Annual Report
2006/2007

Securities and Exchange Surveillance Commission

JAPANESE GOVERNMENT

Message from the Chairman

Chairman: Kenichi SADO

The Securities and Exchange Surveillance Commission (SESC) is carrying out its mission of ensuring fairness and transparency of the Japanese markets and protecting investors.

In July 2007, the SESC entered the sixth of its three-year term since its establishment in 1992. The environment surrounding securities markets has been changing drastically in recent years, as seen in the growing diversity and complexity as well as further globalization of securities trading and financial instruments against the call for further expansion of securities markets. In response to such situations, the SESC's function of market surveillance has been significantly enhanced through additional delegation of authority, including those to conduct investigation for administrative civil monetary penalties and inspection of disclosure documents, accompanied by expansion of the organization.

In addition, with the Financial Instruments and Exchange Law put in effect from September 2007, the scope of market surveillance by the SESC has further expanded. The roles expected of the SESC in monitoring markets are becoming more and more important, and we intend to continue to pursue comprehensive oversight with more strategic focus, while making the best of the authority and power given to us with a view to protecting investors.

Meanwhile, in order to operate healthy markets, it is essential to enhance cooperation with self-regulatory organizations and relevant authorities. In this context, we will further strengthen cooperative relationship with such parties.

Responding to the changing environments in the markets and revision of the regulatory system, the SESC will continue to do its utmost to secure integrity of the markets and protect investors. We would like to "assert an intimidating presence against those reckless parties impairing the fairness of the markets, and become a dependable supporter for decent investors."

October 2007

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Kenichi SADO
Chairman
Securities and Exchange Surveillance Commission

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1. Investigations of Unfair Trading and Disclosure

1) Outline

"Unfair trading" such as market manipulation or insider trading is an act of deceiving investors and impairing the fairness in securities markets.

In order to realize fair markets where market mechanisms work properly, it is critical to ensure proper disclosure of information. A disclosure system is the most fundamental system to sustain securities markets.

For a long time, the SESC has carried out investigations of the submission of false financial statements and other criminal cases and filed formal complaints for such cases. In addition to these activities, the SESC now conducts disclosure documents inspection and make recommendations for administrative disciplinary actions such as the issuance of orders to pay administrative civil monetary penalties. In this way, the SESC tries to ensure the reliance to security markets and protect general investors.

2) Investigations of Criminal Cases

1. Purpose of Investigations of Criminal Cases

In the Securities and Exchange Law (SEL), the Law on Foreign Securities Firms (LFSF), and the Financial Futures Trading Law (FFTL), the authority to investigate criminal cases relating to securities transactions is specified as the authority resident in the SESC. The scope of the SESC's exercise of this authority is not limited to securities companies, but also covers investors and all other persons involved in securities transactions. The SESC is given the authority to investigate criminal cases under the Personal Identity Verification Law (PIVL) as well, in which the SEL is applied mutatis mutandis in this regard.

2. Authority and Scope of Investigations of Criminal Cases

As for noncompulsory investigations of criminal cases, the SESC is authorized to question suspects of criminal acts or related parties (hereinafter collectively "suspects"), inspect materials possessed or left behind by suspects, and retain materials supplied voluntarily or left behind by suspects (Article 210 of the SEL, Article 53 of the LFSF, Article 170 of the FFTL, and Article 18 of the PIVL). As for compulsory investigations with warrants from judges, the SESC is authorized to visit and search the premises of suspects and seize related evidences (Article 211 of the SEL, Article 53 of the LFSF, Article 171 of the FFTL, and Article 18 of the PIVL).

The scope of criminal cases is specified as a category of acts impairing fair securities trading in relevant cabinet orders (Article 45 of the SEL Enforcement Order, Article 23 of the LFSF Enforcement Order, and Article 33 of the FFTL Enforcement Order). Most typical criminal cases include loss compensation provided by securities companies to selected customers, submission of false securities registration statements or securities reports by issuing companies, insider trading by persons associated with issuing companies, and spreading rumors on stock markets and market manipulation by any persons.

Criminal cases to be investigated under the PIVL include a customer's act of concealing his/her true name or address when the securities company verifies his/her identity.

An investigator of the SESC reports the findings of his/her investigations of a suspected criminal case to the SESC (Article 223 of the SEL, Article 53 of the LFSF, Article 183 of the FFTL, and Article 18 of the PIVL). If the SESC is convinced that the case constitutes a violation, the SESC files a formal complaint, and sends the evidences, together with a list

of materials left behind by the suspect and materials seized by the SESC, if any, to a public prosecutor (Article 226 of the SEL, Article 53 of the LFSF, Article 186 of the FFTL, and Article 18 of the PIVL).

3) Administrative Civil Monetary Penalties Investigation

1. Purpose of Administrative Civil Monetary Penalties

In the past, the criminal penalties were main measures to ensure the effectiveness of regulations on insider trading and other violations. In addition to criminal penalties, however, the administrative civil monetary penalty system was introduced in April 2005 as a result of the revision of the SEL in 2004.

This system is an administrative measure to impose monetary burdens on violators of certain provisions of the SEL, in order to achieve the administrative goals of curbing violations and to ensure the effectiveness of regulations. The level of monetary burdens is determined by the law, based on the amount equivalent to economic benefits gained by a violator from his/her violation.

On April 1, 2005 when the administrative civil monetary penalty system was introduced, the SESC established the Civil Penalties Investigation and Disclosure Documents Examination Office (reorganized as "Civil Penalties Investigation and Disclosure Documents Inspection Division" in July 2006) with the aim of regulating violations that are subject to administrative civil monetary penalties.

The SESC is authorized to conduct penalty investigations, and if any violation is recognized, the SESC recommends the Prime Minister and the Commissioner of the FSA to issue an order to pay administrative civil monetary penalty. (Article 20 of the FSA Establishment Law)

If a recommendation for the issuance of an order to pay administrative civil monetary penalty is made, the Commissioner of the FSA (delegated by the Prime Minister) determines the commencement of procedure for judgment. Then, an administrative law judge conducts the procedure for judgment and prepares a decision proposal for the violation. Based on this proposal, the Commissioner of the FSA (delegated by the Prime Minister) makes a decision on the issuance of the order to pay the administrative civil monetary penalty.

2. Acts Subject to Administrative Civil Monetary Penalties

Specific acts subject to administrative civil monetary penalties are as follows.

(1) An act of submitting a securities registration statement (disclosed for offering or selling of securities), etc. containing false entries, and causing the securities to be acquired or sold based on the said statement (Article 172 of the SEL)
(2) Submission of a securities report (which should be submitted for each business year), etc. containing false entries (Article 172-2 of the SEL)
(3) Spreading rumors on stock markets; deceptive means (Article 173 of the SEL)
(4) Market manipulation (Article 174 of the SEL)
(5) Insider trading (Article 175 of the SEL)

With regard to the administrative civil monetary penalty system, the paragraph 1 of Article 6 of the Supplementary Provisions of the Law for Partial Revision of the SEL, effective from June 2005, prescribes as follows: in approximately two years, the government shall review the administrative civil monetary penalty system, including the measures to compute amounts of monetary penalties, the levels of amounts of monetary penalties, and the measures to keep watch for violations, taking it into consideration how the system under the revised SEL is implemented and how the socioeconomic circumstances change, and

then the government shall take necessary measures based on the results of such review.

3. Authority of Civil Monetary Penalty Investigation

The authority to conduct penalty investigations pertaining to false statements in securities reports, securities registration statements, and other disclosure documents is prescribed in Article 26 of the SEL, under which the SESC is authorized to:

(1) Order a person who has filed a securities registration statement, a person who has filed an issued securities registration statement, a person who has filed a securities report, a person who has filed a treasury share purchase report, a person who has filed a parent company status report, an underwriter of securities, or any other related party or person to submit reports or materials that are informative for investigations; and

(2) Inspect books and documents of the persons investigated and other items.

The authority to conduct penalty investigations pertaining to unfair trading such as spread of rumors on stock markets, deceptive means, market manipulation, and insider trading is prescribed in Article 177 of the SEL, under which the SESC is authorized to:

(1) Question suspects or related persons, or require opinions or reports from them; and

(2) Enter business offices of suspects and other sites that are necessary for investigation, and inspect their books and documents and other items.

4. Disclosure Documents Inspection

With the aim of protecting public interests and investors by ensuring the adequacy of disclosure, the SEL prescribes that, if deemed necessary and appropriate, the Prime Minister may order a person who has filed a securities registration statement, a person who has filed an issued securities registration statement, a person who has filed a securities report, a tender offeror, a person who has filed a large shareholding report, or any other person to submit reports or materials, and may inspect their books and documents and other items.

Since mid-October 2004, the inappropriate cases of disclosure under the SEL have occurred one after another, and the Prime Minister and the Commissioner of the FSA have delegated the authority to conduct disclosure documents inspection to the SESC, effect from July 2005, as part of the measures taken to strengthen the system for inspecting financial statements in order to ensure the reliability of the disclosure system.

The authority to conduct disclosure documents inspection is more specifically described as follows.

(1) The authority to require reporting from a person who has filed a securities registration statement, a person who has filed an issued securities registration statement, a person who has filed a securities report, a person who has filed a treasury share purchase report, a person who has filed a parent company status report, an underwriter of securities, or any other related party or person, and inspect these individuals (Article 26 of the SEL, including the case where the same article is applied mutatis mutandis in Article 27 of the SEL)

(2) The authority to require reporting from a tender offeror, a person specially interested with a tender offeror, or any other related party or person, and inspect these individuals (paragraph 1 of Article 27-22 of the SEL, including the case where the same article is applied with appropriate modifications pursuant to paragraph 2 of Article 27-22-2 of the SEL)

(3) The authority to require reporting from a person who has filed an opinion report regarding a tender offer, or any other related party or person, and inspect these individuals (paragraph 2 of Article 27-22 of the SEL)

(4) The authority to require reporting from a person who has filed a large shareholding

report, a co-holder of a large volume of shares, or any other related party or person, and inspect these individuals (paragraph 1 of Article 27-30 of the SEL)

(5) The authority to require reporting from a company which is an issuer of the shares pertaining to a large shareholding report, or any other related party (paragraph 2 of Article 27-30 of the SEL)

(6) The authority to require reporting from a certified public accountant or auditing firm who has conducted the audit of accounts for a company (paragraph 4 of Article 193-2 of the SEL)

(Note 1) The following authority is not delegated to the SESC.
- The authority to require reporting from a person who has filed a securities registration statement, etc. and inspect this individual before the effective date of the said statement, etc. (items 1 and 2, paragraph 1 of Article 38-2 of the SEL Enforcement Order)
- The authority to require reporting from a tender offeror, etc. or a person who has filed an opinion report, etc. and inspect these individuals during the tender offer period (item 3, paragraph 1 of Article 38-2 of the SEL Enforcement Order)

(Note 2) The FSA Commissioner him/herself may exercise the authority to require reporting as described in Note 1 and the authority to conduct inspection that is to be exercised when it is found urgently necessary for the protection of public interests or investors (the provision of paragraph 1 of Article 38-2 of the SEL Enforcement Order). The authority described in the preceding sentence and the authority described in Note 1 are delegated by the Commissioner of the FSA to Director-Generals of Local Finance Bureaus, and so forth.

Under the SEL, the Prime Minister must order a person who has submitted disclosure documents to pay administrative civil monetary penalty, if the documents are found to contain false statements pertaining to important matters (cf. items (1) and (2) in Subsection 2 of this Section 3 entitled "Acts Subject to Administrative Civil Monetary Penalties"), and may order the person to submit amended disclosure documents (paragraph 1 of Article 10 of the SEL, etc.).

In Japan's securities markets, approximately 4,700 companies including approximately 3,900 listed companies submit their securities reports or other disclosure documents. The SESC collects and analyzes various data and information including the corporate information disclosed by those companies, amended disclosure documents, news reports on those companies, and information from the general public, and the SESC conducts disclosure documents inspection when those documents are likely to contain false statements. If this inspection has revealed that certain disclosure documents contain any false statement pertaining to important matters, the SESC recommends the Prime Minister and the Commissioner of the FSA to impose an appropriate administrative disciplinary action, and urges the company causing such a false statement to voluntarily amend its disclosure documents.

4) Filing of Formal Complaints and Recommendations for Unfair Trading

1. Investigations of Criminal Cases and Filing of Formal Complaints

(1) Investigations of Criminal Cases

The formal complaints filed in relation to unfair trading in Business Year 2006 include suspected criminal cases such as: insider trading in Sei Crest Co., Ltd. (Case 1 and Case 3), market manipulation for BeMap Inc. shares, insider trading of Homac Corp. shares and

one other stock, insider trading of Ito En, Ltd. shares and 17 other stocks, and market manipulation for Kawakami Paint Manufacturing Co., Ltd. shares and the spread of information on Kawakami Paint Manufacturing Co., Ltd. In connection with these suspected criminal cases, the SESC conducted compulsory investigation of the homes of the suspects and related offices.

With regard to insider trading in Sei Crest Co., Ltd. (Case 1 and Case 3) and market manipulation for BeMap Inc. shares, the compulsory investigations were carried out jointly with the Osaka Prefectural Police. In this way, the SESC has been trying to enhance collaboration with other investigatory authorities, where needed, to realize effective, efficient investigation.

(2) Filing of Formal Complaints

Based on the results of investigations of the suspected criminal cases, the SESC filed a total of 12 formal complaints involving 28 individuals with the public prosecutors on charges of violations of the SEL. These complaints consisted of three cases involving 10 individuals on charges of market manipulation (the case of BeMap Inc., and the cases of Kawakami Paint Manufacturing Co., Ltd. related to market manipulation and spreading rumors on stock markets), and nine cases involving 18 individuals on charges of insider trading (the case of Nishimatsuya-chain Co., Ltd. and four other stocks, the case of PC DEPOT Corporation and one other stock, the case of IMJ Corporation, Case 1 through Case 3 of Sei Crest Co., Ltd., the case of Homac Corp. and one other stock, the case of Homac Corp., and the case of Ito En, Ltd. and 17 other stocks).

The formal complaints filed in Business Year 2006 are characterized by an increase of criminal cases in non-Tokyo area from previous typical years. The case of PC DEPOT Corporation and one other stock was filed with a public prosecutor of the Yokohama District Public Prosecutors Office, the cases of Sei Crest Co., Ltd. (Case 1 through Case 3) and the case of BeMap Inc. were filed with public prosecutors of the Osaka District Public Prosecutors Office, the cases of Homac Corp. (Case 1 and Case 2) were filed with public prosecutors of the Sapporo District Public Prosecutors Office, the case of Ito En, Ltd. and 17 other stocks was filed with a public prosecutor of the Akita District Public Prosecutors Office, and the case of Kawakami Paint Manufacturing Co., Ltd. for market manipulation and the case of Kawakami Paint Manufacturing Co., Ltd. for the spreading of information were filed with public prosecutors of the Saitama District Public Prosecutors Office. To cope with a trend of expansion of the geographical coverage of criminal cases, the SESC has been responding harshly to unfair trading.

(3) Outline of Filed Complaints

[1] Nishimatsuya-chain and Four Other Stocks Case (Insider trading)

Nishimatsuya-chain Co., Ltd. and four other companies decided to conduct share splitting respectively, and they announced such decisions from December 2005 to January 2006.

The suspect was an employee of the newspaper company undertaking to carry the public notice on the aforesaid share splitting based on an order placed by the advertising agency which had entered into agreements with the foregoing five companies for the writing of such statutory public notice. The suspect came to know the important facts of the aforesaid share splitting in the course of his job duties, and purchased 94,400 shares of these five companies in total at approximately 243.32 million yen from December 2005 to January 2006 before these facts were disclosed.

[2] PC DEPOT and One Other Stock Case (Insider trading)

The suspect was an employee of PC DEPOT Corporation.

(i) In the course of his job duties, he came to know the fact that the company decided to conduct a share split. From January 2004 to February 2004 before disclosure of this fact, he purchased the company's 46 shares at approximately 16.57 million yen.
(ii) In the course of his job duties, he came to know the fact that OA System Plaza Co., Ltd. decided to form business alliance with PC DEPOT Corporation. In October 2004 before disclosure of this fact, he purchased 49,000 shares of OA System Plaza Co., Ltd. at approximately 8.63 million yen.
(iii) The suspect learned from the president of OA System Plaza Co., Ltd. the fact that this company decided to issue shares. In August 2005 before disclosure of this fact, the suspect purchased this company's 170,000 shares at approximately 60.2 million yen.

[3] IMJ Case (Insider trading)

IMJ Corporation decided to conduct a share split and announced this decision in June 2004.

The suspect served concurrently as the company's adviser and its parent company's managing director. In the course of his job duties, the suspect came to know this important fact. From May to June 2004 before disclosure of this fact, he purchased the company's 25 shares at approximately 7.96 million yen.

[4] Sei Crest Case (Case 1: Insider trading)

Sei Crest Co., Ltd. decided to conduct a share split and announced this decision in December 2005.

The suspect A, who was an employee of the company, came to know this important fact in the course of his job duties. From November to December 2005 before disclosure of this fact, the suspect A purchased the company's 25 shares at approximately 12.57 million yen, in conspiracy with the suspects B and C.

[5] Sei Crest Case (Case 2: Insider trading)

Sei Crest Co., Ltd. figured out the difference between its recently disclosed projection and its newly calculated projection for ordinary income and net income for the year ended March 2006, and announced this fact in March 2006.

The suspect A (as mentioned in Case 1), who was an employee of the company, came to know this important fact in the course of his job duties. From February to March 2006 before disclosure of this fact, the suspect A purchased the company's 111 shares at approximately 31.08 million yen, in conspiracy with the suspect B.

[6] Sei Crest Case (Case 3: Insider trading)

Sei Crest Co., Ltd. decided to conduct a share split and announced this decision in December 2005.

The suspect learned this important fact from an employee of the company (who is the suspect A as mentioned in Cases 1 and 2). In December 2005 before disclosure of this fact, the suspect purchased the company's 20 shares at approximately 11.06 million yen.

[7] BeMap Case (Market manipulation)

From the beginning to the middle of March 2005, the seven suspects carried out the conspiracy for BeMap Inc. shares as follows.

(i) In an attempt to raise the price of BeMap share and induce active trading of the share, the suspects manipulated the price of BeMap share. To be more precise, they conducted a series of transactions composed of the purchase of 7,385 shares in total

and the sale of 5,731 shares in total, by such means as successively placing market orders or buy orders with price limit to drive up the share price, and they placed buy orders for 179 shares in total to hold up the lows, by such means as placing limit orders at lower prices. As a result, the share price surged from 285,000 yen to 408,000 yen.

(ii) With an aim of misleading other persons to believe that shares were being traded actively, the suspects conducted fictitious buying and selling of approximately 3,840 shares in total with no intention to transfer the rights relevant to those shares, and the suspects further conducted buying and selling of 1,239 shares based on collusive arrangements.

[8] Homac and One Other Stock Case (Insider trading)

Homac Corp. and Kahma Co., Ltd. decided to establish a jointly owned holding company, together with Daiki Co., Ltd., by means of share transfer, and announced this decision in July 2005.

The suspect was the president of the corporation which had entered into agreements with Homac Corp. and Kahma Co., Ltd. for drafting press releases on the aforesaid fact, and he came to know this important fact in the course of concluding said agreements. From May to June 2005 before disclosure of this fact, the suspect purchased 21,000 shares of Homac Corp. and Kahma Co., Ltd. in total at approximately 32.41 million yen.

[9] Homac Case (Insider trading)

Homac Corp. decided to conduct a share transfer to establish a jointly owned holding company together with Kahma Co., Ltd. and Daiki Co., Ltd., and announced this decision in July 2005.

The suspect learned this important fact from the president of Homac Corp. In July 2005 before disclosure of this fact, the suspect purchased the company's 35,000 shares at approximately 40.24 million yen.

[10] Ito En and 17 Other Stocks Case (Insider trading)

Ito En, Ltd. and 17 other companies decided to conduct share splitting, and announced such decisions respectively from April 2005 to March 2006.

The suspect A was an employee of the printing firm which had entered into agreements with the foregoing 18 companies for making notice of the board of directors' resolution on the share split by each such company, and he came to know these important facts in the course of performing his duties under these agreements.

(i) From September 2005 to January 2006 before disclosure of those facts, the suspect purchased 56,682 shares of Ito En, Ltd. and five other companies in total at approximately 410 million yen, in conspiracy with his spouse and her five relatives.

(ii) From December 2005 to March 2006 before disclosure of those facts, the suspect purchased 32,200 shares of Maxvalu Tokai Co., Ltd. and two other companies in total at approximately 130 million yen, in conspiracy with his spouse and her four relatives.

(iii) From April 2005 to March 2006 before disclosure of those facts, the suspect purchased 64,076 shares of Sanko Gosei Ltd. and five other companies in total at approximately 220 million yen, in conspiracy with his spouse and her three relatives.

(iv) From December 2005 to February 2006 before disclosure of those facts, the suspect purchased 6,812 shares of Asahi Kogyosha Co., Ltd. and two other companies in total at approximately 90 million yen, in conspiracy with his spouse.

[11] Kawakami Paint Case (Market manipulation)

From early April to mid-May in 2003, the two suspects carried out the conspiracy for Kawakami Paint Manufacturing Co., Ltd. shares as follows.

(i) In an attempt to raise the price of Kawakami Paint share and induce active trading of the share, the suspects manipulated the price of Kawakami Paint share. To be more precise, they conducted a series of transactions composed of the purchase of approximately 2.08 million shares in total and the sale of approximately 1.66 million shares in total, by such means as successively placing market orders or buy orders with price limit to drive up the share price, and they placed buy orders for approximately 7.5 million shares in total to hold up the lows, by such means as placing massive orders at lower prices. As a result, the share price surged from 214 yen to 517 yen.

(ii) With an aim of misleading other persons to believe that shares were being traded actively, the suspects conducted fictitious buying and selling of approximately 1.08 million shares in total with no intention to transfer the rights relevant to those shares.

[12] Kawakami Paint Case (Spreading information)

In an attempt to raise the price of Kawakami Paint share and induce active trading of the share, the suspect, who was one of the suspects in the Kawakami Paint case (market manipulation), spread a rumor that the share price could be fluctuating by the manipulation by the suspect or other persons. To be more precise, from January to May 2003, the suspect posted the textual data on electronic bulletin boards via the Internet to the effect that the price of Kawakami Paint share would be surging, to make such message accessible by the general public.

2. Recommendations for Issuance of Orders to Pay Administrative Civil Monetary Penalties

(1) Issuance of Recommendations

In Business Year 2006, the SESC made nine recommendations on unfair trading (six against individuals, and three against corporations) for the issuance of orders to pay administrative civil monetary penalties in the total amount of 76.33 million yen. Accordingly, since the introduction of the administrative civil monetary penalty system in April 2005, the SESC has issued 18 recommendations (14 against individuals and four against corporations) in the total amount of 81.87 million yen. The introduction of administrative civil monetary penalties system, combined with the system for filing of formal complaints, has enabled stricter surveillance of violations.

The recommendations made on unfair trading in Business Year 2006 were all related to insider trading, but their contents were wide-ranging.: The violations include the purchase of own shares by a listed company before disclosing an important fact (insider trading of Komatsu Ltd. shares and Otsuka Kagu, Ltd. shares). The objectives of civil monetary penalties include a listed company itself, an officer or employee of a listed company, an officer of a listed company's subsidiary, an employee of a listed company's business partner, and so on. Those important facts include the issue of new shares, downward adjustment of one's earnings forecast, dissolution of a subsidiary, merger, and so on. The amounts of civil monetary penalties imposed in Business Year 2006 also vary according to the each case, ranging from 40,000 yen to 43.78 million yen.

In the wake of these SESC's recommendations, many listed companies took proactive measures to prevent insider trading by such means as review or redesign of their in-house regulations.

(2) Outline of Recommendations Issued

The recommendations for issuance of orders to pay administrative civil monetary penalties in connection with unfair trading in Business Year 2006 were all related to insider trading (Article 175 of the SEL).

The amount of a civil monetary penalty for insider trading is computed pursuant to Article 175 of the SEL as follows.

- In the case where shares are purchased

(Closing price on the following day of announcement of important facts) × (Number of shares purchased)

− (Purchase price) × (Number of shares purchased)

- In the case where shares are sold:

(Sale price) × (Number of shares sold)

− (Closing price on the following day of announcement of important facts) × (Number of shares sold)

[1] Recommendation for issuance of order to pay administrative civil monetary penalty based on the results of investigation of insider trading of Pao Co., Ltd. shares

G. communication Co., Ltd. had a business alliance agreement with Pao Co., Ltd.. In the course of performing this agreement, an officer of G. communication Co., Ltd. came to know the fact that Pao Co., Ltd. decided to issue shares. On November 7, 2005 before the disclosure of this fact on January 6, 2006, this officer purchased 8,000 shares at 3.16 million yen for the account of G. communication Co., Ltd.

- Date of recommendation: September 14, 2006
- Penalty: 390,000 yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: September 14, 2006

Date of issuance of order to pay penalty: October 2, 2006

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[2] Recommendation for issuance of order to pay administrative civil monetary penalty based on the results of investigation of insider trading of Aloka Co., Ltd. shares

In the course of his job duties, an employee engaged in technological development at Aloka Co., Ltd. (the person X, who was ordered to pay penalty) came to know the fact that the company would revise its earnings forecast downward. On October 7 before the disclosure of this fact on October 18, 2005, the person X sold 3,000 shares at 2,508,000 yen.

An officer of the subsidiary A of Aloka Co., Ltd. (the person Y, who was ordered to pay civil monetary penalties) learned this important fact from an officer of Aloka Co., Ltd. On October 6 before the disclosure of this fact on October 18, 2005, the person Y sold 4,000 shares at 3,276,000 yen.

A then officer of the subsidiary B of Aloka Co., Ltd. (the person Z, who was ordered to pay civil monetary penalties) learned this important fact from an officer of Aloka Co., Ltd. On October 12 and 13 before the disclosure of this fact on October 18, 2005, the person Z sold 10,000 shares in total at 8,502,000 yen.

- Date of recommendation: December 8, 2006
- Penalty: Person X : 170,000 yen
  Person Y : 160,000 yen

Person Z : 730,000 yen

[3] Recommendation for issuance of order to pay administrative civil monetary penalty based on the results of investigation of insider trading of Japan Kenzai Co., Ltd. shares

In the course of his job duties, an employee engaged in accounting at Japan Kenzai Co., Ltd. came to know the fact that the company would revise its consolidated earnings forecast downward. Before the disclosure of this fact at 4:40 p.m. on May 8, 2006, the employee sold 1,100 shares at 980,600 yen.

- Date of recommendation: February 6, 2007
- Penalty: 40,000 yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: February 6, 2007
Date of issuance of order to pay penalty: February 26, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[4] Recommendation for issuance of order to pay administrative civil monetary penalty based on the results of investigation of insider trading of Komatsu Ltd. shares

In the course of his job duties, an executive officer of Komatsu Ltd. came to know the fact that the company's subsidiary, Komatsu Finance (Netherlands) B.V., decided to dissolve. From July 4 to 13 before the disclosure of this fact on July 13, 2005, this executive officer purchased 1,316,000 shares at 1,177,461,000 yen for the account of Komatsu Ltd.

- Date of recommendation: March 9, 2007
- Penalty: 43.78 million yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: March 9, 2007
Date of issuance of order to pay penalty: March 30, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[5] Recommendation for issuance of order to pay administrative civil monetary penalty based on the results of investigation of insider trading of Otsuka Kagu, Ltd. shares

In the course of his job duties, an officer of Otsuka Kagu, Ltd. came to know the fact that the company would revise its estimated amount of dividend. From February 10 to 22 before the disclosure of this fact on February 23, 2006, this officer purchased 79,000 shares at 332,955,000 yen for the account of Otsuka Kagu, Ltd.

- Date of recommendation: May 8, 2007
- Penalty: 30.44 million yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: May 8, 2007
Date of issuance of order to pay penalty: May 29, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[6] Recommendation for issuance of order to pay administrative civil monetary penalty based on the results of investigation of insider trading of Diamond Lease Company Limited shares

Diamond Lease Company Limited decided to merge with UFJ Central Leasing Co., Ltd. In relation to the negotiation and conclusion of a merger agreement between them, an employee of the counterparty of Diamond Lease Company Limited came to know this fact and purchased 200 shares at 982,000 yen on July 24, 2006 before the disclosure of this fact on October 19, 2006.
- Date of recommendation: June 15, 2007
- Penalty: 200,000 yen
- Process following recommendation
  Date of decision on the commencement of procedure for judgment: June 15, 2007
  Date of issuance of order to pay penalty: June 29, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[7] Recommendation for issuance of order to pay administrative civil monetary penalty based on the results of investigation of insider trading of UFJ Central Leasing Co., Ltd. shares

UFJ Central Leasing Co., Ltd. decided to merge with Diamond Lease Company Limited. In relation to the negotiation and conclusion of a merger agreement between them, an employee of the counterparty of UFJ Central Leasing Co., Ltd. came to know this fact and purchased 500 shares in total at 2,494,000 yen on September 21 and 25, 2006 before the disclosure of this fact on October 19, 2006.
- Date of recommendation: June 15, 2007
- Penalty: 420,000 yen
- Process following recommendation
  Date of decision on the commencement of procedure for judgment: June 15, 2007
  Date of issuance of order to pay penalty: June 29, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

5) Filing of Formal Complaints and Recommendations for Disclosure

1. Investigations of Criminal Cases and Filing of Formal Complaints

(1) Investigations of Criminal Cases

The formal complaint filed in connection with disclosure in Business Year 2006 is related to the suspected submission of false financial statements by Sanbishi Co., Ltd., and the SESC conducted compulsory investigation of the homes of the suspects and related offices.

(2) Filing of Formal Complaints

Based on the results of investigations of the suspected criminal case (the case of Sanbishi Co., Ltd. on a charge of the submission of false financial statements), the SESC filed one formal complaint involving three individuals with a public prosecutor on charges of violation of the SEL.

(3) Outline of Filed Complaints

◆Sanbishi Case (Submission of false financial statements)

The suspect A and the suspect B were the president and a director respectively of Sanbishi Co., Ltd., which was the suspected corporation. These suspects conspired to submit securities reports containing false entries concerning the company's business for three consecutive years from the year ended March 2003 to the year ended March 2005, such as

a description that the company had no consolidated subsidiary, even though it was not a truth.

2. Recommendations for Issuance of Orders to Pay Administrative Civil Monetary Penalties

(1) Issuance of Recommendations

In Business Year 2006, the SESC made the first recommendation for the issuance of order to pay administrative civil monetary penalty in relation to false disclosure documents. This first recommendation was issued in November 2006 for false statements in a securities report submitted by Higashinihonhouse Co., Ltd. In December 2006, the issuance of an order to pay administrative civil monetary penalty of 500 million yen was recommended in relation to false statements in a supplementary document to the securities registration statement submitted by Nikko Cordial Group, which was a record high penalty. In total, the SESC made five recommendations on false disclosure documents for the issuance of orders to pay administrative civil monetary penalties in the sum of 658,149,999 yen.

The recommendations made in relation to disclosures in Business Year 2006 cover wide-ranging contents. The false disclosure documents include disclosure documents for issuance of securities (securities registration statements, supplementary documents to securities registration statements) and continuous disclosure documents (securities reports, semi-annual reports). The types of false statements include understated allowance, transfer of cost of sales, exclusion of a sub-subsidiary from the scope of consolidation, deferral of loss, recording of fictitious sales, and so on.

(2) Outline of Recommendations Issued

The recommendations for issuance of orders to pay administrative civil monetary penalties made in relation to false disclosure statements in Business Year 2006 are related to false entries in disclosure documents for issuance of securities and in continuous disclosure documents.

Pursuant to Article 172 of the SEL, if disclosure documents for issuance of securities are found to contain false entries, the amount of a civil monetary penalty to be imposed is 1% of the total value of securities issued and acquired in the offering or the total value of securities sold in the selling (or 2% of the said total value, if securities are shares).

Pursuant to Article 172-2 of the SEL, if continuous disclosure documents are found to contain false entries, the amount of a civil monetary penalty to be imposed is three million yen or 0.003% of the total market value of the shares (or 0.0015%, if the continuous disclosure document is a semi-annual report), whichever is the greater.

(Note) Civil monetary penalties for continuous disclosure documents containing false entries as explained above are applied solely with regard to financial statements submitted on or after December 1, 2005. Regarding financial statements submitted on or before November 30, 2006 containing false entries, the amount of penalty imposed on violators satisfying some specified requirements, such as violators who have voluntarily submitted amended disclosure documents, is two million yen or 0.002% of the total market value of the shares, whichever is the greater (paragraph 2 of Article 5 of the Supplementary Provisions of the Law for Partial Revision of the Securities and Exchange Law, Law No. 76 of 2005).

[1] Recommendation for issuance of order to pay administrative civil monetary penalty in relation to a false security report submitted by Higashinihonhouse Co., Ltd.

Higashinihonhouse Co., Ltd. prepared a securities report for the year ended October 2005 containing false statements, and submitted it to the Director-General of the Kanto Local Finance Bureau on January 27, 2006. Although consolidated net assets should be approximately 3.4 billion yen, the company recorded the amount of approximately 3.8 billion yen in the equity section in the consolidated balance sheet (corresponding to the "consolidated net assets" section under latest legislation) through understatement of allowance for retirement benefits. In addition, although ordinary income should be approximately 1.5 billion yen, the company recorded the amount of approximately 2.2 billion yen in the consolidated profit and loss statement. These false financial statements were incorporated in the aforesaid securities report.

- Date of recommendation: November 22, 2006
- Penalty: 2 million yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: November 22, 2006

Date of issuance of order to pay penalty: December 6, 2006

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[2] Recommendation for issuance of order to pay administrative civil monetary penalty in relation to false securities registration statements submitted by TTG

By transferring cost of sales and some other means, TTG made the following arrangements.

(a) Although the truth was consolidated ordinary loss in the amount of 118 million yen (rounded down to the nearest million yen; this applies to the figures for consolidated net assets, excessive debts, and total equity corresponding to consolidated net assets, as respectively mentioned below), consolidated ordinary income of 204 million yen was recorded in the consolidated profit and loss statement, and regardless of 1,851 million yen of debts exceeding assets, 34 million yen of consolidated net assets was recorded in the equity section (corresponding to the "net assets" section under latest legislation) in the consolidated balance sheet. Then, these false financial statements were incorporated in the securities report for the year ended March 2005.

(b) Although consolidated net assets should be 481 million yen, the amount of 1,087 million yen was recorded in the equity section in the semi-annual consolidated balance sheet (corresponding to the "consolidated net assets" section under latest legislation). This false balance sheet was incorporated in the semi-annual report for the period ended September 2005. Then, the company caused its securities including shares to be acquired in the offering based on the statements listed below, all submitted to the Director-General of the Kanto Local Finance Bureau.

(i) The securities registration statement submitted on May 23, 2005 incorporating the security report for the year ended March 2005, and the amended report of the said statement submitted on June 29, 2005

(ii) The securities registration statement submitted on August 5, 2005 incorporating the security report for the year ended March 2005

(iii) The securities registration statement submitted on January 6, 2006 incorporating the security report for the year ended March 2005 and the semi-annual report for the period ended September 2005

(iv) The securities registration statement submitted on March 10, 2006 incorporating the security report for the year ended March 2005 and the semi-annual report for the period

ended September 2005

In addition, the company submitted the aforesaid semi-annual report for the period ended September 2005 to the Director-General of the Kanto Local Finance Bureau on December 26, 2005.

- Date of recommendation: December 6, 2006
- Penalty: 131.33 million yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: December 6, 2006

Date of issuance of order to pay penalty: December 27, 2006

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[3] Recommendation for issuance of order to pay administrative civil monetary penalty in relation to a false supplementary document to the securities registration statement submitted by Nikko Cordial Corporation.

For the purpose of false accounting, Nikko Cordial Corporation made the following arrangements.

(i) NPI Holdings Inc. (hereinafter "NPIH") was excluded from the scope of consolidation, even though it was wholly owned, and substantially controlled by, Nikko Principal Investments Japan Ltd. (hereinafter "NPI"), a subsidiary of Nikko Cordial Corporation.

(ii) Some accounting books and documents of NPI were created in such a way to record a false issue date for exchangeable bonds issued by NPIH and held by NPI and post evaluation gains from those bonds that could not be recognized in reality.

Although consolidated ordinary income should be 58,968 million yen (rounded down to the nearest million yen; this applies to consolidated ordinary income and consolidated net income, as respectively mentioned below) and consolidated net income should be 35,268 million yen, they were recorded in the amounts of 77,717 million yen and 46,935 million yen respectively in the consolidated profit and loss statement by the arrangements explained as above. This false consolidated profit and loss statement was incorporated in the security report for the year ended March 2005. On November 9, 2005, Nikko Cordial Corporation submitted to the Director-General of the Kanto Local Finance Bureau a supplementary document to the securities registration statement in which the aforesaid security report for the year ended March 2005 was incorporated by reference. In the public offering based on this supplementary document, Nikko Cordial Corporation caused the bonds in the total amount of 50 billion yen to be acquired on November 22, 2005.

- Date of recommendation: December 18, 2006
- Penalty: 500 million yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: December 18, 2006

Date of issuance of order to pay penalty: January 5, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[4] Recommendation for issuance of order to pay administrative civil monetary penalty in relation to a false semi-annual report, etc. submitted by A&I System Co., Ltd.

A&I System Co., Ltd. prepared a semi-annual report for the period ended September 2005 containing some false statements, and submitted it to the Director-General of the

Kanto Local Finance Bureau on December 21, 2005. Although the true figures were interim consolidated net loss of 524 million yen (rounded down to the nearest million yen; this applies to the figures for interim consolidated net income, consolidated net assets, and total equity in the semi-annual consolidated balance sheet, as respectively mentioned below) and consolidated net assets of 2,059 million yen, the company made loss deferral and thus recorded 116 million yen of net income in the semi-annual consolidated profit and loss statement, and 2,700 million yen of consolidated net assets in the equity section (corresponding to the "net assets" section under latest legislation) in the semi-annual consolidated balance sheet. These false financial statements were incorporated in the aforesaid semi-annual report.

On April 11, 2006, the company submitted a securities registration statement incorporating the aforesaid semi-annual report for the period ended September 2005 to the Director-General of the Kanto Local Finance Bureau. In the offering based on this registration statement, the company caused shares to be acquired on April 27, 2006.

- Date of recommendation: April 17, 2007
- Penalty: 22.59 million yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: April 17, 2007

Date of issuance of order to pay penalty: May 10, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[5] Recommendation for issuance of order to pay administrative civil monetary penalty in relation to false financial statements submitted by Nextware Ltd.

Nextware Ltd. prepared a semi-annual consolidated profit and loss statement containing some false entries. These false entries were created through recording fictitious sales. For one thing, net income of 4 million yen (rounded down to the nearest million yen; this applies to the figures for interim consolidated net income, consolidated net income, and consolidated net loss, as respectively mentioned below) was recorded, regardless of interim consolidated net loss of 160 million yen in reality. Then, the company incorporated this false profit and loss statement in the semi-annual report for the period ended September 2005, and submitted it to the Director-General of the Kinki Local Finance Bureau on December 22, 2005. In addition, the company prepared a consolidated profit and loss statement in which 88 million yen of net income was recorded, regardless of 456 million yen of consolidated net loss in reality, and incorporated this false profit and loss statement in the security report for the year ended March 2006 and submitted it to the Director-General of the Kinki Local Finance Bureau on June 30, 2006.

On January 10, 2006, the company submitted a securities registration statement incorporating the aforesaid semi-annual report for the period ended September 2005 to the Director-General of the Kinki Local Finance Bureau. In the offering based on this registration statement, the company caused stock options to be acquired on January 26, 2006.

- Date of recommendation: June 26, 2007
- Penalty: 2,229,999 yen
- Process following recommendation

Date of decision on the commencement of procedure for judgment: June 26, 2007

Date of issuance of order to pay penalty: July 13, 2007

Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

3. Recommendation for the Issuance of Order to Submit Amended Disclosure Documents

In Business Year 2006, the SESC made one recommendation for the issuance of an order to submit an amended report of the semi-annual report (paragraph 1 of Article 10 of the SEL as applied mutatis mutandis in paragraph 5 of Article 24-5 of the SEL) and an order to submit an amended report of the securities registration statement (paragraph 1 of Article 10 of the SEL).

◆Recommendation for issuance of orders to submit amended disclosure documents in relation to false entries in the semi-annual report, etc. submitted by TTG

In the semi-annual report for the period ended September 2005 submitted by TTG to the Director-General of the Kanto Local Finance Bureau on December 26, 2005, the semi-annual consolidated balance sheet containing some false entries was incorporated. Although consolidated net assets should be 481 million yen (rounded down to the nearest million yen; this applies to the figure for the equity section which corresponds to the "consolidated net assets" section under latest legislation, as mentioned below), the amount of 1,087 million yen was faked through transferring cost of sales and other means and it was recorded in the equity section (corresponding to the "consolidated net assets" section).

In addition, the aforesaid semi-annual report for the period ended September 2005 was incorporated in the securities registration statements submitted by TTG to the Director-General of the Kanto Local Finance Bureau on January 6, 2006 and March 10, 2006.

- Date of recommendation: December 6, 2006
- Process following recommendation: Before the issuance of the orders to submit amended reports of the semi-annual report, etc., such amended reports were submitted by the company on December 11, 2006 and accepted by the Director-General of the Kanto Local Finance Bureau.

2. Inspections of Securities Companies and Other Entities

1) Outline

The SESC conducts inspection, principally on-site inspections, of securities companies and others entities based on the authority delegated by the Prime Minister and the Commissioner of the FSA under the SEL and other laws, to check their compliance with rules and regulations for ensuring fairness in securities trading and financial futures trading and their financial soundness.

Since its inception in 1992, the SESC had always conducted inspections to ensure fairness in trading. However, since July 2005 when the SEL and other laws as revised with a view to reinforcing market monitoring functions came into force, the scope and objects of inspection by the SESC have been significantly expanded. Specifically, the authority to inspect financial solvency of securities companies, financial futures companies, and others and the authority to inspect investment trust companies and others are now delegated to the SESC, while such inspections used to be conducted by the Inspection Bureau of the FSA. At the same time, the SESC's scope of inspection of financial futures companies is also expanded in such a way that companies dealing with foreign exchange margin transactions are newly included in the category of financial futures companies under the revised Financial Futures Trading Law (FFTL).

Also the SESC's inspection based on the authority delegated by the Prime Minister and the Commissioner of the FSA under the Personal Identity Verification Law (PIVL) is carried out.

This inspection is intended to urge the inspected companies to improve appropriate customer management systems, for the purpose of preventing these companies from being utilized for money laundering and other crimes.

The SESC delegates its authority to conduct inspections and collect reports and materials, in part, to the Local Finance Bureaus' Director-Generals, etc. (Where needed, the SESC may exercise such authority by itself.)

Based on the results of these inspections, the SESC may recommend the Prime Minster and the Commissioner of the FSA to take administrative disciplinary actions in order to ensure fairness in securities and financial futures trading, protect investors, and secure other public interests.

Based on the recommendation issued by the SESC for administrative disciplinary actions, the Prime Minster, the Commissioner of the FSA, the Director-General of the Local Finance Bureau, or any other competent authority having the supervisory power over the inspected company in question holds a hearing from the inspected company. If it is determined as being reasonable to do so as a result of such hearing, they take an administrative disciplinary action against the inspected company, such as revocation of registration, or issuance of an order for suspension of business or business improvement.

When the SESC recommends that appropriate measures be taken against a sales representative of a securities company, etc. (which means a securities company, a foreign securities firm, a registered financial institution, or a sales agent for securities companies; this definition applies hereinafter in this Part 2) or a sales representative of a financial futures company, Japan Securities Dealers Association (JSDA) or any other similar organ holds hearings from members of the association to which the concerned sales representative belongs, or from any other persons, in accordance with the recommendation made by the SESC. If it is determined as being reasonable to do so as a result of such hearing, JSDA or

the relevant organ as aforesaid takes a disciplinary action against the sales representative, such as revocation of registration as sales representative, or suspension of performance of duties. This is because the authority to handle affairs concerning the registration of sales representatives is delegated from the Prime Minister to JSDA and other similar organs.

2) Basic Inspection Policy and Basic Inspection Plan

Affairs concerning inspections by the SESC are operated with a cycle of the business year starting on July 1 of each calendar year and ending on June 30 of the subsequent calendar year, which coincides with the business year applicable to the SESC's entire operations.

In order to manage and implement inspections systematically, the SESC and the Director-Generals of the Local Finance Bureaus formulate a basic inspection policy and a basic inspection plan every business year.

A basic inspection policy provides for priority items and other basic matters for inspections for the concerned business year, and a basic inspection plan specifies the number and the categories of companies to be inspected during the business year.

3) Results of Inspections

In Business Year 2006, the SESC commenced inspections of 78 domestic securities companies, 9 foreign securities firms, 27 registered financial institutions, 1 sales agent for securities companies, 12 financial futures companies, 58 companies categorized as investment trust companies or investment advisory companies, 6 self-regulatory organizations, and 1 more company.

4) Outline of Inspection Results

1. Inspections of Securities Companies, etc.

In Business Year 2006, inspections of 132 securities companies, etc. (excluding branch inspections) were completed and problems were found in 84 of them. These problems are related to unfair trading in 18 companies, investor protection in 41 companies, financial soundness or accounting in 17 companies, and other business operations in 51 companies. (The number of the inspections completed and the number of the problematic cases were counted based on the classification according to the mainstream businesses of the respective companies inspected. When a company was found to have a problem in its non-mainstream business, such a problem was classified based on that business category. In addition, the total number of the problematic cases for the respective categories of problems is not equal to the total number of the companies for which problems were found. This is because the problems of multiple categories found in one company were recorded for the concerned categories respectively. (The problems for which the SESC made recommendations are detailed in Subsection 1 of Section 5 of this Part 2 entitled "Recommendations Based on the Results of Inspections of Securities Companies, etc." Regarding other problems for which no recommendation was issued, the SESC notified the concerned companies of the detected problems.)

2. Inspections of Financial Futures Companies

In Business Year 2006, inspections of 12 financial futures companies were completed and problems were found in all of them. These problems are related to unfair trading in one company, investor protection in 8 companies, financial soundness or accounting in 7

companies, and other business operations in 9 companies. (The problems for which the SESC made recommendations are detailed in Subsection 2 of Section 5 of this Part 2 entitled "Recommendations Based on the Results of Inspections of Financial Futures Companies.")

3. Inspections of Investment Trust Companies, Investment Advisory Companies, etc.

In Business Year 2006, inspections of 58 companies falling under categorized as investment trust companies, investment advisory companies, etc. were completed and problems were found in 39 of them. These problems are related to unfair trading in 1 company, investor protection in 25 companies, financial soundness or accounting in 1 company, and other business operations in 34 companies. (The problems for which the SESC made recommendations are detailed in Subsection 3 of Section 5 of this Part 2 entitled "Recommendations Based on the Results of Inspections of Investment Trust Companies, Investment Advisory Companies, etc.")

4. Inspections of Self-regulatory Organizations

In Business Year 2006, inspections of 7 self-regulatory organizations were completed and problems were found in all of them. (The problems for which the SESC made recommendations are detailed in Subsection 4 of Section 5 of this Part 2 entitled "Recommendations Based on the Results of Inspections of Self-regulatory organizations.")

5) Recommendations Based on Inspections of Securities Companies and Other Entities

1. Recommendations Based on the Results of Inspections of Securities Companies, etc.

[1] Solicitation of acquisition of unregistered deemed securities in an offering (Violation of paragraph 1 of Article 15 of the SEL)

* From February 1 to March 31, 2006, **Nippon First Securities Co., Ltd.** (the "Company") conducted solicitation to encourage subscription for the rights under anonymous partnership agreements as specified in item 3 of paragraph 2 of Article 2 of the SEL that are deemed to fall under securities pursuant to the same paragraph (hereinafter "Deemed Securities").

Since the issuer of the Deemed Securities intended to conduct a private offering targeting a small group of investors, the issuer had not made a registration with the Prime Minister as specified in paragraph 1 of Article 4 of the SEL with regard to the Deemed Securities. However, in the course of his job duties, the former general manager of the president's office of the Company (taking office as an executive officer concurrently serving as the division director of the business planning division in July 2006) instructed sales representatives of the Nagoya branch and the Osaka branch to conduct solicitation. In accordance with this instruction, the sales representatives solicited at least 95 individual customers to acquire the Deemed Securities, by making visits and delivering brochures stating detailed explanations about the specification of the products and the procedure for subscription. In the end, these two branches caused 15 customers in total to acquire 27 units of the Deemed Securities, and received 27 million yen from them in consideration of such acquisition.

- Date of recommendation: December 22, 2006
- Target(s) of recommendation:The Company and one sales representative
- Administrative disciplinary action(s):

(i) Order for suspension of business

(ii) Order for business improvement

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case [2] in Subsection 2 of this Section 5, "Conclusion of discretionary account agreements," the case [3] in the same subsection, "Solicitation of conclusion of brokering agreements by making visits or phone calls to customers who have not requested such solicitation," and the case [4] in the same subsection, "Continued solicitation of customers who have indicated that they have no intention of entering into brokering agreements."

- Disciplinary action(s) imposed on the sales representative(s):
  The former general manager of the president's office: Suspension of performance of duties for four weeks

[2] Conclusion of a discretionary account agreement (Violation of item 5, paragraph 1 of Article 42 of the SEL)

* On December 25, 2003 and April 27 and 28, 2004, a commissioned sales representative of the equity business division of **Japan Asia Securities Co., Ltd.** (the "Company") entered into agreements concerning acceptance of transactions of shares with some customers in the course of his job duties. Under these agreements, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, kinds of stocks, the number of shares of each stock, and the buying or selling price, without obtaining approval from the concerned customer for each such contract. Based on these agreements, this commissioned sales representative executed contracts for trading shares from December 26, 2003 to March 17, 2006.

- Date of recommendation: October 20, 2006
- Target(s) of recommendation:The Company and one sales representative
- Administrative disciplinary action(s):Order for business improvement
- Disciplinary action(s) imposed on the sales representative(s):
  The commissioned sales representative of the equity business division: Suspension of performance of duties for eight weeks

[3] Buying or selling of listed securities for the purpose of making their prices fluctuate (Violation of item 9, paragraph 1 of Article 42 of the SEL)

* From September 13, 2005 to February 1, 2006, a trader of the Osaka stock and bond dealing division of **Eiwa Securities Co., Ltd.** (the "Company") placed orders eight times for buying or selling of shares of five listed stocks for the Company's own account, in the course of his job duties, with no intention to execute those contracts, for the purpose of fluctuating the share prices to make transactions to his advantage.

- Date of recommendation: May 22, 2007
- Target(s) of recommendation:The Company and one sales representative
- Administrative disciplinary action(s):Order for business improvement
- Disciplinary action(s) imposed on the sales representative(s):Not yet decided

[4] False representation or misleading representation of important matters in connection with securities transactions and other transactions (Violation of item 1, Article 4 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 10, paragraph 1 of Article 42 of the SEL)

* In soliciting 10 customers to purchase certain structured bonds (for 13 purchase contracts) from October 2005 to April 2006, the director of the asset management department 1 at the Kyoto branch of **Nomura Securities Co., Ltd.** (the "Company") made a false representation or misleading explanation in connection with the important matter that this

bond had a possible risk of loss of principal invested.
- Date of recommendation: February 19, 2007
- Target(s) of recommendation:One sales representative
- Disciplinary action(s) imposed on the sales representative(s):
  Director of the asset management department 1: Suspension of performance of duties for three weeks

[5] Transactions of securities by a securities company's employee with the aim of pursuing speculative profits (Violation of item 5, Article 4 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 10, paragraph 1 of Article 42 of the SEL)

* On November 14, 2003, the director of the sales division 3 of **KOBE Securities Co., Ltd.** (the "Company") opened a securities transaction account with the Company under the name of a company with limited liability for which his spouse served as a sole director. From November 17, 2003 to June 14, 2005, he conducted transactions of shares solely for the purpose of pursuing speculative profits by utilizing this account, deciding the stocks, the number of shares, the share prices, and whether to buy or sell shares, and placing the orders based on such decisions with a person in charge of acceptance of orders in the Company.
- Date of recommendation: December 19, 2006
- Target(s) of recommendation:One sales representative
- Disciplinary action(s) imposed on the sales representative(s):Not yet decided

[6] Acceptance of buy and sell orders for securities from a customer while being aware of the likelihood of insider trading (Violation of item 8, Article 4 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 10, paragraph 1 of Article 42 of the SEL)

* The deputy department director A in charge of investment banking at the Himeji branch of **Daiwa Securities Co. Ltd.** (the "Company") accepted orders from an officer of the company B on October 4 and 6, 2005 with regard to two purchase contracts for 1500 shares of the company B in total for the account under the name of the company C which had been opened with the Himeji branch. Due to the situations explained below, the deputy department director A became aware, in the course of his job duties, that the execution of those contracts was part of the insider trading of the company B shares attempted by the company B and its officer and might constitute a violation of paragraph 1 of Article 166 of the SEL. Nevertheless, the aforesaid orders were accepted without collecting written indent orders and taking other necessary steps.

(i) In light of the process of opening an account under the name of the company C and other circumstances, the deputy department director A suspected that the real account holder might be the company B's officer by using a name-lending scheme.
(ii) When receiving the buy order, the deputy department director A was aware of an undisclosed important fact that the company B intended to conduct a share split.
(iii) The deputy department director A suspected that the buy orders had been instructed by the company B's officer, and recognized that the orders had been placed by the company B's another officer.

- Date of recommendation: November 22, 2006
- Target(s) of recommendation:The Company and one sales representative
- Administrative disciplinary action(s):

(i) Suspension from accepting buy and sell orders for such securities as regulated by Article 166 of the SEL at the Himeji branch for two days

(ii) Order for business improvement and correction order
(Note) These administrative disciplinary actions were intended not only for this case, but also for the case [9], "Insufficient management of securities transactions by a customer in terms of the prevention of unfair trading associated with some corporate information," and the case [14], "Acceptance of buy and sell orders for securities from a customer without verifying the identity of the customer under the PIVL."
- Disciplinary action(s) imposed on the sales representative(s):
The deputy department director A in charge of investment banking: Suspension of performance of duties for eight weeks

[7] Transactions of securities for one's own account based on some corporate information (Violation of item 10, Article 4 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 10, paragraph 1 of Article 42 of the SEL)
* On July 28, 2005, the managing director of **Mitsubishi UFJ Securities Co., Ltd.** (the "Company") came to know the undisclosed corporate information that the company A was considering to purchase 5% or more of the company B shares issued and outstanding (hereinafter the "Information") in the course of his job duties. On the same day, the Company purchased the company B shares for its own account in accordance with this managing director's instruction and based on this Information.
- Date of recommendation: January 29, 2007
- Target(s) of recommendation:The Company
- Administrative disciplinary action(s):Order for business improvement

[8] Underwriting at an extremely inappropriate price (Violation of item 3, Article 10 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 2, Article 43 of the SEL)
* The general manager of the IPO division of **H.S. Securities Co., Ltd.** (the "Company") was taking the leadership of negotiations with the company A in relation to the company A's initial public offering and the underwriting of the company A shares by the Company as a lead manager. (With regard to this underwriting, the person of the pre-underwriting examination division who had formerly been engaged in the work related to the underwriting was excluded from the procedures for examination for underwriting in accordance with the intention of the company A's president, and it was found that the aforesaid general manager conducted the examination for underwriting virtually on his own and controlled negotiations with the company A on the offer price, the total offering value, and so on.) The company A's president asserted: "I think the reasonable offer price should be calculated based on the total market value of 10 billion yen," "since the Company has previously proposed a higher offer price, we cannot accept any lower price," and "the offer price must, at least, be greater than the exercise price of stock options that had already issued by us." Meanwhile, the aforesaid general manager considered it inadvisable to decline to act as a lead underwriter in this phase in order to establish the company's track record of underwriting, and attempted to hold on to the position as a lead underwriter for the company A's initial public offering. Therefore, when setting the expected offer price (issue price) to be described in the securities registration statement prepared for disclosure for the public offering, the general manager agreed to set the expected offer price (issue price) at a price that was remarkably higher than the theoretical price of the company A share calculated by the Company, and slightly higher than the exercise price of stock options that had already issued by the company A. In this regard, it is at least considered that the theoretical price above mentioned was not an unreasonably low price,

because the amount of estimated earnings per share (estimated EPS) used for the calculation of the theoretical price was based on the profit plan for which the adequacy of the calculation bases had not been sufficiently verified by the Company in the course of its examination for underwriting.

Subsequently, in the pre-hearing procedure conducted by the Company jointly with the company A, institutional investors proposed their desirable offer price. However, this proposed offer price was derived from the expected offer price estimated by the Company and driven higher than this estimated price, and thus the provisional terms and conditions for book building determined based on the result of the pre-hearing were considered to be set at a higher price band. Under these circumstances, the Company's board of directors adopted a resolution to underwrite the public offering of the company A shares at an issue price extremely higher than the aforesaid theoretical price, and then carried out such underwriting.

- Date of recommendation: March 23, 2007
- Target(s) of recommendation:The Company and one sales representative
- Administrative disciplinary action(s):Order for business improvement
- Disciplinary action(s) imposed on the sales representative(s):Not yet decided

[9] Insufficient management of securities transactions by a customer in terms of the prevention of unfair trading associated with some corporate information (Violation of item 4, Article 10 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 2, Article 43 of the SEL)

* As already explained in the case [6], the deputy department director A in charge of investment banking at the Himeji branch of **Daiwa Securities Co. Ltd.** (the "Company") accepted orders for securities transactions from a customer, while being aware of the likelihood of insider trading in the course of his job duties. The Himeji branch manager D (in office from April 2001 to December 2004) and his successor, the branch manager E (in office from December 2004 to March 2006), continued their job duties at the branch without taking sufficient measures to prevent insider trading, as more specifically explained below.

(1) The branch manager D failed to take sufficient measures to prevent insider trading in the course of his job duties, as detailed below.

(a) According to an in-house instruction in relation to the Company's business practice, a person in charge of investment banking was prohibited from engaging in acceptance of orders for securities transactions in principle. Nevertheless, the branch manager D instructed and allowed the deputy department director A to handle orders for transactions for the account under the name of the company C.

(b) In recognition that transactions of the company B shares for the company C's account should be carefully handled in terms of insider trading and so forth, the branch manager D instructed the deputy department director A to take precautions against insider trading and so forth, but did not give any similar instruction to the internal control manager and other related persons of the Himeji branch. In addition, the branch manager D himself did not check transactions of the company B shares for the aforesaid account.

(2) In the course of his job duties, the branch manager E was aware that the company C was a customer introduced by the company B and purchased the company B shares continuously, that the deputy department director A handled acceptance of buy and sell orders for the company C's account, and that the important fact as described in item (ii) in the case [6] existed. Nevertheless, the branch manager E did not take sufficient measures to prevent insider trading.

- Target(s) of recommendation:The Company and two sales representatives
- Disciplinary action(s) imposed on the sales representative(s):

Branch manager D: Suspension of performance of duties for eight weeks
Branch manager E: Suspension of performance of duties for eight weeks

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [6], "Acceptance of buy and sell orders for securities from a customer while being aware of the likelihood of insider trading."

[10] Insufficient management of electronic information processing systems for securities business (Application of item 11, Article 10 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 2, Article 43 of the SEL)

* (1) Failure to take appropriate measures for recurrence prevention

On November 16, 2005, **Rakuten Securities, Inc.** (the "Company") received an order for business improvement from the Commissioner of the FSA on the ground that the Company was determined as being in a "condition wherein the management of electronic information processing systems for securities business is considered to be insufficient." In accordance with this order, the Company submitted a report based on the order for business improvement under paragraph 1 of Article 56 of the SEL to the Commissioner of the FSA on December 15, 2005, and made a commitment to implement remedial measures to prevent system failures. In the end, the Company submitted a report on measures for the reinforcement of systems to the Commissioner of the FSA on May 19, 2006, and reported the completion of the remedial measures explained in the former report.

Even after this, however, the Company still caused system failures including those affecting all customers or the customers utilizing specific services, and thus the Company remained in a condition wherein its management to prevent system failures was considered to be insufficient, as more specifically described below.

Firstly, although the Company should have conducted review for quality management as part of its measures for recurrence prevention since system failures had occurred due to insufficient review for quality management, the Company failed to do so, and consequentially caused system failures again.

Secondly, although the Company should have reinforced its operational management systems including capacity control, the Company was considered to have failed to carry out such reinforcement to ensure stable operation of systems, as was seen in the subsequent occurrence of system failures due to battery shortage.

Thirdly, although the Company should have stored information about system failures and investigated their causes, the Company's response in this respect was found to be insufficient. For example, the Company did not create a system failure report for each incident that could be utilized for recurrence prevention. Even though some reports were created, the Company did not compile such reports completely in a specified book to comprehensively manage all system failures and their responsive measures.

(2) Insufficient systems for controlling IT risks

In connection with the facts described in (1) above, the Company's systems for controlling IT risks were found to be insufficient in the following respects.

Firstly, the system for reporting information about IT risks to the management was not considered to be appropriate. For example, the Company did not create system failure reports for all incidents exhaustively, and did not report some incidents to the management.

Secondly, the system for controlling IT risks was not reviewed in respect of important factors and was incapable of maintaining its effectiveness. For example,

the system for conducting review for quality management and the power management system for ensuring stable power supply remained unimproved, and thus system failures still occurred.

Thirdly, the Company was not considered to have taken appropriate steps to avoid confusion among customers upon the occurrence of a system failure. For one thing, when a delay of the ending time of the batch processing resulted in suspension of acceptance of orders from customers, the Company did not disclose necessary information to customers.

- Date of recommendation: June 5, 2007
- Target(s) of recommendation:The Company
- Administrative disciplinary action(s):Order for business improvement

[11] Refusal and recusal of inspection (Violation of paragraph 1 of Article 59 of the SEL)

* (1) Refusal of inspection by the president

When the president of **Tokyo Principal Securities Co., Ltd.** (currently known as Tokyo Principal Securities Holdings Ltd.; the "Company") received a notice of inspection pursuant to the SEL, the FFTL and the PIVL from the inspectors of the SESC on January 11, 2007 (Thursday), he told the inspectors that the Company was unable to cooperate on that day, and refused to undergo such inspection. While the chief inspector continued to persuade the president, he still continued to refuse inspection and the inspectors had no choice but to leave the Company's office.

Subsequently, the Company dispatched a notice of discontinuation of securities business to the Director-General of the Kanto Local Finance Bureau without carrying out public notice and other statutory procedures, by declaring that the discontinuation had been resolved by an extraordinary shareholders meeting on January 11, 2007. (This notice arrived on January 12, 2007).

On January 12 (Friday), the SESC inspectors visited the Company's office again, but they found a bill for announcing business suspension at the front of the Company's office, and they were unable to commence inspection. (This suspension had not been communicated to the inspectors in their previous day's visit to the Company.)

The next week, the SESC inspectors made the third visit to the Company's office for inspection on January 15 (Monday), but the president refused to undergo inspection because of absence of persons in charge. The chief inspector continued to persuade the president, but the president still continued to refuse the inspection and the inspectors were forced to leave the Company's office.

In this way, the SESC's inspectors remain unable to start inspection until January 15, 2007 (Monday).

The next day, the inspectors made the fourth visit to the Company's office on January 16 (Tuesday) and notified the Company of the commencement of inspection. Since the president told them to cooperate this time, the inspectors started inspection.

(2) Recusal of inspection by a corporate auditor

Under such circumstances as stated in (1) above, the corporate auditor of the Company cut out some documents concerning the Company's securities business, by using a paper shredder placed in the Company's office, on January 13, 2007 (Saturday).

- Date of recommendation: May 9, 2007
- Target(s) of recommendation:The Company
- Administrative disciplinary action(s):

(i) Regarding securities business, the Company was ordered to: (a) take measures in

accordance with the order for business improvement dated January 12, 2007 for the time being, and obtain approval from the relevant authorities whenever intending to dispose of any asset of the Company; and (b) if receiving a statement from a customer to the effect that his/her transactions with the Company in relation to its securities business had not yet been completed, report its contents to the relevant authorities.

(ii) Regarding financial futures business, the Company was ordered to report the contents of a customer's statement to the relevant authorities, if the Company received the statement that the customer's transactions with the Company in relation to its financial futures business had not yet been completed.

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case [6] in the next Subsection 2 of this Section 5, "Refusal of inspection."

[12] Allocation of new listed shares to customers to whom the company is prohibited from allocation under its in-house rules (Application of item 2 (an extremely inappropriate act conducted by a sales representative in the course of his job duties), paragraph 1 of Article 64-5 of the SEL)

* In March 2004, the then president of **KOBE Securities Co., Ltd.** (the "Company") instructed the Company's sales representative in charge of a customer who was a sister of the president's spouse to allocate 10 shares (which was the upper limit of the number of shares allocatable to one person under the Company's rules) of a new listed company to her, and thus caused her to acquire such 10 shares, even though the Company was prohibited from allocation to the president's relatives under its in-house rules. In this regard, the Company had been engaged in the initial public offering of the aforesaid company as a lead underwriter. Likewise, in March 2004, the president instructed the Company's sales representative in charge of a customer who was the father of the president's spouse to allocate 10 shares of such new listed stock, and thus caused him to acquire such 10 shares.

- Target(s) of recommendation:One sales representative
- Disciplinary action(s) imposed on the sales representative(s):Not yet decided

(Note) Regarding the date of recommendation, refer to the case [5], "Transactions of securities by a securities company's employee with the aim of pursuing speculative profits."

[13] Conclusion of a discretionary account agreement for investment trust (Application of item 2 (an extremely inappropriate act conducted by a sales representative in the course of his job duties), paragraph 1 of Article 64-5 of the SEL as applied mutatis mutandis pursuant to paragraph 5 of Article 65-2 of the SEL)

* On July 5, 2005, the deputy department director of the Tenjincho branch of **The Bank of Fukuoka, Ltd.** (the "Company") entered into an agreement with a customer in relation to acceptance of transactions for beneficiary certificates of securities investment trust. Under this agreement, the Company was authorized to determine all conditions of each contract, such as whether to acquire or sell such beneficiary certificates, kinds of beneficiary certificates, and the number for each kind of beneficiary certificates, without obtaining approval from the customer for each such contract. Based on this agreement, the deputy department director executed contracts relevant to some beneficiary certificates of securities investment trust from July 5, 2005 to January 6, 2006.

- Date of recommendation: May 11, 2007
- Target(s) of recommendation:One sales representative
- Disciplinary action(s) imposed on the sales representative(s):Not yet decided

[14] Acceptance of buy and sell orders for securities from a customer without verifying the identity of the customer under the PIVL (Violation of paragraph 1 of Article 3 of the PIVL)

* As already explained in item (i) in the case [6], the deputy department director A in charge of investment banking at the Himeji branch of **Daiwa Securities Co. Ltd.** (the "Company") suspected, in the course of his job duties, that the company B's officer might be a real holder of the account under the name of the company C by using a name-lending scheme. Nevertheless, he carried out the identity verification procedure for this account as a mere formality and failed to conduct the identity verification pursuant to the PIVL.

- Target(s) of recommendation:
  The Company and one sales representative

(Note) Regarding the date of recommendation, the administrative disciplinary action(s), and the disciplinary action(s) imposed on the sales representative(s), refer to the case [6], "Acceptance of buy and sell orders for securities from a customer while being aware of the likelihood of insider trading."

2. Recommendations Based on the Results of Inspections of Financial Futures Companies

[1] Failure to represent matters which should be represented in advertisement (Violation of item 2, Article 13 of the FFTL Enforcement Order under items 1 through 4, and item 5, Article 68 of the FFTL)

* From March 31 to October 1, 2006, the executive officer concurrently serving as the general manager of the Internet planning division of **Retela Crea Securities Co., Ltd.** (the "Company") placed advertisements of the Company's financial futures business, in the course of his job duties, through approximately 58,000 direct mails and 6 other types of media. However, he failed to represent the matters which should have been represented under Article 68 of the FFTL in such advertising.

- Date of recommendation: February 9, 2007
- Target(s) of recommendation:The Company and one sales representative
- Administrative disciplinary action(s):Order for business improvement
- Disciplinary action(s) imposed on the sales representative(s):
  Executive officer concurrently serving as the general manager of the Internet planning division: Suspension of performance of duties for three weeks

[2] Conclusion of discretionary account agreements (Violation of item 3 of Article 76 of the FFTL)

* From July 1, 2005 to March 17, 2006, **Nippon First Securities Co., Ltd.** (the "Company") entered into agreements concerning acceptance of foreign exchange margin transactions with 26 customers. Under these agreements, the Company was authorized to determine the conditions of each foreign exchange margin contract such as the currency, the trading volume, the contract figure, and whether to buy or sell the currency, and whether to make early settlement for any contract executed, without obtaining approval from the customer for each such instance. Based on these agreements, the Company executed foreign exchange margin contracts from July 1, 2005 to April 28, 2006.

- Target(s) of recommendation:The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [1] in Subsection 1 of this Section 5, "Solicitation of acquisition of unregistered deemed securities in an offering."

[3] Solicitation of conclusion of brokering agreements by making visits or phone calls to customers who have not requested such solicitation (Violation of item 4, Article 76 of the FFTL)

* From August 25, 2005 to March 13, 2006, **Nippon First Securities Co., Ltd.** (the "Company") solicited conclusion of brokering agreements specifying the conditions for acceptance of foreign exchange margin transactions by making visits or phone calls to 16 customers who had not requested such solicitation.

- Target(s) of recommendation:The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [1] in Subsection 1 of this Section 5, "Solicitation of acquisition of unregistered deemed securities in an offering."

* In January 2006, the president of **Inter Prast Co., Ltd.** (the "Company") conferred with the managing director concurrently serving as the division director of the management and administration division and some other individuals in relation to the Company's business. In this conference, they decided to launch brokering service for foreign exchange margin transactions leveraged one-fold from February 1, 2006, with an aim of achieving profit increase. For this purpose, they further decided to acquire new customers for such newly launched foreign exchange margin transactions, by soliciting general customers who had not requested solicitation of brokering agreements specifying the conditions for acceptance of financial futures transactions.

In accordance with these decisions, the director concurrently serving as the division director of the sales division of the Company instructed sales representatives in charge of acquisition of new customers, in the course of his job duties, to make calls to individuals to be selected at random from telephone books and explain the Company's profile and the details of the intended transactions to such individuals. On top of that, this director told these sales representatives that they might opt to explain the contents of foreign exchange margin transactions leveraged around 10-folds, instead of those leveraged one-fold, when providing explanation to prospective customers. In this way, the aforesaid director caused the sales representatives to solicit general customers who had not requested such solicitation from February 1 to October 12, 2006, in order to persuade them to enter into brokering agreements.

- Date of recommendation: February 9, 2007
- Target(s) of recommendation:The Company and two sales representatives
- Administrative disciplinary action(s):

(i) Suspension of all services for financial futures business for one month

(ii) Order for business improvement

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case [4], "Continued solicitation of customers who have indicated that they have no intention of entering into brokering agreements," and the case [5], "Provision of financial benefits to compensate for part of a customer's loss arising from financial futures transactions."

- Disciplinary action(s) imposed on the sales representative(s):

President: Revocation of registration as a sales representative

Director concurrently serving as the division director of the sales division: Suspension of performance of duties for two years

* On July 1, 2005 and later, the general manager of the Osaka foreign exchange trading division of **Ace Koeki Co., Ltd.** (the "Company") instructed the sales representatives of the departments 1 and 2 of this division, in the course of his job duties, to solicit general

customers who had not requested such solicitation to enter into brokering agreements, etc. specifying the conditions for acceptance of orders for foreign exchange margin transactions (hereinafter collectively "brokering agreements").

In accordance with this instruction, the chief and two other sales representatives of the department 1 and the chief and two other sales representatives of the department 2 solicited conclusion of brokering agreements, in the course of their job duties, by making phone calls to 109 general customers who had not requested such solicitation from July 1, 2005 to November 20, 2006.

In addition, the general manager of the head office's foreign exchange trading division 1 provided a similar instruction to the sales representatives of the department 1 of this division, in the course of his job duties, on July 1, 2005 and later. In accordance with this instruction, the unit chief and one other sales representative of this department solicited conclusion of brokering agreements, in the course of their job duties, by making phone calls to eight general customers who had not requested such solicitation from July 8, 2005 to June 7, 2006.

Such unrequested solicitation was conducted by the head office's foreign exchange trading division 2 as well. From August 2005 to the end of October 2006, the senior sales representative and three other sales representatives of the department 2 of this division solicited conclusion of brokering agreements, in the course of their job duties, by making phone calls to eight general customers who had not requested such solicitation.

- Date of recommendation: June 20, 2007
- Target(s) of recommendation:The Company and 13 sales representatives
- Administrative disciplinary action(s):

(i) Suspension of services for solicitation of new customers and establishment of new accounts in relation to financial futures transactions at all offices for one month

(ii) Order for business improvement

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case [4], "Continued solicitation of customers who have indicated that they have no intention of entering into brokering agreements."

- Disciplinary action(s) imposed on the sales representative(s):Not yet decided

* (1) Unrequested solicitation by the division director of the sales division at the head office

Around March 31, 2006, the division director of the sales division at the head office of **Asahi Universal FX Co., Ltd.** (the "Company") instructed a senior sales representative of the head office's sales division, in the course of his job duties, to utilize a list of customers and solicit conclusion of brokering agreements specifying the conditions for acceptance of financial futures transactions by making phone calls to customers. This list was a list of customers who were expected to restart transactions or newly start transactions, composed of the customers who had executed some transactions in the past and currently had no outstanding deposits in the Company, and the customers who had opened their accounts with the Company but had not yet conducted any transaction. However, this list was created without confirming those customers' past transaction records.

In accordance with the aforesaid instruction, the senior sales representative of the sales division solicited six general customers to enter into brokering agreements on April 4 and 11 and May 17, 2006 respectively, in the course of his job duties, even though those customers had not requested such solicitation of conclusion of brokering agreements and they did not fall under the category of "customers with whom a financial futures company has continuous transactional relationship (customers who have executed two or more financial futures contracts for the period of one year prior to the date of solicitation, or

have any unsettled financial futures contracts as of the date of solicitation)" as specified in item 1, paragraph 6 of Article 23 of the FFTL Enforcement Ordinance pursuant to Article 76 of the FFTL.

(2) Unrequested solicitation by former deputy director of the sales division at the head office

From January to June 2006, the then deputy director of the sales division at the head office (assigned as a deputy director of the sales division at the Nagoya branch from July 2006) of **Asahi Universal FX Co., Ltd.** (the "Company") solicited conclusion of brokering agreements, in the course of his job duties, by making visits or phone calls to six general customers who had not requested such solicitation. This solicitation was conducted by utilizing a customer notebook, etc. that he had once used for marketing of commodity futures trading when he had worked for a commodity futures company (hereinafter the "previous company").

In addition, this deputy director learned from a sales representative of the previous company that some of its customers were interested in over-the-counter financial futures transactions, and obtained their phone numbers from that sales representative. In March and July 2006, the deputy director solicited conclusion of brokering agreements, in the course of his job duties, by making phone calls to two general customers who had not requested such solicitation.

(3) Unrequested solicitation by former deputy director of the sales division at the Nagoya branch

From August to October 2006, the then deputy director of the sales division at the Nagoya branch of **Asahi Universal FX Co., Ltd.** (the "Company") solicited conclusion of brokering agreements, in the course of his job duties, by visiting 10 general customers for whom he had once conducted solicitation of commodity futures trading when he worked for a commodity futures company, even though those customers had not requested such solicitation.

- Date of recommendation: June 21, 2007
- Target(s) of recommendation:The Company and two sales representatives
- Administrative disciplinary action(s):Order for business improvement
- Disciplinary action(s) imposed on the sales representative(s):Not yet decided

[4] Continued solicitation of customers who have indicated that they have no intention of entering into brokering agreements (Violation of item 5, Article 76 of the FFTL)

* From September 5 to November 4, 2005, **Nippon First Securities Co., Ltd.** (the "Company") conducted solicitation continuously and in several occasions, by making visits or phone calls to one customer who had indicated that he had no intention to enter into a brokering agreement for foreign exchange margin transactions.

- Target(s) of recommendation:The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [1] in Subsection 1 of this Section 5, "Solicitation of acquisition of unregistered deemed securities in an offering."

* The director concurrently serving as the division director of the sales division of **Inter Prast Co., Ltd.** (the "Company") constantly instructed sales representatives in charge of acquisition of new customers, in the course of his job duties, to continue solicitation of conclusion of brokering agreements concerning foreign exchange margin transactions, unless and until steadfastly rejected. From July 1, 2005 to October 12, 2006, this director

made these sales representatives follow the aforesaid instruction and continue solicitation of customers who had indicated that they had no intention to enter into brokering agreements.

- Target(s) of recommendation:The Company and one sales representative

(Note) Regarding the date of recommendation, the administrative disciplinary action(s), and the disciplinary action(s) imposed on the sales representative(s), refer to the case [3], "Solicitation of conclusion of brokering agreements by making visits or phone calls to customers who have not requested such solicitation."

* In the course of his job duties to acquire new customers, the senior sales representative of the department 2 of the Osaka foreign exchange trading division of **Ace Koeki Co., Ltd.** (the "Company") conducted unrequested solicitation by making a phone call to one customer in the spring of 2006. Subsequently, this senior sales representative conducted re-solicitation by making visits or phone calls continuously to persuade the customer to open a new account, even though the customer indicated that he had no intention to enter into brokering agreements.

Similarly, the unit chief and one other sales representative of the department 1 of the head office's foreign exchange trading division 1 conducted unrequested solicitation by making phone calls to two customers in early October 2005 and on April 5, 2006 respectively in the course of their job duties. Subsequently, they conducted re-solicitation by making visits or phone calls continuously.

In addition, the senior sales representative of the department 2 of the head office's foreign exchange trading division 2 conducted unrequested solicitation by making a phone call to one customer in August 2005, in the course of his job duties, and conducted re-solicitation by making visits or phone calls continuously.

- Target(s) of recommendation:The Company and three sales representatives

(Note) Regarding the date of recommendation, the administrative disciplinary action(s), and the disciplinary action(s) imposed on the sales representative(s), refer to the case [3], "Solicitation of conclusion of brokering agreements by making visits or phone calls to customers who have not requested such solicitation."

[5] Provision of financial benefits to compensate for part of a customer's loss arising from financial futures transactions (Violation of item 3, Article 25 of the FFTL Enforcement Ordinance under item 9, Article 76 of the FFTL)

* **Inter Prast Co., Ltd.** (the "Company") received a customer's demand to pay approximately 1.68 million yen to compensate for loss arising from foreign exchange margin transactions executed from July 13 to October 4, 2005. This customer asserted, "such loss is attributed to unrequested solicitation and other acts by the Company." As a result of its self-examination, the Company could not find a fact of such violation as claimed by the customer on the part of the Company. In the end, however, the Company decided to accept the customer's demand and compensate for part of loss incurred by the customer in foreign exchange margin transactions in the Company, and paid 840,000 yen on November 9, 2005.

- Target(s) of recommendation:The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [3], "Solicitation of conclusion of brokering agreements by making visits or phone calls to customers who have not requested such solicitation."

[6] Refusal of inspection (Paragraph 1 of Article 85 of the FFTL)

(Note) The outline of this case is as described in paragraph (1), "Refusal of inspection by

the president," in the case [11] in Subsection 1 of this Section 5, "Refusal and recusal of inspection." Regarding the date of recommendation, the target(s) of recommendation, and the administrative disciplinary action(s), refer to the case [11] in the same subsection, "Refusal and recusal of inspection."

[7] Failure to design internal control systems required for properly operating financial futures business and violations arising under such circumstances (Violations of paragraph 1 of Article 66, paragraph 1 of Article 70, paragraph 1 of Article 71, paragraph 1 of Article 72, Article 78, Article 80, paragraph 3 of Article 82, and paragraph 2 of Article 95 of the FFTL, and paragraphs 1 and 2 of Article 3, and paragraph 1 of Article 4 of the PIVL, as applied pursuant to Article 86 of the FFTL)

* **DIP K.K.** (the "Company") continued its financial futures business without having such internal control systems as required for properly operating financial futures business, as more detailed in paragraph (i) below, and the Company consequentially caused many violations, as listed in paragraph (ii) below.

(i) Failure to design required internal control systems

a) Failure to appoint a person responsible for internal control

(a) While the Company's rules stipulated that a director or other person responsible for internal control should be assigned, the president appointed nobody as a director or other person responsible for internal control for the period from the date of the launch of business (that was April 3, 2006; the same applies hereinafter) to the base date of inspection (that was September 27, 2006; the same applies hereinafter).

(b) As a consequence of the situation described in (a) above, the president was substantially in a position to manage and supervise internal control, but he did nothing about the management and supervision of internal control activities.

(c) While the Company's rules stipulated that the internal control manager should be selected from the officers in charge of internal control, the president did not appoint anybody as an internal control manager for the period from the date of the launch of business to September 20, 2006.

(d) While the president appointed the deputy general manager of the business management division, the general manager of the sales division, and the chief of the Gunma sales office as internal control managers as of September 21, 2006, none of these three individuals performed the duties of internal control.

b) Failure to conduct verification in terms of laws and regulations applicable to the Company's business

According to the segregation of duties and responsibilities under the Company's organizational rules, the duties and responsibilities for matters concerning compliance, including verification of all operations in terms of applicable laws and regulation, were assigned to the audit division (renamed the legal department as of August 1, 2006; the same applies hereinafter) for the period from March 23, 2006, or the date of registration of the Company as a financial futures company, to April 30, 2006, and assigned to the general affairs division on and after May 1, 2006 when the segregation of duties and responsibilities was partially changed. However, neither division conducted any such duties of verification at all.

c) Failure to conduct internal audit

Since the launch of business of the Company, the audit division never formulated an internal audit plan nor conducted internal audit.

d) Lack of measures to enhance awareness of compliance of officers and employees

Since the launch of business, the president implemented none of the measures to enhance awareness of compliance of officers and employees, such as meeting sessions or

training seminars.

(ii) Violations caused by the Company
a) Inadequacy in the display of a statutory signage
b) Omission of some of the matters which should be stated in a document to be delivered before entering into a brokering agreement
c) Non-delivery of documents required for a contract executed
d) Non-delivery of documents concerning receipt of customer margin
e) Non-preparation, etc. of books and documents concerning the Company's business
f) Non-preparation of explanatory documents which should be made available for public inspection
g) Non-preparation of a document stating the net capital requirement ratio of the Company
h) Solicitation of conclusion of brokering agreements through those who were not registered as sales representative
i) Breach of the duty of identity verification

- Date of recommendation: June 21, 2007
- Target(s) of recommendation:The Company
- Administrative disciplinary action(s):Order for business improvement

3. Recommendations Based on the Results of Inspections of Investment Trust Companies, Investment Advisory Companies, etc.

[1] Breach of duty of loyalty in accounting for inflation-indexed U.S. treasury notes (Violation of paragraph 1 of Article 14 of the Act on Securities Investment Trust and Securities Investment Corporation (hereinafter referred as the "Investments Trust Corporation Act"))

* With regard to the investment trust fund set up by **Yasuda Asset Management Company, Ltd.** (the "Company") and managed by a fund management firm acting as an outsource of the Company, this fund management firm purchased inflation-indexed U.S. treasury notes on September 28, 2005. At this time, however, it turned out that the trust bank in charge of some services for handling of affairs concerning acceptance of orders as further outsourced from the fund management firm would not be able to carry out accounting for such treasury notes in accordance with the methods prescribed by The Investment Trusts Association. On October 5, 2005, therefore, the Company instructed the fund management firm to cancel the purchase of these treasury notes. In accordance with this instruction, the fund management firm executed offsetting transactions for these treasury notes on the same day, resulting in loss on sale in the amount of 12,578.12 U.S. Dollars. On December 27, 2005, the Company recorded this amount as loss in this investment trust fund, even though the Company should be liable for such loss. In consequence, the Company inflicted considerable loss on the beneficiaries of this investment trust fund who were largely depending on this fund as their target of investment.

- Date of recommendation: October 12, 2006
- Administrative disciplinary action(s):Order for business improvement

[2] Arbitrary allocations of new listed shares (Breach of loyalty duty) (Violation of paragraph 1 of Article 14 of the Investments Trust Corporation Act)

* With regard to the investment in new listed shares for the management of assets of investment trust fund and assets placed under discretionary investment management agreements (hereinafter collectively referred as the "Assets"), Pictet **Asset Management (Japan) Ltd.** (the "Company") determined as a rule in December 2001 that the shares

must be allocated in proportion to value of assets in principle (hereinafter referred as the "Allocation Rule"). However, the head manager of the investment section who was responsible for allocations of the Assets gradually disrespectful of the Allocation Rule and, in the end, arbitrarily selected specific Assets of small value and intensively allocated the shares, since such allocations contributed to the performance of the funds, and arbitrarily selected comparatively low performed Assets and intensively allocated the Shares for a certain period of time to improve its performance. In this way, the manager repeatedly conducted inequitable allocations not conforming to the Allocation Rule.
- Date of recommendation: June 29, 2007
- Administrative disciplinary action(s):
    (i) Prohibition of conclusion of new investment trust agreements and new discretionary investment management agreements for one month
    (ii) Order for business improvement

[3] Noncompliance with the duty of care of a good manager in asset management business by an investment corporation (Violation of paragraph 2 of Article 34-2 of the Investments Trust Corporation Act)

* **K.K. daVinci Select** (the "Company") entered into an asset management agreement with DA Office Investment Corporation (the "Client") for the management of some assets. In the procedure for evaluation of the assets which should be carried out upon acquisition of the real estate to be incorporated in the assets to be managed, the Company did not present appropriate materials to a real-estate appraiser who undertook the appraisal work upon request of the Company. Furthermore, the Company did not confirm the contents of the appraisal calculated by the appraiser without appropriate documents. In this way, the Company overlooked incorrect appraisal data and consequentially acquired the Client's assets based on an overestimated appraisal value.
- Date of recommendation: February 14, 2007
- Administrative disciplinary action(s):
    (i) Prohibition of conclusion of new asset management agreements for three months
    (ii) Order for business improvement

[4] Advertisement containing information extremely different from facts (Violation of paragraph 2 of Article 13 of the Investment Advisory Business Act)

* In order to solicit conclusion of agreements, **OESL Asset Management Co., Ltd.** (the "Company") made calls to a large number of individuals selected at random from telephone books and so on (hereinafter "prospective customers"). In these phone calls, the Company confirmed with each of them whether or not to accept that the Company might dispatch some materials explaining the Company's profile and its investment advisory business and stating the track record of its advisory service, and so on (hereinafter "advertisement goods"), and distributed such advertisement goods by mail or other means to the prospective customers accepting such dispatch.

On July 13, 2006 and later, however, the Company produced advertisement goods containing some information that were extremely different from the realities and might seriously mislead customers, and the Company distributed them to 57 prospective customers. In such advertisement goods, for example, the Company displayed a comment as if it had provided investment advice on a specific stock, even though the Company had no experience of advice on such a stock. This false comment said, "Based on its own research, the Company produced a business recovery forecast for the issuing company. Then, the Company recommended buying on January 30, 2006, and selling on April 28, 2006. During this period, the share price marked a 26% rise." The Company further added that a 26%

gain could have been obtained if the Company's advice had been followed.
- Date of recommendation: October 3, 2006
- Administrative disciplinary action(s):Revocation of registration
(Note) This administrative disciplinary action was intended not only for this case, but also for the case [6], "Securities transactions with customers as counterparties," and the case [7], "Receipt of money deposited by customers."

* (i) Posting of information extremely different from facts

Financial Leader K.K. (the "Company") was registered as an investment advisory company on August 25, 2004. After this, the Company created and disclosed three types of websites sequentially which were respectively named "Golden Portfolio," "Institute for Investment Research to Win," and "Institute for Powered Investment." On these websites, the Company posted advertisements of its investment advisory business, and some other tips such as a "lineup of stocks introduced by the Company in the past," together with "recommended stocks" and "recommended dates for buying". According to the Company, these stocks (hereinafter "featured stocks") constituted part of the stocks recommended by the Company to the customers having investment advisory agreements with the Company.

In the inspection on this occasion, the SESC verified the record of investment advice on featured stocks as of December 4, 2006. As a result, the 68 cases (for 62 stocks) posted on "Golden Portfolio" were found to include 34 cases (for 31 stocks) for which the Company had no advisory experience, and 12 cases (for 12 stocks) for which the Company had given no advice on the recommendable dates for buying posted on this website; the 68 cases (for 62 stocks) posted on "Institute for Investment Research to Win" were found to include 34 cases (for 31 stocks) for which the Company had no advisory experience, and 13 cases (for 12 stocks) for which the Company had given no advice on the recommendable dates for buying posted on this website; and the 56 cases (for 51 stocks) posted on "Institute for Powered Investment" were found to include 34 cases (for 31 stocks) for which the Company had no advisory experience, and 12 cases (for 12 stocks) for which the Company had given no advice on the recommendable dates for buying posted on this website. In this way, the Company was determined as having represented such information about its advisory service extremely different from facts.

(ii) e-mailing of information extremely different from facts

On August 25, 2004 and later, the Company sent the same e-mail message to a large number of customers having investment advisory agreements with the Company. In this e-mail message, the Company described the record of its advisory service and introduced some successful cases where tremendous profits, such as "a gain of 86.1 million yen in the case of maximum profit," had been obtained, in order to solicit these customers to switch to an investment advisory agreement with more expensive advisory fees. This solicitation was accompanied by the following catchphrases which, the Company said, has contributed to the aforesaid successful cases: "Golden Membership: Wining Percentage of 80%, Average Growth of 170%; Diamond Membership: Wining Percentage of 95%, Average Growth of 240%" ("Golden Portfolio"), "Special Stocks and Platinum Stocks: Wining Percentage of 99%, Average Growth of 170%" ("Institute for Investment Research to Win"), "Special Membership: Wining Percentage of 80%, Average Growth of 170%; Executive Membership: Wining Percentage of 95%, Average Growth of 240%" ("Institute for Powered Investment").

However, after the SESC inspected the record of the Company's advisory service described in the aforesaid e-mail message transmitted to 1,098 customers for the period from April 1, 2005 to December 1, 2006, it was found that the Company had no experience

of any such advisory service and therefore the Company was determined as having represented such information about its advisory service under investment advisory agreements that was extremely different from facts.
- Date of recommendation: May 25, 2007
- Administrative disciplinary action(s):
  (i) Suspension of all services for investment advisory business for one month
  (ii) Order for business improvement

* **K.K. Asian Blue** (the "Company") selected a large number of individuals at random from telephone books, and sent some reports prepared for the Company's members to those individuals free of charge. Then, the Company prepared a directory of those individuals. Among such prospective customers listed in this directory, the Company knew facsimile numbers of 57 of them. On July 6, 2006, the Company distributed some materials stating the Company's contact and advisory experience, etc. (hereinafter "advertisement goods") to these 57 prospective customers by facsimile, in order to solicit them to conclude investment advisory agreements.

According to the record of its advisory service mentioned in these advertisement goods, the Company advised customers to sell shares of specific five listed stocks based on its prediction that their prices would sharply drop. However, the SESC's inspection revealed that the Company had no such advisory experience. In this way, the Company was determined as having represented such information about its advisory service under investment advisory agreements that was extremely different from facts.
- Date of recommendation: June 20, 2007
- Administrative disciplinary action(s):
  (i) Suspension of all services for investment advisory business for two months
  (ii) Order for business improvement

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case [5], "Non-delivery of documents which should be delivered to customers," the case [8], "Provision of financial benefits to compensate for part of a customer's loss arising from financial futures transactions," and the case [10], "Deficiency in recording of contents of advice."

[5] Non-delivery of documents which should be delivered to customers (Violation of Articles 14, 15, and 16 of the Investment Advisory Business Act)

* (1) In the inspection with the base date of September 4, 2001 (hereinafter the "previous inspection"), the Director-General of the Kanto Local Finance Bureau pointed out that **J-Trade K.K.** (the "Company") failed to prepare and deliver the following documents: the document which should be delivered to each web-based subscriber member before entering into an agreement (hereinafter the "Article 14 document"), the document which should be delivered when signing an agreement (hereinafter the "Article 15 document"), and the document which should be delivered to each customer having an agreement with the Company (hereinafter the "Article 16 document"). Thus, the Company submitted an improvement report dated January 18, 2002 to the Director-General of the Kanto Local Finance Bureau, in which the Company made a commitment to deliver all such documents describing all requisite matters. Nevertheless, the Company did not deliver the Article 14 documents to all of the 87 web-based subscriber members having agreements in effect as of the base date of this time's inspection, and the Company did not deliver the Article 16 documents to all of the 61 web-based subscriber members active at any time during the period from July 1, 2005 to December 31, 2005.

In the Article 15 documents delivered to all of the said 87 members, the Company did not describe many of the requisite matters which should be described in those documents.

(2) In the previous inspection, it was pointed out that the Company failed to describe some requisite matters in the Article 15 documents delivered to "special information members." In the improvement report, therefore, the Company made a commitment to deliver the documents describing all requisite matters exhaustively. Nevertheless, the Company did not describe some requisite matters, including those pointed out in the previous inspection, in the Article 15 documents delivered to all of the 234 special information members having agreements in effect as of the base date of this time's inspection. In addition, the documents delivered to such members contained a false statement about fees.

Moreover, the previous inspection pointed out that the Company failed to prepare and deliver the Article 16 documents to the said 234 members. In the improvement report, therefore, the Company made a commitment to deliver the Article 16 documents containing all requisite matters. However, the Company failed to describe some requisite matters in the Article 16 documents delivered to all of the 201 special information members active at any time during the period from July 1, 2005 to December 31, 2005.

With regard to the 234 special information members having agreements in effect as of the base date of this time's inspection, the Company delivered the Article 14 documents to all of them without describing some requisite matters.

- Date of recommendation: July 7, 2006
- Administrative disciplinary action(s):Order for business improvement

* The previous inspection pointed out that **K.K. Asian Blue** (the "Company") failed to deliver the document which should be delivered to a customer having an investment advisory agreement as specified in Article 16 of the Investment Advisory Business Act. In response to this, the Company submitted an improvement report dated August 16, 2004 to the relevant authorities, in which the Company made a point of appointing a person exclusively in charge of affairs concerning the Article 16 documents, including the preparation of a check sheet for monitoring the document delivery status.

In addition to this improvement report, the report on status of the implementation of remedial measures dated June 29, 2006 was also submitted to the authorities, in which the Company said that it established necessary in-house systems and was continuing efforts for recurrence prevention, as committed in the improvement report.

As a result of this time's inspection, however, it was found that, for the period from March 24, 2004, or the previous inspection date, to January 16, 2007, or the base date of this time's inspection (excluding the period from October 1, 2005 to March 31, 2006), the Company failed to deliver 53 sets of the Article 16 documents which should have been delivered to 32 customers.

Furthermore, the Company did not implement remedial measures stated in the aforesaid improvement report.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [4], "Advertisement containing information extremely different from facts."

[6] Securities transactions with customers as counterparties (Violation of Article 18 of the Investment Advisory Business Act)

* **OESL Asset Management Co., Ltd.** (the "Company") provided four customers with advice concerning some stocks based on respective investment advisory agreements. From June 23 to August 2, 2006, the Company solicited these customers six times in total to purchase shares of those stocks from the Company acting as a counterparty, even though the Company had no intention actually to cause the customers to acquire such shares. In the end, the Company executed agreements for sale and purchase of 12,000

shares of four stocks in total at approximately 7.55 million yen with these customers, and received 7,512,000 yen.

From July 26, 2006 to August 3, 2006, the Company accepted selling offers, as a counterparty, from other two customers with regard to the shares traded under the aforesaid sale and purchase agreements, and entered into agreements for sale and purchase of a total of 5,500 shares of three stocks at approximately 3,163,000 yen with these two customers. In consideration of these shares, the Company paid 2,460,000 yen in total for the period from July 26 to August 16.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [4], "Advertisement containing information extremely different from facts."

* **T2 Capital Corporation** (the "Company") entered into investment advisory agreements with some customers, and provided them with advice on investment decisions based on its analysis of values of some unlisted shares.

However, beyond its advisory capacity, the Company conducted intermediary service for 36 customers with regard to 130 contracts for trading shares of seven unlisted stocks for the period from July 17, 2000 when the Company was registered as an investment advisory company, to December 4, 2006 which was the base date of inspection. For example, when an owner of shares of a certain unlisted stock desired to sell such shares, the Company acted as a negotiator on behalf of this owner with the Company's another customer, and at the same time, the Company negotiated with this owner for purchasing his shares on the part of the purchasing customer, resulting in the conclusion of a share purchase agreement between these two parties.

- Date of recommendation: April 27, 2007
- Administrative disciplinary action(s):
  (i) Suspension of all services for investment advisory business for six months
  (ii) Order for business improvement

[7] Receipt of money deposited by customers (Violation of Article 19 of the Investment Advisory Business Act)

* From March 24 to August 17, 2006, **OESL Asset Management Co., Ltd.** (the "Company") approached 6 customers in the course of performing its advisory service under respective investment advisory agreements, and proposed a fictional asset management plan on 14 occasions in total, with no intention to implement such a plan. In the end, the Company received 42.56 million yen in total as deposits.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [4], "Advertisement containing information extremely different from facts."

[8] Provision of financial benefits to compensate for part of a customer's loss arising from financial futures transactions (Violation of item 4, paragraph 1 of Article 22 of the Investment Advisory Business Act)

* On May 16, 2005, the director of **K.K. Asian Blue** (the "Company") provided one customer with advice to purchase shares of a certain listed stock. Relying on this advice, the customer purchased shares at 950,000 yen in total. After a few days, however, the price of this stock turned to a downward trend, and the Company received a complaint from the customer about unrealized capital loss. In response to this complaint, the director continued to persuade the customer to retain these shares, by saying something as follows, "please see how it works for the time being."

However, the customer still persisted in his complaint and finally demanded a compensation for unrealized capital loss and the cancellation of the investment advisory agreement on June 16, 2005. In this regard, the president of the Company confirmed the basis for the advice in question with the aforesaid director, and concluded that no problem was found in the advice. Nevertheless, the president by himself contacted the customer, conveyed the intention of accepting cancellation of the agreement, and proposed a solution to bring an end to the complaint. This proposed solution was composed of the Company's waiver of the fee calculated on a daily prorated basis for the period until the cancellation of the agreement which would otherwise be receivable by the Company, and the appropriation of the amount equivalent to such waived fee for compensation for part of unrealized loss incurred by the customer. In the end, the Company paid approximately 71,000 yen to the customer as a financial benefit on June 30, 2005.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [4], "Advertisement containing information extremely different from facts."

[9] Arbitrary allocations of new listed shares (Breach of duty of loyalty) (Violation of Article 30-3 of the Investment Advisory Business Act)

(Note) The outline of this case is as described in the case [2], "Arbitrary allocations of new listed shares (Breach of duty of loyalty)." Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [2], "Arbitrary allocations of new listed shares (Breach of duty of loyalty)."

[10] Deficiency in recording of contents of advice (Violation of Article 34 of the Investment Advisory Business Act)

* In the previous inspection, it was pointed out that **K.K. Asian Blue** (the "Company") failed to properly create documents recording the contents of advise specified in item 1, paragraph 1 of Article 32 of the Ordinance for Enforcement of the Investment Advisory Business Act under Article 34 of the Investment Advisory Business Act. Thus, the Company submitted an improvement report dated August 16, 2004 to the relevant authorities, in which the Company declared that the recording status was checked by a person in charge and rechecked by the president once a month, in order to prevent deficiency in records.

In addition to this improvement report, the report on status of the implementation of remedial measures dated June 29, 2006 was also submitted to the authorities, in which the Company said, "the recording status is checked once a month by the director responsible for internal control, in lieu of the person in charge, and if any deficiency is found, the director will make it corrected by the sales representative in charge and report it to the president, in order to prevent deficiencies."

However, this time's inspection revealed that the Company failed to create and retain the records for its advisory service rendered during the whole or part of the service term with regard to its investment advisory agreements with 22 customers in total, for the period from the base date of the previous inspection, or March 24, 2004, to the base date of this inspection, or January 16, 2007.

In addition, the Company did not implement the remedial measures stated in the aforesaid improvement report.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [4], "Advertisement containing information extremely different from facts."

4. Recommendations Based on the Results of Inspections of Self-regulatory Organizations

[1] Insufficient transaction examinations (Application of Article 153 of the SEL)

* A number of insufficiencies were found with regard to examinations of securities transactions on the securities market operated by **Sapporo Securities Exchange** (the "Exchange"). For one thing, the Exchange did not prescribe any specific criteria for monitoring and examination, such as the criteria for selecting contracts to be examined. In addition, the Exchange fails to conduct sufficient transaction monitoring during the market trading period and sufficient transaction examinations after the close of the market trading period.

- Date of recommendation: September 15, 2006
- Administrative disciplinary action(s):Order for business improvement

(Note) This administrative disciplinary action was intended not only for this case, but also for the case [2], "Insufficient systems for controlling IT risks."

* With regard to examinations of securities transactions on the securities market operated by **Fukuoka Stock Exchange** (the "Exchange"), the Exchange misunderstood that "purchase or sale contracts relevant to the stock for which an important fact or the like has been disclosed" had been exhaustively covered by such contracts to be extracted as "contracts relevant to the stock for which the fluctuation of its price or trading volume shows questionable movements." Therefore the Exchange did not prescribe any specific criteria for examining "purchase or sale contracts relevant to the stock for which an important fact or the like has been disclosed," and the Exchange was determined as failing to conduct such examinations.

- Date of recommendation: September 15, 2006
- Administrative disciplinary action(s):Order for business improvement

(Note) This administrative disciplinary action was intended not only for this case, but also for the case [2], "Insufficient systems for controlling IT risks."

[2] Insufficient systems for controlling IT risks (Application of Article 153 of the SEL)

* Because of its insufficient awareness of IT risks, **Sapporo Securities Exchange** (the "Exchange") failed to formulate a basic policy for controlling IT risks across the whole Exchange, and to establish appropriate plans and programs for controlling IT risks in relation to the clearing systems.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [1], "Insufficient transaction examinations."

* Because of its insufficient awareness of IT risks, **Fukuoka Stock Exchange** (the "Exchange") failed to formulate a basic policy for controlling IT risks across the whole Exchange, and to establish appropriate plans and programs for controlling IT risks in relation to the clearing systems.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case [1], "Insufficient transaction examinations."

* **Jasdaq Securities Exchange**, Inc. (the "Exchange") was not fully aware of IT risks and its plans and programs for controlling IT risks were insufficient, as was seen in its failure to formulate a basic policy for controlling IT risks across the whole Exchange.

- Date of recommendation: June 19, 2007
- Administrative disciplinary action(s):Order for business improvement

3. Policy Proposals

1). Outline

To establish a fair, transparent and sound securities market and maintain investors' confidence, the regulations of the market should address significant changes in the real market place. To maintain the regulations enough to be reflected the actual realities of the market, the SESC can submit policy proposals to the Prime Minister, the Commissioner of the FSA, or the Minister of Finance. The SESC can propose them to take measures for ensuring public interests including market integrity and investor protection, where necessary, based on the results of market integrity and investigations including inspections of securities companies, disclosure document inspections, administrative civil monetary penalties investigations, investigations of criminal cases or other relevant activities (Article 21 of the FSA Establishment Law).

Policy proposals are submitted after the SESC comprehensively analyzes the important issues recognized in the results of its inspections and investigations. These proposals are intended to clarify the SESC's views on relevant laws and self-regulations and suggest other relevant governmental agencies and self-regulatory organizations to review their regulations. The policy proposals contribute to formulating the policies in the supervisory departments of the relevant authorities.

The SESC proposes amendments of the regulations, presenting specific facts and problems when the SESC recognizes that the regulations are found to be insufficient in light of the realities of securities market, in order to ensure market integrity and investor protection.

2) Specific Policy Proposals and Measures Taken Based on Policy Proposals

1. Specific Policy Proposals

The SESC submitted three policy proposals in Business Year 2006 as follows.

(1) Pre-underwriting examination

As a result of inspections of securities companies, the SESC found some improper cases including: (i) a case where a lead managing underwriter did not examine appropriately business forecasts of the issuer intending to conduct new listing or capital increase by public offering, and (ii) a case where a lead managing underwriter did not conduct pre-underwriting examination of financial standing, business performance of the listed company intending to increase capital by public offering.

A Securities company is expected to play an important role as an underwriter of the public offering and offering for subscription to enable investors to make investment decisions appropriately and prevent investors from suffering unexpected losses, through appropriate examination of financial standing, business performance, earnings forecasts, and other important factors of the issuers. Therefore, it is necessary for the FSA to take appropriate measures to ensure securities companies conduct appropriate and sufficient pre-underwriting examinations.

(2) Regulations on transactions distorting market indices

As a result of inspections of securities companies, the SESC found an improper case as follows. By matching sell orders and buy orders of transactions in a deliver month about futures of the stock price index at the Tokyo Stock Exchange (hereinafter referred to as "the TOPIX Futures Transaction") placed at the same index point from the same

ordering entity, a trader working for a securities company executed contracts consecutively and in massive volumes, with no intention to transfer the property rights relevant to those futures transactions, (hereinafter referred to as "the Fictitious Futures Contracts"). As a result, the volume weighted average price (the "market VWAP") for the index point at which the TOPIX Futures Contracts were executed on that day was fluctuated in a direction favorable to the aforesaid trader, and the traded volume of the TOPIX Futures Contracts announced on that day showed a figure greater than the actual traded volume, because the volume corresponding to the Fictitious Futures Contracts was included.

The market VWAPs are widely prevailing and relied on by many market participants as indicative information. Therefore, if someone conducts trading to create such market VWAPs that do not reflect actual market conditions, it is likely to distort the contents of all other market transactions and off-market transactions to be conducted based on the market VWAPs. In addition, if the traded volume is increased by such fictitious trading without reflecting the real supply and demand, it is likely to mislead other market participants who may make investment decisions by using the trade volume as reference information.

It is therefore necessary to take appropriate measures to regulate securities companies so as not to let them conduct transactions with an aim of creating such artificial market VWAPs, traded volumes or market indices of other types that do not reflect real market conditions, and so as not to let them accept orders for such transactions.

(3) Revision of retention periods for statutory books

Under the amended SEL of 2006, penal provisions were revised in such a way that a term of imprisonment was raised from not more than five years to not more than 10 years in the case of submission of false financial statements (paragraph 1 of Article 24 of the SEL, etc.), unfair trading (Article 157 of the SEL), spreading rumors on stock markets, deceptive means, etc. (Article 158 of the SEL), and market manipulation, etc. (Article 159 of the SEL).

Accordingly, the statute of limitations for prosecution of these charges was extended from five years to seven years under Article 250 of the Code of Criminal Procedure.

Meanwhile, with regard to the documents pertaining to business operations by securities companies, etc. as prescribed in Article 188 of the SEL (hereinafter "statutory books"), the retention period and other related matters are as prescribed in Article 60 of the Cabinet Office Ordinance on Securities Corporation, and among them, the retention period for order slips is specified as five years. This is not consistent with the statute of limitations for prosecution which was extended from five years to seven years.

Hence, it is necessary to properly adjust the retention periods for statutory books, considering the extended statute of limitations for prosecution.

2. Measures Taken Based on Policy Proposals

(1) Measures taken based on the policy proposal for regulations on pre-underwriting examination

At the end of September 2007, the "Cabinet Office Ordinance on Financial Instruments Businesses, etc." came into effect. This ordinance stipulates that a securities company intending to act as a managing underwriter for securities must conduct appropriate examination of financial standing and business performance of the company intending to issue such securities and other matters that may be conducive to the decision as to whether the underwriting of such securities is adequate or not.

(2) Measures taken based on the policy proposal for regulations on transactions distorting market indices

At the end of September 2007, the "Cabinet Office Ordinance on Financial Instruments Firms" came into effect. This ordinance prohibits or restricts securities companies' fictitious transactions with an aim of fluctuating market VWAPs, traded volumes, or other market indices, and securities companies' acceptance of orders for such transactions.

(3) Measures taken based on the policy proposal for revision of retention periods for statutory books

At the end of September 2007, the "Cabinet Office Ordinance on Financial Instruments Firms" came into effect. This ordinance contains a revision to achieve alignment between the retention period for order slips (five years) and the statute of limitations for prosecution (not more than seven years) in accordance with the extended statute of limitations for prosecuting submission of false financial statements and other charges.

3. Current Status of Measures Taken Based on the Policy Proposals Submitted in the Previous Business Year (BY2005)

(1) Measures taken based on the policy proposal for the enhancement of the information control system concerning pre-hearing (pre-marketing) procedures (submitted by the SESC on April 14, 2006)

The FSA amended the "Cabinet Office Ordinance for Partial Revision of the Cabinet Office Ordinance on Securities Corporation's Conduct Control" (promulgated on October 4, 2006, and coming into effect on November 1, 2006). In addition to this, Japan Securities Dealers Association established the "Rules on Proper Pre-hearing by the Members" based on a resolution by the Board of Governors (promulgated on December 1, 2006, coming into effect on January 4, 2007).

(2) Measures taken based on the policy proposal for the responsibilities of auditing firms (submitted by the SESC on April 21, 2006)

According to the report dated December 22, 2006 by the Subcommittee on Certified Public Accountants System, the Financial System Council, "it is appropriate to diversify types of administrative disciplinary actions." Regarding the introduction of criminal penalties, however, the report says that, "with a view to deterring violations, a possibility of introducing criminal penalties against auditing firms should not be denied and should be treated as one of the agenda to be considered, however what has to be done first in relation to violation cases is to pursue the diversification of administrative approaches including the introduction of a civil monetary penalty system." Therefore this issue was recognized as one of the agenda requiring subsequent scrutiny.

With a view to properly deterring violations by certified public accountants and auditing firms, the provisions to impose civil monetary penalties against them based on the amount or amounts equivalent to gains from violations were incorporated in the "Law for Partial Revision of the Certified Public Accountants Law," as enacted on July 20, 2007 and promulgated on July 27, 2007 (coming into effect on the date specified by a cabinet order within a period not exceeding one year from the date of promulgation).

4. Market Surveillance

1) Outline

In addition to inspection of securities companies, disclosure documents inspection, administrative civil monetary penalties investigation, and investigation of criminal cases, the SESC conducts market surveillance in which it monitors the trend of the markets extensively on a daily basis, collects various materials and information related to securities markets and securities transactions, analyzes market trends, and investigates suspected cases of unfair trading. Thus, the SESC endeavors to ensure fairness of trading through the broad-based supervision of transactions in the securities markets.

2) Receipt of Information from the General Public

Information furnished by the general public reflects candid opinions of investors in the markets. Such information is highly useful, because it often leads the SESC to launch market surveillance, inspection of securities companies, disclosure documents inspection, administrative civil monetary penalties investigation, and investigation of criminal cases.

For this reason, the SESC uses a variety of media, including telephone, letter, personal visits, and the Internet, to receive information from as many people as possible.

The SESC has long been calling for information from the general public through government publicity and lecture meetings. In Business Year 2006 as well, the SESC continued its positive efforts to increase the number of contacts for information submission, such as renewal of posters to call for information.

In Business Year 2006, 6,485 pieces of information were collected from the general public including investors. While this was a year-on-year decrease of approximately 10%, it was the second highest number of collection since the inception of the SESC in 1992. This may be attributed to the fact that the activities of the SESC were better understood by the general public owing to smooth implementation of the civil monetary penalty system by the SESC.

The exact breakdown of the means used in the submission of information was 5,011 contacts via the Internet, 702 by phone, 443 in letter, 50 by personal visits, and 279 contacts that were referrals from the Local Finance Bureaus. Among these means, the Internet and telephone constitute nearly 90% of the total cases of information supplied.

In terms of information content, 5,021 cases were related to specific stocks, 1,077 cases were related to sales practices of securities companies, and the remaining 387 cases were opinions on other matters.

Among the cases relating to specific stocks, suspicions of market manipulation ranked highest, and they made up approximately 40% (2,678 cases) of all the cases. This figure is indicative of widespread doubts among investors as to how prices are formed in the market. The second-largest group was related to suspicious spreading of rumors on stock markets, representing approximately 20% (1,124 cases) of all the cases. Such information was, for the most part, related to unfounded rumors or investment analyses and other tips posted on Internet bulletin boards. Suspected insider trading and false financial statements were also major types of the information received by the SESC in Business Year 2006.

The information received in connection with sales practices, etc., of securities companies and other companies covers various topics such as: unauthorized transactions, transactions under discretionary account agreements, representation with decisive predictions, and investment trust companies, investment advisory companies and others. This may imply

that communication between securities companies, etc. and investors still remain poor in some respects.

3) Market Oversight

1. Outline of Market Oversight

In market oversight, the SESC selects some stocks for which any of the phenomena listed below can be observed, based on its oversight of market movements and the information obtained from various sources, and the SESC asks securities companies, etc. to make detailed reporting or submit data in relation to transactions of such stocks.

(1) The share price is soaring or plunging, or showing other questionable movements.
(2) An important fact that may significantly affect investors' judgment has occurred.
(3) The stock is frequently reported or discussed in newspapers, magazines, or Internet bulletin boards.
(4) The stock is mentioned in the information obtained from the general public.

Based on these reports and data, the SESC investigates share price manipulation, insider trading, and other transactions that are suspected to impair the fairness in the market. At the same time, the SESC examines whether securities companies, etc. involved in these suspected transactions have committed acts violating the applicable code of conduct or other related rules.

If such examination finds problematic transactions, they are reported to the SESC's relevant divisions for further investigation.

In addition to the foregoing, the SESC asks securities companies, etc. to make reporting or submit data with regard to new financial products designed to meet growing needs for new investment instruments, new products incorporating complicated financial derivatives, and new transaction methods. Based on these reports and data, the SESC conducts a detailed analysis on some new products if it is necessary to clarify their actual conditions.

2. Legal Basis

In market oversight, the SESC is authorized to ask securities companies, etc. to submit reports and data on particular securities transactions when it is found necessary and appropriate from the viewpoint of ensuring fairness of securities trading and protecting investors. Such authority delegated to the SESC is prescribed in the SEL, LFSF, FFTL, etc.

3. Close Cooperation with Self-Regulatory Organizations

Day-to-day market monitoring activities similar to the SESC's market oversight are also conducted by self-regulatory organizations (SROs) such as stock exchanges and Japan Securities Dealers Association. Their monitoring activities have the important function to check whether market participants are implementing their business operations in an appropriate manner. As securities markets are becoming more complicated and diversified in recent years due to the emergence of new financial products and transaction methods, the market monitoring activities by SROs are becoming increasingly important. Therefore the SESC cooperates closely with these SROs by communicating regularly and whenever needed, and also by making mutual inquiries about factual data on transactions.

4. Results of Market Oversight

(1) Results of Market Oversight

In Business Year 2006, the SESC conducted its market oversight activities classified into the following major categories, in an efficient and flexible manner, based on the policy of promptly taking initial actions for speedy settlement.

(i) Oversight of market manipulation cases
(ii) Oversight of insider trading cases
(iii) Oversight of other aspects

The number of cases of oversight conducted by the SESC and the Local Finance Bureaus are as follows.

Number of oversight cases		Business Year 2006	Business Year 2005
Total		1,039	875
	SESC	631	555
	Local Finance Bureaus	408	320
(Breakdown of oversight items)			
Market manipulation		141	169
Insider trading		884	693
Others		14	13

(2) Cases Detected as a Result of Cooperation with Foreign Securities Regulatory Authorities

[Wrongful act by GLG Partners LP, a U.K.'s hedge fund (hereinafter "GLG"), and by its ex-officer]

On August 1, 2006, the Financial Services Authority of the United Kingdom (hereinafter "U.K. FSA") announced that it had imposed fines on GLG, a hedge fund in the U.K., and its ex-officer on a charge of unfair trading in Japan's securities market, because such trading was determined as falling under the category of wrongful acts in markets as specified in the Financial Services and Markets Act of the U.K. and violating relevant business principles applicable to licensed firms in the U.K.

The outline of this case is as follows.

◇Before the market opening time on February 17, 2003, Sumitomo Mitsui Financial Group, Inc. (hereinafter "SMFG") announced its plan to issue preferred shares of over 300 billion yen. The ex-officer of GLG obtained this information in advance, and earned gains by selling SMFG shares for a period from 12 to 14 February, 2003 based on such information.

[Unfair act by a trader of Credit Suisse (Hong Kong) Limited]

On December 13, 2006, the Securities and Futures Commission of Hong Kong (hereinafter "Hong Kong SFC") announced that it had imposed a disciplinary action on a trader residing in Honk Kong and working in Credit Suisse (Hong Kong) Limited pursuant to Hong Kong's legislation, because his trading in Japan's securities market was determined as being inappropriate in light of the applicable code of conduct.

The outline of this case is as follows.

◇After the close of the market opening period on December 2, 2003, Sumitomo Light Metal Industries, Ltd. (hereinafter "SLM") announced its plan to issue bonds with stock option. The aforesaid trader obtained this information in advance, and sold SLM shares before the disclosure of such information.

The foregoing two cases are related to unfair acts through cross-border transactions,

in which those who are resident outside Japan conduct securities transactions in Japan's securities markets. The SESC's oversight found a clue for each of these cases, and resulted in the disciplinary actions imposed by U.K. FSA and Hong Kong SFC through international cooperation between multiple securities regulatory authorities.

It is the case of a disciplinary action imposed by the Monetary Authority of Singapore in 2004 that came as the first case for imposing a disciplinary action in relation to unfair trading in Japan's securities market achieved through international cooperation by multiple securities regulatory authorities. Since this first case was followed by the two cases in Business Year 2006 as explained above, the total number of the cases involving such international cooperation is three at present.

(3) Results of Market Trend Analysis

In accordance with the policy of enhancing analytical functions, the SESC conducted the broad-based market trend analysis in Business Year 2006. In particular, the SESC analyzed potential impacts on securities markets caused by new financial products or transaction methods, and events that may reveal or lead to structural problems in securities markets.

[Analysis cases]

The cases analyzed by the SESC in Business Year 2006 are as follows,

(a) The analysis on impacts on share prices that may be caused by the redemption of preferred shares already issued

(b) The analysis on a new type of products for financial investment known as "SMAs" (wrap fee accounts) that is expected to become more popular

(c) The analysis on electronic ordering that is rapidly increasing, especially among foreign institutional investors

(d) The analysis on actual conditions of "stock lending" that may sometimes be used for short selling, etc.

(Note) "SMA" stands for separately managed accounts, and is also called a "wrap fee account" in general. An SMA is a discretionary investment management agreement under which a securities company licensed as an investment advisory company prepares an asset management plan in accordance with an investor's requirements, and carries out investment decisions, execution and management of selling and buying contracts, and all other related services in a comprehensive manner.

5. Efforts to Strengthen Surveillance Activities and Functions

1) Reinforcement and Strengthening of the Market Surveillance System

1. Reinforcement of Organization

(1) Reinforcement of Organization

In order to enhance and strengthening of the market surveillance by the SESC and its function, as is seen in the delegation of authority to conduct administrative civil monetary penalties investigation and the expansion of the scope of inspection, the SESC is reinforcing its organizational structure. As part of this effort, the previous two-division system (Coordination and Inspection Division, Investigation Division) was reorganized into the ongoing five-division system (Coordination Division, Market Surveillance Division, Inspection Division, Civil Penalties Investigation and Disclosure Documents Inspection Division, and Investigation Division).

As for the staffing quota in Business Year 2007, an increase of 26 officers was approved, focused on reinforcing the Civil Penalties Investigation and Disclosure Documents Inspection Division, and the staffing quota as of the end of Business Year 2007 stands at 341. In addition, the number of Deputy Secretary-Generals of the Executive Bureau was increased to two, and a new post of "Counsel to Secretary-General" was established. In this way, the SESC's organizational structure has been strengthened to enable more appropriate management and supervision of investigations, inspections, and other operations.

As for the Securities Transaction Surveillance Officers and their divisions at the Local Finance Bureaus, an increase of 28 officers was approved, mainly for administrative civil monetary penalty investigation and disclosure documents inspection, and the total number of such officers stands at 268 as of the end of Business Year 2007. Combined with the staff quota of the SESC, the total number stands at 609.

(2) Appointment of Private-Sector Experts

In order to ensure accurate market surveillance and boost professional expertise among the officers, the SESC reinforced its investigation and inspection system by hiring a total of 12 private-sector experts in Business Year 2006, consisting of individuals well versed or experienced in securities business including lawyers and certified public accountants. The appointment of private-sector experts started in Business Year 2000, and 76 of such professionals were in office as of the end of June 2007.

2. Improvement of Capacity for Collecting and Analyzing Information

(1) Utilization of Securities Comprehensive Analyzing System (SCAN-System)

Due to the need to analyze complicated and massive data on securities transactions and exactly figure out the facts of these transactions, the SESC has been developing a system supporting its operations called the "Securities Comprehensive Analyzing System (SCAN-System)" since 1993 in order to enhance operational efficiency.

The SCAN-System is a comprehensive computer system that can be widely used in the operations of the SESC, including investigation of criminal cases, administrative civil monetary penalties investigation, disclosure documents inspection, inspection of securities companies, regular market surveillance, and market oversight.

In Business Year 2006, the SESC has completed the documentation of the requirements definitions for construction of systems pursuant to the "Optimization Plan of Business Processes and Systems on the Inspections and Supervision of Financial Institutions and the Securities and Exchange Surveillance" established as part of the e-Government Plan

(as per the decision dated March 28, 2006 by the e-Government Promotion Conference, FSA).

Note: The SCAN-System consists of two major functional modules, "Securities Companies Inspection System" and "Market Oversight System." In addition, there are some supporting systems in the SCAN-System: "SCAN-Internet Patrol System (SCAN-IPS)," "SCAN-Surveillance by Technical Analysis of Corporation Finance System of Electronic Disclosure (SCAN-STAF)," and the "Information Control System" to efficiently process the information provided from the general public.

2) Efforts to Communicate with Investors

The SESC attempts to deepen the understanding of individual investors about the SESC and to enhance their confidence in securities markets by providing information about the SESC's activities, etc. through lecture meetings or the Internet. In addition, the SESC encourages investors, through lecture meetings and government publicity, etc., to supply information as much as possible, since such information may be useful to lead to starting points for the SESC's activities.

3) Cooperation with Relevant Authorities and Organizations

1. Outline

The SESC has been strengthening its cooperation with the FSA through closely exchanging information and the SESC has a close relationship in exchanging information with Japan-based Stock Exchanges, the Japan Securities Dealers Association, and other SROs.

With a rapid increase of cross-border transactions in recent years, it has been becoming more important than ever before to reinforce cooperation with overseas regulators in order to ensure fairness in Japanese securities market. The SESC is therefore making every effort to enhance cooperation with overseas regulators, through participating in major international conferences hosted by International Organization of Securities Commissions (IOSCO) and other organizations and exchanging opinions and information with senior officials of overseas regulators. The SESC is going to continuously strengthen these activities to promote cross-border teamwork.

2. Cooperation with Overseas Regulators

(1) Participation in International Organization of Securities Commissions (IOSCO)

IOSCO is an international organization acting with the aim of establishing international harmony of securities regulations and mutual collaboration among regulatory authorities. At present, IOSCO is composed of 189 organizations representing countries or regions. The SESC became a member of IOSCO in October 1993. (Note: The SESC is an associate member. As a body representing Japan, the FSA participates in IOSCO as an ordinary member.)

In IOSCO, the Annual Conference led by the Presidents' Committee, the supreme decision-making body of IOSCO, is held every year, where the top-level officials of securities regulatory authorities of various countries meet together and discuss and exchange opinions on realities and tasks of securities administration. Under such circumstances where international transactions are increasing in securities markets, it is crucially important to deepen international collaborative relationships through exchanging information and opinions with various countries' regulatory authorities in order to carry out proper market

surveillance in Japan. Therefore the SESC causes its Chairman to attend the Annual Conference of IOSCO. As for the most recent one, the SESC Chairman attended the 32nd Annual Conference held in Mumbai in April 2007. In addition, the SESC participates in the Asia-Pacific Regional Committee (APRC) which is one of the Regional Standing Committees of IOSCO to discuss specific regional problems, the Enforcement Directors meetings in the Asia-Pacific region, and so forth, to intensify 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 Technical Committee, made up of regulatory authorities of developed countries or regions, together with its specialized working groups called Standing Committees. The SESC is a member of the Standing Committee 4 on Enforcement and Exchange of Information (SC4), which was set up to discuss ways of cooperation among securities regulatory authorities from different countries in enforcement issues and information exchange in order to respond to international securities crimes. This year, the SC4 held discussions on dialogues with uncooperative jurisdictions and some other issues. With regard to the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information adopted in the Annual Conference in May 2002 (Multilateral MOU), which is an information sharing agreement among multiple securities authorities, the SESC participates in the meetings of the Screening Group (SG) to examine countries/jurisdictions applying for the signing of the Multilateral MOU.

At the Annual Conference held in April 2005 in Colombo, the Multilateral MOU was positioned as an "international benchmark" for the cooperation and information exchange in relation to enforcement issues, and it was resolved that the IOSCO members would sign the MOU, or make an official commitment to seek a legal authority to enable signing the MOU, by January 1, 2010 at the latest. In May 2006, Japan submitted an application to sign the Multilateral MOU.

(2) Bilateral Cooperation with Overseas Regulators

In an effort to enhance cooperation with overseas securities regulators, the SESC is proactively exchanging information with them based on bilateral information sharing agreements.

Specifically, the SESC has exchanged information about suspected cases of market misconducts with the Securities and Exchange Commission (SEC) of the United States, the Financial Services Authority (FSA) of the United Kingdom, the Monetary Authority of Singapore (MAS), the Securities and Futures Commission (SFC) of Hong Kong, and other overseas regulators.

In Business Year 2006, such exchange of information led to imposition of monetary penalties on a UK-based hedge fund and its former executive by the UKFSA and a disciplinary action against a HK-based trader by the HKSFC, both for misconducts carried out in the Japanese market.

At times, the SESC exchanges opinions directly with senior officials of overseas regulators. In Business Year 2006, Mr. T. Takahashi, former Chairman of the SESC, visited the U.K., Germany, and France in September 2006 and the U.S.A. in April 2007, and exchanged opinions with the senior securities regulators of these countries. In addition, the SESC received visits by Chairman Jane Diplock, the Securities Commission (SC) of New Zealand, in October 2006, Chairman Dato' Zarinah Anwar, the Securities Commission of Malaysia, in January 2007, Minister Vu Van Ninh, the Ministry of Finance of Vietnam, in February 2007, and others, in which exchange of opinions were carried out with former Chairman Takahashi and other officials of the SESC.

(ii) Conclusion of Information Sharing Agreements

Information sharing among securities regulatory authorities from different countries is absolutely essential, because misconducts that may impair fairness of trading in multiple countries' markets are expected to occur more frequently with an increase of cross-border transactions. In order to exchange information smoothly with overseas regulators, the FSA of Japan has entered into 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), the United States
- Commodity Futures Trading Commission (CFTC), the United States
- Australian Securities and Investments Commission (ASIC), Australia
- Securities and Futures Commission (SFC), Hong Kong
- Securities Commission (SC), New Zealand

(3) Seminar for Overseas Regulators

In October 2006, the SESC invited 24 securities regulators in charge of enforcement and other issues from Asian countries and other emerging market economies, and held the "6th Tokyo Enforcement Seminar." This seminar was intended to assist emerging Asian countries in developing human resources and contribute to the development of their securities administration and markets. For this purpose, investigations, inspections and market surveillance conducted by the SESC were introduced to the seminar participants through case studies and group discussions initiated by officials of the SESC and Japanese SROs acting as lecturers or coordinators.

6. Expansion of the SESC's Scope of Operations under the Financial Instruments and Exchange Law and Related Issues

1) Outline

The Financial Instruments and Exchange Law was enacted on June 7, 2006 and promulgated on June 14, 2006. Toward its entry into force on September 30, 2007, related cabinet orders, ministry orders, and others were enacted.

By reorganizing the existing Securities and Exchange Law and restructuring other related issues, the Financial Instruments and Exchange Law was established as cross-sectional legislation capable of responding to changes in environments surrounding financial and capital markets and thus protecting investors. This new law is intended for implementing the rules for investor protection completely and promoting investors' convenience, ensuring market functions to encourage the flow of savings into investments, and addressing the globalization of financial and capital markets.

Under the Financial Instruments and Exchange Law, comprehensive and cross-sectional systems applicable to a wide range of financial instruments are improved, the tender offer system, the reporting system for large shareholdings and other disclosure systems are established, and other necessary measures are implemented. Accordingly, in order to address the expansion of the coverage and scope of the authority under the foregoing circumstances, the SESC is considering some related issues as explained in the next Subsection.

2) Expansion of the SESC's Scope of Operations under the Financial Instruments and Exchange Law

1. Expansion of the Coverage and Scope of Inspection Due to the Establishment of Comprehensive and Cross-sectional Systems

(1) Expansion of the Coverage and Scope of Inspection

The Financial Instruments and Exchange Law is designed to comprehensively regulate various financial instruments, including those that used to be left in a legislative vacuum under former regulations, and the scope of businesses controlled by this law is expanded by adopting cross-sectional approaches, instead of conventional vertically-segmented legislation.

To be more specific, the previous legislative system was reorganized in such a way, for example, to modify the definition of the term "securities" to include not only conventional securities but also the rights under partnership agreements and so on, and to adopt a cross-sectional definition of "financial instruments business" to cover investment advisory service, investment management service, and customer asset management service, in addition to business for selling or soliciting securities and financial derivatives. Consequentially, the coverage of new legislation is extended additionally to those who are engaged in sale or solicitation of units or shares of investment funds under collective investment schemes, investments mainly dealing with securities or financial derivatives under collective investment schemes, or other investment-related services, and they are also included in the scope of inspection by the SESC.

Some regulations are relaxed under new legislation. By the introduction of a registration system, those who start financial instruments business are subject to registration in principle, instead of the former licensing system. By classifying investors into specified investors (professional) and general investors (amateur) and establishing behavior regulations for respective categories, such regulations can be applied more flexibly than before.

Furthermore, the SESC is now authorized to inspect those who undertake services outsourced from financial instruments firms, financial instruments firms association, financial instruments exchanges, and others. In this respect as well, the SESC's scope of inspection is more expanded.

When the SESC's inspection based on the authority mentioned above is conducted with regard to an entity falling under any of the categories listed below, the inspection delegated from the Prime Minister and the Commissioner of the FSA under the Act on the Prevention of Transfer of Crime Proceeds (hereinafter the "Anti-Money Laundering Act") is carried out at the same time.

(i) Financial instruments firms, firms eligible for operating special fund management service
(Paragraph 1 of Article 14 and item 1, paragraph 6 of Article 20 of the Anti-Money Laundering Act)

(ii) Registered financial institutions
(Paragraph 1 of Article 14 and item 2, paragraph 6 of Article 20 of the Anti-Money Laundering Act)

(iii) Securities finance companies, custody and book-entry transfer organizations, members of custody and book-entry transfer organizations, book-entry transfer organizations, or account management organizations
(Paragraph 1 of Article 14 of the Anti-Money Laundering Act, and paragraph 7 of Article 20 of the same act with appropriate modifications under Article 5 of the Supplementary Provisions)

(Note) Article 5 of the Supplementary Provisions above mentioned is the provision for prescribing the authority of inspection and the delegation of such authority to the SESC. Before the Anti-Money Laundering Act comes into effect, this is replaced with the corresponding provision of the Personal Identity Verification Law.

(2) Revision of Inspection Manuals

Since the scope of inspection and the matters to be examined in such inspection are expanded due to cross-sectional regulations under the Financial Instruments and Exchange Law, the SESC has decided to drastically re-examine its existing manuals for inspection of securities companies and those for inspection of investment trust companies and investment advisory companies, and newly formulate the "Manuals for Inspection of Financial Instruments Firms" (hereinafter the "Inspection Manuals").

To draft the Inspection Manuals, eight meeting sessions were held to hear comments from firms dealing with financial instruments, and an initial draft was prepared by the SESC's Executive Bureau, taking actual conditions of those firms into full consideration. After seeking public comments the Manuals was formulated in accordance with the enactment of the financial instruments and exchange law.

The Inspection Manuals are composed of two parts, "Structures and Systems" and "Services and Operations," and each part contains common inspection items and inspection items by service category.

The Inspection Manuals are neither regulations nor guidance by the SESC, but present the basic philosophy of inspection and systematically describe some specific points to be noted in inspection activities. Thus, the Inspection Manuals are positioned to be used by the SESC's inspectors as a guidebook, as is the case with the previous manuals.

2. Expansion of the Coverage of Inspection and Investigation Due to the Establishment of the Disclosure System

In order to enrich the contents of information disclosed by listed companies and

ensure their timely and speedy disclosures of the information on their business performance and others, listed companies are now obligated to submit quarterly financial reports under the Financial Instruments and Exchange Law. In addition, the respective listed company is obligated to submit an internal control report in which the effectiveness of internal control over financial reporting is assessed, and a confirmation in which the appropriateness of the financial statements is confirmed, along with each securities report. Due to these new obligations, the coverage and scope of investigation of criminal cases and disclosure documents inspection (administrative civil monetary penalties investigation) by the SESC are expanded accordingly. (The application of these new provisions will start in the first business year commencing not earlier than April 1, 2008.)

Supplements

The SESC has got new Board members in July 2007. The SESC, under the new Board, has issued a policy statement to pursue its missions in the coming years.

Towards Enhanced Market Integrity
- Policy Statement of New SESC –

(Tokyo, September 5, 2007)

1. Missions

The SESC is committed to achieving two objectives:

- To ensure integrity of capital market
- To protect investors

2. New Board Members

Three members of the Board were newly appointed on July 20, 2007.

- Chairman Mr. Kenichi Sado
- Commissioner Mr. Shinya Fukuda
- Commissioner Mr. Shozo Kumano

3. Directions of new SESC

Japanese capital market has been experiencing dynamic changes. New and more complex financial products and transactions continue to develop under fast moving capital flows across countries. The regulatory environment has also evolved to address such changes in the markets, including the introduction of the Financial Instrument and Exchange Law (FIEL) in September 2007.

Noting the rapidly changing market environment, the SESC is determined to make its best efforts as a market regulator, setting out the following directions.

(1) Timely and comprehensive oversight with more strategic focus

- Prompt and effective market oversight by strategically adopting the best-mix of regulatory tools endowed to the SESC, including daily market surveillance, inspection of regulated entities, administrative monetary penalty investigation, disclosure document inspection and criminal investigation

- Proactive oversight for potential risks on top of current market misconducts
- Enhanced cooperation with Self Regulatory Organizations (SROs) and overseas regulators in order to achieve effective market oversight across market places

(2) Collaboration with stakeholders for market integrity

- Contribution to rule-making processes by the FSA and other relevant authorities, reflecting challenges identified through market oversight by the SESC
- Enhancement of self-regulatory functions of SROs
- Outreach to market participants to encourage their self-discipline for market integrity
- Closer dialogue and communication with market participants

We believe that effective market oversight by the SESC and consequent high level of market integrity are essential for the Japanese capital markets to be further active and competitive in global market places.

4. Policy Focus

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

(1) Comprehensive and timely market oversight

- Seamless oversight on both primary and secondary markets
- Extensive surveillance on suspicious transactions
- Analysis on backgrounds behind individual cases and market developments to help timely market oversight

(2) Enhanced use of administrative monetary penalty system

- Further exploitation of administrative monetary penalty system to expeditiously address market misconducts

(3) Implementation of FIEL

- Expansion of the scope of inspection to cover collective investment schemes and quarterly corporate disclosure
- Increased focus on internal-control and governance of regulated entities

(4) Enhanced cooperation with SROs

- Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants

(5) Enhanced cooperation with overseas regulators

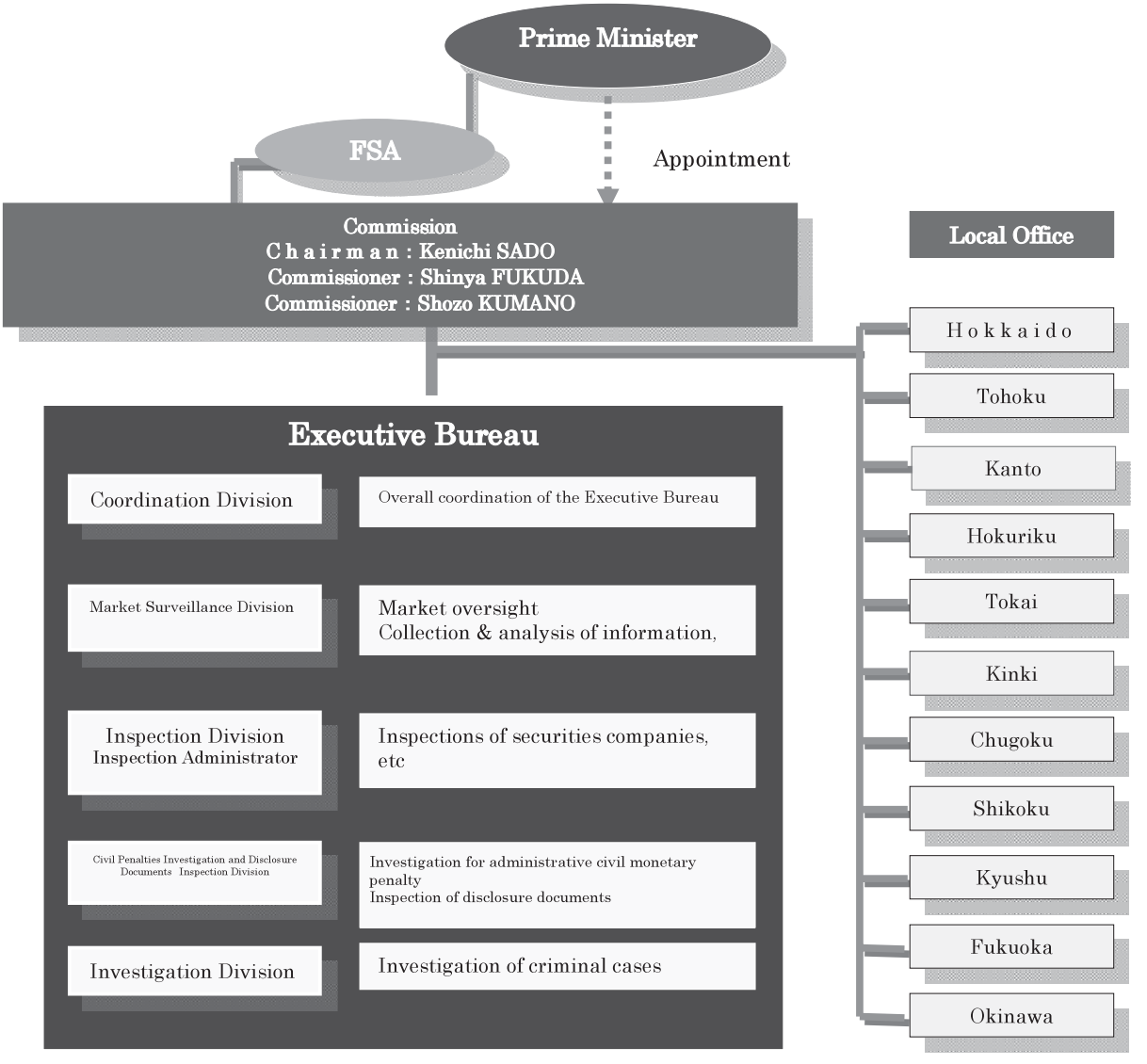
- Further cooperation with overseas regulators, including proactive information exchange as well as surveillance of electronic trading, thus precluding any loopholes in market oversight

- Message to Market Participants -

The SESC alone cannot secure integrity of the market; individual market participants' effort is crucial. Let us work together to enhance integrity of the capital market for everyone to participate with comfort.

Table 1

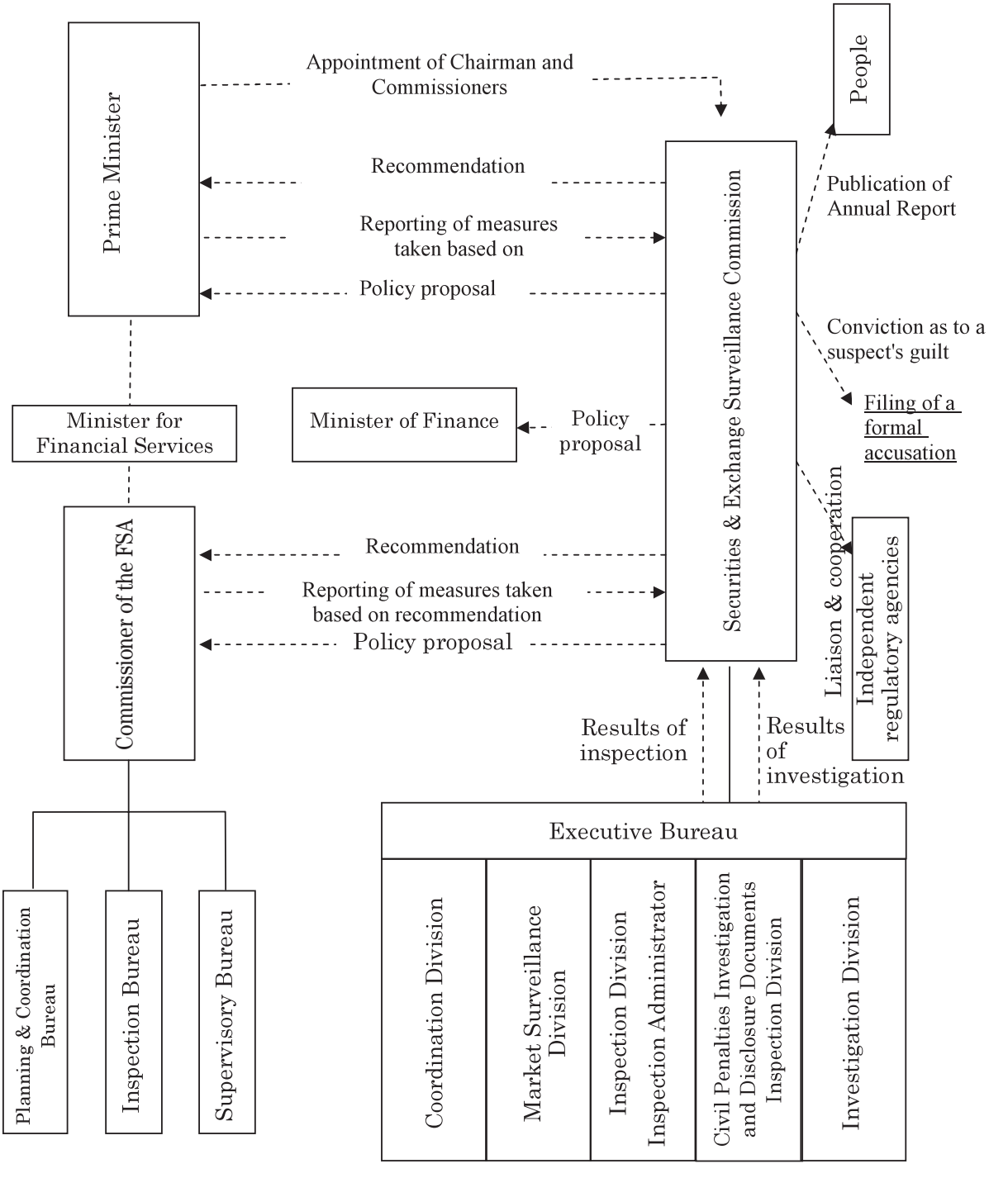
Organization of the SESC



Note: Until Business Year 2005 (July 2005～June 2006), the SESC was composed of two divisions (the Coordination and Inspections Division and the Investigation Division), and three offices (the Compliance Inspection Office, the Market Surveillance Office and the Office of Civil Penalties Investigation and Disclosure Documents Examination) under the Coordination and Inspections Division.

Table 2

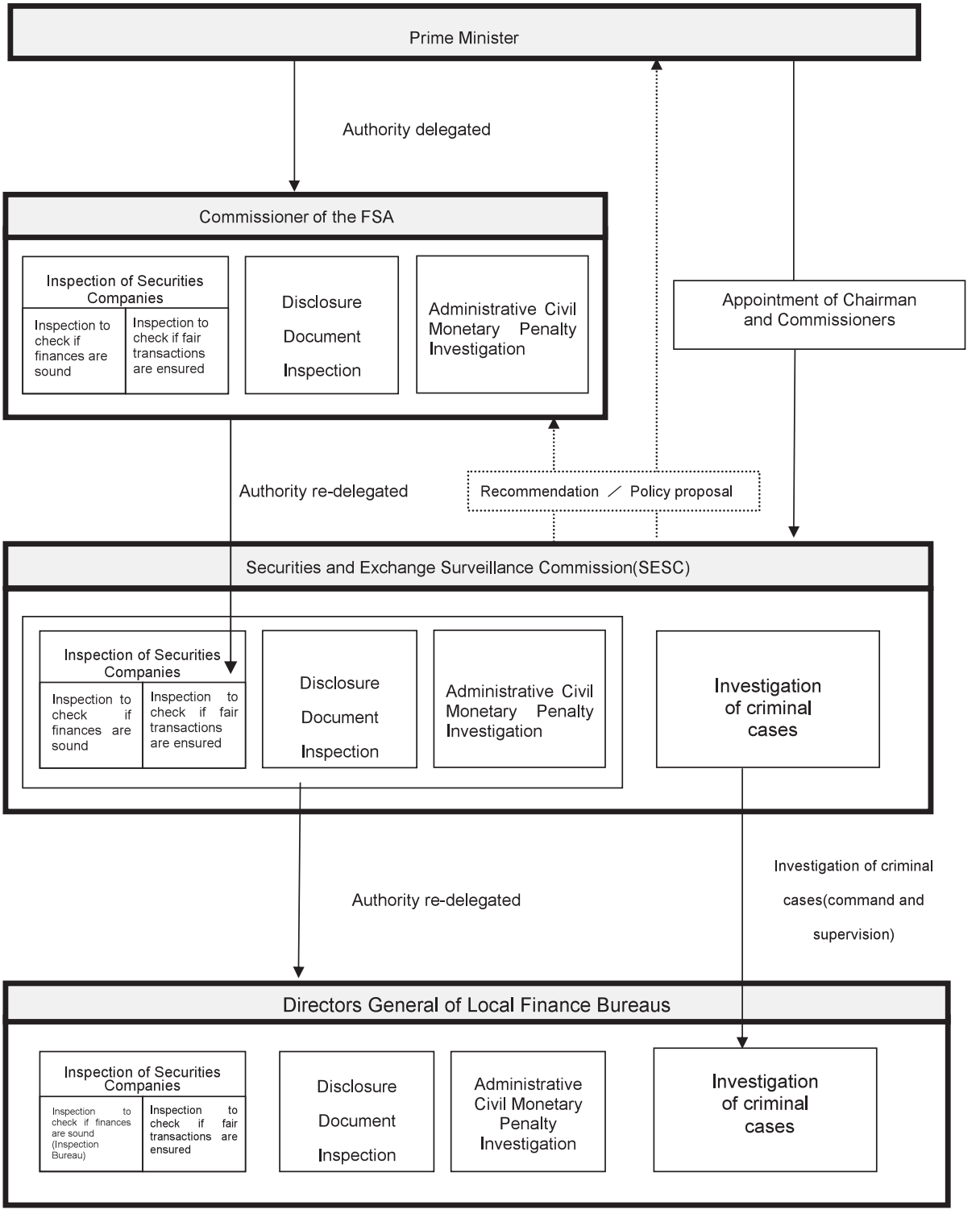
Conceptual Chart for Supervision of Securities Transactions



Note: Recommendations can be filed with the Prime Minister or the FSA Commissioner. Policy proposals can be filed with the Prime Minister, the FSA Commissioner or the Minister of Finance (Articles 20 and 21 of the Establishment Law).

Table3

Conceptual Chart of Relationship among the Prime Minister, Commissioner of the FSA SESC, and Directors General of Local Finance Bureaus

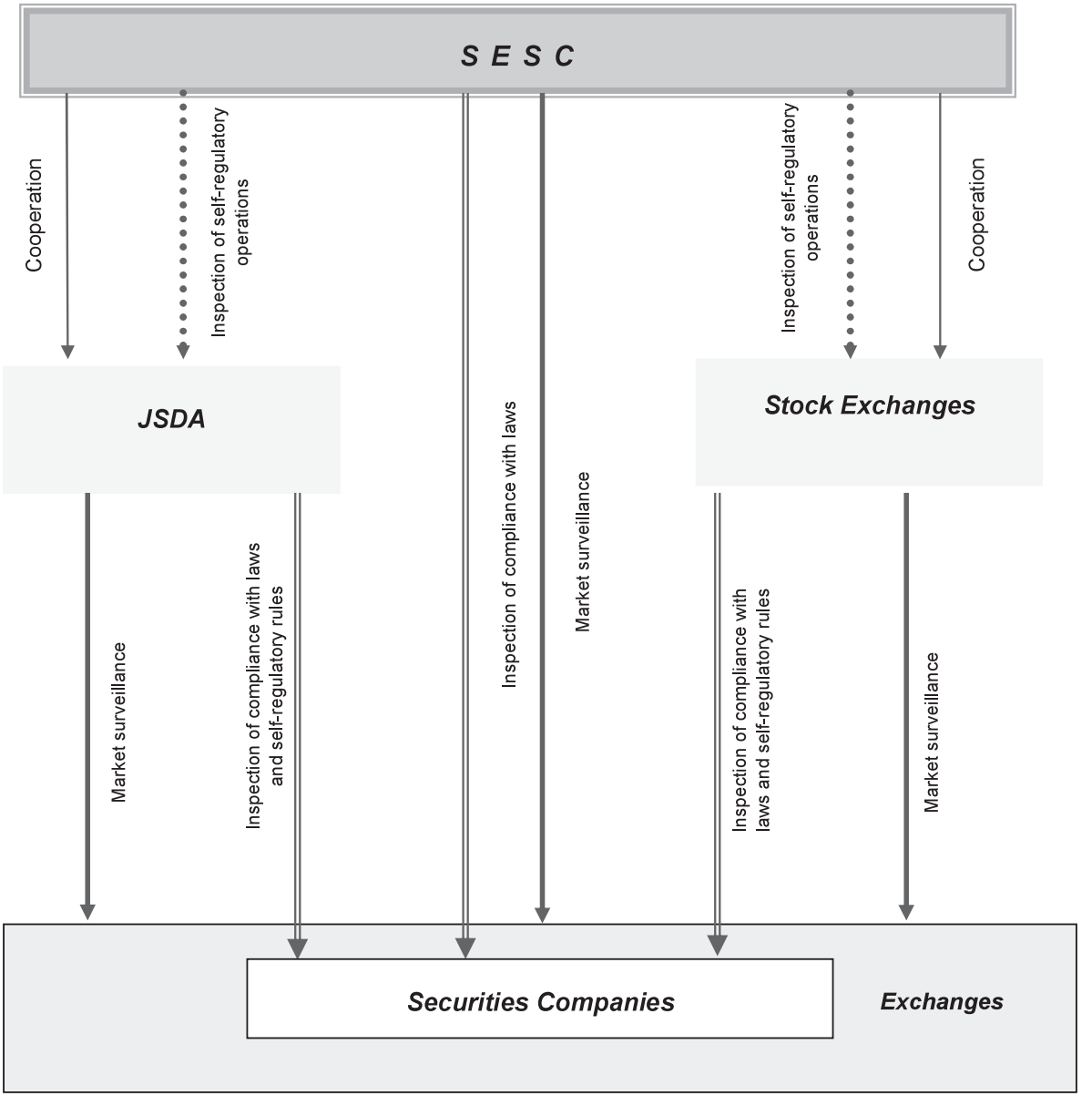


(Note1) For the authority that the SESC delegates to Director General of Local Finance Bureau or the Director of its branch office, the SESC directs and supervises Director General of Local Finance Bureau or the Director of its branch office. (Securities and Exchange law: Article 194-6 (7))

(Note2) 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. (Securities and Exchange law: Article 224(4) and (5))

Table 4

Relationship to Self-Regulatory Organizations



Note: The same system applies to financial futures.

Summary of Notable Cases Subject to Recommendations Issued by the SESC in Business Year 2006

(1) Recommendations for orders to pay administrative civil monetary penalties (Unfair trading)

(From July 2006 to June 2007)

Date of recommendation	Details of violations	Process following recommendation
March 9, 2007	Insider trading In the course of his job duties, an executive officer of Komatsu Ltd. came to know the fact that the company's subsidiary, Komatsu Finance (Netherlands) B.V., decided to dissolve. From July 4 to 13 before the disclosure of this fact on July 13, 2005, this executive officer purchased 1,316,000 shares at 1,177,461,000 yen for the account of Komatsu Ltd. - Penalty: 43.78 million yen	Date of decision on the commencement of procedure for judgment: March 9, 2007 Date of issuance of order to pay penalty: March 30, 2007 Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.
May 8, 2007	Insider trading In the course of his job duties, an officer of Otsuka Kagu, Ltd. came to know the fact that the company would revise its estimated amount of dividend. From February 10 to 22 before the disclosure of this fact on February 23, 2006, this officer purchased 79,000 shares at 332,955,000 yen for the account of Otsuka Kagu, Ltd. - Penalty: 30.44 million yen	Date of decision on the commencement of procedure for judgment: May 8, 2007 Date of issuance of order to pay penalty: May 29, 2007 Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

(2) Recommendations for orders to pay administrative civil monetary penalties (False disclosure documents)

(From July 2006 to June 2007)

Date of recommendation	Details of violations	Process following recommendation
November 22, 2006	False securities reports Higashinihonhouse Co., Ltd. prepared a securities report for the year ended October 2005 containing false statements, and submitted it to the Director-General of the Kanto Local Finance Bureau on January 27, 2006. Although consolidated net assets should be approximately 3.4 billion yen, the company recorded the amount of approximately 3.8 billion yen in the equity section in the consolidated balance sheet (corresponding to the "consolidated net assets" section under latest legislation) through understatement of allowance for retirement benefits. In addition, although ordinary income should be approximately 1.5 billion yen, the company recorded the amount of approximately 2.2 billion yen in the consolidated profit and loss statement. These false financial statements were incorporated in the aforesaid securities report.	Date of decision on the commencement of procedure for judgment: November 22, 2006 Date of issuance of order to pay penalty: December 6, 2006 Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.
December 18, 2006	- Penalty: 2 million yen False supplementary document to the securities registration statement Nikko Cordial Corporation made the following arrangements. (i) NPI Holdings Inc. (hereinafter "NPIH") was excluded from the scope of consolidation, even though it was wholly owned, and substantially controlled by, Nikko Principal Investments Japan Ltd. (hereinafter "NPI"), a subsidiary of Nikko Cordial Corporation. (ii) Some accounting books and documents of NPI were created in such a way to record a false issue date for exchangeable bonds issued by NPIH and held by NPI and post evaluation gains from those bonds that could not be recognized in reality. Although consolidated ordinary income should be 58,968 million yen (rounded down to the nearest million yen; this applies to consolidated ordinary income and consolidated net income, as respectively mentioned below) and consolidated net income should be 35,268 million yen, they were recorded in the amounts of 77,717 million yen and 46,935 million yen respectively in the consolidated profit and loss statement by the arrangements explained as above. This false consolidated profit and loss statement was incorporated in the security report for the year ended March 2005. On November 9, 2005, Nikko Cordial Corporation submitted to the Director-General of the Kanto Local Finance Bureau a supplementary document to the securities registration statement in which the aforesaid security report for the year ended March 2005 was incorporated by reference. In the public offering based on	Date of decision on the commencement of procedure for judgment: December 18, 2006 Date of issuance of order to pay penalty: January 5, 2007 Since a written reply admitting the fact was submitted by the person who was ordered to pay the penalty, no trial was conducted.

	this supplementary document, Nikko Cordial Corporation caused the bonds in the total amount of 50 billion yen to be acquired on November 22, 2005. - Penalty: 500 million yen	

(3) Recommendations based on inspections of securities companies and others

(Notes) ◎: A case where the recommendation was issued against the company and its officer(s) or employee(s)

○: A case where the recommendation was issued against the company

(From July 2006 to June 2007)

Date of recommendation	Details of violations	Administrative disciplinary actions, etc.
September 15, 2006	○ Insufficient transaction examinations A number of insufficiencies were found with regard to examinations of securities transactions on the securities market operated by Sapporo Securities Exchange (the "Exchange"). For one thing, the Exchange did not prescribe any specific criteria for monitoring and examination, such as the criteria for selecting contracts to be examined. In addition, the Exchange fails to conduct sufficient transaction monitoring during the market trading period and sufficient transaction examinations after the close of the market trading period. ○ Insufficient systems for controlling IT risks Because of its insufficient awareness of IT risks, the Exchange failed to formulate a basic policy for controlling IT risks across the whole Exchange, and to establish appropriate plans and programs for controlling IT risks in relation to the clearing systems.	Disciplinary action(s) imposed on the Exchange: Order for business improvement - To analyze and verify each of the matters mentioned in the left column in terms of their causes and problems, and take concrete and effective remedial steps - Take all other steps that will be determined as being necessary - To make written reporting on the status of the implementation of the steps as above mentioned, on a quarterly basis for the time being
September 15, 2006	○ Insufficient transaction examinations With regard to examinations of securities transactions on the securities market operated by Fukuoka Stock Exchange (the "Exchange"), the Exchange misunderstood that "purchase or sale contracts relevant to the stock for which an important fact or the like has been disclosed" had been exhaustively covered by such contracts to be extracted as "contracts relevant to the stock for which the fluctuation of its price or trading volume shows questionable movements." Therefore the Exchange did not prescribe any specific criteria for examining "purchase or sale contracts relevant to the stock for which an important fact or the like has been disclosed," and the Exchange was determined as failing to conduct such examinations. ○ Insufficient systems for controlling IT risks Because of its insufficient awareness of IT risks, the Exchange failed to formulate a basic policy for controlling IT risks across the whole Exchange, and to establish appropriate plans and programs for controlling IT risks in relation to the clearing systems.	Disciplinary action(s) imposed on the Exchange: Order for business improvement - To analyze and verify each of the matters mentioned in the left column in terms of their causes and problems, and take concrete and effective remedial steps - Take all other steps that will be determined as being necessary - To make written reporting on the status of the implementation of the steps as above mentioned, on a quarterly basis for the time being
November 22, 2006	◎ Acceptance of buy and sell orders for securities from a customer while being aware of the likelihood of insider	Disciplinary action(s) imposed on the Company:

	trading The deputy department director in charge of investment banking (hereinafter the "Deputy Department Director") at the Himeji branch of Daiwa Securities Co. Ltd. (the "Company") accepted orders from an officer of the company A on October 4 and 6, 2005 with regard to two purchase contracts for 1500 shares of the company A in total for the account under the name of the company B which had been opened with the Himeji branch. Due to the situations explained below, the Deputy Department Director became aware, in the course of his job duties, that the execution of those contracts was part of the insider trading of the company A shares attempted by the company A and its officer and might constitute a violation of paragraph 1 of Article 166 of the SEL. Nevertheless, the aforesaid orders were accepted without collecting written indent orders and taking other necessary steps. (i) In light of the process of opening an account under the name of the company B and other circumstances, the Deputy Department Director suspected that the real account holder might be the company A's officer by using a name-lending scheme. (ii) When receiving the buy order, the Deputy Department Director was aware of an undisclosed important fact that the company A intended to conduct a share split. (iii) The Deputy Department Director suspected that the buy orders had been instructed by the company A's officer, and recognized that the orders had been placed by the company A's another officer. ◎ Insufficient management of securities transactions by a customer in terms of the prevention of unfair trading associated with some corporate information As explained in the above mentioned case, "Acceptance of buy and sell orders for securities from a customer while being aware of the likelihood of insider trading," the Deputy Department Director accepted orders for securities transactions from a customer, while being aware of the likelihood of insider trading in the course of his job duties. The Himeji branch manager C (in office from April 2001 to December 2004) and his successor, the branch manager D (in office from December 2004 to March 2006), continued their job duties at the branch without taking sufficient measures to prevent insider trading, as more specifically explained below. (i) The branch manager C failed to take sufficient measures to prevent insider trading in the course of his job duties, as detailed below. (a) According to an in-house instruction in relation to	Order for suspension of business - Suspension from accepting buy and sell orders for such securities as regulated by Article 166 of the SEL at the Himeji branch for two days Order for business improvement and correction order - To drastically reform the internal control system at the Himeji branch - To clarify who is/are responsible for the fact leading to this administrative disciplinary action - To verify the status of the internal control system at the Himeji branch, formulate recurrence prevention programs, and put them into practice - To ensure all officers' and employees' compliance consciousness through training seminars, etc. - To make written reporting on the status of the steps actually taken in response to the order for business improvement and the correction order Disciplinary action(s) imposed on the sales representative(s): - Deputy department director at the Himeji branch:Suspension of performance of duties for eight weeks - Himeji branch manager C: Suspension of performance of duties for eight weeks - Himeji branch manager D: Suspension of performance of duties for eight weeks

	the Company's business practice, a person in charge of investment banking was prohibited from engaging in acceptance of orders for securities transactions in principle. Nevertheless, the branch manager C instructed and allowed the Deputy Department Director to handle orders for transactions for the account under the name of the company B. (b) In recognition that transactions of the company A shares for the company B's account should be carefully handled in terms of insider trading and so forth, the branch manager C instructed the Deputy Department Director to take precautions against insider trading and so forth, but did not give any similar instruction to the internal control manager and other related persons of the Himeji branch. In addition, the branch manager C himself did not check transactions of the company A shares for the aforesaid account. (ii) In the course of his job duties, the branch manager D was aware that the company B was a customer introduced by the company A and purchased the company A shares continuously, that the Deputy Department Director handled acceptance of buy and sell orders for the company B's account, and that there existed the important fact as described in item (ii) in the preceding case, "Acceptance of buy and sell orders for securities from a customer while being aware of the likelihood of insider trading." Nevertheless, the branch manager D did not take sufficient measures to prevent insider trading. ◎ Acceptance of buy and sell orders for securities from a customer without verifying the identity of the customer under the Personal Identity Verification Law As already explained in item (i) in the foregoing case, "Acceptance of buy and sell orders for securities from a customer while being aware of the likelihood of insider trading," the Deputy Department Director suspected, in the course of his job duties, that the company A's officer might be a real holder of the account under the name of the company B by using a name-lending scheme. Nevertheless, he carried out the identity verification procedure for this account as a mere formality and failed to conduct the identity verification pursuant to the PIVL.	
March 23, 2007	◎ Underwriting at an extremely inappropriate price The general manager of the IPO division of H.S. Securities Co., Ltd. (the "Company") was taking the leadership of negotiations with the company A in relation to the company A's initial public offering and the underwriting of the company	Disciplinary action(s) imposed on the Company: Order for business improvement - To clarify who is/are responsible for this violation - To improve the business

	A shares by the Company as a lead manager. (With regard to this underwriting, the person of the pre-underwriting examination division who had formerly been engaged in the work related to the underwriting was excluded from the procedures for examination for underwriting in accordance with the intention of the company A's president, and it was found that the aforesaid general manager conducted the examination for underwriting virtually on his own and controlled negotiations with the company A on the offer price, the total offering value, and so on.) The company A's president asserted: "I think the reasonable offer price should be calculated based on the total market value of 10 billion yen," "since the Company has previously proposed a higher offer price, we cannot accept any lower price," and "the offer price must, at least, be greater than the exercise price of stock options that had already issued by us." Meanwhile, the aforesaid general manager considered it inadvisable to decline to act as a lead underwriter in this phase in order to establish the company's track record of underwriting, and attempted to hold on to the position as a lead underwriter for the company A's initial public offering. Therefore, when setting the expected offer price (issue price) to be described in the securities registration statement prepared for disclosure for the public offering, the general manager agreed to set the expected offer price (issue price) at a price that was remarkably higher than the theoretical price of the company A share calculated by the Company, and slightly higher than the exercise price of stock options that had already issued by the company A. In this regard, it is at least considered that the theoretical price above mentioned was not an unreasonably low price, because the amount of estimated earnings per share (estimated EPS) used for the calculation of the theoretical price was based on the profit plan for which the adequacy of the calculation bases had not been sufficiently verified by the Company in the course of its examination for underwriting. Subsequently, in the pre-hearing procedure conducted by the Company jointly with the company A, institutional investors proposed their desirable offer price. However, this proposed offer price was derived from the expected offer price estimated by the Company and driven higher than this estimated price, and thus the provisional terms and conditions for book building determined based on the result of the pre-hearing were considered to be set at a higher price band. Under these circumstances, the Company's board of directors adopted a resolution to underwrite the public offering of the company A shares at an issue price extremely higher than the aforesaid theoretical price, and then carried out such underwriting.	management system to ensure compliance - To reinforce and strengthen the system for examinations for underwriting, establish recurrence prevention programs, and make all officers and employees fully aware of such programs Disciplinary action(s) imposed on the sales representative(s) (in relation to the registration of sales representatives of other companies): - Not yet decided
June 19, 2007	○ Insufficient systems for controlling IT risks Jasdaq Securities Exchange, Inc. (the "Exchange") was not fully aware of IT risks and its plans and programs for	Disciplinary action(s) imposed on the Exchange: Order for business improvement - To analyze and verify each of

	controlling IT risks were insufficient, as was seen in its failure to formulate a basic policy for controlling IT risks across the whole Exchange.	the matters mentioned in the left column in terms of their causes and problems, and take concrete and effective remedial steps - Take all other steps that will be determined as being necessary - To make written reporting on the status of the implementation of the steps as above mentioned, on a quarterly basis for the time being
June 20, 2007	◎ Solicitation of conclusion of brokering agreements by making visits or phone calls to customers who have not requested such solicitation On July 1, 2005 and later, the general manager of the Osaka foreign exchange trading division of Ace Koeki Co., Ltd. (the "Company") instructed the sales representatives of the departments 1 and 2 of this division, in the course of his job duties, to solicit general customers who had not requested such solicitation to enter into brokering agreements, etc. specifying the conditions for acceptance of orders for foreign exchange margin transactions (hereinafter collectively "brokering agreements"). In accordance with this instruction, the chief and two other sales representatives of the department 1 and the chief and two other sales representatives of the department 2 solicited conclusion of brokering agreements, in the course of their job duties, by making phone calls to 109 general customers who had not requested such solicitation from July 1, 2005 to November 20, 2006. In addition, the general manager of the head office's foreign exchange trading division 1 provided a similar instruction to the sales representatives of the department 1 of this division in the course of his job duties on July 1, 2005 and later. In accordance with this instruction, the unit chief and one other sales representative of the department 1 solicited conclusion of brokering agreements, in the course of their job duties, by making phone calls to eight general customers who had not requested such solicitation from July 8, 2005 to June 7, 2006. Such unrequested solicitation was conducted by the head office's foreign exchange trading division 2 as well. From August 2005 to the end of October 2006, the senior sales representative and three other sales representatives of the department 2 of this division solicited conclusion of brokering agreements, in the course of their job duties, by making phone calls to eight general customers who had not requested such solicitation. ◎ Continued solicitation of customers who have indicated that they have no intention of entering into brokering	Disciplinary action(s) imposed on the Company: Order for suspension of business - Suspension of services for solicitation of new customers and establishment of new accounts in relation to financial futures transactions at all offices for one month Order for business improvement - To clarify who are responsible for these violations - To improve the business management system to ensure compliance - To reinforce and strengthen the internal control system, establish recurrence prevention programs for eradicating violations, and make all officers and employees fully aware of such programs - To take steps to reinforce and strengthen the self-inspection system - To make written reporting on the status of the responsive steps actually taken, and make written reporting on the status of the implementation of such steps on a quarterly basis for the time being Disciplinary action(s) imposed on the sales representative(s): - General manager of the Osaka foreign exchange trading division ("FX division"): Not yet decided - Chief of the department 1 of the Osaka FX division:

	agreements In the course of his job duties to acquire new customers, the senior sales representative of the department 2 of the Osaka foreign exchange trading division of Ace Koeki Co., Ltd. (the "Company") conducted unrequested solicitation by making a phone call to one customer in the spring of 2006. Subsequently, this senior sales representative conducted re-solicitation by making visits or phone calls continuously to persuade the customer to open a new account, even though the customer indicated that he had no intention to enter into brokering agreements. Similarly, the unit chief and one other sales representative of the department 1 of the head office's foreign exchange trading division 1 conducted unrequested solicitation by making phone calls to two customers in early October 2005 and on April 5, 2006 respectively in the course of their job duties. Subsequently, they conducted re-solicitation by making visits or phone calls continuously. In addition, the senior sales representative of the department 2 of the head office's foreign exchange trading division 2 conducted unrequested solicitation by making a phone call to one customer in August 2005 in the course of his job duties, and conducted re-solicitation by making visits or phone calls continuously.	Not yet decided - Senior sales representative of the department 1 of the Osaka FX division: Not yet decided - Senior sales representative of the department 1 of the Osaka FX division: Not yet decided - Chief of the department 2 of the Osaka FX division: Not yet decided - Senior sales representative of the department 2 of the Osaka FX division: Not yet decided - Senior sales representative of the department 2 of the Osaka FX division: Not yet decided - General manager of the head office FX division 1: Not yet decided - Unit chief of the department 1 of the head office FX division 1: Not yet decided - Senior sales representative of the department 1 of the head office FX division 1: Not yet decided - Senior sales representative of the department 2 of the head office FX division 2: Not yet decided - Employee of the department 2 of the head office FX division 2: Not yet decided - Employee of the department 1 of the head office FX division 2: Not yet decided
June 29, 2007	○ Arbitrary allocations of new listed shares (Breach of duty of loyalty) With regard to the investment in new listed shares for the management of assets of investment trust fund and assets placed under discretionary investment management agreements, Pictet Asset Management (Japan) Ltd. (the "Company") determined as a rule in December 2001 that the shares must be allocated in proportion to value of assets in principle. However, the head manager of the investment section who was responsible for allocations of the Assets gradually disrespectful of the Allocation Rule	Disciplinary action(s) imposed on the Company: Order for suspension of business - Prohibition of conclusion of new investment trust agreements for one month - Prohibition of conclusion of new discretionary investment management agreements for one month Order for business improvement - To: (i) clarify the business

and, in the end, arbitrarily selected specific Assets of small value and intensively allocated the shares, since such allocations contributed to the performance of the funds, and arbitrarily selected comparatively low performed Assets and intensively allocated the Shares for a certain period of time to improve its performance. In this way, the manager repeatedly conducted inequitable allocations not conforming to the prescribed allocation rule.

(Supplementary Explanation)

○ Cases of inequitable allocation of shares

Case 1: Allocation in March 2006 (for 43 shares of the company X)

Fund/customer	Number of shares allocated	Share in allocation	Asset value	Referential number of shares
Offshore account A	15	34.9%	1,818	0
Offshore account B	0	0.0%	61,002	16
Pension C	17	39.5%	3,081	1
Pension D	0	0.0%	8,196	2
Pension E	0	0.0%	7,204	2
Pension F	0	0.0%	15,463	4
Pension G	0	0.0%	17,884	5
Pension H	0	0.0%	5,027	1
Pension I	0	0.0%	16,074	4
Pension J	0	0.0%	6,427	2
Pension K	0	0.0%	3,712	1
Fund L	11	25.6%	4,022	1
Fund M	0	0.0%	587	0
Fund N	0	0.0%	169	0
Fund O	0	0.0%	14,523	4

The figures for assets size are the data as of the end of March 2006. Unit: Million yen

The referential numbers of shares are the figures that would be applied if the allocation were made in proportion to asset value.

Case 2: Allocations from January to September 2003

(New listed shares of 38 stocks that were available for allocation)

(Comparison between specific accounts with similar asset value)

Fund/customer	Number of allocations	Unit for allocation	Fund size
Fund A	33	555	2,402
Pension B	20	289	2,195

The figures for assets size are the data as of the end of September 2003. Unit: Million yen

(Comparison among specific investment trust accounts with same fund type)

Fund	Number of allocations	Share in allocation	Share in asset value
Fund A	33	38.1%	23.9%
Fund B	14	28.9%	44.6%
Fund C	12	25.5%	24.5%
Fund D	11	7.5%	7.0%

The figures for share in allocation show the percentages among these four funds only, and the figures for share in asset value are the data as of the end of September 2003.

The fund names and customer names mentioned in the case 1 and those mentioned in the case 2 are not identical with each other.

attitude for ensuring compliance; (ii) establish the systems in which compliance and internal control are ensured under the responsibility of top management; and (iii) re-examine operational methods to implement the matters stated in (i) and (ii) above; with the aim of achieving fair and appropriate business operations as an asset management firm

- To formulate concrete recurrence preventive programs, in particular, in relation to distribution of earnings or results (including new listed shares) among multiple assets invested and managed; for examples, to design the system to check whether impartial allocations are made pursuant to applicable laws and regulations and in-house rules
- To clarify who is/are responsible for the violation (including management-level responsible person(s)), based on the results of this SESC's inspection
- To submit a written business improvement plan in relation to the foregoing issues, and put them into practice immediately

Introduction of Chairman and Commissioners

Chairman **Kenichi SADO**

Kenichi SADO was appointed chairman of the SESC In July 2007. Before being appointed to 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 **Shinya FUKUDA**

Shinya FUKUDA was appointed commissioner of the SESC in July 2007. Before being appointed to the commission, he served as a Senior Partner, TOHMATSU-AOKI Audit Corporation (present TOHMATSU Audit Corporation).

Commissioner **Shozo KUMANO**

Shozo KUMANO was appointed commissioner of the SESC in July 2007. Before being appointed to the commission, he served as a Director, Board Member, Nomura Holdings Co., Ltd and Advisor to Chairman of the SESC.

The Securities and Exchange Surveillance Commission

3-1-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8967, Japan

Tel : +81(3)3581-7868

Fax : +81(3)3581-9846

Website : http://www.fsa.go.jp/sesc/english/index.htm