

## At the beginning

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### **1.Enhanced efforts to eradicate securities-related criminal offenses that undermine fairness of markets**

To maintain fairness and trust in securities markets, it is important to foster investor confidence in the markets being supervised and operated properly by taking strict disciplinary measures against the violators of market rules and regulations. Therefore, investigating criminal offenses strictly is one of the most important duties for the Securities and Exchange Surveillance Commission (SESC).

In the 2002 SESC year, the SESC launched compulsory investigations into insider trading cases involving stocks of Mikasa Coca-Cola Bottling Co. and Nichimen Infinity Inc., and also conducted a compulsory probe against former executives of KB Co. on suspicion of submitting a securities report of their company containing false information. In all these cases, the SESC filed complaints with prosecutors. The SESC also lodged accusations with prosecutors in connection with the submission of securities reports for Nanaboshi Co. and MTCL, both found to be containing false information, and in connection with the spreading of rumors and the act of deceit over shares of Dream Technologies Corp., the act of deceit over shares of MTCL and an insider trading case involving shares of Crayfish Co. Overall, 10 cases involving 22 people were brought to prosecutors. In addition, the SESC conducted a compulsory probe into the alleged manipulation of securities prices at the Osaka Securities Exchange.

### **2.Efforts to crack down on malicious acts by market agents**

The SESC is conducting inspections of securities companies to check their compliance with market rules. Problems were found at 78 of the 135 firms inspected in the 2002 SESC year.

Among violations found in the inspections were conclusion of contracts for securities trading via discretionary accounts, the act of stating misleading or false information on important factors of securities trading and other investments, the act of engaging in securities trading in order to create an artificial market that does not reflect the actual state of the market and a securities house's failure to confirm the identity of some traders in violation of the Personal Identity Verification Law

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although there was suspicion that the identity stated by the traders was false. In addition, serious problems were also found at many securities companies regarding their marketing policy and an intra-party supervisory system. Employees at securities houses, including those in managerial positions, need to strongly recognize the importance of compliance with rules and regulations and make redoubled efforts to pursue fair business operations, both being necessary from the viewpoint of ensuring investor confidence in the securities market. It is also necessary for securities companies to improve or strengthen their in-house management systems and strive to make the systems function effectively by placing emphasis on their substance rather than on formalities.

As a result of the inspections, the SESC recommended to the Prime Minister and the FSA Commissioner that they take administrative disciplinary measures in 30 cases (Administrative disciplinary measures sought in 14 cases involving 14 securities firms, and 23 cases involving 33 employees at securities companies).

*(Note) The combined number of the 14 cases involving securities firms and the 23 cases involving brokerage officials is larger than the 30 cases for the total number of disciplinary measures because some of the cases sought such measures against both a securities company and its employees.*

After the inspections, the SESC put forward two policy proposals to the FSA Commissioner. The first proposed establishing rules to prevent individual bond investors being placed in a disadvantageous position in information-gathering at a time when issue terms and conditions have become less attractive for investors as a result of sudden, significant changes in important market factors determining the terms of corporate bond issuance and sale. In the second, the SESC cited the need for the government to establish a system to strictly check Internet trading and ensure customer management in such trading in order to prevent violations or illicit orders by securities companies offering brokerage services via the Internet.

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### **3. Effective market supervision**

In order to detect illicit deals out of an enormous amount of transactions on the securities market with appropriate timing, it is indispensable for regulators to gather all kinds of securities-related information efficiently and analyze it accurately. In order to do that, the SESC has checked movements and trends of the market on its own, and has also deepened cooperation with self-regulatory organizations while seeking information on dubious deals from general investors.

In the 2002 SESC year, the SESC checked a total of 684 securities deal cases.

In November 2002, the SESC formed a special task force to strengthen its supervision of illicit deals, especially the act of spreading rumors on particular securities through the Internet. Against the background of a tense international situation, such as the Iraq war, the SESC set up respective market supervisory and liaison councils with the Tokyo Stock Exchange and the Japan Securities Dealers Association in March 2003. The councils are designed to promote expeditious information exchange between the SESC and these two organizations on shady securities transactions, and enable the SESC to take action against suspected illegal transactions more flexibly and efficiently.

### **4. Response to information-era trading and internationalization**

Rapid advancement of information and telecommunications technologies has been having significant impact not only on techniques used for securities trading, but also on media for sending information, as symbolized by the spread of the Internet. In order to deal with such development, the SESC expanded the number of officials in charge of checking and supervising all kinds of information being transmitted via the Internet, and has been gathering such information by using its Internet patrol and supervision system.

To grasp the whole picture of particular shady transactions amid the internationalization of securities markets, it is indispensable for the SESC to promote information-sharing with securities regulators in foreign countries. Based on this idea, the SESC has strengthened cooperative relations with foreign regulators through conferences hosted by the International Organization of

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Securities Commissions (IOSCO). The FSA, including the SESC, has concluded information exchange pacts with the China Securities Regulatory Commission (CSRC), the Monetary Authority of Singapore (MAS), the U.S. Securities and Exchange Commission (SEC) and the U.S. Commodity Futures Trading Commission (CFTC) to boost bilateral alliances for the exchange of undisclosed information. The SESC is prepared to reinforce its ties with other foreign regulators in the future to further promote supervision of securities markets.