA, the SESC will need to continue to take rigorous action in close cooperation with relevant authorities to make full use of its faculty to file petitions for court injunctions and to conduct investigations therefor.

(4) Towards efficient, effective and viable securities inspections corresponding to the characteristics of the business operators subject to inspection

In order to adjust to environmental changes surrounding securities inspections such as diversification and the increase in the number of BOs, and in order to tackle the challenge of recovering investors' confidence in the market's intermediary function, the SESC needs to utilize limited human resources appropriately and effectively in order to conduct efficient, effective and viable inspections.

Toward this direction, it will be required to properly determine inspection priorities. Therefore, the SESC will further enhance its ability to identify potential problems with consideration of (i) the characteristics of diverse business types of FIBOs, (ii) the characteristics of customers, and (iii) the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly.

Furthermore, when determining inspection priorities for individual BOs, the SESC will collect and analyze a variety of information concerning them, corresponding to their business types, sizes, other characteristics and the market conditions at the time, and then utilize a risk-based approach to decide which BOs to inspect, considering their market positions and inherent problems in a comprehensive manner. In addition, with regard to the execution of inspections, the SESC also clarifies the scope of inspections and inspection measures according to its inspectorial targets and its issues.

As for business operators conducting discretionary investment management business ("DIM business operators"), the SESC will continue the Intensive Inspection starting last year based on the results of the sweeping surveys conducted by the Financial Services Agency (FSA).

On the other hand, it is pointed out that the situation where no securities inspections have been conducted for many of the small and medium-sized FIBOs for a long period of time constitutes a risk to investor protection. Therefore, it is necessary to increase the ratio of inspected BOs (the coverage of the inspection).

In addition, the SESC will conduct a broad and prospective review on how to conduct more efficient, effective and viable inspections, and continue working to strengthen its posture and capabilities.

2. Inspection Implementation Policy

(1) Focuses of verification corresponding to the characteristics of BOs

1) Verifications focused on business types and other characteristics

A. Verification of the market intermediary functions of FIBOs

In order to secure fair, transparent and high-quality financial and capital markets, it is extremely important for FIBOs to fully exercise their duties of gatekeepers in preventing market abuse by persons and entities from participating in financial and capital markets, through customer management, transaction surveillance, and underwriting examination. The SESC therefore focuses on verifying whether FIBOs fulfill these missions properly.

Specifically with regard to the revised Act on Prevention of Transfer of Criminal Proceeds on April 1, 2013, taking into consideration the importance of personal identification at the time of transactions and the appropriate reporting of suspicious transactions in terms of international cooperation in anti-money laundering and combating against terrorist financing, the SESC verifies whether FIBOs examine their customers' objectives of transactions and their occupations when a new account is opened, whether they properly conduct re-identification of customers when identity theft is suspected, whether they properly report suspicious transactions, and whether they have established systems for conducting these activities properly. The SESC will also, through information gathering, examine whether FIBOs have developed preventive measures against transactions with anti-social forces.

FIBOs play an important role in intermediary functions through the securities underwriting business by which enterprises can raise funds for business operations from investors in the market. The SESC will examine whether FIBOs properly engage in securities underwriting business, including underwriting examinations, information control, transaction surveillance and securities allotment from the perspective of the capital markets' integrity and investor protection. In particular, in connection with new listings, the SESC will verify whether examination systems appropriately function in underwriting public offering. In addition, as for FIBOs that arrange and distribute securitized instruments and high-risk derivatives products, their risk management systems and sales management systems will be examined.

B. Verification of the management of material non-public information (prevention of unfair insider trading)

In the wake of insider trading problems occurring in connection with public stock offerings, the SESC will focus on verifying whether FIBOs strictly manage material

non-public information from the perspective of preventing unfair insider trading. Specifically, the SESC will verify whether FIBOs have developed viable management systems with regard to registration and information barriers (e.g. Chinese wall) of such material non-public information as public stock offerings of listed companies, surveillance of insider transactions, and prevention of any improper distribution and misuse of information.

C. Verification of measures against conduct that may hinder fair pricing

The SESC will verify whether there are any practices that could hinder fair pricing by means of direct and/or brokered orders, and further examine the transaction surveillance systems of FIBOs to prevent such practices. In doing so, the SESC will verify whether viable transaction surveillance is conducted from the viewpoint of preventing unfair trading. In particular, the SESC will examine whether surveillance is focused on specific dates, such as the pricing date for public stock offering, and on specific trading timing, such as just before closing, or on specific customers who repeatedly place large orders that could affect pricing in the market, as well as whether measures are taken to identify the original customers for orders consigned from foreign-related entities. The SESC will also examine management systems, including the management of delivery failures, for short selling regulations (such as checking the indication of short selling, price regulations, the prohibition of naked short selling, and the obligation to deliver documents related to public stock offering).

As far as FIBOs with online trading or electronic facilities for DMA (direct market access) are concerned, in view of the cases of revelation of market manipulation by means of *misegyoku* (false orders to manipulate prices) using Internet transactions, the SESC will examine whether FIBOs have established viable trade surveillance systems based on the peculiarities of electronic transactions, such as customer orders feeding directly into the market.

D. Verification of the solicitation for investment

In order to protect investors and secure genuine and fair sales and solicitation operations, the SESC will focus on verifying whether FIBOs solicit customers for investment in an appropriate manner and take good care of them.

Regarding verification of solicitation for investment, the SESC will verify, from the viewpoint of the principle of suitability, whether FIBOs are appropriately soliciting investment in light of customers' knowledge, experience, and assets, as well as investment

purpose, and whether they are fully held accountable for their solicitation in accordance with the characteristics of individual customers.

In particular, the SESC will also examine whether, upon sales and cancellations, including switching of investment trusts, appropriate explanations are provided regarding important information that affects customers' investment decision-making, such as product characteristics, risk characteristics, profits/losses, dividends, commissions, and investment trust fees.

For the sale of over-the-counter ("OTC") derivatives products and complex structured bonds similar to OTC derivatives products, the SESC will examine whether appropriate explanations are provided regarding important risks and other factors that affect decisions for investment in such products, including the probable maximum losses and the settlement money on cancellation.

In addition, the SESC will verify whether widely exposed advertisements to investors include any misleading indications regarding investment returns, market factors and the state of orders. The SESC will also examine the establishment of the troubleshooting system important for investor protection.

E. Verification of the appropriateness of business and legal compliance of IMBOs

While investment management business operators, etc. ("IMBOs") are entrusted fund managements for investors' interests, it is very difficult for the investors to directly monitor how their assets are being managed. Therefore, from the viewpoint of investors protection, the SESC will examine IMBOs' compliance with relevant laws and regulations, including the fiduciary duty of loyalty and due care of a prudent manager, and the viability of their systems for managing conflicts of interest in relation to transactions with interested parties and the due diligence function.

The inspection conducted in FY2011 revealed a case in which some DIM business operators, entrusted with the discretionary investment management of corporate pension funds, provided false explanations with regard to solicitation for conclusion of discretionary investment management contracts, and also delivered customers with investment reports containing false details, thereby violating its fiduciary duty of loyalty and harming the interests of the corporate pensions. Therefore, based on the results of FSA's sweeping surveys on DIM business operators, the SESC has been conducting Intensive Inspections on DIM business operators in cooperation with the supervisory

Bureau of FSA since FY2012.

In conducting the Intensive Inspections, the SESC has strengthened its systems for collecting and analyzing information on pension fund management by setting up the dedicated channel for collecting significant and useful information from external sources (Pension Investment Hotline), with assigned specialists in pension fund management.

Active approaches by the specialists to information providers etc., their interactive method of collecting information and their high-quality analyses are viable for placing the priority on inspections and clarifying the focus in inspections. Therefore, the SESC will reinforce these efforts to conduct more effective and efficient inspections.

F. Verification of the business management systems of CRAs

The SESC will verify whether credit rating agencies ("CRAs") have established business management systems, and whether they have appropriately disclosed information relating to their rating policies from the perspective of preventing conflicts of interest and preserving the fairness of the rating process.

G. Verification of FBOs' compliance with laws and regulations

Regarding business operators engaging in the fund management and sales of interests of collective investment schemes (funds) (meaning IMBOs engaged in self-management business and Type II FIBOs, including QII business operators; "FBOs"), inspections have revealed many cases of legal violations, such as failure in segregation management of funds (misappropriation of funds and unexplained expenditure), false explanations and notices, misleading indications, name-lending to unregistered business operators, and QII business operators selling and managing funds without satisfying the conditions for specially permitted businesses of registering themselves. In light of these circumstances, the SESC will examine FBOs' compliance with laws and regulations, including the appropriateness of business operations and the segregation in fund management.

Furthermore, with regard to QII business operators, securities inspections have identified malicious cases in which some operators committed violations of the FIEA and other wrongdoings. The SESC will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions, etc. If violations of the FIEA or acts impairing investor protection are confirmed in the securities inspections or investigations, the SESC will file petitions for injunctions and/or publicize the names of the inspected or investigated entities, the names of their representatives, acts

of violation of laws and regulations, etc., where necessary.

H. Verification of compliance with laws and regulations by investment advisors/agencies

Regarding investment advisors/agencies, many cases of legal violations have been identified in inspections, including engagement in unregistered businesses, name lending to unregistered business operators and inappropriate provision of information to customers, due to a remarkable lack of basic legal knowledge and sense of legal compliance among their officers and employees. In view of these cases, the SESC will focus on examining their compliance with laws and regulations.

I. Verification of the functions of SROs etc.

As for self-regulatory organizations ("SROs"), the SESC will examine capabilities and functions of self-regulatory operations, as well as their systems necessary for exercising their functions properly. Specifically, the SESC will conduct verification with regard to the establishment of self-regulatory rules for their members, their regulatory enforcement, such as on-site and off-site reviews, and penalties, listing examination and transaction surveillance. In conducting verification of listing examination, the SESC will also look into the SROs' on-going measures to thwart participation of anti-social forces in the financial and capital markets, including the collection of information on the involvement of anti-social forces in issuing companies and listed companies.

As for financial instruments exchanges, clearing houses, depository trust institutions, etc., in consideration of the "Principles for Financial Market Infrastructures" finalized by the IOSCO, the SESC will examine the development of their systems, such as IT system risk management, in order to verify whether they are well prepared to function as financial market infrastructure.

J. Dealing with unregistered BOs

To deal with serious FIEA violations, such as sales and solicitations of unlisted stocks and funds by unregistered BOs, the SESC will strengthen ties with supervisory departments and investigative authorities, and, where necessary, will make proper use of its authority to conduct investigations necessary to file petitions for court injunctions. If such conducts are confirmed as violating the FIEA or impairing investor protection, the SESC will file petitions for injunctions etc., and publicize the names of unregistered business operators, the names of their representatives, facts of violation of laws and regulations, and other relevant information.

2) Verification of internal control systems and financial soundness

A. Verification of internal control systems

In the case where an inspection shows problems related to business operations, the SESC will endeavor to comprehend the whole picture of problems by examining the appropriateness and viability of the internal control systems and risk management systems ("internal control systems etc."). In examining internal control systems etc., the SESC will pay attention to the engagement and commitment of the senior management and concerned parties in the system management.

In particular, as for large-scale securities groups engaging in complex business operations as a group for which establishing internal control systems, etc. is considered to be important given their market position and business characteristics, the SESC will constantly monitor the status of the group's business operation and financial situation as a whole, put weight on the appropriateness of their internal control systems, etc., from a forward-looking viewpoint, and make inspections according to the introduction of consolidated regulations and the supervision of securities companies.

B. Verification of IT system risk management

In recent years, FIBOs have become increasingly dependent on IT systems in their business operations. At the same time, online participation in securities transactions and FX trading have become usual among individual investors, and the volume of transactions handled by the Proprietary Trading System ("PTS") has increased. Accordingly, IT systems are important infrastructures of financial transactions.

Under these circumstances, it is very important to secure the stability of IT systems and establish crisis management measures from the viewpoint of protecting investors and ensuring public confidence in the market and FIBOs. The SESC will examine the appropriateness and viability of management systems for the IT systems risk preventive measures, and the efficacy of business continuity plans, including erroneous order placement prevention, IT systems troubleshooting, information security management, and outsourcing management. The SESC will also verify the engagement of senior management in the development of the IT systems risk management.

C. Verification of financial soundness

Inspections of Type I FIBOs have shown cases that seem attributable to deterioration of financial condition, such as the misappropriation of the Trusts for the Separate Management of Money and Securities ("TSMMS") and the Trusts for the Segregated

Management of Cash Margins and Other Deposits ("TSMCM"), and the defection in net assets and capital adequacy ratios against statutory requirement. The SESC will focus its examination on the status of TSMMS and TSMCM, and the status of net assets and capital adequacy ratios in close corporation with the supervisory department, the Japan Securities Dealers Association, and the Japan Investor Protection Fund.

(2) Implementation of efficient, effective and viable inspections

1) Risk-based prioritization of the inspection reflecting business type and other characteristics

The SESC will take on a risk-based approach in selecting which BOs to inspect based on the following viewpoints in principle, taking into account the business types, sizes and other characteristics of the business operators subject to inspection, and adjusting to the market condition at the time.

When cross-sectoral issues in the market have been identified, the SESC will flexibly conduct special inspections, as needed, on the BOs facing the same issues.

Prior to the onset of the inspection of individual BOs the SESC will identify issues to be examined, and will conduct inspections focused on them.

A. BOs to inspect on a regular basis

Type I FIBOs (including registered financial institutions) conduct transactions with a large number of investors including individual investors, thereby playing a central role in the market, and IMBOs are entrusted with fund management for investors' interests. The SESC will, in principle, conduct regular inspections on Type I FIBOs and IMBOs in view of their positions to play central roles in the markets, and verify their financial soundness and the appropriateness of their business operations.

CRAs assign credit ratings highly influential on the investors' decision-making, and publish and widely provide them to users. The SESC will, in principle, conduct regular inspections on CRAs and verify their business management systems in light of their roles as information infrastructure in the financial and capital markets and in view of the purpose of the international financial regulatory reform.

In effect, however, due to the severe human resource constraint at the SESC, it would be difficult to conduct regular inspections uniformly across all the above business types. The SESC will take a flexible approach in deciding the frequency and the scope of inspection

of each business type, while endeavoring to grasp its overall circumstances in close cooperation with supervisory departments.

In particular, the SESC will continue to conduct the Intensive Inspections on DIM business operators as described in (1) 1) E above.

The SESC will select BOs to inspect through actively collecting and analyzing information provided by supervisory departments and external sources, and at the same time, taking into account changes in the market conditions, the position in the market, and inherent problems of individual BOs in a comprehensive manner.

B. BOs to inspect as needed

With regard to Type II FIBOs, Investment Advisors/Agencies, Financial Instruments Intermediaries, etc., given their business types, sizes and other characteristics, and the situation where the number of BOs is extremely large compared with human resources of the SESC, the SESC will select BOs to inspect individually through actively utilizing information provided by supervisory departments and external sources, taking into account their membership in SROs and status of compliance with laws and regulations.

With regard to these BOs, the SESC will introduce new measures to check the setup status of their operational systems as early as possible after their registration.

Furthermore, with regard to QII business operators, the SESC will actively utilize information on compliance status with laws and regulations, information provided by supervisory departments and external sources to select QII business operators to inspect individually, and will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions.

C. Unregistered business operators

In order to deal with serious FIEA violations by unregistered BOs, the SESC will, as necessary, select BOs to inspect individually as in B above, while assessing the effect of the November 2011 amendment of the FIEA to repeal illegal sales and contracts, and appropriately conduct investigations necessary to file petitions for court injunctions.

2) Implementation of viable inspection

A. Inspection with prior notice

The SESC initiates inspections without prior notice in principle. The SESC, however, will

give prior notice to specific BOs, where necessary, taking into full account the characteristics of their businesses, the focuses and the efficiency of inspection, and the reduction of burden on the inspected BOs in a comprehensive manner.

B. Enhancement of interactive dialogue

The SESC will endeavor to share its recognition of problems in business operation through interactive dialogue with the inspected BOs. In particular the SESC will ascertain their perception of the senior management team responsible for the development of internal control systems, etc. through exchange opinions, and encourage them to make voluntary efforts for improvement.

C. Rigorous actions against conduct hindering the efficacy of inspections

On one hand, most BOs gain a better understanding of the importance of interactive dialogue in inspections, but on the other, some BOs refuse inspection and make other conduct hindering the efficacy of inspections. The SESC will take rigorous actions against such conduct in order to completely fulfill its mission.

3) Enhancement of cooperation with the FSA and Local Finance Bureaus

The SESC will strengthen the cooperation with supervisory offices of the FSA and Local Finance Bureaus in the Ministry of Finance by sharing information and recognition through timely exchanging useful information between supervision and inspection. Furthermore, for large-scale securities groups that engage in complex business operations as a group, the SESC will seek seamless cooperation between its on-site inspections and the supervisory departments' off-site monitoring.

With respect to the relationship with the Inspection Bureau of the FSA, in order to share common awareness of the issues and to implement effective inspection on entities within the same financial business group, the SESC will, where necessary, collaborate and exchange information with the Inspection Bureau in initiating inspections of entities constituting a financial conglomerate.

The SESC will strengthen cooperation with overseas securities regulators through exchange of necessary information and the coordination of implementation of inspection with regard to inspections on foreign-owned business operators operating in Japan, Japanese business operators with overseas offices, foreign business operators operating overseas for Japanese investors, and Japanese business operators with overseas business connections. In addition, the SESC will appropriately cooperate with major overseas securities regulators with regard to

the inspection on CRAs and to its participation in supervisory colleges established for large-scale global-based securities companies.

Given the identified cases of fraudulent practices by FBOs as well as the sale and solicitation of unlisted stocks and funds by unregistered business operators, the SESC will strengthen its cooperation with the supervisory departments and police and prosecutors.

4) Cooperation with SROs

With respect to relationship with the SROs, the SESC will further enhance coordination between its own inspection and the SROs' audits and examinations on their members so as to improve all the functions of the oversight activities over FIBOs. From this perspective, the SESC will promote cooperation with the SROs, through coordination for inspection programs, information exchange and training programs.

5) Revision and publication of the Inspection guideline and the Inspection Manual

From the perspective of rigorous action against conduct hindering the efficacy of inspections as well as more efficient and effective inspections, the SESC will revise both the Securities Inspection Guideline, which stipulates the procedures and other fundamental matters for inspections, and the Inspection Manual for FIBOs in accordance with regulatory reforms. The SESC will publish updated guidelines and manuals so as to improve the transparency and predictability of its inspections.

This Inspection Policy has been prepared based on the situation surrounding the markets as of April 2013, and is subject to revision as necessary.

II. Securities Inspection Program

1. Basic Concept

(1) The SESC formulates the Inspection Implementation Program in accordance with the Inspection Implementation policy in line with the above Securities Inspection Policy. It should be noted that exceptional action may be taken in response to any changes in market conditions and/or factors related to specific BOs.

(2) In conducting inspections, the SESC and all the Securities and Exchange Surveillance Departments of Local Finance Bureaus in the Ministry of Finance ("the SESDs") will conduct efficient and effective inspections together, concerning how to actively use joint inspections and inspections exchange. The SESC will also work together with the SESDs, and support them by sharing inspection techniques and information, and the processing of

inspection results.

2. Basic Securities Inspection Program

Type I FIBOs (including Registered Financial Institutions), IMBOs, and CRAs	150 companies (110 out of 150 to be inspected by the SESDs) (including the Intensive Inspections of DIM Business Operators)
Type II FIBOs, Investment Advisories/Agencies, QII Business Operators, and Financial Instruments Intermediaries, etc.	To be inspected based on individual information and condition
SROs etc.	To be inspected as necessary
Unregistered Business Operators	To be inspected as necessary

Note: The above numbers of inspections are subject to change due to revisions of the Inspection Program within the year and/or implementations of special inspections.

4. Investigation of Market Misconduct

1) Outline

1. Purpose of Investigation of Market Misconduct

Investigation of market misconduct is conducted based on the FIEA, under which acts are subject to administrative monetary penalties, such as insider trading, market manipulation, spreading of rumors and fraudulent means, for the purpose of ensuring the fairness of transactions in securities markets.

[Administrative monetary penalty system]

The administrative monetary penalty system serves as an administrative monetary penalty system, which was introduced in April 2005 through amendment to the Securities and Exchange Act (SEA) in 2004, in order to impose administrative monetary penalties on violators and to achieve the administrative objectives of deterring unlawful acts so as to ensure the effectiveness of regulations, in addition to criminal charges, against certain acts stipulated under the FIEA, such as insider trading, market manipulation, spreading of rumors and fraudulent means, as well as disclosure of documents containing false statements.

The SESC is working to implement prompt and efficient investigation utilizing features of the administrative monetary penalty system in order to achieve prompt and strategic market surveillance which responds to environmental changes surrounding markets, thereby ensuring market fairness and transparency and protecting investors.

If violations are revealed as a result of market misconduct investigations, the SESC makes a recommendation to the prime minister and the commissioner of the Financial Services Agency (FSA) for the issuance of an order to pay an administrative monetary penalty (Article 20 of the Act for Establishment of the FSA)(hereinafter referred to as “Recommendation”). Upon the Recommendation, the commissioner of the FSA (delegated by the prime minister) determines the commencement of trial procedures. After trial examiners conduct trial procedures, they prepare a draft decision on the case. Based on this draft decision, the commissioner of the FSA (delegated by the prime minister) makes the decision on whether to issue an order to pay an administrative monetary penalty.

2. Authority for Investigation of Market Misconduct

The authority to conduct administrative monetary penalty investigations in relation to market misconduct has been prescribed in Article 177 of the FIEA, under which the SESC has been authorized to:

(1) question persons concerned with a case or witnesses, or to have any of these persons submit their opinions or reports; and

(2) enter any business office of the persons concerned with a case and other necessary sites to inspect books, documents, and other items.

3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties

After the introduction of the Administrative Monetary Penalty System, the amendments to the SEA and the FIEA have expanded the scope of market misconduct subject to administrative monetary penalties and have raised the amounts of administrative monetary penalties.

Currently the scope of the acts of market misconduct subject to administrative monetary penalties and the amounts of those penalties are as follows:

(1) Spreading of rumors and fraudulent means (Article 173 of the FIEA)

Penalty: Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on own account at the end of the violation (i.e. spreading of rumors or fraudulent means), and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(2) Fictitious or collusive sales and purchases (Article 174 of the FIEA)

Penalty: Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on own account at the end of the violation (i.e. fictitious or collusive sales and purchase), and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(3) Market manipulation (Article 174-2 of the FIEA, Article 174 of the former FIEA)

Penalty: Aggregate of (i) the profit or loss locked in on own account during the period of the violation (i.e. market manipulation through actual transactions), and (ii) the difference between the value of sales, etc. (purchase, etc.) related to short (long) position on own account at the end of the violation, and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(4) Illegal stabilizing transactions (Article 174-3 of the FIEA)

Penalty: Aggregate of (i) the profit or loss related to the violation (i.e. illegal stabilizing transactions), and (ii) with regard to a position on own account at the start of the violation, the amount obtained by multiplying d (the difference between the average price during the one month after the violation, and the average price during the period of the violation) by v (the volume of said position)

(5) Insider trading (Article 175 of the FIEA)

Penalty: Difference between the value of sales, etc. (purchases, etc.) related to the violation (insider trading) (limited to those made during six months prior to the publication of material facts), and the product of the lowest (highest) price during the two weeks after the publication of material facts and the volume of the said sales, etc. (purchases, etc.)

Notes: 1. In cases where the violator has received an administrative monetary penalty payment order within the past five years, the amount of the administrative monetary penalty shall be multiplied by a factor of 1.5.

2. For cases of insider trading related to the acquisition of treasury stock by a listed company, etc., in cases where the violator made a declaration prior to the investigation by the authorities, the amount of the administrative monetary penalty shall be halved.

4. Activities in FY2012

In FY2012, there were 25 cases of market misconduct (on the basis of the number of violators) recommended to the commissioner of the FSA (prime minister). The administrative monetary penalty applicable to these cases amounted to 54,570,000 yen (excluding cases related to 5.; the same applies to 4.2 below).

2) Recommendations for Issuance of Orders to Pay Administrative Monetary Penalties Based on the Results of Investigation of Market Misconduct

1. Overview of Recommendations

(1) In FY2012, there were 25 Recommendations made on market misconduct. Among these, 13 were insider trading cases, and 12 were market manipulation, a significant increase from the 3 in FY2011. The maximum amount of penalty applied to a violator was 11,320,000 yen, and the minimum was 50,000 yen. As a result, since April 2005, when the administrative monetary penalty system was introduced, the total number of Recommendations on insider trading has reached 133 (by 127 individuals and by 6 corporations) amounting to 287,430,000 yen, while the number of Recommendations on market manipulation comes to 27 (all by individuals) amounting to 75,220,000 yen.

Among Recommendations made on insider trading cases in FY2012, a case of insider trading by an officer and an employee of The Earth CO. involved an officer who was in a position to actively promote the formulation of an internal control environment and an employee who was in a position to receive material information of the company, who engaged in insider trading, misusing the information they acquired in the course of their duties (see 2. (1) (ⅵ) below). In addition, among Recommendations on market manipulation cases in FY2012, a case of market manipulation related to shares of The Gifu Bank, Ltd. was the first Recommendation made on market manipulation related to fake sales and purchases of securities without the purpose of transfer of right (see 2. (2) (ⅵ) below).

(2) Looking at the attributes of violators in the recommendations made related to insider trading, compared to FY2011, cases committed by primary recipients of information accounted for a large portion, the same as in FY2011.

Looking at the attributes of persons who passed on insider information, there was a high proportion of cases where the persons who obtained such information as parties to conclude a contract passed on the insider information, the same as in FY2011.

Looking at the types of material facts involved, they were: business alliances,

revisions of business results forecast, applications of basket clauses, and tender offers, the same as in FY2011. In addition, a Recommendation was made for the first time for a case involving the commencement of a new business. The material facts pertaining to violations are becoming more diverse.

Changes in Number of Recommendation Cases by Attribute of Violator

	FY2011	FY2012
Corporate insider	2	5
Officer, etc. of issuer	1	4
Party to a contract	1	1
Tender offeror or other concerned party	1	0
Officer, etc. of tender offeror	0	0
Tender offeror and party to a contract	1	0
Primary recipient of information	11	8
Corporate material fact	5	3
Tender offer	6	5
No. of cases recommended to prosecutors, by FY	14	13

Changes in Number of Recommendation Cases by Type of Material Fact

	FY2011	FY2012
Issuance of stock, etc.	2	0
Dividends of surplus funds	1	0
Business alliance or dissolution thereof	2	3
Share transfer resulting in a transfer of controlling interest of a subsidiary	0	1
Commencement of a new business	0	1
Incurrence of damage	1	0
Revision of earnings forecast, etc.	2	3
Basket clause	1	3
Event about a subsidiary	2	0
Tender offer	7	5
No. of cases recommended to prosecutors, by FY	14	13

Changes in Number of Cases Recommended to prosecutor, by Attribute of Transmitter of Information

	FY2011	FY2012
Transmission of corporate materials facts	5	3
Officer, etc. of issuer	2	2
Party to a contract	3	1
Transmission of information on tender offer	6	5
Officer, etc. of tender offeror	2	1
Tender offeror and party to a contract	4	4
Officer, etc. of target party	3	2

Notes: 1. "FY" is April to March of the following year.
2. No. of cases recommended to prosecutors is recorded on the basis of the number of violators.
3. As for No. of cases recommended to prosecutors, by type of material fact, when a violator committed insider trading, being aware of multiple material facts, the case is recorded redundantly in relevant types of material facts. Therefore, the aggregate of the number of cases in each box may not be consistent with the figure in No. of cases recommended to prosecutors, by FY.
4. Tender offer also includes other acts equivalent to a tender offer regarded as being a material fact.

2. Brief Summary of Recommendations Issued in FY2012

With respect to the cases recommended for the issuance of orders to pay administrative monetary penalties on market misconduct in FY2012, the following is a brief summary of those cases:

(1) Recommendation on Insider Trading

(i) Recommendation on insider trading by a person receiving information from an officer of Geo Corporation

The violator received information from an officer of Geo Corporation related to the fact that the organ, which was responsible for making decisions on the execution of the operations of Geo Corporation, had decided to make a tender offer for the shares of 2nd Street Co., Ltd. (hereinafter referred to as "2nd Street"). While in receipt of that information, the violator purchased a total of 60 2nd Street shares on his/her own account in the amount of 2,579,050 yen on February 9, 2010, prior to the fact being announced on February 10, 2010.

[Date of Recommendation] April 17, 2012
[Amount of administrative monetary penalty] 1,000,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: April 17, 2012
Date of order to pay penalty: May 9, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ii) Recommendation on insider trading by a party to a contract with FT Communications Co., Ltd.

The violator was an officer at a company that had concluded an outsourcing contract with FT Communications Co., Ltd. (hereinafter referred to as “FT Communications”), who, in the course of negotiating that contract, had come to know the fact that the organ which was responsible for making decisions on the execution of the operations of FT Communications had decided to commence the production and distribution of LED. While in receipt of that information, the violator purchased a total of 40 FT Communications shares on his/her own account in the amount of 1,300,450 yen from January 11, 2011, through January 13, 2011, prior to the above fact being announced on January 24, 2011.

[Date of Recommendation] April 27, 2012
[Amount of administrative monetary penalty] 1,030,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: April 27, 2012
Date of order to pay penalty: May 22, 2012

Since a written reply admitting these facts was submitted by the violator, no trial

was conducted.

(iii) Recommendation on insider trading by an employee of NOK Corporation and by a person receiving information from that employee

1. The violator (i) was an employee of NOK Corporation (hereinafter referred to as "NOK") who had come to know the information in the course of his/her duties. The information concerned the fact (hereinafter referred to as "material fact in this case") that, compared to the most recent forecast for the company's consolidated net income for the period ending March 31, 2011, of 14,800,000,000 yen, which had been announced on May 13, 2010, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While in receipt of that information, the violator purchased a total of 54,000 NOK shares on his/her own account in the amount of 77,595,000 yen during the period from about 9:00AM on July 21, 2010, to about 3:00PM on July 30, 2010, prior to it being announced at about 3:00PM on July 30, 2010, that the newly calculated forecast was 21,700,000,000 yen.

2. While in receipt of the material fact in this case from the violator (i), the violator (ii) purchased a total of 900 NOK shares on his/her own account in the amount of 1,306,900 yen from about 9:02AM on July 21, 2010, to about 1:23PM on July 29, 2010, prior to it being announced at about 3:00PM on July 30, 2010, that the newly calculated forecast was 21,700,000,000 yen.

[Date of Recommendation] June 1, 2012
[Amount of administrative monetary penalty]
Violator (i) 4,260,000 yen
Violator (ii) 50,000 yen
[Process following Recommendation]
(Same date for Violator (i) and Violator (ii))
Date of decision on commencement of trial procedures: June 1, 2012
Date of order to pay penalty: June 22, 2012

Since written replies admitting these facts were submitted by Violator (i) and Violator (ii), no trial was conducted.

(iv) Recommendation on insider trading by a person receiving information from an employee of Vantec Corporation

1. The violator (i) received information from Employee A of Vantec Corporation (hereinafter referred to as "Vantec") concerning the fact that the organ which was responsible for making decisions on the execution of the operations of Hitachi Transport System, Ltd. (hereinafter referred to as "Hitachi Transport System") had decided to make a tender offer for the shares of Vantec (hereinafter referred to as "tender offer fact in this case"). Officer B of Vantec had come to know the information in the course of negotiations for the conclusion of an agreement between Vantec and Hitachi Transport System concerning the management structure of Vantec after the

completion of the tender offer by Hitachi Transport System, and subsequently, Employee A had come to know the information in the course of his/her duties. While in receipt of the tender offer fact in this case, the violator (i) purchased a total of 10 Vantec shares on his/her own account in the amount of 1,201,200 yen during the period from February 17 to 22, 2011, prior to the fact being announced on March 10, 2011.

2. The violator (ii) received information from Employee A of Vantec concerning the tender offer fact in this case. Officer B of Vantec had come to know the information in the course of negotiations for the conclusion of an agreement concerning the management structure of Vantec after the completion of the tender offer, and subsequently, Employee A had come to know the information in the course of his/her duties. While in receipt of the tender offer fact in this case, the violator (ii) purchased a total of 10 Vantec shares on his/her own account in the amount of 1,204,000 yen during the period from February 17 to 21, 2011, prior to the fact being announced on March 10, 2011.

[Date of Recommendation] June 15, 2012
[Amount of administrative monetary penalty]
Violator (i) 1,120,000 yen
Violator (ii) 1,120,000 yen
[Process following Recommendation]
(Same date for Violator (i) and Violator (ii))
Date of decision on commencement of trial procedures: June 15, 2012
Date of order to pay penalty: July 10, 2012

Since written replies admitting these facts were submitted by Violator (i) and Violator (ii), no trial was conducted.

(v) Recommendation on insider trading by an employee of NEXT Co., Ltd.

The violator was an employee of NEXT Co., Ltd. (hereinafter referred to as “NEXT”), who, in the course of his/her duties came to know: the material fact (i) that, compared to the most recent forecast for the company’s consolidated sales, consolidated ordinary profit and consolidated net profit for the period ending March 31, 2012, of 11,739,000,000 yen, 1,421,000,000 yen and 773,000,000 yen, respectively, which had been announced on May 12, 2011, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors, and the material fact (ii) that, compared to the most recent forecast for the company’s dividends of surplus to shareholders for the same period of 6.20 yen, which had been announced on August 19, 2011, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While in receipt of that information, the violator sold a total of 4,300 NEXT shares on his/her own account in the amount of 1,483,500 yen during the time from about 9:00AM to 9:01AM on November 9, 2011, prior to it being announced around 3:15PM on the same day that the newly

calculated forecasts of the company's consolidated sales, consolidated ordinary profit, consolidated net profit and dividend of surplus to shareholders for the period ending March 31, 2012, were 9,899,000,000 yen, 591,000,000 yen, 233,000,000 yen and 1.90 yen, respectively.

[Date of Recommendation] July 6, 2012
[Amount of administrative monetary penalty] 240,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: July 6, 2012
Date of order to pay penalty: August 9, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(vi) Recommendation on insider trading by an officer and an employee of The Earth CO.

1. The violator (i) was an officer of The Earth CO. (hereinafter referred to as "The Earth"), who, in the course of his/her duties, came to know the material facts and acted as follows:
   (a) The information concerned a material fact that the organ responsible for making decisions on the execution of the operations of The Earth had decided to form a business alliance with Google Ireland Limited and its interested party (hereinafter referred to as "Google"). While in receipt of that information, the violator (i) purchased a total of 183 The Earth shares on his/her own account in the amount of 2,389,480 yen on July 28, 2010, prior to the fact being announced on August 12, 2010; and
   (b) The information concerned a material fact that The Earth received a unilateral notice from Google to the effect that Google would terminate the provision of real estate search services related to the business alliance of the parties. Such material fact was related to the operation, business and property of the Earth and would have a significant impact on the investment decisions of investors (hereinafter referred to as the "material fact in this case"). While in receipt of that information on the material fact in this case, the violator (i) sold a total of 183 The Earth shares on his/her own account for the amount of 1,065,060 yen around 9:00AM on January 27, 2011, prior to the fact being announced around 10:00PM on the same day.

2. The violator (ii) was an employee of The Earth, and, in the course of his/her duties came to know the material facts and acted as follows:
   (a) The information concerned a material fact that the organ responsible for making decisions on the execution of the operations of The Earth had decided to form a business alliance with Recruit Co., Ltd. While in receipt of that information, the violator (ii) purchased a total of 50 The Earth shares on his/her own account for the amount of 220,250 yen on October 27, 2010, prior to the fact being announced on November 1, 2010.
   (b) While in receipt of that information on the material fact in this case, the

violator (ii) sold a total of 50 The Earth shares on his/her own account for the amount of 291,000 yen around 9:00AM on January 27, 2011, prior to the fact being announced around 10:00PM on the same day.

[Date of Recommendation] August 3, 2012
[Amount of administrative monetary penalty]
Violator (i) 1,340,000 yen
Violator (ii) 220,000 yen
[Process following Recommendation]
(Same date for Violator (i) and Violator (ii))
Date of decision on commencement of trial procedures: August 3, 2012
Date of order to pay penalty: September 13, 2012

Since written replies admitting these facts were submitted by Violator (i) and Violator (ii), no trial was conducted.

(vii) Recommendation on insider trading by a person receiving information from an employee of Vantec Corporation

The violator received information from an employee of Vantec Corporation (hereinafter referred to as "Vantec") related to the fact that the organ, which was responsible for making decisions on the execution of the operations of Vantec, had decided that Vantec would become a wholly owned subsidiary of Hitachi Transport System, Ltd. by using class shares subject to wholly call. Such material fact was related to the operation, business and property of The Earth and would have a significant impact on the investment decisions of investors. While in receipt of that information, the violator purchased a total of 65 Vantec shares on his/her own account in the amount of 9,230,000 yen during the period from November 30, 2011, to December 1, 2011, prior to the above fact being announced on December 15, 2011.

[Date of Recommendation] October 30, 2012
[Amount of administrative monetary penalty] 5,850,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: October 30, 2012
Date of order to pay penalty: December 21, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(viii) Recommendation on insider trading related to silex technology shares by a person receiving information from a party to a contract with a tender offeror

The violator received information from a person who was a shareholder of silex technology, Inc. (hereinafter referred to as "silex") concerning the fact that the organ responsible for making decisions on the execution of the operations of Murata Machinery, Ltd. (hereinafter referred to as "Murata Machinery") had decided to make a tender offer for the shares of silex. The shareholder had come to know the information in the course of conclusion of the tender offer agreement with Murata Machinery. While

in receipt of that information, the violator purchased a total of 25 silex shares on his/her own account in the amount of 827,700 yen on August 9, 2011, prior to the fact being announced on August 11, 2011.

[Date of Recommendation] November 16, 2012
[Amount of administrative monetary penalty] 610,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: November 16, 2012
Date of order to pay penalty: December 5, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ix) Recommendation on insider trading by a person receiving information from another person negotiating the conclusion of a contract with Nissen Holdings Co., Ltd.

The violator received information from an officer of UCC Holdings Co., Ltd. (hereinafter referred to as "UCC"), who had been negotiating the conclusion of a basic contract for a capital and business alliance with Nissen Holdings Co., Ltd. (hereinafter referred to as "Nissen") including a transfer of all the outstanding common shares of Shaddy Co., Ltd. (hereinafter referred to as "Shaddy"), and who had come to know the information in the course of negotiations for conclusion of the contract. The information concerned the fact that the organ responsible for making decisions on the execution of the operations of Nissen had decided to form a business alliance with UCC and acquire all the outstanding common shares of Shaddy from UCC. While in receipt of that information, the violator purchased a total of 5,000 Nissen shares on his/her own account in the amount of 1,810,000 yen on February 10, 2012, prior to the fact being announced on February 20, 2012.

[Date of Recommendation] November 30, 2012
[Amount of administrative monetary penalty] 240,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: November 30, 2012
Date of order to pay penalty: December 21, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(x) Recommendation on insider trading by a person receiving information from a member of a third party committee established at The Sankei Building Co., Ltd.

The violator received information from a member of a third party committee that had been established at The Sankei Building Co., Ltd. (hereinafter referred to as "Sankei Building") for the purpose of facilitating the making of a tender offer by Fuji Media Holdings, Inc. (hereinafter referred to as "Fuji Media") for the outstanding shares of common stock of Sankei Building. The information concerned the fact that the organ responsible for making decisions on the execution of the operations of Fuji Media had decided to make a tender offer for the shares of Sankei Building. An officer of Sankei

Building had come to know the information in the course of negotiations for the conclusion of an agreement with Fuji Media concerning the management structure of Sankei Building after the completion of the tender offer by Fuji Media, and subsequently, the member of the third party committee had come to know the information in the course of his/her duties. While in receipt of the fact, the violator purchased a total of 6,000 Sankei Building shares on his/her own account in the amount of 1,788,200 yen on January 11 and 13, 2012, prior to the fact being announced on January 20, 2012.

[Date of Recommendation] January 25, 2013
[Amount of administrative monetary penalty] 2,630,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: January 25, 2013
Date of order to pay penalty: February 26, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(2) Recommendation on Market Manipulation

(i) Recommendation on market manipulation related to the shares of Idemitsu Kosan Co., Ltd.

For the purpose of inducing sales and purchases of the shares of Idemitsu Kosan Co., Ltd., during the period of 9 trading days from about 10:10AM on February 2, 2011, to about 2:58PM on February 18, 2012, the violator placed selling orders for a total of 301,900 shares and buying orders for a total of 310,600 shares, and made sales and purchases of a total of 284,000 shares executed at prices advantageous to the violator, in a manner placing selling and buying orders in multiple price ranges above best ask and below best bid without any intention of executing them, as shown in the table below. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases of the shares and entrustment therefor over a total of twelve instances that would cause fluctuations in the market price of the shares.

(Unit: Shares)

No	Period of Trade (2011)	Number of Shares Placed*		Number of Shares Traded		Computation of Administrative Monetary Penalty (Ask Price – Bid Price)	Amount of Administrative Monetary Penalty
		Ask	Bid	Ask	Bid		
1	From 02/02 10:10:29 To 02/03 10:32:41	59,400	53,300	26,900	26,900	¥244,980,000 – ¥244,656,000 = ¥324,000	¥320,000
2	From 02/03 12:57:18 To 02/03 14:39:44	30,000	30,300	11,800	11,800	¥106,152,000 – ¥105,964,000 = ¥188,000	¥180,000
3	From 02/03 14:47:07 To 02/03 14:56:05	7,500	7,500	1,500	1,500	¥13,470,000 – ¥13,455,000 = ¥15,000	¥10,000
4	From 02/04 10:38:55 To 02/07 09:30:10	40,200	62,500	33,500	33,500	¥295,992,000 – ¥295,701,000 = ¥291,000	¥290,000
5	From 02/07 13:49:57 To 02/07 14:46:16	15,100	12,500	5,500	5,500	¥48,510,000 – ¥48,402,000 = ¥108,000	¥100,000
6	From 02/07 14:46:31 To 02/07 14:56:28	7,500	5,500	1,800	1,800	¥15,858,000 – ¥15,840,000 = ¥18,000	¥10,000
7	From 02/08 14:17:00 To 02/08 14:32:08	6,000	6,000	1,500	1,500	¥13,312,000 – ¥13,290,000 = ¥22,000	¥20,000
8	From 02/08 14:32:22 To 02/08 14:43:37	4,000	4,000	1,500	1,500	¥13,320,000 – ¥13,305,000 = ¥15,000	¥10,000
9	From 02/09 14:27:12 To 02/09 14:36:36	6,000	5,000	700	700	¥6,174,000 – ¥6,160,000 = ¥14,000	¥10,000
10	From 02/15 12:50:51 To 02/15 14:58:30	37,600	39,500	14,300	14,300	¥132,184,000 – ¥132,010,000 = ¥174,000	¥170,000
11	From 02/17 09:23:28	58,600	59,500	33,400	33,400	¥319,387,000 – ¥318,984,000	¥400,000

	To 02/17 14:53:36					= ¥403,000	
12	From 02/18 14:07:47 To 02/18 14:58:10	30,000	25,000	9,600	9,600	¥93,574,000 – ¥93,425,000 = ¥149,000	¥140,000
Total		301,900	310,600	142,000	142,000		¥1,660,000

*Number of shares placed for selling and buying orders with no intention of executing the trades

[Date of Recommendation] June 15, 2012
[Amount of administrative monetary penalty] 1,660,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: June 15, 2012
Date of order to pay penalty: July 10, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ii) Recommendation on market manipulation related to the shares of j-Project Corp.

For the purpose of inducing sales and purchases of the shares of j-Project Corp., during the period of 3 trading days from about 10:15AM on December 15, 2009, to about 2:34PM on December 17, 2009, the violator purchased a total of 51 j-Project Corp. shares while selling a total of 18 shares of the company, and by so doing, raised the share price from 62,500 yen to 68,700 yen, including in a manner intended to raise the share prices by placing buying orders at high limit prices and executing them at high prices, and by matching buying orders and selling orders placed at high limits at around the same time. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] July 6, 2012
[Amount of administrative monetary penalty] 520,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: July 6, 2012
Date of order to pay penalty: August 9, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(iii) Recommendation on market manipulation related to the shares of J.Front Retailing Co., Ltd.

For the purpose of inducing sales and purchases of the shares of J.Front Retailing Co., Ltd. shares, during the period of 9 trading days from about 9:27AM on August 2, 2010, to about 2:53PM on August 13, 2010, the violator placed selling orders for a total of 7,894,000 shares and buying orders for a total of 9,680,000 shares, and made sales and purchases of a total of 3,438,000 shares executed at prices advantageous to the violator, including in the manner of placing sell and buying orders in multiple price ranges above best ask and below best bid without any intention of executing them, as shown in the table below. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases of the shares and entrustment therefor over a total of twelve instances that would cause fluctuations in the market price of the shares.

(Unit: Shares)

No	Period of Trade (2011)	Number of Shares Placed *		Number of Shares Traded *		Computation of Administrative Monetary Penalty (Ask Price – Bid Price)	Amount of Administrative Monetary Penalty
		Ask	Bid	Ask	Bid		
1	From 08/02 09:27 To 08/02 10:44	194,000	343,000	41,000	41,000	¥16,432,000 – ¥16,277,000 = ¥65,000	¥ 60,000
2	From 08/02 12:17 To 08/02 14:54	688,000	616,000	144,000	144,000	¥ 56,294,000 – ¥56,199,000 = ¥ 95,000	¥90,000
3	From 08/02 09:27 To 08/03 14:34	1,068,000	1,147,000	201,000	201,000	¥78,597,000 – ¥78,513,000 = ¥84,000	¥80,000
4	From 08/04 09:08 To 08/04 10:54	518,000	843,000	114,000	114,000	¥44,117,000 – ¥44,035,000 = ¥82,000	¥80,000
5	From 08/04 12:29 To 08/04 14:50	874,000	1,010,000	153,000	153,000	¥59,491,000 – ¥59,363,000 = ¥128,000	¥120,000
6	From 08/05 09:13 To 08/05 14:57	652,000	1,108,000	218,000	218,000	¥86,914,000 – ¥86,680,000 = ¥234,000	¥230,000
7	From 08/06 09:24 To 08/06 13:37	452,000	350,000	53,000	53,000	20,851,000 – ¥20,819,000 = ¥32,000	¥30,000
8	From 08/09 09:23 To 08/09 13:43	962,000	1,312,000	200,000	200,000	¥78,298,000 – ¥78,123,000 = ¥175,000	¥170,000
9	From 08/10 09:35 To 08/10 12:05	185,000	261,000	44,000	44,000	¥17,600,000 – ¥17,556,000 = ¥44,000	¥40,000
10	From 08/10 12:14 To 08/10 15:00	1,065,000	1,256,000	204,000	204,000	¥81,043,000 – ¥80,913,000 = ¥130,000	¥130,000
11	From 08/11 09:32 To 08/11 10:48	375,000	561,000	116,000	116,000	¥44,999,000 – ¥44,902,000 = ¥ 97,000	¥90,000
12	From 08/13 12:27 To 08/13 14:53	861,000	873,000	231,000	231,000	¥88,295,000 – ¥88,064,000 = ¥231,000	¥230,000
Total		7,894,000	9,680,000	1,719,000	1,719,000		¥1,350,000

*Number of shares placed for selling and buying orders with no intention of executing the trades

[Date of Recommendation] August 31, 2012
[Amount of administrative monetary penalty] 1350,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: August 31, 2012
Date of order to pay penalty: October 3, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(iv) Recommendation on market manipulation related to the shares of Krosaki Harima Corporation

For the purpose of inducing sales and purchases of the shares of Krosaki Harima Corporation, during the period of 2 trading days from about 9:01AM on July 22, 2011, to about 3:00PM on July 25, 2011, and during the period of 5 trading days from about 9:01AM on July 29, 2011, to about 3:00PM on August 4, 2011, the violator purchased a total of 10,295,000 Krosaki Harima Corporation shares while selling a total of 10,295,000 shares of the company, including in a manner intended to raise the share prices by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing large buying orders at higher prices than the latest contract price, etc. In this way, on his/her own account and on the account of a family-owned company of the violator, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] September 28, 2012
[Amount of administrative monetary penalty] 1,1320,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: September 28, 2012
Date of order to pay penalty: November 9, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(v) Recommendation on market manipulation related to the shares of ITmedia Inc.

1. For the purpose of inducing sales and purchases of the shares of ITmedia Inc., during the period of 12 trading days from about 9:12AM on February 18, 2010, to about 2:42PM on March 5, 2010, violator (i) purchased a total of 260 ITmedia Inc. shares while selling a total of 243 shares of the company, including in a manner intended to raise the share prices by matching the selling orders it placed with buying orders placed by violator (ii) and/or violator (iii) at higher prices than the latest contract price in prior conspiracy with other persons, and by supporting the lower prices through placement of multiple buying orders below best ask. In this way, on his/her own account, the violator created misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

2. For the purpose of inducing sales and purchases of the shares of ITmedia Inc., during the period of 9 trading days from about 9:14AM on February 18, 2010, to about 2:03PM on March 5, 2010, the violator (ii) purchased a total of 99 ITmedia Inc. shares while selling a total of 64 shares of the company, in a manner intended to raise the share prices, including in a manner intended to raise the share prices by matching selling orders it placed with buying orders placed by violator (i) at higher prices than the latest contract price in prior conspiracy with other persons, by placing large buying orders at higher prices than the latest contract price to make them be executed at higher prices, and by supporting the lower prices through placement of multiple buying orders below best ask. In this way, on his/her own account, the violator created misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

3. For the purpose of inducing sales and purchases of the shares of ITmedia Inc., during the period of 5 trading days from about 9:12AM on February 18, 2010, to about 1:30PM on March 5, 2010, the violator (iii) purchased a total of 20 ITmedia Inc. shares while selling a total of 10 shares of the company, in a manner intended to raise the share prices, including in a manner intended to raise the share prices by matching selling orders it placed with buying orders placed by violator (i) at higher prices than the latest contract price in prior conspiracy with other persons, and by supporting the lower prices through placement of multiple buying orders below best ask. In this way, on his/her own account, the violator created misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] October 12, 2012

[Amount of administrative monetary penalty]
Violator (i) 690,000 yen
Violator (ii) 650,000 yen
Violator (iii) 420,000 yen
[Process following Recommendation]
(Same date for Violator (i), (ii) and (iii))
Date of decision on commencement of trial procedures: October 12, 2012
Date of order to pay penalty: November 21, 2012

Since written replies admitting these facts were submitted by violators (i), (ii) and (iii), no trial was conducted

(vi) Recommendation on market manipulation related to the shares of The Gifu Bank, Ltd.

For the purpose of causing investors to have the misconception that the shares of The Gifu Bank, Ltd. were traded actively in the market, during the period from about 3:30PM on September 29, 2010, to about 0:30 PM on December 16, 2010, the violator conducted fake sales and purchases of a total of 1,238,000 shares of the company without the purpose of transfer by matching buying and selling orders placed at the same time over a total of 36 instances. In this way, on his/her own account, the violator conducted fake sales and purchases of the shares without the purpose of transfer, with the purpose of causing investors to have misconception regarding the trades of the shares.

[Date of Recommendation] November 16, 2012
[Amount of administrative monetary penalty] 1,530,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: November 16, 2012
Date of order to pay penalty: April 16, 2013

With regard to the recommendation, the respondent submitted a written reply denying the facts of the violation, insisting that the respondent had no intention to mislead other persons in conducting the transactions in this case, including causing investors to have the misconception that the shares in this case were traded actively in the market. Therefore, in this case, this point was in dispute.

Following the trial procedures, the Commissioner of the FSA made the decision to order payment of the administrative monetary penalty, arguing that, in conducting the transactions in this case, it could be easily recognized that the respondent had the intention as mentioned above in conducting the transactions in this case.

* In relation to the decision in this case, the person filed an action for revocation of the administrative disposition with the Tokyo District Court on May 15, 2013.

(vii) Recommendation on market manipulation related to the shares of Vinculum Japan Corporation

For the purpose of inducing sales and purchases of the shares of Vinculum Japan

Corporation, during the time from about 9:16AM to 2:29PM on April 12, 2010, the violator purchased a total of 127 Vinculum Japan Corporation shares and sold a total of 100 shares of the company, while conducting behavior such as placing buying orders of 200 shares of the company, including in a manner intended to raise the share prices by matching buying and selling orders it placed at market price or at higher prices than the latest contract price, or by consecutively placing buy orders at higher prices to make them be executed at higher prices, and by placing multiple buy orders without any intention of executing them with the intent of raising and executing the share price at the upper daily trading limit while indicating a "special bid quote." In this way, the violator conducted, on his/her own account, a series of sales and purchases of the shares and entrustment therefor that would cause fluctuations in the market price of the shares.

[Date of Recommendation] November 30, 2012
[Amount of administrative monetary penalty] 4,420,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: November 30, 2012
Date of order to pay penalty: December 21, 2012

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(viii) Recommendation on market manipulation related to the shares of Placo Co., Ltd. and other two issues

For the purpose of inducing sales and purchases of the shares as indicated below, the violator conducted the following behaviors on his/her own account and on the account of a relative of the violator:

(a) With regard to the shares of Placo Co., Ltd., during the time from about 9:02AM to about 10:38AM on May 12, 2011, the violator purchased a total of 332,000 shares and sold a total of 332,000 shares, while conducting behavior such as placing buying orders of 343,000 shares, including in a manner intended to raise the share prices by consecutively placing large buy orders at higher prices than the latest contract price and by placing multiple buying orders below best ask without any intention of executing them over a total of 5 instances, as shown in the table below;

(b) With regard to the shares of GNI Group Ltd., during the time from about 1:51PM to about 2:11PM on November 10, 2011, the violator purchased a total of 115,000 shares and sold a total of 115,000 shares, while conducting behavior such as placing buying orders of 101,000 shares, including in a manner intended to raise the share prices by consecutively placing large buy orders at higher prices than the latest contract price and by placing multiple buying orders below best ask as shown in the table below; and

(c) With regard to the shares of Fund Creation Group Co., Ltd., during the time from about 9:40AM to about 0:56PM on November 28, 2011, the violator purchased a total of 130,000 shares and sold a total of 130,000 shares, while conducting behavior such as placing buying orders of 40,900 shares, including in a manner intended to raise the share prices by consecutively placing large buy orders at higher prices than

the latest contract price and by placing multiple buying orders below best ask without any intention of executing them over a total of 3 instances, as shown in the table below.

In this way, the violator created misunderstanding that there was active trading in each of these shares as listed above, and conducted a series of sales and purchases and entrustment therefor that would cause fluctuations in the market price of each of these shares as listed above.

(Unit: Shares)

No	Issue	Period of Trade (2011)	Number of Shares Placed *		Number of Shares Traded *		Computation of Administrative Monetary Penalty (Ask Price – Bid Price)	Amount of Administrative Monetary Penalty
			Ask	Bid	Ask	Bid		
1	Placo Co.	From 05/12 09:02 To 05/12 09:04	0	84,000	85,000	85,000	¥2,720,000 – ¥2,635,000 = ¥85,000	¥ 80,000
2	Placo Co.	From 05/12 09:12 To 05/12 09:14	0	40,000	57,000	57,000	¥1,975,000 – ¥1,827,000 = ¥ 148,000	¥140,000
3	Placo Co.	From 05/12 09:38 To 05/12 09:41	0	47,000	42,000	42,000	¥1,596,000 – ¥1,519,000 = ¥ 77,000	¥70,000
4	Placo Co.	From 05/12 10:05 To 05/12 10:11	0	94,000	78,000	78,000	¥2,886,000 – ¥2,815,000 = ¥71,000	¥70,000
5	Placo Co.	From 05/12 10:05 To 05/12 10:38	0	78,000	70,000	70,000	¥2,660,000 – ¥2,597,000 = ¥63,000	¥ 60,000
Subtotal			0	343,000	332,000	332,000		¥420,000
1	GNI Group Ltd.	From 11/10 13:51 To 11/10 14:11	0	101,000	115,000	115,000	¥9,745,000 – ¥9,491,000 = ¥254,000	¥250,000
1	Fund Creation Group Co., Ltd.	From 11/28 09:20 To 11/28 09:47	0	15,000	48,200	48,200	¥3,374,000 – ¥3,319,600 = ¥54,400	¥50,000
2	Fund Creation Group Co., Ltd.	From 11/28 10:15 To 11/28 10:25	0	16,000	45,400	45,400	¥3,359,600 – ¥3,191,900 = ¥167,700	¥160,000
3	Fund Creation Group Co., Ltd.	From 11/28 12:55 To 11/28 12:56	0	9,900	36,400	36,400	¥2,802,800 – ¥2,731,000 = ¥71,800	¥70,000
Subtotal			0	40,900	130,000	130,000		¥280,000
Total								¥950,000

*Number of shares placed for selling and buying orders with no intention of executing the trades

[Date of Recommendation] December 21, 2012
[Amount of administrative monetary penalty] 950,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: December 21, 2012
Date of order to pay penalty: January 28, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ix) Recommendation on market manipulation related to the shares of Mimaki Engineering Co., Ltd.

In an attempt to raise the price of Mimaki Engineering Co., Ltd. shares, and for the purpose of inducing sales and purchases of the shares, during the period of 13 trading days from about 9:10AM on March 25, 2010, to about 3:09PM on April 12, 2010, the violator purchased a total of 360 shares of the company while selling a total of 190 shares of the company on his/her own account, out of his/her involvement in purchasing 1,052 shares and selling 476 shares, including in a manner intended to raise the share prices by matching buying orders placed at market price with selling orders placed at higher prices than the latest contract price at around the same time, and by consecutively placing large buying orders at higher prices than the latest contract price to make them be executed at higher prices. In this way, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] February 5, 2013
[Amount of administrative monetary penalty] 1,0280,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: February 5, 2013
Trial procedures underway (as of May 31, 2013)

(x) Recommendation on market manipulation related to the shares of Kagetsuen Kanko Co., Ltd. and one other issue

For the purpose of inducing sales and purchases of the shares as indicated below, the violator conducted the following acts on his/her own account:

(a) With regard to the shares of Kagetsuen Kanko Co., Ltd. (hereinafter referred to as "Kagetsuen Kanko"), during the time from about 11:01AM to about 11:10AM on March 2, 2012, the violator sold a total of 133,000 shares, while conducting behavior such as placing buying orders of 107,000 shares, including in a manner intended to raise the share prices by placing a large volume of multiple buying orders at lower levels;

(b) With regard to the shares of G.networks Co., Ltd., during the time from about 9:29AM to about 9:32AM on March 9, 2012, the violator sold a total of 74,000 shares, while conducting behavior such as placing buying orders of 101,000 shares, including in the same manner as indicated above; and

(c) With regard to the shares of Kagetsuen Kanko during the time from about 9:23AM to about 9:31AM on June 5, 2012, the violator sold a total of 22,000 shares, while conducting behavior such as placing buying orders of 123,000 shares, including in the same manner as indicated above.

In this way, the violator created the misunderstanding that there was active trading in each of these shares as listed above, and conducted a series of sales and purchases and entrustment therefor that would cause fluctuations in the market price of each of these shares as listed above.

[Date of Recommendation] March 12, 2013
[Amount of administrative monetary penalty] 1,070,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: March 12, 2013
Date of order to pay penalty: April 1, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

3. Subsequent Progress of Recommendations Issued Prior to FY2012

(1) Among the cases recommended by the SESC in or before FY2011, the following is a summary of the process of a case in which the order for the administrative monetary penalty payment had not yet been issued before the "SESC Activities in FY2011" was released.

○ Recommendation on insider trading by a person receiving information from another

person negotiating the conclusion of a contract with SJI Inc.

With regard to the recommendation made on March 16, 2012, for an administrative monetary penalty payment order for a case of insider trading by a person receiving information from another person negotiating the conclusion of a contract with SJI Inc., the respondent asserted or alleged in court to the effect that it was not clear whether the respondent had received the material fact in this case from an officer of the party that had negotiated with a contact at SJI, Inc. Therefore, in this case, this point was in dispute.

Following the trial procedures, on October 19, 2012, the Commissioner of the FSA made the decision not to acknowledge the fact of legal violation regarding the above point in dispute, on the grounds that the case was not recognized to constitute the fact as defined in Article 178(1)(xvi) of the FIEA.

(2) Among cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2011, the following is a summary of the process of a case in which the court's judgment had not yet been made before the "SESC Activities in FY2011" was released.

○ Case regarding insider trading by a person receiving information from a contract party with JO Group Holdings Co., Ltd.

[Recommendation for administrative monetary penalty payment order (August 27, 2010); Issuance of administrative monetary penalty payment order (July 20, 2010); Action for revocation of administrative disposition (August 19, 2010); and Judicial decision by the Osaka District Court (February 21, 2013)]

On February 21, 2013, the Osaka District Court pronounced a judgment to the effect that the court would reject the claim of the plaintiff (respondent) on the grounds that the plaintiff was acknowledged to have received the material fact prior to the purchases or sales of the shares of JO Group Holdings Co., Ltd. The judgment became final and binding on March 8, 2013.

3) Future Challenges

With regard to violations related to market misconduct, such as insider trading, while there are criminal penalties and the administrative monetary penalty system as enforcement measures to ensure the effectiveness of regulations, it is necessary to restrain the application of criminal penalties which would have significant impacts on violators. The administrative monetary penalty system is expected to ensure the effectiveness of regulations by taking actions appropriate for the level and state of violations for which criminal charges are not essential. Furthermore, it can deal with each case more quickly than for criminal penalties. Using such features of the administrative monetary penalty system, the SESC will make efforts for achieving prompt and strategic market surveillance, by conducting speedy and efficient investigations and addressing the issues shown below:

(1) Given that there remain a number of cases on insider trading by a primary recipient of information, and market manipulation using online trading and multiple accounts, the

SESC will strive to make investigations more speedy and efficient by improving investigation methods, boosting investigation ability through training, etc., and fostering personnel.

(2) Given that some of the cases of market misconduct were conducted by residents of rural areas, the SESC will also actively address cases of market misconduct in rural areas, in cooperation with the local finance bureaus in each region.

(3) Amid ongoing digitalization, up to now, the SESC has promoted the maintenance and improvement of equipment and software required for digital forensics and has also provided personnel with training programs and other opportunities by digital forensics experts. Following these approaches, the SESC will strive to promote swift and efficient investigations, such as by enhancing and enriching the digital forensics management systems and their active application to practical investigation of market misconduct.

(4) In order to prevent market misconduct, the SESC will encourage the enhancement of market integrity, for example, by proactively transmitting information on previous recommendation cases, etc. through various channels, and promoting voluntary enhancement of discipline by market participants and establishment of internal control systems by listed companies.

5. Investigation of International Transactions and Related Issues

1) Outline

1. The Purpose and Authority of Investigation of International Transactions and Related Issues

The Purpose and Authority of Investigation of international transactions and related issues (investigation of transactions made mainly by persons residing in foreign countries) are the same as 4. Investigation of Market Misconduct (See Section 1. Purpose of Investigation of Market Misconduct, Section 2. Authority for Investigation of Market of Misconduct, and Section 3. Acts Subject to Administrative Monetary Penalties, as well as Amounts of Administrative Monetary Penalties in Chapter 1).

2. Activities in FY2012

(1) In FY2012, pursuant to the results of investigations conducted by the Office of Investigation of International Transactions and Related Issues, there were 7 cases of international transactions and related issues (on the basis of the number of offenders) or of being recommended to the commissioner of the FSA (prime minister). The administrative monetary penalty applicable to these cases amounted to 81,150,000 yen.

(2) The SESC is strengthening its cooperation with overseas authorities, by exchanging information based on the framework of the Multilateral MOU (see section 1) in Chapter 9). Accordingly, it has achieved steady results, such as detecting international transactions and related issues using cross-border transactions. Looking at the current financial and capital markets, market participants have been increasingly involved in cross-border transactions or other international activities as part of their day-to-day operations. For instance, in recent years, foreign players have come to place a majority of the orders for trading on Japanese stock markets. In parallel with these trends, given that market misconduct cases have become globalized, the SESC has taken steps to strengthen the investigation systems against misconduct cases using cross-border transactions.

In light of such circumstances, the SESC set “response to the globalization of markets” as one of the new pillars of its policy directions in the *SESC Policy Statement for the 7th Term*, which was formulated in January 2011, thereby laying out its policy of strengthening global market surveillance. Under this initiative, as a response to the globalization of markets, the SESC stepped forward to further develop its human resources and organizational structures, and as part of these efforts, in August 2011, it established the Office of Investigation for International Transactions and Related Issues in the Administrative Monetary Penalty Division, which specializes in investigating any possible offense of international transactions and related issues involving cross-border transactions by professional investors.

During FY2012, the Office of Investigation for International Transactions and Related Issues investigated suspected insider trading executed by professional investors in Japan and overseas prior to large public offerings of new shares. Among these cases, it filed six recommendations for administrative monetary penalty payment orders (see 2) 2. (i) through (v) below). Among the recommendations made on insider trading cases in

FY2012, a case of insider trading relating to the shares of Tokyo Electric Power Co., Inc. was the first recommendation for an administrative monetary penalty on a case of misconduct made by a person residing a foreign country (see 2. (2) (iii) below). In addition, among recommendations on market manipulation cases, the SESC made a recommendation to the offender involved in the market manipulation relating to the shares of Yahoo Japan Corporation in close cooperation with the U.S. Securities and Exchange Commission (SEC). The administrative monetary penalty was the largest-ever administrative monetary penalty on cases of misconduct (see 2. (2) (vi) below).

2) Recommendations for Issuance of Orders to Pay Administrative Monetary Penalties Based on the Results of Investigation of International Transactions and Related Issues

1. Overview of Recommendations

In FY2012, there were 7 recommendations made on international transactions and related issues. Among these, 6 were insider trading cases and 1 was market manipulation. The maximum penalty applied to a offender was 65,710,000 yen, and the minimum was 60,000 yen.

Looking at the attributes of offenders subject to administrative monetary penalties in the recommendations made related to insider trading, all of the cases were committed by primary recipients of information.

Looking at the attributes of persons who passed on insider information, they are all employees working at securities companies who received insider information as parties having contractual relationships or similar positions.

Looking at the types of material facts involved, they were all issuances of new shares (public offerings).

Changes in Number of Recommendation Cases by Attribute of Offender

	FY2011	FY2012
Corporate insider	0	0
Officer, etc. of issuer	0	0
Party to a contract	0	0
Tender offeror or other concerned party	0	0
Officer, etc. of tender offeror	0	0
Tender offeror and party to a contract	0	0
Primary recipient of information	1	6
Corporate material fact	1	6
Tender offer	0	0
No. of cases recommended to prosecutor, by FY	1	6

Changes in Number of Recommendation Cases by Type of Material Fact

	FY2011	FY2012
Issuance of stock, etc.	1	6
Dividends of surplus funds	0	0
Business alliance or dissolution thereof	0	0
Civil rehabilitation or corporate reorganization	0	0
Incurrence of damage	0	0
Information on financial result	0	0
Basket clause	0	0
Other material facts	0	0
Tender offer	0	0
No. of cases recommended to prosecutor, by FY	1	6

Changes in Number of Cases Recommended to prosecutor, by Attribute of Transmitter of Information

	FY2011	FY2012
Transmission of corporate materials facts	1	6
Officer, etc. of issuer	0	0
Party to a contract	1	6
Transmission of information on tender offer	0	0
Officer, etc. of tender offeror	0	0
Tender offeror and party to a contract	0	0
Officer, etc. of target party	0	0

Notes: 1. “FY” is April to March of the following year.
2. No. of cases recommended to prosecutor is recorded on the basis of offenders.

2. Brief Summary of Recommendations Issued in FY2012

With respect to the cases recommended for the issuance of orders to pay administrative monetary penalties on international transactions and related issues in FY2011, the following is a brief summary of those cases:

(i) Recommendation on insider trading by a receipient of information from an employee of a company that was in negotiations for a contract with Nippon Sheet Glass Co., Ltd.

Asuka Asset Management Co., Ltd. (the offender subject to the administrative monetary order; hereinafter referred to as “Asuka”) was, based on discretionary investment contracts it had concluded, managing a portfolio of funds in which the counterparty to the contract administered assets. An employee of Asuka, who was managing said portfolio, received information from Employee A of a securities company that was in negotiations to conclude an equity underwriting agreement with Nippon Sheet Glass Co., Ltd. Employee B of the same securities company had come to know the information in the course of negotiations, and Employee A had done so in the course of his/her duties. While in receipt of the information that the executive decision-making body of Nippon Sheet Glass Co., Ltd. had decided to launch a public offering of shares, the employee of Asuka sold 215 shares of Nippon Sheet Glass Co., Ltd. on the account of the abovementioned fund for a total of 465,379,995 yen during the period from August 5, 2010, to August 23, 2010, prior to the announcement of the fact.

[Date of Recommendation] May 29, 2012
[Amount of administrative monetary penalty] 130,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: May 29, 2012
Date of order to pay penalty: June 26, 2012

Since a written reply admitting these facts was submitted by the offender, no trial was conducted.

(ii) Recommendation on insider trading by a recipient of information from an employee of a company that was in negotiations for a contract with Mizuho Financial Group, Inc.

Sumitomo Mitsui Trust Bank, Limited (the offender subject to the administrative monetary order; hereinafter referred to as “SMTB”) is a successor company assuming the business operations of the former Chuo Mitsui Asset Trust and Banking Company, Limited (“CMAB”), which was dissolved due to an absorption-type merger with SMTB on April 1, 2012. Based on three discretionary investment contracts it had concluded, CMAB was managing three customer assets. An employee of CMAB, who was managing said assets, received information from Employees A and B of a securities company that was in negotiations to conclude an equity underwriting agreement with Mizuho Financial Group, Inc. Employee C of the same securities company had come

to know the information in the course of negotiations, and Employee A and B had done so in the course of their duties. While in receipt of the information that the executive decision-making body of Mizuho Financial Group, Inc. had decided to launch a public offering of shares, the employee of CMAB sold 1,178,600 shares of Mizuho Financial Group, Inc. on the accounts of the abovementioned customers who were the counterparties to the discretionary investment contracts, for a total of 184,181,825 yen on June 24, 2010, prior to the announcement of the fact.

[Date of Recommendation] May 29, 2012
[Amount of administrative monetary penalty] 80,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: May 29, 2012
Date of order to pay penalty: June 27, 2012

Since a written reply admitting these facts was submitted by the offender, no trial was conducted.

(iii) Recommendation on insider trading by a receipient of information from an employee of a company that was in negotiations for a contract with Tokyo Electric Power Company, Inc.

1. First New York Securities L.L.C. (the offender subject to the administrative monetary order; hereinafter referred to as “FNYS”) was managing its proprietary assets. A trader of FNYS, who was involved in managing said assets, received information from Employee A of a securities company that was in negotiations to conclude an equity underwriting agreement with Tokyo Electric Power Company, Inc. Employee B of the same securities company had come to know the information in the course of negotiations, and Employee A had done so in the course of his/her duties. While in receipt of the information that the executive decision-making body of Tokyo Electric Power Company, Inc. had decided to launch a public offering of shares, the trader of FNYS sold 35,000 shares of Tokyo Electric Power Company, Inc. on the account of First New York Securities L.L.C. for a total of 80,518,900 yen on September 28, 2010, prior to the announcement of the fact on September 29, 2010, at 3:50PM.

2. Person X, a offender subject to the administrative monetary order, received information from Employee A of a securities company that was in negotiations to conclude an equity underwriting agreement with Tokyo Electric Power Company, Inc. Employee B of the same securities company had come to know the information in the course of negotiations, and Employee A had done so in the course of his/her duties. While in receipt of the information that the executive decision-making body of Tokyo Electric Power Company, Inc. had decided to launch a public offering of shares, Person X sold 200 shares of Tokyo Electric Power Company, Inc. on the account of Person X for a total of 443,100 yen during the period from September 27 to 29, 2010, prior to the announcement of the fact on September 29, 2010, at 3:50PM.

[Date of Recommendation] June 8, 2012
[Amount of administrative monetary penalty]
First New York Securities L.L.C.: 14,680,000 yen
Person X: 60,000 yen
[Process following Recommendation]
(Same dates for both First New York Securities L.L.C. and Person X)
Date of decision on commencement of trial procedures: June 8, 2012
Date of 1st trial (conclusion): April 24, 2013
* As of May 31, 2013, no decision on the administrative monetary penalty payment order had been made by the commissioner of the FSA.

(iv) Recommendation on insider trading by Japan Advisory L.L.C.

Japan Advisory L.L.C. (the offender subject to the administrative monetary order; hereinafter referred to as "JA") was substantially engaged in managing two hedge funds domiciled in a foreign country. An employee of JA involved in managing said hedge funds received information from Employee A of a securities company that was in negotiations to conclude an equity underwriting agreement with Nippon Sheet Glass Co., Ltd. Employee B of the same securities company had come to know the information in the course of negotiations, and Employee A had done so in the course of his/her duties. While in receipt of the information that the executive decision-making body of Nippon Sheet Glass Co., Ltd. had decided to launch a public offering of shares, the employee of JA sold 2,653,000 shares of Nippon Sheet Glass Co., Ltd. on the accounts of the abovementioned hedge funds domiciled in a foreign country for a total of 541,786,532 yen on August 20, 2010, prior to the announcement of the fact on August 24, 2010.

[Date of Recommendation] June 29, 2012 (*)
[Amount of administrative monetary penalty] 370,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: June 29, 2012
Date of 1st trial (conclusion): October 17, 2012
Date of order to pay penalty: January 8, 2013

Note: The SESC's investigation brought out the misdeeds of JA. First, the JA's behavior was recognized as a offense of insider trading regulation as set forth in Article 166, the first part of Paragraph 3 of the Financial Instruments and Exchange Act ("FIEA"). Second, the business operations of JA described above were acknowledged to have been repetitively involved in investment management business without registration with the FSA through the circumvention of laws and regulations while it had been registered by the Prime Minister to engage in the investment advisory and agency business. Third, JA had never taken any measures necessary and appropriate to prevent unfair transactions involving the use of undisclosed corporate information as stipulated under the provisions of Article 123(1)(v) of the Cabinet Office Ordinance on Financial Instruments Business, etc., based on Article

40(ii) of the Financial Instruments and Exchange Act. For the reasons above, on June 29, 2012, the SESC made a recommendation that the Prime Minister and the Commissioner of the FSA order the payment of an administrative monetary penalty and take administrative action against JA (see Appendix 2-4-3(1)(ii)).

(v) Recommendation on insider trading by Japan Advisory L.L.C.

Japan Advisory L.L.C. (the offender subject to the administrative monetary order; hereinafter referred to as "JA") was substantially engaged in managing two hedge funds domiciled in a foreign country. On July 5, 2011, an employee of JA involved in managing said hedge funds received information from Employee A of a securities company that was in negotiations to conclude an equity underwriting agreement with Elpida Memory, Inc. Employee B of the same securities company had come to know the information in the course of negotiations, and Employee A had done so in the course of his/her duties. While in receipt of information that the executive decision-making body of Elpida Memory, Inc. had decided to launch a public offering of shares and convertible bonds, the employee of JA sold 32,600 shares of Elpida Memory, Inc. on the accounts of the abovementioned hedge funds domiciled in a foreign country for a total of 30,414,986 yen on July 6, 2011, prior to the announcement of the fact on July 11, 2011.

[Date of Recommendation] November 2, 2012
[Amount of administrative monetary penalty] 120,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: November 2, 2012
Date of 1st trial (conclusion): February 13, 2013
Date of order to pay penalty: April 16, 2013

(vi) Recommendation on market manipulation related to the shares of Yahoo Japan Corporation

Tiger Asia Partners, LLC ("Tiger Asia") is a limited liability company organized under the laws of the State of Delaware. While Tiger Asia by itself subscribed to a U.S. hedge fund ("U.S. Fund"), it has authority to manage fund assets that have been contributed to the U.S. Fund. Tiger Asia, through its managing member and other staffs, from around 12:30 to around 15:00 on March 17, 2009, in order to induce orders for shares of Yahoo Japan Corporation from other market participants, placed a series of purchase orders for the shares through multiple brokers in the form of discretion orders with a limit on the prices that were higher than the latest execution price at that time and thereby, among other things, raised the market price of the share from JPY 24,310 to JPY25,340. Thus they bought 32,960 shares in Yahoo Japan Corporation in total under the names of two non-Japanese hedge funds, including the U.S. Fund, and engaged in a series of transactions that were to effect a change in the market price of the share. Among the said 32,960 shares, Tiger Asia purchased on the exchange or otherwise acquired 14,172 shares in Yahoo Japan Corporation under the name of the U.S. Fund and, for its own account, obtained 4.82% thereof, which was

equivalent to its contribution ratio to the U.S. Fund.

[Date of Recommendation] December 13, 2012
[Amount of administrative monetary penalty] 65,710,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: December 13, 2012
Date of order to pay penalty: January 28, 2013

Since a written reply admitting these facts was submitted by the offender, no trial was conducted.

3. Subsequent Progress of Recommendations Issued Prior to FY2011

Among the cases recommended by the SESC in or before FY2011, the following is a summary of the process of the case in which the order for the administrative monetary penalty payment had not yet been issued before the "SESC Activities in FY2011" was released.

○ Recommendation on insider trading by a recipient of information from an employee of a company that was in negotiations for a contract with Inpex Corporation

With regard to the recommendation made on March 21, 2012, for an administrative monetary penalty payment order for a case of insider trading by Sumitomo Mitsui Trust Bank, Limited (the offender subject to the administrative monetary order; hereinafter referred to as "SMTB"), which received information from an employee of a party in negotiations for concluding a contract with Inpex Corporation, the decision on commencement of trial procedures was made on the same day. However, since a written reply admitting these facts was submitted by SMTB later, no trial was conducted.

Following the trial procedures, on June 27, 2012, the Commissioner of the FSA made the decision to order payment of an administrative monetary penalty of 50,000 yen.

3) Future Challenges

Looking at the current financial and capital markets, market participants have increasingly been involved in cross-border transactions or other international activities as part of their day-to-day operations. For instance, in recent years, foreign players have come to place a majority of the orders for trading on Japanese stock markets. In parallel with these trends, the latest tendency indicates that market misconduct cases have become globalized. Given these trends, in order to conduct effective enforcement measures, the SESC needs to strengthen the investigation systems to clarify the facts in cases of market misconduct using cross-border transactions and global money flows, and also to secure the fairness and transparency of the markets in cooperation with overseas regulators, by taking the following steps:

(1) Strengthening further cooperation with overseas securities regulators

As seen in the cases on insider trading by a recipient of information from an employee of a company that was in negotiations for a contract with Tokyo Electric Power Company, Inc. and on market manipulation related to the shares of Yahoo

Japan Corporation that were recommended by the SESC in FY2012, these cases of misconduct were carried out by persons residing in foreign countries. This is the reason why the SESC needs to closely coordinate with overseas securities regulators. Up to now, the SESC has actively cooperated with overseas securities regulators through information exchange frameworks (Multilateral MOU, etc.) with the aim of coping with the ongoing globalization of market misconduct. From now on, it will strengthen further communications with overseas securities regulators and deepen the global network more than ever. On that basis, the SESC will address the clarification of facts of misconduct cases using cross-border transactions with the aim of securing effective information exchange frameworks.

(2) Developing human resources in response to globalization

In the process of investigating misconduct cases using cross-border transactions, it is essential to secure human resources with global communication skills as well as language and specialist expertise for coordination with overseas regulators and analysis of information. Therefore, the SESC needs to develop its staff to achieve these skills and expertise.

Specifically, the SESC will encourage its staff to participate in international conferences or overseas training programs. By so doing, it will endeavor to foster human resources capable of responding appropriately to on-going globalization trends, aiming to improve its ability to analyze and investigate misconduct cases using cross-border transactions and enhance overseas networks.

(3) Reinforcing the capacity to respond to increasingly complex and diversified financial instruments and transactions

With the progress of innovation in global financial and capital markets, financial instruments and transactions have also become more and more complex and diversified. In order to address these changes appropriately, the SESC will strive to clarify the facts regarding new financial instruments and transaction types precisely so as to detect and find misconduct cases using them.

6. Disclosure Statements Inspection

1) Outline

1. Purpose of Disclosure Statements Inspection

The disclosure system under the Financial Instruments and Exchange Act (FIEA) provides accurate, fair and timely disclosure of the business contents and financial details, etc. of issuers of securities, by obligating issuers of securities to submit various disclosure documents, including a securities registration statement, and by making the documents available for public inspection in order to provide materials to enable sufficient investment decisions by investors in the primary and secondary markets for securities. By doing so, it aims to protect investors.

To ensure effectiveness of the disclosure system described above, the FIEA prescribes that, when the prime minister finds it necessary and appropriate, he/she may order a person who has filed a securities registration statement, an annual securities report or a shelf registration statement, or a tender offeror or a person who has filed a large shareholding report, etc. to submit reports or materials, or may arrange inspection of their books, documents and other articles (hereinafter referred to as “disclosure statements inspection”).

Disclosure statements inspections have been carried out to contribute to the ensuring of fairness and transparency in markets and investor protection, which is the mission of the Securities and Exchange Surveillance Commission (SESC), by means of (i) ensuring accurate company information provided to the markets quickly and fairly and (ii) suppressing breaches in the disclosure regulations.

If, as a result of disclosure statements inspection, disclosure documents are found to contain false statements, etc. on material issues, the SESC makes a recommendation for issuance of an order to pay an administrative monetary penalty. In cases where an amendment report, etc. for such disclosure documents has not been submitted, the SESC makes a recommendation for issuance of an order to submit an amendment report, etc.

In this way, when deemed necessary, the SESC makes a recommendation for the issuance of an order for administrative actions and other measures to the prime minister and the commissioner of the Financial Services Agency (FSA).

In cases where misstatements of financial reports are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily, from the viewpoint of requiring appropriate disclosure.

2. Authority of Disclosure Statements Inspection

In the financial and capital markets in Japan, based on the provisions of the FIEA, disclosure documents are submitted from issuers obliged to submit annual securities reports, etc., including from approximately 3,500 listed companies. The specific authority for disclosure inspection of disclosure documents includes the following:

(1) The authority over requiring reporting from, and inspection with respect to, a person who has filed a securities registration statement, a person who has filed a shelf registration statement, a person who has filed an annual securities report, a person who has filed an internal control report, a person who has filed a quarterly securities report, a

person who has filed a semiannual securities report, a person who has filed an extraordinary report, a person who has filed a share buyback report, a person who has filed a status report of parent company, etc., a person who is found to have had an obligation to file any of these documents, an underwriter of securities, or any other related party or witness (Article 26 of the FIEA (including cases where it is applied mutatis mutandis pursuant to Article 27 of the FIEA))

(2) The authority over requiring reporting from, and inspection with respect to, a tender offeror, or a person who is found to have had an obligation to have made a purchase or other type of acceptance of share certificates, etc. by tender offer, a person specially interested in either of these persons, or any other related party or witness (Article 27-22(1) of the FIEA (including cases where it is applied mutatis mutandis pursuant to Article 27-22-2(2) of the FIEA))

(3) The authority over requiring reporting from, and inspection with respect to, a person who has filed a Position Statement, a person who is found to have had an obligation to file a subject company's position statement, or any related party or witness (Article 27-22(2) of the FIEA)

(4) The authority over requiring reporting from, and inspection with respect to, a person who has filed a Report of Possession of Large Volume, a person who is found to have had an obligation to file a large shareholding report, a joint holder of either of these large shareholdings, or any other related party or witness (Article 27-30(1) of the FIEA)

(5) The authority over requiring reporting from a company that is an issuer of the shares, etc. related to a large shareholding report, or a witness (Article 27-30(2) of the FIEA)

(6) The authority over requiring reporting from, and inspection with respect to, an issuer who provided or publicized specified information, an issuer who is found to have had an obligation to provide or publicize specified information, an underwriter of securities related to specified information, or any other related party or witness (Article 27-35 of the FIEA)

(7) The authority over requiring reporting from a certified public accountant or audit firm that has conducted an audit certification (Article 193-2(6) of the FIEA).

Note 1: The SESC has not been delegated authority for the following, excluding the authority for inspections on cases related to an administrative monetary penalty:

- The authority over requiring reporting from, and inspection with respect to, a person who has filed a securities registration statement, etc. before the effective date of the statement, etc. (Article 38-2(1)(i) and (ii) of the FIEA Enforcement Order)
- The authority over requiring reporting from, and inspection with respect to, a tender offeror, etc. or a person who has filed a subject company's position statement, etc. during the tender offer period (Article 38-2(1)(iii) of the FIEA Enforcement Order).

Note 2: The commissioner of the FSA may also exercise the abovementioned authority to order the

submission of a report and authority to inspect in cases where it is found urgently needed for the sake of ensuring public interest or protecting investors (provisory clause in Article 38-2(1) of the FIEA Enforcement Order); and this authority and the authority described in Note 1 above have been delegated by the commissioner of the FSA to the Directors General of local finance bureaus, etc.

3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties

If, as a result of disclosure statements inspections, disclosure documents are found to contain false statements, etc. on material issues, the SESC makes a recommendation for the issuance of an order to pay an administrative monetary penalty to the prime minister and the commissioner of the FSA (Article 20 of the Act for Establishment of the FSA). In the event that a recommendation is made seeking the issuance of an order to pay an administrative monetary penalty, the commissioner of the FSA (delegated by the prime minister) determines the commencement of trial procedures. Then, trial examiners conduct the trial procedures and prepare a draft decision on the case. Based on this draft decision, the commissioner of the FSA (delegated by the prime minister) makes a decision whether to issue an order to pay the administrative monetary penalty or not.

Since the introduction of the administrative monetary penalty system, the SESC has expanded the scope of violations subject to administrative monetary penalties, and increased the amounts of those penalties, in accordance with the Act for the Partial Amendment of the Securities and Exchange Act (Act 76 of 2005 law), the Act for the Partial Amendment of the Securities and Exchange Act, etc. (Act 65 of 2006 law) and the Act for the Partial Amendment of the Financial Instruments and Exchange Act, etc. (Act 65 of 2008 law).

With regard to disclosure statements inspection, the primary violations subject to administrative monetary penalties and the amounts of those penalties are as follows:

(1) Act of having securities acquired or selling securities, through a public offering or secondary distribution etc., without submitting a securities registration statement, etc. (offering disclosure for public offering or secondary distribution, etc.) (Article 172 of the FIEA)

Penalty: 4.5% of the total amount of shares, etc. (2.25% in case of offering, etc.)

(2) Act of having securities acquired or selling securities, through a public offering or secondary distribution etc., using a securities registration statement, etc. (offering disclosure for public offering or secondary distribution, etc.) containing false statements (Article 172-2 of the FIEA, Article 172 of the former FIEA)

Penalty: 4.5% of the total amount of shares, etc. (2.25% in the case of offering, etc.)

(3) Act of not submitting an annual securities report, etc. (continuous disclosure documents for each business year) (Article 172-3 of the FIEA)

Penalty: Amount equivalent to the audit fee for the previous business year (or 4 million yen in the case where an audit was not conducted for the previous business year) (half of these amounts in the case of a quarterly or semiannual securities report)

(4) Act of submitting an annual securities report, etc. (continuous disclosure documents for each business year) containing false statements (Article 172-4 of the FIEA, 172-2 of the former FIEA)

Penalty: 6 million yen or 6/100,000 of the total market value of the issuer, whichever is greater (half of that amount in the case of a quarterly securities report, semiannual securities report or extraordinary report, etc.)

(5) Act of purchasing or accepting share certificates, etc. without issuing a public notice for commencing tender offer (Article 172-5 of the FIEA)

Penalty: 25% of the total purchase amount

(6) Act of issuing a public notice for commencing tender offer containing false statements, or submitting a tender offer notification, etc. containing false statements (Article 172-6 of the FIEA)

Penalty: 25% of the total market value of purchased share certificates, etc.

(7) Act of not submitting a large shareholding report or change report (Article 172-7 of the FIEA)

Penalty: 1/100,000 of the total market value of the issuer of the share certificates, etc.

(8) Act of submitting a large shareholding report or change report, etc. containing false statements (Article 172-8 of the FIEA)

Penalty: 1/100,000 of the total market value of the issuer of the share certificates, etc.

Note 1: If the violator has received an administrative monetary penalty payment order within the past five years, the amount of the administrative monetary penalty shall be increased 1.5 times.

Note 2: For cases of continuous disclosure documents or those for issuance of securities containing false statements, and cases of not submitting a large shareholding report, if the violator made a declaration prior to the investigation by the authorities, the amount of the administrative monetary penalty shall be halved.

4. Activities in FY2012

In FY2012, the SESC completed disclosure statements inspections of 37 listed companies, and based on the results of those inspections, there were 9 cases subject to the recommendations for issuance of orders to pay administrative monetary penalties, totaling 721,749,994 yen, in relation to violations of disclosure requirements such as disclosure documents containing false statements, etc. on important matters. In addition, the SESC made a recommendation for the issuance of an order to submit an amendment report, etc., on one case in which an amendment report, etc., for such disclosure documents was not submitted. (*)

In the case where misstatements of financial reports are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily.

* If disclosure documents are found to contain false statements, etc. on material issues and an amendment report, etc., for such disclosure documents has not been submitted,

the SESC will make a recommendation for the issuance of an order to submit the amendment report, etc. (there have been only three cases since 2005).

Total number of inspections completed		37
(of these inspections)	Recommended issuance of an order to pay an administrative monetary penalty	9
	Recommended issuance of an order to submit an amendment report, etc.	1
	Did not recommend issuance of an order to pay an administrative monetary penalty, but urged voluntary amendment	4

2) Recommendations for Issuance of Orders to Pay Administrative Monetary Penalties Based on the Results of Disclosure Statements Inspection

1. Overview of Recommendations

The recommendations made in FY2012 in relation to the violations of disclosure requirements included those related to misstatements of securities registration statements and annual securities reports.

The SESC found various types of misstatements in the process of disclosure statements inspection. For example, the SESC found fictitious sales, understating of cost of sales, overstating of investment securities, overstating of goodwill, understating of long-term loans payable, and understating of allowance for doubtful accounts.

In FY2012, the largest amount of administrative monetary penalty in relation to the violation of disclosure requirements was 399,690,000 yen. The recommendation to order to pay for this penalty was made to the prime minister and commissioner of FSA against false statements in annual securities reports, etc., of Japan Wind Development Co., Ltd.

2. Brief Summary of Recommendations Issued in FY2012

In FY2012, an outline of the cases subject to the recommendations for issuance of orders to pay administrative monetary penalties is as follows:

* The “former FIEA” before amendment by Act 65 of the 2008 law is hereinafter referred to as the “former FIEA” in this chapter.

(1) Recommendation for Order of Administrative Monetary Penalty Payment

(i) Recommendation in relation to false statements in annual securities reports, etc., of Olympus Corporation

Olympus Corporation submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues” by overstating investment securities and goodwill, etc., as stipulated in Article 172-2(1) and (2) of the former FIEA and Article 172-4(1) and (2) of the FIEA, as described in the table

below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	June 28, 2007	Annual securities report for the 139th business year	Consolidated accounting period from April 1, 2006, to March 31, 2007	Consolidated balance sheet	Consolidated net assets were found to be 224,951 million yen, but stated as 344,871 million yen.	- Overstating investment securities - Understating long-term loans payable, etc.
2	December 14, 2007	Semiannual report for the 140th business year	Interim consolidated accounting period from April 1, 2007, to September 30, 2007	Interim consolidated balance sheet	Consolidated net assets were found to be 248,965 million yen, but stated as 372,473 million yen.	- Overstating investment securities - Understating long-term loans payable, etc.
3	June 27, 2008	Annual securities report for the 140th business year	Consolidated accounting period from April 1, 2007, to March 31, 2008	Consolidated balance sheet	Consolidated net assets were found to be 242,877 million yen, but stated as 367,876 million yen.	- Overstating investment securities - Overstating goodwill, etc.
4	August 14, 2008	1st quarterly securities report for the 141st business year	1st quarter consolidated accounting period from April 1, 2008, to June 30, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 240,628 million yen, but stated as 366,948 million yen.	- Overstating investment securities - Overstating goodwill, etc.
5	November 14, 2008	2nd quarterly securities report for the 141st business year	2nd quarter consolidated accounting period from July 1, 2008, to September 30, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 211,897 million yen, but stated as 343,910 million yen.	- Overstating investment securities - Overstating goodwill, etc.

6	February 13, 2009	3rd quarterly securities report for the 141st business year	3rd quarter consolidated accounting period from October 1, 2008, to December 31, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 110,428 million yen, but stated as 241,281 million yen.	- Overstating investment securities - Overstating goodwill, etc.
7	June 26, 2009	Annual securities report for the 141st business year	Consolidated accounting period from April 1, 2008, to March 31, 2009	Consolidated balance sheet	Consolidated net assets were found to be 110,594 million yen, but stated as 168,784 million yen.	- Overstating investment securities - Overstating goodwill, etc.
8	August 14, 2009	1st quarterly securities report for the 142nd business year	1st quarter consolidated accounting period from April 1, 2009, to June 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 127,124 million yen, but stated as 185,941 million yen.	- Overstating investment securities - Overstating goodwill, etc.
9	November 13, 2009	2nd quarterly securities report for the 142nd business year	2nd quarter consolidated accounting period from July 1, 2009, to September 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 146,821 million yen, but stated as 204,298 million yen.	- Overstating investment securities - Overstating goodwill, etc.
10	February 15, 2010	3rd quarterly securities report for the 142nd business year	3rd quarter consolidated accounting period from October 1, 2009, to December 31, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 158,251 million yen, but stated as 214,952 million yen.	- Overstating investment securities - Overstating goodwill, etc.
11	June 29, 2010	Annual securities report for the 142nd business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Consolidated balance sheet	Consolidated net assets were found to be 163,142 million yen, but stated as 216,891 million yen.	- Overstating investment securities - Overstating goodwill, etc.

12	August 13, 2010	1st quarterly securities report for the 143rd business year	1st quarter consolidated accounting period from April 1, 2010, to June 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 132,408 million yen, but stated as 185,922 million yen.	- Overstating investment securities - Overstating goodwill, etc.
13	November 12, 2010	2nd quarterly securities report for the 143rd business year	2nd quarter consolidated accounting period from July 1, 2010, to September 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 128,255 million yen, but stated as 180,482 million yen.	- Overstating investment securities - Overstating goodwill, etc.
14	February 14, 2011	3rd quarterly securities report for the 143rd business year	3rd quarter consolidated accounting period from October 1, 2010, to December 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 109,488 million yen, but stated as 160,173 million yen.	- Overstating investment securities - Overstating goodwill, etc.
15	June 29, 2011	Annual securities report for the 143rd business year	Consolidated accounting period from April 1, 2010, to March 31, 2011	Consolidated balance sheet	Consolidated net assets were found to be 115,589 million yen, but stated as 166,836 million yen.	- Overstating goodwill, etc.
16	August 11, 2011	1st quarterly securities report for the 144th business year	1st quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 101,751 million yen, but stated as 151,147 million yen.	- Overstating goodwill, etc.

[Date of Recommendation] April 13, 2012
[Amount of administrative monetary penalty] 191,819,994 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: April 13, 2012
Date of order to pay penalty: July 11, 2012

Since the respondent submitted a written answer admitting the facts, no trial was held.

Additionally, note that the SESC made a recommendation on this case in order to urge Olympus Corporation to provide correct corporate information to the market appropriately and fairly without any delay pursuant to the disclosure system under the FIEA while filing a criminal complaint with Olympus to demand investigations into its criminal responsibility with respect to any malicious acts that impair the fairness of financial instruments and transactions. (In addition, when a final adjudication is made with respect to payment of the fine, the amount of administrative monetary penalty shall be adjusted to the amount deducted by the amount of the fine (as prescribed in Article 185-8(6) of the FIEA)).

(ii) Recommendation in relation to false statements in quarterly securities reports, etc., of ThreePro Group Inc.

ThreePro Group Inc. submitted to the Director General of the Kanto Local Finance Bureau its quarterly securities report containing false statements on material issues by understating loss on valuation of investment securities, etc., as stipulated in Article 172-4,(2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	June 14, 2010	2nd quarterly securities report for the 34th business year	2nd quarter consolidated cumulative period from November 1, 2009, to April 30, 2010	Quarterly income statement	Consolidated quarterly net income was found to be 50 million yen, but stated as 119 million yen.	- Understating loss on valuation of investment securities, etc.
2	September 17, 2010	3rd quarterly securities report for the 34th business year	3rd quarter consolidated cumulative period from November 1, 2009, to July 31, 2010	Quarterly income statement	Consolidated quarterly net income was found to be 35 million yen, but stated as 169 million yen.	- Understating loss on valuation of investment securities - Understating provision of allowance for doubtful accounts, etc.
3	February 28, 2011	Amendment report for 2nd quarterly securities report for the 34th business year	2nd quarter consolidated cumulative period from November 1, 2009, to April 30, 2010	Quarterly income statement	Consolidated quarterly net income was found to be 50 million yen, but stated as 131 million yen.	- Understating loss on valuation of investment securities, etc.

4	February 28, 2011	Amendment report for 3rd quarterly securities report for the 34th business year	3rd quarter consolidated cumulative period from November 1, 2009, to July 31, 2010	Quarterly income statement	Consolidated quarterly net income was found to be 35 million yen, but stated as 174 million yen.	- Understating loss on valuation of investment securities - Understating provision of allowance for doubtful accounts, etc.

[Date of Recommendation] May 25, 2012
[Amount of administrative monetary penalty] 6,000,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: May 25, 2012
Date of order to pay penalty: June 11, 2012

Since the respondent submitted a written answer admitting the facts, no trial was held.

(iii) Recommendation in relation to false statements in annual securities reports, etc., of RH Insigno Co., Ltd.

RH Insigno Co., Ltd. submitted to the Director General of the Hokkaido Local Finance Bureau its annual securities reports, etc., "containing false statements on material issues" by understating loss by the overstatement of goodwill, etc., as stipulated in Article 172-4, (1) and (2) of the FIEA, as described in the table below.

No	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	November 16, 2009	2nd quarterly securities report for the 51st business year	2nd quarter consolidated cumulative period from April 1, 2009, to September 30, 2009	Quarterly income statement	Consolidated quarterly net loss was found to be 274 million yen, but stated as 7 million yen.	- Understating loss by the overstatement of goodwill, etc.

2	February 12, 2010	3rd quarterly securities report for the 51st business year	3rd quarter consolidated cumulative period from April 1, 2009, to December 31, 2009	Quarterly income statement	Consolidated quarterly net loss was found to be 253 million yen, but stated as 113 thousand yen.	- Understating loss by the overstatement of goodwill, etc.
3	June 28, 2010	Annual securities report for the 51st business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Consolidated income statement	Consolidated ordinary loss was found to be 265 million yen, but positive 64 million yen was stated as income. Consolidated net loss was found to be 483 million yen, but positive 116 million yen was stated as income.	- Understating loss by the overstatement of goodwill - Understating operating loss on valuation of investment securities - Overstating net sales, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,686 million yen, but stated as 2,237 million yen.	
4	August 16, 2010	1st quarterly securities report for the 52nd business year	1st quarter consolidated accounting period from April 1, 2010, to June 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,063 million yen, but stated as 2,172 million yen.	- Overstating goodwill - Overstating operational investment securities - Overstating accounts receivable-trade, etc.
5	November 15, 2010	2nd quarterly securities report for the 52nd business year	2nd quarter consolidated accounting period from July 1, 2010, to September 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,466, million yen, but stated as 2,029 million yen.	- Overstating goodwill - Overstating operational investment securities - Overstating accounts receivable-trade, etc.

6	February 14, 2011	3rd quarterly securities report for the 52nd business year	3rd quarter consolidated accounting period from October 1, 2010, to December 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,373 million yen, but stated as 1,928 million yen.	- Overstating goodwill - Overstating operational investment securities - Overstating accounts receivable-trade, etc.
7	December 17, 2010	Amendment report for annual securities report for the 51st business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Consolidated balance sheet	Consolidated net assets were found to be 1,686 million yen, but stated as 2,304 million yen.	- Overstating goodwill - Overstating operational investment securities - Overstating accounts receivable-trade, etc.
8	December 17, 2010	Amendment report for 1st quarterly securities report for the 52nd business year	1st quarter consolidated accounting period from April 1, 2010, to June 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,603 million yen, but stated as 2,172 million yen.	- Overstating goodwill - Overstating operational investment securities - Overstating accounts receivable-trade, etc.
9	December 17, 2010	Amendment report for 2nd quarterly securities report for the 52nd business year	2nd quarter consolidated accounting period from July 1, 2010, to September 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,466 million yen, but stated as 2,029 million yen.	- Overstating goodwill - Overstating operational investment securities - Overstating accounts receivable-trade, etc.

(Note) In principle, amounts are rounded down to the nearest million yen. In addition, negative means loss.

[Date of Recommendation] May 25, 2012
[Amount of administrative monetary penalty] 12,000,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: May 25, 2012
Date of order to pay penalty: June 19, 2012

Since the respondent submitted a written answer admitting the facts, no trial was held.

(iv) Recommendation in relation to false statements in annual securities reports, etc., of Hokkoku Co., Ltd.

1. Hokkoku Co., Ltd. submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues” by recording fictitious sales, etc., as stipulated in Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	November 16, 2009	2nd quarterly securities report for the 42nd business year	2nd quarter consolidated cumulative period from April 1, 2009, to September 30, 2009	Quarterly income statement	Consolidated quarterly net loss was found to be 283 million yen or more, but stated as 45 million yen.	- Recording fictitious sales
2	February 15, 2010	3rd quarterly securities report for the 42nd business year	3rd quarter consolidated cumulative period from April 1, 2009, to December 31, 2009	Quarterly income statement	Consolidated quarterly net loss was found to be 398 million yen or more, but stated as 161 million yen.	- Recording fictitious sales, etc.
3	June 28, 2010	Annual securities report for the 42nd business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Consolidated income statement	Consolidated ordinary loss was found to be 382 million yen or more, but 116 million yen was stated. Consolidated net loss was found to be 1,209 million yen or more, but 942 million yen was stated.	- Recording fictitious sales, etc.

2. Hokkoku Co., Ltd. submitted to the Director General of the Kanto Local Finance Bureau:

(1) its securities registration statement (share option certificates) incorporating the annual securities report for fiscal year ended March 2010 (see 3. of the table shown above), which contained false statements on important matters

on August 3, 2010, and had others acquire its 443 share option certificates in the amount of 62,767,341 yen (including the amount to be paid at exercise of the share options), through the offering based on said securities registration statement on August 19, 2010.

(2) its securities registration statement (common stock shares) incorporating the annual securities report for the fiscal year ended March 2010 (see 3. of the table shown above), which contained false statements on important matters on August 3, 2010, and had others acquire its 2,877,000 common stock shares for the amount of 399,903,000 yen, through the offering based on said securities registration statement on August 19, 2010.

The above actions of the company correspond to the act of having securities acquired through public offering based on offering disclosure documents containing false statements on important matters, as stipulated in Article 172-2, (1)(i) of the former FIEA.

[Date of Recommendation] July 10, 2012
[Amount of administrative monetary penalty] 26,810,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: July 10, 2012
Date of order to pay penalty: August 9, 2012

Since the respondent submitted a written answer admitting the facts, no trial was held.

(v) Recommendation in relation to false statements in annual securities reports, etc., of Princi-baru Corporation

Princi-baru Corporation submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues” by understating the provision of allowance for doubtful accounts, etc., as stipulated in Article 172-4, (1) and (2) of the FIEA, as described in the table below.

No	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	June 27, 2011	Annual securities report for the 66th business year	Consolidated accounting period from April 1, 2010, to March 31, 2011	Consolidated income statement	Consolidated net income was found to be 352 million yen, but positive 657 million yen was stated as income.	Understating provision of allowance for doubtful accounts, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 395 million yen, but stated as	

					700 million yen.	
2	August 12, 2011	1st quarterly securities report for the 67th business year	1st quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 273 million yen, but stated as 584 million yen.	Understating provision of allowance for doubtful accounts, etc.
3	November 14, 2011	2nd quarterly securities report for the 67th business year	2nd quarter consolidated accounting period from July 1, 2011, to September 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 122 million yen, but stated as 408 million yen.	Understating provision of allowance for doubtful accounts, etc.

[Date of Recommendation] September 28, 2012
[Amount of administrative monetary penalty] 12,000,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: September 28, 2012
Date of order to pay penalty: November 9, 2012

Since the respondent submitted a written answer admitting the facts, no trial was held.

(vi) Recommendation in relation to false statements in annual securities reports, etc., of Stream Co., Ltd.

Stream Co., Ltd. submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues” by understating the cost of goods sold, etc., through overstatement of rebates in relation to the transactions with the supplier, as stipulated in Article 172-2, (1) and (2) of the former FIEA, as described in the table below.

No	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting item

1	October 30, 2007	Semiannual report for the 9th business year	Interim consolidated accounting period from February 1, 2007, to July 31, 2007	Interim consolidated income statement	Consolidated ordinary loss was found to be 8 million yen, but positive 192 million yen was stated as income. Consolidated interim net loss was found to be 85 million yen, but positive 114 million yen was stated as income.	Understating cost of goods sold
2	April 30, 2008	Annual securities report for the 9th business year	Consolidated accounting period from February 1, 2007, to January 31, 2008	Consolidated income statement	Consolidated ordinary income was found to be 181 million yen, but 443 million yen was stated. Consolidated net income was found to be 65 million yen, but 272 million yen was stated.	Understating cost of goods sold, etc.
3	October 31, 2008	Semiannual report for the 10th business year	Interim consolidated accounting period from February 1, 2008, to July 31, 2008	Interim consolidated income statement	Consolidated ordinary income was found to be 73 million yen, but 220 million yen was stated. Consolidated interim net loss was found to be 1 million yen, but positive 129 million yen was stated as income.	Understating cost of goods sold, etc.
4	April 30, 2009	Annual securities report for the 10th business year	Consolidated accounting period from February 1, 2008 to January 31, 2009	Consolidated income statement	Consolidated net income was found to be 74 million yen, but 143 million yen was stated.	Understating cost of goods sold

[Date of Recommendation] October 16, 2012
[Amount of administrative monetary penalty] 6,000,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: October 16, 2012
Date of order to pay penalty: November 21, 2012

Since the respondent submitted a written answer admitting the facts, no trial was held.

(vii) Recommendation in relation to false statements in annual securities reports, etc., of Tori Holdings Co., Ltd.

Tori Holdings Co. and Ltd. (hereinafter referred to as “Tori”) loaned money, etc., to its

former officer, etc., from July 2007 to March 2008. Despite little likelihood that Tori would collect the claims with respect to the loans, Tori failed to take correct measures appropriately and submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., understating the provision of allowance for doubtful accounts as described in the table below. The annual securities reports, etc., falls under "those containing false statements on important matters," as stipulated in Article 172-2(1) of the former FIEA.

No	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	June 30, 2008	Annual securities report for the 4th business year	Consolidated accounting period from April 1, 2007, to March 31, 2008	Consolidated income statement	Consolidated net loss was found to be 10,199 million yen, but 9,407 million yen was stated.	Understating provision of allowance for doubtful accounts, etc.
2	August 8, 2008	Amendment report for annual securities report for the 4th business year	Consolidated accounting period from April 1, 2007, to March 31, 2008	Consolidated income statement	Consolidated net loss was found to be 10,199 million yen, but 9,572 million yen was stated.	Understating provision of allowance for doubtful accounts, etc.
3	February 15, 2010	Amendment report for annual securities report for the 4th business year	Consolidated accounting period from April 1, 2007, to March 31, 2008	Consolidated income statement	Consolidated net loss was found to be 10,199 million yen, but 9,572 million yen was stated.	Understating provision of allowance for doubtful accounts, etc.

[Date of Recommendation] November 6, 2012
[Amount of administrative monetary penalty] 3,000,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: November 6, 2012
Date of order to pay penalty: December 5, 2012

Since the respondent submitted a written answer admitting the facts, no trial was held.

(viii) Recommendation in relation to false statements in annual securities reports, etc., of Chronicle Corporation

1. Chronicle Corporation (hereinafter referred to as “Chronicle”) had recorded its contributions to plural overseas funds as assets on its balance sheet. However, a loss should have been recognized as unaccounted-for money with respect to the funds, which had no supporting evidence for asset management. In addition, Chronicle failed to recognize any loss upon debt relief although it had loans with debt relief.

   As results of these fraudulent acts, Chronicle submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-2 (1) and (2) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	February 13, 2009	1st quarterly securities report for the 30th business year	1st quarter consolidated cumulative period from October 1, 2008, to December 31, 2008	Quarterly income statement	Consolidated quarterly net loss was found to be 1,581 million yen or more, but stated as 1,228 million yen.	- Failing to record loss related to ‘unaccounted-for’ money for contributions to funds - Failing to record loss related to debt forgiveness, etc.
2	May 15, 2009	2nd quarterly securities report for the 30th business year	2nd quarter consolidated cumulative period from October 1, 2008, to March 31, 2009	Quarterly income statement	Consolidated quarterly net loss was found to be 1,868 million yen or more, but stated as 1,440 million yen.	- Failing to record loss related to ‘unaccounted-for’ money for contributions to funds - Failing to record loss related to debt forgiveness, etc.
3	August 14, 2009	3rd quarterly securities report for the 30th business year	3rd quarter consolidated cumulative period from October 1, 2008, to June 30, 2009	Quarterly income statement	Consolidated quarterly net loss was found to be 2,544 million yen or more, but stated as 2,122 million yen.	- Failing to record loss related to ‘unaccounted-for’ money for contributions to funds - Failing to record loss related to debt

						forgiveness, etc.
4	December 24, 2009	Annual securities report for the 30th business year	Consolidated accounting period from October 1, 2008, to September 30, 2009	Consolidated income statement	Consolidated net loss was found to be 2,949 million yen or more, but 2,389 million yen was stated.	- Failing to record loss related to 'unaccounted-for' money for contributions to funds - Failing to record loss related to debt forgiveness, etc.
5	December 24, 2010	Annual securities report for the 31st business year	Consolidated accounting period from October 1, 2009, to September 30, 2010	Consolidated balance sheet	Consolidated net assets were found to be 3,837 million yen or less, but stated as 4,968 million yen.	- Recording a fictitious statement of contributions to funds - Overstating operating loans, etc.
6	February 14, 2011	1st quarterly securities report for the 32nd business year	1st quarter consolidated accounting period from October 1, 2010, to December 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,642 million yen or less, but stated as 4,802 million yen.	- Recording a fictitious statement of contributions to funds - Overstating operating loans, etc.
7	May 16, 2011	2nd quarterly securities report for the 32nd business year	2nd quarter consolidated accounting period from January 1, 2011, to March 31, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,535 million yen or less, but stated as 4,678 million yen.	- Recording a fictitious statement of contributions to funds - Overstating operating loans, etc.
8	August 15, 2011	3rd quarterly securities report for the 32nd business year	3rd quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,329 million yen or less, but stated as 4,485 million yen.	- Recording a fictitious statement of contributions to funds - Overstating operating loans, etc.

9	December 26, 2011	Annual securities report for the 32nd business year	Consolidated accounting period from October 1, 2010, to September 30, 2011	Consolidated balance sheet	Consolidated net assets were found to be 2,855 million yen or less, but stated as 3,669 million yen.	- Recording a fictitious statement of contributions to funds, etc.
10	February 14, 2012	1st quarterly securities report for the 33rd business year	1st quarter consolidated accounting period from October 1, 2011, to December 31, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 2,742 million yen or less, but stated as 3,515 million yen.	- Recording a fictitious statement of contributions to funds
11	May 15, 2012	2nd quarterly securities report for the 33rd business year	2nd quarter consolidated accounting period from January 1, 2012, to March 31, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 2,601 million yen or less, but stated as 3,375 million yen.	- Recording a fictitious statement of contributions to funds
12	August 14, 2012	3rd quarterly securities report for the 33rd business year	3rd quarter consolidated accounting period from April 1, 2012, to June 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 2,512 million yen or less, but stated as 3,275 million yen.	- Recording a fictitious statement of contributions to funds
13	December 26, 2012	Annual securities report for the 33rd business year	Consolidated accounting period from October 1, 2011, to September 30, 2012	Consolidated balance sheet	Consolidated net assets were found to be 396 million yen, but stated as 1,559 million yen.	- Recording a fictitious statement of contributions to funds - Overstating inventory assets

2. Chronicle submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement incorporating the annual securities report for the fiscal year ended September 2010 (see 5. of the table shown above) and the quarterly securities report for the quarterly period ended June 2011 (see 8. of the table shown above), both of which contained false statements on material issues, on December 7, 2011, and had others acquire its 480 share option certificates in the amount of 965,280,000 yen (including the amount to be paid at exercise of the share options), through the offering based on said securities registration statement on December 26,

2011.

[Date of Recommendation] March 26, 2013
[Amount of administrative monetary penalty] 64,430,000 yen
[Process following Recommendation]
Date of decision on commencement of trial procedures: March 26, 2013
Date of order to pay penalty: May 10, 2013

Since the respondent submitted a written answer admitting the facts, no trial was held.

(ix) Recommendation in relation to false statements in annual securities reports, etc., of Japan Wind Development Co., Ltd.

1. Japan Wind Development Co., Ltd. (hereinafter referred to as “Japan Wind”) submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc. However, since the arrangement transactions for wind power generators had no supporting evidence for service provision of such arrangements for sales and the payments of arrangement fees, such revenue should not have been recognized. Therefore, the annual securities reports, etc. are acknowledged to contain false statements. The above actions of the company correspond to acts of having securities acquired through public offering based on offering disclosure documents containing false statements on material issues, as stipulated in Article 172-2, (1) of the former FIEA.

No	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting Item
1	June 24, 2009	Annual securities report for the 10th business year	Consolidated accounting period from April 1, 2008, to March 31, 2009	Consolidated income statement	Consolidated ordinary loss was found to be 64 million yen, but positive 2,201 million yen was stated as income. Consolidated ordinary loss was found to be 1,434 million yen, but positive 831 million yen was stated as income.	- Recording fictitious revenues from arrangement transactions for wind power generators

2	July 28, 2010	Amendment report for annual securities report for the 10th business year	Consolidated accounting period from April 1, 2008, to March 31, 2009	Consolidated income statement	Consolidated ordinary loss was found to be 404 million yen, but positive 1,861 million yen was stated as income Consolidated ordinary loss was found to be 1,635 million yen, but positive 630 million yen was stated as income.	- Recording fictitious revenues from arrangement transactions for wind power generators

2. Japan Wind submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below "containing false statements on material issues," as stipulated in Article 172-2 (1) of the FIEA, through the offering based on the offering disclosure documents:
   (1) its securities registration statement by reference to the annual securities report for the fiscal year ended March 2009 (see 1. of the table shown above), which contained false statements on important matters, on September 7, 2009, and had others acquire its share option certificates in the amount of 3,000,000,000 yen, through the offering based on said securities registration statement on September 25, 2009.
   (2) its securities registration statement (for public offering) by reference to the annual securities report for the fiscal year ended March 2009 (see 1. of the table shown above), which contained false statements on important matters, on November 10, 2009, and had others acquire its 20,000 shares in the amount of 4,726,900,000 yen, through the offering based on said securities registration statement on November 25, 2009.
   (3) its securities registration statement (for private placement) by reference to the annual securities report for the fiscal year ended March 2009 (see 1. of the table shown above), which contained false statements on important matters, on November 10, 2009, and had others acquire its 3,000 shares in the amount of 709,035,000 yen, through the offering based on said securities registration statement on December 17, 2009.
   (4) its securities registration statement by reference to the annual securities report for the fiscal year ended March 2009 (see 1. of the table shown above), which contained false statements on important matters, on January 15, 2010, and had others acquire its 1,497 share option certificates in the amount of 379,655,667 yen (including the amount to be paid at exercise of the share options), through the offering based on said securities registration statement on January 29, 2010.

[Date of Recommendation] March 29, 2013
[Amount of administrative monetary penalty] 399,690,000 yen
[Process following Recommendation]

Date of decision on commencement of trial procedures: March 29, 2013
Trial procedures underway (as of May 31, 2013)

(2) Recommendation for Order regarding Submission of Amendment Report

○ Recommendation for issuance of order to submit an amendment report with respect to the annual securities report containing false statements that was submitted by Japan Wind Development Co., Ltd.

Japan Wind submitted to the Director General of the Kanto Local Finance Bureau its annual securities report for the fiscal year ended March 2009 containing false statements on revenues from arrangement transactions for wind power generators without supporting evidence, on June 24, 2009. Later, Japan Wind submitted to the Director General of the Kanto Local Finance Bureau an amendment report with respect to the annual securities report on July 28, 2010. However, the amendment report remained far from the actual truth without amendment of the revenue as listed above.

Therefore, the annual securities report for the fiscal year ended March 2009 is acknowledged to have false statements constituting “false statement[s] or record[s] with respect to material issue[s]” as provided in Article 10(1) of the FIEA, as applied mutatis mutandis pursuant to Article 24-2, (1) of the FIEA, as described in the table below.

Submission date	Document	False Statement			
		Accounting period	Statement on Finance and Accounting	Content	Accounting item
June 24, 2009	Annual securities report for the 10th business year pursuant to the amendment report submitted on July 28, 2010	Consolidated accounting period from April 1, 2008, to March 31, 2009	Consolidated income statement	Consolidated ordinary loss was found to be 404 million yen, but positive 1,861 million yen was stated as income. Consolidated ordinary loss was found to be 1,635 million yen, but positive 630 million yen was stated as income	- Recording fictitious revenues from arrangement of transactions for wind power generators

* Figures in the table indicate the values amended in the amendment report submitted on July 28, 2010.

[Date of Recommendation] March 29, 2013
[Process following Recommendation]
Date of the hearing: April 8, 2013
Date of order to submit an amendment report: April 12, 2013

＊ In reply to this order, Japan Wind filed an action for the revocation of the decision at the Tokyo District Court on April 18, 2013.

3. Subsequent Progress of Recommendations Issued Prior to FY2012

(1) Among the cases recommended by the SESC in or before FY2011, the following is a summary of the processes of cases in which an order for the administrative monetary penalty payment had not yet been issued before the “SESC Activities in FY2011” was released.

○ Recommendation in relation to false statements in annual securities reports, etc., of Shiomi Holdings Corporation

The process is in court with respect to the case of false statements in annual securities reports, etc., of Shiomi Holdings Corporation that was recommended by the SESC on January 20, 2012 (as of May 31, 2013).

○ Recommendation in relation to false statements in annual securities reports, etc., of Crowd Gate Co., Ltd. and false statements in offering disclosure documents of the secondary distribution of the company’s shares held by the company’s officer

With regard to the case of false statements in annual securities reports, etc., of Crowd Gate Co., Ltd. that was recommended by the SESC on January 27, 2012, the respondent submitted a written answer admitting part of the facts pertaining to the administrative monetary penalty listed in the respective items of Article 178(1)(ii) and (iv) of the FIEA and the amount of the administrative monetary penalty to be paid (31,250,000 yen), but denied the remaining parts. In the response to this written answer, the examiners submitted a draft decision to issue an administrative monetary penalty payment order based on Article 185-6 of the FIEA, after separating the trial procedures for the part to which the respondent admitted. Accordingly, on March 2, 2012, the commissioner of the FSA made a decision to order payment of the administrative monetary penalty.

On the other hand, the points in dispute that were denied by the respondent included: (i) whether or not the provision of Article 172-2 (1) of the FIEA shall be applicable to cases other than those where the issuer had achieved a larger amount of proceeds from the issuance in the presence of false statements on the offering of disclosure documents than they would have in the absence of such statement; and (ii) whether or not the application of the relevant provision of the FIEA shall require any specific economic advantage to an issuer. Following the trial procedures, the Commissioner of the FSA made a decision to order payment of the administrative monetary penalty on October 22, 2012, arguing in opposition to point (i) that the level of the administrative monetary penalty should be determined based on the deterrent effect, and in opposition to point (ii) that the relevant provision of the FIEA should be applicable, irrespective of any specific economic advantage to the issuer.

＊ In reply to this order, Crowd Gate Co., Ltd. filed an action for the revocation of the decision at the Tokyo District Court on November 20, 2012.

(2) Among the cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2011, the following is the summary of the process of the case in which the court's judgment had not made yet before the "SESC Activities in FY2011" was released.

○ Recommendation in relation to false statements in annual securities reports, etc., of JVC Kenwood Holdings, Inc.

[The SESC made a recommendation for an order of an administrative monetary penalty payment on June 21, 2010; the Commissioner of the FSA made a decision to order payment of the administrative monetary penalty on December 9, 2010; JVC Kenwood Holdings, Inc. filed an action for revocation of an administrative disposition on December 24, 2010; and the Tokyo High Court rendered a judgment on March 28, 2013.]

On June 29, 2012, the Tokyo District Court rendered a judgment that thoroughly rejected the claims made by the plaintiff (respondent), and the plaintiff appealed the ruling.

On March 28, 2013, the Tokyo High Court rendered a decision and rejected the defendants' appeal with the following rationales: (a) the exercise price of share options (initial exercise price) shall be unambiguously determined at the time of acquisition of share options; (b) with regard to Article 172-2 (1)(i) of the FIEA, the time when the plaintiff made others acquire the share options should be the base point in time to determine the amount of the administrative monetary penalty; and (c) the amount to be paid at exercise of the share options should be interpreted as the amount of the exercise price of the share options (initial exercise price) at the time when the plaintiff made others acquire the share options.

3) Future Challenges

In performing disclosure statements inspections, taking into account that there are many diverse parties subject to disclosure regulations, let alone listed companies, and that the environment surrounding securities markets is changing, the SESC will strive to conduct more diverse and advanced disclosure statements inspections, from the following perspectives:

(1) In order to implement quick and efficient disclosure statements inspections with an eye to ensuring that market participants are fairly and equally provided with accurate corporate information without delay, the SESC will strive to improve the capacity of its inspections, by improving inspection techniques and by developing human resources through training. Furthermore, in order to efficiently detect signals of concealed false statements, etc., the SESC will continue striving to collect an extensive variety of information inside and outside the markets, and will also improve the associated analytical techniques.

(2) If a listed company or any other issuer has made false disclosure statements, the SESC will encourage it to initiate self-directive and timely disclosure of accurate financial

information to the market. If the company sets up an independent committee for the examination of any doubts of accounting fraud, the SESC will, after verifying the independency, neutrality and specialty of the independent committee as well as the validity and objectivity of the examination methodology, conduct disclosure statements inspection appropriately.

(3) In light of enhancing inspection techniques and technologies (digital forensics), such as preserving, restoring and analyzing electromagnetic records saved on computers, mobile phones and other electronic devices, as well as making such records admissible as evidence, the SESC will take measures to strengthen an operating framework of digital forensics in order to conduct disclosure statements inspection effectively and efficiently.

(4) If a doubt arises with respect to accounting fraud through a cross-border transaction by a listed company or a foreign consolidated subsidiary, the SESC will obtain materials in close cooperation with overseas securities regulators and examine the cases in order to conduct disclosure statements inspection in an appropriate manner.

(5) From the perspective of enhancing its market surveillance functions, the SESC will promote cooperation with financial instrument exchanges and the Japanese Institute of Certified Public Accountants (JICPA), as well as with the relevant departments of the FSA, by sharing the SESC's identified challenges and related information on false statement cases, etc. In addition, from the perspective of enhancing its market discipline functions, the SESC will work on publicizing the easily understandable press release on false statement cases, etc.

7. Investigation of Criminal Cases

1) Outline

1. Purpose of Investigation of Criminal Cases

For the purpose of maintaining financial and capital markets in which investors and other market participants are able to participate with trust, it is important to strictly punish any offenders of market rules, as a precondition to ensuring the fairness and transparency of these markets, and to nurture feelings of trust among all market participants. With the aim of clarifying the truth behind any malicious acts that impair the fairness of financial instruments and transactions for the protection of investors, since the establishment of the Securities and Exchange Surveillance Commission (SESC) in 1992, SESC officials have been exclusively authorized to conduct investigations of criminal cases. Currently, the SESC is also partially authorized to investigate criminal cases under the Act on Prevention of Transfer of Criminal Proceeds (APTCP), which was established to prevent global money laundering.

Amid greater diversity, and as globalized financial instruments and transactions become more complex and complicated, the SESC investigates criminal cases comprehensively in both primary and secondary markets.

2. Authority and Scope of Investigation of Criminal Cases

Specifically, two types of authority are stipulated under the Financial Instruments and Exchange Act (FIEA) with regard to the investigation of criminal cases: non-compulsory investigation (as defined in Article 210 of the FIEA) and compulsory investigation (as defined in Article 211, etc., of the FIEA). The SESC is authorized to conduct administrative level (non-compulsory) investigations, including questioning a suspect in, or witness to, a violation of the law or regulations, inspecting articles possessed or left behind by a suspect and provisionally holding articles provided voluntarily or left behind by a suspect. The SESC is also authorized to carry out compulsory investigations, visits, searches and seizures conducted based on a warrant issued by a judge.

The scope of criminal cases is prescribed in a government ordinance as a category of acts impairing fair securities trading (Article 45 of the FIEA Enforcement Order). Most typical criminal cases include the submission of a false annual securities report by an issuing company, insider trading by a corporate insider, or the dissemination of false rumors, fraudulent means or market manipulation by any persons.

Under the APTCP, in cases where a financial instruments business operator confirms the identity of individuals, an act by a customer to conceal his or her name or address is also subject to investigation as a criminal case (Article 30 of the APTCP).

At the conclusion of a criminal case investigation, the SESC official reports the results of the investigation to the SESC (Article 223 of the FIEA, Article 30 of the APTCP). In the event that the investigation leads the committee members to have a strong belief that the case constitutes a violation, the SESC shall file a formal complaint with a public prosecutor, and if there are any items that have been retained or seized in the SESC's investigation, they shall be sent together with a list of retained/seized articles to the public prosecutor (Article 226 of the FIEA, Article 30 of the APTCP).

3. Activities in FY2012

In FY2012, the SESC filed complaints to public prosecutors for 3 criminal cases and 7 charges. In each case, the SESC filed with the public prosecutors offices in the Tokyo, Yokohama, and Osaka districts, and is investigating criminal cases with a broader vision in FY2012. In particular, with regard to fraudulent practice cases regarding the conclusion of a discretionary pension fund management agreement by AIJ Investment Advisors Co., Ltd., the SESC conducted an investigation in close cooperation with the Tokyo Metropolitan Police Department and the Tokyo District Public Prosecutor's Office, which had conducted an investigation into alleged fraudulent practices in AIJ in parallel with the SESC's investigation into the criminal case. The SESC also collaborated with overseas regulators in order to clarify the facts, and filed criminal charges against AIJ in 4 cases. In addition, with regard to a fraudulent practice case involving the misuse of an in-kind contribution system by executives of Sei Crest Co., Ltd., the SESC filed a criminal complaint against the suspects as the 7th case of fraudulent practice on unfair finance, which has been intensively addressed by the SESC as a prioritized category.

2) Complaints

1. Summary

In FY2012, based on the results of criminal investigation, the SESC filed criminal charges with the following district public prosecutor offices for a total of 7 cases (26 individuals), consisting of 2 cases (8 individuals) of suspected insider trading, 1 case (2 individuals) of suspected fraudulent means, and 4 cases (16 individuals) of fraudulent means of closing a discretionary investment fund management agreement.

Name of case	Accusation date	Office
Fraudulent practice case regarding conclusion of discretionary pension fund management agreement by AIJ Investment Advisors Co., Ltd. (1)(2)(3)(4)*	(1) July 9, 2012 (2) July 30, 2012 (3) September 19, 2012 (4) October 5, 2012	Tokyo District Public Prosecutors Office
Insider trading case involving an ex-executive officer of a securities company (1)(2)	(1) July 13, 2012 (2) August 3, 2012	Yokohama District Public Prosecutors Office
Fraudulent practice case involving misuse of an in-kind contribution system by executives of Sei Crest Co., Ltd.	December 18, 2012	Osaka District Public Prosecutors Office

* As a result of conducting an investigation into the criminal case, the SESC issued a recommendation regarding administrative dispositions and other measures against ITM on August 3, 2012.

2. Outline of Cases

(i) Fraudulent practice case regarding the conclusion of discretionary pension fund

management agreements by AIJ Investment Advisors Co., Ltd. (1)

In this incident caused by AIJ Investment Advisors Co., Ltd. (hereinafter referred to as “AIJ”), the suspects and related parties had many pension funds conclude discretionary pension fund management agreements by presenting marketing materials containing a false track record of investment performance, etc., and eventually caused these pension funds to incur huge losses. Based on the prior findings of securities inspections of AIJ and other entities, the SESC started compulsory investigation into AIJ with the aim of clarifying the fact and also filed a complaint with AIJ immediately. In this case, in parallel with the SESC’s investigation into the criminal case, the Tokyo Metropolitan Police Department and the Tokyo District Public Prosecutor's Office conducted an investigation into alleged fraudulent practices in AIJ. The SESC maintained close coordination with these investigative authorities to promote the investigation. This was the first case in which the SESC applied the provision stipulated in Article 38-2 of the FIEA (fraudulent practice regarding the conclusion of a discretionary investment management agreement), and the SESC filed criminal charges with AIJ in 4 cases.

The suspected corporation, AIJ Investment Advisors Co., Ltd., is a stock company engaged in investment advisory business, etc., on securities both in Japan and abroad, with its main office headquartered in Chuo-ku, Tokyo. Suspect A was the representative director of the suspected corporation with the responsibility of controlling the overall operations thereof. Suspect B was the director of the suspected corporation with the responsibility of managing accounting and financial operations thereof, and Suspect C was the representative director of ITM Securities Co., Ltd. (“ITM”), virtually controlled by the suspected corporation with the responsibility of controlling the overall operations of ITM (the same in (ii) through (iv) below).

With respect to the operations of the suspected corporation, the three suspects planned in conspiracy to conceal the facts of the management state of “AIM Global Fund,” namely, that it was virtually managed by the suspected corporation, and also to present fund managers of D Pension Fund and others with solicitation materials containing false statements of investment performance, etc., to create the effect that the fund performance was consistent with a steady increase in net asset value, contrary to the fact that the net asset value of the fund had decreased significantly, for the purpose of having the pension funds conclude discretionary pension fund management agreements with the suspected corporation. In fact, these suspects presented to the fund managers of the pension funds at their office, through the intermediary of sales representatives or agents for the fund, solicitation materials containing false statements of investment performance and net asset value per unit, etc., and eventually had these funds conclude the discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(ii) Fraudulent practice case regarding the conclusion of discretionary pension fund management agreements by AIJ Investment Advisors Co., Ltd. (2)

Three suspects in case (i) above also planned in conspiracy to do the same as in (i) above with respect to the operations of the suspected corporation.

(a) In around September 2010, Suspect A and the related parties presented the Managing Director and other staff at E Pension Fund with solicitation materials containing false statements of investment performance and net asset value per unit, etc. In around October 2010, they had the Fund conclude discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(b) In around May 2011, Suspect C and the related parties presented the Chief Operating Officer and other staff at F Pension Fund with solicitation materials containing false statements in the same manner as shown in (a). In around June 2011, they had the Fund conclude discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(c) In around June 2011, Suspect A and the related parties presented the Managing Director and other staff at G Pension Fund with solicitation materials containing false statements in the same manner as shown in (a). In around October 2011, they had the Fund conclude the discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(d) In around June and September 2011, Suspect C and the related parties presented the Managing Director and other staff at H Pension Fund with solicitation materials containing false statements in the same manner as shown in (a). In around October 2011, they had the Fund conclude the discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(iii) Fraudulent practice case regarding the conclusion of discretionary pension fund management agreements by AIJ Investment Advisors Co., Ltd. (3)

Three suspects in case (i) above also planned in conspiracy to do the same as in (i) above with respect to the operations of the suspected corporation.

(a) In around January 2010, Suspect A and the related parties presented the Managing Director and other staff at I Pension Fund with solicitation materials containing false statements of investment performance and net asset value per unit, etc. In around April 2010, they had the Fund conclude discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(b) In around February 2010, Suspect C and the related parties presented the Managing Director and other staff at J Pension Fund with solicitation materials containing false statements in the same manner as shown in (a). In around April 2010, they had the Fund conclude the discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(iv) Fraudulent practice case regarding the conclusion of discretionary pension fund management agreements by AIJ Investment Advisors Co., Ltd. (4)

Three suspects in case (i) above also planned in conspiracy to do the same as in (i) above with respect to the operations of the suspected corporation.

(a) In around April 2010, Suspect A and the related parties presented the Managing Director and other staff at K Pension Fund with solicitation materials containing false statements of investment performance and net asset value per unit, etc., and they had the Fund conclude discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

(b) In around October 2010, Suspect A and the related parties presented the Managing Director and other staff at L Pension Fund with solicitation materials containing false statements in the same manner as shown in (a). In around November 2010, they had the Fund conclude discretionary pension fund management agreements with the suspected corporation. This behavior of these suspects constituted the use of fraudulent means for the purpose of concluding discretionary pension fund management agreements.

* As a result of conducting an investigation into the criminal case against AIJ and the related parties, it was acknowledged that the Representative Director of ITM had been involved in fraudulent practices regarding the conclusion of discretionary pension fund management agreements (as defined in Article 52(1)(ix) of the FIEA), and the SESC issued a recommendation regarding administrative dispositions and other measures against ITM on August 3, 2012.

(v) Insider trading case involving a former executive officer of a securities company (1)

Suspect A was an ex-Executive Officer of a securities company. Suspect B and Suspect C were acquaintances of A, and Suspect D was an acquaintance of B and C (the same applies in (vi) below).

Around the period from December 13, 2010, to February 22, 2011, with respect to the fulfillment of a financial advisory services agreement concluded between Nikko Cordial Securities Inc. (the trade name was changed to SMBC Nikko Securities Inc. as of September April 1, 2011) and Hitachi Transport System, Ltd., Suspect A became aware of material information to the effect that the organ responsible for making decisions on the execution of the operations of Hitachi Transport System, Ltd.

had decided to make a tender offer for the shares of Vantec Corporation (hereinafter referred to as “Vantec”), whose shares are listed on the securities market set up by the Tokyo Stock Exchange, Inc. Despite the absence of any legal exception, the four suspects, in conspiracy with one another, purchased a total of 20 shares of Vantec for a total price of 2,401,000 yen in the name of Suspect D on February 22 and 23, 2011, prior to the announcement of the material information.

(vi) Insider trading case involving a former executive officer of a securities company (2)

Four suspects in the case (v) above also conducted the following acts:

(a) Around the period from March 28, 2011, to July 19, 2011, with respect to the negotiation of a financial advisory services agreement concluded between SMBC Nikko Securities and TM Corporation, Suspect A became aware of material information to the effect that the organ responsible for making decisions on the execution of the operations of TM Corporation had decided to make a tender offer for the shares of BALS Corporation (hereinafter referred to as “BALS”) whose shares are listed on the securities market set up by the Tokyo Stock Exchange, Inc. Despite the absence of any legal exception, the four suspects, in conspiracy with one another, purchased a total of 247 shares of BALS for a total price of 18,609,500 yen in the name of Suspect D during the period from March 29, 2011, to September 2, 2011, prior to the announcement of the material information.

(b) Around the period from April 27, 2011, to July 25, 2011, with respect to the negotiation of a financial advisory services agreement concluded between SMBC Nikko Securities and Hashiyama K.K., Suspect A became aware of material information to the effect that the organ responsible for making decisions on the execution of the operations of Hashiyama K.K. had decided to make a tender offer for the shares of Maspro Denkoh Corporation (hereinafter referred to as “Maspro Denkoh”) whose shares are listed on the securities market set up by the Tokyo Stock Exchange, Inc. Despite the absence of any legal exception, the four suspects, in conspiracy with one another, purchased a total of 66,900 shares of Maspro Denkoh for a total price of 43,256,900 yen in the name of Suspect D during the period from June 1, 2011, to July 29, 2011, prior to the announcement of the material information.

(vii) Fraudulent practice case involving the misuse of an in-kind contribution system by executives of Sei Crest Co., Ltd.

This case is characterized as unfair finance, wherein the suspects used fraudulent means through the announcement of false statements on mountain forest parcels serving as in-kind contribution assets, which were misused for the payment of the allocation of new shares to a third-party as though the forest had the value of the payment, contrary to the fact that it had no such value at all. The SESC filed a criminal complaint against the suspects as the second case of fraudulent practice involving the misuse of an in-kind contribution system, following the case of NESTAGE Co., Ltd. filed on August 2, 2011.

Suspect A was the Representative Director of Sei Crest Co., Ltd. (hereinafter referred to as “Sei Crest”) whose shares were listed on the JASDAQ Securities Exchange and whose business purposes were mainly dealings in real estate, and which was responsible for controlling the overall operations of Sei Crest. Suspect B was in charge of providing services to Sei Crest pursuant to the services agreement on financing operations with Sei Crest, including providing support on the preparation of a financing plan for Sei Crest, and the verification of disclosure information for the announcement to investors.

There were concerns that it would infringe the delisting criteria as defined by JASDAQ if Sei Crest went into insolvency for the period ended March 2010. In the situation, the two suspects conceived the idea of preventing a delisting by submitting a false report to cause a significant inflation of capital artificially through the allocation of new shares to a third-party with the involvement of in-kind contribution assets. The suspects conspired to disregard the facts that (a) the total of eleven parcels of mountain forest located in Shirahama-cho, Nishimuro-gun, Wakayama Prefecture (a total of 84,031 square meters; hereinafter referred to as the “Land in this case”) was far from equivalent to the 2 billion yen payable for the full subscription of the private placement; (b) Sei Crest had no specific business project to develop and sell the Land in this case in collaboration with Kanayama Corporation Co., Ltd. (hereinafter referred to as “Kanayama Corporation”) and others after the acquisition of the Land in this case; and (c) Kanayama L.L.C. (hereinafter referred to as “Kanayama”), a party to whom new shares were to be allocated, intended to assign and transfer the shares allocated to a third party in a short period, for the purpose of issuing new shares of Sei Crest. On February 18, 2010, the suspects made Sei Crest announce that its board of directors had resolved to issue 5,300,000 common stock shares with a total issue value of 2,120 million yen through the allocation of new shares to a third-party to Kanayama involving the in-kind contribution of the Land in this case, with false statements to the effect that: (a) “The appraised value of the Land in this case should be reasonably equivalent to 2 billion yen payable for the full subscription of the the private placement as in-kind contribution assets, which was evidenced by an appropriate appraisal report and a certificate of value in consideration of the proprietary appraisal surveys and due diligence conducted by the development team at Sei Crest”; (b) “After the acquisition of the Land in this case, Sei Crest will commence a joint project on development and distribution in collaboration with Kanayama Corporation and Century Japan, and Sei Crest plans to be able to sell off all the Land in this case in 2 years to establish a stable revenue base”; and (c) “In principle, Kanayama will hold the shares allocated for a long period.” The behavior of these suspects constituted the use of fraudulent means for the purpose of transaction of securities.

3) Future Challenges

With regard to criminal investigation, the SESC will address the following issues in order to react flexibly and promptly to environmental changes of markets and to improve the effectiveness of surveillance.

Through these efforts, by speedy criminal filings against malicious violations, the SESC is

trying to warn market participants, including private investors, and will prevent any recurrence of similar types of violations.

(1) Approach to mixed cases of malicious and complex cases throughout primary and secondary markets, such as fraudulent financing (fraudulent finance)

As stated in the 7th term booklet on target (published on January 18, 2011), the SESC continues to improve its functions for market surveillance and strongly address the exposure of complex and malicious cases including fraudulent finance or fraudulent means. In FY2012, the SESC filed complaints in cases of fraudulent means in relation to Sei Crest Co., Ltd. In these cases, since Sei Crest would be delisted if it went into insolvency for the period ended March 2010, the Representative Director of Sei Crest and a consultant who undertook the financing operations conspired through false statements to make Sei Crest increase its capital through the allocation of new shares to a third-party involving in-kind contribution assets (real estate) that were far from equivalent to the payment value for full subscription of the private placement. This was a case of fraudulent finance involving the misuse of an in-kind contribution system.

Under such circumstances, the SESC will continue to watch over fraudulent finance with flexibility and a broad point of view, and will apply laws addressing the use of fraudulent means to expose malicious violations.

(2) Monitoring a wide variety of crimes

In addition to tackling the abovementioned cases involving unfair finance, the SESC tackles typical types of crime, such as insider trading, market manipulation, and submission of false financial statements like window-dressing of accounts, which have become increasingly complex and sophisticated. For exercising strict control over these types of crimes, the SESC continues to strive for more effective and efficient market surveillance.

(i) Countermeasures against insider trading

As for insider trading, the number of cases in which the people who are required to have professional ethics are involved as informants or insider traders is increasing. In recent years, reflecting the ongoing change and diversification of business models as well as intensified global competition, the enhancement of capital through public offering or the allocation of new shares to a third party by listed companies became popular as well as the method of being unlisted through management buyout (MBO), etc. In such situation, it is obvious that there are risks of insider trading going on.

Thus, the SESC will continue monitoring the overall market and all transactions suspected of being insider trading—for example, a transaction made in a timely manner prior to a material fact being announced—, and analyzing the primary factors of insider trading. The SESC will also strive to set up preventive measures and communicate with Self-Regulatory Organizations (SROs), listed companies and relevant industries to prevent insider trading and to find evidence of insider trading promptly.

(ii) Countermeasures against market manipulation

The SESC recognizes two types of broad trends in recent cases of market

manipulation: manipulation using techniques such as "*Misegyoku"* sham order transactions in which individual day traders exploit online trading, and more methodical and artificial price manipulation performed by "shite-suji," professional speculators. In cooperation with stock exchanges, the SESC will endeavor to detect problematic cases at an early stage, and will continue to take all possible measures when exercising surveillance over market manipulation.

(iii) Countermeasure against window-dressing

The SESC will continue its work of analyzing and examining the financial information of listed companies to facilitate the prompt exposure of malicious cases of window dressing designed to deceive investors. The SESC is going to charge all suspects who are involved in window dressing, regardless of whether they are inside or outside the company. As a matter of fact, companies facing financial problems tend to commit window dressing, and such companies also face the risk of committing fraudulent finance because of their cash-strapped condition. Hence, the SESC tries to conduct investigation of window-dressing cases in combination with surveillance of fraudulent finance from a multidimensional perspective.

(3) Response to the globalization of markets

Along with the globalization of financial industries and rapid economic growth of emerging markets like Asian countries, the numbers of cross-border transactions and expansions of foreign capitals or foreign investors into Japanese markets are continuously increasing. Under such circumstances, in addition to insider trading and market manipulation, cases of window-dressing and fraudulent finance by using offshore bank accounts or brokerage accounts are also increasing. In the case of a fraudulent practice case regarding the conclusion of discretionary pension fund management agreements by AIJ Investment Advisors Co., Ltd. against which the SESC filed charges in FY2012, the SESC collaborated with each overseas regulator in order to clarify the facts on the actual state of fund management since the suspect had managed several funds through overseas financial institutions. Thus, the SESC will continue to cooperate with overseas authorities much more actively to ensure thoroughly guarded market surveillance. Especially, the SESC will make the most of international information exchange frameworks, including the Multilateral Memorandum of Understanding (MMOU) adopted by the International Organization of Securities Commissions (IOSCO).

(4) Responding to the spread of crimes in rural areas

As seen in the case of market manipulation conducted by day traders residing in local areas, the SESC found that the nationwide spread of online trading facilitates rural investors' involvement in crimes related to securities transactions, and also found that there is some risk of insider trading or other for such people who are close to emerging companies in rural areas. Amid such circumstances, the SESC will continue to strengthen its cooperation with the investigative authorities and local finance bureaus in each area, and will adopt a stance of clarifying the truth behind offenses, no matter where they are committed, and filing accusations with public prosecutors.

(5) Strengthening digital forensics operations

For conducting investigations efficiently and effectively, it is important to use information technology or digital forensics especially for tracing the proof of crimes. The SESC focuses on collecting evidence through implementing the seizure of computers, mobile phones and other devices in order to restore and analyze the data saved on those devices.

Therefore, in addition to recruiting specialists in digital forensics, the SESC has been providing practical training to its staff, in an effort to acquire and accumulate technical know-how. It has also been systematically expanding its equipment and software necessary for digital forensics.

The SESC will continue its endeavor to strengthen both the human and equipment aspects of its digital forensics operations in an effort to conduct investigations into criminal cases more effectively and more efficiently.

(6) Development of human resources

In exercising criminal case investigations, the SESC focuses on developing staff members' skills of questioning suspects or witnesses, and of reviewing and verifying seized articles.

The SESC will continue its commitment to developing the required human resources, such as through personnel exchanges with prosecutors and enhancing training, and through human-resource management oriented toward development and training.

8. Policy Proposals

1) Outline

1. Purpose and Authority of Policy Proposals

To establish a fair, highly transparent and sound market, and to maintain investor confidence in that market, the rules of the market should respond to changes in the environment surrounding it. Therefore, with regard to measures considered necessary to ensure fairness in trading or to secure investor protection and other public interests, the Securities and Exchange Surveillance Commission (SESC) can submit policy proposals to the prime minister, the Commissioner of the Financial Services Agency (FSA), or the minister of finance pursuant to Article 21 of the Act for Establishment of the FSA, where necessary based on the results of inspections, investigations or other relevant activities, in order to have the rules appropriately maintained to reflect the actual conditions of the market.

Policy proposals are submitted after the SESC has comprehensively analyzed the important issues identified in the results of its inspections and investigations. These proposals clarify the SESC's views on laws, regulations and self-regulatory rules, and it is intended that they will be reflected in the policies of the administration and of self-regulatory organizations. The policy proposals submitted by the SESC serve as an important consideration in the policy response of regulatory authorities.

In terms of the substance of specific policy proposals, when existing laws, regulations and self-regulatory rules are found to be insufficient in light of the situation of the securities market, the SESC draws attention to that fact. It then presents issues to be considered regarding the state of laws, regulations and self-regulatory rules from the perspective of ensuring market integrity and securing investor protection and other public interests, and calls on them to be reviewed.

2. Policy Proposals Submitted in FY2012

In FY2012, the SESC submitted to the prime minister and the commissioner of the FSA one policy proposal based on its inspection of credit rating agencies ("Ensuring accuracy when providing credit ratings or making available to the public"). From its inception in 1992 through FY2012, the SESC submitted 23 policy proposals.

2) Specific Policy Proposals and Measures Taken Based on Policy Proposals

1. Specific Policy Proposals

The specific contents of policy proposals submitted in FY2012 are as follows:

○ Ensuring accuracy when providing credit ratings or making available to the public

In the inspections of credit rating agencies ("CRAs"), there was a case in which a CRA mistakenly provided or made available to the public incorrect credit ratings which were different from the ones the CRA had actually determined. This is a serious problem which leads to distorting investment decisions by investors who make use of credit ratings and causing a loss of confidence in CRAs.

In CRAs' operation, disclosing accurate credit ratings is no less important task as assigning appropriate ratings. Although, the requirement of the accuracy in disclosure seems too basic to mention, the current laws and regulations do not directly prescribe the obligation of CRAs to ensure accuracy in disclosing credit ratings.

Therefore, in order to protect investors who make use of credit ratings and to ensure the credibility of CRAs which play an important role in capital and financial markets, it is necessary to establish a statute which directly prescribes the obligation of CRAs to ensure accuracy in disclosing credit ratings.

2. Actions Taken Based on Policy Proposals

In FY2012, actions taken based on the policy proposal described above are as follows:

○ Measures taken based on a policy proposal for ensuring accuracy when providing credit ratings or making available to the public

The FSA is conducting a study on establishing a statute which directly prescribes the obligation of credit rating agencies to prevent false Publication, etc., in disclosing credit ratings.

3. Other Initiatives

Some initiatives are deemed necessary to ensure market fairness and investor protection, but do not reach the stage of policy proposals. For such initiatives, the SESC communicates its awareness of issues through opinion exchanges with administrative departments of the FSA and self-regulatory organizations, and urges necessary policy responses. The SESC endeavors to contribute to the revisions of systems and the amendment of rules in self-regulatory organizations.

In FY2012, in the process of monitoring market activities, the SESC detected that there were some cases in which external persons were able to access the corporate information of some listed companies easily prior to the planned disclosure time, since such listed companies were acknowledged to have stored the information in publication directories on their internal website servers prior to the planned disclosure time without taking sufficient security measures for the purpose of posting corporate information on their websites on the Internet. Therefore, given the problem detected, the SESC provided advice to the Tokyo Stock Exchange, Inc.

In response to the advice given by the SESC, on October 1, 2012, each stock exchange required all listed companies to pay attention to information control when posting corporate information on their internal websites, etc. In addition, on March 12, 2013, each stock exchange required all listed companies to conduct voluntary inspections of the security of their internal websites, etc.

On April 5, 2013, the Financial Services Agency and each stock exchange notified all listed companies of matters to be noted for posting corporate information on their internal websites, etc., and each stock exchange announced their future policies to deal with the problem including revision of the listing rules and the results of voluntary inspections made by the listed companies.

Furthermore, on April 30, 2013, each securities exchange released a proposed basic outline of the revised listing rules concerning the posting of corporate information on their websites prior to the planned official announcement time of corporate information, etc.

3) Future Challenges

Based on the results of inspections and investigations, etc. pursuant to the FIEA and other laws, with regard to measures believed necessary, the SESC submitted policy proposals with the aim of having them reflected in the measures implemented by the administration and self-regulatory organizations. Furthermore, with regard to matters that do not require a revision of laws or regulations, and with regard to matters that are not directly linked to policy proposals, the SESC strengthened its function of providing information, such as actively communicating its awareness of issues to the FSA, self-regulatory organizations and so forth, aiming to share its awareness of issues. The SESC intends to continue to proactively work on this.

9. Measures to Respond to the Globalization of Markets

1) Cooperation with Overseas Regulators and Global Market Surveillance

The SESC set a “response to the globalization of markets” as one of the new pillars of its policy directions in the *SESC Policy Statement for the 7th Term*, which was formulated in January 2011, thereby laying out its policy of strengthening global market surveillance. Under this initiative, as a response to the globalization of markets, the SESC stepped forward to further develop its human resources and organizational structures. The SESC will share information using the framework among multiple securities regulators and request overseas regulators to assist investigation on any market misconduct using cross-border transactions. At the same time, it will keep its eye on both primary and secondary markets and strengthen its monitoring of cross-border related-party transactions so as to ensure thoroughly guarded market surveillance.

1. Activities in IOSCO (the International Organization of Securities Commissions)

IOSCO is an international organization acting with the aim of establishing international harmony of securities regulations and mutual collaboration among regulatory authorities. IOSCO is composed of 205 organizations representing each country or region (of which 117 are ordinary members and 12 are associate members). The SESC became an associate member of IOSCO in October 1993. (Note: the FSA participates in IOSCO as an ordinary member representing Japan.)

In IOSCO, the Annual Conference led by the Presidents Committee which is the supreme decision-making body of IOSCO is held, where the top-level management of securities regulators from various countries and regions meet together to discuss and exchange opinions on the current situation and challenges in respective securities regulations. As the number of international transactions in financial and capital markets increases, it is extremely important to strengthen international collaborative relationships through the exchange of information and opinions with regulators from various countries in order to carry out proper market surveillance in Japan. Therefore, from the SESC, the Commissioner attends the Annual Conference of IOSCO. In addition, senior officials at the SESC also participate in the Asia-Pacific Regional Committee (APRC), which is one of the regional committees of IOSCO, to focus on regional issues relating to securities regulation. In this way, the SESC is striving to enhance cooperation with overseas regulators.

For the purpose of discussing major regulatory issues faced by international markets and proposing practical solutions for such issues, IOSCO has established the IOSCO Board, which is made up of the regulatory authorities of developed countries or regions, and seven Policy Committees were created under it. The SESC has been a member of Committee 4 (C4), which was set up to carry out discussion of enforcement issues and information exchange.

C4 is working on the exchange of information and cooperation in enforcement among the national regulators with the aim of dealing with market misconduct and securities crimes using so-called cross-border transactions across multiple countries. In FY2012, C4 had a discussion on promoting dialogue with uncooperative regulators and some other issues, warning investors about problematic business operators. The SESC also explained about recent market misconduct in the securities markets and its cooperation with overseas

regulators at the C4 on-site meetings.

The SESC has also participated in meetings of the Screening Group (SG) to examine the documents submitted to the IOSCO secretariat by regulators applying for participation in the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMOU) adopted in the Annual Conference in May 2002, which is an information sharing framework among multiple securities regulators.

2. Utilization of Information Exchange Frameworks

(1) The SESC has recognized that it is absolutely essential to share information among securities regulators in different countries, as there is concern that market misconduct that may impair the fairness of transactions in multiple countries' markets would increase, while international activities of market participants such as cross-border transactions and investment funds in financial and capital markets have become common.

With regard to building the information exchange framework to exchange information smoothly with overseas regulators, the FSA has entered into bilateral information sharing agreements with the following regulatory bodies:

- China Securities Regulatory Commission (CSRC), China
- Monetary Authority of Singapore (MAS), Singapore
- Securities and Exchange Commission (SEC), United States
- Commodity Futures Trading Commission (CFTC), United States
- Australian Securities and Investments Commission (ASIC), Australia
- Securities and Futures Commission (SFC), Hong Kong
- Securities Commission (SC) (currently, Financial Markets Authority (FMA)), New Zealand

(2) With respect to the MMOU, IOSCO had resolved to require each member regulator to become a signatory of the MMOU or to commit to securing required legal authority to be a signatory of the MMOU not later than January 1, 2010. Later, at IOSCO's Annual Conference held in Montreal in 2010, IOSCO resolved to ask all participating regulators to become MMOU signatories by January 1, 2013. However, IOSCO has actually taken steps to provide technical assistance to unsigned national regulators and post the progress of establishment of the legal system to become a signatory of the MMOU on its website, in order to encourage them to become MMOU signatories. As of March 31, 2013, the number of signatories of the MMOU is 94, and the number of unsigned national regulators that committed to securing the required legal authority to be a signatory of the MMOU is 25.

In Japan, following the application submitted in May 2006, the FSA was approved as a signatory to the MMOU in February 2008. As a consequence, it has become possible for the SESC, through the FSA, to mutually exchange information with other signatories if necessary for surveillance and law enforcement purposes. The SESC intends to ensure fairness in cross-border markets under international cooperation.

(3) Utilizing these frameworks for information exchange, the SESC recommended five

cases for the issuance of orders to pay administrative monetary penalties and brought criminal charges in four cases on market misconduct using cross-border transactions in the Japanese market.

(i) Recommendations for issuance of orders to pay administrative monetary penalties

a. Misstatements in annual securities reports, etc. (one case)

The SESC made a recommendation for an order of an administrative monetary penalty payment on a case in which Olympus Corporation submitted to the director-general of the Kanto Local Finance Bureau its annual securities reports, etc (from the annual securities report from April 1, 2006, to March 31, 2007 through the quarterly securities report from April 1, 2011, to June 30, 2011), containing false statements on important matters by falsely excluding several funds in its consolidated account and achieving off-balance sheet treatment of unrealized capital losses and debts and by overstating worthless goodwill (see 6. 2) 2 (1)(i)).

b. Insider trading (three cases)

A few cases revealed that insider trading had been executed by professional investors in Japan and overseas who had received material information from a sales person working at a securities company acting as lead managing underwriter, with respect to the concentrated large public offerings of new shares after the economic downturn caused by the Lehman Brothers bankruptcy in 2008. Among these cases, the SESC made recommendations for the order of an administrative monetary penalty payment on cases of insider trading by Japan Advisory L.L.C. (two cases) and First New York Securities L.L.C. (one case) with the aid of the MMOU (see 5. 2) 2(iii) through (v)).

c. Market manipulation (one case)

The SESC made a recommendation for an order of an administrative monetary penalty payment in a case in which Tiger Asia Partners, L.L.C., a related company of U.S. hedge funds, with the intent of inducing orders for shares of a company listed on the Japanese stock exchange, placed a series of orders for the shares through multiple brokers, raised the market price of the share, thus engaged in a series of transactions that were to effect a change in the market price of the share, through collection of information with the aid of the MMOU (see 5. 2) 2 (vi)).

(ii) Complaints

○ Fraudulent practice case regarding the conclusion of discretionary investment management agreements (four cases)

The SESC filed criminal charges in four cases involving AIJ Investment Advisors Co., Ltd. (“AIJ”), a financial instruments operator registered in the Kanto Local Finance Bureau, constituting fraudulent practice, in which the Representative Director and two other persons of AIJ conspired to provide false statements of investment performance, etc., to create the effect that the fund performance was consistent with a steady increase in net asset value, contrary to the fact that the net asset value of the fund had decreased significantly, for the purpose of having pension funds conclude discretionary pension fund management agreements. The SESC collected the information of these cases with the

aid of the MMOU (see 7. 2) 2(1)(i) through (iv)).

(4) In addition to the cases described above, there were some cases in which overseas securities regulators imposed administrative punishments on violators pursuant to local laws and regulations as a result of the exchange of information with regulators based on the original information given by the market surveillance of the SESC. Thus, the SESC steadily reinforced its cooperation with overseas regulators.

3. Exchange of Views

The SESC is working on identifying recent trends in international financial and capital markets as well as the efforts by overseas regulators for ensuring market integrity. The SESC is also working to promote understanding of its activities. Therefore, the SESC collects information on a daily basis, and interviews securities companies and self-regulatory organizations as needed in order to understand actual market conditions. Furthermore, the SESC actively exchanges views with overseas regulators and financial institutions with global operations. In FY2012, the SESC exchanged views with overseas regulators in the United States, Italy, China, Hong Kong, South Korea, Australia, Thailand, Cayman Islands, etc., and financial institutions with global operations and international industry organizations, etc.

2) Development of Organizational Structures and Human Resources

1. Development of Organizational Structures in response to the Globalization of Markets

The SESC has proceeded to develop organizational structures for conducting global market surveillance and inspections utilizing international inspection and supervisory frameworks. Specifically, in addition to establishing the position of Deputy Secretary General of International and Intelligence Services, staff members in charge of international transactions have been assigned to each division within the SESC, such as specialist examiners and specialist investigators related to international matters, to conduct investigations by utilizing information exchange frameworks.

Given the fact that cross-border transactions by both Japanese and global professional investors accounted for a large percentage in the Japanese securities market in recent years, the SESC established the Office of Investigation for International Transactions and Related Issues in the Administrative Monetary Penalty Division in August 2011, which specializes in investigating possible market misconduct by professional investors both in Japan and overseas using cross-border transactions, in response to the ongoing globalization of the markets.

2. Participation in Short-Term Training Courses and Secondment to Overseas Regulators

In order for the SESC's officials to acquire the surveillance and inspection techniques used by regulatory authorities overseas, and to then apply those techniques in market surveillance operations at the SESC, or to offer the methodologies and know-how accumulated by the Japanese regulators to officials of overseas regulators, the SESC has sent staff members to participate in short-term training courses for one week or so, hosted by the US Securities and Exchange Commission (SEC), the US Commodity Futures Trading Commission (CFTC), the UK Financial Services Authority (FSA; currently changed

to the Financial Conduct Authority (FCA) in the UK), the Monetary Authority of Singapore (MAS), IOSCO, APEC, etc.

(Note) Up to now, the SESC has dispatched officials of the SESC to the SEC (US), the CFTC (US), the FSA (UK) and the SFC (HK) for one year or so. The SESC gained theknow-how of market surveillance from the dispatches of officials to overseas regulators, especially for monitoring cross-border transactions.

3) Future Challenges

Amid an increase in cross-border transactions in financial and capital markets, the SESC will continue to have the policy of adopting the most appropriate response against any misconduct made by overseas investors in the Japanese market in close cooperation with overseas regulators, comprehensively taking into account its maliciousness, the personnel and physical costs required for investigation, the effectiveness of punishment, responses of overseas regulators, etc. on the basis of each case.

At the same time, the SESC needs to address the challenges listed below, recognizing it as essentially important to enhance international cooperation through the exchange of information and opinions among national regulators as well as developing human resources by dispatching officials to overseas regulators and improving organizational systems, in order to secure effective inspections using an international inspection/supervision framework and global market surveillance.

(1)To promote the utilization of an information exchange framework and to enhance cooperation with overseas securities regulators, for the purpose of speeding up information collection and improving responses against market misconduct using cross-border transactions.

(2)To collect information on cross-border transactions from abroad and overseas laws and regulations, and to give information of the SESC's activities at international conferences as a tool to enhance its monitoring functions.

(3)To activate cooperation with securities regulators in emerging Asian countries, and to provide support for the maintenance of securities markets in emerging Asian countries, such as by offering know-how on the inspection of securities companies or market surveillance, if needed.

(4) To promote the development of human resources responsible for the market surveillance of cross-border transactions by encouraging officials to participate in short-term training programs provided by overseas securities regulators, etc.

10. Efforts to Enhance Surveillance Activities and Functions

1) Reinforcement and Strengthening of the Market Surveillance System

1. Reinforcement of Organization

(1) Reinforcement of Organization

The Securities and Exchange Surveillance Commission (SESC), which initially had a two-division system comprising the Coordination and Inspection Division and the Investigation Division, now has six divisions with extensive and diversified roles divided by the functions of the SESC in line with the past process of delegating authority to conduct administrative monetary penalty investigations and expanding its authority to conduct inspections for the purpose of enhancing and strengthening the market surveillance function.

In FY2013, amid severe conditions for overall quotas of national public service personnel under a tight budget, as a result of requesting an increase in personnel as one of the main pillars of improving the system of monitoring cross-border transactions, an increase of 16 officers was approved. This brings the total SESC staff quota to 400 as of the end of FY2013.

As to the securities transactions surveillance officers (divisions) at the local finance bureaus, an increase of 29 officers was approved, mainly for improving the system of inspection of securities companies and other entities, bringing the quota to 339 as of the end of FY2013. Combined with the staff quotas of the SESC, the total number stands at 739

(2) Appointment of Private-Sector Experts

From the perspective of ensuring accurate market surveillance and boosting professional expertise among its officers, during FY2012, the SESC reinforced its investigation and inspection systems by employing a total of 21 private-sector experts with specialized knowledge and experience in the securities business, including lawyers and certified public accountants. The appointment of private-sector experts started in 2000, and, as of the end of FY2012, 109 such professionals were employed at the SESC.

2. Improvement of Capacity for Collecting and Analyzing Information

(1) Utilization of the Securities Comprehensive Analyzing System (SCAN-System)

Due to the need to ascertain all of the facts relating to securities transactions by analyzing complicated and massive amounts of data, the SESC has been developing a system supporting its operations called the “Securities Comprehensive Analyzing System (SCAN-System)” since 1993 in order to enhance operational efficiency. The SCAN-System is a comprehensive information system that can be widely used in the operations of the SESC, including the investigation of criminal cases, the investigation of market misconduct, the inspection of disclosure documents, the inspection of securities companies and other entities, day-to-day market surveillance, and market oversight. Even after the completion of its fundamental development in FY2001, efforts to review and enhance each of its functions have continued to be made, aimed at achieving more efficient operations.

Note: The SCAN-System consists of two major functional modules: the “Securities Companies Inspection System” and the “Market Oversight System.” In addition, there are some supporting systems in the SCAN-System: the “SCAN-Internet Patrol System (SCAN-IPS),” the “SCAN-Surveillance by Technical Analysis of Corporation Finance System of Electronic Disclosure (SCAN-STAF),” and the “Information Management System” for at efficiently processing information provided from the general public.

(2) Better Staff Training

The SESC has aimed at improving the quality of the staff by providing them with OJT and seminars where the know-how about oversight techniques acquired in investigations can be passed on. Staff members also learn the latest information on financial and capital markets from lectures by outside instructors, etc. These are some of the efforts to enhance staff quality.

The SESC must also respond to new challenges of more complex and diversified types of transactions, the increase of cross-border transactions, and the trading techniques on a rapid basis.

To accurately respond to these conditions, in addition to its previous actions, training is being provided to enable each staff member to acquire advanced specialized knowledge and skills, new financial instruments and transaction techniques, investigation techniques using digital forensics, etc.

3. Enhancement of Systems Infrastructures to Support Market Surveillance

At the phase of design for the next-generation system (Integrated Financial Services Agency (FSA) Business Support System (operation commencement planned in FY2014)) based on the “Optimization Plan of Business Processes and Systems on the Inspections and Supervision of Financial Institutions and Securities and Exchange Surveillance,” (as per the decision dated March 28, 2006, by the e-Government Promotion Conference, FSA), the SESC considered ways of having IT-system design incorporate the necessary system functions for each business process, and succeeded in not only raising business efficiency but also in sophisticating business processes incorporating changes in external environments like the adoption of XBRL technology in the EDINET system. The system design phase was completed by FY2010. Since FY2011, as work commenced on development of the system, the SESC has conducted various verifications in accordance with the progress of the development. Going forward, the SESC will monitor the progress carefully and ensure the designed functions to be properly implemented in the system.

Regarding digital forensics, the SESC started to consider its introduction in FY2008, completed the first equipment plan to secure an operating environment on restoring and evidencing electronic records in FY2010, and implemented the second equipment plan to achieve its data analysis environment in FY2011. In light of the changing of IT environment, such as higher performance and larger capacity, the SESC keeps on facilitating the enhancement of environments, as well as training, etc., for the more effective use in its tasks.

2) Dialogue with Market Participants and Efforts to Strengthen the Dispatch of Information to the Market

As part of its "outreach activities for enhanced market integrity," which is the second mainstay of the policy statement, *Towards Enhanced Market Integrity*, the SESC mentions enhancing dialogue with individual investors and other market participants, and providing more information to markets. As such, the SESC is making efforts to communicate with market participants actively and widely. The SESC uses a variety of creative means to do this, including exchanges of views, lectures, public talks, press releases, contribution to various public relations media, and the SESC website and email magazine. By providing details of its activities and other information in a timely and easily understood fashion, the SESC aims to increase the understanding of its efforts among market participants and to deepen their confidence in the financial and capital markets.

3) Cooperation with Related FSA Departments

In order to ensure market fairness and transparency and investor protection, in properly executing its work, it is essential that the SESC shares its awareness of issues with the FSA, which is the regulatory agency for Japan's financial and capital markets. The SESC works on using various opportunities to cooperate with the FSA. For example, in addition to daily exchanges of information, it widely shares problems of the moment between executives and personnel in charge. For the supervisory college established for large and complex financial institutions as a response to the financial crisis, the SESC fulfills its role to provide explanations as an inspection department/bureau and cooperates with the FSA and exchanges information with foreign authorities. From the standpoint of its role in the surveillance of market rules, the SESC thus exchanges information with the FSA regarding market governance.

The SESC delegates part of its work to Directors-General of Local Finance Bureaus, etc. The surveillance officers unit of each local finance bureau performs its delegated work under the director-general, etc. At occasions such as the Local Finance Bureaus Director-Generals Meeting held by the FSA, the SESC works to build ample mutual understanding with each of the local finance bureaus, etc. The Local Finance Bureau Inspectors Meeting is held every year, with the aim of sharing awareness of problems regarding matters which require national cooperation, such as problems in market surveillance. From the viewpoint of sharing awareness of problems regarding fraudulent finance, the Joint Conference for Local Finance Bureau Inspectors and Financial Instrument Exchange Supervisory Officers and Securities Inspectors with the Supervisory Bureau and the Planning and Coordination Bureau of the FSA (hereinafter referred to as the "Trilateral Joint Conference") has been held regularly as part of the SESC's efforts to share and deepen awareness of problems.

4) Future Challenges

The SESC will address the following issues in order to accurately respond to changes in the conditions surrounding markets, and to achieve more effective and efficient market surveillance.

(1) Reinforcement of organization and development of human resources

Along with advances in innovation of financial instruments and transactions, cross-border transactions and international activities by investment funds and other market participants have become everyday occurrences. Amid such circumstances, the market environment is also undergoing changes. One such change is that the techniques of misconduct are becoming more diverse and complex, including market misconduct committed by professional investors in Japan and overseas.

The SESC believes that, on top of enriching its organization and personnel, developing human resources equipped with specialized knowledge and skills is important for responding accurately to these kinds of changes. On this basis, the SESC will continue its efforts to develop human resources, such as by implementing personnel exchanges with other ministries and agencies, utilizing on-the-job training, enriching its staff training, and by making planned appointment of staff to certain positions.

(2) Improvement in information collection and analysis capabilities

The SESC will respond to changes in the environments surrounding markets, collect information regarding movements, and analyze problems behind market trends and individual transactions with the aim of facilitating market surveillance flexibly.

In addition, the SESC will review and enhance the internal systems of information for improvement of accuracy and credibility in risk-based market surveillance.

Furthermore, the SESC intends to enhance its ability to identify potential problems with consideration of the characteristics of diverse business operators, the characteristics of their customers, and the characteristics of increasingly complex and diverse financial instruments and transactions, and strengthen its capabilities to collect and analyze information accordingly.

(3) Improvement in information transmission

In addition to the cooperation with self-regulatory organizations, etc., that has been addressed so far, the SESC will improve its disclosure and information transmission to investors with the aim of ensuring fairness in the markets and protecting investors against market misconduct and fraudulent solicitation from unregistered operators, given an increase in insider trading cases by primary recipients of information and fraudulent transactions of unlisted shares.

At the same time, in order to enhance the transparency of the market surveillance administration and encourage market participants to be self-disciplined, the SESC will actively transmit information on past cases in which administrative monetary penalties were imposed.

Furthermore, with regard to the points at issue under the laws and regulations that have been found in the process of market surveillance activities, the SESC intends to notify such points to the FSA and/or self-regulatory organizations for the purpose of playing a part in improving the market rules.

(4) Further cooperation with the regulators concerned

Turning to the circumstances surrounding the SESC, as a result of a series of regulatory reforms, including the enforcement of the Financial Instruments and Exchange Act (FIEA), the scope of securities companies and other entities subject to inspection has diversified,

and the number of these entities has reached almost 8,000. The SESC is also being called on to respond accurately to the sale of unlisted stocks by unregistered business operators. Moreover, as progress in online trading is helping to eliminate geographical restrictions on securities transactions, and as newly established listed companies are spreading into rural areas, the SESC is also being required to respond appropriately to the geographical spread of violations of laws and regulations, such as market misconduct and the window dressing of accounts.

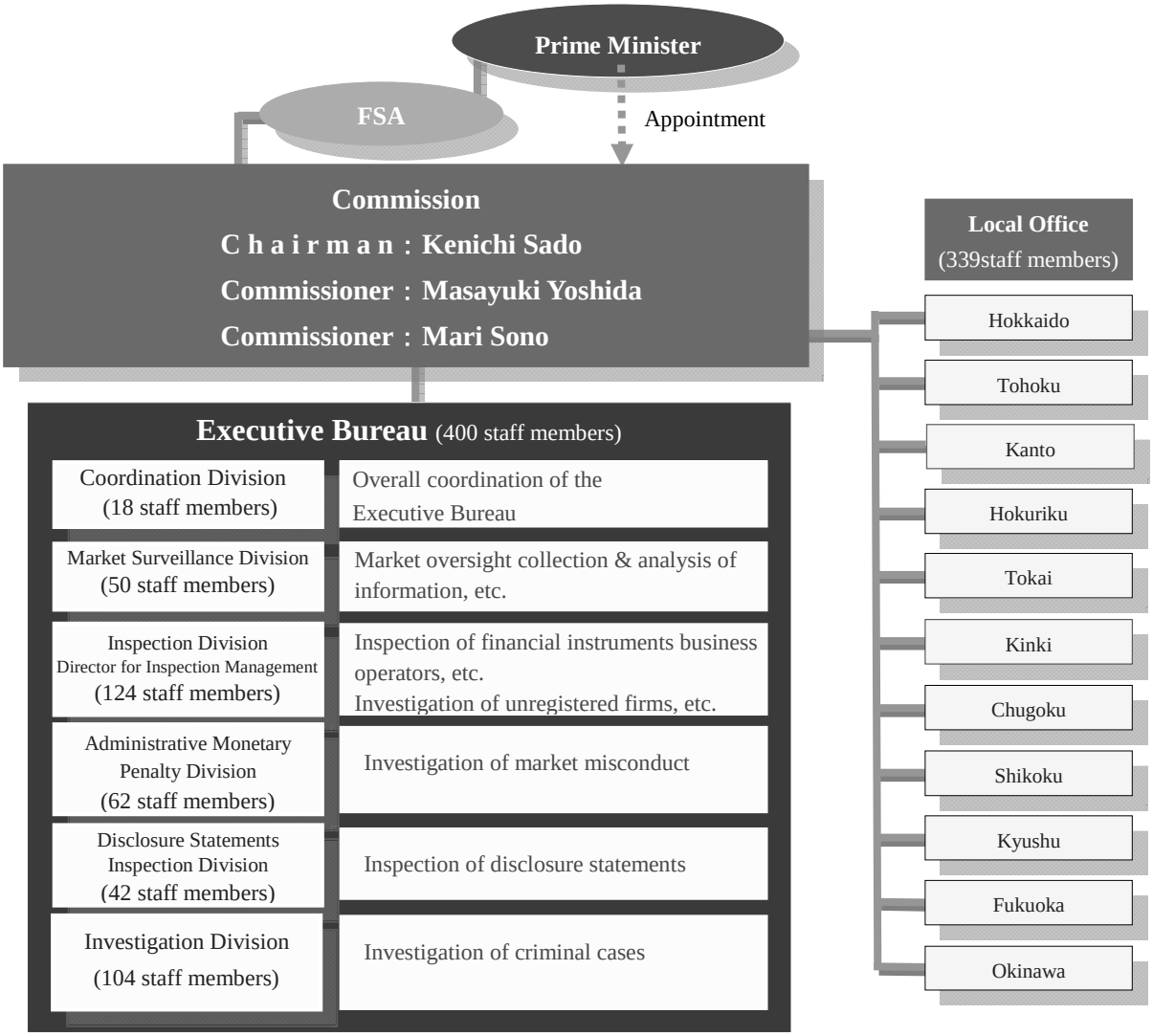
Under these circumstances, in order for the SESC to achieve its mission, it will need to conduct efficient, effective and viable reviews, inspections and investigations, by accurately and effectively utilizing its limited human resources, including those in the securities and exchange surveillance departments at local finance bureaus. Thus far, the SESC has promoted the sharing of its awareness of problems and the unification of viewpoints on surveillance activities with local finance bureaus through day-to-day exchange of opinions and various kinds of meetings and training. Going forward, though, the SESC will work to develop human resources by enhancing cooperation with local finance bureaus, and will exercise its overall strength so that effective market surveillance can be carried forward.

Furthermore, the SESC will facilitate the enhancement of market surveillance activities through the active exchange of information with the FSA and self-regulatory organizations for the purpose of sharing mutual awareness of problems.

Appendixes

Table 1

Organization

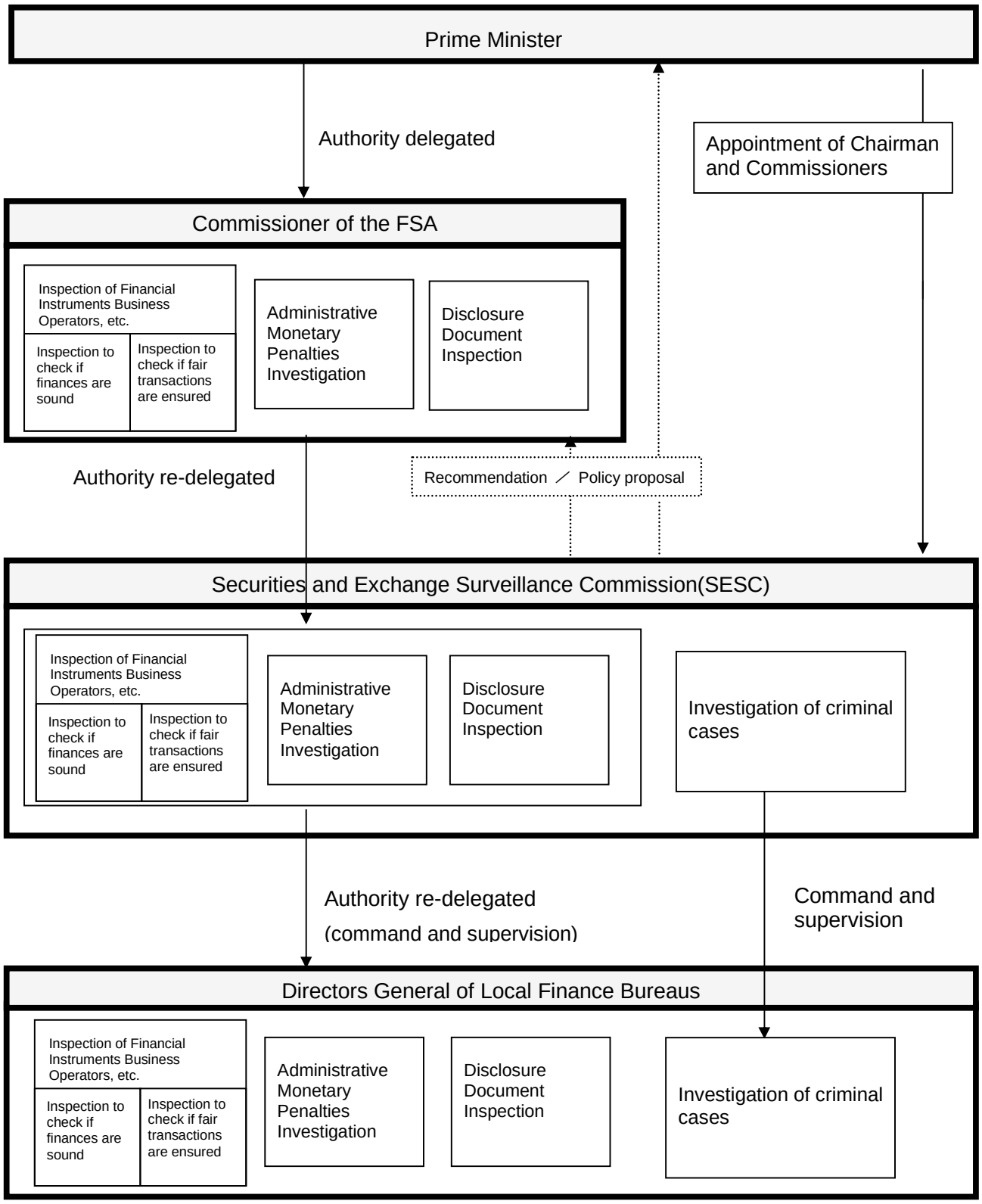


Note1: Staff members of Executive Bureau are quota as at the end of FY2013.

Note2: In July 2006, the SESC was transformed from two divisions (the Coordination and Inspection Division and the Investigation Division) and three offices (the Compliance Inspection Office, the Market Surveillance Office, and the Office of Penalties Investigation and Disclosure Documents Examination under the Coordination and Inspection Division) into five divisions (the Coordination Division, the Market Surveillance Division, the Inspection Division, the Civil Penalties Investigation and Disclosure Documents Inspection Division, and the Investigation Division). Furthermore, in July 2011, the Civil Penalties Investigation and Disclosure Documents Inspection Division was divided into two divisions (the Administrative Monetary Penalty Division and the Disclosure Statements Inspection Division), meaning that the SESC was transformed into six divisions. In August 2011, the Office of Investigation for International Transactions and Related Issues was established within the Administrative Monetary Penalty Division, to investigate transactions, etc. conducted by persons in foreign countries.

Table 2

Conceptual Chart of Relationships among the Prime Minister, the Commissioner of the FSA, the SESC, and Directors General of Local Finance Bureaus



(Note 1) For the authority that the SESC delegates to Director General of Local Finance Bureau or the Director of its branch office, the SESC directs and supervises Director General of Local Finance Bureau or the Director of its branch office. (FIEA: Article 194-7 (7))

(Note 2) For an investigation of a criminal offence, the SESC directs and supervises the Director General of a Local Finance Bureau or the Director of its branch office. The SESC may, deeming it necessary for investigating a criminal offence, direct and supervise firsthand an official of a Local Finance Bureaus or the Director of its branch office. (FIEA: Article 224(4) and (5))

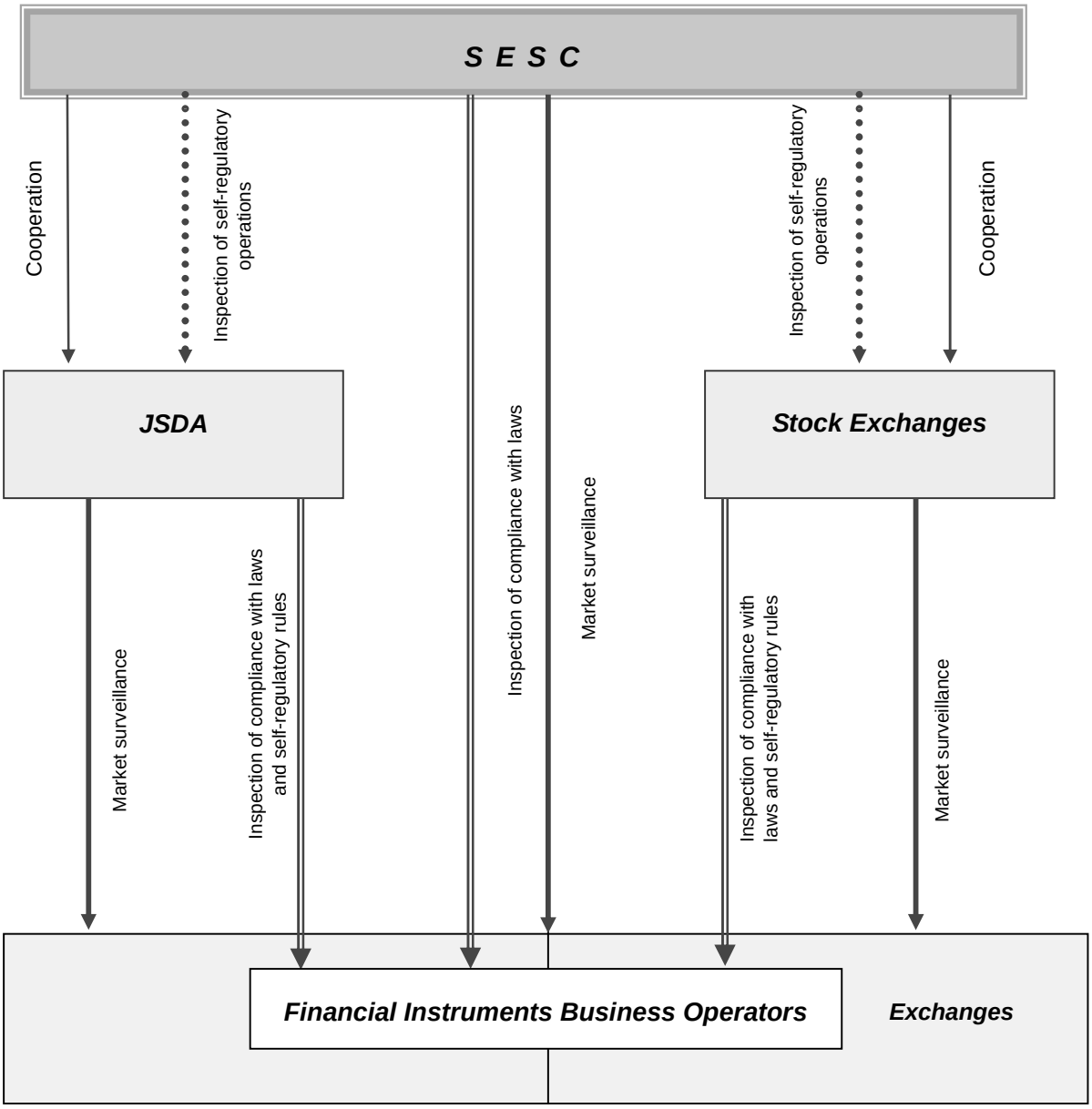
(Note 3) The SESC does not delegate authority to the Director-General of local finance bureaus, etc. related to financial instruments business operators etc designated in the following public notices

- The public notice to designate a financial instruments business operator, etc. under paragraph 5, Article 44 of the Order for Enforcement of the FIEA and paragraph 2, Article 136 of the Order for Enforcement of Act on Investment Trust and Investment Corporation
- The public notice to designate a financial instruments business operators, etc. under paragraph 6, Article 24 of the Order for Enforcement of Act on the Prevention of Transfer of Crime Proceeds

(Note 4) In addition to the above, filing in court to prohibit or suspend violations based on provisions of FIEA Article 192 Paragraph 1, and its prerequisite investigation authority based on provisions of FIEA Article 187, are delegated from the Commissioner of the FSA to the SESC. The FIEA was amended to enable redelegation of said filings and investigation authority to Director General of Local Finance Bureau or the Director of its branch office.

Table 3

Relationship with Self-Regulatory Organizations



Note: The same system applies to financial futures.

Table 4

Activities in figures

Table of Summary

Unit: Number of cases

Category \ Business year /Fiscal year	1992 to 2005	2006	2007	2008		2009	2010	2011	2012	Total
Criminal charges	85	13	10	13	(4)	17	8	15	7	164
Recommendations	326	43	59	50	(19)	74	64	45	62	704
Recommendations based on securities inspections	316	28	28	18	(4)	21	19	16	20	462
Recommendations to pay administrative monetary penalty (market misconduct)	9	9	21	20	(10)	43	26	18	32	168
Recommendations to pay administrative monetary penalty (false statements in disclosure	0	5	10	12	(5)	10	19	11	9	71
Recommendations for order to submit revised report, etc.	1	1	0	0	(0)	0	0	0	1	3
Petition for a court injunction , etc., against unregistered business operator or solicitation without the filing of securities registration	-	-	-	0	(0)	0	2	3	1	6
Proposals	12	3	0	4	(4)	4	2	1	1	23
Securities inspections: Financial instrument businesses operators	1,369	150	187	191	(62)	176	148	148	153	2,460
Type I financial instrument businesses operators	1,330	99	138	117	(20)	91	91	85	57	1,988
Type II financial instrument businesses operators	-	-	2	1	(1)	22	6	14	20	64
Investment management firms Investment advisories/agencies	39	51	47	73	(41)	63	51	49	76	408
Registered financial institutions	143	27	32	25	(4)	24	28	32	28	335
Persons making notification for business specially permitted for qualified institutional investors	-	-	0	0	(0)	1	2	6	21	30
Financial instruments intermediaries	1	1	1	0	(0)	1	1	9	9	23
Credit rating agencies	-	-	-	-	-	-	0	4	3	7
Self-regulatory organizations	7	6	1	5	(2)	5	1	0	0	23
Investment corporations	2	7	10	7	(1)	9	6	2	0	42
Other	0	1	2	0	(0)	0	0	1	0	4
Total	1,522	192	233	228	(69)	216	186	202	214	1,725
Market oversight	5,374	1,039	1,098	1,031	(276)	749	691	913	973	11,592

Notes

1. Total number of securities inspections refers to the number of cases that have been started.
2. In addition to the inspections of Type I financial instrument businesses operators (former domestic securities companies) above, Local Finance Bureaus and other organizations conduct inspections of individual branches of those Type I financial instrument businesses operators (former domestic securities companies) that are assigned to the SESC.
3. Up until business year 2006, "investment management firms" was "former investment trust management businesses," and "investment advisories/agencies" was "former investment advisories."
4. Up until business year 2008, there was a "business year basis" of July to June the following year, and since fiscal year 2009, there has been an "accounting year basis" of April to March the following year.
5. The numbers in parentheses ( ) in business year 2008 refer to the number of cases in the period (April-June 2009) which overlap with fiscal year 2009 during the transition to the "accounting year basis."

Introduction of Chairman and Commissioners

Chairman　Kenichi SADO

Kenichi SADO was appointed Chairman of the SESC in July 2007. Before being appointed to the Commission, he served as superintending public prosecutor of the Sapporo High Public Prosecutors Office (2005–2006) and superintending public prosecutor of the Fukuoka High Public Prosecutors Office (2006–2007).

Commissioner　Masayuki YOSHIDA

Masayuki YOSHIDA was appointed a commissioner of the SESC in December 2010. Before being appointed to the Commission, he served as a Advisor, Nagashima Ohno & Tsunematsu Law Firm .

Commissioner　Mari SONO

Mari SONO was appointed a commissioner of the SESC in December 2013. Before being appointed to the Commission, she served as a Senior Partner, Ernst & Young ShinNihon LLC.

Logo of Securities and Exchange Surveillance Commission

SESC

"for investors, with investors"

∗ Note: The two ellipses crossing each other symbolize the securities markets and financial futures markets, which are both subject to our surveillance; the cooperation between the SESC and other domestic authorities concerned; and, what's more, our relationship with investors.

And the slogan "for investors, with investors" represents the principle position of the SESC, which was established to protect investors and respect its relationship with them.

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