

New Comprehensive Program for Promoting Securities Markets Reform

August 6, 2002

Financial Services Agency, JAPAN

.Background

(1) Priorities for Efficient and Sound Financial System in Japan

(“Basic Policies 2002”, Cabinet Decision, June 2002)

Recovering Soundness of indirect finance through banks

Promotion of final resolution of NPLs

Shift toward direct finance

Promotion of Structural Reforms of Securities Markets

(2) Continuous Policy Measures for Securities Markets Reforms

Japanese Big Bang (1997 - 1998) - notion of “Free, Fair and Global”

Enactment of Laws for Development of Financial Infrastructures such as
Securities Settlement System and Special Purpose Companies

(1999 ~ 2001)

Program for Structural Reform of Securities Markets (August 2001)

(3) Considerable Accomplishments by These Reforms

Large reduction of brokerage fees for stock trading

Emergence of securities companies specialized in internet trading

Large increase in sales of investment trusts by banks

(4) Need for Greater Vitality in Securities Markets

(5) Further Policy Measures Required for the Development of Market-oriented Financial System (3 Basic Principles)

Development of Securities Markets easy to access for everyone

Establishment of securities markets that investors can invest with confidence

Establishment of efficient and competitive securities markets

.Concrete Measures

Principle 1 : Development of securities markets
easy to access for everyone

(1) Promoting participation of investors through securities companies

Expansion of marketing channel through securities companies

Considering a submission of a bill to the next 2003 regular Diet session for reduction of minimum capital requirement of securities companies, establishment of a fit and proper rule on principal shareholders, and introduction of sales agency system

Ensuring operations responding to investors' expectations

Reviewing, to accommodate investors' needs, discretion given to securities companies in handling broking transactions [concluding promptly]

(2) Promoting sales of securities through banks

Abolishing the current restriction on sharing common space between affiliated banks and affiliated securities companies

[releasing proposal in August and implementing in September]

Agency trading business of securities by banks and other financial institutions

(3) Development of environment for reliable investment trust and investment advisor services

Ensuring fund management responding to customers' expectations

Promoting participation of unique investment trust management companies and securities investment advisors

Considering a submission of a bill to the next 2003 regular Diet session for reduction of the minimum capital requirements

(4) Spreading investment knowledge and providing information to investors

(5) Request for taxation measures to promote active participation by investors

Principle 2 : Establishment of securities markets that investors can invest with confidence

(1) Strengthening surveillance by the SESC

(2) Enhancement of accounting and auditing system

Strengthening supervision over auditing firms [concluding promptly]

Review of the system of CPA

increase in the number and improvement of quality of CPA

[concluding promptly]

Clarifying accounting treatment of stock options

requesting the Accounting Standards Board of Japan to promptly develop accounting standard of stock options

(3) Ensuring fair transactions in markets

Ensuring reliable price formation

Introducing a pricing rule on margin transactions

[releasing a proposal in August and implementing in September]

Introducing within 2002, a system of best execution of customers' orders in the OTC market by the Japan Securities Dealers Association (JSDA)

Ensuring effective fiduciary duty of institutional investors

Enhancing reliability of securities analysts

Review within 2002, SRO rule by the JSDA on securities analysts

(4) Enhancing continuous disclosure system

Taking measures by March 2003 for enhancing continuous disclosure of risk information, MD&A, and governance information

Development within 2002, guidelines by stock exchanges and the JSDA on quarterly disclosure of financial and operational information

Principle 3 : Establishment of Efficient and Competitive Securities Markets

(1) Comprehensive review of stock exchanges from medium-to-long term perspective considering the role of Japanese stock exchanges in international markets
[starting review within 2002]

(2) Enhancement of Markets

Enhancement of exchanges

Stricter delisting criteria by stock exchanges [prompt response requested]

In view of active applications for setting up order routing terminals by foreign stock exchanges on cross-border transactions, considering to submit a necessary bill to develop provisions on the terminals to the next 2003 regular Diet session

Enhancement of OTC markets

Review within 2002 by the JSDA of the so-called green sheet market
(trading of stocks of non-public companies)

Enhancement of markets for private offerings

Taking measures within 2002 for expanding a scope of accredited
institutional investors

(3) Strengthening Securities Settlement System

Taking measures within 2002 for smooth implementation of the new
securities settlement system enacted this June

Efforts for the early establishment of the uniform securities settlement
system (which will include the system for stocks)

(4) Promotion of securitization

Taking measures within 2002 for development of securitization market of housing loans

Ensuring smooth distribution of housing loan securities by the Housing Loan Corporation

Promotion of securitization of bank loans