New Legislative Framework for Investor Protection

- "Financial Instruments and Exchange Law" -

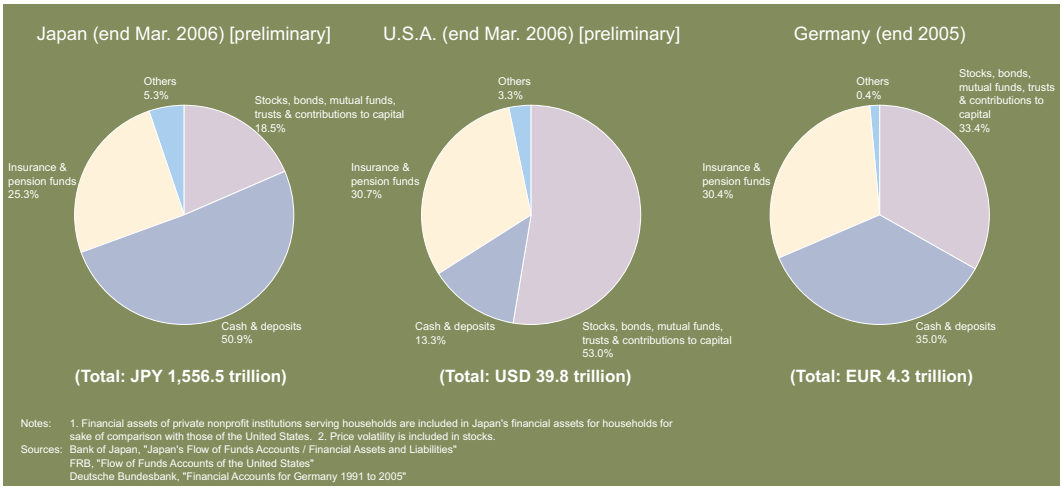
Financial Services Agency, Japan

In recent years, the environment surrounding Japan's financial and capital markets has been changing drastically.

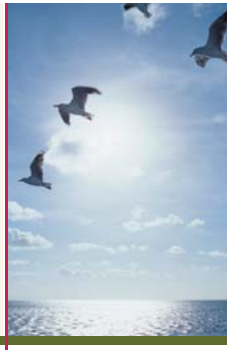
Users' viewpoint	● With the development of financial technologies, some financial products not covered in the current regulations for user protection have been appearing, and there have been also cases of users suffering damages.	→ It is necessary to compile comprehensive and cross-sectional rules for user protection and to develop an environment where users can invest with confidence.
Market's viewpoint	● Japan's household financial assets are mainly held in the form of cash and deposits. Shifting them from savings to investments has continued to be an issue. ● On the other hand, various other issues and problems have emerged related to the way in which the market should function in order to take in these funds.	→ It is essential to enhance fairness and transparency in the market and to restore confidence in the Japanese market.
International viewpoint	● Amid the globalization of financial and capital markets, market legislative frameworks and market infrastructure have been reorganized in other countries and regions.	→ It is necessary to expedite efforts to enhance the attractiveness of the Japanese market as an international market.

○Financial assets of households and the like

Financial portfolios of Japanese households have a higher cash and deposit ratio compared to other countries.



Notes: 1. Financial assets of private nonprofit institutions serving households are included in Japan's financial assets for households for sake of comparison with those of the United States. 2. Price volatility is included in stocks.
Sources: Bank of Japan, "Japan's Flow of Funds Accounts / Financial Assets and Liabilities"
FRB, "Flow of Funds Accounts of the United States"
Deutsche Bundesbank, "Financial Accounts for Germany 1991 to 2005"



In order to respond to these issues, the bills to develop the legislative framework for financial instruments and exchange were approved in the ordinary Diet session in June 2006.
The following amendments have been made.

From the "Securities and Exchange Law" to the "Financial Instruments and Exchange Law"

Title of legislation

- The name of the Securities and Exchange Law will be amended to the Financial Instruments and Exchange Law.

Laws to be amended or abolished

- The following four laws will be abolished to be consolidated into the Financial Instruments and Exchange Law.

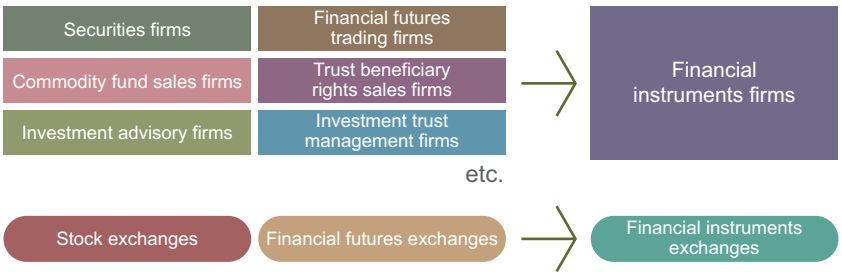
Financial Futures Trading Law	Law Concerning Foreign Securities Firms
Law Concerning the Regulation of Investment Advisory Services Relating to Securities	Law Concerning the Regulation of Mortgage Business

- Eighty-nine laws will be amended in total, some parts of which will be consolidated into the Financial Instruments and Exchange Law.

Financial instruments firms/ Financial instruments exchanges

- In the Financial Instruments and Exchange Law, the legal name for a firm subject to the regulation will be changed to "financial instruments firm" and the legal name for an exchange will be changed to "financial instruments exchange."

* However, continued use of names such as "securities firm" and "stock exchange" will be permitted.



Broadening the scope of instruments covered under the FIEL

Securities

- The scope of "securities" will be expanded in the Financial Instruments and Exchange Law. For example, all interests in trusts will be deemed as securities, and interests in collective investment schemes will be comprehensively positioned as securities.

* The Securities and Exchange Law lists government bonds, local government bonds, corporate bonds, stocks, investment trusts, and the like, as "securities."

Derivative transactions

- The scope of "derivative transactions" will be expanded in the Financial Instruments and Exchange Law. For instance, transactions on a wide range of assets and indexes will be covered in the FIEL.

  (For example, currency and interest rate swaps, weather derivative transactions, and credit derivative transactions will be also categorized as derivative transactions.)

* In terms of derivative transactions, the Securities and Exchange Law covers only those concerning securities.

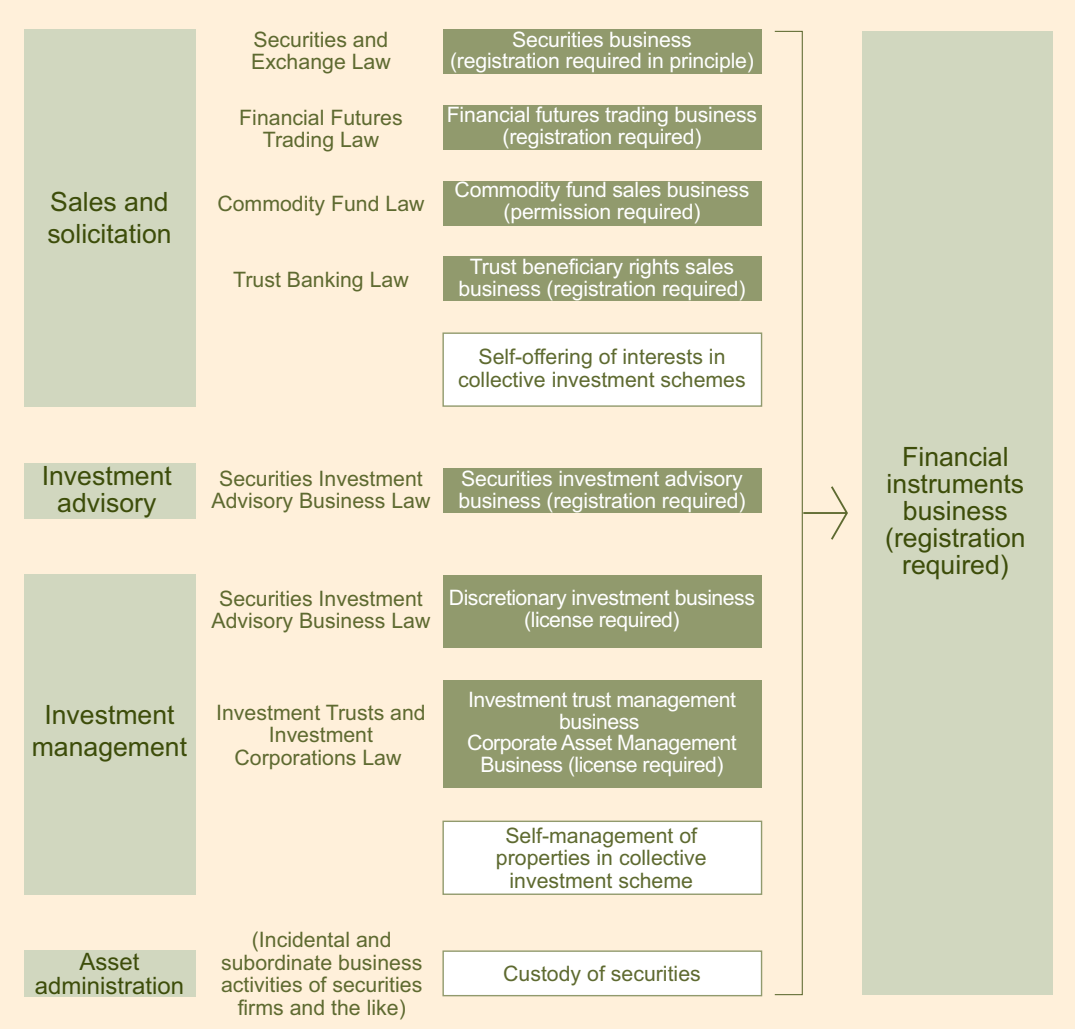
Coverage under the Securities and Exchange Law	Coverage under the Financial Instruments and Exchange Law
· Government bonds · Local government bonds · Corporate bonds · Stocks · Investment trusts · Securities derivatives, etc.	· Government bonds · Local government bonds · Corporate bonds · Stocks · Investment trusts · Interests in trusts in general · Interests in collective investment schemes (funds) (comprehensive definition) · Various derivative transactions, etc.

For reference: About collective investment scheme

In the Financial Instruments and Exchange Law, rights concerning any scheme that (1) collects capital or contribution in monetary or other similar form from two or more persons, (2) conducts business/undertakes investments using the money, and (3) distributes profits or properties to investors from the business/investments (collective investment scheme) are deemed to be and treated comprehensively as securities, regardless of the legal feature of the scheme; such as contracts for partnerships based on the Civil Law, secret partnerships based on the Commercial Law, limited investment partnerships, limited liability partnerships, or any other form of contracts (but excluding cases where all investors are involved in the business, etc.).
The scope of the law covers a variety of investment instruments, such as investment in commodities using capital or contributions in monetary or other similar form (so-called commodity funds), investments in trust beneficiary rights on real estate (so-called real estate funds), and those engaged in various businesses (so-called business funds).

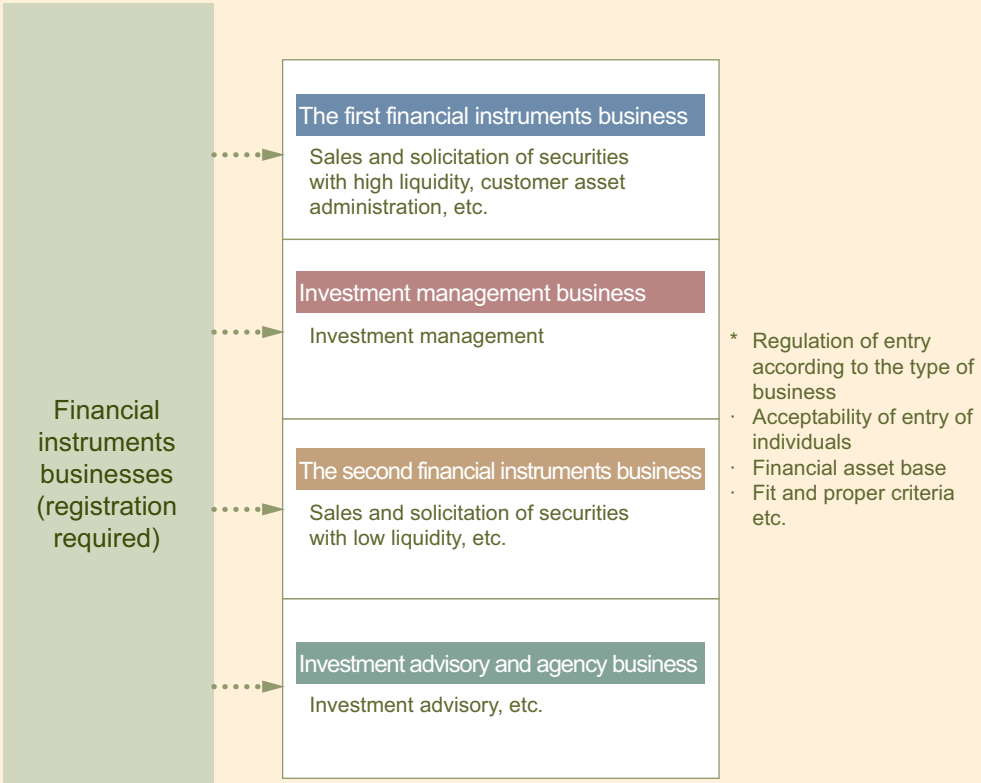
Cross-sectional regulation on financial instruments businesses covered under the FIEL

- The Financial Instruments and Exchange Law requires registration for "sales and solicitation" operations of securities and derivative transactions, as well as "investment advisory," "investment management" and "customer asset administration" services for cross-sectional regulation.
- For interests in collective investment schemes, "sales and solicitation" by the members of the scheme (so-called self-offering), will be also subject to regulation. In addition, it is clearly stated that the management of properties for investment purposes in collective investment schemes (so-called self-management) will be subject to the regulation.



More flexible rules for entry into the financial instruments businesses according to the type of business

- The regulation on entry into the financial instruments business depend on the scope of the firm's business (type of business).
- More precisely, financial instruments businesses are categorized into the first financial instruments business, the investment management business, the second financial instruments business, and the investment advisory and agency business.



* Firms engaged in financial instruments businesses shall display signs indicating the types of businesses they are engaged in as well as other relevant details.

* Firms already engaged in a financial instruments business must follow the procedures for the changing registration before engaging in another type of business.

Reorganizing regulation on conduct of financial instruments businesses

- In the Financial Instruments and Exchange Law, it is stipulated that financial instruments firms should comply with the following rules of conducts (rules for sales and solicitation) in conducting sales or solicitation of securities or derivative transactions.

· Obligation on presenting signs
  - All branch offices and business offices of financial instruments firms must present signs in places noticeable for the public.

· Regulation on advertisements
  - An advertisement must indicate a registration number and that the advertiser is a financial instruments firm.
  - Concerning profit prospects, an advertisement shall not portray things in a way that is significantly different from the truth or in a way this may mislead people.

· Obligation to deliver documents in a written format before making a contract
  - Documents must indicate a registration number and that the company is a financial instruments firm.
  - Documents must state the outlines of the contract and the fees.
  - If there is a "possibility of incurring loss" or "possibility that the loss may exceed the value of deposits received from customers," the documents must state as such.

· Obligation to deliver document in a written format at the time of a contract

· Various prohibited conducts
  - It is prohibited to engage in "the delivery of false information" or "solicitation by providing decisive judgments on uncertain matters."
  - Solicitation of customers who have not requested such solicitation by making visits or phone calls is prohibited (a ban on unwanted solicitation).
    * It is intended that, for the time being, this will apply to over-the-counter financial futures transactions (foreign exchange margin transactions, etc.).

  - Continued solicitation of customers who have once indicated that they do not wish to enter into a contract is prohibited (a ban on re-solicitation).
    * It is intended that, for the time being, this will apply to financial futures transactions in general (foreign exchange margin transactions, etc.).

· Prohibitation of loss compensation

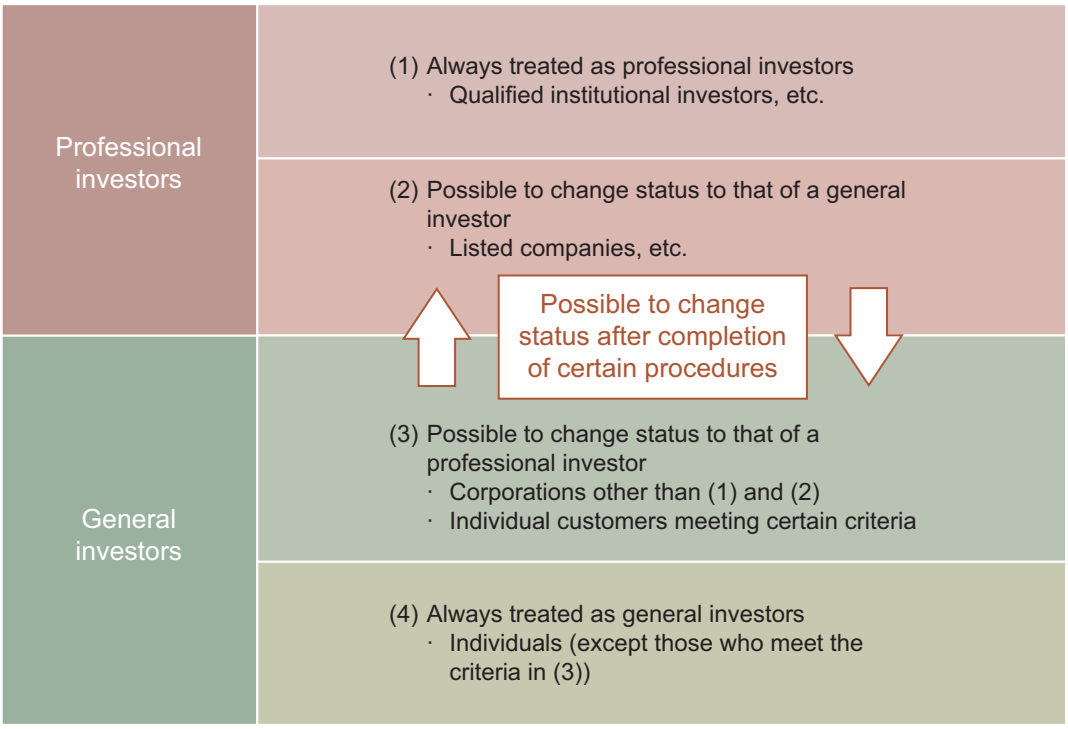
· Principle of appropriateness
  - In light of customer knowledge, experience, and assets, as well as the purpose for concluding a contract, firms must not engage in inappropriate solicitation that may result in insufficient investor protection.

- In addition, various regulations on conduct of businesses are being reorganized regarding "investment advisory," "investment management" and "customer asset administration" activities and the like.

More flexible regulation on conduct of businesses according to the attributes of customers

- Differentiation between professional investors and general investors -

- In the Financial Instruments and Exchange Law, under the premise of user protection and with a perspective towards the smoother provision of risk capital, if a customer is a "professional investor," certain regulations regarding conduct of businesses, such as "obligation to deliver documents before making a contract," will not be applied.
- All customers for financial instruments firms are categorized into "professional investors" or "general investors," some of them may apply for a change of status from one to the other.



For reference: Reporters of special business activities

In the Financial Instruments and Exchange Law, a financial instrument business is required to register for self-offering of interests in collective investment schemes and self-management of properties of collective investment schemes (page 5).

On the other hand, in order to promote financial innovation through the sound development of funds (collective investment schemes), a financial instruments firm is not required to register in relation to businesses related to funds dealing with professional investors. Instead notification is required to such firms as "reporters of special business activities" so that their status can be monitored.

(In precise terms, this is applicable to funds dealing only with qualified institutional investors and a limited number of general investors.)

Cross-sectional coverage of regulations on deposits, insurance and the like with strong investment characteristics

- Some financial instruments such as bank deposits and insurance remain being regulated under the Banking Law and the Insurance Business Law, etc., and are not subject to direct regulation under the Financial Instruments and Exchange Law.
- In this revision, concerning "sales and solicitation" activities for deposits and insurance with strong investment characteristics, the Banking Law, the Insurance Business Law, and the like, have been amended so that the same regulation for user protection (rules for sales and solicitation) as those under the Financial Instruments and Exchange Law will be applied to them.

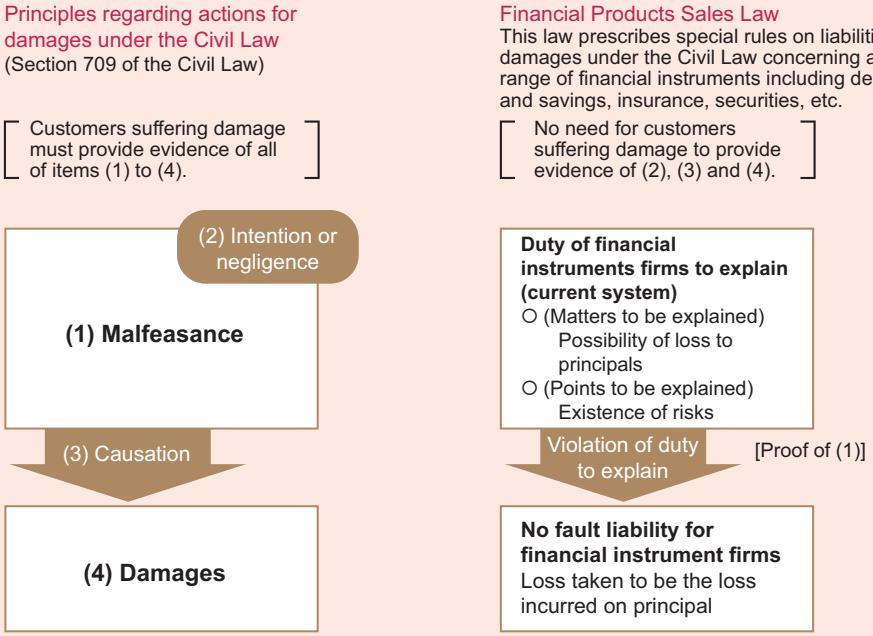
For instance, concerning the following financial instruments with strong investment characteristics, the rules for sales and solicitation will, in principle, be applied at the same level as that set under the Financial Instruments and Exchange Law.

Deposits, etc. with strong investment characteristics (The Banking Law, etc.)	· Foreign currency deposits	(Deposits that may incur loss of principal denominated in Japanese yen due to fluctuations in foreign exchange rates)
	· Derivative deposits	(Deposits that may incur loss of principal due to exit penalties calculated based on trends in interest rates when called before maturity)
Insurance, etc. with strong investment characteristics (The Insurance Business Law, etc.)	· Foreign-currency denominated insurance and pension funds	(Insurance and pension funds that may incur loss of premiums, and the like, denominated in Japanese yen, due to fluctuations in foreign exchange rates)
	· Variable insurance and pension funds	(Insurance and pension funds that may incur loss of premiums, and the like, due to performance results)
Trusts with strong investment characteristics (The Trust Banking Law, etc.)	· Designated money in trust (with returns based on performance)	(Trusts that may incur loss of principal due to performance results)
Commodity futures transactions (The Commodity Exchange Law)		(Transactions that may incur loss due to fluctuations in commodity prices)
Real estate syndicate (The Real Estate Syndication Law)		(Transactions that may incur loss due to circumstances surrounding real estate transactions)

Reorganizing other systems for user protection

Enhancing the Financial Products Sales Law

* The Financial Products Sales Law serves to facilitate of filing claims for damages concerning sales of a wide range of financial instruments such as deposits and savings, insurance, and securities, etc.
If a financial instruments firm fails to provide necessary explanation upon sales of a financial instrument, the firm will bear liability for damages, whether at fault or not, with any losses incurred on the principal being presumed as losses to be compensated.



- In this legislative reorganization, under the Financial Products Sales Law, the scope of duty to provide explanation will be enhanced for financial instruments firms ("possibility of incurring losses in excess of principal" will be added to the matters requiring explanation, and "significant parts of the structure of transactions" will be covered in points requiring explanation). In addition, the regulation has been revised to stipulate that financial instruments firms must give appropriate explanation based on the level of customers' knowledge, experience and financial status as well as the purpose of the transaction.
- Also, providing decisive judgments on uncertain matters will be prohibitted, and the violations will result in liability for damages, whether at fault or not, imposed on the financial instruments firm, with losses presumed to be the losses incurred on the principal.

Establishing Certified Investor Protection Organizations

- Under the Financial Instruments and Exchange Law, government authorities certify organizations that settle complaints and mediate disputes on financial instruments businesses from private organizations other than self-regulatory organizations. A framework to enhance the reliability of such businesses (Certified Investor Protection Organizations) is being put together.

For reference:

In the Financial Instruments and Exchange Law, the legal name for a self-regulatory organization made up of a membership of financial instruments firms has been amended to "Financial Instruments Firms Association."

* However, continued use of names such as "Securities Dealers Association" will be permitted.

Each SRO engages in activities such as examination aimed at resolving complaints, the mediation of disputes, the development of self-regulatory rules, surveillance of members in relation to compliance with laws, regulations and rules, and the imposition of sanctions in case of violation.

Enhancing disclosure by listed companies

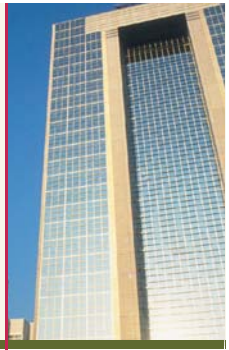
Introducing the statutory quarterly reporting system

- In order to ensure timely and prompt disclosure of financial and corporate information, "quarterly reporting" will become a mandatory requirement for listed companies, and it will be subject to audits by certified public accountants or auditing firms. (Submission of false quarterly report will be subject to criminal or civil money penalties.)

Enhancing internal control over financial reporting

- In order to ensure appropriate disclosure of financial and corporate information, "internal control reports" which provide an evaluation of the validity of internal control of financial reporting (a system to ensure appropriate information on financial matters) for each fiscal year will become a mandatory requirement for listed companies and will be subject to audits by certified public accountants or auditing firms.

- In addition, listed companies will be obliged to submit "certification" by management stating that descriptions in financial statements are appropriate and in compliance with laws and regulations.



Reviewing the Tender Offer System

- The number of corporate mergers and acquisitions has been accelerating rapidly in Japan along with increasing numbers of "tender offer (TOB)," one way to exercise M&A. The types of tender offers are also becoming more diversified.
  Given these circumstances, the tender offer (TOB) system under the Securities and Exchange Law has been reviewed in this legislative revision.

For reference: The tender offer (TOB) system

The "tender offer (TOB) system" is a system that ensures transparency and fairness in stock transactions that may affect the management rights of a company.

By imposing duties to disclose information including offer periods, volume and prices to companies intending to conduct large volume off-exchange purchases of stock*1, a fair opportunity for shareholders of the target company to sell such stock is ensured.

*1 In principle, this refers to cases when shareholdings exceed 5% following the purchase. However, if shares are purchased from a significantly small number of shareholders (10 or fewer shareholders within 60 days) and the deals are executed outside of the stock exchanges, the buyer must make a "tender offer" when shareholdings exceed one third of the total following the purchase.

For instance, the following revisions will be made.

- In an effort to deal with transactions that seek to evade relevant laws and regulations, it will be made clear that aggressive buying involving transactions executed on and/or off the market that will result in shareholdings of one third or more will be subject to regulations on tender offers.
- In order to ensure sufficient provision of information to shareholders and investors as well as to secure an enough period that allows shareholders and investors to fully consider the acceptance of tender offers, the period for a tender offer will be counted by business days basis rather than calendar dates (between 20 and 60 business days).

* Under current regulation, the period for tender offers is set by the offering company and ranges between 20 and 60 days (on a calendar date basis).

Companies targeted by tender offers will have a duty to express their opinions. Other measures will also be taken to give opportunities for target companies to raise questions with offering companies, and to allow target companies to request extensions of tender offer periods.

- If target companies take countermeasures against the takeover, offering companies may withdraw tender offers and reduce offering prices.

* Under current regulation, withdrawal of tender offers is allowed in limited cases such as bankruptcy or merger of target companies.

- In order to ensure fairness amongst shareholders and investors, if a purchase will result in shareholdings of two thirds or more, offering companies are obliged to buy all of the tendered shares.
- In order to ensure fairness amongst bidders, if a party with shareholdings of more than one third of the target company's shares begins a rapid buy-up while a tender offer of another party is in place, the former is obliged to make a tender offer also.

Reviewing the reporting system for Large Shareholdings

- Given the increasing incidence of high volume share acquisitions, this legislative revision will also amend "the reporting system for large shareholdings" under the Securities and Exchange Law.

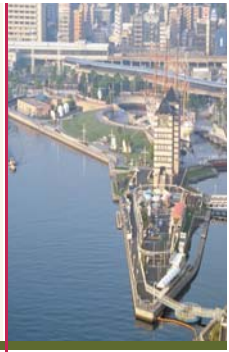
For reference: The "reporting system for large shareholdings"
"The reporting system for large shareholdings" is a system to promptly disclose the status of large shareholdings to investors. If total shareholdings in a listed company reach above 5%, the shareholder must submit a "report on large shareholdings" within 5 business days from the date of the purchase. (If the holdings increase or decrease by 1% or more at a later date, a "report on changes" must also be submitted within 5 business days.)
However, in consideration of the administrative workload for institutional investors engaged in a large volume of trading as part of their daily business activities, a lower frequency of reporting will be required (special reporting system).

For instance, the followings will be reviewed.

- Concerning the "special reporting system" for institutional investors, the deadline will be shortened and the frequency for reporting will be increased to "roughly every 2 weeks, within 5 business days."

* Under the current "special reporting system," for example, if shareholdings in a listed company reach above 5%, a report must be provided "once every 3 months by the 15th of the following month."

- To facilitate rapid publication through EDINET (an electronic disclosure system), "reports on large shareholdings" must be submitted electronically.



Ensuring appropriate management of self-regulatory operations by exchanges

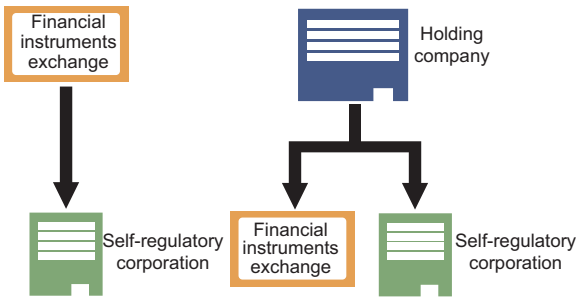
- Under current regulation, stock exchanges are allowed to be demutualized. Regarding incorporated stock exchanges, some concerns regarding possible conflicts of interest between the following two have been raised:
  - "Profitability" as a stock corporation, and
  - "Self-regulatory operation" aimed at ensuring fairness and transparency of transactions on the exchange.

- Under the Financial Instruments and Exchange Law, in order to ensure appropriate management of self-regulatory operations by financial exchanges, systems are being organized to allow:
  (1) The entrustment of self-regulatory operations to a "self-regulatory corporation";
  (2) The establishment of a "self-regulatory committee" to make decisions on matters concerning self-regulatory operations (for incorporated stock exchanges).

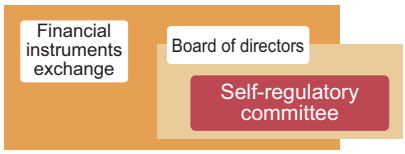
* "Self-regulatory operations" of a stock exchange refer to, for example, operations concerning listing or delisting, and examination on the compliance of market participants.

For reference:
Organizational structure that financial instruments exchanges may take

(1) A corporation independent from the exchange ("self-regulatory corporation") performs self-regulatory operations



(2) An independent self-regulatory committee within the same organization



Strict countermeasures against unfair trading

Increase in maximum criminal penalty

- In order to ensure user protection, secure fairness and transparency in transactions, and establish public confidence in the markets, the current level of penalties under the Securities and Exchange Law will be increased concerning violation of disclosure requirements and unfair tradings.

For example, penalties against the following malfeasance are increased:

· General unfair trading, spreading of rumors, resorting to deceptive devices, market manipulation · Submission of false registration statement regarding material information	Maximum imprisonment of 5 years Individuals: Maximum fine of JPY 5 million Corporations: Maximum fine of JPY 500 million	→ Maximum imprisonment of 10 years Individuals: Maximum fine of JPY 10 million Corporations: Maximum fine of JPY 700 million
· Insider trading · Non-submission of registration statement	Imprisonment maximum 3 years Individuals: Maximum fine of JPY 3 million Corporations: Maximum fine of JPY 300 million	→ Imprisonment maximum 5 years Individuals: maximum fine of JPY 5 million Ccorporations: Maximum fine of JPY 500 million

Countermeasures against "misegyoku"

- "Misegyoku" is a means of market manipulation whereby dummy orders are placed to create an impression of active trading that will later be cancelled immediately before the transactions are completed.
- In this legislative revision, the scope for civil money penalties and criminal penalties will be enlarged to be applied to "misegyoku."

This amendment deals with those matters surrounded by line.

	Criminal penalty	Civil money penalty
"Misegyoku" by customers (through securities firms)	○ (currently applicable)	× ⇒ ○ (applicable after the revision)
"Misegyoku" by securities firms as part of self-dealing activities	× ⇒ ○ (applicable after the revision)	× ⇒ ○ (applicable after the revision)

(Effective dates of legislation)

The date on which amendments to legislation will come into effect are as follows:

● Increased penalties and countermeasures against "misegyoku" (page 17)	The date falling 20 days following the promulgation of the legislations (July 4, 2006)
● Reviewing the tender offer rules and the reporting system for large shareholdings (pages 13 - 15)	The date to be designated by cabinet order not exceeding 6 months after the promulgation (by December 13, 2006) * Of the reviews of the reporting system for large shareholdings (page 15), the review of the "special reporting system" and the obligation to report electronically will be effective on the date to be designated by cabinet order not exceeding one year after the promulgation (by June 13, 2007).
● Development of the so-called legal framework for investment services (pages 3 - 11) ● Enhancing disclosure by listed companies (page 12) ● Ensuring appropriate management of self-regulatory operations by exchanges (page 16)	The date to be designated by cabinet order not exceeding 18 months after the promulgation (by December 13, 2007) * Reviews concerning the introduction of the statutory quarterly reporting system and the enhancement of internal control over financial reporting (page 12) will become applicable from the fiscal year starting on and after April 1, 2008.

For inquiry regarding this brochure, please contact:

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