

# **Outline of the Report of the First Subcommittee of the Financial System Council**

December 24, 2003

Financial Services Agency, Japan

# Outline of the FSC Report (1)

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- December 2003
  - Report of the First Subcommittee of the Financial System Council ('FSC')
    - Reviewing developments after the 'Financial Big-Bang' and proposing necessary reforms with a view to reestablishing the financial system with market functions set as its core
    - Planning to submit a bill to the regular Diet session to revise the Securities and Exchange Law, in addition to a planned submission of a bill to complete establishment of the uniform securities settlement system including dematerialization of shares

# Outline of the FSC Report (2)

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## 1. Institutional Framework for Competition among Markets

- Enhancing competition between exchanges and proprietary trading system (PTS)
- Introduction of best execution obligation

# Outline of the FSC Report (3)

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## 2. Enhancement of Disclosure System

(1) Review of the prospectus: *providing valuable information for investment decision of investors, based on the nature of each financial products*

- Prospectus of investment trusts
  - The prospectus shall be edited in three parts:
    1. obligatory information,
    2. additional information available on request, and
    3. publicly disclosed information.
  - This is to make investors to obtain necessary information easily; this is not a reduction or simplification of the prospectus
- Prospectus of all securities (including investment trusts)
  - Easing naming limitation, ensuring avoidance of misunderstanding by investors
  - Simplifying conditions for electronic delivery of the prospectus

# Outline of the FSC Report (4)

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## 2. Enhancement of Disclosure System

(2) Deregulation of the tender offer system: *developing of rational framework in response to economic realities*

- Adding further exemptions to the compulsory tender offer system

# Outline of the FSC Report (5)

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## 3. Strengthening Functions and Regime of Market Surveillance

### (1) Strengthening functions of market surveillance:

*broadening tools of enforcement actions as effective countermeasures to various types of illegal activities to enhance confidence in securities markets*

- Introduction of administrative civil money penalty on breach of fair transaction rules and disclosure requirements
- Enhanced use of injunctive orders against disclosure violation
- Expansion of explicit civil liabilities caused by disclosure violation

# Outline of the FSC Report (6)

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## (2) Review of market surveillance regime: *ensuring effectiveness and efficiency of the whole market surveillance regime*

- Administrative regime
  - Integrating functions relevant to securities markets surveillance activities, such as inspections of securities businesses, to the SESC
- SROs
  - Ensuring independence of self-regulatory functions from other functions
  - Reviewing allocation of roles of inspections among the SESC and SROs

# Outline of the FSC Report (7)

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4. Investor Protection in Investment Services

5. Promotion of Investor Education

6. Broadening a Scope of Banks' Securities Business

- Removal of ban on a securities intermediary service for banks with appropriate firewalls
- Making clear that market-inducting businesses such as providing advises toward public offering or listing are permissible businesses for banks
- Promoting more participation in individual investors and SMEs to markets