Annual Report 2015/2016

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 25th 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, the characteristics of customers (personal investors, corporate pensions, etc.), and financial instruments and transactions that 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 is committed to pursuing its mission of being “feared by wrongdoers and trusted by ordinary investors.”

December 2016

Kenichi SADO
Chairman
Securities and Exchange Surveillance Commission

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[Disclaimer: This is an unofficial translation and provided for reference only]

Abbreviations

FSA Establishment Act	Act for Establishment of the Financial Services Agency (Act No. 130 of 1998)
FIEA	Financial Instruments and Exchange Act (Act No. 25 of 1948)
SEA	Securities and Exchange Act (Renamed the "Financial Instruments and Exchange Act" due to the Act for the Amendment of the Securities and Exchange Act, etc. (Act No. 65 of 2006))
Anti-Criminal Proceeds Act	Act on Prevention of Transfer of Criminal Proceeds (Act No. 22 of 2007)
Investment Trust Act	Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951)
SPC Act	Act on Securitization of Assets (Act No. 105 of 1998)
Act on Transfer of Bonds, etc.	Act on the Book-Entry Transfer of Company Bonds, Shares, etc. (Act No. 75 of 2001)
Order for Enforcement of the FIEA	Order for Enforcement of the Financial Instruments and Exchange Act (Cabinet Order No. 321 of 1965)
FIB Cabinet Office Ordinance	Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007)
Ordinance on Security Deposits	Cabinet Office Ordinance on Transactions under Article 161-2 of the Financial Instruments and Exchange Act and Deposits Related Thereto (Ordinance of the Ministry of Finance No. 75 of 1953)

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 8th term was established in December 2013, and it announced “Towards Enhanced Market Integrity” as a medium-term policy statement (hereinafter referred to as “Policy Statement”; See Appendix 2-1) in January 2014. Under the Policy Statement, the SESC formulated three policy directions consisting of: (1) Market oversight with prompt and strategic actions; (2) Enhanced surveillance in response to the globalization of markets; and (3) Efforts for enhanced market integrity. Pursuant to these three policy directions, the SESC continues to strive to secure effective and efficient market surveillance with strong emphasis on prioritized items: (1) Proactive market oversight through enhanced information-collecting ability; (2) Strict action against severe and malignant market misconduct and false disclosure statements; (3) Timely and efficient inspections in response to disclosure violations; (4) Use of administrative monetary penalty system against market misconduct, etc.; (5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected; (6) Responding to malicious businesses engaged in fraudulent operations; (7) Effective dissemination of information; and (8) Enhanced cooperation with self-regulatory organizations.

1. Activities in FY2015

During FY2015 (April 1, 2015 to March 31, 2016), which is the period covered by this publication, the SESC was, under the Strategic Directions and Priorities 2015-2016, engaged in market surveillance as described below and strategically utilized the powers and human resources with which it has been vested.

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 periodic exchanges of information. In addition, the SESC has stepped up its efforts to engage in dialogue with market participants and continued to actively disseminate information to the market for the purpose of encouraging each market participant to make voluntary efforts. In addition, the SESC held a meeting at the Kinki Finance Bureau—the meeting which the first time held outside the Tokyo metropolitan area—and exchanged opinions with relevant organizations in the area in an effort to increase the presence and raise awareness that “the SESC is watching”. The SESC contributes articles to various publications and the mass media, and uses the SESC Email Magazine to disseminate details of its activities, its awareness of problems and other information in a timely manner. The SESC has focused on expanding and enhancing the information content so that significance, characteristics and causes of recommendations for administrative disciplinary actions or filing of criminal charges could be correctly understood.

With respect to routine market surveillance, the SESC continued its efforts, including accepting information from ordinary investors, etc., conducting market oversight targeting primary and secondary markets, cooperating with overseas regulators in view of the

globalization of markets, reviewing insider trading, market manipulation and fraudulent activities, and studying the state of affairs of IT-based trading like algorithm trading, etc. Sometimes the information collected or the market oversight would reveal certain conducts impairing the fairness of transactions as well as other problems. 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 charge.

Inspections of financial instruments business operators and the like revealed problems involving type I financial instruments business operators, including cases where such an operator sold corporate bonds while intentionally disguising the financial status of the issuer company; a sales representative solicited investment from investors by providing corporate information obtained by an analyst to the investors; and a purported investment from a qualified institutional investor in a fund operated by a person making notification for business specially permitted for qualified institutional investors turned out to be an investment without substance because the operator virtually provided the money. In addition, with regard to investment advisories/agencies, the SESC found cases including those in which an operator provided special benefit to a customer and a non-registered operator was engaged in discretionary investment management business. The SESC also found a case of a financial instruments intermediary service operator engaging in soliciting using corporate information obtained through business other than financial instruments intermediary service. In cases where a serious violation of laws or regulations was found, including the financial instruments business operators involved in these cases, the SESC has made recommendations for administrative disciplinary actions.

Furthermore, the SESC has also filed petitions for court injunctions pursuant to Article 192 “Prohibition Order or Order for Suspension Issued by Court” of the Financial Instruments and Exchange Act (FIEA) against financial instruments business operators which committed violations of the FIEA such as by providing customers with false information for fund solicitation, and trading stocks, or acting as an intermediary for the consignment of stock trading, without proper registration as an operator. Additionally, as a result of investigations and inspections to persons making notification for business specially permitted for qualified institutional investors, the SESC also announced the names of financial instruments business operators which had violated relevant laws and regulations, such as engaging in investment solicitation or investment management without meeting the requirements of businesses specially permitted for qualified institutional investors and soliciting investment in a fund by making false representation using brochures which include information on investment method, fund performance, etc. that contradicted reality, as well as those with problems in terms of investor protection, such as inadequate handling of investment, investment management, inappropriately using invested money for dividend, redemption money to other funds and the company’s expenses.

With respect to market misconduct, the SESC made recommendations for administrative monetary penalty payment orders against several cases, including insider trading, market manipulation and fraudulent conduct. In addition, the SESC made a recommendation to the Financial Services Agency (hereinafter referred to as “FSA”) to order an administrative monetary penalty under regulations on information communication against the FIEA in which an individual of a company communicated material facts and information on a planned

take-over bid with the purpose of providing benefit to a third party, and also made recommendations on a case involving an operator that manipulated the market by using a proprietary trading system (PTS) and a case in which a stock price was supported through fraudulent means in order to maintain the listing of the company.

In addition, with respect to cross-border market misconduct by foreign investors, the SESC conducted investigations in close collaboration with overseas regulators under the global framework for cooperation and information exchange and made recommendations for administrative monetary penalty payment orders. The representative cases include: an insider trading case by an overseas individual investor who learned a material facts in the course of negotiation for a contract; a market manipulation case in which an overseas institutional investor took advantage of the difference in operating hours of a stock exchange and a PTS through transactions overarching between them: and another market manipulation case in which an investor placed sell orders at high prices without intention to execute the orders and repurchased the shares at artificially lowered price.

With respect to the violation of disclosure requirements, the SESC made recommendations to the FSA to order an administrative monetary penalty against a listed company that, among others, in an attempt to accelerate recovery from a steep decline in earnings, committed inappropriate accounting with various, including recording profits earlier, deferring expenses and understated allowances. The SESC also made a recommendation in a case in which some false descriptions were made in a securities registration statement.

In an effort of the flexibility of its disclosure inspection, the SESC commenced gathering and analyzing information, to focus on potential risks of material misstatement associated with changes in the business environment of listed companies. Moreover, for listed companies that committed false statements, the SESC enhanced efforts to urge such firms, to correct early and voluntarily the disclosure statements, and to establish an appropriate disclosure system through identifying the root cause of the violation in accordance with the nature of the case.

The SESC has conducted a wide range of market surveillance and filed criminal charges against malicious criminal acts that impair the fairness of markets.

The SESC recently filed criminal charges against a representative director and a managing director of a listed company for using fraudulent means and submitting an annual securities report containing false disclosure statements. To gain profits by selling the shares of the company, they published timely disclosure statements containing a false statement that the company revised figures such as net sales and ordinary profit upward and other false information. This case may be seen as a broader financial crime because, in relation to this case, a de facto owner of another company that had business with the company above was prosecuted on charges of fraud and violation of the Customs Act.

In addition, the SESC filed charges against individual investors for spreading rumors, using fraudulent means and failing to submit Reports of Possession of Large Volume in relation to shares of two listed companies. They raised prices of the shares of the companies by publicizing statements including false information on a website, to which many and unspecified persons can access, and sold a large amount of shares at artificially raised prices. The SESC also filed charges against the same investors for committing market manipulation on the shares of one of the two companies above by using methods such as raising the share

prices artificially by placing a large amount of market purchase orders before the opening of the morning session.

Moreover, the SESC filed charges, in cooperation with the police, against a representative director of a listed company for submission of an annual securities report containing false disclosure statements by recording fictitious assets, which constituted a large part of the net assets.

Furthermore, in order to enhance the transparency of market surveillance administration and to encourage the self-discipline of market participants, the SESC published an edition of *the Casebook on the Administrative Monetary Penalties under the FIEA (Market Misconduct and Violation of Disclosure Requirements)* in August 2015, which were compilations of preceding cases recommended to the commissioner of the FSA for administrative monetary penalties.

2. Future Challenges and policy

As described above, the SESC has been engaged in effective and efficient market surveillance for the past year.

On the other hand, given the dynamically changing environment surrounding the Japanese market, as seen in situations where revisions of the FIEA and where innovative financial instruments and trades have advanced with the aid of information technology, the SESC's market surveillance needs to address these changes appropriately. New trading methods, like algorithmic trading, are increasing as information technology advances, while material facts regarding insider trading are diversified. In terms of listed companies' violations of disclosure requirements, a leading Japanese global company was found to have committed inappropriate accounting practices on a large scale, and there have been cases in which globally operating companies failed to establish adequate systems to manage their overseas subsidiaries.

In view of such circumstances, the SESC needs to enhance its methods for inspection and investigation in order to step up its market oversight from a forward-looking viewpoint based on the collection and analyses of macroeconomic information and address the increasingly diverse, complex and cunning nature of problem cases. The SESC also needs to examine the appropriateness of information disclosure by large listed companies, in addition to existing efforts to expose problem companies.

In conducting inspections of financial instruments business operators, the SESC believes it is essential to further enhance its ability to identify potential problems with consideration given to each characteristic of diverse business types of financial instruments business operators, customers, and increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly.

Furthermore, with regard to violations involving cross-border transactions, the SESC is required to continue to respond harshly to market misconduct by both Japanese and foreign professional investors, while enhancing surveillance on frequently conducted cross-border trading in cooperation with overseas regulators.

The SESC will continue to do its best to handle these challenges appropriately, perform more effective and efficient market surveillance, and sustain investors' confidence in the market to secure the protection of investors.

January 21, 2014

Securities and Exchange Surveillance Commission

Toward Enhanced Market Integrity

- SESC's Policy Statement for the 8th Term* -

1. Mission

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

○ To ensure the integrity of capital markets, and

○ To protect investors

2. Policy Directions

The Japanese capital markets have been experiencing dynamic changes. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods through the use of IT, etc. Cross-border transactions are expanding. The SESC is determined to handle issues that need to be addressed in a timely manner by constantly keeping an eye on such market trends and collecting/analyzing information with even greater sensitivity.

(1) Market oversight with prompt and strategic actions

- Strategic use of our regulatory tools (e.g. recommendations, criminal charges, court petitions and policy proposals), early handling of current issues in the market and cooperation with supervisory authorities and self-regulatory organizations (SROs) to effectively address issues according to their contents
- Timely acknowledgement and proactive responses to emerging issues by summing up and analyzing recent market trends as well as information obtained from external sources and through oversight activities

(2) Enhanced surveillance in 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 as well as their increasing impact on Japanese markets and investors
- Effective inspections of globally active and large-scale securities firms with consideration of their international business, utilizing international supervisory frameworks such as information exchanges with overseas regulators
- Fostering personnel that can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel

(3) Efforts 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 cooperation with SROs and other channels, to encourage their self-discipline in the interests of market integrity. Closer communications with market participants and more effective dissemination of information in order to communicate the concerns of the SESC effectively

The SESC believes that our contributions toward fair, transparent and quality capital markets will help develop the Japanese capital markets and vitalize their international competitiveness through the implementation of comprehensive and effective market oversight activities based on the policy directions set out above.

* *SESC Chairman Kenichi Sado and Commissioners Masayuki Yoshida and Mari Sono were appointed and started their new 3-year term on December 13, 2013*

3. Policy Priorities

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

(1) Proactive market oversight through enhanced information-collecting ability

- Timely detection of issues in the market through summary/analysis of information obtained through various channels and through examinations of individual transactions and research of market trends, to proactively carry out market surveillance
- A multifaceted surveillance of both primary and secondary markets, to unravel the overall picture of market abuse and carry out appropriate law enforcement
- Paying attention to transactions that have been recognized as problematic from a market fairness perspective, even though they have not always been our surveillance objects before, and considering how to address them
- Clarification of facts of cross-border market abuse and carrying out appropriate law enforcement against them, through investigation requests of overseas regulators with active use of exchange-of-information frameworks amongst securities regulators

(2) Strict action against severe and malignant market misconduct and false disclosure statements

- Taking strict action against severe and malignant market abuse such as insider dealing, market manipulation, spreading of rumors, fraudulent means and false disclosure statements, by exercising the right to investigate criminal cases. Cooperating with investigative authorities, overseas regulators and other related organizations to effectively clarify facts and seek liability, according to the contents of the matter

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

- Implementation of timely and efficient disclosure inspections 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 accurate corporate information to the market as well as encouraging related parties to achieve such appropriate disclosure. Pointing out business management issues that were the cause of the false disclosure statements and other abuse, if necessary, and suggest improvement

(4) Use of administrative monetary penalty system against market misconduct, etc.

- Implementation of timely and efficient inspections and investigations, taking advantage of the administrative monetary penalty system, for insider dealing, market manipulation, spreading of rumors, fraudulent means, and other market misconduct, etc.
- Continuing to making necessary proposals on the regulatory system regarding market misconduct, based on investigation results

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

- Conducting efficient and effective inspection through strengthening the capabilities to collect and analyze information, establishing a system to select firms and business areas to be inspected based on information and analysis results, as well as development and establishment of know-how and inspection methods corresponding to the characteristics of firms to be inspected, due to the expansion of scope of firms to be inspected
- Conducting inspections of globally active securities firms, verifying the appropriateness of internal controls and risk management systems and, from a forward-looking perspective, utilize information that the inspection and supervisory departments of the Financial Services Agency (FSA) collect through their monitoring activities

(6) Responding to malicious businesses engaged in fraudulent operations

- Conducting inspections of malicious Financial Instruments Business Operators and Persons making Notification for Business Specially Permitted for Qualified Institutional Investors that are engaged in fraudulent operations and cause damage to investors at an early stage in order to identify violations of the law and to prevent the expansion of damage, from the perspective of protecting investors. Collecting/analyzing information through various channels upon selecting the firms to be inspected and enhancing the system to promptly respond to problematic firms. Taking strict actions against highly malicious firms, in cooperation with the organizations concerned.
- Taking proactive actions against the selling of funds by unregistered entities, by enhancing cooperation with the FSA, the Local Finance Bureaus and investigative authorities, and actively utilizing the authority to seek petitions for court injunctions (Article 192 of the FIEA)

(7) Effective dissemination of information

- Specific explanation to ensure accurate communication of the contents of the matter and issues in press announcements related to recommendations and other individual matters
- Effective outreach through enhancing the contents of announcements for cases of administrative monetary penalty and major findings in securities inspections from the perspective of preventing violations
- Reviewing the website of the SESC to make it easier for users and information providers to use, as well as focusing on outreach in English

(8) Enhanced cooperation with SROs

- Implementing surveillance by sharing information and concerns with SROs, to enhance the overall market surveillance function. Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors

Chapter 1. Overview of the SESC

1) The Securities and Exchange Surveillance Commission

The Securities and Exchange Surveillance Commission (SESC) was established pursuant to Article 54 of the Act for Establishment of the Cabinet Office and Article 6 of the Act for Establishment of the Financial Services Agency. The SESC is a so-called Article 8 committee (positioned as a committee as set forth in Article 8 of the National Government Organization Act), which consists of a Chairman and two Commissioners. The Executive Bureau is organized within the SESC to implement the operations.

1. The SESC

A decision of the SESC may be made by the approval of two or more members thereof. Both the Chairman and commissioners may use their authority independently, and they are appointed by the prime minister with the consent of both Houses. Their term of office is three years and they may be reappointed. Except where there is a specific legal reason, they may not be dismissed against their will during their tenure.

The SESC commenced its first term in July 1992. The eighth term of the SESC commenced as of December 13, 2013, and Mr. Kenichi Sado, Chairman, and Mr. Masayuki Yoshida, Commissioner, were reappointed, while Ms. Mari Sono began her tenure as a Commissioner.

2. The Executive Bureau

Under the supervision of the Secretary General, the Deputy Secretary General (Note 1) and the Deputy Secretary-General for International and Information Affairs, the Executive Bureau of the SESC is composed of six divisions: the Coordination Division, the Market Surveillance Division, the Inspection Division, the Administrative Monetary Penalty Division, the Disclosure Statements Inspection Division, and the Investigation Division (Note 2). The total number of staff placed at the Executive Bureau is 411 in FY2016, reflecting an approved increase (four in FY2015 and four in FY2016) for the purpose of promoting the improvement and expansion of the market surveillance framework.

(1) The Coordination Division is responsible for overall coordination of the SESC and the management of meetings for the SESC.
(2) The Market Surveillance Division is responsible for the acceptance of information from retail investors, the collection and analysis of information related to securities transactions, and inspection of the transactions.
(3) The Inspection Division is responsible for the inspection of financial instruments business operators, etc. (the "Securities Inspection").
(4) The Administrative Monetary Penalty Division is responsible for the investigation of cases pertaining to administrative penalties for market misconduct, such as insider trading (the "Investigation of Market Misconduct"). In addition, the Office of Investigation for International Transactions and Related Issues is responsible mainly for the investigation of transactions, etc., conducted by persons in foreign countries.
(5) The Disclosure Statements Inspection Division is responsible for the inspection of

disclosure statements, such as securities reports (the "Inspection of Disclosure").

(6) The Investigation Division is responsible for the investigation of criminal cases hindering the fairness of transactions.

(Note 1) In July 1, 2007, the number was increased to two, from the one originally planned.

(Note 2): On July 1, 2006, the SESC was transformed from two divisions (the Coordination and Inspection Division and the Investigation 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), resulting in the SESC being transformed into six divisions.

2) Local Operations

The director of the Securities and Exchange Surveillance Department (responsible for specializing in handling operations under the control of the SESC) is appointed at each local office under the supervision of the director-general of a local finance bureau, the director-general of a local finance branch bureau, or the director-general of the Okinawa General Bureau (the "director-general of a local finance bureau, etc."). The number of staff at the Securities and Exchange Surveillance Department as of March 2016 was 352, reflecting an approved increase (11 for FY2015 and 10 for FY2016) for the purpose of promoting the improvement and expansion of the market surveillance framework.

The director of the Securities and Exchange Surveillance Department is commissioned by the SESC to conduct Market Surveillance, Securities Inspection, Investigation of Market Misconduct and Inspection of Disclosure, and also engages in investigation of criminal cases under the direction of the SESC. (Note)

(Note) The SESC entrusts some of its investigation and inspection authorities as well as the authority to order the submission of reports and documents to the director-general of a local finance bureau, etc. (however, if necessary, the SESC may exercise the authorities itself).

Chapter 2. Cross-Sectional Initiatives to Enhance Surveillance Activities and Functions, and Future Challenges

1) Initiatives toward Enhanced Market Integrity

1. Initiatives taken as the SESC

(1) Holding of the SESC Meeting

The regular meeting of the SESC is generally held every Tuesday and Friday and attended by the chairman, the two Commissioners, the Secretary General, and senior officials at the Secretariat. The meeting was held 82 times during FY2015. At the SESC meeting, the members mainly discussed matters regarding the inspection of financial instruments business operators, etc., the investigation of market misconduct, such as insider trading and market manipulation, the inspection of disclosure statements against disclosure violations by listed companies, and filing criminal charges and other applications for criminal prosecution against serious and malicious market misconduct. The breakdown of such deliberations made at the SESC meeting in FY2015 is shown as below:

- Recommendations for administrative penalties against financial instruments business operators, etc. 18
- Filing petitions to the court to issue a prohibition order, etc., against unregistered entities 3
- Recommendations for order to pay administrative monetary penalties against market misconduct 35
- Recommendations to issue an order to pay administrative monetary penalties against violation of disclosure regulations, etc. 6
- Filing criminal charges for prosecution 8

In addition to the above deliberations, the SESC is working on activating discussions at the meeting by raising topics on a timely basis, including recent challenges in the financial and capital markets, global financial and capital market trends, and trends in the regulatory authorities.

(2) Implementation on exchange of opinions with market participants, etc.

In order to collect and understand a wide range of information about the environment surrounding the current financial and capital markets, including at home and abroad from the viewpoint of using them for the activities of the SESC in the future, the SESC interviewed and exchanged opinions with analysts and other professionals in the financial and other relevant sectors about recent trends in the Japanese financial and capital markets, and overseas financial and capital market conditions, as well as the trends and the risk factors in each relevant sector due to the declining prices of natural resources and energy.

In addition, with respect to the negative interest rate policy adopted by the Bank of Japan, which was introduced in January 2016, the SESC also interviewed the market participants about the impacts on the financial and capital markets as well as on financial instruments business operators, including securities companies. The SESC believes that these activities

have helped the SESC to develop its insight into the trends of the current financial and capital markets.

(3) Interview with Securities Companies, etc.

The SESC conducted direct interviews with presidents and other leaders of major securities companies by inviting them to the SESC meeting to identify their recognition of risk in both the domestic and overseas securities markets, their business priorities, management strategies and future challenges, and so on (excluding individual inspections and investigations).

The SESC believes that these activities have helped the SESC share a common understanding of the current situations the securities companies are facing and the presidents' recognition thereof, as well as future challenges in order to implement better initiatives in the future.

(4) Holding of the SESC Meeting at Kinki Local Finance Bureau

For the purpose of strengthening market discipline to ensure fairness, transparency and investor protection in the market, it is essential to make market participants more aware of the SESC's presence in detecting misconduct in the market. In addition, the SESC is required to improve its presence on a nationwide basis, given the potential market misconduct throughout the nation due to the wide spread of unregistered financial entities throughout the nation as well as the wide use of the Internet.

From this point of view, the SESC has so far endeavored to encourage market participants to have greater awareness of issues raised by the SESC through lectures or other verbal instruction at local district associations of the Japan Securities Dealers Association and the Exchanges, etc., as part of initiatives to prevent market misconduct. For the purpose of improving the further presence of the SESC, the SESC meeting was held at the Kinki Local Finance Bureau on November 6, 2015, which was the first meeting held outside the Tokyo metropolitan area.

Taking this opportunity, the SESC members also visited the relevant institutions located in the Kinki area, such as the Osaka High District Public Prosecutors Office, the Osaka Regional Taxation Bureau, the Osaka District Public Prosecutors Office, Osaka Prefectural Police, the Osaka Bar Association and the Japanese Institute of Certified Public Accountants Kinki Chapter, in order to strengthen cooperation with the relevant institutions through the mutual exchange of opinions and to share awareness of the issues.

On the same date, at Kinki Local Financial Bureau, the SESC also gave a lecture for local reporters in the Kinki area on the points of these initiatives and an overview of the SESC's roles and responsibilities, with the aim of encouraging investors living in the Kinki area to improve their awareness of the SESC's presence in detecting misconduct in the market.

The SESC aims to continue to improve the awareness of SESC's presence in detecting misconduct in the market. In June 2016, the SESC meeting is scheduled to be held at the Tokai Local Finance Bureau.

2. Cooperation with Self-Regulatory Organizations, etc.

(1) Expansion of Cooperation Targets Relating to Investor Protection

The most effective investor protection is to prevent in advance any potential market

misconduct. Accordingly, by strengthening the market discipline function through voluntary initiatives made by the market participants or the like, including self-regulatory organizations, the SESC has proactively talked with many market participants to ensure they have a common recognition so that the effect can be realized.

As part of these initiatives, the SESC has so far achieved close cooperation with the market participants, such as self-regulatory organizations, by exchanging information on a daily basis and opinions on a regular basis. In FY2015, the SESC endeavored to engage in further expansion of the cooperation targets to strengthen cooperation with a wider range of market participants.

More specifically, in FY2015, since the root cause of false disclosure statements in annual securities reports, etc., associated with inappropriate accounting by listed companies was identified as a problem in corporate governance, including the internal audit function by statutory auditors, the SESC exchanged opinions and other information not only with the Japan Audit & Supervisory Board Members Association but also with attorneys with knowledge of various fields related to market surveillance conducted by the SESC. Accordingly, the SESC has endeavored to have common awareness of the problems and share information with a wider range of market participants from the standpoint of investor protection.

(2) Cooperation with Self-Regulatory Organizations

Self-regulatory organizations, namely financial instruments exchanges and financial instruments business associations, engage in day-to-day market surveillance activities, such as checking if each member belonging thereto is conducting trading examination, listing control or other business operations in an appropriate manner. For this reason, the SESC has been working to secure close cooperation with the market surveillance departments of these self-regulatory organizations, from the point of view of efficient and effective market surveillance.

In addition, in order to secure further cooperation toward the strengthening of market discipline and the market surveillance function, the SESC has actively debated and exchanged opinions with self-regulatory organizations regarding a variety of problems and challenges in the fields of market surveillance to share mutual awareness of such problems.

Specifically, each of the self-regulatory organizations reports its activities to the SESC on a regular basis for the purpose of exchanging opinions, and the SESC also holds meetings for the exchange of opinions on a wide range of subjects with the Japan Exchange Regulation and the Japan Securities Dealers Association.

In addition, the Japan Securities Dealers Association has conducted training sessions for internal control supervisory managers and assistant internal control supervisory managers as defined in the self-regulatory rules, with the aim of enhancing the compliance capability of members etc. The SESC has dispatched lecturers to these training sessions. Officials of self-regulatory organizations also participate in the SESC training programs for SESC officials in order to share know-how, etc.

(3) Holding of the SESC Meeting at the Japan Exchange

As described above, the SESC and the self-regulatory organizations have up to now established close cooperation with each other through the above initiatives. In addition, for

the purpose of securing stronger cooperation, on November 27, 2015, the SESC meeting was held at the Japan Exchange, which was the first meeting held outside the SESC organization. At this meeting, the SESC exchanged opinions with the Japan Exchange Regulation and received reports from the Japan Exchange Regulation about its activities with the aim of achieving common awareness of the problems related to market surveillance and sharing information with each other.

The SESC believes that these initiatives have actually contributed to the sharing of dialogues and recognition of the relevant issues between the SESC and the self-regulatory organizations, and to the strengthening of the market discipline function through voluntary initiatives. Therefore, in the future, the SESC will consider holding the meeting at other self-regulatory organizations, etc., in order to build a closer cooperation framework with the market participants.

3. Cooperation with Relevant Authorities, etc.

(1) Cooperation with Market Surveillance Divisions and Other Relevant Divisions at the FSA and Local Finance Bureaus

In order to ensure market integrity and transparency, and investor protection in properly executing its work, it is essential that the SESC share its awareness of issues with the FSA, which is the regulatory agency for Japan's financial and capital markets. Therefore, the SESC and the FSA widely share problems of the moment between executives and personnel in charge, not to mention exchanging daily information. In addition, 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. The Local Finance Bureau Inspectors Meeting is held every year, with the aim of sharing awareness of problems regarding matters that require national cooperation, such as problems in market surveillance. Each division or unit within the SESC also exchanges information on a daily basis and opinions on a regular basis.

(2) Expansion and Deepening of Cooperation with the Relevant Authorities

Upon the detection of a malicious financial instruments business operator, such as an unregistered entity engaging in the sale of fraudulent financial instruments through inspection, etc., or if any anti-social forces allegedly exist in the investigation of a fraudulent means case, the SESC addresses the issue through collaboration with the police authorities by sharing information (in the case of malicious and fraudulent solicitation for financial instruments, the SESC also shares information with the Consumer Affairs Agency). In addition, the SESC engages in day-to-day cooperation with the prosecution authorities acting as the accusing party in respect of criminal cases, and is also striving to strengthen its relationship with tax authorities through the exchange of views.

The SESC has been working to cooperate with these authorities through daily information exchange and opinion exchange meetings. In FY2015, the SESC expanded and developed its cooperation through communication with more departments in these authorities, sharing awareness of the issues and information exchange from a broader perspective, with the aim of achieving common know-how on investigation.

In addition, utilizing the opportunities of business trips to local areas by the SESC's executives and staff, the SESC secures the exchange of opinions with the Public Prosecutor's Office, the Regional Taxation Bureau, and the prefectural police, etc., in each region at both the executive and working levels.

4. Strengthening of Dissemination of Information

(1) Dissemination of Information through the Mass Media, etc.

When the SESC makes a recommendation for administrative disciplinary actions or files a criminal accusation based on its investigations or inspections, or when it makes an important policy decision, the SESC publicizes the case or decision through a press conference. In so doing, the SESC has a policy of not only providing a mere description of each case but also providing the audience with an accurate understanding of each case by explaining the significance, characteristics and causes of the cases so that the cases and problems can be transmitted in detail in an appropriate manner with the aim of contributing to the prevention of market misconduct. Furthermore, the SESC also actively addresses requests for interviews and writings, etc., from various media, such as newspapers, magazines, and TV.

In addition, in March 2016, a drastic revision was made to the SESC's pamphlet, aiming to ensure clarified messages for the audience and user-friendly structure and content.

(2) Enhancement of the Website

The SESC transmits information through its website in a timely manner, including an overview of recommendations for administrative disciplinary action or criminal accusations, and details of lecture presentations and writings, from the viewpoint of helping market participants understand the SESC's market surveillance. In addition, the SESC also provides mail delivery services. Each registrant receives new information, such as an overview of recommendations for administrative disciplinary actions or criminal accusations, details of lecture presentations and writings, and other matters that are listed on the website on a daily basis. Furthermore, the SESC publishes "the SESC Mail Magazine"(*) on a monthly basis, which contains the activities of the SESC and the key points on the awareness of issues. The number of registrants has increased continually, reaching approximately 4,400 as of the end of FY2015.

With regard to the SESC Mail Magazine, the SESC improved the details of the information contents with the aim of transmitting messages on the details of each case, problems and other important points, by describing the significance, characteristics and causes of the cases.

In addition, from the viewpoint of enhancing the overseas dissemination of transmission, the SESC posts on its English website the SESC's profile (English version), its annual report, which was partially translated into English with reference to the "Activities of the Securities and Exchange Surveillance Committee," the "Inspection Manual for Financial Instruments Business Operators" and the "Securities Inspection Policy," which are likely to arouse the interest of overseas market participants, etc.

(*) The SESC Mail Magazine: http://www.fsa.go.jp/haishin/sesc/

2) Reinforcement and Strengthening of the Market Surveillance System

1. Reinforcement of the Organization

(1) Reinforcement of the Organization

The SESC, which initially had a two-division system comprising the Coordination and Inspection Division and the Investigation Division, now comprises six divisions with extensive and diverse roles divided according to 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.

Amid severe conditions for the overall quotas of national public service personnel, an increase of four officers was approved in the FY2016 budget as a result of a request for an increase in personnel in order to improve and enhance the inspection framework of persons making notification for business specially permitted for qualified institutional investors and developing an inspection framework on market misconduct by professional investors both in Japan and overseas using cross-border transactions, etc. This brings the total SESC staff quota to 411 as of the end of FY2016.

As for the securities transactions surveillance officers (divisions) at the local finance bureaus, an increase of 10 officers was approved, mainly to improve the system of inspection of persons making notification for business specially permitted for qualified institutional investors, etc., bringing the quota to 352 as of the end of FY2016. Combined with the staff quotas of the SESC, the total number stands at 763.

(2) Strengthening of the Market Surveillance Function by the appointment of Private-Sector Experts

From the perspective of ensuring effective market surveillance and boosting professional expertise among its officers, the SESC reinforced its investigation and inspection systems during FY2015 by employing a total of eight private-sector experts with specialized knowledge and experience in the securities business, including attorneys and certified public accountants. The appointment of private-sector experts started in 2000, and, as of the end of FY2015, 109 such professionals were employed at the SESC.

2. Improvement of the Capacity for Collecting and Analyzing Information

(1) Utilization of the Securities Comprehensive Analyzing System

Due to the need to ascertain all of the facts relating to securities transactions by analyzing massive, complicated amounts of data, the SESC has been developing a system supporting its operations called the “Securities Comprehensive Analyzing System” since 1993, in order to enhance operational efficiency. This IT 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 statements, the inspection of securities companies and other entities, day-to-day market surveillance, and market oversight. This IT system has contributed to improving operational efficiency, including the speedy preparation of basic materials related to insider trading and market manipulation, the preparation of materials for inspections of securities companies, the analysis of financial data listed in annual securities reports, and the quick processing of market information provided by the general public.

It should be noted that, based on the “Optimization Plan for Business Processes and Systems concerning the Inspection 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 role of the Securities Comprehensive Analyzing System was integrated with the Financial Services Agency Business Support Integrated System in March 2015. In FY2015, pursuant to the policy of making effective use of the integrated system as a sub-system on a continuing basis in the future, the SESC further developed the market oversight function as a measure to cope with HFT (High Frequency Trading) issues and upgrading the database to include data from the new stock trading system established by the Tokyo Stock Exchange, Inc., which began operations in September 2015.

(2) Better Staff Training

The SESC has aimed at improving the quality of staff by providing them with OJT and seminars for the acquisition of know-how about oversight techniques on investigations and inspections. Staff members also learn the latest information on financial and capital markets from lectures by outside instructors, etc. These are some of the initiatives to enhance staff quality. More specifically, the SESC has provided several training programs, including a lecture on techniques of collection and analysis of market information from the perspective of analysts and institutional investors as well as on-the-job training on improving dialogue capabilities, to achieve accurate information from inspectees or investigatees for the purpose of widening the field of view of the staff.

In order to accurately and rapidly respond to the new challenges of more complex and diverse types of transactions and trading techniques, and the increase in cross-border transactions, training is being provided to enable each staff member to acquire specialized knowledge and skills regarding new financial instruments and transaction techniques, investigation techniques on cross-border transactions, and investigation techniques using digital forensics, etc.

3. Enhancement of Systems Infrastructures to Support Market Surveillance

For the purpose of enhancement for analyzing, preserving and evidencing electronic records on inspection and investigation, the SESC started to consider the introduction of digital forensics technology from FY2008, and completed the first equipment plan to secure an operating environment on restoring and evidencing electronic records in FY2010. In FY2011, the SESC advanced its analytical tools through the development of the data analysis environment as its second equipment plan. Since then, the SESC has procured additional equipment in light of the changing IT environment, such as higher performance and larger capacity equipment, and will plan to promote further system development towards effective market surveillance activities in the future.

4. Cross-Sectional Initiatives within the SESC toward Effective Improvement of Market Surveillance

All the divisions and offices of the SESC have carried out cross-sectional discussions and studies with a focus on important tasks, including the establishment of a project team, with a view to appropriately addressing the changes in the environments both in Japan and abroad,

and implementing effective market surveillance. Specifically, in FY2015, the SESC provided further insights into the following points:

(1) Dealing with Developments in IT Technology, etc. (Strengthening of Digital Forensics Systems and Coping with FinTech)

To cope with the development of IT technology, it is essential for the SESC to make use of digital forensics technology for inspection and investigation. Against this backdrop, in order to secure more effective use of digital forensics, the SESC has set up a cross-sectional project team whose members are composed of various divisions and offices, but mainly from the Office of IT Forensics and Information that was established in FY2015. The project team has pursued the strengthening of the digital forensics operation systems, including personnel training and the maintenance and upgrading, etc. of the system environment.

In addition, each division and office of the SESC has collected information on a cross-sectional basis from external market participants, etc., regarding the cutting-edge financial technologies and methods associated with the progress of FinTech, such as investment advice and asset management using artificial intelligence (AI), high-speed transactions using programs and so forth, and conducted a survey regarding the potential impact on the securities markets, market intermediaries and others.

In the future, the SESC intends to accurately assess changes and other events in the market structure due to the development of IT technology, including FinTech, etc. in order to carry out market surveillance with a flexible response.

(2) Study on the Role of a Third-Party Committee Involved in Corporate Scandals

In the event of misconduct occurring in a listed company or other company within the scope of the regulations, the clarification of facts or investigation into the cause of the misconduct could be made by a third-party committee set up and composed of independent members from the relevant company, etc. In July 2010, the Japan Federation of Bar Associations publicized the “Guideline for a third party committee to investigate misconduct in companies, etc.,” describing what the third-party committee should be, given that the third-party committee is required to have the characteristics of independence, neutrality and expertise, etc.

Since any misconduct of a listed company may not only damage the value of the relevant listed company but also prejudice the reliability of the entire capital market, the SESC has conducted a comprehensive deliberation on the issue through cross-sectional study within the SESC, as well as through collaboration with the self-regulatory organizations and other relevant parties, as well as pursuant to the guidelines made by the Japan Federation of Bar Associations, with the aim of ensuring that root cause investigation is strictly carried out by a third party committee upon the occurrence of misconduct and that appropriate measures are taken by the company to prevent recurrence, which should be formulated as a result of the investigation made by the third party committee.

With regard to the response to scandals involving listed companies, on February 24, 2016, the Japan Exchange Regulation established the “Principles for Listed Companies Involved in Scandal—for the Stable Recovery of Enterprise Value,” which indicates four principles that should be strongly required to be implemented in action and response by

listed companies involved in misconduct. The SESC will also conduct market surveillance activities, keeping in mind the principles in order to ensure the integrity and transparency of the market.

(3) Responding to Litigation, etc.

The SESC has flexibly addressed litigations, claims for information disclosure, and any other legal demands against the determination of orders to pay administrative monetary penalties. More specifically, the SESC has set up a liaison council whose members are mainly composed of legal experts in the SESC, with the aim of achieving consistent responses against such litigations, etc. The liaison council has functioned as a place for the deliberation of matters to be examined by the SESC on a cross-sectional basis, as well as contributing to the sharing of information and awareness of problems regarding individual litigations and other legal actions.

(4) Study on the Improvement and Achievement of Effective Market Surveillance Systems for the Detection of Cases Involving Fraudulent Means and False Disclosure Statements

In order to achieve prompt and efficient detection of and take an appropriate action against cases involving fraudulent means, such as fraudulent finance, false statements, or other fraudulent entry of disclosure documents, it is essential for the SESC to achieve effective market surveillance of the primary market. From these points of view, the SESC has set up a cross-functional project team in each division and office within the SESC to examine and identify what and how the efficient system should be for the detection of cases involving fraudulent means or false statements of disclosure documents.

Based on examination of these matters for the purpose of detecting cases involving fraudulent means or false statements in disclosure documents, useful methodologies turn out to include not only an approach involving the analysis of disclosure data and information of individual companies to identify problems, but also an approach from a macroeconomic perspective of identifying a problematic company through the analysis of impacts and effects on the company due to changes in economic conditions and business environments. Therefore, the SESC is also considering strengthening and improving the market surveillance systems in order to effectively implement the approach from a macro point of view.

(5) Cross-Sectional Utilization of Information within the SESC, etc.

In addition to the above, the SESC has set up a cross-functional examination team in each division and office within the SESC for the purpose of sharing information to combat anti-social forces, etc., and money laundering activities in financial and capital markets. The SESC has also established a cross-examination team with the role of determining the state or quality of compliance with corporate governance by listed companies and others, including financial instruments business operators, within the scope of the regulations, in order to accumulate data and information achieved at the meetings between the internal audit directors in charge of such financial instruments business operators and the SESC executives. Accordingly, the SESC has made efforts to achieve comprehensive management and analysis of information obtained through a variety of channels to resolve problems beforehand for the purpose of flexible market surveillance.

3) Measures to Respond to the Globalization of Markets

1. Cooperation with Overseas Regulators and Global Market Surveillance

The SESC set “Enhanced surveillance in response to the globalization of markets” as one of the new pillars of its policy directions in the SESC’s Policy Statement for the 8th Term, which was formulated in January 2014, thereby laying out its policy of strengthening global market surveillance. Among other things, the SESC has stepped forward to foster personnel who can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel. The SESC will, by using the information exchange framework among multiple securities regulators, obtain information and request overseas regulators to assist its investigation on 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 transactions so as to ensure thoroughly guarded market surveillance.

(1) Activities of the International Organization of Securities Commissions (IOSCO)

The IOSCO is an international organization acting with the aim of establishing international harmony among securities regulations and mutual collaboration among securities regulators. IOSCO is composed of 210 organizations representing each country or region (of which 126 are ordinary members, 20 are associate members, and 64 are affiliate 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, the supreme decision-making body of IOSCO, is held. At the conference, 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 cross-border 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, representing the SESC, the Commissioner attends the Annual Conference of IOSCO. In June 2015, when the Annual Conference was held in London, Commissioner Yoshida and Secretariat staff participated in the meeting. Taking this opportunity, with securities regulators from various countries, they exchanged opinions on an individual basis. In addition, the Commissioner and major Secretariat staff also participates in the Asia-Pacific Regional Committee (APRC), one of the regional committees of IOSCO, which focuses 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 various countries or regions, and committees including 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 law enforcement issues and information exchange.

C4 is working on the exchange of information and cooperation in law enforcement among the national regulators, with the aim of dealing with market misconduct and securities crime using so-called cross-border transactions across multiple countries. In FY2015, C4 held a discussion on the exploration of elements that work as credible deterrents in the sanction system of each country against market misconduct, as well as promoting dialogue with uncooperative regulators of countries and regions. C4 also gathers information on recent trends in cybercrime, etc. in the securities markets and address issues concerning law enforcement. The SESC also explained recent market misconduct in the securities markets and its cooperation with overseas regulators at C4 on-site meetings. In addition, C4 discussed the recent trends regarding regulatory and law enforcement in each country.

The SESC has also participated in meetings of the Screening Group (SG) to examine the documents submitted to the IOSCO Secretariat by regulators applying to participate in the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMOU), which is an information sharing framework among multiple securities regulators. Given that more than 10 years have passed since the MMOU was adopted, the SG has also been examining the possibility of functionally enhancing the MMOU since May 2013 in light of changes in the market.

(2) Utilization of Information Exchange Frameworks

(i) It is absolutely essential to share information among securities regulators in different countries in order to address market misconduct that may impair the integrity of transactions in the markets of multiple countries, as international activities of market participants such as cross-border transactions and investment funds in financial and capital markets have become increasingly common.

With regard to building an information exchange framework with overseas securities 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

(ii) With respect to the MMOU, IOSCO resolved at its Annual Conference held in Colombo in April 2005 that each member regulator was required to become a signatory of the MMOU or to commit to securing the 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. With regard to unsigned regulators, IOSCO has actually taken steps to provide technical assistance to such regulators and post the progress of the establishment of a legal system for becoming a signatory to the MMOU on its website. IOSCO plans to take

step-by-step measures including restricting representatives of unsigned regulators from assuming important positions, including IOSCO Board Members, the Chairperson of the Regional Committee and the Chairperson or Vice Chairperson of the Policy Committee from September 2013, requesting representatives of unsigned regulators assuming the above positions to resign from their positions from March 2014, prohibiting unsigned regulators from participating in any policy committee from June 2014, and restricting unsigned regulators from exercising their voting rights from September 2014.

As of March 31, 2016, the number of signatories to the MMOU (signature A) is 109, and the number of unsigned regulators committed to securing the required legal authority to be a signatory to the MMOU (signature B) is 17.

In Japan, after screening by SG following the application to IOSCO 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.

(iii) Utilizing these frameworks for information exchange, the SESC recommended for orders to pay administrative monetary penalties on violations and market misconduct using cross-border transactions in the Japanese market in FY2015. The main cases are as follows:

- Insider trading (two cases)

  The SESC recommended cases involving insider trading where individual investors residing abroad knew material facts or information in the course of negotiation for the conclusion of a contract. More specifically, with regard to cases (i) where an individual investor residing abroad who was an officer of a negotiator for a contract with Gokurakuyu Co., Ltd. ("Gokurakuyu") was engaged in the trade of shares of Gokurakuyu, while he/she, in the course of negotiating the contract with Gokurakuyu, had come to know the fact that the organ responsible for making decisions on the execution of the operations of Gokurakuyu had decided to form a business alliance with the negotiator; and (ii) where an individual investor residing abroad purchased shares of GameOn Co., Ltd. ("GameOn"), while he/she, in the course of negotiating with the tender offeror of GameOn about the conclusion of a contract, had come to know the fact that the organ responsible for making decisions on the execution of the operations of GameOn had decided to make a tender offer for the shares of GameOn, the SESC recommended orders to pay administrative monetary penalties after obtaining the information with the aid of the MMOU (Chapter 6, Section 2-2-(1) and (2)).

- Market manipulation (two cases)

  With regard to cases where Evo Investment Advisors Ltd., a company incorporated and registered under the laws of the Cayman Islands, a British overseas territory, and Blue Sky Capital Management Pty Ltd., a company whose principal place of business is located in Australia, conducted a series of sales and purchases of the shares of business companies listed in the Japanese securities market that would cause fluctuations in the market price of the shares for the purpose of inducing sales and purchases of the shares, the SESC recommended orders to pay administrative monetary penalties after obtaining the information with the aid of the MMOU (Chapter

6, Section 2-2-(3) and (4)).

○ False disclosure statements in annual securities report, etc. (one case)

With regard to the case where, for the purpose of acquiring a cemetery business overseas, AGORA Hospitality Group Co., Ltd. ("AGORA") overstated its inventory assets (development projects in progress) and made other false statements in its annual securities report, etc. without assessing the assets relevant to the cemetery business, then submitted to the authorities the annual securities report, etc., and its securities registration statement incorporating the annual securities report, etc., and had others acquire the securities, through an offering based on said securities registration statement, the SESC recommended orders to pay administrative monetary penalties after obtaining the information with the aid of the MMOU (Chapter 7, Section 2-2(i)).

(iv) In addition to the cases described above, there were some cases where overseas securities regulators imposed administrative sanctions on violators pursuant to local laws and regulations as a result of an exchange of information with regulators based on original information provided by the market surveillance of the SESC. Thus, the SESC has steadily reinforced its cooperation with overseas securities regulators.

(3) Exchange of Views

The SESC is working on identifying recent trends in international financial and capital markets as well as initiatives by overseas regulators to ensure market integrity. The SESC is also working to promote understanding of its activities. Therefore, the SESC actively exchanges views with overseas securities regulators and globally active financial institutions. In October 2015, the SESC participated in the Asia-Pacific Regulators Dialogue on Market Surveillance held in Sydney with a view to facilitating opinion exchange on practical level issues among Asian market surveillance regulators. The SESC also exchanged views with overseas securities regulators, including those in the United States, Europe, and Asia, as well as with 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 newly 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 have accounted for a large percentage of 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 markets. In addition, in light of the above situation, in April 2016, the SESC plans to establish a position of Securities Review Officer as a measure to improve the systems to address judicial proceedings and litigations.

(2) Participation in Short-Term Training Programs and Secondment to Overseas Regulators

In order for the SESC's staff members to acquire the surveillance and inspection techniques used by overseas regulators, and to then apply those techniques in market surveillance operations at the SESC, or to share the methodologies and techniques accumulated by the Japanese regulators with overseas regulators, the SESC has seconded its staff members to the US SEC, the US CFTC, the UK Financial Services Authority (FSA; currently named the Financial Conduct Authority [FCA] in the UK), the Hong Kong SFC, the Securities and Exchange Commission of Thailand, and the MAS.

In addition, the SESC has assigned some of its staff members to participate in short-term training programs hosted by the IOSCO and each national authority.

Furthermore, the SESC has provided training programs on the surveillance of securities markets and the investigation of misconduct to officials from Asian financial authorities invited by the Asian Financial Partnership Center (AFPAC), which was established within the Financial Services Agency in April 2014.

Now, the SESC is facilitating the exchange of opinions among staff dispatched to overseas regulators and the staff of those overseas regulators, as well as visits by executive level officials to promote the sharing of problem awareness and enhance networks among the authorities, aiming to reinforce the global market surveillance framework.

4) Policy Proposals

1. Objective 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 SESC can submit policy proposals to the prime minister, the Commissioner of the 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.

From its inception in 1992 through FY2015, the SESC submitted 24 policy proposals.

2. Specific Policy Proposals and Measures Taken Based on Policy Proposals in FY2015

○ Measures Taken Based on Policy Proposals on Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, etc. (Performed in FY2014)

With regard to collective investment programs for professionals ("collective funds"), as a result of inspection regarding Specially Permitted Business Notifying Persons who have sold and managed the collective funds sponsored by qualified institutional investors, etc. (comprising one or more qualified institutional investors, and up to 49 persons other than qualified institutional investors) (so-called collective funds for professionals), the SESC detected many egregious cases, including but not limited to (i) false statements made to customers; (ii) collective funds sold and managed without statutory registration and with failure to comply with the requirements of businesses specially permitted for qualified institutional investors, etc.; and (iii) money contributed to the collective funds being diverted for suspicious purposes. Therefore, in order to take appropriate measures to prevent retail investors from suffering any damages, in FY 2014 the SESC proposed the establishment of more rigorous requirements regarding the Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, etc.

Given these situations, the FSA submitted a bill to partially amend the Financial Instruments and Exchange Act, including but not limited to: defining causes for disqualified persons for involvement in selling and managing funds for qualified institutional investor; imposing behavior regulations, such as compliance with the principle of suitability and delivery of documents prior to the conclusion of contracts; imposing stricter supervisory dispositions and punishment against malicious operators; and reviewing the scope of eligible persons investing in funds for qualified institutional investors. This amendment was promulgated on June 3, 2015 and went into effect on March 1, 2016.

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 information 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.

5) Future Challenges and Policy

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 as a whole.

(1) Reinforcement of the organization and development of human resources

Along with advances in the innovation of financial instruments and transactions, the conditions surrounding the market have undergone drastic changes, including increasingly diverse and complex techniques of misconduct. Therefore, the SESC needs to address various tasks, such as the implementation of flexible market surveillance by the multi-faceted and multi-line utilization of oversight techniques corresponding to the

globalization of the market; strict and appropriate response to market misconduct, etc.; the strengthening of market discipline corresponding to the progress of IT technologies; and the sophistication of inspection and investigation in order to pursue root causes.

The SESC believes that, while recognizing the necessity 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. After examining the necessary personnel capabilities and the development policy, the SESC will continue to take several measures by providing strategic training programs led by executives, promoting personnel exchanges with other ministries utilizing on-the-job training, enriching its staff training, and making planned appointments of staff to certain positions. The SESC will further develop human resources capable of addressing global cases, through the enhancement of training programs at each division within the SESC and the assignment of its staff members to short-term training programs hosted by overseas regulators and international organizations.

(2) Enhancement of Information Collection and Analysis Capability

In line with the development of IT technologies, an increase in new trading methodologies, such as algorithmic trading, has led to diversification in the material facts of insider trading. With respect to the violation of disclosure regulations by listed companies, a global listed company that represents Japan was found to have been involved in large-scale improper accounting practice, while another case was revealed to be attributable to deficiencies in the management system of overseas subsidiaries by a company with a global presence.

Under these circumstances, the SESC will strengthen market surveillance from a forward-looking perspective based on the collection and analysis of macro-economic information, improve inspection and investigation methodologies further against diverse, complex and sophisticated cases, and verify the appropriateness of disclosure made by large-scale listed companies in addition to the conventional type of detection of problematic companies. Furthermore, the SESC will further enhance its capability to identify risks with regard to a variety of business categories of financial instruments business operators together with profiles of their customers as well as in relation to increasingly complex and diverse financial instruments. By addressing these issues, the SESC will strengthen its capabilities to collect and analyze information.

In addition, the SESC will take a flexible stance in carrying out market surveillance by accurately identifying changes and events in the market structure due to the development of IT technology, including enhancing the management structure of digital forensics mainly initiated by the Office of IT Forensics and Information for the purpose of implementing more prompt and efficient investigation and inspection.

The SESC will effectively respond to market misconduct using cross-border transactions, through the active collection of information with the aid of an information exchange framework and enhanced cooperation with overseas securities regulators.

(3) Improvement in the dissemination of information

In addition to cooperation with self-regulatory organizations, etc., which has been addressed so far, the SESC will improve its disclosure and dissemination of information to investors with the aim of ensuring market integrity 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 private equities. By simplifying the significance, characteristics and causes of each case, the SESC will facilitate precise understanding and coverage of cases with the aim of achieving effective information transmission to contribute to the prevention of violations.

At the same time, in order to enhance the transparency of 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 Relevant Authorities, etc.

Currently, there are many malicious and/or unregistered financial instruments entities involved in fraudulent means that could potentially harm investors on a national level. Moreover, as progress in online trading is helping to eliminate geographical restrictions on securities transactions, the SESC is also being required to respond to the geographical spread of violations of laws and regulations, including market misconduct. Under these circumstances, in order for the SESC to achieve its mission, it will need to conduct efficient, effective and viable market surveillance as a whole, through integrated efforts by and between the SESC, local finance bureaus and other relevant organizations, 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 information and various kinds of meetings and training. Going forward, though, in order to address issues under the jurisdiction of multiple local financial bureaus, etc., the SESC will exercise its overall strength so that effective market surveillance can be carried forward and facilitate the enhancement of overall market surveillance activities through the active exchange of information with the FSA, self-regulatory organizations, and other relevant organizations, for the purpose of sharing awareness of problems. In addition, the SESC will further enhance its cooperation with investigative authorities and overseas securities regulators, etc., based on its already-established close cooperative relationships with these entities, aiming to conduct efficient and effective market surveillance.

With regard to cooperation with overseas regulators, the SESC will strengthen its international cooperation with overseas regulators, including by actively exchanging views at international meetings and by strengthening information transmission of the SESC's activities to overseas countries. In addition, the SESC will also activate cooperation with securities regulators in emerging countries, especially in Asia, and provide support for the maintenance of market surveillance systems in such countries, including by sharing techniques for securities inspection or enforcement.

In addition, in order to ensure market integrity, transparency and investor protection, the SESC will continue to make market participants more aware of the SESC's presence in

detecting misconduct in the market, including through the possibility of holding SESC meetings outside the Tokyo metropolitan area.

(5) Active Utilization of Policy Proposal Function

Based on the results of inspections and investigations, etc. pursuant to the FIEA and other laws, with regard to measures believed necessary, the SESC has 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 has strengthened its function of providing information, such as by actively communicating its awareness of issues to the FSA, self-regulatory organizations and so forth, aiming to share its awareness of such issues. The SESC intends to continue to proactively work in this regard.

Chapter 3. Market Surveillance

1) Outline

1. Purpose of Market Surveillance

Market surveillance is positioned as the entrance for information at the 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 market misconduct 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. The SESC has achieved effective market surveillance with the aid of the information collected, market trend analysis, and mutual cooperation in market oversight and collaboration among the relevant divisions of the SESC.

2. Activities Conducted in FY2015

Financial and capital markets have been facing challenges, such as the expansion of complex and sophisticated transactions, including high frequency trading (HFT) and algorithmic trading or other transactions with the aid of IT technologies, globalization of the market accelerated by cross-border transactions, and the occurrence of fraud and misconduct in fundraising through the stock market, etc. To address these challenges, the Market Surveillance Division has, in FY2015, made efforts to achieve comprehensive and proactive market surveillance to speed up while at the same time securing the quality of examination, as well as strengthening cooperation with SROs and local finance bureaus.

The SESC focused on collecting useful information through several means. Specifically, the SESC utilized posters and leaflets requesting that ordinary investors provide a large and wide range of information as a primary information source. As a result, the SESC received 7,758 items of information from ordinary investors, the largest number since the establishment of the SESC. In addition, the SESC collected a wide range of information regarding financial and capital market trends, conducting in-depth analysis on the backgrounds of individual transactions and market trends, in particular for the status of HFT, algorithmic trading and the like, issues relating to market selection relevant to stocks after a lapse of 10 years from listing on the Tokyo Stock Exchange Mothers market, and market trend analysis of the stock issuance, in order to conduct market surveillance targeting primary and secondary markets.

Based on such information, the SESC strove to improve market oversight and made speedy analysis of transactions that could potentially impair market integrity among those actually performed in the market. In FY2015, the SESC reviewed 1,097 transactions consisting of price formation (95), insider trading (992), and others (10).

2) Receiving Information from the Public

1. Establishment of an Effective Information Processing System

Information from the public, including ordinary investors and other market participants is important and useful because it reflects the candid opinions of investors on various events 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 statements, and investigations of criminal cases. Therefore, the SESC believes it important to receive a wide range of information from as many people as possible. On the other hand, the SESC also recognizes the problem that a considerable amount of information provided cannot be used practically due to a lack of credibility. Given the situation, the SESC is considering a measure to build a system to use the information received more effectively, including creating environments to encourage general investors to provide information more easily.

2. Measures or Approaches to Improve the Amount of Information Provided by Investors

The SESC set up the Information Service Desk to receive information via telephone, letters, visits and the Internet. With regard to the receipt of phone calls, the SESC introduced a navi-dial service (with a nationwide flat rate) in October 2014, in consideration of the cost burden of information providers to increase convenience.

(Contact Address)
SESC Information Service Desk
Securities and Exchange Surveillance Commission
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Direct No. (Navi Dial Service number): 0570-00-3581
*Phone calls from some IP phones are to be made to +81-3-3581-9909.
Facsimile: +81-3-5251-2136
Internet: https://www.fsa.go.jp/sesc/watch/

For the purpose of attracting a variety of useful information from investors, the SESC has requested that each relevant institution or group post the SESC's information collection initiative on its website. In addition, the SESC has also requested financial instruments business operators to establish a link to the SESC's website on the SESC's Contact for Inquiries.

With regard to posters and leaflets calling for the provision of information, the SESC has selected appropriate places, institutions and groups attracting the attention of general investors, and distributed posters and leaflets to such institutions, etc. The SESC has also called for information through various means, including public seminars led by officers of the SESC.

Furthermore, in addition to general information as described above, the SCSC also

accepts the following information:

- The SESC provides the Pension Investment Hotline, a dedicated contact for collecting important and useful information regarding pension management, in order to figure out the actual operations of discretionary investment management (DIM) business operators. All of the information provided to the Pension Investment Hotline is delivered to pension professionals at the SESC for conducting active and high quality analyses. The SESC utilizes such analyzed data for efficient and effective inspections.

(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

[Examples of desired 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]

- Anonymous informants are not accepted in light of the provision of useful information;
- Pension professionals will listen to problems when an informant provides specially detailed information.

The SESC has also set up a whistleblowing contact and also provides telephone counseling. The SESC makes it a rule to keep each informant's information strictly confidential.

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 Contact for Whistle-blowing and Assistance
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
* Whistle-blowing is to be submitted in writing (mail correspondence, e-mail or FAX) whereas consultations are conducted by phone.

When accepting information, the SESC takes all possible measures to maintain the confidentiality of each provider's personal information and the details of the information.

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 might be effectively utilized in inspections or other activities by the SESC, the SESC basically refers the providers to the “Financial Instruments Mediation Assistance Center (FINMAC),” which provides a consultation service for complaint/dispute resolution involving customers of financial instruments business operators. In addition, the SESC also refers to appropriate consultation services for people who have complaints regarding commodity futures trading or other products that do not fall under the jurisdiction of the SESC.

3. Receiving Information

In FY2015, the SESC received 7,758 reports of information from the public. The breakdown of the means used by the public in providing the information were 5,510 referrals via the Internet, 1,689 by telephone, 451 in writing, 32 visits, and 76 referrals from local finance bureaus; hence, referrals via the Internet accounted for more than 70% of the total.

In terms of the contents, there were reports on individual stocks (5,448), such as market manipulation, insider trading, or spreading of rumors; issuers (441), such as suspicious financing or false disclosure statements with annual securities reports, etc.; financial instruments business operators for their sales practices or other issues (1,032); and other matters (837), such as opinions, etc.

Among the reports related to individual stocks, suspicions of market manipulation (3,147) were the most common, followed by suspicions of the spreading of rumors/use of fraudulent means (80), and insider trading (283).

The reports on issuers concerned false disclosure statements with annual securities reports, etc. (191); suspicious financing (13); and timely disclosure (47), etc.

Diverse information was also provided on financial instruments business operators for their sales practices or other issues, such as trouble involving trading systems (38); and transactions without permission (36), etc.

4. Use of Information Provided

After close investigation, information received by the SESC is promptly circulated to the relevant divisions within the SESC and subsequently they review the details thereof. Each relevant division at the SESC utilizes the information for market oversight, inspections of securities companies and other entities, investigations of market misconduct, investigations of international transactions and related issues, inspection of disclosure statements, investigations of criminal cases and other purposes, according to their degree of importance and usefulness.

In addition, since FY2015, the SESC has determined to actively provide to each financial instruments exchange any information considered useful in their "Listing Examination" and “Listed Company Compliance Department," to ensure close cooperation with the related

institutions.

5. Future Actions

In order to achieve high-quality information from the public, the SESC will encourage the public to provide more information as well as to improve other measures, including revision of the content of the form on the SESC website, so that each user can describe the information more precisely in the future, given that users have increasingly come to provide information via the Internet.

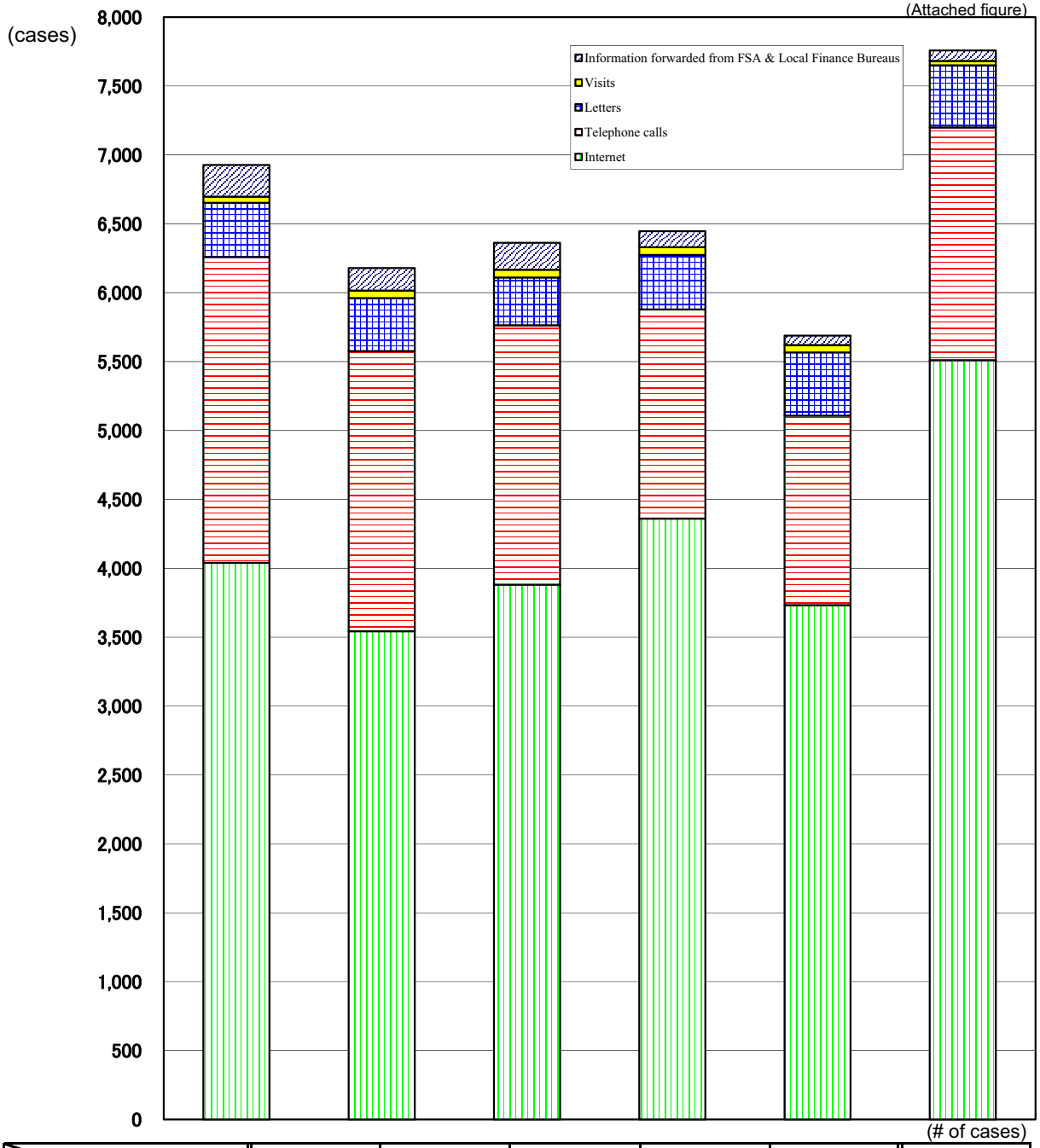
6. Be Alert for Malicious Phone Calls Pretending to Be from the SESC!

The FSA and the SESC have strongly urged investors to beware of and provide information on malicious solicitation of investment instruments, such as private equities. The SESC requests investors to pay greater attention via its website, given that it has recently received an increasing number of reports of people pretending to be from the SESC that could constitute investment fraud.

In addition, both the FSA and the SESC have provided information to investigative authorities, as necessary, concerning damage caused by phone calls from people pretending to be SESC staff.

Information Received

(Attached figure)



Category \ Fiscal year	2010	2011	2012	2013	2014	2015
Total	6,927	6,179	6,362	6,401	5,688	7,758
Pension Investment Hotline	–	–	23	18	9	1
Internet	4,040	3,543	3,881	4,361	3,733	5,510
Telephone calls	2,219	2,033	1,883	1,518	1,375	1,689
Letters	393	385	346	395	458	451
Visits	45	54	57	56	54	32
Information forwarded from FSA & Local Finance Bureaus	230	164	195	116	68	76

Note : Pension Investment Hotline started in April 2012.

Clarification of Information Received By Content

(Unit: Number of cases)

Classification \ Fiscal Year	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
A. Individual stocks						
a. Trade regulation						
1. Dissemination of rumors; fraudulent means	608	813	990	401	544	80
2. Market manipulation	2,468	1,995	2,297	2,735	2,400	3,147
3. Insider trading	463	327	252	279	364	283
0. Others	58	80	201	615	580	1,917
b. Disclosure						
1. Misstatements of large shareholding reports	5	6	4	0	2	5
2. Non-submission of large shareholding reports	34	6	7	9	11	6
0. Others	4	0	0	1	3	10
(Subtotal)	3,640	3,227	3,751	4,040	3,904	5,448
B. Issuers						
a. Statutory disclosure						
1. Offering without statutory registration	29	19	21	3	1	8
2. Finance	64	20	15	17	49	13
3. Misstatement of annual securities reports, etc.	141	136	110	224	161	191
4. Non-submission of annual securities reports, e	25	27	21	16	6	2
5. Internal control reports	5	10	0	0	0	1
6. Tender offer without prior notice	3	1	0	1	0	0
0. Others	38	32	17	12	8	31
b. JSDA & Exchange rules						
1. Timely disclosure	62	22	51	34	38	47
0. Others	3	5	6	1	3	5
c. Others						
1. Governance, etc.	17	19	8	10	39	38
0. Others	210	149	187	84	105	105
(Subtotal)	597	440	436	402	410	441
C. Financial instruments business operator, etc.						
a. Prohibited acts, etc.						
1. Soliciting customers by offering definitive predictions	16	18	19	9	21	202
2. Unauthorized trading	17	19	22	16	11	36
3. Compensation for Loss	3	6	3	2	12	4
4. False notification	-	-	-	-	0	0
5. Involving ~~with~~ offering and private placement without statutory registration	-	-	-	-	0	0
0. Other violations of laws and ordinances	101	135	162	100	89	58
b. Status of operation of the business						
1. Inappropriate solicitation in light of the customer's knowledge	79	55	11	7	10	0
2. System-related matters	219	76	37	102	31	38
3. Investment management related matters	-	-	-	-	16	3
0. Other matters related to sales stance	626	443	319	371	303	564
c. Accounting						
1. Accounting fraud related to statutory books and records	22	32	13	19	20	0
2. Financial soundness and risk management	21	5	5	5	13	2
d. JSDA & Exchange rules						
1. Violation of voluntary rules	3	19	10	12	16	6
e. Others						
0. Others	35	70	189	264	110	119
(Subtotal)	1,142	878	790	907	652	1,032
D. Others						
Opinions and requests, etc.						
1. Opinion and request to the SESC	77	362	296	171	72	113
2. Opinion and request to the securities administration and policy	97	79	76	61	48	61
b. Others						
1. Unregistered business operators	258	277	192	242	278	306
2. Unlisted stocks	732	559	376	77	46	15
3. Persons making notification for business specially permitted for qualifie institutional investors, etc	70	46	58	82	41	44
0. Others	314	311	387	419	237	298
(Subtotal)	1,548	1,634	1,385	1,052	722	837
Total	6,927	6,179	6,362	6,401	5,688	7,758

Note 1: The information categories "Ca4," "Ca5" and "Cb3" were newly established in April 2014.

Note 2: Regarding "Aa1" in FY2015, groundless information transmitted via posting on online bulletin boards, etc., is included in "Aa0."

3) Market Trend Analysis

1. Market Surveillance covering both Primary and Secondary Markets

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

In the domestic market, the SESC has enhanced the market surveillance of so-called fraudulent finance cases, specifically focusing on monitoring some listed companies with concerns of a significant lack of an internal governance mechanism, and investigating finance via private placement. These approaches have increased the number of criminal complaints and cases of administrative monetary penalty payments, and have also helped the detection of suspicious accounting works and false disclosure statements, with the result that several suspicious companies have become delisted and have exited from the market. However, problematic companies have not yet been wiped out completely. In some cases, problematic companies have tried to avoid detection through the use of complicated finance schemes or by the utilization of overseas allocatee(s) and/or consignor(s).

(1) Responding to fraudulent finance

In recent years, cases of fraudulent transactions consisting of complexly intertwined market misconduct, both in the primary market in fundraising and in the secondary market, have been detected in financial markets as well as in capital markets. For example, a suspect acquires newly issued shares through fictitious capital contribution (paid-in by pretense money), a private allocation of newly issued shares without transparent use of the proceeds, or abuse of debt equity swaps and so on, and then he/she sells the shares on a secondary market using a complex combination of insider trading, market manipulation, and spreading of rumors. As a result, he/she obtains unfair profits.

“Fraudulent finance” refers to these kinds of market misconduct, consisting of inappropriate behavior both in the primary market in fundraising (the issuing of new shares, warrants, etc.) and in the secondary market.

In close cooperation with the Director of the Securities and Exchange Surveillance Department 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 (listed control division and the trading examination division), the SESC monitors fraudulent finance cases, covering both the primary and secondary markets through the collection and analysis of information provided by ordinary investors and securities companies and other market participants as well as disclosed information on listed companies and information from financial instruments exchanges.

In FY2015, aiming at the effective utilization of information collected and analyzed, the SESC made efforts to review the storage and management system of information to build a system allowing for integrated access to information collected from different routes. In addition, through close communicative cooperation between the investigation/inspection divisions and the market surveillance division, key primary information has circulated to the investigation/inspection divisions. In other cases, upon request from investigation/inspection divisions, the market surveillance division served as coordinator for the collection of information relevant to each case, as necessary. As a result, the

SESC successfully accelerated the discovery or detection of fraudulent finance cases.

In detecting fraudulent finance, the SESC has grasped the overall activities related to fraudulent finance and applied Article 158 of the Financial Instruments and Exchange Act stipulating fraudulent means to investigate persons and firms related to fraudulent finance. In FY2015, the SESC has filed criminal charges in one case.

(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 FY2015 are as follows.

(i) Trend of private allocation of new shares

a. Number of private allocations of new shares

As part of market surveillance, the SESC has independently aggregated the number of financing cases through the private allocation of new shares, including the number of cases of in-kind contribution since 2009.

(Note) For the purpose of aggregating the number thereof, the SESC excluded cases even in the form of private allocation of new shares where fraudulent finance means are unlikely, such as disposal of treasury stock through a private allocation, over-allotment of private allocation of new shares to a lead managing underwriter, or the issuance of stock acquisition rights for the purpose of stock options, etc.

The number of private allocations of new shares based on the above aggregation had increased constantly from 130 cases in FY2013 (up 25.0% year on year) to 161 cases in FY2014 (up 23.8% year on year). However, the number decreased to 139 cases in FY2015 (down 14.9% year on year) due to the decline of the global stock markets since late August 2015.

In the background to the year-on-year increase in the number of private allocations of new shares up to FY2014, there was a strong increase in the number of cases of stock acquisition rights underwritten by securities companies (proprietary trading on their own account). However, the number of such cases decreased since September 2015, resulting in a net decrease of eight cases year on year over the full fiscal year.

Furthermore, investment companies and funds have increasingly invested in stock acquisition rights of poor performing companies (an increase of four cases year-on-year) successively from the previous fiscal year.

b. Situation of private allocation of new shares where the issues were canceled or forfeited

Among the cases of private allocation of new shares based on the above aggregation, the number of the cases falling under the cancellation of new issuance was nine (of which, four cases were based on the comprehensive resolution of issuance of new shares of the same issuer), while the other one case fell under partial forfeiture upon payment.

Regarding the factors that led to the cancellation of these issues of shares, while

some cases were mainly due to the deterioration of the financing environments resulting from a decline in stock market prices, others were deemed to be mainly attributable to a faulty management plan for new business, inconsistent decision making following the transfer of management rights, and deficiencies in corporate governance structure.

(ii) Market selection relevant to stocks after a lapse of 10 years from listing on the Tokyo Stock Exchange Mothers market

The Tokyo Stock Exchange, Inc. (TSE) revised the Securities Listing Regulations in March 2011 to introduce a market selection system regarding stocks after a lapse of 10 years from listing on the Mothers market. As a result, since July 2014, the new system following the revision has been applicable to some of the stocks listed on the Mothers market. The number of such stocks was 59 as of August 31, 2015.

Regarding the purpose of the introduction of the system, the TSE positioned the Mothers market as one that provides an opportunity for access to capital markets for businesses with growth potential that aspire to be listed in the future on the Main Market First Section in the future, and to encourage them to list their shares on the Mothers market. In those days, Japan's emerging markets consisted of the JASDAQ market, the Hercules market and other markets, in addition to the Mothers market. However, through mergers of financial instruments exchanges and revisions of the systems, the Mothers market has now become the central market among Japan's emerging markets (out of 98 stocks newly listed in 2015, 61 stocks were listed on the Mothers market, accounting for 62% of the total stocks listed in 2015).

On the other hand, under the current system after the revision, when a company wishes to keep its stock listed on the Mothers market after a lapse of 10 years from its listing on the Mothers market, the issuer is required to submit the required documents, such as a “Confirmation of High Growth Potential.” If the issuer does not have a business with such growth potential, the stock shall be transferred to the Main Market Second Section. The Mothers market defines performance criteria for delisting, to the effect that a company with sales of less than 100 million yen shall be delisted. However, the Main Market Second Section does not define such criteria for delisting. Therefore, the SESC recognizes that some poor-performing companies to which the performance criteria for delisting under the Mothers market rules should have been applicable have been excluded from such application due to their transfer to the Main Market Second Section.

2. Changes in the Market Structure and Market Trend Analysis

Among the individual transactions actually traded in the market, upon the detection of a suspicious transaction that could potentially harm the fairness of the market, the SESC has a policy of immediately analyzing such transaction and conducting market oversight. Amid ongoing change in the market structure and the advancement of trading methodologies in the Japanese capital markets in line with the recent progress of financial transactions and the development of IT technologies, the SESC believes that it is required to handle these changes in an appropriate manner. For this purpose, the SESC conducted the following

surveys and analyses on the state in FY2015, in particular, keeping an eye on financial instruments, transaction techniques and events, etc., that have impacted or will potentially impact both domestic and overseas markets.

The results of these surveys and analyses have been shared within the SESC, and the SESC has also exchanged the information with the relevant FSA departments and with self-regulatory organizations, etc., in an effort to share its awareness of market surveillance issues and problems, and utilize the data for surveillance and investigation.

(1) Survey on the situation of algorithmic trading and HFT

Since the algorithm-based HFT was identified as the cause of a steep fall in share prices in late August 2015, the SESC has conducted a survey of the state of such trading by conducting interviews and questionnaire surveys on risks and other characteristics inherent to algorithmic trading and HFT, among securities companies and institutional investors, regarding the impacts (in particular, market misconduct) on fairness, transparency and stability of the market from such transactions using IT technologies, including algorithmic trading.

In addition, the SESC studied the preceding Western law enforcement cases, especially cases involving market misconduct, such as layering, spoofing and closing price manipulation, as well as those of fraudulent access on the dark pool, in order to identify the characteristics and challenges thereof.

As a result, it turned out that various opinions existed regarding algorithmic trading and HFT. Accordingly, the SESC decided to organize the points by expanding the scope of its interviewees in light of the prevention of such market misconduct and legal application.

(2) Survey on the situation regarding the handling of stock replacement of the JPX Nikkei Index 400

Upon the occurrence of a case subject to recommendation for administrative penalty against market manipulation made by an overseas fund for the replacement of component stocks on the Nikkei 225 in December 2014, the SESC investigated the state of the handling of stock replacement of the JPX Nikkei Index 400, in which computation had commenced in 2014.

According to the result, when a fund manager allocates a new component stock into the fund upon the replacement of stocks in the index under a "closing price guaranteed transaction," it is expected that the trustee engaging in closing price guaranteed transactions has an incentive to manipulate the closing price of the relevant stock, since he/she could obtain transactional profit from the differential between the average purchase price as a prior hedge transaction and the closing price. Therefore, the SESC has determined to monitor such transactions in collaboration with the stock exchanges and securities companies.

(3) Study on the detection of cases of insider trading by hackers in the United States

In August 2015, the US judicial authorities announced that they had detected a case in which a group of hackers had allegedly gained profits from insider trading through illegal access via a computer to undisclosed corporate information from a news distribution company. In response to this publication, the SESC carried out discussions

regarding the current status of laws and regulations both in the United States and Japan with respect to the case, as well as the current state of timely disclosure of undisclosed corporate information using a computer.

As a result, unlike the case in the United States, it is expected that such undisclosed corporate information is unlikely to be hacked on a large scale in Japan. However, upon the occurrence of a similar event, the SESC will address such case under the current laws and regulations.

(4) Analysis of a case regarding the private allocation of stock acquisition rights

The private allocation of stock acquisition rights has been easily used by poor-performing companies for several reasons, including stricter conditions on the issuance of non-commitment type rights offerings under the new systems revised in October 2014, as well as ambiguous criteria as to whether or not stock acquisition rights fall under the category of "Offering at a Low Price," in that stock acquisition rights might differ from stock certificates in nature. Given the situation, the SESC carried out case studies on the status regarding the computation of issue prices, the state of exercise of stock acquisition rights, and so on.

The analysis results reveal that the private allocation of stock acquisition rights under the current situation has enabled specific allotees to obtain profits with relatively lower risks, and that this scheme is deemed to have been exploited as one of the methodologies employed by companies with poor performance to survive. Accordingly, the SESC has decided to keep a watchful eye on not only issuers but also allotees and third-party evaluation institutions in the case of private allocation of stock acquisition rights.

(5) Survey on the conditions of leveraged and inverse ETFs

Leveraged and inverse ETFs were listed for the first time in April 2012, and allegedly have served as one of the factors raising the volatility of the futures market on the ground that their net asset values increased rapidly when the market fluctuated drastically in late August 2015. To verify the view above, the SESC investigated the characteristics of leveraged and inverse ETFs and the situation in the secondary market, and also identified the risk management systems and other important points through interviews with securities brokers and asset management companies serving as issuers of leveraged and inverse ETFs.

The survey results indicate that, at present, while leveraged and inverse ETFs seem to have a limited impact on the market, due to the measures taken by asset management companies, they could distort futures prices if the net asset values become excessively large. Therefore, the SESC decided to continue to keep a watchful eye on the price movements in conjunction with the financial instruments exchanges.

(6) Survey on rapid fluctuations in the US Treasury market on October 15, 2014

In July 2015, five authorities in the United States, namely the Securities and Exchange Commission (SEC), the Federal Reserve Board (FRB), the Federal Reserve Board of New York (NYFed), the Department of the Treasury, and the Commodity Futures Trading Commission (CFTC) jointly published a report regarding

a steep decline in the yields of the US Treasury bonds that occurred in October 2014. Accordingly, the SESC analyzed the details of the report to discern the structure changes in the US Treasury market and other points. This report mentions that proprietary trading operators placing orders with low latency using automated trading including algorithms have gained shares as suppliers of liquidity in the US bond market, which has served as one of the causes serving to lower the yields of US Treasury bonds through a drastic decrease in the supplies of liquidity upon the occurrence of large price fluctuations. Since it is reported that HFT has increased its share of the Japanese stock market, the SESC has decided to keep a watchful eye on the state of algorithmic trading, HFT and so on.

3. Future Actions

Since the problems have not been completely resolved in the capital markets given the fact that the problematic companies as described above have been engaging in fraudulent finance and other misconduct through complex schemes, the SESC will continue to accumulate and analyze information and reinforce its collaboration with market participants to identify and grasp the situation of market misconduct.

In addition, in order to respond adequately and appropriately to the rapidly changing capital markets, the SESC will also keep a watchful eye on future market trends to identify and analyze their status, through collaboration with the relevant departments and institutions.

4) Market Oversight

1. Initiatives Focusing on Market Oversight

The purpose of market oversight is to identify signs of suspicious market misconduct or other potential infringement actions in a timely and appropriate manner with the aid of day-to-day market surveillance, and the data and information received. When a transaction has been deemed to have a problem as a result of market oversight, the relevant division within the SESC will make further in-depth analysis of the state of the relevant problem. Therefore, the SESC needs to carry out market oversight accurately and promptly. For this reason, in FY2015, the SESC has aimed at performing efficient market surveillance through several measures, including the shortening of the market oversight period by promoting the efficiency of market oversight work, as well as the enhancement of collaboration with self-regulatory organizations and securities companies, and the further effective utilization of information within the SESC. In addition, the SESC has also introduced a new information tool for the market surveillance of price formation with the aim of reviewing the methodology for selecting stocks subject to market oversight in a more accurate and prompt manner. Regarding the operations, the SESC decided to jointly cooperate with the market surveillance divisions of each local finance bureau. Furthermore, in order to cope with the renewal of Arrowhead, a trading system of the Tokyo Stock Exchange, Inc. in September 2015, the SESC has also renewed its operation support system.

2. Legal Basis

In market oversight, when the SESC finds it necessary and appropriate to ensure 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 Oversight

(1) Results

The number of market oversight examinations conducted by the SESC and the local finance bureaus in FY2015 are as follows:

(Number of cases)

Number of transactions examined		FY2015 (April 2015–March 2016)	FY2014 (April 2014–March 2015)
Total		1,097	1,084
	SESC	481	447
	Local Finance Bureaus	616	637
(Breakdown by Misconduct)			
Price formation		95	94
Insider trading		992	978
Other matters (e.g., fraudulent means)		10	12

As a result of the initiatives for prompt market oversight, the number of transactions examined increased by 13 cases from the previous fiscal year. However, since the number of transactions examined by local finance bureaus was acknowledged to have decreased year on year in the middle of FY2015, the local finance bureaus made efforts to review the market oversight workflows, etc., and to speed up the market oversight process, the final results of which fell short of those achieved in the previous fiscal year. Given that the number of transactions examined by local finance bureaus accounts for a majority of the total number of transactions with important significance for the realization of a wide range of market surveillance, the SESC needs to continue to strengthen cooperation between the SESC and local finance bureaus in order to ensure prompt and quality examination, etc. by local finance bureaus.

As for the market oversight examined by the SESC, the SESC will continue the initiatives described in Section 1 above, to implement comprehensive and flexible market surveillance.

(2) Cases examined

In market oversight, 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 that financial instruments business operators provide detailed reports or submit materials related to the securities transactions.

(i) Stocks showing sharp rises or declines in price or other suspicious movements
(ii) Stocks for which material facts were published which might have a significant influence on investors' investment decisions
(iii) Stocks which are topical in newspapers, magazines or on internet bulletin boards
(iv) 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 integrity. 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 clarification of the transactions.

The following are some of the common examples of market oversight.

(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.

(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 from a securities company that someone gained large profit through insider trading in the shares of Company E, the SESC conducted an examination.

(e) The SESC conducted an examination on the shares of Company F, based on whistle-blowing information to the effect that a corporate insider of Company F was involved in 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 for no apparent reason.

(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 market manipulation using the technique of *Misegyoku* sham order transactions.

(c) The SESC conducted an examination on trades of Company I stock, based on whistle-blowing information to the effect that specific persons were involved in market manipulation.

(d) The SESC conducted an examination on trades concerning the shares of Company J, based on specific information reported by an ordinary investor to the effect that a person who boosted the share prices through stock price manipulation had posted many recommendations to buy the stock on Internet bulletin boards.

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

(a) Company K published the development of new products, and after the

publication the stock price soared. However, the SESC detected some unclear details in the publicly disclosed information and conducted an examination as to the spread of rumors.

(b) Company L implemented finance amid the ongoing deterioration of operating results. However, there was whistle-blowing information to the effect that an officer of Company L had leaked the finance information to raise the share prices to sell the shares of Company L held by him/her, and thus the financing was found to be doubtful. As a result, the SESC conducted an examination.

(c) After Company M had raised funds, it was acknowledged that unauthorized outflow of financial funds had been observed. Consequently, the SESC conducted a review of fraudulent means, etc.

(d) Specific information that hinted at the possibility of a surge in the prices of several stocks had been posted on internet bulletin boards, and the share prices had risen sharply. Consequently, the SESC conducted a review concerning the spread 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 approximately 60% of overall brokerage trading in 2015, cross-border transactions are becoming matters of course. Therefore, the SESC has been making efforts to preclude any loopholes in market oversight by collecting information on cross-border transactions, if necessary, from financial instruments business operators, even at the stage of market surveillance examination as well as through the utilization of MMOU in cooperation with foreign authorities (see Chapter 2 for further details). In FY2015, in line with the increasing tendency in the number of cases of suspicious market misconduct relating to cross-border transactions, the SESC increasingly asked overseas authorities to provide information with the aid of MMOU. The SESC also cooperated with the International Surveillance Office, which was established by the Japan Exchange Regulation in September 2015.

Since cross-border transactions are expected to continuously account for a high percentage of transactions on the Japanese stock market, the SESC will conduct market surveillance on cross-border transactions in an appropriate manner in the future.

4. Future Actions

In the Japanese market, market misconduct has become more and more complicated in terms of methodologies, due to further complex and sophisticated transactions exploiting IT technologies, such as HFT and algorithmic trading, as well as the ongoing globalization of the market through cross-border transactions, etc. Therefore, the SESC will further strengthen its cooperation with self-regulatory organizations, securities companies and other market participants, and carry out precise and prompt market oversight.

5) Cooperation with Relevant Institutions

1. Cooperation with Local Finance Bureaus

As described in "4) Market Oversight, 3. Results of Market Oversight," day-to-day market

surveillance is also carried out by the market surveillance division of each local finance bureau and other relevant institutions, so that the SESC can secure stable cooperation with each of them. In order to enhance the effectiveness of market surveillance in a comprehensive and flexible manner, it is necessary for the SESC and each local finance bureau to standardize the market surveillance level, in particular in terms of the quality and quantity of market oversight and the speed thereof.

For this reason, the SESC and local finance bureaus, etc. have secured the awareness of issues relevant to market surveillance and the sharing of information relating to market trends through the sharing of opinions and the exchange of information with each other on a steady basis for day-to-day market surveillance, as well as by holding regular meetings and providing joint training programs. In addition, with respect to market oversight regarding price formation, the SESC is also reviewing the methodology for selecting stocks subject to market oversight against the backdrop of diversifying transactions. The SESC and local finance bureaus, etc. aim to secure further cooperation, such as the integration of operations.

Since the number of transactions examined by local finance bureaus accounts for a majority of the total number of transactions with important significance for the realization of a wide range of market surveillance, as described in 4), the SESC and local finance bureaus, etc. will strengthen this collaboration further.

2. 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. The SESC has up to now cooperated closely with these SROs. More specifically, 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 trading examinations 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 for the purpose of exchanging opinions between the SESC and the relevant financial instruments exchange. A system is also in place for financial instruments exchanges (Trading Examination Department) 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, information exchange between the SESC and the listing examination and listed company compliance departments of financial instruments exchange is also promoted with regard to movements of listed companies. In addition, since FY2015, the SESC has determined to actively provide to each financial instruments exchange any information considered useful for their "Listing Examination" and "Listed Company Compliance Department," to ensure close cooperation with the related institutions (repeated as described above).

The Japan Securities Dealers Association (JSDA), an authorized financial instruments firms association, defines a rule that requires JSDA members to report to the SESC and to the JSDA if they become aware of possible insider trading. Accordingly, 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, in FY2015, in order to further enhance the effectiveness of market surveillance, the SESC accepted the participation of SRO staff in the training sessions held by the SESC, and the SESC and SROs mutually dispatched instructors to each other's training sessions, which helped to improve the abilities of market surveillance staff at the SROs and secured the sharing of awareness of the issues concerned. In addition to regular opinion exchange meetings conventionally held between the SESC and SROs, a new regular opinion exchange meeting between the SESC and the Japan Exchange Regulation by these directors for market surveillance also contributed to the further strengthening of cooperation.

6) Future Challenges and Initiative Policy

The market surveillance operations function 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, inspection of disclosure statements, investigations of criminal cases, 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 market trends in recent years, cross-border transactions have become a large part of everyday trading. For instance, in recent years, the majority of orders for trading on Japanese stock markets have been conducted from overseas, and the majority of trading is being performed by professional investors in Japan and overseas. In addition, as seen in HFT, trades have become more highly advanced and complicated, while new financial instruments and trading means are being developed one after the other. In order to grasp the new methodologies of market misconduct using such deals and financial instruments, and to detect any cause of fraudulent activities, it is necessary to collect a wider range of information and analyze and utilize it continuously.

Given these situations, the Market Surveillance Division needs to fulfill its mission as an entrance for information while cooperating with a wider range of market participants for market surveillance.

(1) Initiatives aimed at proactive market surveillance

Leveraging comprehensive analysis of information collected through various channels as well as the review and research of individual transactions and market trends, the SESC will identify problems in the market on a timely basis and carry out market surveillance in a proactive manner with the aim of monitoring the overall primary and secondary markets for securities in a multifaceted way.

In addition, given the possibility that some new form of serious misconduct, such as fraudulent finance cases, could always be committed, the SESC will also conduct market surveillance, paying close attention to the emergence of any new types of misconduct, while analyzing the problems behind market trends in response to the changing environment surrounding the market.

(2) Enhancement of cooperation with self-regulatory organizations

Given the trends in recent years, such as the expanding volume of HFT and algorithmic

trading, globalization, and the occurrence of market misconduct covering proprietary trading systems (PTS) and secondary listing exchanges, the SESC will continue to closely cooperate with the Japan Exchange Regulation, which engages in real-time market surveillance, with the aim of identifying information on transactions suggesting suspected market misconduct in a timely manner. The SESC will also promote the sharing of awareness of issues in the market, aiming to further strengthen cooperation with self-regulatory organizations for the purpose of ensuring market surveillance in an appropriate manner.

(3) Establishment of more highly effective systems for collecting and analyzing information

For the purpose of expanding and diversifying external information sources, the SESC will continuously strive to establish a system that enables access to more useful information. In addition, with regard to the analysis of information, the SESC will improve the system, including through the revision of the content of the form on the SESC website, so that each user can describe information more precisely in the future, given the fact that users have increasingly come to provide information via the Internet.

(4) 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 regulators, etc. In addition, the SESC will actively strive to grasp market misconduct carried out by professional investors in Japan and overseas who are well versed in investment techniques and who have ample funds.

(5) Understanding of the situation of algorithmic trading, etc.

The SESC has carried out surveys of the situations as to what impacts transactions making full use of IT technologies, such as algorithmic trading, could have on the integrity, transparency and stability of the market, and the extent of those impacts. In fact, it turns out that there are a wide variety of opinions, etc. Therefore, a further survey will be implemented for the purpose of bringing market surveillance systems in line with reality.

Furthermore, apart from algorithmic trading, etc., given that many cases of market misconduct can be seen in non-face-to-face internet transactions (*Misegyoku*: spoofing or layering), the SESC will continue to strive to grasp these kinds of market misconduct, and will continue to cooperate with SROs and other organizations.

(6) Analysis of listed companies from a macro-economic perspective

For the purpose of conducting surveillance on corporate fraud, the SESC will take an approach on listed companies from a macroeconomic perspective (analyzing economic situations regarding globally operating companies, selecting individual companies vulnerable to economic conditions, etc.), the results of which will be shared within the divisions of the SESC. Using the resulting data, the SESC will conduct a horizontal analysis of the selected companies, to develop readiness to provide reference information for inspection and investigation.

In addition, the SESC will also conduct forward-looking market surveillance, keeping a watchful eye on changes in the macroeconomic environment (e.g., a slowdown of the

Chinese economy or drops in resource prices, under the current state), given that they could potentially serve as risks of market misconduct, if they have an impact on the performance and stock prices of listed companies.

Chapter 4. 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 protecting 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 to the Financial Instruments and Exchange Act [FIEA]), etc. came into force to reinforce market surveillance functions, the authority to inspect the financial soundness of securities companies, financial futures dealers and others, and the authority to inspect investment trust management 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 dispute resolution organizations, etc. was granted to the SESC. In addition, since November 2012, the authority to inspect trade repositories (TRs) was granted to the SESC. 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 enabled the FSA to order financial instruments business operators to improve their 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.

The main business operators subject to SESC securities inspections are as follows:

(i) Financial Instruments Business Operators, etc. (Article 56-2, Paragraph 1 and Article 194-7, Paragraph 2, Item 1 and Paragraph 3 of the FIEA; note, however, that, for

business operators making notification for business specially permitted for qualified institutional investors, Article 63-6, Article 194-7, Paragraph 2, Article 2-2 and Paragraph 3 of the FIEA as applied mutatis mutandis pursuant to Article 63-3, Paragraph 2 thereof are also applicable.)

(ii) Major Shareholders, etc. of Financial Instruments Business Operators (hereinafter referred to as FIEA Article 56-2, Paragraphs 2 through 4, and Article 194-7, Paragraph 2, Item 1 and Paragraph 3 of the FIEA)

(iii) Subsidiaries of Special Financial Instruments Business Operators (Article 57-10, Paragraph 1 and Article 194-7, Paragraph 3 of the FIEA)

(iv) Financial Instruments Business Groups with International Operations (Article 57-23 and Article 194-7, Paragraph 3 of the FIEA)

(v) Major Shareholders of the Financial Instruments Business Groups with International Operations (Article 57-26, Paragraph 2 and Article 194-7, Paragraph 3 of the FIEA)

(vi) Authorized Transaction-At-Exchange Operators (Article 60-11 and Article 194-7, Paragraph 2, Item 2 and Paragraph 3 of the FIEA)

(vii) Authorized Electronic Over-The-Counter Derivatives Trading platform Operators (Article 60-11, Article 194-7, Paragraph 2, Article 2 and Paragraph 3 of the FIEA as applied mutatis mutandis pursuant to Article 60-14, Paragraph 2 thereof)

(viii) Specially Permitted Business Notifying Persons (Article 63-6 and Article 194-7, Paragraph 2, Item 2-2 and Paragraph 3 of the FIEA)

(ix) Financial Instruments Intermediaries (Article 66-22 and Article 194-7, Paragraph 2, Item 3 and Paragraph 3 of the FIEA)

(x) Credit Rating Agencies (Article 66-45, Paragraph 1 and Article 194-7, Paragraph 2, Item 3-2 and Paragraph 3 of the FIEA)

(xi) Authorized Financial Instruments Firms Associations (Article 75 and Article 194-7, Paragraph 2, Item 4 and Paragraph 3 of the FIEA)

(xii) Authorized Financial Instruments Firms Associations (Article 79-4 and Article 194-7, Paragraph 2, Item 5 and Paragraph 3 of the FIEA)

(xiii) Investor Protection Funds (Article 79-77 and Article 194-7, Paragraph 3 of the FIEA)

(xiv) Persons Submitting a Notification of Holding Subject Voting Rights on Stock Company-Type Financial Instruments Exchange (Article 103-4 and Article 194-7, Paragraph 3 of the FIEA)

(xv) Major Shareholders of a Stock Company-Type Financial Instruments Exchange (Article 106-6 and Article 194-7, Paragraph 3 of the FIEA)

(xvi) Persons Submitting a Notification of Holding Subject Voting Rights on a Financial Instruments Exchange Holding Company (Article 106-16 and Article 194-7, Paragraph 3 of the FIEA)

(xvii) Major Shareholders of a Financial Instruments Exchange Holding Company (Article 106-20 and Article 194-7, Paragraph 3 of the FIEA)

(xviii) Financial Instruments Exchange Holding Companies (Article 106-27 and Article 194-7, Paragraph 3 of the FIEA)

(xix) Financial Instruments Exchanges (Article 151 and Article 194-7, Paragraph 2, Article 6 and Paragraph 3 of the FIEA)

(xx) Self-Regulation Organizations (Article 151 and Article 194-7, Paragraph 2, Item 6 and Paragraph 3 of the FIEA as applied mutatis mutandis pursuant to Article 153-4

thereof)
(xxi) Foreign Financial Instruments Exchanges (Article 155-9 and Article 194-7, Paragraph 2, Item 7 and Paragraph 3 of the FIEA)
(xxii) Persons Submitting a Notification of Holding Subject Voting Rights on a Financial Instruments Clearing Organization (Article 156-5-4 and Article 194-7, Paragraph 3 of the FIEA)
(xxiii) Major Shareholders of a Financial Instruments Clearing Organization (Article 156-5-8 and Article 194-7, Paragraph 3 of the FIEA)
(xxiv) Financial Instruments Clearing Organizations (Article 156-15 and Article 194-7, Paragraph 3 of the FIEA)
(xxv) Foreign Financial Instruments Clearing Organizations (Article 156-20-12 and Article 194-7, Paragraph 3 of the FIEA)
(xxvi) Securities Finance Companies (Article 156-34 and Article 194-7, Paragraph 3 of the FIEA)
(xxvii) Designated Dispute Resolution Organizations (Article 156-58 and Article 194-7, Paragraph 3 of the FIEA)
(xxviii) Trade Repositories (Article 156-80 and Article 194-7, Paragraph 3 of the FIEA)
(xxix) Designated Financial Benchmark Administrators (Article 156-89 and Article 194-7, Paragraph 3 of the FIEA)
(xxx) Investment Trust Management Companies, etc. (Article 22, Paragraph 1 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxixi) Organizers, etc. of the Investment Corporation to be Established (Article 213, Paragraph 1 and Article 225, Paragraph 2 and 3 of the Investment Trust Act)
(xxxii) Investment Corporations (Article 213, Paragraph 2 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxxiii) Asset Custody Company(ies), etc. of an Investment Corporation (Article 213, Paragraph 3 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxxiv) Executive Officers, etc. of an Investment Corporation (Article 213, Paragraph 4 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxxv) Specified Transferor (Article 217, Paragraph 1 and Article 290, Paragraph 2, Item 1 and Paragraph 3 of the SPC Act as applied mutatis mutandis pursuant to Article 209, Paragraph 2 thereof)
(xxxvi) Special Purpose Companies (Article 217, Paragraph 1 and Article 290, Paragraph 3 of the SPC Act)
(xxxvii) Original Settlors of Specific Purpose Trusts (Article 217, Paragraph 1 and Article 290, Paragraph 2, Item 2 and Paragraph 3 of the SPC Act as applied mutatis mutandis pursuant to Article 286, Paragraph 1 thereof)
(xxxviii) Depositary Trust Company (Article 20, Paragraph 1 and Article 286, Paragraph 2 of the Act on Transfer of Bonds, etc.)
(xxxix) Other business operators that are subject to SESC securities inspections pursuant to the laws as set forth in the above (i) through (xxxviii).
(Note) The description in the parentheses refers to provisions regarding the inspection authority of and the authority delegated to the SESC.

(2) With regard to inspections based on the authorities delegated by the prime minister and the commissioner of the Financial Services Agency pursuant to the Anti-Criminal

Proceeds Act, the SESC conducts the inspections in sync with those conducted pursuant to the authorities as defined in (1) above in the cases where the business operators to be inspected are as listed below. These inspections are conducted for the purpose of preventing the business operators subject to the inspections from being abused for money laundering, etc. by encouraging the business operators to put in place and improve the customer management system.

The specific business operators subject to SESC securities inspections are as follows:
(i) Financial Instruments Business Operators and Specially Permitted Business Notifying Persons (Article 15, Paragraph 1 and Article 21, Paragraph 6, Item 1 of the Act on Prevention of Transfer of Criminal Proceeds)
(ii) Registered Financial Institutions (Article 15, Paragraph 1 and Article 21, Paragraph 6, Item 2 of the Act on Prevention of Transfer of Criminal Proceeds)
(iii) Securities Finance Companies, Depositary Trust Companies, and Account Management Institutions (Article 15, Paragraph 1 and Article 21, Paragraph 7 of the Act on Prevention of Transfer of Criminal Proceeds)
(Note) The description in parentheses refers to the provisions regarding the inspection authority of and the authority delegated to the SESC.

Note that the SESC delegates some of its authorities regarding inspections and collection of reporting and documentations related to (1) and (2) above to the directors-general of local finance bureaus, etc. (However, if necessary, the SESC may exercise its authorities itself.)

(3) 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 or the directors-general of local finance bureaus, etc. 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, 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 FY2015

The circumstances surrounding SESC securities inspections have undergone considerable changes. For example: (i) There has been a diversification and an increase in the number of business operators subject to inspection (a total of approximately 8,000

firms); (ii) There has been diversification and increased complexity in financial instruments and transactions; (iii) From the experience of the global financial crisis, efforts have been taken to grasp the situation of the entire financial group; (iv) It has become increasingly important to ensure the reliability of IT systems forming the trading infrastructure; (v) Damages incurred by individual investors and consumers have increased due to sales and solicitation of suspicious funds by unregistered entities and persons making notification for business specially permitted for qualified institutional investors (QII Business Operators).

Given these situations, during FY2015, the SESC committed itself to performing efficient, effective and valid inspections, and strengthened coordination with the supervisory departments including promoting integrated on-site and off-site monitoring.

In addition, with respect to acts in violation of the FIEA by unregistered entities and QII Business Operators, the SESC used its authority to make securities inspections and file petitions for court injunctions (Article 187 of the FIEA). When observing any problematic behavior in violation of the FIEA or any act deemed problematic in terms of investor protection, the SESC filed a petition for court injunctions (Article 192 of the FIEA), when necessary, and disclosed the trading name, representative's name and the relevant act in violation of the law.

As a result of these approaches, in FY2015, the SESC conducted inspections of 185 cases (commencement basis) (a total of 258 cases) and notified points to be corrected at 72 business operators where problems were detected with respect to violations of laws and regulations and internal control structure, etc. In addition, the SESC also made recommendations for administrative disciplinary actions against 18 cases in which serious violations of laws or regulations were detected, including cases of continuous sales of corporate bonds while intentionally concealing and hiding the reality of the financial conditions of the bond issuers, and cases of sales representatives who provided to customers material non-public information acquired by an analyst for solicitation purposes.

With respect to the filing of a petition for court injunctions, the SESC filed a petition against three cases with a likelihood of illegal behavior out of the unregistered entities and QII Business Operators who had violated the FIEA. With regard to QII Business Operators, the SESC made public the inspection results of 17 cases in which the SESC identified serious violations of laws and regulations by QII Business Operators, in an effort to perform more efficient and effective inspections, including the inspections focused on the qualified institutional investors, etc.

2) Securities Inspection Policy and the Program

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

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

The Basic Inspection Policy stipulates inspection priorities and other fundamental inspection policies for the relevant inspection year. The Securities 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 Securities Inspection Policy and the Program for FY2015 were published on April 3, 2015.

(Provisional Translation)

April 3, 2015

Securities and Exchange Surveillance Commission

The Securities Inspection Policy and the Program for FY2015

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 the 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, by conducting on-site examinations of financial instruments business operators (FIBOs) with regard to the business operations and their financial soundness, and by urging them to operate businesses in accordance with laws, regulations, and market rules on the basis of self-discipline, and play the market intermediary functions, including duties as gatekeepers, in a proper manner.

Therefore, through securities inspections, the SESC should examine FIBOs' compliance with 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) Environment and issues facing securities inspection

Business operators (BOs) subject to inspection have diversified and increased to around some 8,000 in total. In addition, the widespread international activities of market participants have led to more diverse and complex financial instruments and transactions conducted by FIBOs.

Under these circumstances, the SESC's inspections should mainly focus on the following issues.

(i) Constantly monitor large-scale securities company groups' financial soundness as a

whole, given that they are required to upgrade their governance and risk management to be level with their business models while keeping up to date on economic and financial conditions and the progress in international discussions regarding financial regulations;

(ii) In view of the recent fraud cases involving AIJ and MRI and insider trading cases concerning public stock offerings, implement securities inspections rapidly and properly to prevent serious wrongdoings that may damage investors' confidence in the market intermediary function of FIBOs; For securities inspections, not only verify compliance with individual laws and regulations, but also continuously urge FIBOs to improve their compliance posture and professional ethics in the course of business management and internal control activities;

(iii) Given that the reliability of IT systems is becoming increasingly important on the back of increased internet trading, high-frequency trading (HFT), direct market access (DMA), etc., concentrate on verifying the appropriateness of IT system risk management in order to avoid adversely affecting capital/financial markets and trades executed by customers; and

(iv) In view of the situation where losses to retail investors and consumers from sales and solicitation of funds are growing and resulting in social problems in recent years, from the viewpoint of protecting investors, continue to take rigorous actions against unregistered BOs and persons making notifications for business specially permitted for qualified institutional investors ("QII business operators"), which violates the Financial Instruments and Exchange Act ("FIEA"), In close cooperation with relevant authorities, make full use of the faculty to file petitions for court injunctions regarding activities prohibited under the FIEA, conduct investigations, and disclose the results of investigations where necessary.

(3) Toward efficient, effective, and viable securities inspections

Under the above circumstances, the SESC, while working to obtain an accurate understanding of existing overall business conditions through close cooperation with related supervisory departments will utilize its limited human resources appropriately and effectively by determining the inspection priority and frequency in order to achieve efficient, effective, and viable inspections.

Toward this direction, 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.

Additionally, when it is necessary to examine issues encompassing multiple markets and common issues, the SESC, where necessary, will conduct inspections targeting multiple BOs for specific inspection items.

Further, for governance and internal control issues, the SESC will hold interactive discussions considering business condition, scale, characteristics, etc. of the BOs under inspection, and, as necessary, urge them to improve their business operations.

(4) Securities inspection keeping the Financial Monitoring Policy in mind

The SESC will work in cooperation with the Financial Services Agency ("FSA") and implement combined on- and off-site monitoring. To this end, the SESC will conduct inspections keeping in mind the key priority measures and focuses of supervisions/inspections that are stipulated in the Financial Monitoring Policy for 2014-2015 (September 2014) from the viewpoint of building a positive cycle that will contribute to medium- to long-term market growth and help FIBOs generate a steady stream of profits, including:

- Effectively responding to the needs of customers (upgrading asset management capacity)
- Fulfilling the functions toward providing funds for growth
- Ensuring customer trust/security
- Forward-looking risk management of large-scale securities company groups, etc. and supervision from a global viewpoint
- Managing business risks in small and medium-sized securities companies, investment companies, etc.

For example, from the viewpoint of effective response to the needs of customers (upgrading asset management capacity), the SESC will endeavor to understand the existing business conditions and establish a common view with BOs under inspection through interactive communications for better business management, in cooperation with the relevant supervisory departments, regarding issues such as whether fiduciary duties(*1) are incorporated in investment managers' product development and operation to provide products that truly

satisfy customer needs and interests, whether their investment activities are sufficiently independent of group sales companies; and whether securities companies offer products/services that truly meet customer needs and interests, regardless of the level of commission/fees and the corporate group association.

(*1) A general term for the extensive and various roles and duties of a trustee who must fulfill certain obligations entrusted by the counterparty (entrustor)
(*2) The Securities Inspection Policy and the Program for FY2015 is subject to change in alignment with the FSA's financial monitoring policy.

2. Inspection Items in Securities Inspection

(1) Focuses of verification corresponding to the types of businesses

1) Large-scale securities company groups.

In view of the Financial Monitoring Policy, the SESC, from a forward-looking perspective, will verify the appropriateness of internal control, governance, and risk management in large-scale securities company groups. Specifically, in addition to the focus of verification regarding Type I FIBOs stipulated in item 2) below, this would include verification of the appropriateness of group-wide, comprehensive risk management, such as whether governance and risk management frameworks in large-scale securities company groups can respond forcefully to changes in the global market environment, and whether they appropriately manage profitability and potential impacts on equity capital, including from the aspect of financial resilience against changes in market conditions. Further, in view of the increase in overseas and cross-border business and the fact that there are a number of cases where financial institutions have been imposed with large penalty payments by foreign supervisory authorities, the SESC will verify whether large-scale securities company groups are taking appropriate action to improve their operational risk and compliance risk management.

In conducting inspections, the SESC will endeavor to cooperate with relevant supervisory departments smoothly through combined on- and off-site monitoring, etc., and will identify/clarify issues and risks by conducting off-site interviews throughout the year, thereby getting a grasp of the existing conditions of business operations in large-scale securities company groups. The SESC will also conduct targeted on-site inspections with specific inspection themes to improve effectiveness and efficiency.

2) Type I FIBOs

A. Verification of the management of material non-public information (prevention of

unfair insider trading)

The SESC will continue to 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.

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

The SESC will continue to focus on verifying 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 dates for public stock offerings, 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 indications of short selling, price regulations, the prohibition of naked short selling, etc.).

C. Verification of the progress on establishing viable trade surveillance systems for DMA, etc.

As far as FIBOs with online trading or electronic facilities for DMA (direct market access) are concerned, in view of the cases of revelations of market manipulation by means of *misegyoku* (false orders to manipulate prices) using Internet transactions, the SESC will continue to focus on examining 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 appropriateness of securities underwriting

Type I 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 Type I 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.

E. Verification of financial soundness

Previous inspections of Type I FIBOs have revealed violations arising from deterioration of financial conditions, 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 defects in net assets and capital adequacy ratios against statutory requirement. The SESC will continue to 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.

F. Verification regarding money laundering and terrorism financing

In view of the implementation of the revised Act on Prevention of Transfer of Criminal Proceeds, taking into consideration the importance of personal identification at the time of transaction and appropriate reporting of suspicious transactions in terms of international cooperation in anti-money laundering and combating against terrorist financing, the SESC will continue to conduct inspections focusing on whether FIBOs examine their customers' objectives of transactions and their occupations at the time of new account opening, 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.

G. Verification of FX business operators

Among Type I FIBOs, the SESC will review FX business operators, focusing on whether they are taking appropriate measures against trades that use software that allow automatic trading (system trading) and against the slippage associated with their FX transactions in accordance with the guidelines for supervision and other relevant self-regulatory rules. Further, in view of potential sudden changes in the economic and financial environment, the SESC will also focus on FX business operators' foreign exchange risk management.

3) Type II FIBOs (fund business operators))

For inspections of Type II FIBOs, investment management business operators (IMBOs),

and QII business operators engaging in the fund management and sales of interests of collective investment schemes (funds) (collectively referred to as "fund business operators" or "FBOs"), these inspections will continue to focus on legal and regulatory compliance issues that include the appropriateness of business operations, such as segregation management of funds (whether there is any misappropriation of funds and unexplained expenditure), false explanations and notices, misleading indications, and name-lending to unregistered BOs.

In cases of overseas funds, it is difficult to check the detailed contents or characteristics of products directly, and if Japanese laws and regulations cannot apply to such products directly, it is difficult to protect the rights and interests of investors. In view of this, the SESC will examine whether BOs selling such products conduct sufficient and appropriate due diligence and monitoring activities for related funds and their issuers, managers, etc. in consideration of the risks involved in such products, and whether there are any problems of customer solicitation activities, in light of the principle of suitability and other investor protection.

4) IMBOs

Since many IMBOs incorporate external funds, including overseas funds, in their management portfolios, it is increasingly important for them to conduct due diligence and monitoring activities in a proper manner.

Under such circumstances, previous inspections, especially of business operators conducting discretionary investment management business ("DIM business operators"), have identified legal and regulatory violations including misleading explanations about important matters when soliciting customers, etc., provision of special profits to customers, and breaches of duties of loyalty in relation to providing discretionary investment management services. As such, the SESC will collect and analyze information appropriately and prioritize inspection targets, and inspect focusing on the viability of due diligence and monitoring activities, the appropriateness of investment solicitation, and the status of compliance with laws and regulations such as the duty of loyalty and the duty of care, as well as inspections of their systems for managing conflicts of interest in relation to transactions with stakeholders.

5) Credit rating agencies

The SESC will utilize information obtained through cooperation with supervising authorities in various countries and confirm whether credit rating agencies (CRAs) have

established business management systems from a viewpoint of preventing conflicts of interest, assuring fairness of rating processes, and preventing administrative errors, and whether they have appropriately disclosed information in relation to credit ratings assigned by them and their rating policies.

6) Investment advisors/agencies

Previous inspections revealed that some investment advisors/agencies committed legal violations of selling and soliciting financial instruments to customers without necessary registration as Type I or Type II operators. Some of them stated that they did not receive sales commissions, etc. from overseas funds, but in fact they did receive commissions from issuers of overseas funds, according to the amount of purchase by customers, by way of their overseas subsidiaries. In view of these cases, the SESC's inspection will continue to focus on whether there are similar cases to the above, as well as their status of compliance with laws and regulations and their systems for soliciting and providing explanations to customers.

7) Self-regulatory organizations

As for self-regulatory organizations (SROs), the SESC will conduct verifications with regard to the establishment of self-regulatory rules for their members and their regulatory enforcement, such as through on-site and off-site reviews and penalties, listing examinations, and transaction surveillance. In conducting verifications of listing examinations, the SESC will also look into the SROs' ongoing measures to thwart the intrusion 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.

8) QII business operators

In addition to the misappropriation of funds and false explanations/notices as described in item 3) above, the SESC will confirm whether QII business operators engage in the unregistered selling/managing of funds that do not qualify for specially permitted businesses by notification, whether they appropriately collect/manage necessary

information about funds provided by customers and the performance of investments managed by the appointed investment managers, whether they appropriately provide information on investment performance, etc. to customers, and whether they conduct business by making false notifications to relevant supervisory authorities and engage in other problematic business. If the inspection reveals any violation of the FIEA or other problems in relation to investor protection, the SESC will continue to take rigorous action, including, for example, publicizing the names of the business operators subjected to inspection/investigation, the names of their representatives, and the committed violation of laws and regulations. Additionally, the SESC will utilize its authority to conduct investigations to file petitions for court injunctions, and file petitions where necessary.

9) Dealing with unregistered BOs

To deal with serious FIEA violations, such as sales, etc. of funds, etc. 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 conduct is confirmed as violating the FIEA or impairing investor protection, the SESC will continue to take rigorous action by filing petitions for injunctions, etc. and by publicizing the names of unregistered BOs, the names of their representatives, the facts of their violation of laws and regulations, and other relevant information.

(2) Cross-sectional focuses of verifications

1) Focus of verification on sales/solicitations of financial instruments

In order to protect investors and ensure that sales and solicitations by FIBOs are trustworthy and fair, the SESC will continue to focus on verifying whether FIBOs solicit customers for investment in an appropriate manner and handle customers properly.

Regarding verifications of sales and solicitations for financial instruments, 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 the 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 appropriate explanations are provided regarding important information that affects customers' investment decision-making in relation to sales and cancellations, including the switching of investment trusts, 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 FIBOs have established systems for soliciting and providing explanations to aged customers or those customers who have limited knowledge and experience related to investments who utilize Nippon Individual Savings Accounts (NISA).

Moreover, the SESC will verify whether widely exposed advertisements to investors and other solicitation materials include any misstatements or misleading indications regarding investment returns, market factors, and the state of orders. The SESC will also examine the establishment of a troubleshooting system important for investor protection.

2) Verification of IT system risk management

In recent years, IT systems have become essential infrastructure for financial transactions, and 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 continue to examine the appropriateness and viability of management systems for the IT systems risk preventive measures, as well as the efficacy of business continuity plans, including erroneous order placement prevention, IT systems troubleshooting, information security management, cybersecurity measures, and outsourcing management. At the same time, the SESC will also verify whether the top management fully understands the importance of the IT systems risk preventive measures and whether they proactively engage in the investment and management of the IT systems and the risk management activities.

3) Verification of measures to eliminate relations with anti-social groups

The SESC will continue to examine whether FIBOs have established an internal system to prevent new transactions with anti-social groups, to conduct *ex post* reviews of the existing transactions with them, and to address dissolving such transactions, if any, under the proactive involvement of top management, in order to eliminate connections with anti-social groups in organization-wide efforts,

(3) General verification items

In addition to those described above, the SESC will review issues associated with governance, legal/regulatory compliance, internal control, risk management, audits, and crisis management (collectively referred to as "Internal Control Systems, etc.") through the use of "Inspection Manual for FIBOs," etc.

Upon identification of any issue related to business, the SESC will check the appropriateness and viability of the Internal Control System, etc. that seems to be causing problems in order to gain a thorough understanding of the issue. In examining the 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.

II. Securities Inspection Program

(1) For FY2015, the SESC intends to conduct inspections of 270 business operators (of which 220 will be inspected by relevant Local Finance Bureaus).

(2) Type I FIBOs, Type II FIBOs, IMBOs, and CRAs remain subject to routine inspection.
For investment advisories/agencies, financial intermediaries, etc., in view of their types of businesses, scales, and other characteristics and the limited availability of human resources at the SESC/Local Finance Bureaus in light of the substantial number of business operators subject to inspection, the SESC will continue to prioritize inspection targets using the information provided by the relevant supervisory departments and externally available information, and conduct inspections on an as-needed basis considering these business operators' statuses of legal/regulatory compliance and participation in self-regulated organizations.
Self-regulatory organizations will be inspected when it is considered necessary.

(3) For Type II FIBOs and investment advisors/agencies, the SESC will continue to verify as soon as possible following their registration, whether they have established the same business management systems as reported in their applications for registration ("post-registration review").

(4) For registered financial institutions, inspections in FY2015 will be conducted if it is deemed necessary to conduct on-site inspection based on the information provided by the FSA's Inspection Bureau and Supervisory Bureau, external information, and the results of off-site monitoring, etc.

(5) For QII business operators, the SESC will continue to inspect them appropriately, utilizing information actively provided by the Supervisory Bureau, external information, etc. Additionally, given the extremely large number of operators subjected to inspection, the SESC will endeavor further to improve inspection methods to increase the number of business operators covered by inspection.

(6) The SESC plans to develop inspection methods for crowdfunding business operators, in cooperation with SROs, in accordance with the legal framework for such business developed in the revised FIEA in FY2014

(7) In conducting inspections, the SESC and Local Finance Bureaus will continue to endeavor to conduct efficient and effective inspections together by exchanging inspectors, etc.

Joint on-site inspections by the SESC and Local Finance Bureaus, which mainly target head offices and branches of Type I FIBOs, will be conducted when necessary based on the results of off-site monitoring, in view of the administrative burden on inspected business operators, in FY2015.

(8) The SESC will continue to conduct investigation against unregistered business operators in an timely manner, utilizing external information.

(9) The SESC, in an effort to fulfill its missions adequately, will take rigorous actions against any conduct that would hinder the viability of inspections, such as attempts to avoid inspection.

Note: Depending on the nature of environmental changes and each BO's circumstances, there may be situations where we need to take actions flexibly without relying on this Securities Inspection Program.

3) Record of Inspections

(1) The following describes the implementation status of securities inspections conducted by the SESC and the directors-general of local finance bureaus, etc. in FY2015 (see the Separate Table).

(i) Financial instruments business operators, etc.

In FY2015, the SESC made inspections of financial instruments business operators, etc., and commenced the inspections of 149 operators (61 type I financial instruments business operators, one registered financial institution, 32 type II financial instruments business operators [of which, inspections were conducted on registration only for 10 operators], seven investment management firms, one investment corporation, 28 investment advisories/agencies [of which, inspections were conducted on registration only for five operators] and 19 financial instruments intermediaries).

In addition, by the end of FY2015, the SESC completed inspections of 39 type I financial instruments business operators, 23 type II financial instruments business operators (of which inspections were conducted on registration only for 10 operators), three investment management firms, one investment corporation, 19 investment advisories/agencies (of which inspections were conducted on registration only for five operators) and 15 financial instruments intermediaries.

The SESC completed all of the inspections of operators that had been commenced in FY2014 and had not been completed in FY2014 (19 type I financial instruments business operators, 10 type II financial instruments business operators [of which inspections were conducted on registration only for three operators], three investment management firms, one investment corporation, two credit rating agencies, 12 investment advisories/agencies [of which, inspections were conducted on registration only for three operator] and three financial instruments intermediaries).

Note that, with regard to three type I financial instruments business operators and two financial instruments business groups, the SESC has conducted integrated on-site and off-site monitoring through coordination with supervisory departments since FY2014.

(ii) QII Business Operators

In FY2015, the SESC made inspections of QII Business Operators, and commenced the inspections of 30 operators, 18 of which the SESC completed within FY2015.

In addition, by the end of FY2015, the SESC completed all of the inspections of the 17 operators that had been commenced in FY2014 and had not been completed in FY2014.

(iii) Self-regulatory organizations, etc.

In FY2015, the SESC made inspections of self-regulatory organizations, etc., and the SESC commenced the inspections of one financial instruments exchange, one financial instruments exchange holding company and one self-regulation organization.

In addition, by the end of FY2015, the SESC completed all of the inspections of operators that had been commenced in FY2014 and had not been completed in FY2014 (one financial instruments exchange, one financial instruments exchange holding company and one self-regulation organization).

(iv) Others

In FY2015, the SESC commenced inspections of one major shareholder of a type I financial instruments business operator and two financial instruments business groups with international operations, one out of these three was completed within the same fiscal year.
In addition, by the end of FY2015, the SESC completed all of the inspections of two financial instruments business groups that had been commenced in FY2014 and had not been completed in FY2014.

(Note) Each inspection is acknowledged to have been completed upon the issuance of an inspection completion notice to each operator subject to the inspection (however, the SESC did not issue such notice to some operators due to their internal situation).
For the 132 inspections out of 191 that were completed in FY2015, the SESC issued the inspection completion notice within three months after the completion of on-site inspection.
In addition, with regard to the number of inspections planned and commenced on financial instruments operators, they are categorized and recorded based on core business when they engage in concurrent businesses. However, the concurrent business operations are subject to a securities inspection.

Note that the Opinion Submission System has been in place for securities inspections since 2001, with the aim of improving the quality of the inspections and securing the transparency of inspection procedures. Specifically, with respect to any matter on which there is disagreement between the inspector(s) and the inspected firm after thorough discussions, the inspected firm may submit an opinion letter to the Secretary-General of the SESC. In the case where such opinion letter is submitted, a person belonging to a division other than the Inspection division of the SESC will prepare a proposed result of the review, which will be delivered by the SESC from a third-party perspective.
Out of the inspections of 191 financial instruments business operators, etc. that were completed in FY2015 (including those that commenced in FY2014), six operators submitted an opinion letter to the Secretary-General of the SESC.

(2) Among the inspections of financial instruments business operators, etc. that were completed during FY2015 (including those commenced in FY2014), the SESC made recommendations to the prime minister and the commissioner of the FSA to take administrative disciplinary 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.
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 for the purpose of timely dissemination of information, disclosure recommendation cases are posted on the website upon occurrence, and the main problems are provided quarterly.

Separate Table: Progress of Inspections in FY2015

Type of business	Plan [Number of operators inspected]	Actual		Number of operators to be inspected (Note 3) [Total] (Note 2)		Actual [Number of operators inspected] (Note 1) (completion)	Of which commenced in FY2014
		[Number of operators inspected] (Note 1) (Commenced)	[Total number of inspections] (Note 2) (Commenced)				
Type I financial instruments business operators	270	61	61	280		58	19
Registered financial institutions		1	1	1,080		0	0
Type II financial instruments business operators		32	63	1,150		33	10
Investment management firms		7	15	345		6	3
Investment corporations		1	1	77		2	1
Credit rating agencies		0	0	7		2	2
Investment advisories/agencies		28	54	987		31	12
Financial instruments intermediaries		19	20	828		18	3
QII Business Operators		30	37	3,429		35	17
Self-regulatory organizations		3	3	13		3	3
Other		3	3	—		3	2
Total	270	185	258	8,196		191	72

Notes: 1. The numbers of business operators inspected which have registered for multiple business types have been classified according to their respective main businesses.

2. With respect to the total number of inspections, the numbers of business operators which have been inspected and have registered for multiple business types have been included in each of them.

3. The number of business operators subject to inspection is as of March 31, 2016.

(3) The average total inspection person-days per operator inspected by the SESC and the directors-general of local finance bureaus, etc. (the on-site inspection period) are as follows: Type I financial instruments business operators: 141 person-days; Type II financial instruments business operators: 28 person-days; Investment advisories/agencies: 29 person-days: Investment management firms: 108 person-days; QII Business Operators: 66 person-days; Financial instruments intermediaries: 19 person-days; others: 28 person-days. Note that, among type I financial instruments business operators, the minimum number of person-days per operator was 25, whereas the maximum number of person-days per operator was 475.

4) Summary of Inspection Results

1. Inspections of Type I Financial Instruments Business Operators

In FY2015, inspections of 58 type I financial instruments business operators were completed, and problems were found in 26 of them. Of these, two business operators had problems related to market misconduct, 16 had problems related to investor protection, one had problems related to financial soundness or accounting, and 13 had problems related to other business operations. With regard to 11 of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

In FY2015, the SESC detected problematic cases, such as continuous sales of corporate bonds while intentionally concealing and hiding the reality of the financial conditions of the bond issuers, solicitation to customers by sales representatives providing material non-public information acquired by an analyst, and failure to meet the requirements for contribution by qualified institutional investors to a fund managed by a QII Business Operator due to virtual contribution by the QII Business Operator.

In another case, an operator received a large amount of orders for closing price guaranteed transactions from multiple customers in relation to a change in the stock composition of the Nikkei Stock Average, and then carried out offsetting transactions mainly with a counterparty. The problematic operator failed to take the required measures, while it was reasonably in a position to learn that the offsetting transactions with the counterparty could potentially have an excessive impact on the market in light of the trade volume.

2. Inspections of Type II Financial Instruments Business Operators

In FY2015, inspections of 33 type II financial instruments business operators were completed and problems were found in nine 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, six business operators had problems related to investor protection, one had problems related to financial soundness or accounting, and five had problems related to other business operations. With regard to one of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary action against it.

In FY2015, the SESC detected problematic cases, including where operators failed to properly secure segregated management of the fund's assets and issued account activity statements describing incorrect money settlement information to customers.

3. Inspections of Investment Advisories/Agencies

In FY2015, inspections of 31 investment advisories/agencies were completed, of which 11 business operators (including business operators mainly engaged in business other than investment advisories/agencies, in which problems related to investment advisory and agency business were found) were found to have problems. Of these 11 business operators, one operator had problems related to market misconduct, 11 operators had problems related to investor protection, and three had problems related to other business operations. With regard to five of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

In FY2015, the SESC detected problematic cases involving the provision of special benefits to customers and the conclusion of discretionary investment management business without registration.

4. Inspections of Investment Management Firms, etc.

In FY2015, inspections of eight investment management firms, etc. (meaning investment management firms and investment corporations), were conducted, and problems were found in one business operator. This business operator had problems related to other business operations.

5. Inspections of Financial Instruments Intermediaries

In FY2015, inspections of 18 financial instruments intermediaries were completed, and problems were found in three of them (for those whose primary business was not financial instruments intermediary services, when the SESC detected problems related to financial instruments intermediary services, such operators were included). Of these, one operator had problems related to market misconduct, one had problems related to investor protection, and one had problems related to other business operations. With regard to one of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary action against it.

In FY2015, the SESC detected problems related to solicitation to customers misusing material non-public information acquired in business other than financial instruments intermediary services.

6. Inspections of Persons Making Notification for Business Specially Permitted for Qualified Institutional Investors (QII Business Operators)

In FY2015, inspections of 35 QII Business Operators were completed, and problems were recognized in 22 of them. Given that QII Business Operators are exempt from administrative disciplinary actions, the SESC has the policy of disclosing the business operator’s name, the representative's name and the relevant act in violation of the law of the relevant operator when they are acknowledged to have conducted an action in violation of the FIEA or any acts undermining investor protection. In FY2015, the SESC conducted inspections focusing on qualified institutional investors, etc. in a more efficient and effective manner. As a result, the SESC published the inspection results of 17 problematic operators who were acknowledged to have conducted serious and malicious violations of the law.

Specifically, the problems detected included acts in violation of the FIEA on conducting solicitation or investment management without meeting the requirements of QII Business Operators, soliciting funds by making false statements using solicitation materials, etc.,

describing facts significantly contrary to the actual state, such as inappropriate management procedures and performance. The acts undermining investor protection were also detected, such as sloppy management of investments and operations, and the diversion of investments to a fund for the payment of dividends and redemptions to other funds or expenses of the problematic company.

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

The cases in which the SESC made recommendations for administrative disciplinary actions, etc. in FY2015 are described below.

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

(1) Kabu.com Securities Co., Ltd.

(Date of recommendation: May 15, 2015)

○ Material problem detected with respect to IT system management

[Article 123(1) (xiv) 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]

The problematic operator's management against IT system failure was not in a situation to accurately grasp the implementation status of the number of cases of system failure, the number of customers affected, cause analysis, and prevention improvement and recurrence measures. Therefore, the SESC detected that it had failed to secure a framework to analyze the causes of such occurrence and take preventive measures. In addition, the problematic operator was also acknowledged to have performed inappropriate management, including failure to report such system failure to the authorities and failure to make notification to customers on a timely basis. Furthermore, the problematic operator was deemed to have management deficiencies in terms of IT system development and problems with internal audit of its IT system.

(2) Crowd Securities Japan, Inc.

(Date of recommendation: June 26, 2015)

(i) Failure to secure segregated management in an appropriate manner

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

Regarding the problematic operator, it was mentioned that, with regard to the operations of trading unlisted shares, etc., and solicitation of funds, money deposited from customers was managed using its operation system for both of the operations indicated above. However, since these operations were performed without the establishment of any internal management system, including operating systems as well as the internal regulations required for the accurate computation of such money deposited by customers, the problematic operator was unable to accurately grasp the money deposited, bringing about a situation of continuous failure to perform appropriate segregation.

(ii) Failure to provide necessary information to customers

[Article 123(1) (viii) of the Cabinet Office Ordinance on Financial Instruments Business

based on Article 40 (ii) of the FIEA]

The problematic operator issued account activity statements describing incorrect money settlement information to customers for three quarters, due to delays in entering the effecting transactions of unlisted stocks and funds into the operating system.

(3) Deutsche Securities Inc.

(Date of recommendation: December 8, 2015)

(i) Inadequacy of the Company's system for managing material non-public information

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

When an analyst of a problematic operator provides information on a listed company to customers, such information is provided in the form of an analyst report, and also directly via e-mail from the analyst or indirectly from sales representatives. However, the SESC detected that, in any provision method, the problematic operator had not necessarily examined the status of such information, and whether or not it fell under the category of material non-public information.

(ii) Solicitation providing material non-public information

[Article 117(1) (xiv) of the FIB Cabinet Office Ordinance, based on Article 38 (vii) of the FIEA prior to the revision by Act No. 44 of 2014]

On the day when Analyst A of the problematic operator obtained material non-public information on undisclosed quarterly results through an interview with listed Company B, he/she informed 21 staff members in charge of sales and one customer of the material non-public information of the case via e-mail and other measures. On the same day, two sales representatives of staff members who had received material non-public information of the case solicited at least three customers, including the customer above, to trade shares in Company B by providing material non-public information of the case before the information had been disclosed by Company B.

(4) The Arts Securities Co., Ltd.

(Date of recommendation: January 29, 2016)

(i) Making false reporting to customers with respect to the conclusion or solicitation of financial instrument transaction contracts

[Article 38(1) of the FIEA]

With regard to three corporate bonds whose underlying assets were medical account receivables, etc., the problematic operator provided assistance to Jyoko Securities Co., Ltd., Kyowa Securities Co., Ltd., Takematsu Securities Co., Ltd., Tahara Securities Co., Ltd., Rokuwa Securities Ltd. and Okinawa Securities Limited (hereinafter referred to as "Related Sales Companies"), and also engaged in the sales and marketing of two bonds itself. While the representative director of the problematic operator recognized the fact that the outstanding balance of the medical account receivables, etc. was significantly small compared to the outstanding balance of the bonds with respect to the financial conditions of the issuer of these three bonds, and that the proceeds of the bonds issued were damaged and diverted for the internal expenses of the managing company, etc. of the issuer, he/she intentionally concealed and hid these situations, and, contrary to the above-mentioned facts, caused the sales representatives to use solicitation materials indicating that the underlying assets of these bonds were medical account receivables, etc., serving as highly safe bonds, and continued to sell these

bonds to customers (see 5)-1- (5) through (10) of this Chapter).

(ii) Providing false financial statements, etc. to Related Sales Companies

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

The representative director of the problematic operator continued to provide financial statements and other materials describing a false balance of medical account receivables, etc. to the Related Sales Companies as mentioned in (i) above, intentionally concealing and hiding the reality of the financial conditions of the issuing company. He/she also sent the template of the solicitation materials in the same manner as mentioned in (i) above, and continued to cause the Related Sales Companies to sell these three bonds (see 5)-1- (5) through (10) of this Chapter).

(iii) Making representations that would cause misunderstanding of important matters with respect to the solicitation or conclusion of a financial instruments contract

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

While the problematic operator recognized that Bond A, whose underlying assets were allegedly trade receivables of small and medium-sized enterprises, had a problem in fact regarding the likelihood of purchase or collection thereof, it made a description in the solicitation materials, etc., causing the misunderstanding that no problems had occurred concerning the relevant bond, and sold the bond to customers (See 5)-1- (7) and (8) of this Chapter).

Furthermore, the problematic operator also sold Bond B, whose source of profits was allegedly real estate located in the United States, with the conditions that the issuer of Bond B acquired Bond C issued by the subsidiary of the issuer of bond B; the subsidiary then acquired Bond D issued by a limited liability company in the United States. While the state of the limited liability company, including the financial standing thereof, was unknown, and the problematic operator failed to accurately grasp the actual situation of the limited liability company, the solicitation materials, etc. indicated a description causing misunderstanding to the effect that the problematic operator had accurately grasped the actual situation of the LLC, to sell the bond to customers (note: this Chapter 5 1-(7), (8), (10)).

(5) Jyoko Securities Co., Ltd.

(Date of recommendation: February 19, 2016)

(i) Making false statements for the conclusion of a financial instruments contract or solicitation thereof

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

The problematic operator relied on The Arts Securities Co., Ltd. and its accomplice that provided support and assistance for the selling of a bond whose underlying assets were medical account receivables, etc. without careful consideration, and failed to carry out close examination and monitoring of the detailed conditions of the bond itself in an appropriate manner, with the result that it could not grasp the actual management situation of the issuing company. Accordingly, contrary to the facts that the outstanding balance of the medical account receivables, etc. was significantly small compared to the outstanding balance of the bond with respect to the financial conditions of the issuer of the bond, and that the proceeds of the bonds issued were damaged and diverted for

the internal expenses of the managing company, etc. of the issuer, the problematic operator used solicitation materials indicating that the underlying assets of the bond were medical account receivables, etc. serving as a highly safe bond for solicitation to customers, and sold the bond to customers (see 5)-1-(4) (i) and (ii) of this Chapter).

(ii) Making representations that would cause misunderstanding of important matters with respect to the solicitation or conclusion of a financial instruments contract

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

While, with regard to the bond mentioned in (i) above, the financial statements of the issuer were not audited by a certified public accountant, the problematic operator provided an indication in the solicitation materials, etc. mentioned in (i) above, causing misunderstanding to the effect that they had been audited by a certified public accountant, and sold the bond to customers.

(6) Kyowa Securities Co., Ltd.

(Date of recommendation: February 19, 2016)

(i) Making false statements for the conclusion of a financial instruments contract or solicitation thereof

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

The problematic operator relied on The Arts Securities Co., Ltd. and its accomplice, which provided support and assistance for the selling of a bond whose underlying assets were medical account receivables, etc. without careful consideration, and failed to carry out close examination and monitoring of the detailed conditions of the bond itself in an appropriate manner, with the result that it could not grasp the actual management situation of the issuing company. Accordingly, contrary to the fact that the outstanding balance of the medical account receivables, etc. was significantly small compared to the outstanding balance of the bond with respect to the financial conditions of the issuer of the bond, and that the proceeds of the bonds issued were damaged and diverted for the internal expenses of the managing company, etc. of the issuer, the problematic operator used solicitation materials indicating that the underlying assets of the bond were medical account receivables, etc. serving as highly safe bonds for solicitation to customers, and sold the bond to the customers (see 5)-1-(4) (i) and (ii) of this Chapter).

(ii) Making representations that would cause misunderstanding of important matters with respect to the solicitation or conclusion of a financial instruments contract

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

While, with regard to the bond mentioned in (i) above, the financial statements of the issuer were not audited by a certified public accountant, the problematic operator provided an indication in the solicitation materials, etc. mentioned in (i) above, causing misunderstanding to the effect that they had been audited by a certified public accountant, and sold the bond to customers.

(7) Takematsu Securities Co., Ltd.

(Date of recommendation: February 19, 2016)

(i) Making false statements for the conclusion of a financial instruments contract or solicitation thereof

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

The problematic operator relied on The Arts Securities Co., Ltd. and its accomplice, which provided support and assistance for the selling of two bonds whose underlying assets were medical account receivables, etc. without careful consideration, and failed to carry out close examination and monitoring of the detailed conditions of the two bonds itself in an appropriate manner, with the result that it could not grasp the actual management situation of the issuing company. Accordingly, contrary to the facts that the outstanding balance of the medical account receivables, etc. was significantly small compared to the outstanding balance of the bonds with respect to the financial conditions of the issuer of the bonds, and that the proceeds of the bonds issued were damaged and diverted for the internal expenses of the managing company, etc. of the issuer, the problematic operator used solicitation materials indicating that the underlying assets of the bonds were medical account receivables, etc. serving as highly safe bonds for solicitation to customers, and sold the bonds to customers (see 5)-1-(4) (i) and (ii) of this Chapter).

(ii) Making representations that would cause misunderstanding of important matters with respect to the solicitation or conclusion of a financial instruments contract

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

Regarding Bond A, whose underlying assets were allegedly trade receivables of small and medium-sized enterprises, and for whose sales the problematic operator received support and assistance from The Arts Securities Co., Ltd., while the problematic operator recognized the fact that it had a problem in fact regarding the likelihood of purchase or collection thereof, it made a description in the solicitation materials, etc., causing misunderstanding to the effect that no problems had occurred regarding the relevant bond, and sold the bond to customers.

In addition, the problematic operator sold Bond B, whose source of profits was allegedly real estate located in the United States, with the condition that the issuer of Bond B acquired Bond C issued by the subsidiary of the issuer of bond B; the subsidiary then acquired Bond D issued by a limited liability company in the United States, with the receipt of support and assistance from The Arts Securities Co., Ltd. While the state of the limited liability company, including its financial standing, was unknown and the problematic operator failed to accurately grasp the actual situation of the limited liability company, the solicitation materials, etc. indicated a description causing misunderstanding to the effect that the problematic operator had accurately grasped the actual situation of the LLC, to sell the bond to customers (see 5)-1- (4) (iii) of this Chapter).

(8) Tahara Securities Co., Ltd.,

(Date of recommendation: February 19, 2016)

(i) Making false statements for the conclusion of a financial instruments contract or solicitation thereof

[Article 117(1) (ii), etc. of the FIB Cabinet Office Ordinance, based on Article 38 (viii) of

the FIEA]

The problematic operator relied on The Arts Securities Co., Ltd. and its accomplice, which provided support and assistance for the selling of two bonds whose underlying assets were medical account receivables, etc. without careful consideration, and failed to carry out close examination and monitoring of the detailed conditions of the two bonds itself in an appropriate manner, with the result that it could not grasp the actual management situation of the issuing companies. Accordingly, contrary to the fact that the outstanding balance of the medical account receivables, etc. was significantly small compared to the outstanding balance of the bonds with respect to the financial conditions of the issuers of the two bonds, and that the proceeds of the bonds issued were damaged and diverted for the internal expenses of the managing company, etc. of the issuers, the problematic operator used solicitation materials indicating that the underlying assets of the bonds were medical account receivables, etc., serving as highly safe bonds for solicitation to customers, and sold the two bonds to customers (see 5)-1-(4) (i) and (ii) of this Chapter).

(ii) Making representations that would cause misunderstanding of important matters with respect to the solicitation or conclusion of a financial instruments contract

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

Regarding Bond A, whose underlying assets were allegedly trade receivables of small and medium-sized enterprises, and for the sales of which the problematic company received support and assistance from The Arts Securities Co., Ltd., while the problematic operator recognized the fact that it had a problem in fact regarding the likelihood of purchase or collection thereof, it made a description in the solicitation materials, etc., causing misunderstanding to the effect that no problems had occurred regarding the relevant bond, and sold the bond to customers.

In addition, the problematic operator sold Bond B, whose source of profits was allegedly real estate located in the United States, with the condition that the issuer of Bond B acquired Bond C issued by the subsidiary of the issuer of bond B; the subsidiary then acquired Bond D issued by a limited liability company in the United States, with the receipt of support and assistance from The Arts Securities Co., Ltd. While the state of the limited liability company, including its financial standing, was unknown and the problematic operator failed to accurately grasp the actual situation of the limited liability company, the solicitation materials, etc. indicated a description causing misunderstanding to the effect that the problematic operator had accurately grasped the actual situation of the LLC, to sell the bonds to customers (See 5)-1- (4) (iii) of this Chapter).

(9) Rokuwa Securities Ltd.

(Date of recommendation: February 19, 2016)

○ Making false statements for the conclusion of a financial instruments contract or solicitation thereof

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

The problematic operator relied on The Arts Securities Co., Ltd. and its accomplice, which provided support and assistance for the selling of two bonds whose underlying

assets were medical account receivables, etc. without careful consideration, and failed to carry out close examination and monitoring of the detailed conditions of the two bonds itself in an appropriate manner, with the result that it could not grasp the actual management situation of the issuing companies. Accordingly, contrary to the fact that the outstanding balance of the medical account receivables, etc. was significantly small compared to the outstanding balance of the bonds with respect to the financial conditions of the issuers of the two bonds, and that the proceeds of the bonds issued were damaged and diverted for the internal expenses of the managing company, etc. of the issuers, the problematic operator used solicitation materials indicating that the underlying assets of the bonds were medical account receivables, etc., serving as highly safe bonds for solicitation to customers, and sold the bonds to customers (see 5)-1-(4) (i) and (ii) of this Chapter).

(10) Okinawa Securities Limited

(Date of recommendation: February 19, 2016)

(i) Making false statements for the conclusion of a financial instruments contract or solicitation thereof

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

The problematic operator relied on The Arts Securities Co., Ltd. and its accomplice, which provided support and assistance for the selling of a bond whose underlying assets were medical account receivables, etc. without careful consideration, and failed to carry out close examination and monitoring of the detailed conditions of the bond itself in an appropriate manner, with the result that it could not grasp the actual management situation of the issuing company. Accordingly, contrary to the fact that the outstanding balance of the medical account receivables, etc. were significantly small compared to the outstanding balance of the bond with respect to the financial conditions of the issuer of the bond, and that the proceeds of the bonds issued were damaged and diverted for the internal expenses of the managing company, etc. of the issuer, the problematic operator used solicitation materials indicating that the underlying assets of the bond were medical account receivables, etc., serving as highly safe bonds for solicitation to customers, and sold the bond to customers (see 5)-1-(4) (i) and (ii) of this Chapter).

(ii) Making representations that would cause misunderstanding of important matters with respect to the solicitation or conclusion of a financial instruments contract

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

While, with regard to the bond mentioned in (i) above, the financial statements of the issuer were not audited by a certified public accountant, the problematic operator provided an indication in the solicitation materials, etc. mentioned in (i) above, causing a misunderstanding to the effect that they had been audited by a certified public accountant, and sold the bond to customers.

In addition, the problematic operator sold Bond B, whose source of profits was allegedly real estate located in the United States, with the condition that the issuer of Bond B acquire Bond C issued by the subsidiary of the issuer of bond B; the subsidiary then acquired Bond D issued by a limited liability company in the United States, with

the receipt of support and assistance from The Arts Securities Co., Ltd. While the state of the limited liability company, including its financial standing, was unknown and the problematic operator failed to accurately grasp the actual situation of the limited liability company, the solicitation materials, etc. indicated a description causing misunderstanding to the effect that the problematic operator had accurately grasped the actual situation of the LLC, to sell the bonds to customers (see 5)-1- (4) (iii) of this Chapter).

(11) Premier Securities Co., Ltd.

(Date of recommendation: March 18, 2016)

○ Problem with the contribution to funds managed by QII Business Operators

[Article 51 of the FIEA]

With regard to eight funds managed by six QII Business Operators, the problematic operator mentioned that it had made capital contributions to these funds as a qualified institutional investor, subject to the conditions of performing monitoring and taking the necessary steps for such funds prior to the contribution as well as receiving fees from the QII Business Operators. However, the SESC detected that the problematic operator had hardly monitored the funds and received fees in excess of the amount of capital contributions. Accordingly, the contributions were acknowledged to have been made virtually by the QII Business Operators, with no substance of contributions made by the problematic operator.

The operator rarely performed monitoring or took necessary steps regarding such funds before and after making capital contributions as a qualified institutional investor, which was acknowledged to have encouraged the QII Business Operators to conduct illegal activities, and also caused damage to investors (see 5)-5- (1) and (6) of this Chapter).

(12) TOGAKU Securities Co., Ltd.

(Date of recommendation: March 18, 2016)

○ Problem with the contribution to funds managed by QII Business Operators

[Article 51 of the FIEA]

With regard to three funds managed by two QII Business Operators, the problematic operator mentioned that it had received fees in exchange for providing reports regarding foreign exchange margin trading, and made capital contributions of the same amount as such fees received to these funds as a qualified institutional investor. However, the SESC detected that such reports were not acknowledged to have been provided with fees, since they were generally published with no fees. Accordingly, the contributions were acknowledged to have been made virtually by the QII Business Operators, with no substance of contributions made by the problematic operator.

In addition, the operator rarely performed monitoring or took necessary steps regarding such funds before and after making capital contributions as a qualified institutional investor, which was acknowledged to have encouraged the QII Business Operators to conduct illegal activities, and also caused damage to investors.

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

Instruments Business Operators

○ **Crowd Securities Japan, Inc.**
(Date of recommendation: June 26, 2015)
○ Failure to provide necessary information to customers
[Article 123(1) (viii) of the Cabinet Office Ordinance, based on Article 40(ii) of the FIEA]
(See 5)-1- (2) (ii) of this Chapter)

3. Recommendations Based on the Results of Inspections of Investment Advisories/ Agencies

(1) TAPJAPAN Co., Ltd.
(Date of recommendation: June 9, 2015)
○ Problems with operational management in light of investor protection
[Article 51 of the FIEA]
The SESC detected that the problematic operator was involved in problems related to investor protection, including the appropriation of money contributed to funds managed in the form of business specially permitted for qualified institutional investors, unfair dividend payments, and failure to report to customers.

(2) Progress Mind Co., Ltd.
(Date of recommendation: June 16, 2015)
○ Problems with operational management in light of investor protection
[Article 51 of the FIEA]
The SESC detected that the problematic operator was involved in several problems with funds managed in the form of business specially permitted for qualified institutional investors, including (a) appropriation of some money contributed to funds, (b) preparing and submitting to customers fund management reports containing false financial statements, and (c) making investments based on a minimal basis of information obtained for the preliminary survey at the investment unit and a lack of related documents that could support confirmation of the state of earnings of the investment unit. In addition, the problematic operator was also involved in problems related to investor protection, including a lack of documentation supporting its assertion to the effect that the capital contributions were managed through foreign exchange margin trading.

(3) Future Stock Co., Ltd.
(Date of recommendation: August 4, 2015)
○ Provision of special benefits to customers in relation to the conclusion of financial instruments transaction contracts
[Article 117(1) (iii) of the FIB Cabinet Office Ordinance, based on Article 38 (vii) of the FIEA prior to the revision by Act No. 44 of 2014]
After the problematic operator had liquidated a fund managed in the form of business specially permitted for qualified institutional investors and then abolished the business, it proposed to provide an exemption from the payments of management fees for five customers out of those who had invested money in the fund for a certain period; four of

the customers accepted the proposal and were exempt from the payment of such fees.

(4) Investment College, Inc.

(Date of recommendation: October 6, 2015)

○ Engaged in investment management business (discretionary investment management business) without statutory registration

[Article 29 of the FIEA]

The problematic operator entered into contracts with customers for services using an automated trading system of Nikkei 225 futures trading, and then placed orders on Nikkei 225 futures trading against the customer accounts held at securities companies through the automated trading system. This act should have naturally fallen under the category of investment management business (discretionary investment management business), in so far as the problematic operator was authorized to make discretionary investments and place orders on behalf of customers. However, the problematic operator failed to make the alteration registration from the authorities and continued to be engaged in the investment management business (discretionary investment management business).

(5) Global Report Co., Ltd.

(Date of recommendation: March 11, 2016)

○ Insufficient personnel structure to carry out financial instruments business appropriately

[Article 52(1) (i) of the FIEA (in the case where it falls under Article 29-4(1) (i)-e of the FIEA)]

Representative director of the problematic operator and Mr. A, who substantially controlled the problematic operator and fully enforced the business thereof, significantly lacked a basic awareness of compliance with laws and ordinances and investor protection. In addition, the problematic operator was registered by the authorities on the basis of the registration application describing contents contrary to the actual situation, and was engaged in businesses that differed from those described in the registration application. Furthermore, the problematic operator provided advice with insufficient evidence to customers, and was involved in multiple violations of law, etc. In conclusion, the SESC identified the problematic operator as an entity with a personnel structure insufficient to carry out financial instruments business appropriately.

(6) First Make Limited Co., Ltd.

(Date of recommendation: March 15, 2016)

(i) Insufficient management of non-public information

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

The problematic operator was engaged in business relating to financing for listed companies, and was in a position to acquire material non-public information. However, the problematic operator has no internal rules regarding the management of material non-public information, so the handling of material non-public information was left to the judgment of the representative director, with functions checked to manage material non-public information, with the result that the information obtained through the business was made available to customers at all times.

(ii) Involvement in misconduct including by helping a listed company submit a false securities registration statement

[Article 51 of the FIEA]

With regard to business relating to financing for listed companies, the problematic operator accepted a request from OPTROM, INC. to use the name of the problematic operator as a person introducing allottees for the purpose of increasing capital of OPTROM, INC., permitted the issuer to prepare a false securities registration statement, and continued to be engaged in conduct contrary to the description in the securities registration statement. In conclusion, the SESC identified that the problematic operator was involved in misconduct that helped the issuer to make a false entry in the securities registration statement (see 2-2 (ii) of Chapter 7).

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

○ **First Make Limited Co., Ltd.**

(Date of recommendation: March 15, 2016)

(i) Solicitation using material non-public information

[Article 66-14 (i)-d of the FIEA prior to the revision by Act No. 44 of 2014]

With regard to business relating to financing for listed companies, the problematic operator received material non-public information related to capital increase by Company A, a listed company, prior to the official announcement, and was engaged in solicitation of two customers to purchase Company A shares by providing the material non-public information of the case before the information had been disclosed by Company A.

(ii) Insufficient management of non-public information

[Article 281 (iii) of the FIEA as applied mutatis mutandis pursuant to Article 66-15 of the FIEA]

(See 5)-3-(6) (i) of this Chapter)

5. Announcement of the Results of Inspections of Persons Making Notification for Business Specially Permitted for Qualified Institutional Investors (QII Business Operators)

(1) Setouchi Fund Co., Ltd.

(Announcement date: April 24, 2015)

○ Problems with operational management in light of investor protection

The problematic operator was engaged in solicitation and management of the fund in which it served as an operating partner. However, the representative director of the problematic operator who was solely responsible for the operation and management of the fund went missing, and there were almost no documents or data recording the contribution and operational reality of the fund. As a result, confirmation of the contribution and operational reality of the fund was impossible.

(2) Family Co., Ltd.

(Announcement date: May 15, 2015)

(i) Making false statements to customers in relation to the solicitation or conclusion of financial instrument transaction contracts

[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]

The problematic operator was engaged in the management of four funds in which it designated itself as a business operator. Despite the fact that these funds had never generated any investment returns since the commencement of solicitation of the equity, for the purpose of allowing solicited investors to acquire Fund A's equity, the problematic operator issued false statements regarding the track record of distributions in respect of two funds other than Fund A, and provided false explanations to the effect that these funds had achieved investment returns for distributions each month.

(ii) Problems with operational management in light of investor protection

The representative director of the problematic operator diverted the capital contributions of the four funds for the purpose of loans to his/her acquaintance(s). In addition, while these funds had never generated any investment returns and were not in a state to make distributions, the problematic operator diverted the money contributed to the four funds in order to pay dividends to customers.

(3) Sokupinmaru Holdings

(Announcement date: May 22, 2015)

(i) Making false statements to customers in relation to the solicitation or conclusion of financial instrument transaction contracts

[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]

The problematic operator was engaged in the management of funds in which it designated itself as a business operator. While the operator had neither the intention nor the framework to invest the capital contributions in foreign exchange margin trading from the commencement of solicitation of the equity, it provided false statements to customers to the effect that the capital was managed through investment in foreign exchange margin trading. In addition, the problematic operator also provided false explanations to the effect that the distributions could be secured each month, contrary to the rules stipulating that the fund would not distribute dividends in the case that it suffered from accumulated losses.

(ii) Problems with operational management in light of investor protection

The problematic operator diverted capital for its expenses, etc. While the problematic operator was not in a state to distribute dividends since the target business had not generated returns, it distributed dividends to customers using the capital of the fund and issued false investment reports.

(4) Allied Investment Co., Ltd.

(Announcement date: June 5, 2015)

(i) Engaged in type II financial instruments business without statutory registration

[Article 29 of the FIEA]

While a requirement for the private placement of specially permitted businesses for qualified institutional investors, etc. was the receipt of capital from at least one qualified

institutional investor, through the solicitation of an interest in Fund A, the problematic operator solicited investors to acquire an interest in a fund in which it had designated itself as a business operator without receiving capital from any qualified institutional investor.

In addition, while it should have been necessary to obtain the consent of all of the stakeholders for exclusion from the application of a collective investment scheme in order to execute operations relating to the target business, the problematic operator was engaged in such execution of the operations of Fund B, which was established for the purpose of evading such application without obtaining approval thereof. In addition, Fund B also failed to meet the requirements for specially permitted businesses for a qualified institutional investor, etc.

(ii) Significant problems with business operations

The problematic operator was engaged in sloppy management of contributed capital, including diversion of the capital of Fund A and Fund B for its expenses, etc., and its failure to prepare any accounting record of the two funds. In addition, the problematic operator made a false report in reply to an order for production of reports by the director-general of the Kanto Local Finance Bureau, to the effect that the operation of Fund B had not yet commenced, contrary to the fact that it had already commenced.

(5) MP Japan Co., Ltd.

(Announcement date: June 30, 2015)

(i) Making false statements to customers in relation to the solicitation or conclusion of financial instrument transaction contracts

[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]

For the purpose of soliciting investors to buy the fund in which the problematic operator designated itself as a business operator or operating partner, the problematic operator provided false explanations regarding the performance track record of the fund, which were contrary to the actual situation.

(ii) Problems with operational management in light of investor protection

The problematic operator invested just a small portion of its capital in foreign exchange margin trading, which was the original investment objective, and invested most of the capital in stocks, which were not the original investment objective, and appropriated the money for its expenses, dividends and redemption proceeds, etc., which were contrary to the actual management status of the fund. The problematic operator failed to grasp the exact status of the deposits and withdrawals of the capital due to the absence of awareness of appropriate performance of operations.

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

[Article 63(7) of the FIEA]

In reply to an order for production of reports by the director-general of the Kanto Local Finance Bureau, the problematic operator prepared false historical trade records at financial institutions, etc., and submitted reports attached to such trading records, etc. to the regulator.

(iv) Engaged in type II financial instruments business without statutory registration

[Article 29 of the FIEA]

The problematic operator was engaged in soliciting investors to buy an interest in the

fund in which it designated itself as a general partner, based on the false perception that the registration of type II financial instruments business was not required, since the problematic operator intended primarily to lend the money contributed to the business operator. In addition, the fund also failed to meet the requirements for specially permitted businesses for qualified institutional investors, etc.

(6) Meiwa Co., Ltd.

(Announcement date: June 30, 2015)

○ Evasion of inspection and violation of an order for the production of reports

[Article 63(7) and (8) of the FIEA]

The problematic operator did not comply with a request for inspection by the Kanto Local Finance Bureau, and failed to reply to an order for the production of a report requesting the reason, etc.

(7) Adnet Co., Ltd.

(Announcement date: July 17, 2015)

○ Significant problems with business operations

With regard to the fund in which the problematic operator designated itself as a business operator, the problematic operator asked Company A, which was not registered as a financial instruments business operator, to solicit customers to acquire the fund equity, and paid fees to Company A.

In addition, the problematic operator diverted capital for a personal debt repayment of the representative director.

(8) Unlimited Co., Ltd.

(Announcement date: August 4, 2015)

(i) Engaged in type II financial instruments business without statutory registration

[Article 29 of the FIEA]

In consultation with Mr. A, representative partner of a certain company, with the aim of collecting capital contributions from more than 49 retail investors, the problematic operator caused the capital contributors of a fund in which it designated itself as a business operator to pay the contributed money to Mr. A in the form of loans, and Mr. A placed the money collected from various retail investors under his name to give the impression that he had made contributions to the fund. By using this scheme, the problematic operator gave the impression that the number of retail investors who contributed to the fund was 49 persons or less, in order to meet the requirements for specially permitted businesses for qualified institutional investors, etc.

(ii) Inappropriate management of money contributed to a fund

The problematic operator failed to book a part of the money collected through Mr. A as investments in capital, and diverted the money for its own expenses, etc. without crediting the amount to the contribution deposit account of the anonymous partnership.

(9) J KORAIL Co., Ltd.

(Announcement date: August 4, 2015)

○ Problems with operational management in light of investor protection

With regard to a fund in which the problematic operator designated itself as a

business operator, the problematic operator asked Mr. A, who was not registered as a financial instruments business operator, to solicit customers to acquire the fund equity, and paid fees to Mr. A.

In addition, the problematic operator handled a lot of capital in cash, and even failed to prepare a management book. Therefore, it could not assess the balance of the capital. Furthermore, the problematic operator paid the fees to Mr. A, constituting an act in violation of the FIEA, through appropriation of the capital.

(10) e-Asset Management Co., Ltd.

(Announcement date: August 4, 2015)

(i) Engaged in type II financial instruments business and investment management business without statutory registration

[Article 29 of the FIEA]

With regard to three funds in which the problematic operator designated itself as a business operator, for the purpose of securing not more than 49 retail investors who contributed the fund so as to meet the requirements for specially permitted businesses for qualified institutional investors, etc., the problematic operator repeatedly organized new funds when the number of retail investors approached 49, and engaged in solicitation for the acquisition of fund equities and management of the fund. However, these multiple funds were acknowledged to constitute virtually one collective investment scheme, due to the lack of segregated management of the capital per fund as well as the difficulty of clarifying the attribution of returns to each individual fund. Therefore, given the above circumstances, the problematic operator failed to meet the requirements for specially permitted businesses for a qualified institutional investor, etc., since the number of retail investors who contributed the fund exceeded 49.

(ii) Failure to provide information to customers about important matters

The problematic operator received approximately 40% of the capital amount invested in Company A as a kickback for such investment from Company A, and only the remaining 60% thereof was invested in the business of Company A. In spite of this situation, the problematic operator failed to provide an explanation to the customers.

(11) Asset Creation Co., Ltd.

(Announcement date: August 4, 2015)

(i) Engaged in type II financial instruments business and investment management business without statutory registration

[Article 29 of the FIEA]

With regard to three voluntary partnerships and three anonymous partnerships in which the problematic operator designated itself as an operating partner and business operator, respectively, for the purpose of securing not more than 49 retail investors that made contributions thereto so as to meet the requirements for specially permitted businesses for a qualified institutional investor, etc., the problematic operator repeatedly organized new partnerships when the number of retail investors approached 49, and engaged in solicitation for the acquisition of partnership equities and management of the partnerships. However, these multiple partnerships were acknowledged to constitute virtually one collective investment scheme, due to the lack of segregated management of the capital per voluntary partnership or anonymous

partnership as well as the difficulty of clarifying the attribution of returns to each individual partnership. Therefore, given the above circumstances, the problematic operator failed to meet the requirements for specially permitted businesses for a qualified institutional investor, etc., since the number of retail investors who contributed the partnerships exceeded 49.

(ii) Failure to provide information to customers about important matters

The problematic operator received approximately 40% of the capital amount invested in Company A made by anonymous partnerships as a kickback for such investment from Company A, and only the remaining 60% thereof was invested in the business of Company A. In spite of this situation, the problematic operator failed to provide an explanation to customers.

(12) A J Asset Creation Co., Ltd.

(Announcement date: August 4, 2015)

○ Failure to provide information to customers about important matters

With regard to a fund in which the problematic operator designated itself as a business operator, the problematic operator received approximately 40% of the capital amount invested in Company A as a kickback for such investment from Company A, and only the remaining 60% thereof was invested in the business of Company A. In spite of this situation, the problematic operator failed to provide an explanation to customers.

(13) JPM Co., Ltd.

(Announcement date: August 7, 2015)

(i) Engaged in type II financial instruments business without statutory registration [Article 29 of the FIEA]

With regard to two out of four funds in which the problematic operator designated itself as a business operator, while it was required to meet the requirements for specially permitted businesses for qualified institutional investors, etc., by securing the contribution of not more than 49 retail investors to the fund, the problematic operator solicited more than 49 retail investors to buy interests in the two funds.

(ii) Making false statements to customers in relation to the solicitation or conclusion of financial instruments transaction contracts

[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]

With regard to one of the four funds, the problematic operator prepared false investment reports and provided explanations on the fund management status based on the reports, which was contrary to the actual state. In addition, it received additional contributions.

(iii) Ambiguous and sloppy management of capital and operation of the funds

The problematic operator failed to grasp the exact histories of the deposits and withdrawals of the capital as well as the state of the assets of the four funds, since it did not prepare any accounting book, etc. for the four funds.

In addition, with regard to two of the four funds, the problematic operator was unable to accurately grasp the amount of investment in the subject business, and even failed to assess the amount of capital that was diverted to expenses, etc. of the problematic operator.

(14) Noah Asset Management Co., Ltd.

(Announcement date: August 7, 2015)

(i) Engaged in type II financial instruments business without statutory registration

[Article 29 of the FIEA]

While a requirement for the private placement of specially permitted businesses for qualified institutional investors, etc. was to receive capital from at least one qualified institutional investor through the solicitation of an interest in the fund, the problematic operator solicited retail investors to acquire an interest in seven out of nine funds in which it designated itself as a business operator without receiving capital from any qualified institutional investor.

(ii) Problems with operational management in light of investor protection

The problematic operator entrusted Company A, which was not registered as a financial instruments business operator, to manage the capital contributions of the nine funds, and failed to grasp the management conditions of the funds in an extremely sloppy manner, including without paying attention to the investment-related contracts concluded with Company A.

In addition, with regard to one out of the nine funds, the problematic operator diverted the full amount of capital contribution that should have been attributable to customers for its expenses, etc.

(15) MARUSHO. Co. Ltd.

(Announcement date: November 10, 2015)

(i) Making false reports to customers with respect to the conclusion or solicitation of the financial instrument transaction contracts

[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]

With regard to funds in which the problematic operator was designated as a business operator, etc. (hereinafter referred to as "the Fund"), while the problematic operator had no intention to manage the capital in line with the conditions of the contracts thereof, it instructed its sales representatives to solicit the Funds using solicitation materials with the description that the Fund would be invested in listed stocks in Japan and overseas, constituting improper solicitation.

(ii) Diversion of money contributed to funds

With regard to two funds of the Fund, in response to a request from Company A asking the problematic operator to take over customers who contributed capital to the funds thereof, the problematic operator made solicitation for the switching of investments to customers of Company A. However, while the capital should have been received from Company A, the problematic operator did not receive from Company A the exact amount equal to the capital contributions of the funds, which suggests that the problematic operator was not in a state to manage the funds in a proper manner from the beginning. In addition, the capital of the Fund was diverted for the personal use of the representative director of Company A. Furthermore, the problematic operator failed to manage the Fund in line with the conditions of the contract, and, despite a situation where dividends could not be distributed to capital contributors, the problematic operator distributed dividends to customers using the capital.

(iii) Engaged in type II financial instruments business without statutory registration
[Article 29 of the FIEA]

While a requirement for private placement of the specially permitted businesses for qualified institutional investors, etc. was the receipt of capital from at least one qualified institutional investor through the solicitation of an interest in a fund, the problematic operator solicited retail investors to acquire interests in 21 funds out of the Fund without receiving capital from any qualified institutional investor.

In addition, while it was required to meet the requirements for specially permitted businesses for qualified institutional investors, etc. by securing the contribution of not more than 49 retail investors to the fund, the problematic operator solicited more than 49 retail investors to buy interests in one fund out of the Fund.

(16) findedge Co., Ltd.

(Announcement date: December 14, 2015)

(i) Engaged in type II financial instruments business without statutory registration
[Article 29 of the FIEA]

While a requirement for private placement of the specially permitted businesses for qualified institutional investors, etc. was the receipt of capital from at least one qualified institutional investor through solicitation of an interest in the fund, the problematic operator solicited retail investors to acquire an interest in six funds in which it was designated as a business operator without receiving capital from any qualified institutional investor.

In addition, while it was required to meet the requirements for specially permitted businesses for a qualified institutional investor, etc. by securing the contribution of not more than 49 retail investors to the fund, the problematic operator solicited more than 49 retail investors to buy interests in four funds out of the six funds.

(ii) Consignment of solicitation of offers to acquire fund equity and fund management to an unregistered entity

With regard to three out of the six funds, the problematic operator asked Company A, which was not registered as a financial instruments business operator, to solicit customers to acquire equities of the funds and manage the funds.

In addition, with regard to one of the six funds, the problematic operator also asked Company B, which was not registered as a financial instruments business operator, to manage the funds.

(iii) Sloppy management of fund's assets

The problematic operator was engaged in sloppy management of the funds, including the commingling of assets belonging to the problematic operator and the representative director thereof with the assets of each of the six funds, as well as failure to prepare any financial reports of the six funds. Under these situations, it was impossible to confirm that the problematic operator had invested one part of the capital in the original investment objective.

In addition, the problematic operator appropriated the fund assets for its expenses, etc., and also diverted the capital of one fund to the payment of dividends and redemption money for the other fund(s) among the funds without justifiable grounds.

(iv) False reporting in response to an order for the production of reports
[Article 63(7) of the FIEA]

In addition, the problematic operator submitted a false report describing an amount of assets under management in excess of the actual value, in reply to an order for submission of a report by the director of the Kinki Local Finance Bureau.

(17) One Plus One Co., Ltd.

(Announcement date: March 18, 2016)

(i) Engaged in investments after the dissolution of a partnership

With regard to Investment Limited Partnership A (hereinafter referred to as "Partnership A") managed by the problematic operator, while Partnership A was deemed to have dissolved due to the fact that the sole limited liability partner (qualified institutional investor) had withdrawn from the position thereof, the problematic operator treated Partnership A as a qualified institutional investor on and after the dissolution date thereof, insisting that it had made investments in 15 funds managed by seven QII Business Operators. However, since Partnership A was no longer a qualified investor upon dissolution, such investments were not deemed to have been made as a qualified institutional investor.

(ii) Engaged in investment management business without statutory registration [Article 29 of the FIEA]

According to the problematic operator, after the withdrawal of the sole limited liability partner, new limited liability partners (retail investors) allegedly made capital contributions to Partnership A, which made investments in 24 funds managed by 13 QII Business Operators. However, as mentioned in (i) above, since Partnership A was already dissolved, upon capital contributions by new limited liability partners, the new Partnership A was deemed to have been established. Accordingly, it was necessary to receive capital contribution from qualified institutional investor(s) to meet the requirement of specially permitted businesses for qualified institutional investors, etc. However, this requirement was not met.

In addition, with regard to Investment Limited Partnership B (hereinafter referred to as "Partnership B") managed by the problematic operator, Partnership B allegedly made investments in 24 funds managed by 18 QII Business Operators. However, since the contribution by Person X serving as the sole limited liability partner was made on the condition that the amount of capital contributed by Person X should be virtually borne by Partnership B, it was not deemed as an investment made by a qualified institutional investor. Therefore, Partnership B was not recognized to meet the requirements of specially permitted businesses for qualified institutional investors, etc.

(iii) Sloppy management of capital

The problematic operator was not in a state where it could confirm whether or not the investments (allegedly made in the name of Partnership A and B as a qualified institutional investor) were actually made by these partnerships. In addition, the problematic operator insisted that it refrained from investments as a qualified institutional investor, but it was acknowledged to have been unable to confirm whether or not the withdrawals or terminations of contracts were made from the investee funds.

In addition, with regard to Investment Limited Partnership C (hereinafter referred to as "Partnership C") managed by the problematic operator, Person Y, serving as a joint operator of Partnership C, caused Partnership C to lend money to Person Y’s affiliate company, thus diverted and damaged the capital of Partnership C without the

permission of the problematic operator. However, the problematic operator was deemed to have accepted such lending by Person Y.

(iv) Damages incurred by investors in the investee funds

The acts mentioned in (i) and (iii) above were acknowledged to have helped the other QII Business Operators conduct illegal acts and caused damage to investors (see 5)-3-(1) and 5-5-(6) of this Chapter).

(v) Active involvement in encouraging others to conduct illegal acts by disguising the appearance of investment as if it was invested by a qualified institutional investor

The problematic operator insisted that Partnership A served as the sole qualified institutional investor to have invested in the interest in Partnership C. However, since the investment was made by money contributed by Person Y, the alleged investment made by Partnership A was deemed as a claim without grounds. Therefore, Person Y's solicitation for the acquisition of Partnership C was deemed as an involvement in type II financial instruments business without statutory registration, and the problematic operator was also acknowledged to have been involved in encouraging Person Y to conduct illegal acts by disguising the appearance of investment as if it was invested by a qualified institutional investor, Partnership A.

6) Other Main Problems Observed in the Inspections of Securities Companies and Other Entities

In addition to the cases in which the SESC made recommendations for administrative disciplinary actions, etc., the main problems observed in the inspections of financial instruments business operators, etc. that were completed in FY2015 were as follows.

1. Problems Observed with Respect to Inspections of Type I Financial Instruments Business Operators

(1) Problems related to market misconduct

○ **Insufficient measures against closing price guaranteed transactions**

When the problematic operator received a large amount of orders on closing price guaranteed transactions from multiple customers upon the change in the stock composition in the Nikkei Stock Average component, and then carried out offsetting transactions thereof mainly with a counterparty, it should be easily expected that the counterparty’s transactions could have excess impact on the market in light of the trade volume. However, the problematic operator failed to take necessary measures, including giving alerts, and the SESC identified that it was problematic in terms of insufficient measures against closing price guaranteed transactions.

(2) Problems related to other business operations

(i) Lack of an advertising review framework

For the purpose of advertising on its website, the problematic operator defined the internal rules relating to advertising review. However, the internal rules did not require a review by the compliance department but simply allowed judgment by the department responsible for the preparation of an advertisement. Therefore, due to the lack of

appropriate segregation of duties, the internal rules failed to define the procedures for the review methodology, review criteria, review records and management methodology in a specific manner, resulting in inaccurate statements. Based on these situations, the SESC identified deficiencies in the advertising review framework.

(ii) Insufficient review framework of analyst reports

At the problematic operator, analyst reports (hereinafter referred to as "Reports") were partly reviewed by senior analysts, but other reviews were made by an overseas group company. The SESC detected that the compliance department responsible for ensuring compliance with laws and regulations in Japan were not involved in the review of the Reports.

In addition, SESC also identified that the problematic operator failed to conduct effective internal review. In particular, while new public information was not available within a certain period of time after the release of Reports prepared on the basis of the announcement of financial results, internal approval was given to new Reports including earnings forecasts and target share prices which were changed beyond a certain level during a certain period of time, without checking the details of the Reports, in light of whether or not the Report was prepared based on material undisclosed information.

(iii) Deficiencies in internal control systems on sales of investment trusts, etc.

While the problematic operator stipulated the internal rules regarding the monitoring framework relating to the solicitation of investment trust switching and the solicitation of investment instruments for elderly customers, it did not specify the department responsible for the monitoring and the staff responsible for the monitoring. As a result, the problematic operator failed to solicit customers in a proper manner, including giving no explanation to the effect that dividends of investment trusts to which customers were going to switch were cost basis distribution, or the sales manager or person in a similar position approved the solicitation without confirming the investment intentions of elderly customers.

In addition, the internal rules prohibited switching solicitation between similar investment trust funds in order to prevent transactions without grounds for customers, but did not classify and specify the categories of similar investment trusts.

(iv) Insufficient monitoring framework regarding solicitation and sale to elderly customers

According to the internal rules of the problematic operator, when soliciting complex structured bonds or other high-risk financial instruments similar to over-the-counter derivative contracts for elderly customers, general managers or persons in similar positions were required to interview the relevant customers to ascertain the suitability of the solicitation criteria defined in advance, and then make approval prior to the solicitation made by each sales representative. However, some of the items to confirm compliance with the criteria were not listed in the format, and the internal regulations did not specify any rules or procedures regarding the investment policy of customers, which was one of the items to be checked in advance. Under these situations, the problematic operator enabled the sales representative to make amendments without

examining the validity of changes of the investment policies of the customers. For these reasons, the problematic operator could not monitor the state after the fact, regarding whether or not the solicitation of high risk financial instruments to elderly customers met the relevant criteria.

2. Problems Observed with Respect to Inspections of Type II Financial Instruments Business Operators

○ **Problems related to financial soundness or accounting**

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

[Article 40-3 of the FIEA]

The problematic operator serving as a business operator of private placement investment funds was not obliged by contracts, etc. to manage the capital of the funds through bank deposits, etc. under the name of the funds, and failed to secure a framework for segregating the capital of the funds from assets inherent to the business operator of the funds. Despite these situations, the problematic operator was engaged in the private placement of funds.

3. Problems Observed with Respect to Inspections of Investment Advisories/Agencies

○ **Problems related to investor protection**

(i) Advertising significantly different from the facts

[Article 37(2) of the FIEA]

The problematic operator was acknowledged to have provided the following advertising in campaigns via e-mail to customers who registered free membership that were significantly different from the facts in respect of the advisory contents and methodologies, as well as the track record in investment advisory services: (A) contrary to the fact that the problematic operator selected stocks itself, there was a description to the effect that the members could receive investment advice on stocks selected by a fictitious investment advisory company; (B) the names of the stocks recommended and the number of members were extremely different from the facts.

(ii) Leaving investment decisions to external persons other than employees of the operator

The problematic operator provided investment advice by posting investment analysis reports on its members-only website. However, the SESC identified that the preparation of such reports associated with investment decisions was entrusted to an external person other than its employees, and that the problematic operator simply provided a format on the website, leaving the core services regarding investment advice to the external person.

4. Problems Observed with Respect to Inspections of Investment Management Firms

○ **Problems related to other business operations**

○ **Insufficient framework regarding real-estate appraisal**

For the purpose of having the investment corporation acquire the beneficiary right of real estate in trust from an interested party, when the problematic operator asked a real-estate appraiser to make appraisal of the real estate, the interested party initially provided materials relating to the appraisal through negotiation with the real-estate

appraiser. However, the problematic operator failed to confirm whether or not such information required for the real-estate appraiser was provided, and did not manage the provision of information and data appropriately. In addition, the problematic operator had the investment corporation acquire a beneficiary right of real estate in trust without making necessary verification of reflection of such information, etc. in the appraisal.

7) Petitions for Court Injunctions against Unregistered Entities, etc.

With regard to unregistered entities and QII Business Operators involved in fraudulent business (hereinafter referred to as “Unregistered Entities, etc.”), the FSA and the SESC have taken actions such as provision of information to police agencies, issuance of warning letters to Unregistered Entities, and announcement of names of such business operators, followed by actions of investigative 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 private equities and funds by Unregistered Entities, etc. is expanding, and has 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 Entity, etc. under Article 192, Paragraph 1 of the FIEA (hereinafter referred to as “Article 192 petition” in this section) and investigations pursuant to 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 to prohibit and suspend from committing 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 Article 192 Petition and Article 187 Investigation to directors-general of local finance bureaus, etc.

Furthermore, an amendment to the FIEA in 2011 has expanded regulations concerning unregistered entities as follows:

- Nullification, in principle, of a sales and purchase contract, etc. in cases where an unregistered entity has made a sale or other type of transfer of unlisted securities;
- Prohibition of acts for solicitation and advertisement by unregistered entities (imprisonment with work for not more than one year, and a fine of not more than one million yen);
- Increased penal provisions for unregistered entities

  Before revision: imprisonment with work for not more than three years, and a fine of not

more than three million yen
After revision: imprisonment with work for not more than five years, and 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 non-corporations
  ⇒ 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).

Furthermore, an amendment to the FIEA in 2015 has expanded the scope of acts subject to injunction by the court, more specifically, from acts in violation of the FIEA or orders thereunder, to solicitation or sales activities of rights relating to collective investment scheme interests, etc., in specific cases, such as where the business to which the capital is contributed is executed in an extremely improper manner.

In response to these institutional developments, the SESC worked vigorously to collect and analyze information on Unregistered Entities, 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 private equities 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 petition, it has made public the business operator’s name, representative’s name, conduct 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 FY2015 where the results of an Article 192 petition and an Article 187 investigation were announced.

(i) Dream Japan Co., Ltd.

(Petition date: July 3, 2015)

Representative Director A of Dream Japan Co., Ltd. (hereinafter referred to as “Company D"; collectively referred to as "Company D, etc.") was also representative director of Erios Trading Co., Ltd. (hereinafter referred to as “Company E"). Mr. A caused Company E, without registration under the FIEA, to state that it was able to engage in broking listed stocks and that retail investors were able to trade listed shares through the placement of orders to Company E through the solicitation of such stocks to retail investors. Company E received buy and sell orders for listed stocks and received payments therefor from retail investors. In addition, Company E also stated that it was able to engage in the trading of initial public offering stocks allocated to Company E, and solicited such stocks to retail investors to receive the payments thereof.

Under such circumstances, the director-general of the Kanto Local Finance Bureau issued a warning letter to Company E. Despite the warning, Mr. A used Company D with the aim of evading investigation by the Kanto Local Finance Bureau, and had Company D take over the retail investors from Company E to continue the above acts at Company D.

Company D, etc. never appropriated to the trading of stocks the money received from the retail investors, contrary to its agreements with them, and diverted and consumed the money for personal debts and entertainment expenses of Mr. A and the expenses, etc. of Company D.

Therefore, on July 3, 2015, the SESC filed an Article 192 petition with the Tokyo District Court for an injunction against Company D, etc. for violations of the FIEA (engaging in the business of trading or broking stocks without statutory registration).

In response to this petition, the Tokyo District Court issued an injunction against Company D, etc., on September 8, 2015, as per the content of the petition.

(ii) SRI BRAIN Co., Ltd.

(Petition date: August 7, 2015)

SRI Brain Co., Ltd. (hereinafter referred to as “Company S”) and Company S's representative director A (hereinafter collectively referred to as “Company S, etc.”) solicited investors to acquire interests in multiple funds managed by Company S (hereinafter referred to as “Funds”). While having received a large amount of money from the capital contributed from customers in addition to the amount of fund fees, etc. stated in disclosure statements and contracts, and explained by sales representatives of Company S, Company S, etc. failed to explain the fact and provided descriptions and explanations to the effect that the fees, etc. were much smaller than those actually charged.

In addition, Company S, etc. provided descriptions regarding investee companies on the disclosure statements to the effect that several funds out of the Funds were going to make investments in promising unlisted companies and/or domestic stocks, etc. with potential growth. The sales representatives of Company S also gave the same explanations to customers. However, the SESC identified that the investees in which some of the Funds actually made investments were not deemed to have growth potential, and the actual management of investee companies differed significantly from the above description and explanations.

Furthermore, prior to this action by Company S, another company, Risk Management Brain Co., Ltd., had provided similar false explanations to customers, with almost the same persons being involved in both cases. As a result, the majority of the capital contributed by the customers was already damaged.

Therefore, on August 7, 2015, the SESC filed an Article 192 petition with the Tokyo District Court for an injunction against Company S, etc. for violations of the FIEA (making false statements to customers in relation to the solicitation of financial instruments 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 Tokyo District Court issued an injunction against Company G, etc. on December 4, 2015, as per the content of the petition.

(iii) F Support Co., Ltd.

(Petition date: March 11, 2016)

F Support Co., Ltd. (hereinafter referred to as “Company F”) and Mr. A, a virtual manager of Company F (hereinafter collectively referred to as “Company F, etc.”) stated that Company F was able to engage in brokering listed stocks and that retail investors were able to trade listed shares through the placement of orders to Company F through the solicitation of such stocks to retail investors. Company F received buy and sell orders for listed stocks and received the payments therefor from customers. In addition, Company F also stated that it was able to engage in trading initial public offering stocks allocated to Company F, and solicited such stocks to retail investors to receive the payments thereof.

Company F, etc. never appropriated to the trading of stocks the money received from the retail investors, contrary to its agreements with them, and diverted and consumed said money for personal debts and entertainment expenses of Mr. A and expenses, etc. of Company F.

Therefore, on March 11, 2016, the SESC filed an Article 192 petition with the Tokyo District Court for an injunction against Company F, etc. for violations of the FIEA (engaging in the business of trading or broking stocks without statutory registration).

In response to this petition, the Tokyo District Court issued an injunction against Company F, etc. on April 14, 2016, as per the content of the petition.

8) Future Challenges and Initiative Policy

In inspections of securities companies and other entities, the SESC needs to address the environmental changes, such as diversification and increase in the number of business operators subject to inspection, the internationalizing activities of market participants on a routine basis, as well as diversification and complexity in financial instruments and transactions, etc.

For this reason, the SESC will address the measures shown below in the SESC’s Policy Statement for the Eighth-term with the objective of performing efficient and effective inspections of securities companies and other entities.

(1) In light of implementing effective and efficient inspections amid the expanding scope of the business operators subject to inspection, the SESC will further strengthen its cooperation with the supervisory authorities and self-regulatory organizations against financial instruments business operators, etc., taking into account the business categories, scale and characteristics, etc. of each financial instruments business operator to enhance the risk assessment with a focus on the business models, the risks derived therefrom, the governance and risk management systems, etc. and conduct integrated on-site and off-site monitoring to implement the necessary inspections.

(2) As for local securities companies, in some cases found in FY2015, they continued to sell corporate bonds while intentionally concealing and hiding the reality of the financial conditions of the issuers. Against the backdrop of the cases, local securities companies have acknowledged difficulty in maintaining the conventional business model, due mainly

to aging customers. For these reasons, the SESC will continue to inspect local securities companies in light of the actual state of the business model and its sustainability or the like, in cooperation with the supervisory authorities.

(3) For QII Business Operators, the SESC conducted inspections focusing on investment limited partnerships serving as qualified institutional investors with a view to performing more efficient and effective inspections.

An amendment to the FIEA in 2015 has expanded the scope of notification matters and regulations on acts by QII Business Operators, and improved the SESC's supervisory authority to instruct the improvement, suspension and abolition of business. The SESC will cooperate with supervisory departments to continue to implement effective and efficient inspections in the future.

In addition, since malicious operators are likely to engage in financial instruments business without statutory registration, which could cause serious damage to investors even after the amendment to the FIEA came into effect, the SESC will appropriately utilize the authority to file petitions for court injunctions, etc. to strictly address violations of the FIEA.

Chapter 5. 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 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 false disclosure 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 integrity and transparency, and protecting investors.

If violations are revealed as a result of investigation of market misconduct, 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) Order persons concerned with a case or witnesses to appear, and to question or have these persons submit a written opinion or a written report;
(2) Order persons concerned to submit books and documents or other items, or to retain the submitted items;
(3) Enter any business office of the persons concerned with a case and other necessary sites to inspect books, documents, and other items; and
(4) Request public offices or public or private organizations to provide necessary information.

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

After the introduction of the Administrative Monetary Penalty System, a series of amendments to the FIEA, etc. 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)

Administrative monetary 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

Note: If a financial instruments business operator, etc. conducts market misconduct on account of a customer, etc. in cases where it is conducted in the fund operations, the amount of administrative monetary penalty shall be equal to three times the amount of investment. In other cases, the amount of administrative monetary penalty shall be equal to the sum of fees, rewards and other considerations (the same applies hereinafter).

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

Administrative monetary 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)

Administrative monetary 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)

Administrative monetary 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)

Administrative monetary penalty:

Difference between the value of sales, (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.)

(6) Tipping and trade recommendation (Article 175-2 of the FIEA)

Administrative monetary penalty:

Computed as the value of the benefit from trading performed by the recipient based on an act of violation (tipping and trade recommendation) multiplied by 1/2

Note: The violating act is newly subject to an administrative monetary penalty by the enforcement of the Act for Amendment of the Financial Instruments and Exchange Act (Law No. 5, 2013), which is applicable to violating acts committed on or after April 1, 2014.

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., 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 FY2015

In FY2015, there were 31 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 170,415,000 yen (excluding cases related to Chapter 6; the same applies to Chapter 5.2 below).

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

1. Overview of Recommendations

(1) In FY2015, there were 31 Recommendations made on market misconduct. Among these, 20 were insider trading cases, 10 were market manipulation cases, and one was a fraudulent means case. The insider trading cases accounted for a significant portion successively from FY2014. Looking at the amount of administrative monetary penalty, insider trading amounted to 70,720,000 yen, market manipulation amounted to 87,455,000 yen and fraudulent means amounted to 12,240,000 yen in FY2015 (the maximum amount of penalty applied to a violator was 46,880,000 yen in a market manipulation case, and the minimum was 250,000 yen in an insider trading case). As a

result, since April 2005, when the administrative monetary penalty system was introduced, the total number of Recommendations on insider trading has reached 212 (by 203 individuals and by nine corporations) amounting to 438,770,000 yen, while the total number of Recommendations on market manipulation has reached 51 (by 50 individuals and by one corporation), amounting to 258,375,000 yen, and fraudulent means one case (by one corporation), amounting to 12,240,000 yen.

The Recommendations relating to insider trading in FY2015 are characterized as a significant decrease in the number of cases related to tender offers, from 22 in FY2014 to four in FY2015, while the number of cases related to revisions of earnings forecasts, etc., increased considerably from four in FY2014 to nine in FY2015. In addition, there were several cases that emerged in FY2015, from zero in FY2014, such as those related to business alliance and dissolutions, the occurrence of damage, and the application of a basket clause. Many of these material facts were attributable to aggressive management policies taken by listed companies as well as rapid changes in economic conditions. Since the number of recommendations relating to these material facts is likely to increase in the future, the SESC recognizes the strong necessity to urge listed companies and related parties to pay attention in light of preventing insider trading in advance. In addition, since there were three cases relating to violation of the tipping and trade recommendation that was enforced in April 2014, the SESC also recognizes the necessity of further dissemination.

The recommendations relating to market manipulation in FY2015 are characterized as a large portion of the cases in which the share prices were raised by consecutively placing buy orders at higher prices than the latest contract price (six cases out of nine), as well as cases of matching buying orders and selling orders placed at high limits at around the same time, and using PTS (proprietary trading system).

In addition, the SESC made a recommendation on a fraudulent means case in which a listed company raised its share price for the first time during the delisting grace period to maintain its listing.

(2) Looking at the attributes of violators in the recommendations made related to insider trading in FY2015, cases committed by primary recipients of the material facts about relevant companies accounted for 16 cases out of 27 (59.2%). Looking at the attributes of the corporate insiders who transmitted information, officers and/or employees of issuers accounted for 9 cases out of 12 (75.0%).

Changes in Number of Recommendation Cases by Attribute of Violator

	FY2014	FY2015
Corporate insider	5	9
Officer, etc. of issuer	3	5 (*1)
Party to a contract	2	4
Tender offeror or other concerned party	2	1
Officer, etc. of tender offeror	1	0
Tender offeror and party to a contract	1	1 (*2)
Primary recipient of information	24	16
Corporate material fact	4	13
Tender offer	20	3
No. of recommendation cases, by FY	31	26

Note: As for the number of recommendation cases by attribute of violator, when a violator commits multiple violations, the cases are recorded redundantly under the relevant types of violation.

(*1) Of which, two cases fell under violation of the information disclosure requirement

(*2) Of which, one case fell under violation of the information disclosure requirement

Changes in Number of Recommendation Cases by Type of Material Fact

	FY2014	FY2015
Issuance of stock, etc.	1	1
Stock split	1	1
Corporatization of new products or new technologies	1	0
Business alliance or dissolution thereof	0	5
Occurrence of damage	0	4
Share transfer resulting in a transfer of controlling interest of a subsidiary	2	0
Revision of earnings forecast, etc.	4	9
Basket clause	0	3
Tender offer	22	4
No. of recommendation cases, by FY	31	27

Note 1. "FY" begins in April and ends in March of the following year (the same applies hereafter).

Note 2. As for the number of recommendation cases by type of material fact, when a violator commits violations while aware of multiple material facts, the cases are recorded redundantly under the relevant types of material fact.

Changes in Number of Recommendation Cases, by Attribute of Transmitter of Information

	FY2014	FY2015
Transmission of material facts	4	12
Officer, etc. of issuer	3	9 (*2)
Party to a contract	1	3
Transmission of information on tender offer	20	3
Officer, etc. of tender offeror	3	0
Tender offeror and party to a contract	17	3 (*3)
Officer, etc. of target party	10 (*1)	0
No. of recommendation cases by FY	24	15

Note: As for number of recommendation cases by attribute of transmitter of information, when a person transmitted multiple material facts to one violator, the cases are recorded redundantly in relevant types of material facts.

(*1) In FY2014, of which, nine cases were those that fell under the category of tender offer related party as an issuer of stock issues related to a tender offer due to the amended FIEA in April, 2014. For convenience, they are included in "Tender offeror and party to a contract."

(*2) Of which, two cases were those that fell under the violation of information disclosure requirement

(*3) Of which, one case was those that fell under the violation of information disclosure requirement

2. Brief Summary of Recommendations Issued in FY2015

With respect to the cases recommended for orders to pay administrative monetary penalties on market misconduct in FY2015, 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 ENERES Co., Ltd.

(Date of recommendation: May 29, 2015)

[Violation subject to the Recommendation]

In the course of his/her duties, an officer of ENERES Co., Ltd. (hereinafter referred to as "ENERES") came to know the unpublished material fact that, compared to the most recent forecast for the company's consolidated net sales and ordinary income for the period ending December 31, 2014, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. Although having been informed of this material fact by the officer, the violator purchased ENERES shares on his/her own account, prior to the announcement of the material fact. (Amount of administrative monetary penalty: 2,570,000 yen)

(ii) Recommendation on insider trading by a person receiving information from an officer of EFISCO Ltd. related to the shares of EFISCO Ltd. and one other stock

(Date of recommendation: May 29, 2015)

[Violation subject to the Recommendation]

In the course of his/her duties, an officer of FISCO Ltd. (hereinafter referred to as "FISCO"), parent company of NCXX Inc. (hereinafter referred to as "NCXX") came to know: (a) the unpublished material fact that, compared to the most recent forecast for NCXX's consolidated net sales for the period ending November 30, 2014, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors; and (b) the unpublished material fact that, compared to the most recent forecast for FISCO's consolidated net sales for the period ending December 31, 2014, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. Although having been informed of these material facts by the officer, the violator:

i) sold NCXX shares on his/her own account, prior to the announcement of the material

fact, and

ii) sold FISCO shares on his/her own account, prior to the announcement of the material fact. (Amount of administrative monetary penalty: 2,250,000 yen)

(iii) Recommendation on insider trading related to shares of TOMEN ELECTRONICS CORPORATION by persons receiving information from an officer of the company negotiating the conclusion of a contract with a tender offeror

(Date of recommendation: July 28, 2015)

[Violation subject to the Recommendation]

Violators (i) and (ii) received material nonpublic information from an officer of the company negotiating with a tender offeror. The information concerned the material fact that the executive decision-making body of Toyota Tsusho Corporation had decided to make a tender offer for shares of TOMEN ELECTRONICS CORPORATION (hereinafter referred to as "Tomen Electronics"). While in receipt of said information,

i) Violator (i) purchased Tomen Electronics shares on his/her own account, prior to the announcement of the material fact, and

ii) Violator (ii) purchased Tomen Electronics shares on his/her own account, prior to the announcement of the material fact.

(Amount of administrative monetary penalty: Violator (i) 4,590,000 yen; Violator (ii) 990,000 yen)

(iv) Recommendation on insider trading by an employee of Pioneer Corporation

(Date of recommendation: September 8, 2015)

[Violation subject to the Recommendation]

The violator was an employee of Pioneer Corporation (hereinafter referred to as “Pioneer”).

i) In the course of his/her duties, the violator came to know the unpublished material fact that, compared to the most recent forecast for the company’s consolidated ordinary income and net income for the period from April 1, 2013 to March 31, 2014, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. Despite this knowledge, the violator sold Pioneer shares on his/her own account, prior to the announcement of the material fact.

ii) In the course of his/her duties, the violator came to know the unpublished material fact that the executive decision-making body of Pioneer had decided to form a

business alliance with ONKYO CORPORATION (hereinafter referred to as “Onkyo”). Despite this knowledge, the violator purchased Pioneer shares on his/her own account, prior to the announcement of the material fact.

iii) In the course of his/her duties, the violator came to know the unpublished material fact that the executive decision-making body of Onkyo, which Pioneer’s officers had come to know in the course of negotiation for business alliance agreement with Onkyo, had decided to form a business alliance with Pioneer. Despite this knowledge, the violator purchased Onkyo shares on his/her own account, prior to the announcement of the material fact. (Amount of administrative monetary penalty: 960,000 yen)

(v) Recommendation on insider trading by a former officer of Skymark Airlines Inc.

(Date of recommendation: October 9, 2015)

[Violation subject to the Recommendation]

The violator is a former officer of Skymark Airlines Inc. (hereinafter referred to as “Skymark”) who had come to know of information in the course of his/her duties. The information concerned material facts related to the operation, business and property of Skymark, and would have a significant impact on the investment decisions of investors. While in receipt of the nonpublic information, the violator sold Skymark shares on his/her own account, prior to the announcement of the material fact. (Amount of administrative monetary penalty: 2,380,000 yen)

(vi) Recommendation on insider trading by a person receiving information regarding WebCrew shares from an employee of a company negotiating the conclusion of a contract with the parent company of a tender offeror, and on information tipping by the employee regarding the implementation of the tender offer

(Date of recommendation: October 23, 2015)

[Violation subject to the Recommendation]

i) Violator (i) received a material fact from Violator (ii), who was an employee of a company that had concluded an equity underwriting agreement with Hikari Tsushin Inc., the parent company of NEWTON FINANCIAL CONSULTING, Inc. (hereinafter referred to as "NEWTON"). Violator (ii) had come to know of the material nonpublic information in the course of fulfillment of a contract to the effect that the executive decision-making body of NEWTON had decided to launch a public offering of shares of WebCrew Inc. (hereinafter referred to as "WebCrew"). While in receipt of the

information from the employee, Violator (i) purchased WebCrew shares on his/her own account, prior to the announcement of the fact.

ii) Violator (ii) was an employee of a company that had concluded an equity underwriting agreement with Hikari Tsushin Inc., the parent company of NEWTON FINANCIAL CONSULTING, Inc. Violator (ii) had come to know of the material nonpublic information in the course of fulfillment of a contract to the effect that the executive decision-making body of NEWTON had decided to launch a public offering of shares of WebCrew. Violator (ii) disclosed the information to Violator (i) with the intent of having him/her accrue profits through the purchase of WebCrew shares, prior to the announcement of the above fact.

Violator (i) purchased WebCrew shares on his/her own account, prior to the announcement of the fact.

(Amount of administrative monetary penalty: Violator (i) 510,000 yen; Violator (ii) 250,000 yen)

(vii) Recommendation on insider trading by an employee of a party involving the conclusion of a contract with R-Tech Ueno, Ltd.

(Date of recommendation: November 25, 2015)

[Violation subject to the Recommendation]

The violator was working at a company that entered into a clinical trial agreement with R-Tech Ueno, Ltd. (hereinafter referred to as "R-Tech"). He/she had come to know of a material fact in the course of fulfillment of the agreement, to the effect that R-Tech was determined to discontinue the clinical trial. Such fact was related to the operation, business and property of R-Tech, and would have a significant impact on the investment decisions of investors. While in receipt of the nonpublic information of the material fact in this case, the violator sold R-Tech shares on his/her own account, prior to the announcement of the fact. (Amount of administrative monetary penalty: 600,000 yen)

(viii) Recommendation on insider trading by a person receiving information from an officer of SK-Electronics Co., Ltd.

(Date of recommendation: December 15, 2015)

[Violation subject to the Recommendation]

The violator had come to know of information in the course of his/her duties from an officer of SK-Electronics Co., Ltd. (hereinafter referred to as “SK-Electronics”).

(i) The information concerned the material fact that, compared to the most recent forecast for the company's consolidated earnings for the period from October 1, 2012, to September 30, 2013, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. While in receipt of the nonpublic information, the violator purchased SK-Electronics shares on his/her own account, prior to the announcement of the material fact.

(ii) The information concerned the material fact that, compared to the most recent forecast for the company's consolidated earnings for the period from October 1, 2013, to September 30, 2014, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. While in receipt of the nonpublic information, the violator purchased SK-Electronics shares on his/her own account, prior to the announcement of the material fact.

(Amount of administrative monetary penalty: 15,630,000 yen)

(ix) Recommendation on insider trading by two persons receiving information from an officer of a contract party with SUMITOMO CORPORATION

(Date of recommendation: December 22, 2015)

[Violation subject to the Recommendation]

Violator (i) received a material fact from an officer of a contract party with SUMITOMO CORPORATION who had come to know of the information in the course of negotiating the contract. The information concerned a material fact related to the business, etc. of SUMITOMO CORPORATION, to the effect that SUMITOMO CORPORATION was most likely to post an impairment loss to the amount of approximately 170 billion yen in its financial statements for the first half of the fiscal year ending March 31, 2015. While in receipt of the nonpublic information, Violator (i) sold SUMITOMO CORPORATION shares on his/her own account, prior to the announcement of the material fact.

Violator (ii) received a material fact from an officer of a contract party with SUMITOMO CORPORATION, who had come to know of the information in the course of negotiating the contract. The information concerned material facts related to the business, etc. of SUMITOMO CORPORATION, to the effect that (a) SUMITOMO CORPORATION was most likely to post an impairment loss to the amount of approximately 170 billion yen in its financial statements for the first half of the fiscal year ending March 31, 2015, and that (b) compared to the most recent forecast for the company's consolidated net income for the period from April 1, 2014, to March 31,

2015, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. While in receipt of the nonpublic information, Violator (ii) sold SUMITOMO CORPORATION shares on his/her own account, prior to the announcement of the material fact.
(Amount of administrative monetary penalty: Violator (i) 8,920,000 yen; Violator (ii) 500,000 yen)

(x) Recommendation on insider trading by a person receiving information from an employee of Ishiyama Gateway Holdings Inc.

(Date of recommendation: February 2, 2016)

[Violation subject to the Recommendation]

The violator received information from an employee of Ishiyama Gateway Holdings Inc. (hereinafter referred to as “Gateway”), who had come to know of the information in the course of his/her duties. The information concerned the material fact that Gateway had received a voluntary investigation by the SESC due to its suspected violation of the FIEA regarding the inclusion of false disclosure statements in its annual securities report. Such material fact was related to the operation, business and property of Gateway and would have a significant impact on the investment decisions of investors. While in receipt of the nonpublic information, the violator sold Gateway shares on his/her own account, prior to the announcement of the material fact.
(Amount of administrative monetary penalty: 2,360,000 yen)

(xi) Recommendation on insider trading by a person receiving information from an employee of I'rom Holdings Co., Ltd, and on information tipping by the employee regarding a material fact

(Date of recommendation: February 9, 2016)

[Violation subject to the Recommendation]

i) Violator (i) received information from Violator (ii), who was an employee of I'rom Holdings Co., Ltd (hereinafter referred to as “I’rom”) and had come to know of the information in the course of his/her duties. The information concerned the fact that the executive decision-making body of DNAVEC Corporation, a subsidiary of I’rom, had decided to form a business alliance with Sumitomo Dainippon Pharma Co., Ltd. While in receipt of the information from the employee, Violator (i) purchased I’rom shares on his/her own account, prior to the announcement of the material fact.

ii) Violator (ii) disclosed the information to Violator (i), with the intent of having him/her make profits through the purchase of I'rom shares prior to the announcement of the above fact.

Violator (i) purchased I'rom shares on his/her own account, prior to the announcement of the material fact.

(Amount of administrative monetary penalty: Violator (i) 1,020,000 yen; Violator (ii) 510,000 yen)

(xii) Recommendation on insider trading by a person receiving information from an officer of EMORI GROUP HOLDINGS Co., Ltd.

(Date of recommendation: February 16, 2016)

[Violation subject to the Recommendation]

Violator (i) was an employee of a consolidated subsidiary of EMORI GROUP HOLDINGS Co., Ltd. (hereinafter referred to as "Emori GHD"), and he/she received information from an officer of Emori GHD who had come to know of the information in the course of his/her duties. The information concerned the material fact that Emori GHD was most likely to post an extraordinary loss of 46.2 billion yen as the provision of an allowance for doubtful accounts during the cumulative consolidated third quarter of the fiscal year ending March 31, 2015. While in receipt of the material fact, Violator (i) sold Emori GHD shares on his/her own account, prior to the announcement of the material fact.

Violator (ii) was an employee of a consolidated subsidiary of Emori GHD, and he/she received information from Violator (i) in the course of his/her duties. The information concerned the material fact that Emori GHD was most likely to post an extraordinary loss of 46.2 billion yen as the provision of an allowance for doubtful accounts during the cumulative consolidated third quarter of the fiscal year ending March 31, 2015. While in receipt of the material facts, Violator (ii) sold Emori GHD shares on his/her own account, prior to the announcement of the material fact.

(Amount of administrative monetary penalty: Violator (i) 1,070,000 yen; Violator (ii) 7,530,000 yen)

(xiii) Recommendation on insider trading by a person receiving information from an officer of SHIFT INC., and the violation of a requirement to disclose material facts by the officer

(Date of recommendation: March 25, 2016)

[Violation subject to the Recommendation]

Violator (i) received information from Violator (ii), an officer of SHIFT INC. (hereinafter referred to as “SHIFT”) who had come to know of the information described below in the course of his/her duties.

i) The information concerned the material fact that the executive decision-making body of SHIFT had decided to split the shares of SHIFT. While in receipt of the nonpublic information, Violator (i) purchased SHIFT shares on his/her own account, prior to the announcement of the material fact.

ii) The information concerned the material fact that, compared to the most recent forecast for SHIFT’s consolidated net sales and net income attributable to the owners of the parent company for the period from September 1, 2015, to August 31, 2016, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. While in receipt of the material facts, Violator (i) sold SHIFT shares on his/her own account, prior to the announcement of the material fact.

Violator (ii), an officer of SHIFT, had come to know of information in the course of his/her duties. The information concerned the material fact that, compared to the most recent forecast for the net income attributable to the owners of the parent company for the period from September 1, 2015, to August 31, 2016, a difference had arisen in the newly calculated forecast, which was regarded as a difference that may have a material influence on the decisions of investors. Violator (ii) disclosed the information to Violator (i), with the intent of having him/her avoid losses through the selling of SHIFT shares prior to the announcement of the above fact.

Violator (i) sold SHIFT shares on his/her own account, prior to the announcement of the material fact.

(Amount of administrative monetary penalty: Violator (i) 13,800,000 yen; Violator (ii) 3,510,000 yen)

(xiv) Recommendation on insider trading by an employee of a contract party with Nippon Manufacturing Service Corporation

(Date of recommendation: March 25, 2016)

[Violation subject to the Recommendation]

The violator was an employee of KANEMATSU CORPORATION (hereinafter referred to as "Kanematsu") and had come to know of nonpublic information in the course of negotiations for the conclusion of a contract for a capital and business alliance with Nippon Manufacturing Service Corporation (hereinafter referred to as “Nippon Manufacturing Service”). The information concerned the material fact that the executive decision-making body of Nippon Manufacturing Service had decided to form

a business alliance with Kanematsu and sell treasury shares through private placement. While in receipt of the nonpublic information, the violator purchased Nippon Manufacturing Service shares on his/her own account, prior to the announcement of the material fact. (Amount of administrative monetary penalty: 770,000 yen)

(2) Recommendation on market manipulation

(i) Recommendation on market manipulation related to the shares of TRUST CO., LTD.

(Date of recommendation: April 17, 2015)

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of shares of TRUST CO., LTD., the violator purchased and sold shares of TRUST CO., LTD., Ltd., including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time.
(Amount of administrative monetary penalty: 1,700,000 yen)

(ii) Recommendation on market manipulation related to the shares of SAKAE ELECTRONICS CORPORATION, and one other issue

(Date of recommendation: June 26, 2015)

[Violation subject to the Recommendation]

i) For the purpose of inducing sales and purchases of shares of SAKAE ELECTRONICS CORPORATION, the violator purchased shares of SAKAE ELECTRONICS CORPORATION on his/her own account, including in a manner intended to raise the share price by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices; and

ii) for the purpose of inducing sales and purchases of shares of Vector Inc., the violator purchased and sold shares of Vector Inc. on his/her own account, on the account of a family-owned company of the violator and on the account of a relative of the violator, including in a manner intended to raise the share price by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. (Amount of administrative monetary penalty: 46,880,000 yen)

(iii) Recommendation on market manipulation related to the shares of THE SHIGA BANK,LTD., and four other issues

(Date of recommendation: June 26, 2015)

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of shares using the Proprietary Trading System (hereinafter referred to as "PTS"), the violator placed sell orders on the five issues listed on the exchange financial markets, by supporting lower prices through the placement of multiple sell orders, and purchased the same five issues on the exchange financial markets and PTS. (Amount of administrative monetary penalty: 1,280,000 yen)

(iv) Recommendation on market manipulation related to the shares of C&G SYSTEMS INC., and one other issue

(Date of recommendation: August 4, 2015)

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of shares of the issues listed below, the violator, on his/her own account,

i) purchased and sold shares of C&G SYSTEMS INC. (hereinafter referred to as "C&G Systems") while engaging in behavior such as placing buying orders of the shares of C&G System, including in a manner intended to raise the share price by supporting lower prices through the placement of multiple buying orders,

ii) purchased and sold shares of Billing System Corporation while engaging in behavior such as placing buying orders of the shares of Billing System Corporation, including in the same manner as above, and

iii) purchased and sold shares of C&G Systems while engaging in behavior such as placing buying orders of the shares of C&G Systems, including in the same manner as above. (Amount of administrative monetary penalty: 3,825,000 yen)

(v) Recommendation on market manipulation related to the shares of YAMAZAKI CO., LTD.

(Date of recommendation: September 18, 2015)

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of shares of YAMAZAKI CO., LTD., the violator purchased and sold shares of YAMAZAKI CO., LTD. on his/her own account, including in a manner intended to raise the share price by matching buying

orders and selling orders placed at high limits at around the same time, and by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. (Amount of administrative monetary penalty: 710,000 yen)

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

(Date of recommendation: October 23, 2015)

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of shares of The Toho Bank, Ltd., the violator purchased and sold shares of The Toho Bank, Ltd. on his/her own account, including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. (Amount of administrative monetary penalty: 15,170,000 yen)

(vii) Recommendation on market manipulation related to the shares of Bank of the Ryukyus, Limited.

(Date of recommendation: December 15, 2015)

[Violation subject to the Recommendation]

For the purpose of causing investors to have the misconception that the shares of Bank of the Ryukyus were being traded actively in the market, the violator matched buying and selling orders on his/her own account and on the account of his/her relatives. (Amount of administrative monetary penalty: 2,240,000 yen)

(viii) Recommendation on market manipulation related to the shares of Mipox Corporation

(Date of recommendation: February 2, 2016)

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of the shares of Mipox Corporation, the violator purchased and sold shares of Mipox Corporation, in a manner intended to raise the share price by supporting lower prices through the placement of multiple

buying orders, by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing buy orders at higher prices than the latest contract price, to make them be executed at higher prices than the latest contract prices, and at the same time, the violator placed purchase order. (Amount of administrative monetary penalty: 580,000 yen)

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

(Date of recommendation: March 15, 2016)

[Violation subject to the Recommendation]

i) Trade Labo, Inc. (Violator (i); hereinafter referred to as "Trade Labo") has operational authority of the properties in which the Trade Labo Limited Partnership (hereinafter referred to as the "Partnership") has invested. Violator (ii) was involved in managing the property of the Partnership as an officer of Trade Labo. For the purpose of inducing sales and purchases of shares of WiZ Co., Ltd., Violator (ii) caused Violator (i) to purchase and sell shares of WiZ Co., Ltd., including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. Out of the transactions executed, the portion of capital contributed by Trade Labo etc. to the Partnership as of August 31, 2014, was made on the account of Trade Labo and its interested parties, while the others were made on the account of investors other than Trade Labo and its interested parties.

ii) For the purpose of inducing sales and purchases of shares of WiZ Co., Ltd., Violator (ii) purchased and sold shares of WiZ Co., Ltd. on his/her own account, including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices.

(Amount of administrative monetary penalty: Violator (i) 3,820,000 yen; Violator (ii) 11,250,000 yen)

(3) Recommendation on Fraudulent Means

(i) Recommendation on fraudulent means related to the shares of Inspec Inc.

(Date of recommendation: March 8, 2016)

[Violation subject to the Recommendation]

While the average monthly market capitalization and the month-end market capitalization of the shares of Inspec Inc. (hereinafter collectively referred to as "Market Capitalization") had fallen under 300 million yen in June 2012 and the common stock of Inspec Inc. was going to be delisted from the Tokyo Stock Exchange, Mr. A, an officer of Inspec Inc., attempted to raise the price of Inspec Inc. to prevent the delisting, and caused employees of Inspec Inc. to place buy orders to make them be executed at higher prices to raise the Market Capitalization above 300 million yen. In addition, Mr. A also disclosed a statement concealing the above situation via TDnet, a timely disclosure information transmission system provided by the Tokyo Stock Exchange, as though the Market Capitalization of Inspec Inc. shares had exceeded 300 million yen as a result of transactions reflecting natural supply and demand.

(Amount of administrative monetary penalty: 12,240,000 yen)

3. Subsequent Progress of Recommendations Issued Prior to FY2014

(1) Trial procedures

Among the cases recommended by the SESC in or before FY2014, the following is a summary of the subsequent process of a case in which an order for an administrative monetary penalty payment had not yet been issued before the “Annual Report 2014/2015” was released.

(i) Recommendation on insider trading by a person receiving information from an officer of NISSHIN FUDOSAN Co., Ltd.

With regard to the recommendation, the respondent submitted a written reply denying the fact of the violation, to the effect that the respondent did not receive the material fact. Therefore, in this case, this point was in dispute.

Following the trial procedures, on June 25, 2015, the commissioner of the Financial Services Agency (FSA) made the decision to order payment of the administrative monetary penalty, arguing the point in dispute that, while knowing the material fact, the respondent purchased shares of NISSHIN FUDOSAN, prior to the above fact being announced.

(ii) Recommendation on market manipulation related to the shares of Takada Corporation

With regard to the recommendation, the respondent submitted a written reply denying the facts of the violation, insisting that the transactions did not fall under activities to create the misunderstanding that there was active trading in these shares, nor did they fall under those causing fluctuations in the market price of the shares. In addition, the respondent asserted that he/she had no intention to induce other investors to follow sales and purchases of the shares. Therefore, in this case, this

point was in dispute.

Following the trial procedures, on August 6, 2015, 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 recognized that the transactions fell under activities to create the misunderstanding that there was active trading in these shares and to cause fluctuations in the market price of the shares, and that the transactions were made with the intention to induce investors to follow sales and purchases.

(2) Revocation actions against a decision of administrative monetary penalty payment

Among cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2014, the following is a summary of the subsequent process of a case in which the court's judgment had not yet been made before the "Annual Report 2014/2015" was released.

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

[Recommendation for order to pay administrative monetary penalty (November 16, 2012); Issuance of an administrative monetary penalty payment order (April 16, 2013); Action for revocation of an administrative disposition with the Tokyo District Court (May 15, 2013); Judicial decision by the Tokyo District Court (January 16, 2015); Appeal to the Tokyo High Court (January 27, 2015); and Judicial decision by the Tokyo High Court (July 10, 2015)]

On July 10, 2015, the Tokyo High Court pronounced a judgment to the effect that the court would reject the claim of the plaintiff (appellant) on the grounds that the plaintiff was acknowledged to have intended to create the misunderstanding that there was active trading in these shares in light of the trading situation.

On July 25, 2015, since the appeal period had elapsed without appeal from the plaintiff, the appeal court decision and the judgment in first instance became final and binding.

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

[Recommendation for order to pay administrative monetary penalty (February 5, 2013); Issuance of an administrative monetary penalty payment order (December 10, 2013); Action for revocation of an administrative disposition with the Tokyo District Court (December 26, 2013); Judicial decision by the Tokyo District Court (May 28, 2015); Appeal to the Tokyo High Court (June 25, 2015); and Judicial decision by the Tokyo High Court (October 28, 2015)]

On October 28, 2015, the Tokyo High Court pronounced a judgment to the effect that the court would reject the claim of the plaintiff (appellant) on the grounds that the plaintiff was acknowledged to be aiming to make such inducement.

On November 14, 2015, since the appeal period had elapsed without appeal from the plaintiff, the appeal court decision and the judgment in first instance became final and binding.

(iii) Recommendation on insider trading by a party to a contract with Nojima Corporation

[Recommendation for order to pay administrative monetary penalty (April 22, 2014); Issuance of an administrative monetary penalty payment order (August 21, 2014); and Action for revocation of an administrative disposition with the Tokyo District Court (September 19, 2014)]

An action for revocation is pending as of April 30, 2016.

(iv) Recommendation on insider trading by an employee of a party to a contract with Tanaka Chemical Corporation and by a person receiving information from the employee

[Recommendation for order to pay administrative monetary penalty (February 25, 2014); Issuance of an administrative monetary penalty payment order (December 4, 2014); and Action for revocation of an administrative disposition (December 4, 2014)]

The action for revocation is pending as of April 30, 2016.

3) Future Challenges and Initiative Policy

Given that market misconduct cases have become increasingly complex, diverse, malicious and sophisticated year after year, the SESC has conducted the investigation on insider trading in FY2015 as follows:

(1) The SESC has conducted investigations and inspections, keeping an eye on any cases violating the regulations against the disclosure of inside information and trading recommendations that were introduced in April 2015. As a result, the SESC recommended that the prime minister and the commissioner of the FSA take administrative action against the issuance of orders to pay administrative monetary penalties on three cases where violators were acknowledged to have disclosed non-disclosed information to recipients with the intent of having them accrue profits from the disclosure, the first such cases in this feature. Since such cases subject to the regulations against the disclosure of inside information and trading recommendations are likely to increase in the future, the SESC considers it necessary to address the cases appropriately.

(2) Against the backdrop of drastic changes in the economic environment in recent years, the SESC recognizes several cases where the subject information did not constitute facts pertaining to corporate decisions, or material facts or business results subject to the laws and regulations, but constituted facts that could have a significant impact on the investment decisions of investors and cause fluctuations in the market price of the shares. Accordingly, the SESC recommended that the prime minister and the commissioner of the FSA take administrative action against the issuance of orders to pay administrative monetary penalties in three cases subject to the basket clause. Similarly, since such cases potentially having a significant impact on the investment decisions of investors are likely to increase in the future, the SESC considers it necessary to address the cases appropriately.

(3) While listed companies have been committed to putting in place internal control systems in order to prevent insider trading in advance, the SESC detected many cases of insider trading in which officers of listed companies and related parties, such as parties under contract therewith, were involved. The SESC also committed itself to sharing awareness of the problems regarding the underlying causes of the occurrence thereof and the necessary measures taken to prevent recurrence thereof, as well as by announcing the collection of cases subject to the payment of administrative monetary penalties, with the aim of encouraging market participants to strengthen market discipline. The SESC considers it necessary to take these measures continuously.

In addition, the SESC also recommended administrative monetary penalty orders against new types of market manipulation, including the use of the technique of *misegyoku* sham order transactions covering proprietary trading systems (PTS) and stock exchanges, as well as raising share prices through market manipulation together with posting many recommendations to buy the relevant issues on Internet bulletin boards. Since market manipulation cases using new methodologies are likely to increase in the future, the SESC considers it necessary to address the cases appropriately.

Based on these situations above, the SESC will take the following measures in the future:

(1) For the purpose of promoting the enhancement of market discipline through voluntary initiatives by the market participants, the SESC will commit itself to making timely and accurate information disclosure on specific violation cases and problems of internal control systems in listed companies identified in the investigation, as well as to engaging in necessary collaboration, including exchanging opinions with market participants, including self-regulatory organizations such as stock exchanges and the Securities Dealers Association.

(2) In order to appropriately address market misconduct cases, which are becoming increasingly complex, diverse, malicious, and sophisticated, the SESC will improve the investigation capabilities through the enhancement of investigation methodologies and training programs.

Chapter 6. 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 market misconduct made mainly by persons residing in foreign countries) are the same as those described in Chapter 5. Investigation of Market Misconduct (see 1) Outline: Section 1. Purpose of Investigation of Market Misconduct, Section 2. Authority for Investigation of Market Misconduct, and Section 3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties.

2. Activities in FY2015

(1) The SESC is strengthening its cooperation with overseas regulators, by visiting overseas regulators for discussions and collaborative investigations as well as by exchanging information based on the information exchange framework of the Multilateral Memorandum of Understanding (the “MMOU”; see Chapter 2). Accordingly, it has achieved steady results, such as detecting market misconduct using cross-border transactions. Looking at the current financial and capital markets, market participants such as investment funds have been increasingly involved in cross-border transactions or other international activities as part of their day-to-day operations. These trends have had an increasingly important effect on Japanese stock markets and investors. Given these trends, the SESC has taken steps to strengthen collaboration with overseas regulators so as to dedicate itself to reinforcing global market surveillance.

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's Policy Statement for the 7th Term*, which was formulated in January 2011 (this idea has been also inherited as "Enhancement of surveillance in response to the globalization of markets" in the SESC *Policy Statement for the 8th Term*, which was formulated in January 2014), 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 market misconduct involving cross-border transactions by investors including Japanese and foreign professional investors.

(2) During FY2015, the Office of Investigation for International Transactions and Related Issues investigated cases of misconduct, and it filed four recommendations for administrative monetary penalty payment orders (totaling 21,420,000 yen) (see 2) 2 below). These four cases consist of a case of insider trading by an officer of a party negotiating the conclusion of a contract with Gokurakuyu Co., Ltd., which was recommended by the SESC on June 19, 2015; a case of insider trading related to the

shares of GameOn Co., Ltd. by an overseas resident, which was recommended by the SESC on October 23, 2015; a case of market manipulation by Evo Investment Advisors Ltd., which was recommended by the SESC on January 29, 2016; and a case of market manipulation by Blue Sky Capital Management Pty Ltd, which was recommended on March 4, 2016.

All of the four cases above were cases of misconduct involving cross-border transactions. In addition, with respect to the case of insider trading by an officer of a party negotiating the conclusion of a contract with Gokurakuyu Co., Ltd., the SESC recommended an administrative monetary penalty order through close cooperation with the Financial Supervisory Commission, Taiwan's financial regulator. Similarly, in respect to the case of insider trading relating to the shares of GameOn Co., Ltd. by an overseas resident, the SESC recommended an administrative monetary penalty order through close cooperation with the Financial Services Commission and the Financial Supervisory Service of the Republic of South Korea. With respect to the case of market manipulation related to the shares of DDS, Inc. by Evo Investment Advisors Ltd., the SESC recommended an administrative monetary penalty order through close cooperation with the U.S. Securities and Exchange Commission. Furthermore, with regard to the case of market manipulation related to the shares of mixi, Inc. by Blue Sky Capital Management Pty Ltd, the SESC recommended an administrative monetary penalty order as a result of close collaboration with the Australian Securities and Investments Commission.

Considering the characteristics of each case, the case of (i) insider trading relating to the shares of Gokurakuyu Co., Ltd. and the case of (ii) insider trading relating to the shares of GameOn Co.., Ltd. by an overseas resident were the first (and the second) recommendation case(s) related to insider trading conducted by overseas residents. In addition, the case of (iii) market manipulation by Evo Investment Advisors Ltd. was related to market manipulations conducted through transactions overarching between PTS and a stock exchange prior to the opening of the morning session. Furthermore, the case of (iv) market manipulation by Blue Sky Capital Management Pty Ltd was the first case to which the amendment to FIEA in 2013* was applied, and pursuant thereto, the amount of administrative monetary penalty was calculated at three times as much as the monthly management fees received by the violator.

While some of the above-mentioned recommendation cases involved market manipulations made by automatic order execution for algorithm trading and/or through orders placed with multiple securities brokers, the SESC investigated and identified the state of market manipulations in cooperation with the Japan Exchange Regulation.

* Due to the amendment to FIEA in 2013 (enforced on April 1, 2018), in the case where a violator is engaged in trading securities on the account of others for the purpose of managing assets, the amount of administrative monetary penalty payable is computed as three times the amount of the monthly management fees received by the violator for the violation month.

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

1. Overview of Recommendations

In FY2015, there were four recommendations made on international transactions and related issues, consisting of two cases of insider trading cases and two of market manipulation. The maximum administrative monetary penalty applied to an offender was 9,200,000 yen, and the minimum was 920,000 yen.

2. Brief Summary of Recommendations Issued in FY2015

With respect to the cases recommended for orders to pay administrative monetary penalties on international transactions and related issues in FY2015, the following is a brief summary of those cases:

(1) Recommendation for order to pay administrative monetary penalty on insider trading by an officer of a party negotiating the conclusion of a contract with Gokurakuyu Co., Ltd.

(Date of recommendation: June 19, 2015)

[Violation subject to the Recommendation]

An individual investor residing in Taiwan (the offender subject to the administrative monetary order) came to know of material nonpublic information in the course of negotiations for the conclusion of a contract with Gokurakuyu Co., Ltd. (hereinafter referred to as “Gokurakuyu"). The information concerned the material fact that the organ responsible for making decisions on the execution of the operations of Gokurakuyu had decided to form a business alliance with the party. While knowing the fact, the violator purchased Gokurakuyu shares on his/her own account, prior to the announcement of the material fact. (Amount of administrative monetary penalty: 920,000 yen)

(2) Recommendation for order to pay administrative monetary penalty on insider trading related to the shares of GameOn Co., Ltd. by an overseas resident

(Date of recommendation: October 23, 2015)

[Violation subject to the Recommendation]

An individual investor residing in the Republic of Korea (the offender subject to the administrative monetary order) came to know of material nonpublic information in the course of negotiations for the conclusion of a contract with NeoWiz Games Corporation concerning the fact that the organ responsible for making decisions on the execution of the operations of GameOn Co., Ltd. (hereinafter referred to as “GameOn”) had decided to make a tender offer for the shares of GameOn. The shareholder had come to know the information in the course of conclusion of a tender offer agreement. While in receipt of that information, the violator purchased GameOn shares on his/her own account, prior to the fact being announced. (Amount of administrative monetary penalty: 3,860,000 yen)

(3) Recommendation for order to pay administrative monetary penalty for market manipulation by Evo Investment Advisors Ltd.

(Date of recommendation: January 29, 2016)

[Violation subject to the Recommendation]

Evo Investment Advisors Ltd. (the offender subject to the administrative monetary order; “Evo Investment Advisors”) is a firm registered in the Cayman Islands, a British Overseas Territory. In respect of the shares of DDS, Inc., listed on the Tokyo Stock Exchange's Mothers market, with the purpose of inducing orders from other market participants who use the proprietary trading system (PTS), Evo Investment Advisor conducted transactions in relation to its fund management operations through traders who engaged in stock trading from about 8:20 AM to about 8:55 AM on May 15, 2015, during the time prior to the opening of the morning session of the financial instruments exchange. These transactions included the following: boosting quotations before the opening of the morning session by placing on the Tokyo Stock Exchange a large amount of market purchase orders or limit purchase orders at prices higher than the previous quotation without the intention of executing the orders; placing sell limit orders on the PTS; and matching a part of the sell orders with its own purchase orders to raise the share price, at which favorable price it executed the rest of the sell orders on the PTS. Thus, Evo Investment Advisors, on its own account, purchased and sold shares of DDS, Inc., which would mislead others into believing that the sale and purchase of the shares were thriving and would cause fluctuations in the markets of the shares. (Amount of administrative monetary penalty: 9,200,000 yen)

(4) Recommendation for order to pay administrative monetary penalty for market manipulation by Blue Sky Capital Management Pty Ltd

(Date of recommendation: March 4, 2016)

[Violation subject to the Recommendation]

Blue Sky Capital Management Pty Ltd (the offender subject to the administrative monetary order; “Blue Sky”) is a firm headquartered in the Commonwealth of Australia. Blue Sky, through its officers and employees and in relation to its business, traded shares of mixi Inc. listed on Tokyo Stock Exchange Mothers Market from 13:17:03 to 14:54:16 on June 17, 2014, with the purpose of inducing the sale and purchase of securities by others for those shares, by placing a series of large market sell orders to lower the share prices, and by placing large sell limit orders without the intention of executing the purchase orders. Thus, Blue Sky, on the account of others, purchased and sold shares of mixi, Inc., which would mislead others into believing that the sale and purchase of the shares were thriving and would cause fluctuations in the markets of the shares. (Amount of administrative monetary penalty: 7,440,000 yen)

3. Subsequent Progress of Recommendations Issued in or Before FY2014

(1) Trial procedures

Among the cases recommended by the SESC in or before FY2014, 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 “Annual Report 2014/2015” was released.

(i) Recommendation for order to pay administrative monetary penalty for using fraudulent means regarding the securities of Wedge Holdings Co., Ltd.

With regard to the recommendation made on November 1, 2013, for an administrative monetary penalty payment order for using fraudulent means regarding the securities of Wedge Holdings Co., Ltd., trial procedures are currently underway (as of April 30, 2016).

(ii) Recommendation for order to pay administrative monetary penalty for market manipulation by Areion Asset Management Company Limited

With regard to the recommendation made on December 5, 2014, for an administrative monetary penalty payment order for market manipulation by Areion Asset Management Company Limited, trial procedures are currently under way (as of April 30, 2016).

* On November 9, 2015, the respondent filed a state compensation suit with the Tokyo District Court, claiming that the public disclosure of the administrative recommendation was illegal; the action for the revocation of said administrative disposition is pending (as of April 30, 2016).

(iii) Recommendation for order to pay administrative monetary penalty for market manipulation by Select Vantage Inc.

With regard to the recommendation made on March 6, 2015, for an administrative monetary penalty payment order for market manipulation by Select Vantage Inc., trial procedures are currently under way (as of April 30, 2016).

(2) Action for the revocation of an administrative disposition

Among cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2014, the following is a summary of the process of a case in which the court’s judgment had not yet been made before the “Annual Report 2014/2015” was released.

(i) Recommendation 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.

[Recommendation for order to pay administrative monetary penalty (June 8, 2012); Issuance of an administrative monetary penalty payment order (June 27, 2013); Action for revocation of an administrative disposition with the Tokyo District Court (July 26, 2013)]

Action for revocation is pending as of April 30, 2016.

(ii) Recommendation for order to pay administrative monetary penalty for insider trading by Stats Investment Management Co., Ltd.

[Recommendation for an administrative monetary penalty payment order (December 2, 2013); Issuance of an administrative monetary penalty payment order (October 30, 2014); Action for revocation of an administrative disposition with the Tokyo District Court (November 28, 2014)]

The action for revocation is pending as of April 30, 2016.

(iii) Recommendation for order to pay administrative monetary penalty for insider trading by MAM Pte. Ltd.

[Recommendation for an administrative monetary penalty payment order (December 2, 2013); Issuance of an administrative monetary penalty payment order (December 26, 2014); Action for revocation of an administrative disposition with the Tokyo District Court (February 3, 2015)]

The action for revocation is pending as of April 30, 2016.

* The respondent was dissatisfied with the progress of the administrative trial procedures. On September 17, 2014 and on October 14, 2014, the respondent filed state compensation suits with the Tokyo District Court. With regard to the former suit, the respondent lost the case in both the first and second instances, and then filed a final appeal and a petition for the acceptance of a final appeal on October 14, 2015. However, on February 26, 2016, the appeal and the petition were rejected, and the respondent lost the case at the Supreme Court. As for the latter suit, the respondent lost the case at the Supreme Court on October 15, 2015. In addition, on August 7, 2015, the respondent filed a state compensation suit seeking alimony, claiming that the treatment of the sales representative by the Japan Securities Dealers Association was illegal; this suit was pending as of April 30, 2016.

3) Future Challenges and Initiative Policy

Looking at the current financial and capital markets, market participants such as investment funds have increasingly been involved in cross-border transactions or other international activities as part of their day-to-day operations. These trends have had an increasingly important effect on Japanese stock markets and investors. In addition, the transaction types have become increasingly complex and diverse, such as HFT across the market and high-speed transactions, along with an increase in tender offers involving overseas companies. It should be noted that, in FY2015, the SESC made recommendations for orders to pay administrative monetary penalty against persons residing in Taiwan, South Korea, and Australia, and market misconduct is likely to diversify in various countries and regions in the future. Given these trends, the SESC needs to secure efficient legal enforcement under the initiative policy given below, by making efficient and effective

identification of the facts in cases of market misconduct using cross-border transactions and global money flows, and also aims to establish a framework to secure fairness and transparency in the markets in cooperation with overseas securities regulators.

(1) Strengthening further cooperation with overseas securities regulators

Up to now, the SESC has actively cooperated with overseas securities regulators through information exchange frameworks among these regulators such as the MMOU with the aim of coping with the ongoing globalization of market misconduct. From now on, given the recent increase in market misconduct by foreign investors, such as cross-border transactions, the SESC will strengthen further communications with overseas securities regulators and enhance the global network. On that basis, the SESC will address the clarification of facts of market misconduct using cross-border transactions with the aim of securing effective information exchange frameworks.

(2) Developing human resources capable of responding to international transactions

In the process of investigating market misconduct 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 promote personnel exchanges with overseas securities regulators and send officials to training sessions presented by overseas regulators. 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 market misconduct using cross-border transactions and enhance overseas networks.

(3) Reinforcing the capacity to respond to increasingly complex and diverse 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 diverse. Looking at the transaction form, high-speed transactions such as HFTs have increased. In order to address these changes appropriately, the SESC will strive to clarify the facts regarding new financial instruments and transaction types precisely in cooperation with each self-regulatory organization, such as the Japan Exchange Regulation Corporation, so as to detect and uncover market misconduct using them.

Chapter 7. Inspection of Disclosure Statements

1) Outline

1. Purpose of Inspection of Disclosure Statements

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 and other relevant persons 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 encourage investors to make adequate investment decisions in the primary and secondary markets for securities. By doing so, it aims to protect investors.

To ensure effectiveness in 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 report of possession of large volume, etc. to submit reports or materials, or may arrange inspection of their books, documents and other articles (hereinafter the “inspection of disclosure statements”).

The inspection of disclosure statements has been carried out to contribute to the ensuring of the fairness and transparency of capital 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 fairly and quickly, and (ii) suppressing breaches in the disclosure regulations.

If, as a result of inspection of disclosure statements, disclosure documents are found to contain false disclosure statements, etc. on material issues, the SESC recommends that the prime minister and the commissioner of the FSA issue an order to pay an administrative monetary penalty. The SESC also recommends that the prime minister and the commissioner of the FSA issue an order to submit an amendment report, etc., if necessary.

Even in cases where false disclosure statements in 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, when it is acknowledged that annual securities reports, etc. should be corrected.

2. Authority of Inspection of Disclosure Statements

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 3,600 listed companies. The specific authority for inspection of disclosure statements in disclosure documents includes the following:

(1) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials from a company that is an issuer of the shares, etc. related to a report of possession of large volume, or a witness (Article 27-30(2) of the FIEA)

(6) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 appearance, questioning, or provision of opinions or reports with respect to cases related to an administrative monetary penalty against a person who has facilitated or induced submission of disclosure documents containing false statements, etc. (hereinafter the "Involvement in False Statements, etc."), and/or entering of business office thereof and conducting inspection of books, records and other materials (Article 177 of the FIEA)

(8) The authority over requiring submission of reports and materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a person who has filed a securities registration statement before the effective date of the statement (Article 38-2(1)(i) of the FIEA Enforcement Order)
- The authority over requiring the submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a person who has filed a shelf registration statement before the effective date of the statement (Article 38-2(1)(ii) of the FIEA Enforcement Order)
- The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 authorities listed below:

- The authority over submission of reports and materials, out of items (1) through (6) and (8) above (proviso of Article 38-2(1) of the FIEA Enforcement Order); and
- The authority over submission of reports and materials, out of item (7) above (proviso of Article 194-7(2) of the FIEA)

3. Recommendations Based on the Results of Inspection of Disclosure Statements

(1) Recommendations for orders to pay administrative monetary penalties

If, as a result of inspection of disclosure statements, disclosure documents are found to contain false disclosure statements, etc. on material issues, the SESC makes a recommendation for 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 decides 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), the Act for the Partial Amendment of the Financial Instruments and Exchange Act, etc. (Act 65 of 2008 law), and the Act for the Partial Amendment of the Financial Instruments and Exchange Act, etc. (Act 86 of 2012 law).

The primary violations subject to administrative monetary penalties and the amounts of those penalties are as follows:

(i) The act of having securities acquired or selling securities, through a public offering or secondary distribution, etc., despite the non-acceptance of required notification for reasons including the failure to submit a securities registration statement (offering disclosure for public offering or secondary distribution, etc.) (Article 172 of the FIEA)

Penalty: 4.5% of the total amount of public offering or secondary distribution of shares, etc. (2.25% in the case of items other than shares, etc.)

(ii) The 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 disclosure statements (Article 172-2 of the FIEA)

Penalty: 4.5% of the total amount of public offering or secondary distribution of shares, etc. (2.25% in the case of items other than shares, etc.)

(iii) The 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)

(iv) The act of submitting an annual securities report (continuous disclosure documents for each business year), etc., containing false disclosure statements (Article 172-4 of the FIEA)

Penalty: 6 million yen or 6/100,000ths 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.)

(v) The act of purchasing or accepting share certificates, etc. without issuing a public notice for commencing a tender offer (Article 172-5 of the FIEA)

Penalty: 25% of the total purchase amount

(vi) The act of issuing a public notice for commencing tender offer containing false disclosure 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.

(vii) The act of not submitting reports of possession of large volume, or changing reports (Article 172-7 of the FIEA)

Penalty: 1/100,000 of the total market value of the issuer of the share certificates, etc.

(viii) The act of submitting reports of possession of large volume, or changing reports, 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.

(ix) The act of conducting a specified solicitation or offer, etc., having securities acquired or selling securities while specified information on securities is not provided or publicized (Article 172-9 of the FIEA)

Penalty: 4.5% of the total amount of public offering or secondary distribution of shares, etc. (2.25% in the case of items other than shares, etc.)

(x) The act of conducting a specified solicitation or offer, etc., through the provision or publication of specified information on securities containing false information, having securities acquired or selling securities (Article 172-10 of the FIEA)

Penalty:

(a) in the case where the specified information on securities is publicized:

4.5% of the total amount of public offering or secondary distribution of shares, etc. (2.25% in the case of items other than shares, etc.)

(b) in the case where the specified information on securities is not publicized:

the amount obtained by multiplying the amount listed in (a) by the number listed below:

$$\frac{\text{the number of persons receiving the specified information on securities}}{\text{the number of persons subject to the specified solicitation or offer, etc.}}$$

(xi) The act of providing or publicizing information on the issuer, etc. that contains a false statement, etc. (Article 172-11 of the FIEA)

Penalty:

(a) in the case where the information on the issuer, etc., is publicized:

6 million yen or 6/100,000ths of the total market value of the issuer, whichever is greater

(b) in the case where the information on the issuer, etc., is not publicized:

the amount obtained by multiplying the amount listed in (a) by the number listed below:

$$\frac{\text{the number of persons receiving the information on the issuer, etc.}}{\text{the number of persons subject to receipt of the information on the issuer, etc.}}$$

(xii) The act of involvement in specified activities (Article 172-12 of the FIEA)

Penalty: Amount equal to the fees, commissions, or other rewards that have been paid or are to be paid to persons involved in specified activities

Note: The amendment of the FIEA in 2012 has made the above-mentioned act subject to administrative monetary penalties, which are applicable to any violations conducted on or after September 6, 2013.

Additionally, with regard to the violations listed in (2), (4), (7), (10), (11) and (12) above, if the violator made a declaration prior to the investigation by the authorities, the amount of the administrative monetary penalty shall be halved (Article 185-7 (14) of the FIEA). On the other hand, 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-fold (Article 185-7 (15) of the FIEA).

(2) Recommendations for orders to submit an amendment report, etc.

As a result of inspection of disclosure statements, 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 recommend that the prime minister and the commissioner of the FSA issue an order to submit the amendment report, etc. (Article 20 of the Act for Establishment of the FSA).

4. Activities in FY2015

(1) In FY2015, the SESC completed inspections of disclosure statements of 17 companies, and based on the results of those inspections, there were six cases subject to the recommendations for orders to pay administrative monetary penalties, totaling 7,800,120,000 yen, in relation to violations of disclosure requirements such as disclosure documents containing false disclosure statements, etc. on important matters.

In a case where false disclosure statements are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily, when it is acknowledged that annual securities reports, etc. should be corrected.

When a local finance bureau, etc., issued a warning letter against a violator to prohibit the act of having securities acquired or selling securities, through a public offering or secondary distribution etc. without submitting a securities registration statement, etc. the SESC secured close cooperation with the relevant departments of the FSA to address the case.

Total number of inspections completed		17
(of these inspections)	Recommended for order to pay administrative monetary penalty	6
	Did not recommend for order to pay administrative monetary penalty, but urged voluntary amendment	3

(2) In FY2015, the SESC implemented disclosure inspections under the following policy:

The SESC will implement flexible and prompt disclosure inspections, aiming to encourage the market participants to disclose accurate corporate inspection on the market without delay, properly and fairly.

In addition, in view of urging listed companies to provide adequate disclosure, the SESC will implement effective and efficient disclosure inspections, including information collection and analysis, focusing on potential risks associated with changes in the business environments of listed companies with global activities.

If a company, etc. has made false disclosure statements or the like, the SESC will take tough action against the company and strongly encourage the company itself to voluntarily and quickly provide correct information on the market. In addition, the SESC will point out and require the improvement of the relevant internal control problems constituting the causes of such misstatements, if required, and also urge directors, auditors (committees), and the like to make proper disclosure of the statements.

2) Recommendations for Orders to Pay Administrative Monetary Penalties Based on the Results of Inspection of Disclosure Statements

1. Overview of Recommendations

The recommendations made in FY2015 in relation to the violations of disclosure regulations included those related to false disclosure statements of securities registration statements and annual securities reports.

The SESC found various types of false disclosure statements in the process of disclosure statements inspection. For example, the SESC found overstating of net sales, understating of cost of sales, understating of costs, non-recognition of impairment loss, overstatement of inventory assets and others. There was also a case without appropriate description of the survey results regarding involvement with anti-social forces, etc. for the allocation of stock acquisition rights.

In FY2015, the largest amount of administrative monetary penalty in relation to the violation of disclosure requirements was 7,373,500,000 yen (false disclosure statements in annual securities reports, etc. of Toshiba Corporation).

2. Brief Summary of Recommendations Issued in FY2015

In FY2015, an outline of the cases subject to the recommendations for orders to pay administrative monetary penalties is as follows:

(i) Recommendation in relation to false disclosure statements in annual securities reports, etc. of AGORA Hospitality Group Co., Ltd.

(Date of Recommendation: June 19, 2015)

AGORA Hospitality Group Co., Ltd. (hereinafter referred to as “the Company” in (i)) made false statements in its ongoing disclosure documents and offering disclosure documents, which overstated “development projects in progress” in inventories, without an appropriate measurement of fair value of assets of a foreign cemetery business in connection with the acquisition of the business by the Company.

As a result of these fraudulent acts, the Company 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 172-4 (1) and (2) of the FIEA, and had the securities acquired through the offering based on its securities registration statement, which incorporated annual securities reports “containing false statements on material issues,” as stipulated in Article 172-2 (1) (i) of the FIEA. (Amount of administrative monetary penalty: 137,910,000 yen)

(ii) Recommendation in relation to false disclosure statements in quarterly securities reports, etc. of OPTROM, INC.

(Date of Recommendation: September 18, 2015)

During the period from the first quarter ended June 2014 to the third quarter ended December 2014, OPTROM, INC. (hereinafter referred to as “the Company” in (ii)) diverted money to a group company of GK Kaisha Concierge and/or its substantial managers etc. in a manner of granting stock acquisition rights, under the guise of making payments of deposits for transfer of the satellite broadcasting transmission

business. However, the Company failed to post a provision for allowance for doubtful accounts not only for such money diverted, but also for long-term loans receivable from a partner of the Internet advertising business.

As a result of these fraudulent acts, the Company submitted to the director general of the Tohoku Local Finance Bureau its quarterly securities report “containing false statements on material issues,” as stipulated in Article 172-4 (2) of the FIEA, and had the securities acquired, through an offering based on its securities registration statement, which incorporated quarterly securities reports “containing false statements on material issues,” as stipulated in Article 172-2 (1) (i) of the FIEA. In addition, even though survey results revealed that the parent company of the scheduled allottee of the stock acquisition rights was allegedly involved in illegal acts or with anti-social forces, the Company made misstatements on the securities registration statement as though the Company had confirmed that the parent company mentioned above had never been involved in illegal acts or with anti-social forces, corresponding to an act of having securities acquired through a public offering based on offering disclosure documents “containing false statements on material issues,” as stipulated in Article 172-2(1) (i) of the FIEA. (Amount of administrative monetary penalty: 99,620,000 yen)

(iii) Recommendation in relation to false disclosure statements in annual securities reports, etc. of Japan Best Rescue System Co., Ltd.

(Date of Recommendation: October 16, 2015)

Japan Best Rescue System Co., Ltd. (hereinafter referred to as the "Company" in (iii)) has a subsidiary engaged in decontamination work. The Company overestimated the value of sales by recognizing sales of works that had not been completed, as well as by recording fictitious sales of works that had not been ordered. In addition, regarding works that are expected to cause a significant loss, the Company also failed to post any provision for loss on orders received.

Furthermore, the Company failed to record impairment losses based on the application of appropriate impairment accounting for goodwill and other fixed assets of the subsidiary.

As a result of these fraudulent acts, the Company submitted to the director general of the Tokai Local Finance Bureau its annual securities reports and quarterly securities reports “containing false statements on material issues,” as stipulated in Article 172-4 (1) and (2) of the FIEA, and had the securities acquired through an offering based on its securities registration statement, which incorporated quarterly securities reports “containing false statements on material issues,” as stipulated in Article 172-2 (1) (i) of the FIEA. (Amount of administrative monetary penalty: 165,090,000 yen)

(vi) Recommendation in relation to false disclosure statements in annual securities reports, etc. of Toshiba Corporation

(Date of Recommendation: December 7, 2015)

Toshiba Corporation (hereinafter referred to as the "Company" in (iv)) understated provisions for contract losses and overstated sales in some of the projects using the percentage-of-completion method. Among others, the Company also understated the costs of sales and expenses in part of businesses such as the Visual Products

Business, the PC Business and the Semiconductor Business.

As results of these fraudulent acts, the Company submitted to the director general of the Kanto Local Finance Bureau its annual securities reports “containing false statements on material issues,” as stipulated in Article 172-4 (1) of the FIEA, and had the securities acquired through an offering based on its shelf registration supplement, which incorporated annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-2 (1) (i) of the FIEA. (Amount of administrative monetary penalty: 7,373,500,000 yen)

(v) Recommendation in relation to false disclosure statements in annual securities reports, etc. of Shinnihon Corporation

(Date of Recommendation: March 29, 2016)

Shinnihon Corporation (hereinafter referred to as the "Company" in (v)) overstated inventory assets (real estate for sale) based on an excessive appraisal results prepared by a real estate appraiser who was asked by the Company to make an appraisal of properties owned by the Company.

As a result of this fraudulent act, the Company 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 172-4 (1) and (2) of the FIEA (Amount of administrative monetary penalty: 18 million yen)

(vi) Recommendation in relation to false disclosure statements in annual securities reports, etc. of Food Planet, Inc.

(Date of Recommendation: March 29, 2016)

Food Planet, Inc. (hereinafter referred to as the "Company" in (vi)) overstated sales by incorporating in its subsidiary a part of sales transactions related to the solar power generation business of another company in which the representative director of the Company concurrently served as a representative director, by pretending that the sales of the other company were those of the subsidiary of the Company.

As a result of this fraudulent act, the Company 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 172-4 (1) of the FIEA. (Amount of administrative monetary penalty: 6 million yen)

3. Subsequent Progress of Recommendations Issued Prior to FY2014

(1) Revocation actions against decision of administrative monetary penalty payment

Among the cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2014, the following is the summary of the process of the case in which the court’s judgment had not been made before “Annual Report 2014/2015” was released.

○ Recommendation for order to pay administrative monetary penalty in relation to false disclosure statements in annual securities reports, etc. of Japan Wind Development Co., Ltd.

[The SESC made a recommendation for an order to pay an administrative monetary penalty on March 29, 2013; the commissioner of the FSA made a decision to order payment of the administrative monetary penalty on August 28, 2014; Japan Wind Development Co., Ltd. filed an action for revocation of an administrative disposition on September 26, 2014; and the Tokyo District Court rendered a judgment on February 26, 2016.]

On February 26, 2016, the Tokyo District Court rejected the appeal of the plaintiff (respondent) that "the arrangement for wind power generators should be deemed as services rendered by the respondent with the value of recording earnings and receiving considerations," and made the final decision with the following rationales: (i) the plaintiff's acts of providing services for the development project were deemed as a matter of course in implementing the project by itself, with no substance to require payments as a consideration for the services; (ii) it was impossible to deem the payment promise given by the wind power generator manufacturer as a consideration for the provision of services by the plaintiff, since the manufacturer accepted the payment of arrangement fees on the condition that the wholly-owned subsidiary of the plaintiff should provide funding; and (iii) the arrangement contract for wind power generators was deemed to be concluded for the sole purpose of fabricating the sales record with no evidence of services or considerations therefor in light of the fact that the plaintiff adopted the agency sales method instead of the direct sales system in response to advice given by the audit firm.

(2) Revocation actions against order regarding submission of amendment report, etc.

Among the cases in which respondents filed an action for the revocation of order regarding the submission of an amendment report, etc. in or before FY2014, the following is a summary of the process of a case in which the court's judgment had not been made before "Annual Report 2014/2015" was released.

○ Recommendation for order to submit amendment report with respect to the annual securities report containing false disclosure statements that was submitted by Japan Wind Development Co., Ltd.

[The SESC made a recommendation for an order to submit an amendment report on March 29, 2013; the director general of the Kanto Local Finance Bureau made a decision to order submission of an amendment report on April 12, 2013; Japan Wind Development Co., Ltd. filed an action for revocation of the order regarding the submission of an amendment report on April 12, 2013; and the Tokyo District Court rendered a judgment on February 26, 2016.]

On February 26, 2016, the Tokyo District Court rejected the appeal of the plaintiff (respondent) that "the arrangement for wind power generators should be deemed as services rendered by the respondent with the value of recording earnings and receiving considerations, and the hearing procedures relating to the order to submit a correction report should be deemed as illegal procedures," and made the final decision with the rationales stated in (1) above, and with the conclusion that there were no illegal procedures as to the hearing procedures relating to the order to a submit a correction report.

3) Voluntary Amendment, etc. Based on Results of Inspection of Disclosure Statements

In cases where false disclosure statements 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 when it is acknowledged that annual securities reports, etc. should be corrected.

In addition, when a local finance bureau, etc. issued a warning letter against a violator to prohibit the act of having securities acquired or selling securities, through a public offering or secondary distribution, etc. without submitting a securities registration statement, etc., the SESC secured close cooperation with the relevant departments of the FSA to address the case.

The following is an overview of cases for voluntary amendments out of the disclosure statements inspections completed in FY2015.

(i) Company A (listed on the Tokyo Stock Exchange Mothers market, Industry: Information and Communication)

- Company A was ordered to pay an administrative monetary penalty by reason of understating the allowance for doubtful accounts regarding the misappropriation of money to officers, etc. of Company A through fraudulent means, including making fictitious commercial transactions, which were detected in the disclosure inspection by the SESC. In the restated financial statements, the money misappropriated was restated as receivables (loans) to an officer who had already left Company A (hereinafter referred to as the “Former Officer”) and others. However, Company A failed to state the allowance for doubtful accounts against a part of the loans, based on the premise that Company A would create a pledge against the stock shares of Company A held by the assets management company owned by the Former Officer.

  However, the Former Officer did not implement the procedure for the establishment of the right of pledge, and already sold the shares without appropriating the proceeds to the repayment of the loans. Therefore, Company A should have additionally provided the allowance for doubtful accounts upon the recognition that the Former Officer had no intention to pledge the stock shares as collateral to Company A.

  In addition, Company A paid a large portion of money as remuneration to some officers in nominal terms, which were appropriated to the Former Officer, upon request. Accordingly, the SESC determined that Company A should stick to the accounting procedure in line with the actual facts. For this reason, the SESC urged Company A to correct the annual securities reports, etc.
- As a result, Company A submitted corrected reports in January 2015.

* Since Company A was deemed to fall under the case of having problems in terms of internal management, etc., continuously after a lapse of three years from the designation of securities on alert, the shares of Company A were delisted in accordance with the delisting rules of the Exchange.

(ii) Company B (Unlisted; Industry: Service)

- Company B received a warning letter from Kanto Local Finance Bureau in September

2014 that ordered Company B to stop offering securities without filing securities registration statements.

Company B sold its treasury shares several times to acquaintances and persons introduced by the existing shareholders, of which one transaction was required for filing securities registration statements.

While acknowledging the need to submit securities registration statements, etc., Company B was hesitant to prepare and submit them to the regulator. However, after the disclosure inspection, Company B submitted the securities registration statements, etc., in June 2015.

4) Cases of Disclosure Inspections Focusing on the Actual State of Internal Control, etc.

Even in cases of voluntary correction of disclosure documents by listed companies, etc., the SESC conducted disclosure inspections, where necessary, with a focus on identifying the actual state of their internal control systems, etc.

In FY 2015, with regard to cases in which listed companies, etc. made voluntary corrections to the statements, the SESC verified and identified problems regarding internal control systems and preventive measures to the corrections, the management framework of group companies, and so forth.

(i) Company C (listed on the First Section of the Tokyo and Nagoya Stock Exchanges Inc., Industry: Transportation Equipment)

- The U.S. subsidiary of Company C entered into an agreement with a client regarding the delivery of an automatic fare collection system, and posted sales relating to the product upon the delivery of some of the hardware product. However, later, the subsidiary could not agree with the client regarding the schedule and scope of the products and services to be rendered by the subsidiary. Company C restated the annual securities reports, etc., in May 2015, given that the sales and income under the agreement were canceled and removed.

(ii) Company D (listed on the First Section of the Tokyo and Nagoya Stock Exchanges Inc., Industry: Auto Parts)

- Company D came to realize that development expenditure stated as intangible fixed assets at its non-equity method affiliate in Thailand should be fully expensed as costs when incurred, since it could not be regarded as assets, and similarly that molds stated as property should be subject to the recognition of impairment losses since it could not be regarded as assets. As a result, the subsidiary was acknowledged to be in a state where liabilities exceeded assets. Accordingly, Company D restated its annual securities reports, etc., in May 2015, given that the subsidiary should have been revised as an entity accounted for by the equity method.

5) Future Challenges and Initiative Policy

In performing inspection of disclosure statements, the SESC will strive to conduct more diverse and advanced inspection of disclosure statements, from the following perspectives:

(1) The SESC will implement flexible and prompt inspection of disclosure statements, aiming to encourage market participants to disclose accurate corporate information on the market without delay, properly and fairly.

(2) While strengthening the framework to verify the adequacy of disclosures by listed companies, the SESC made a selection of subject items, focusing on the potential risks associated with changes in the business environments for listed companies to conduct information collection and analyses thereof.

(3) In the practice of disclosure inspections, the SESC will also investigate the causes of misstatements, if necessary, to discuss the matters with inspections to seek improvements.

(4) In the practice of disclosure inspections, if a listed company, etc. has made misstatements, the SESC will make appropriate investigations on the basis of literature, such as the “Guideline for a third party committee to investigate misconduct in companies, etc.” prepared by the Japan Federation of Bar Associations and the “Principles for Listed Companies in Scandal—for the Stable Recovery of Enterprise Value” established by the Japan Exchange Regulation, with the aim of encouraging listed companies to have proper initiatives to provide prompt and appropriate corporate information on the market.

(5) Amid the ongoing progress of information technologies, based on the fact that, for evidence of misstatements, the SESC has increasingly relied on electronic records that are stored in electronic devices, such as servers or personal computers, it will promote the use of inspection methods and techniques (digital forensics) in order to preserve, restore and analyze the data saved on those devices and to use such data as evidence.

(6) 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.

(7) 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 dissemination of information on administrative monetary penalty case examples, etc., such as the attributes and causes of accounting fraud in such cases.

Chapter 8. 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 confidence, 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 become independently authorized to investigate 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 and proactively 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: voluntary 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 (voluntary) investigation by questioning a suspect in the criminal case, inspecting articles that a suspect possesses or has left, or retain articles that a suspect has voluntarily submitted or left. The SESC is also authorized to carry out compulsory investigation, visits, searches and seizures conducted with a permit which is issued in advance 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 spreading rumors, using fraudulent means, or market manipulation by any persons.

Under the APTCP, in cases where a financial instruments business operator confirms the identity of customers, 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).

When a SESC official has completed the investigation of a criminal case, he or she must report the results of investigation to the SESC (Article 223 of the FIEA, Article 30 of the APTCP). When the SESC has become convinced of a criminal case through investigation, it must make an accusation, and if there are any retained articles or seized articles, it must take them over with a retention list or seizure list. (Article 226 of the FIEA, Article 30 of the APTCP.)

3. Activities in FY2015

In FY2015, the SESC filed criminal charges in eight cases, out of which seven cases were filed with the Tokyo District Public Prosecutor's Office, and one case was filed with the Chiba District Public Prosecutors Office.

In particular, the SESC filed a criminal charge of using fraudulent means in a case regarding a submission of a false annual securities report by Global Asia Holdings Inc. in close cooperation with the Metropolitan Police Department.

2) Outcome of Criminal Charges

1. Summary

In FY2015, based on the results of investigation of criminal cases, the SESC filed criminal charges with the following district public prosecutors' offices for a total of eight cases (three corporate entities and 13 individuals), consisting of two cases (two individuals) of suspected insider trading, one case (three individuals) of suspected market manipulation, one case (two individuals) of suspected spreading rumors, use of fraudulent means, and failure to submit Reports of Possession of Large Volume (however, one individual was only suspected of spreading rumors and using fraudulent means), one case (one corporate entities and two individuals) of suspected use of fraudulent means and three cases (two corporate entities and four individuals) of suspected submission of false annual securities reports. Note that the number of corporate entities and individuals refers to the total number thereof.

Name of case	Accusation date	Prosecutors
Insider trading case concerning shares of The Earth CO.	June 2, 2015	Chiba District Public Prosecutors Office
Using fraudulent means case concerning Ishiyama Gateway Holdings Inc.	June 15, 2015	Tokyo District Public Prosecutor's Office
Case concerning submission of a false annual securities report of Ishiyama Gateway Holdings Inc.	July 3, 2015	Tokyo District Public Prosecutor's Office
Case concerning submission of false annual securities reports of Olympus Corporation (4) *	October 23, 2015	Tokyo District Public Prosecutor's Office
Market manipulation case concerning shares of New Japan Chemical Co., Ltd.	December 4, 2015	Tokyo District Public Prosecutor's Office
Insider trading case concerning shares of Ishiyama Gateway Holdings Inc.	December 8, 2015	Tokyo District Public Prosecutor's

		Office
Cases of spreading rumors, using fraudulent means and failing to submit Reports of Possession of Large Volume concerning shares of New Japan Chemical Co., Ltd. and MEIWA CORPORATION	December 24, 2015	Tokyo District Public Prosecutor's Office
Case concerning submission of a false annual securities report of Global Asia Holdings Inc.	March 28, 2016	Tokyo District Public Prosecutor's Office

* The SESC filed charges with the Tokyo District Public Prosecutor's Office on March 6, 2012, for the case concerning the submission of false annual securities reports of Olympus Corporation (1), and on March 28, 2012, for the same case (2) and (3).

2. Summary of Cases

A summary of the criminal cases in FY2015 is as follows:

(1) Criminal charges against market misconduct

(i) Insider trading case concerning shares of The Earth CO.

This was an insider trading case with one suspect being a person who received information from a party that had entered into a underwriting agreement regarding the share options issued by The Earth CO. (hereinafter referred to as "The Earth"), in which the suspect had come to know a material fact regarding The Earth's capital increase through the allocation of new shares to a third party, and the suspect purchased a large amount of shares of The Earth prior to the material fact being announced. The suspect was involved in insider trading under the names of the suspect and others.

[Investigation and accusations]

The SESC filed a criminal charge against the suspect with the Chiba District Public Prosecutors Office on June 2, 2015, for violation of the FIEA (Article 166, Paragraph 3, etc.: Prohibited Acts of Information Recipients) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

The suspect received information from a party that had entered into a underwriting agreement regarding the share options (including the exercise thereof) issued by The Earth listed on the MOTHERS of Tokyo Stock Exchange, Inc., (hereinafter referred to as "TSE"). The party had come to know of the information in the course of fulfilling its obligations under the agreement. While in receipt of the material fact regarding the operations of The Earth, including the fact that the organ responsible for making decisions on the execution of the operations of The Earth had decided to make allocation of new shares to a third party targeted to Don Quijote Co., Ltd or its subsidiary, despite no exemption clause applicable under the FIEA, the suspect purchased a total of 31,110 The Earth shares under the names of the suspect and others for a total of 74,181,482 yen, on the TSE via securities firms between January 28, 2013, and March 1, 2013.

[Process following the filing of a criminal charge]

On June 3, 2015, the suspect was prosecuted.

On September 14, 2015, the Chiba District Court passed the final judgment and gave the defendant a sentence of three years' imprisonment suspended for four years, a 4 million yen fine, and forfeiture of 7,800 stock certificates of Japan Asset Marketing Co., Ltd. (renamed from The Earth) and a collection with a value equivalent to approximately 257,520,000 yen, for the following reasons:

- The defendant was deemed to have committed an elaborate fraud to evade market surveillance by the SESC due to the significant amount of shares purchased, given that he/she used other persons' accounts to purchase the shares on more than 400 separate occasions for a total amount of more than 74 million yen over approximately one month.
- The defendant was deemed to have committed a malicious and blameworthy act, in that he/she had impaired the fairness and integrity of the securities market and undermined investors' confidence in light of the significant amount of shares purchased through inside trading compared to similar cases in the past.
- After knowing the material fact, the defendant recommended that his/her fellow investors buy shares of The Earth. In fact, it was obvious that he/she showed scant concern about harming the fairness of the securities market.

(ii) Use of fraudulent means case concerning Ishiyama Gateway Holdings Inc.

This was a case in which the SESC filed a criminal charge against Ishiyama Gateway Holdings Inc. (hereinafter referred to as "Ishiyama Gateway") and two directors with regard to the announcement of false information on upward revision of the earnings forecast for the first half of the fiscal year ended June 2014, for the reason that the suspects were acknowledged to have used fraudulent means for the purpose of trading the shares and causing fluctuations in the price of the shares. The two suspects announced information to investors including false disclosure information to the effect that the installation of biodiesel electric generators by the subsidiary of Ishiyama Gateway would increase net sales and ordinary profit, for the purpose of raising the share prices of Ishiyama Gateway artificially. It should be noted that, in addition to the fact that the suspects committed violations of the FIEA in terms of using fraudulent means, this case related to other cases of economic crimes. For example, the manager of a company that had conducted business transactions with Ishiyama Gateway was charged with fraud for receiving fraudulent subsidies to the power business, and the manager of the company was also charged with violation of the Customs Law, for reason of false statements in the declaration of the prices of imported biodiesel electric generators for the purpose of evading taxes, such as consumption tax.

[Investigation and accusations]

The SESC filed a criminal charge against Ishiyama Gateway and the two suspects with the Tokyo District Public Prosecutor's Office on June 15, 2015, for violation of the FIEA (Article 158 and others: Prohibition of Using Fraudulent Means) after the

completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

Ishiyama Gateway listed its shares on JASDAQ of TSE. Suspect A was the representative director, and managed the overall operations of Ishiyama Gateway. Suspect B was a managing director of Ishiyama Gateway along with the representative director of the consolidated subsidiary of Ishiyama Gateway, and managed the overall operations of Ishiyama Gateway and consolidated subsidiary of Ishiyama Gateway. Suspects A and B in conspiracy announced that Ishiyama Gateway revised up its consolidated financial forecast containing false information related to the business and property of Ishiyama Gateway for the purpose of inducing sales and purchases of Ishiyama Gateway shares, aiming to raise the price of the shares artificially to gain profits by selling the shares they held. In fact, however, Ishiyama Gateway and its consolidated subsidiary did not actually sell and install any biodiesel generators for client companies in Japan, and accordingly, there was no prospect that net sales and operating profit would be revised upward due to such sales and installation of biodiesel generators. Nonetheless, on November 1, 2013, Ishiyama Gateway announced the “Notice regarding Revision to Earnings Forecast” including false information to the effect that Ishiyama gateway had revised up its consolidated financial forecast for the interim and full-year periods for the fiscal year ended June 30, 2014. Specifically, based on the fictitious expectation of increase of sales of approximately 900 million yen in the interim period ended December 31, 2013, and approximately 1,550 million yen in the full-year fiscal year ended June 30, 2014, through its unexpected increase of sales and installations of biodiesel generators, the earnings forecast were revised to net sales of 2,285 million yen, operating profit of 337 million yen, ordinary profit of 321 million yen and net profit for the quarter of 304 million yen in the interim period ended December 31, 2013, and to net sales of 4,588 million yen, operating profit of 482 million yen, ordinary profit of 449 million yen and net profit of 420 million yen in the full-year fiscal year ended June 30, 2014. Suspects A and B used fraudulent means in order to trade the shares, and in an attempt to cause fluctuations in the prices of the shares.

[Process following the filing of a criminal charge]

See (2)(i) Case concerning submission of a false annual securities report of Ishiyama Gateway Holdings Inc.

(iii) Market manipulation case concerning shares of New Japan Chemical Co., Ltd.

This was a typical market manipulation case, in which the three suspects in conspiracy placed a large amount of purchase orders of shares of New Japan Chemical Co., Ltd. (hereinafter referred to as “New Japan Chemical”) for the purpose of raising the share price artificially and inducing sales and purchase of the shares, and place a large amount of purchase orders at prices lower than the previous quotation with the intent of obtaining economic benefit through the market manipulation of share prices.

[Investigation and accusations]

The SESC filed a criminal charge against the suspects with the Tokyo District Public Prosecutors' Office on December 4, 2015, for a violation of the FIEA (Article 159, Paragraph 2, Item 1 and others: Prohibition of Market Manipulation, etc.) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

Suspects C, D and E in conspiracy purchased and sold New Japan Chemical shares as described below under the names of suspects D and E and two other persons via seven securities firms for the purpose of inducing sales and purchases of the shares, with the aim of raising the price of the shares artificially to gain property benefit.

Suspects C, D and E purchased and sold the New Japan Chemical shares at artificially raised prices by conducting a series of sales, purchases and entrustments of the shares that would mislead other persons into believing that sales and purchases of the shares were thriving and would cause fluctuations in the prices of the shares by using methods such as placing a large amount of market purchase orders before the opening of the morning session to raise the opening price, placing limit purchase orders at prices higher than the previous quotation to raise the share price, or placing a large amount of limit purchase orders at prices lower than the previous quotation to prevent the share price from falling during market hours. They conducted a series of purchases of 2,965,600 shares and made a series of entrustments of 2,796,600 shares on 13 trading days between February 15, 2012, and March 2, 2012, and, as a consequence, raised the share price from 871 yen to 1,297 yen and sold 1,475,400 shares on four trading days between February 17, 2012, and March 5, 2012, at the artificially raised prices.

[Process following the filing of a criminal charge]

See (1)(v) Cases of spreading rumors, using fraudulent means and failing to submit Reports of Possession of Large Volumes concerning shares of New Japan Chemical Co., Ltd. and MEIWA CORPORATION.

(iv) Insider trading case concerning shares of Ishiyama Gateway Holdings Inc.

This was an insider trading case in which the suspect received information on a material fact from an insider of Ishiyama Gateway and sold the shares prior to the announcement of the material fact. The information concerned the material fact that Ishiyama Gateway had been investigated under search warrant by SESC on suspicion of window dressing in violation of the FIEA.

[Investigation and accusations]

The SESC filed a criminal charge against the suspect with the Tokyo District Public Prosecutor's Office on December 8, 2015, for violation of the FIEA (Article 166, Paragraph 3, etc.: Prohibited Acts of Information Recipients) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

On October 29, 2014, the suspect received information on a material fact

concerning Ishiyama Gateway, listed its shares on JASDAQ of TSE from an employee of the company who had come to know the material fact in the course of his/her duty. The material fact concerning the operation, business or property of Ishiyama Gateway that may have a significant influence on investors' investment decisions was that Ishiyama Gateway had been investigated under a search warrant by the SESC on October 29, 2014, on suspicion of window dressing in violation of the FIEA.

On October 30, 2014, prior to the announcement of the material fact, although there is no exemption clause applicable under the FIEA, the suspect sold a total of 435,400 Ishiyama Gateway shares for a total of 43,220,600 yen under the name of the suspect and another person via two securities firms to avoid possible losses by selling the shares prior to the announcement.

[Process following the filing of a criminal charge]

On December 8, 2015, the suspect was prosecuted.

On February 26, 2016, the Tokyo District Court passed the final judgment and gave the defendant a sentence of two years' imprisonment suspended for four years, a 2 million yen fine, and a collection of a value equivalent to approximately 36,490,000 yen, with the reason that the defendant was deemed to have committed a malicious act, in that he/she had impaired the fairness and integrity of the securities market and undermined investors' confidence in light of the significant number and value of shares sold prior to the sharp fall in the share prices of Ishiyama Gateway.

(v) Cases of spreading rumors, using fraudulent means and failing to submit Reports of Possession of Large Volume concerning shares of New Japan Chemical Co., Ltd. and MEIWA CORPORATION

This was a case in which the SESC filed a criminal charge against Suspect C and D. For the purpose of inducing sales and purchases of shares and in an attempt to cause fluctuations in the prices of the shares, they in conspiracy spread rumors and used fraudulent means to cause fluctuations in the price of shares by taking advantage of methods such as publicizing false statements on an Internet website implying that the share prices could rise sharply, and bought and sold shares at the artificially raised prices. In addition, in relation to the spreading of rumors and use of fraudulent means, the SESC also filed a criminal charge against Suspect C, since he/she failed to submit Reports of Possession of Large Volume.

[Investigation and accusations]

The SESC filed a criminal charge against the two suspects with the Tokyo District Public Prosecutor's Office on December 24, 2015, in violation of the FIEA (Article 158, Article 27-23, Paragraph 1 and others: Prohibition of Spreading Rumors, Using Fraudulent Means, and Failure to Submit a Reports of Possession of Large Volume) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

No.1 Suspects C and D in conspiracy conducted actions for the purpose of gaining property benefit, including those described below:

1. They artificially raised the price of New Japan Chemical shares by publicizing statements implying that they would continue to hold the shares, and recommended other investors to follow them in continuing to hold the shares, and by publicizing false information to the effect that the share price could rise sharply due to huge short covering since there were huge outstanding short positions as in precedent cases where the share price had risen sharply due to short covering. In fact, however, they had no intention to continue to hold the shares, and the market was not in a state of “short squeeze” whereby the share price could rise sharply because short sellers who had faced difficulties in borrowing shares, due to increasing short selling positions and decreasing trade volumes resulting from decreasing floating shares, would buy back shares at higher prices for short covering. They artificially raised the share price by publicizing statements on three occasions, including false information as described above between November 1, 2011, and December 29, 2011, on a website named “Tokidokinokanenone” operated in the name of “Hannyanokai” governed by Suspect C, which many and unspecified persons could access, for the purpose of buying and selling the shares and raising the share price artificially to gain profits by selling the shares they had bought in advance.

   They sold a total of 2,930,000 shares for a total of 1,608,344,600 yen under the name of Suspect D and two other persons at the artificially raised share price on 49 trading days between November 2, 2011, and February 10, 2012.

2. They artificially raised the share price by publicizing false information that the price of New Japan Chemical shares could rise sharply due to the short squeeze, as described in 1, and by conducting a series of sales, purchases and entrustments of the shares that would mislead other persons into believing that sales and purchases of the shares were thriving and would cause fluctuations in the prices of the shares between February 15, 2012, and March 2, 2012. However, they hid these facts and pretended that their prediction had come true, as the share price had risen to 1,297 yen as they had stated in “Tokidokinokanenone,” referred to in 1.

   In addition, they artificially raised the price of MEIWA CORPORATION (hereinafter referred to as “MEIWA”) shares by publicizing statements that implied that they would continue to hold the shares and recommended other investors to follow them in continuing to hold the shares, and by publicizing false information to the effect that the share price could rise sharply since the market was in a state of “short squeeze” as in precedent cases where the share price had risen sharply.

   In fact, however, they had no intention of continuing to hold the shares, and the market was not in a state of “short squeeze.”

   They artificially raised the share price by publicizing information, including false information, on a website named “Tokidokinokanenone” on April 17, 2012, as described above, which many and unspecified persons could access, for the purpose of buying and selling the shares and raising the share price artificially to gain profits by selling the shares they had bought in advance.

   They sold 4,634,400 shares of New Japan Chemical for a total 3,253, 630,400 yen in the name of Suspect D and two other persons for 11 trading days between

April 18, 2012, and May 7, 2012.

Judging from their actions described above, it was concluded that Suspects C and D bought and sold the shares of New Japan Chemical and MEIWA at the artificially raised prices by spreading rumors and using fraudulent means for the purpose of causing fluctuations in the share prices and buying and selling the shares.

No.2 Suspect C failed to submit Reports of Possession of a Large Volume as described below.

1. As of September 2, 2011, Suspect C held a total of 1,856,600 shares of New Japan Chemical in the name of two other persons and jointly held 284,600 shares with his/her spouse. Although Suspect C had become a Large Volume Holder since the shareholding ratio of Suspect C and the joint holder, which is calculated by dividing the number of shares held by the total number of issued shares, exceeded 5%, Suspect C failed to submit a Report of Possession of Large Volume within the time limit to the commissioner of the Kanto Local Finance Bureau, without any exemption clause applicable under the FIEA.
2. As of February 29, 2012, Suspect C held a total of 1,765,200 shares of New Japan Chemical in the name of two other persons, and jointly held 235,700 shares with his/her spouse. Although Suspect C became a Large Volume Holder since the shareholding ratio of Suspect C and the joint holder, which is calculated by dividing the number of shares held by the total number of issued shares, exceeded 5%, Suspect C failed to submit a Report of Possession of a Large Volume within the time limit to the commissioner of the Kanto Local Finance Bureau, without any exemption clause applicable under the FIEA.
3. As of March 14, 2012, Suspect C held a total of 2,236,900 shares of MEIWA in the names of two other persons. Although Suspect C became a Large Volume Holder since the shareholding ratio, which is calculated by dividing the number of shares held by the total number of issued shares, exceeded 5%, Suspect C failed to submit a Report of Possession of a Large Volume within the time limit to the commissioner of the Kanto Local Finance Bureau without any exemption clause applicable under the FIEA.

[Process following the filing of a criminal charge]

Suspects C and D were prosecuted for the case (1)(iii) above on December 7, 2015, and were additionally prosecuted for this case on December 25, 2015. The rulings are pending in the Tokyo District Court (as of April 30, 2016).

(2) Criminal charges against false disclosure documents

(i) Case concerning submission of a false annual securities report of Ishiyama Gateway Holdings Inc.

This was a case in which the SESC filed a criminal charge against Ishiyama Gateway and two directors with regard to the submission of a false annual securities report of Ishiyama Gateway for the fiscal year ended June 2014. The two suspects in conspiracy submitted an annual securities report containing false statements of net sales, ordinary income and net income before income taxes by using fraudulent

means, such as recording fictitious sales.

[Investigation and accusations]

The SESC filed a criminal charge against Ishiyama Gateway and Suspects A and B with the Tokyo District Public Prosecutor's Office on July 3, 2015, for violation of the FIEA (Article 197, Paragraph 1, Item 1 etc.: Submission of an Annual Securities Report Containing Misstatements on Important Matters) after completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

Ishiyama Gateway listed its shares on JASDAQ of TSE. Suspect A was the representative director and managed the overall business of Ishiyama Gateway, and Suspect B was a managing director along with the representative director of the consolidated subsidiary of the suspected company and managed the overall business of Ishiyama Gateway and consolidated subsidiary.

On September 29, 2014, Suspects A and B in conspiracy submitted to the commissioner of the Kanto Local Finance Bureau the suspected company's annual securities report, which contained false disclosure statements, for the fiscal year ended June 2014. Although net sales were actually 3,124,711,000 yen (amounts less than one thousand yen are omitted; the same applies hereinafter), ordinary loss was 352,505,000 yen, and loss before income taxes and minority interests was 349,563,000 yen, the submitted annual securities report contained false statements in a consolidated profit and loss statement showing net sales of 4,126,166,000 yen, ordinary profit of 38,694,000 yen, and income before income taxes and minority interests of 41,636,000 yen, due to malicious methods such as recording fictitious sales.

[Process following the filing of a criminal charge]

Ishiyama Gateway and Suspects A and B were prosecuted for the case mentioned in (1) (ii) above on June 16, 2015, and Ishiyama Gateway and Suspect A were additionally prosecuted for this case on July 6, 2015.

On February 23, 2016, the Tokyo District Court rendered the following final judgment:

- Ishiyama Gateway: a 10 million yen fine;
- Defendant A (representative director of Ishiyama Gateway): a sentence of three years' imprisonment suspended for four years, a 5 million yen fine and collection of a value equivalent to approximately 236,770,000 yen; and
- Defendant B (director of Ishiyama Gateway): a sentence of one year and six months' imprisonment suspended for four years, a 2 million yen fine and collection of a value equivalent to approximately 48,110,000 yen

The grounds for judgment were as follows:

- The defendants' acts of using fraudulent means were deemed to be malicious in that they misled investors about their investment decisions, because the earnings forecast for Ishiyama Gateway, whose profit was likely to go into the red, was falsified by the announcement of an upward revision of net income by 400 million yen or more, based on the fictitious expectation of additional sales of

approximately 900 million attributable to the sale and installation of generators, contrary to the fact that Ishiyama Gateway had not been involved in any deals involving the importation or sales transactions of generators, but had simply examined entry into this business.

- The accounting fraud committed by Suspect A was also deemed malicious in that it actually misled investors about their investment decisions. Specifically, to show a turnaround based on the fictitious sales as mentioned above, Suspect A submitted a false annual securities report by recording fictitious sales of 900 million yen as mentioned above, as well as other fictitious sales, and understated expenses in the amount of approximately 100 million yen, in order to raise the share price of Ishiyama Gateway artificially by maintaining the trust of investors and inducing purchase orders by investors.
- Ishiyama Gateway was delisted as a result of the detection of the case, which caused investors to suffer heavy losses. The defendants are to be strongly blamed for having caused such heavy losses to investors and impaired the confidence of the securities market to such a great extent.
- Ishiyama Gateway is to be punished heavily, given that, while the company should have conducted healthy management and appropriate disclosure of corporate information as a company whose shares were listed on the JASDAQ to allow investors to invest in its shares with trust, Ishiyama Gateway failed to prevent dogmatic management by Suspect A and allowed the two suspects to use fraudulent means and engage in accounting fraud.

(ii) Case concerning submission of false annual securities reports by Olympus Corporation (4)

This was a case in which the SESC filed a criminal charge against accomplices in March 2012. At that time, the suspect went abroad then returned to Japan lately, the SESC investigated the suspect on suspicion of complicity and found him/her malicious. Accordingly, the SESC additionally filed a criminal charge.

[Investigation and accusations]

The SESC filed a criminal charge against the suspect with the Tokyo District Public Prosecutor's Office on October 23, 2015, for aiding and abetting violation of the FIEA (Article 197, Paragraph 1, Item 1 etc.: Submission of an Annual Securities Report Containing Misstatements on Important Matters) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

The president and representative director of Olympus Corporation (hereinafter referred to as "Olympus") and others of Olympus in conspiracy submitted annual securities reports that contained false statements on important matters on assets and business.

1. On June 28, 2007, Olympus submitted to the commissioner of the Kanto Local Finance Bureau false statements, including one to the effect that consolidated net assets were 344,871 million yen for the consolidated fiscal year ending March 31, 2007, although actual net assets were about 232,459 million yen, by

using methods such as off-balance transactions of financial instruments with unrealized losses.

2. On June 27, 2008, Olympus submitted to the commissioner of the Kanto Local Finance Bureau false statements, including one to the effect that consolidated net assets were 367,876 million yen for the consolidated fiscal year ending March 31, 2008, although actual net assets were about 250,029 million yen, by using methods such as off-balance transactions of financial instruments with unrealized losses of fictitious goodwill.
3. On June 26, 2009, Olympus submitted to the commissioner of the Kanto Local Finance Bureau false statements including one to the effect that consolidated net assets were 168,784 million yen for the consolidated fiscal year ending March 31, 2009, although actual net assets were about 120,852 million yen, by using the same methods as described in 2 above.
4. On June 29, 2010, Olympus submitted to the commissioner of the Kanto Local Finance Bureau false statements, including one to the effect that consolidated net assets were 216,891 million yen for the consolidated fiscal year ending March 31, 2010, although actual net assets were about 171,371 million yen, by using methods such as recording of fictitious goodwill.

The details of the conduct of the suspect, in collaboration with another person who was a director of a company for sales and purchases of shares, in aiding and abetting Olympus in submitting false annual securities reports, were as follows:

(1) In connection with 1 above, they enabled off-balance transactions of financial instruments with unrealized losses by managing vehicles such as funds to control those unrealized losses for the period ended June 28, 2007.
(2) In connection with 2 above, they enabled off-balance transactions of financial instruments with unrealized losses and recording of an estimated value of stock options as goodwill by methods such as managing the funds described above and having the stock options granted to Axes America LLC (hereinafter referred to as “Axes America”) run by the suspect in the guise of financial advisory fees for M&A deals of Olympus for the period ended June 27, 2008.
(3) In connection with 3 above, they enabled off-balance transactions of financial instruments with unrealized losses and recording of acquisition prices of warrant purchase rights as goodwill by methods such as the following: managing of the funds described above; creation of money back-flow equivalent to fictitious goodwill by having AXAM INVESTMENTS LTD. (hereinafter referred to as “AXAM”) purchase the stock options and the warrant purchase rights that were granted to Axes America in the guise of financial advisory fees for M&A transactions of Olympus; and having Olympus purchase the warrant purchase rights at an excessively high price for the period ended June 26, 2009.
(4) In connection with 4 above, they enabled Olympus to record the difference between the acquisition price and the book value of preferred shares as fictitious goodwill by having Olympus purchase the preferred shares at an excessively high price around late March 2010. The preferred shares were converted from stock options, which were granted to Axes America as financial advisory fees for

M&A deals of Olympus and transferred from Axes America to AXAM.

[Process following the filing of a criminal charge]

On October 23, 2015, the suspect was prosecuted, and the rulings are pending in the Tokyo District Court (as of April 30, 2016).

(iii) Case concerning submission of a false annual securities report of Global Asia Holdings Inc.

This was a case in which the SESC filed a criminal charge against Global Asia Holdings Inc. (hereinafter referred to as “Global Asia”) and its former director for submission of a false annual securities report for the suspected company for the fiscal year ended March 2014. The suspect submitted an annual securities report containing false statements of net assets by recording fictitious assets.

[Investigation and accusations]

The SESC filed a criminal charge against Global Asia and the suspect with the Tokyo District Public Prosecutor’s Office on March 28, 2016, in violation of the FIEA (Article 197, Paragraph 1, Item 1 etc.: Submission of an Annual Securities Report Containing Misstatements on Important Matters) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

The suspected company, Global Asia (which changed its name from Princi-baru Corporation on September 12, 2014), listed its shares on JASDAQ of TSE and operated a restaurant. The suspect, who was the representative director and managed the overall business of the suspected company, submitted the annual securities report that contained false statements on material respects to the commissioner of the Kanto Local Finance Bureau. The false statements included a statement that net assets were about 502,164,000 yen (amounts less than one thousand yen are omitted; the same applies hereinafter) for the consolidated balance sheet of the fiscal year from April 1, 2013, to March 31, 2014, although actual net assets were about 57,827,000 yen, by recording fictitious assets (e.g., sales guarantee deposits) for 445,000 thousand yen..

[Process following the filing of a criminal charge]

On March 28, 2016, the suspect was prosecuted, and the rulings are pending in the Tokyo District Court (as of April 30, 2016).

3) Summary of Judgments of Cases in and before FY2014

With regard to the cases, against which the SESC filed criminal charges in and before FY2014, the following are a summary of the judgments made during the period from May 2015 to April 2016.

(i) Market manipulation case concerning shares of CENTRAL GENERAL

DEVELOPMENT CO., LTD.

[The SESC filed a charge in the case on July 12, 2013; and the Tokyo High Court passed judgment on the case on May 28, 2015.]

On July 4, 2014, the Tokyo District Court passed judgment and gave the defendant a sentence of three years' imprisonment suspended for four years, a 20 million yen fine and a collection of a value equivalent to approximately 82,860,000 yen, and the defendant then appealed against the sentence.

On May 28, 2015, the Tokyo High Court rejected and dismissed the appeal for the following reasons: the original decision had no factual errors; and the original decision had no unreasonableness in light of supplementary charges.

It should be noted that the defendant appealed against the sentence, and the trial is pending at the Supreme Court (as of April 30, 2016).

(ii) Case concerning the submission of false annual securities reports of Olympus Corporation

[The SESC filed a criminal charge against the case on March 6, 2012, and March 28, 2012; and the Tokyo District Court passed judgment on the case on July 1, 2015.]

On July 1, 2015, the Tokyo District Court rendered the following judgments against the defendants for the crime of aiding and abetting the submission of false annual securities reports:

- Defendant A (director of a company): a sentence of four years' imprisonment, a 10 million yen fine, and the forfeiture of approximately 724,300,000 yen (depositary claims);
- Defendant B (director of a company): a sentence of three years' imprisonment, a 6 million yen fine, and the forfeiture of approximately 411,490,000 yen (depositary claims);
- Defendant C (director of a company): a sentence of two years' imprisonment suspended for four years, a 4 million yen fine, and the forfeiture of approximately 189,440,000 yen (depositary claims); and
- The three defendants: a collection of a value equivalent to approximately 883,990,000 yen

The grounds for judgment were as follows:

- The defendants aided and abetted the principal offender, including the representative director of Olympus, in overstating the consolidated net assets by approximately 117,800 million yen for two consecutive consolidated fiscal years, by using schemes including maintaining and managing business investment funds and off-balance funds.
- Since around 1992, Olympus has utilized these schemes continuously and systematically as part of accounting fraud, in an extremely malicious manner, with using sophisticated fraudulent means using multiple overseas funds to hide losses. These acts were really deemed to have greatly damaged confidence in the fairness of Japan's securities market in terms of the size and other features of Olympus.
- The defendants were deeply involved in the misconduct in that they facilitated the acts by the primary offenders by maintaining and managing the off-balance funds that served as the core of the schemes mentioned above. In addition,

they received a large amount of kickback from the schemes.

- However, the defendants had not been informed of the total losses incurred by Olympus, and they were in the position of being used and instructed to engage in such schemes, including the transfer of money of the off-balance funds, in accordance with the instruction given by the management of Olympus. Therefore, these points should be incorporated as mitigating factors in favor of the defendants.
- For their aiding and abetting acts, Defendant A played a key role in the aiding and abetting acts. Defendant B supported Defendant A, and Defendant C was involved mainly in administration matters.

The defendants appealed against the judgment and the trial is pending at the Tokyo High Court (as of April 30, 2016).

It should be noted, in relation to the case, apart from this case in violation of the Securities and Exchange Act and the FIEA cited above, that the three defendants were also charged with fraud and violation of the Act on Punishment of Organized Crimes and Control of Crime Proceeds, and received the same judgment above.

(iii) Use of fraudulent means case involving the misuse of an in-kind contribution system by a director of Sei Crest Co., Ltd and a director of a relative company.

[The SESC filed a criminal charge against the case on December 18, 2012; and the Supreme Court made the final decision on the case on July 7, 2015.]

On September 12, 2013, the Osaka District Court passed judgment, and gave the defendant (director of a relative company) a sentence of two years and six months' imprisonment suspended for four years, a fine of 3 million yen, and a collection of a value equivalent to approximately 629,260,000 yen. However, the defendant appealed against the sentence.

On March 25, 2014, the Osaka High Court dismissed the appeal. Then, the defendant appealed to the Supreme Court.

On July 7, 2015, the Supreme Court made the final decision to reject and dismiss the appeal.

(iv) Case concerning submission of a false annual securities report of TAIYO SHOKAI INC.

[The SESC filed a criminal charge against the case on February 2, 2015; the Tokyo District Court passed judgment on the case on August 4, 2015; and the Tokyo High Court passed judgment on the case on December 9, 2015.]

On August 4, 2015, the Tokyo District Court passed judgment and gave Defendant A (the representative director of the company) a sentence of two years and six months' imprisonment suspended for four years, and Defendant B (director of the company) a sentence of four years and six months' imprisonment for the reasons given below. Defendant A accepted the court's ruling as final. However, Defendant B appealed against the sentence.

- The two suspects submitted an annual securities report containing false statements by recording fictitious sales, to give the impression that the company had recovered from negative net assets, with the aim of preventing a delisting from the stock exchange.

- Such false report enabled the company to avoid the grace period for delisting, with the result of a temporary sharp rise in the share price of the company. However, upon detection of the misconduct through a criminal investigation by the SESC, the share price dropped sharply, and the shares of the company were eventually delisted.
- The company's misconduct caused a significant impact on the stock market and investors, impairing confidence in the stock market.

On December 9, 2015, the Tokyo High Court made the final decision to reject and dismiss the appeal, for reasons including the fact that the original decision had no unreasonableness in terms of determination of the appropriate punishment.

It should be noted that, in relation to this case, apart from this case in violation of the FIEA, the defendants A and B were also charged with the destruction of property comprising the object of an investigation under search warrant, and Defendant B was also charged with corporate embezzlement. In both cases, they were prosecuted and judged with the same judgment as above.

(v) Insider trading case concerning shares of TOMEN ELECTRONICS CORPORATION

[The SESC filed a criminal charge against the case on March 24, 2015; and the Tokyo District Court passed judgment on August 18, 2015, and November 25, 2015]

On August 18, 2015, the Tokyo District Court passed judgment and gave Defendant A (director of a company) a sentence of one year and six months' imprisonment suspended for three years, a 1 million yen fine, and a collection of a value equivalent to approximately 16,420,000 yen, and Defendant B (director of a company) a sentence of one year and six months' imprisonment suspended for three years, a 1 million yen fine, and a collection of a value equivalent to approximately 32,840,000 yen, for the reasons described below. Defendants A and B accepted the court's ruling as final.

- The defendants were deemed to have committed malicious and blameworthy acts, in that they impaired the fairness and integrity of the securities market and undermined investors' confidence in light of the significant number and value of shares purchased through inside trading compared to similar cases in the past;
- Defendant A conceived of this misconduct as a primary recipient of insider information, and invited Defendant B to participate in the misconduct with the aim of avoiding stock trading under his/her own name. Defendant A provided detailed instructions to Defendant B about the purchase procedures of the shares, leveraging his/her wealth of knowledge about stock trading. There are no extenuating circumstances to Defendant A's motive to seek his/her own benefit, because he/she initiated the misconduct and in fact obtained a large amount of profit.
- Defendant B, who was not an authorized insider, participated in the misconduct in reply to the invitation by Defendant A, an authorized insider (primary recipient of insider information). However, in fact, he/she was actively involved in purchasing the shares, taking advantage of the invitation by Defendant A.

- Defendant B purchased shares, the amount of which was twice the amount of shares purchased by Defendant A. As a result, the profit achieved by Defendant B was twice that of Defendant A. For these reasons above, there are no extenuating circumstances to Defendant B's motive to seek his/her own benefit.

(vi) Insider trading case involving a former executive officer of a securities firm

[The SESC filed a criminal charge against the case on July 13 2012 and August 3, 2012; and the Tokyo High Court passed judgment on the case on September 25, 2015.]

On September 30, 2013, the Yokohama District Court passed judgment and gave the defendant a sentence of two years and six months' imprisonment suspended for four years, and a 1,500,000 yen fine. However the defendant appealed the sentence.

On September 25, 2015, the Tokyo High Court rejected and dismissed the appeal for the following reasons:

- The original decision had no factual errors.
- The defense counsel asserted that the communicative act should have been interpreted as a non-punishable act, and that the original decision had an error in interpretation and application of laws and regulations. However, if any other person provides insider information with the aim of giving instruction on or aiding and abetting fraudulent transactions using such insider information, it is apparent that such act is to be punishable. Therefore, it does not make sense to make an argument for the purpose of virtually avoiding such punishment. Accordingly, in this case, it is natural that the defendant should be punished as an accomplice of the principal offender involved in the fraudulent transactions.

It should be noted that the defendant appealed against the judgment, and the trial is pending at the Supreme Court (as of April 30, 2016).

(vii) Market manipulation case using techniques such as fake buying and selling orders on four stock issues by day traders

[The SESC filed a criminal charge against the case on October 7, 2014; and the Tokyo District Court passed judgment on the case on October 22, 2015.]

On October 22, 2015, the Tokyo District Court passed judgment and gave the two defendants a sentence of two years and six months' imprisonment suspended for four years, a 2,500,000 yen fine, and a collection of a value equivalent to approximately 390,390,000 yen, with the reasons as described below. The two defendants accepted the court's ruling as final.

- The defendants conducted market manipulation with the aid of their abundant capital by using sophisticated methods. Specifically, the defendants purchased shares at lower prices by placing a large amount of selling orders to induce selling demand, while they sold shares at higher prices through so-called *misegyoku* by placing large purchase orders to induce buying demand.
- The defendants engaged in elaborative communication with each other to select the target stocks, determine the timing for trading, and adjust the limit prices and quantities with the intent of causing fluctuations in the price of shares. In addition, they defined a rule to cancel the *misegyoku* orders after a lapse of

three minutes from the time of placement of the order, so that the *misegyoku* could not be identified as fake orders. This was actually a tricky deception.

- The defendants established sophisticated techniques, exploiting their wealth of knowledge expertise about stock trading accumulated through their work experience. They repeated habitual and occupational market manipulation acts, and earned the benefit of approximately 5,390,000 yen for just four business days in total. This was actually deemed malicious misconduct.
- Even though they manipulated the stock prices within a comparatively narrow range, their transaction ratio of the shares was fairly high and in fact caused a significant impact on the stock market. Therefore, the defendants' conduct cannot be overlooked in that they impaired the fairness of the securities markets and fair price formation of stocks, misled investors' investment decisions, and greatly damaged confidence in the market.

(viii) Case concerning the submission of false annual securities reports of Olympus Corporation

[The SESC filed a criminal charge against the case on March 6, 2012, and March 28, 2012; and the Tokyo High Court passed judgment on the case on February 17, 2016.]

On December 8, 2014, the Tokyo District Court passed judgment and gave the defendant a sentence of one year and six months' imprisonment suspended for three years and a 7 million yen fine. However, the defendant appealed against the sentence.

On February 17, 2016, the Tokyo High Court rejected and dismissed the appeal for the following reasons:

- The defendant, together with joint partners, consulted with the directors of Olympus and created a scheme of off-balance sheet vehicles to hide losses.
- The defendant maintained and managed the off-balance funds and was also engaged in creating tricks for the withdrawal of money from the funds and the allocation of money (posted in goodwill). Accordingly, these evidences indicate the fact that the defendant had been involved in a series of acts of accounting fraud of Olympus, while he/she knew of such misconduct.
- Given these background, situations, and relationship with joint partners, the aiding and abetting of fraudulent transactions are regarded virtually as the acts of the defendant. Therefore, the original decision had no factual errors, generally meeting logical and empirical principles.

It should be noted that the defendant appealed against the judgment, and the trial is pending at the Supreme Court (as of April 30, 2016).

(ix) Use of fraudulent means case regarding the execution of discretionary agreements by AIJ Investment Advisors Co., Ltd.

[The SESC filed a criminal charge against the case on July, 9, 2012, July 30, 2012, September 19, 2012, and October 5, 2012; and the Supreme Court made the final decision on the case on April 12, 2016.]

On December 18, 2013, the Tokyo District Court passed judgment, and gave Defendant A (the representative director of the company), Defendant B (director of

the company) and Defendant C (the representative director of a securities firm), imprisonment sentences of fifteen years, seven years, and seven years, respectively, as well as the forfeiture of approximately 568,840,000 yen (depositary claims) and collection of a value equivalent to approximately 15,698,090,000 yen (jointly by the three defendants). However, the three defendants appealed against the sentence.

On March 13, 2015, the Tokyo High Court rejected and dismissed the appeal. However, the three defendants appealed to the Supreme Court.

On April 12, 2016, the Supreme Court made the final decision to reject and dismiss the appeal.

It should be noted, in relation to the case, apart from the case in violation of the FIEA, that the three defendants were also charged with fraud and received the same judgment as above.

4) Future Challenges and Initiative Policy

Keeping an eye on severe and malicious market misconduct, from among the types of criminal cases, such as insider trading, market manipulation, spreading rumors, using fraudulent means, and the submission of false annual securities reports, the SESC will take strict actions against such severe and malicious market misconduct by using its full power to conduct criminal investigations and file criminal charges against the relevant offenders. By filing criminal charges against malicious offenders, the SESC will raise the alarm for overall investors, market participants and others to prevent the recurrence of the same types of incidents. For the purpose of implementing these investigations of criminal cases, the SESC will focus on the challenges as described below in the future.

(1) Improving criminal investigation methodologies against increasingly complex and sophisticated criminal cases

Recent criminal cases have been increasingly complex and sophisticated. For example, the SESC has detected some cases that combined market manipulation, spreading rumors and using fraudulent means, or other cases that repeated a small but wide range of illegal profits exploiting a narrow range of fluctuations in share prices to evade market surveillance by regulators.

The SESC continues to address these movements in order to conduct more effective and efficient criminal investigations by innovating and improving the criminal investigation methodologies.

(2) Handling complex economic crimes involving violation of the FIEA

In recent years, cases subject to investigation have not solely been violation of the FIEA, but have been combined with other economic crimes and/or have involved anti-social forces. Against such cases, the SESC has clarified the facts and filed criminal charges through close cooperation with the investigative authorities and other relevant authorities.

In the future, regarding any suspicious case that goes beyond the scope of a criminal investigation, the SESC will properly address the case in light of the characteristics of such case, by further strengthening its cooperation with the investigative authorities and

other relevant authorities in each region.

(3) Corresponding to the globalization of securities transactions

Along with the globalization of financial industries and rapid economic growth of emerging markets like Asian countries, the numbers of cross-border transactions and entry of foreign capitals or foreign investors into Japanese markets are continuously increasing. Under such circumstances, market misconduct through overseas affiliates, as well as using fraudulent means and false disclosure statements, have been caused by those who are well versed in financial instruments and exchange transactions across borders.

The SESC will continue to cooperate with the overseas regulators much more actively, aiming to identify the truth of the relevant cases under the appropriate law enforcement, including active investigation requests to the overseas regulators based on international information exchange frameworks, to ensure thoroughly intensive criminal investigation and deal strictly with cases.

(4) Effective use of digital forensics

As information technology is developing, digital forensics is essential in the investigation of criminal cases for collecting evidence through the seizure of computers, mobile phones, and other electronic devices in order to preserve, restore, and analyze the data saved on those devices and to use such data as evidence.

Therefore, the SESC will improve the practical training for active use of digital forensics to the staff members, and develop and advance the system related to digital forensics.

(5) Development of human resources

For conducting effective criminal investigations, the SESC places the high priority on developing staff members' professional capabilities of questioning suspects or witnesses, and of reviewing and analyzing seized articles.

The SESC will continue its commitment to developing the required human resources, such as through personnel exchanges with the public prosecutor's office and enhancing training, and through human-resource management oriented toward development and training.

CONCLUSION

The SESC performs its duties with the mission of ensuring the integrity of the capital market as well as of protecting its investors. The SESC, in accordance with the provisions of the FSA Establishment Act, is required to announce its annual operations. Accordingly, this "Activities of the Securities and Exchange Surveillance Commission" (hereinafter the "Annual Report") describes the recommendations, complaints and other actions performed to strengthen market discipline during FY2015, in conjunction with the relevant materials with reference to specific cases.

We hope this Annual Report will improve your understanding of the activities of the SESC and also help various market participants strengthen their voluntary discipline.

Finally, the SESC has set up the FSA Counseling Office with the aim of receiving information from consumers including investors via telephone, documents (including facsimile), visits, the Internet and other information tools. The SESC accepts information from the general public on suspected market misconduct as part of its data and information collection activities. Examples include: information related to specific stocks, such as market manipulation, insider trading and spreading of rumors; information related to issuers, such as the inclusion of false statements in annual securities reports and suspicious financing; information related to misconduct by financial instruments business operators; and information related to the solicitation of suspicious financial instruments and suspicious funds, as well as information related to investment fraud, which will be useful for the SESC in order to take immediate action. If you obtain such suspicious information, please do not hesitate to contact us and provide information to the SESC.

In addition, the SESC has also established the Pension Investment Hotline as a dedicated point of contact for people to provide useful information on pension investment by discretionary investment business operators, using their real names. The hotline is committed to collecting a broad range of information such as on suspicious investments by an investment management business operator. In cases where particularly detailed information is provided, support will be provided by specialists in pension fund management.

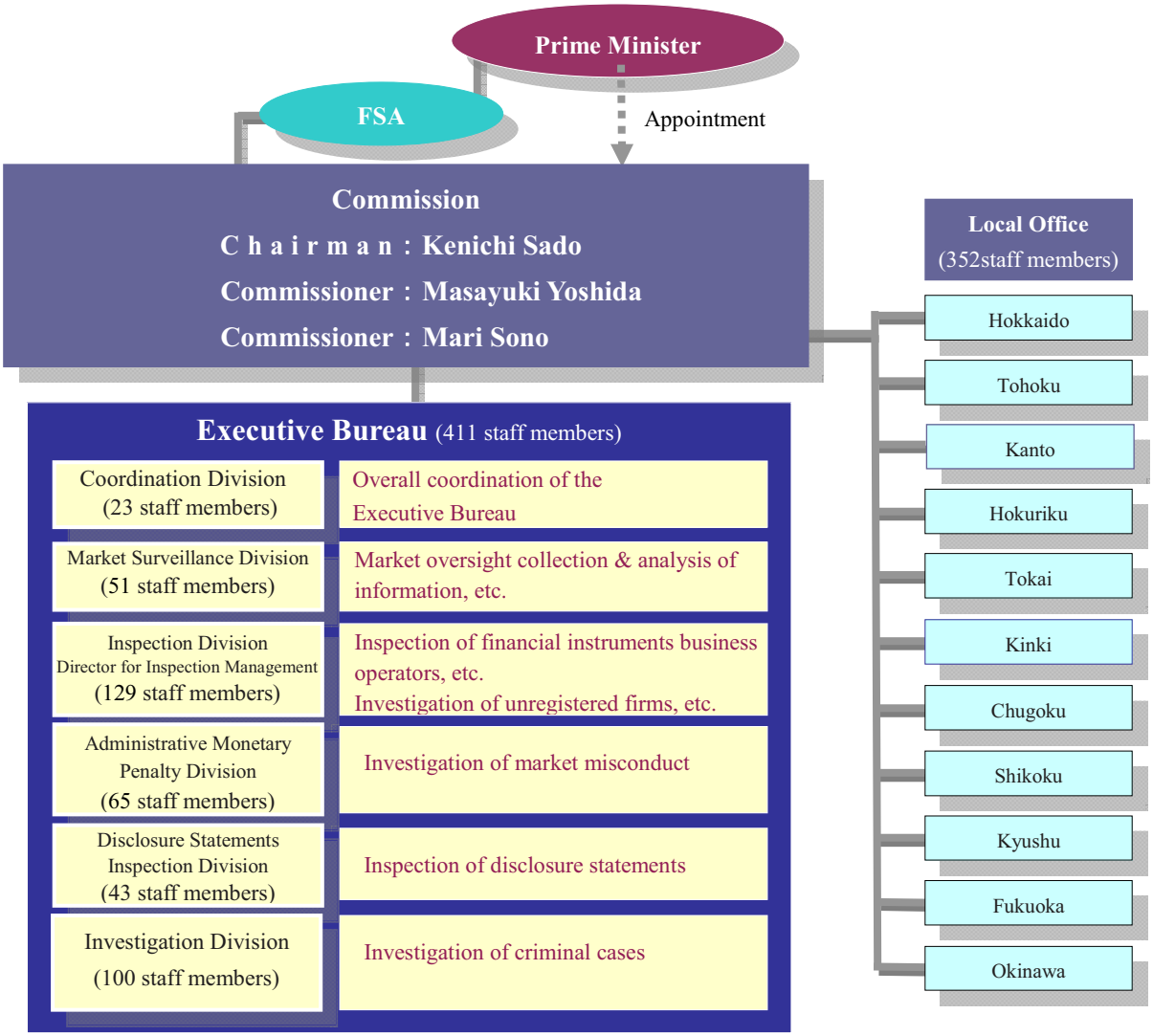
Furthermore, in addition to the above dedicated point of contact, we have established another point for people to report public-interest information under the Whistleblower Protection Act. If a worker reports any act related to a violation of law for the public interest, he/she will be protected from disadvantageous treatment, including dismissal.

Your cooperation in providing information via the website is greatly appreciated.

Appendices

Table 1

Organization

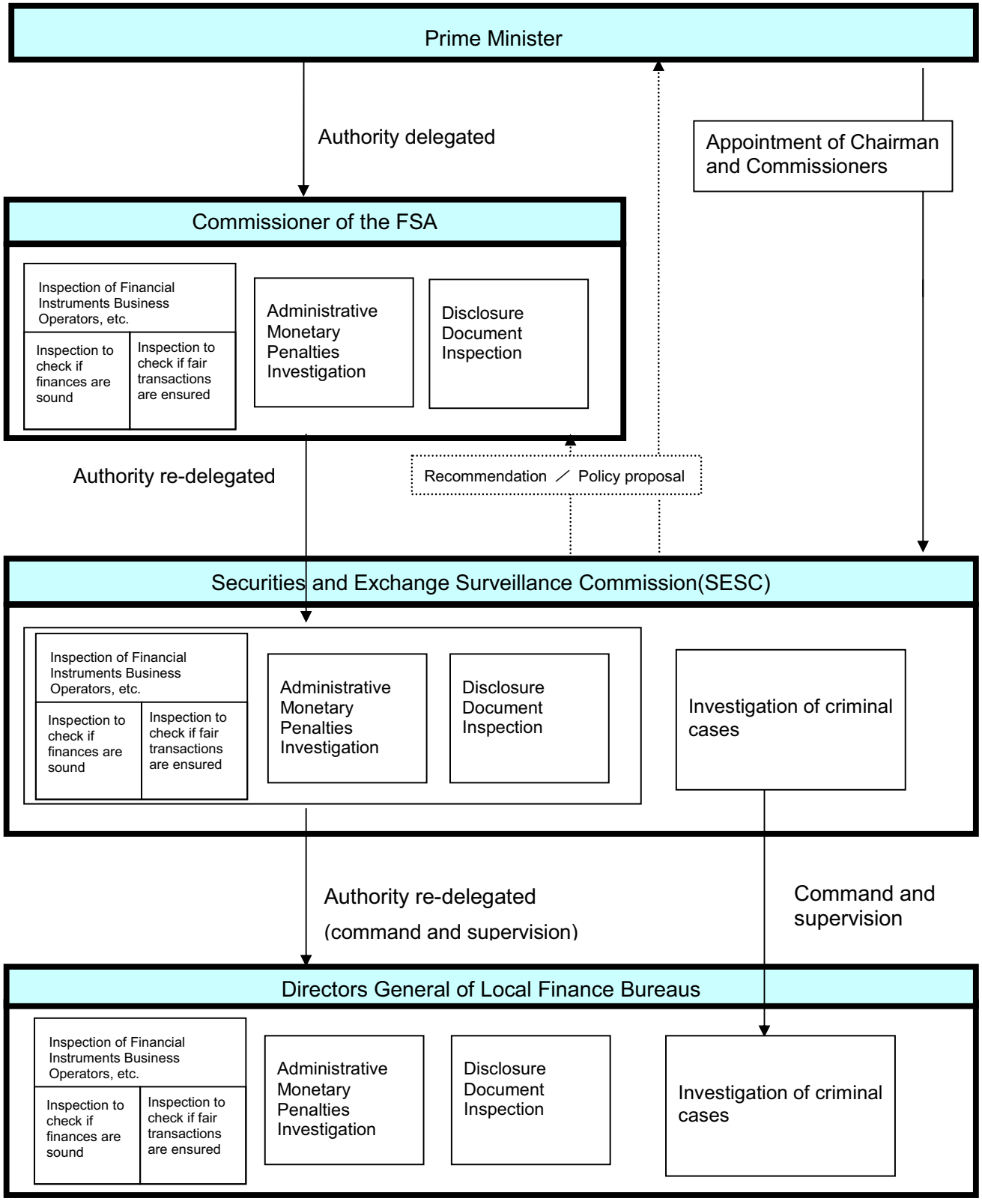


Note1: Staff members of Executive Bureau are quota as at the end of FY2016.

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 (8))

(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))

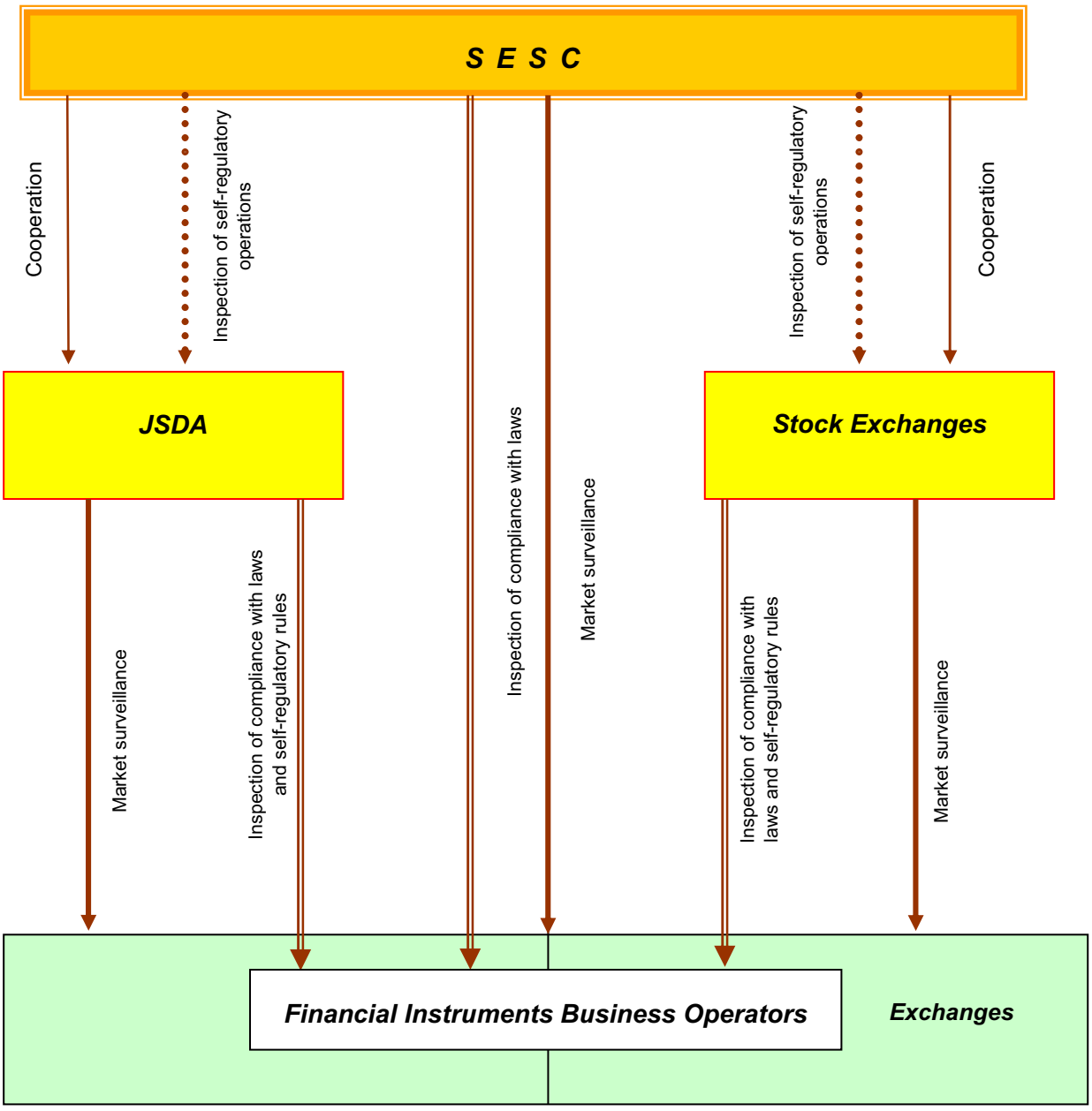
(Note 3) The SESC does not delegate authority to the Director-General of local finance bureaus, etc. related to financial instruments business operators etc designated in the following public notices

- 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 28 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 \ Fiscal year	1992 to 2010	2011	2012	2013	2014	2015	Total
Criminal charges	142	15	7	3	6	8	181
Recommendations	597	45	62	70	66	59	899
Recommendations based on securities inspections	426	16	20	18	16	18	514
Recommendations to pay administrative monetary penalty (market misconduct)	118	18	32	42	42	35	287
Recommendations to pay administrative monetary penalty (false statements in disclosure statements, etc.)	51	11	9	9	8	6	94
Recommendations for order to submit revised report, etc.	2	0	1	1	0	0	4
Announcement of results of inspection of persons making notification for business specially permitted for qualified institutional investors	1	0	13	11	17	17	59
Petition for a court injunction, etc., against unregistered business operator or solicitation without the filing of securities registration statements	2	3	1	2	6	3	17
Proposals	21	1	1	0	1	0	24
Securities inspections: Financial instrument businesses operators	2,159	148	153	222	206	128	3,016
Type I financial instrument businesses operators	1,846	85	57	69	77	61	2,195
Type II financial instrument businesses operators	30	14	20	108	72	32	276
Investment management firms Investment advisories/agencies	283	49	76	45	57	35	545
Registered financial institutions	275	32	28	9	1	1	346
Persons making notification for business specially permitted for qualified institutional investors	3	6	21	23	31	30	114
Financial instruments intermediaries	5	9	9	8	18	19	68
Credit rating agencies	0	4	3	0	2	0	9
Self-regulatory organizations	23	0	0	3	3	3	32
Investment corporations	40	2	0	3	2	1	48
Other	3	1	0	3	3	3	13
Total	2,508	202	214	271	266	185	3,646
Market oversight	9,706	913	973	1,043	1,084	1,097	14,816

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.

Introduction of the 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 an Advisor at 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 at 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 moreover our relationship with investors.

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.

The Securities and Exchange Surveillance Commission

3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan

Website: http://www.fsa.go.jp/sesc/english/index.htm