Annual Report
2007/2008

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 financial and capital markets has been changing drastically in recent years, as seen in increases in the number of financial instruments firms entering and leaving markets, and the number of complex instruments and transactions, as well as the rapid growth in online cross-border trading.

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 monetary penalties and inspection of disclosure documents, accompanied by expansion of the organization.

In addition, with the Financial Instruments and Exchange Act (FIEA) put in effect from September 2007, the scope of market surveillance by the SESC has further expanded. The coverage of administrative monetary penalties investigation and disclosure documents inspection will expand further with the implementation of the law for partially amending the FIEA, enacted in June 2008. 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, the SESC will further strengthen its cooperative relationship with such parties.

Responding to the changing environments in the markets and revision of the regulatory systems, the SESC will do its utmost to establish fair, highly transparent and healthy markets and maintain the trust of 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 2008

佐波賢一

Kenichi SADO
Chairman
Securities and Exchange Surveillance Commission

Contents

Supplements

1. Market Surveillance

1) Outline

The SESC conducts market surveillance in which it extensively collects and analyzes various materials and information related to financial and capital markets on a daily basis. Through market surveillance, the SESC investigates suspected cases of unfair trading and analyzes market trends.

These activities are aimed to ensure fairness of trading through the broad-based supervision of transactions in financial and capital markets.

In Business Year (BY) 2007, specific efforts were made to enhance cooperation with Self-Regulatory Organizations (SROs) and overseas authorities, and improve of market surveillance. The SESC also tries to conduct market surveillance focused on both primary markets and secondary markets, detect problems in their early stages, and respond to them quickly. Furthermore, the SESC is making efforts to conduct comprehensive and flexible market surveillance, as seen in its extensive attention paid to transactions which are not considered obviously illegal, and in its intensive analysis of problems behind individual transactions and market trends.

2) Receipt of Information from the General Public

1. Outline of Receipt of Information

The SESC receives wide-ranging information from the general public, as a part of its collection of materials and information.

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 financial instruments business operators, administrative monetary penalties investigation, disclosure documents inspection, and investigation of criminal cases.

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

The SESC has made positive efforts to increase the number of contacts for information submission, such as calling for information from the general public through government publicity and lecture meetings.

Information provided by the general public on trouble between a financial instruments business operator and an investor is effectively utilized in inspections by the SESC. In addition, if an information provider seeks individual settlement of a conflict, the SESC deals with it in a way such as introducing him/her to "the Securities Mediation and Consultation Center" of Japan Securities Dealers Association (JSDA), a system for processing of complaints.

In addition, the SESC introduces appropriate consultation services to people who are complaining about commodity futures trading and other products, which are not under the control of the SESC.

2. Receipt of Information

In BY 2007, 5,841 pieces of information were received from the general public including investors. While this was a year-on-year decrease of approximately 10%, it was the third largest amount of information collected since the inception of the SESC in 1992. This may be attributed to the fact that the public acknowledgment about the SESC's activities has become firmly established as a result of smooth implementation of the administrative monetary penalty system by the SESC, and other reasons.

The exact breakdown of the means used in the submitted information was; 4,193

contacts via the Internet, 766 by telephone call, 381 by letter, 58 visitation, and 443 contacts were referred to the SESC from Local Finance Bureaus. Among these means, the Internet and telephone calls constituted approximately 90% of all of the submitted information received by the SESC.

In terms of substance of information, 4,612 cases were related to individual stocks, 847 cases were related to sales practices and other issues of financial instruments business operators, and the remaining 382 cases were opinions on other matters.

Among the cases relating to individual stocks, suspicions of market manipulation ranked highest, and they made up approximately 40% (2,126 cases) of all of the cases. This figure is indicative of widespread doubts among investors as to proper formation of stock prices.

The second-largest group was related to suspicious spreading of rumors on stock markets, representing approximately 20% (995 cases) of all of the cases. Such information was, for the most part, related to unfounded rumors or investment decisions and other tips posted on Internet bulletin boards. Suspected insider trading and false financial statements were also major types of information received by the SESC.

The information received in connection with sales practices, and other issues of financial instruments business operators covered various topics such as; unauthorized transactions, transactions under discretionary account agreements, solicitation with decisive predictions, foreign exchange margin transactions, and other types of transactions.

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, through its oversight of market movements and the information obtained from various sources, and the SESC requests financial instruments business operators, and other related persons to make detailed reporting or submit data in relation to transactions of such stocks.

(1) Stocks showing sharp rises, declines in price or other questionable movements
(2) Stocks related to the material fact that may have a significant influence on investors' investment decisions
(3) Stocks frequently reported or discussed in newspapers, magazines, or Internet bulletin boards
(4) Stocks mentioned in the information obtained from the general public

Based on these reports and data, the SESC investigates suspected transaction of market manipulation, insider trading, and other transactions that impair the integrity of the market.

At the same time, the SESC examines whether financial instruments business operators and other related persons involved in these transactions have committed any acts violating regulations prohibiting them from doing specific types of acts.

If such examination reveals a problematic transaction, it is reported to the SESC's relevant divisions for further investigation.

In addition to the foregoing, the SESC asks financial instruments business operators and other related persons to submit reports or 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 precise pictures.

2. Legal Basis

In market oversight, the SESC requests financial instruments business operators and other related persons to submit reports and data on particular securities transactions when it is found necessary and appropriate from the viewpoint of ensuring fairness of financial instruments trading and protecting investors. Such authority delegated to the SESC is prescribed in the Financial Instruments and Exchanges Act (FIEA) and other laws.

3. Close Cooperation with Self-Regulatory Organizations

Day-to-day market monitoring activities similar to the SESC's market oversight are also conducted by SROs such as financial instruments exchanges and the Financial Instruments Firms Association.

Their monitoring activities have the important function of checking whether market participants are implementing their business operations in an appropriate manner.

As financial and capital markets are becoming more complicated and diversified in recent years due to the emergence of new financial instruments 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 inquiries about factual data on transactions.

The SESC and Local Finance Bureaus will use "Compliance WAN" of which partial operation is scheduled to start from January, and full-scale operation from May 2009. Through this system, it will be possible to electronically process data on transactions received from former securities companies.

(Note) Compliance WAN: A system which electronically and integrally processes all data for transaction examinations with the network connecting securities companies nationwide, SROs, the SESC and Local Finance Bureaus.

4. Results of Market Oversight

(1) Results of Market Oversight

In BY 2007, the SESC conducted its market oversight activities classified into the following major categories, in an efficient and flexible manner pursuant to 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 Local Finance Bureaus are as follows.

The number of oversight cases	BY 2007	BY 2006
Total	1,098	1,039
SESC	598	631
Local Finance Bureaus	500	408
(Breakdown of oversight items)		
Market manipulation	141	141
Insider trading	951	884
Others	6	14

(2) Main Cases Examined

The main cases examined during BY 2007 were, among others, as follows.

(i) Market manipulation cases examined, as

(a) The share price and traded volume of Company A soared without any particular reason.

(b) The share price and traded volume of Company B soared without any particular reason, and there was a rumor of involvement by a specific person in trade papers or other types of media.

(c) The share price and traded volume of Company C soared without any particular reason, and information on the possibility of market manipulation was provided by a general investor.

(d) Information was provided by financial instruments business operators on the suspicion of market manipulation by a specific person in relation to the stock of Company D.

(e) Information on questionable placement and cancellation of buying orders by an investor was provided by a general investor, and the SESC found a situation that such an investor had used similar methods of transactions; consequently, the SESC examined in the transactions of the stock of Company E and other companies' stocks which were traded by the specific person.

(ii) Insider trading cases examined on transactions of respective shares before announcements, as

(a) The share price of Company G soared after an announcement of a takeover bid of Company G by Company F.

(b) The share price of Company H soared after the announcement of a business and capital alliance.

(c) The share price of Company I soared after an announcement of stock splits.

(d) The share price of Company J plunged after an announcement that the company had filed for commencement of civil rehabilitation proceedings.

(e) The share price of Company K plunged after an announcement of a downward revision of its business forecast.

(f) The share price of Company L soared after an announcement of an upward revision of its prospective dividend.

(g) The share price of Company M soared after an announcement of the allocation of shares to a third party.

(iii) Cases examined from other aspects, as

(a) Information was provided by a general investor that a certain person might have been earning profits by having newspapers and magazines place negative information against Company N to cause its share price to fluctuate.

(b) The share price of Company O fluctuated after information about the possibility of a massive sale of Company O shares spread on the Internet.

(3) Results of Market Trend Analysis

The SESC conducted broad-based market trend analyses in BY 2007. In particular, the SESC analyzed, among others, potential impacts on financial and capital markets caused by new financial products or transaction methods, and events that may reveal or lead to structural problems in financial and capital markets.

[Analysis Cases]

The main cases analyzed by the SESC in BY 2007 were, among others, as follows:

(a) New listings and delistings in emerging markets
(b) Foreign exchange margin tradings at the time of sharp yen appreciation
(c) FIX* protocol in electronic orders which have been increasingly utilized by overseas institutional investors

＊FIX：Financial Information Exchange

Financial Information Exchange, which enables orders to be placed and received, with no chance of error, by means in which the ordering party and receiving party communicate with each other through pre-assigned protocol.

2. Inspections of Securities Companies and Other Entities

1) Outline

The SESC conducts on-site inspections of financial instruments business operators and others entities based on the authority delegated by the Prime Minister and the Commissioner of the FSA under the FIEA and other laws, to check their compliance with rules and regulations for ensuring fairness in financial instruments 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 Securities and Exchange Law(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 trading (FX) are newly included in the category of financial futures companies under the revised Financial Futures Trading Law (FFTL).

Since the FIEA established by reorganizing the SEL came fully into force in September 2007, the coverage and scope of the SESC's inspection has been expanded. This new law is cross-sectional legislation capable of responding to changes in environments surrounding financial and capital markets and thus protecting investors. It is also intended for implementing the rules for investor protection completely and promoting investor's convenience, ensuring market functions to encourage the flow of savings into investments, and addressing the globalization of financial and capital markets. 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.

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

Also the SESC's inspection based on the authority delegated by the Prime Minister and the Commissioner of the FSA under the Act on the Prevention of Transfer of Crime Proceeds is carried out simultaneously with the inspection base on the authority under the FIEA, etc.

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 financial instruments 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 financial instruments business operator, a registered financial institution, or a financial instruments intermediary service provider, the Financial Instruments Firms Association 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, the Financial Instruments Firms Association 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 the Financial Instruments Firms Association.

The inspection in BY 2007 featured the establishment of a risk-focused inspection plan on September 5, 2007, with an eye to implementation of flexible and efficient inspections based on "Towards Enhanced Market Integrity" in which the future policy of approach, priority measures and other issues were summarized. The SESC also selected cross-cutting themes on issues and concerns of markets, and conducted special inspections (thematic inspection) for objects of inspection with common problems.

Furthermore, under Article 51 of the FIEA, it became possible to issue orders such as to modify business methods when it is found necessary and appropriate for the public interests or protection of investors. Taking this into account, the SESC is implementing inspections focused on not only individual violations of law, but also on internal control systems.

2) Basic Inspection Policy and Basic Inspection Plan

Affairs concerning inspections by the SESC are operated with a cycle of the BY starting on July 1 of each calendar year and ending on June 30 of the subsequent calendar year, which coincides with the BY 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 BY.

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

3) Formulation of Manuals for Inspection of Financial Instruments, Business Operators and Other Entities

1. Process of formulation

Since the scope of business operators to be inspected by the SESC and the items to be examined in such inspections were expanded due to the full-scale enforcement of the FIEA on September 30, 2007, it was expected that the existing manuals for inspection of securities companies and those for inspection of investment trust companies and investment advisory companies would not be able to deal with all matters adequately. Accordingly, the SESC newly formulated the "Manuals for Inspection of Financial Instruments Business Operators" (hereinafter the "Inspection Manuals") which organized the basic attitude and the specific focuses of the inspection.

To draft the Inspection Manuals, eight meeting sessions were held to hear comments from firms dealing with financial instruments and take actual conditions of those firms into full consideration. After seeking public comments from June 25 to July 26, 2007, the Inspection Manuals were published on September 26, 2007, based on comments made in such a process.

The Inspection Manuals have been used for inspections which started on and after September 30, 2007.

2. Key Points for Formulation

(1) Expansion of the scope

The scope of the SESC's inspection was expanded to respond to inspections of business operators to be newly included in the scope of regulations, such as business operators who manage units or shares of investment funds under collective investment schemes at their discretion.

(2) Formulation of "Ideal situation of financial instruments business operators"

Based on Article 51 of the FIEA (Article 51-2 for registered financial institutions), the issuance of orders for business improvement became possible also for cases which are not considered illegal. In exercising this Article, not routine application to regulations, but judgment based on general rules is required, in which an order would be issued "when it is found necessary and appropriate for the public interests or protection of investors"

Accordingly, as for the known facts, it is necessary to clarify what is the matter and how financial instruments business operators should have acted, and to verify how it is related to "public interests or protection of investors". As a guideline to judge them, the "Ideal situation of financial instruments business operators" was formulated to clarify what is the matter and how financial instruments business operators should have acted according to the principle of IOSCO and others.

(3) Improvement of inspection items concerning internal control systems

In consideration of the formulation of the provisions in Article 51 of the FIEA, inspections further focused on how the internal control systems of inspected business operators are to be conducted. In this light, apart from inspection items in terms of execution of duties ("Services and Operations"), items for "Structures and System" are included.

Specifically, "Structures and Systems" include inspection items considered effective for comprehending the status of system improvements and risks in inspected business operators. However, "Services and Operations" includes inspection of items to confirm their compliance with the law. Verified from both sides, the actual situation of inspected business operators can be comprehended.

(4) Classification of inspection items corresponding to service category

As the FIEA imposes regulations by service category, inspection items classified into "Structures and Systems" and "Services and Operations" are further classified into common inspection items and inspection items by service category, to be used in correspondence to the service category of inspected business operators.

3. Revision

Based on the "Guidelines to enable companies to prevent damages caused by antisocial forces" (agreement of cabinet meeting on crime countermeasures on June 19, 2007) and results of inspections in BY 2007, the revisions were announced on July 4, 2008, after seeking public comments from May 14 to June 13, 2008. In the revisions, inspection items concerning system improvements such as cutting off all relations with antisocial forces, the risk control systems of over-the-counter financial futures business operators, the condition of separate management and others were added or modified.

These revisions are to be used for inspections started in and after BY 2008.

4) Results of Inspections

In BY 2007, the SESC commenced inspections of 138 Type I financial instruments business operators, 32 registered financial institutions, 1 financial instruments intermediary service provider, 2 Type II financial instruments business operators, 26 investment management business operators, 21 investment advisory and agency business operators, 10 investment corporations, 1 self-regulatory organization and 2 other companies.

5) Thematic Inspection

1. Inspections on Customer Management Systems and Credit Risk Management Systems Pertaining to Margin Trading (In relation to stock of OHT Inc.)

(1) Outline

When the stock price of OHT Inc. (listed on TSE Mothers, hereinafter referred to as the "Stock") dropped sharply on May 15, 2007, many securities companies that had accepted orders for margin trading of the Stock had to pay large amounts of money on behalf of their customers who failed to pay the settlement losses. The SESC collected reports on this matter from 31 such securities companies, and visited 19 of them for inspection, in order to learn in what situations such payments by the securities companies occurred and to verify the appropriateness of their customer management systems and credit risk control systems (10 companies were inspected by the SESC and 9 by Local Financial Bureaus).

As companies which were not inspected this time may have problems, such as in their credit risk management systems, that are similar to those of inspected companies, the outline of inspection results which may serve as useful reference for market players, including those companies, were announced.

(2) Outline of Inspection Results

(i) Customer management systems

The SESC found some improper cases including: a case where appropriate procedures for personal identity verification based on the Personal Identity Verification Law (PIVL) were not followed (for example, sending a customer mail that could not be forwarded to the sender if the address was incorrect), a case in which transactions were conducted without having thoroughly verified the personal identity of the account holders in such a way as contacting customers, even though the accounts were suspected of being related

to identity-theft because they used identical e-mail addresses, and cases regarding the screening of customers in which many companies were meeting with customers as a mere formality, at the time of opening accounts for online margin trading and even when the companies felt doubtful about their trading conditions.

As for reports of suspicious transactions, it was found that the number of transactions reported varied considerably among companies due to their inconsistent criteria for reporting, and some companies did not understand the reporting system sufficiently. As for handling antisocial forces, the SESC also found that some companies have not collected information on them nor have they checked accounts to be opened at all.

(ii) Customer management systems

Based on various pieces of information, while almost all companies inspected this time took actions for customers such as suspending new margin trading of the Stock or of the related accounts before payment, the timing of implementation was considerably different. The appropriateness of credit risk management and other systems cannot be judged solely by the timing of such actions. However, it was found that some securities companies were behind in taking these actions due to serious weaknesses in credit risk management systems, etc.

Furthermore, the SESC found companies with management systems that insufficiently assessed risk characteristics of the contents of transactions, for example the conditions for setting the date of repayment, traded stocks, the status of collateral securities (whether or not transactions in which the same stocks were purchased as collateral securities were implemented) and non-face-to-face trade, as well as companies which were behind in taking actions as the customer management department did not inform the risk management department of the status of transactions and the like.

Cases were also found in which some companies which had to pay a large amount of money for customers who incurred big losses overlooked the transactions, in spite of the fact that they had been detected many times during transaction examination due to the high ratio of involvement in the transaction.

Although the above-mentioned problems were recognized in this inspection, the SESC specifically pointed out problems only for those companies with obviously problematic internal control systems, in consideration of the following matters:

- This was the first inspection implemented with a cross-sectional approach, focusing on systems such as customer management and credit risk management.
- Based on these cases, improvement measures have already been implemented or considered by each company and within the industry.
- While it is necessary to enhance customer management systems and credit risk management systems according to each company's size, characteristics and other considerations, the criteria to decide the minimum standards or the best practices have not yet necessarily been established.

Moreover, based on the results of the inspection, a part of "the Inspection Manuals" was revised to add inspection items concerning credit risk management for margin trading.

In this inspection, the effectiveness and practicability of improvement measures conducted and considered by each securities company were verified. The SESC also verified the state of enhancement of credit risk management and other systems according to each company's size and characteristics, which should be implemented against the above-mentioned problems in response to measures supervisory authorities and self-regulatory organizations are taking. When there are found to be serious

problems that have negative effects on the appropriateness of operations and financial soundness, the SESC intends to encourage the relevant securities companies to improve them, if necessary.

2. Inspections on risk management of companies dealing with foreign exchange margin trading (FX)

(1) Outline

In and after November 2007, The SESC conducted intensive inspections of companies dealing with foreign exchange margin trading, mainly verifying their financial soundness and risk management systems. Those inspections were implemented, taking into account drastic changes in economic situations and failures of companies dealing with foreign exchange margin trading resulting from the U.S. subprime loan crisis in August 2007. As of the end of June 2008, 73 companies were inspected including 5 companies inspected by the SESC and 68 by Local Financial Bureaus. Not only companies specialized in financial exchange margin trading but also those combined with securities businesses were included.

As results of the inspections, the following cases were found:

- Especially dishonest or improper conduct, for example being registered with misrepresentation of the Capital-to-Risk Ratio
- A situation in which there is a risk of insolvency in light of status of property
- Violations of the provision on separate management, in which money deposited by customers was not managed separately from a company's own asset
- Situations in which the Capital-to-Risk Ratio was less than 120%, and the net assets were less than 50 million yen, the minimum net assets requirements.
- Violation of the provision on segregation measures and report of the false Capital-to-Risk Ratio to the authority
- Extremely insufficient systems for controlling IT risks
- Continued solicitation of customers who have indicated that they have no intention of entering into brokering agreements

Consequently, the SESC issued the recommendation for administrative disciplinary actions to 7 companies. In addition, a considerable number of companies dealing with foreign exchange margin trading were found to be in violation of law. Most of those companies have already submitted improvement reports based on the results of the inspection, and have implemented improvement measures. However, the SESC announced the outline of the inspection results on July 2, 2008, because it was considered necessary to widely boost investor awareness by clarifying not only the problems of each company but also those common to the business category.

(2) Outline of Inspection Results

(i) Internal control systems relating to segregation measures

Money and securities deposited from customers (customer margin, etc.) should be managed separately from a company's own asset using measures pursuant to the law, such as deposits and savings (under names which make it clear that they are customer deposits.), money trusts (under names which make it clear that they are customer deposits.), and deposits with a covering company (Note). However, in the inspection, the SESC found some improper cases in which customer deposits were diverted for lending to the company's president and to payment of salary to employees, and where other customer deposits were used to compensate for the losses of specific customers.

Even when money and securities deposited by customers were managed through deposit with a covering company, a case was found in which such customer deposits were consumed due to losses caused by proprietary trading based on them.

Furthermore, the SESC found a case in which the company transferred its losses to a customer account, using fictitious trading to conceal these losses for fear of their disclosure.

(Note) A covering transaction is a transaction which a company dealing with foreign exchange margin trading conducts with other financial instruments firms, etc. (covering company), for the purpose of reducing the risk of loss which may arise from trading with customers

(ii) Comprehension of financial position and verification systems

As a result of the inspections, many companies were found to leave everything concerning calculation of the Capital-to-Risk Ratio to specific personnel in charge without establishing a verification system and functioning internal audit.

As for the Capital-to-Risk Ratio, The SESC found a flagrant case in which a company intentionally calculated the Capital-to-Risk Ratio to be larger than the actual value by underestimating the amount equivalent to customer risk and reporting it to the relevant authority. For this purpose, the company conducted fictitious fund transfer operations to make it seem that a part of the money, etc. deposited with a covering company that was covering transactions had been transferred to a domestic account with low risk weight. Furthermore, many companies were found to have incorrectly calculated the Capital-to-Risk Ratio due to an absence of internal rules concerning its calculation, a lack in the responsible parties' understanding of laws and calculation methods, and nonfunctional internal checking systems. The SESC also found a case in which the net assets were less than the minimum requirements (50 million yen), and as there was no capable accounting personnel, an officer in charge of accounting conducted inappropriate accounting procedures such as the overstatement of assets.

(iii) Systems for controlling IT risks

For the smooth operation of companies dealing with foreign exchange margin trading, it is essential to build, maintain and manage an appropriate system for receiving and placing orders. However, some companies were found to have extremely insufficient systems for controlling IT risks. For example, an appropriate system for controlling IT risks had not been established, as a basic policy and specific criteria for controlling IT risks had not been determined. A system audit had never been conducted. Procedures to respond to customers at the time of system failures had not been determined, and system failures had occurred many times due to servers being left overloaded for an extended period of time.

(iv) Others

The SESC found a case in which a contract for discretionary stock transactions was concluded to execute foreign exchange trading with accounts such as those of persons living abroad, to which customer margin was transferred from customer accounts while falsifying transactions that had caused the customer losses on their sale. The purposes of this were tax strategy, expansion of transactions with customers earning significant gains in foreign exchange margin trading, and improvement of the company's income from commission.

Through the recent inspections, a considerable number of companies dealing with foreign exchange margin trading were found to some extent to be in violation of the law. The inspection results revealed that the construction of appropriate risk management systems are extremely important because of the characteristics of foreign exchange margin trading that enable a customer to trade a larger amount of money than that customer's deposit (highly-leveraged transaction). Consequently, the following matters should be considered:

(1) In consideration of the characteristics of foreign exchange margin trading that enable a customer to trade a larger amount of money than that customer's deposit, it is very important to verify whether or not customer loss-cut rules are functioning appropriately at the time of drastic market fluctuation. If they are not functioning properly, not only the relevant customers and companies but also all customers may suffer losses. From this viewpoint, it is essential to verify whether or not a specific loss-cut rule is functioning appropriately and whether or not the systems to enable the loss-cut rule to function are working smoothly.

(2) The SESC found a case in which a company dealing with foreign exchange margin trading conducted proprietary trading, apart from trading for customers. There was also the risk of causing potential losses on customer's deposits at the time of drastic market fluctuation. Since the segregation measures of money and securities deposited from customers is obliged by law, it is necessary to thoroughly implement segregation measures and verify whether or not its effectiveness is ensured.

(3) In the inspection, a considerable number of companies dealing with foreign exchange margin trading were found to have low awareness of compliance with law. As it is necessary to thoroughly boost their awareness, the SESC and other financial bureaus intend to continuously verify this point as a priority item in future inspections.

With the view to the high leverage characteristic of foreign exchange margin trading, it is important for investors to collect as much information as possible on companies dealing with foreign exchange margin trading, including the loss-cut rules of each company and the quality of foreign exchange margin trading in order to carefully judge such companies' reliability.

The SESC intends to continuously emphasize such institutional and operational problems of foreign exchange margin trading in future inspections, and make continuous efforts to retain the trust of market investors through cooperation with relevant departments of the FSA.

6) Outline of Inspection Results

1. Inspections of Type I Financial Instruments Business Operators

In BY 2007, inspections were completed for 170 Type I financial instruments business operators and other entities (meaning Type I financial instruments business operators including former domestic securities companies, former foreign securities companies, former financial futures trading companies, and registered financial institutions. The same shall apply hereinafter in this chapter.), and problems were found in 92 of them. Those problems were related to unfair trading in 11 operators, investor protection in 31 operators, financial soundness or accounting in 41 operators, and other business operations in 57 operators. (The problems for which the SESC issued recommendations are detailed in Subsection 1 of Section 7 entitled "Recommendations based on the results of inspections of type I financial instruments business operators". Regarding other problems for which no recommendation was issued, the SESC notified the concerned financial instruments business operators of the detected problems.)

2. Inspections of Investment Management Business Operators and Investment Advisory and Agency Business

In BY 2007, inspections of 45 investment management business operators and investment advisory and agency business in total were completed and problems were found in 27 of them.

Those problems were related to investor protection in 16 operators, financial soundness

or accounting in 3 operators, and other business operations in 22 operators. (The problems for which the SESC issued recommendations are detailed in Subsection 2 of Section 7 entitled "Recommendations based on the results of inspections of Investment Management Business Operators and Investment Advisory and Agency business".)

3. Inspections of Self-regulatory Organizations

In BY 2007, inspections of 4 self-regulatory organizations were completed and problems related to business operations were found in 3 of them. (The problems for which the SESC issued recommendations are detailed in Subsection 3 of Section 7 entitled "Recommendations based on inspections of self-regulatory organizations".)

7) Recommendations Based on Inspections of Financial Instruments Business Operators and Other Entities

1. Recommendations Based on the Results of Inspections of Type I Financial Instruments Business Operators and Other Entities

(1) Transactions of securities based on corporate information

[Application 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]

(i) On January 9, 2007, **Banque AIG** Tokyo Branch (hereinafter referred as the "Branch"), on behalf of its overseas affiliated company (hereinafter referred as the "Holder"), which held convertible bonds issued by Corp. A (hereinafter referred as the "CBs", as the "Bonds" in respect of the portion thereof corresponding only to the bonds, or, as the "SARs" in respect of the portion thereof corresponding only to the stock acquisition rights), exercised an early redemption right attached to the CBs, with the intention of not exercising the SARs thereafter and receiving the entire amount of then outstanding Bonds in cash on a specified date, as the amount equivalent to 90% of the average of the closing prices of Corp. A's common share on five consecutive trading days on the Tokyo Stock Exchange, ending on 5 January 2007, fell below the bottom price of the CB's adjustable conversion price (X yen).

(ii) Notified of the above exercise of the early redemption right, Corp. A made a public announcement titled "Notice regarding the early redemption of Euro Yen Unsecured, Convertible Bond Type, Corporate Bonds with Stock Acquisition Rights" (hereinafter referred as the "Notice") on 9 January, 2007, which is deemed to have had the effect of leading investors to believe that on and after that date the SARs would not be exercised. Following this announcement, on the morning of January 10, the price of Corp. A's common share went up above the closing price (Y yen) of the immediately preceding date and by 9:39 a.m. the price soared to X yen, equal to the then conversion price. concerning calculation of the Capital-to-Risk Ratio to specific personnel in charge without establishing a verification system and functioning internal audit.

(iii) Recognizing the above price movement, the Branch decided to exercise the SARs and, on and after 10:26 a.m. of January 10, the Branch exercised the SARs on behalf of the Holder. The Branch also decided to sell the shares thus acquired, with the intention of making profits by selling the shares at the price above the then conversion price, and the Branch's trader placed sell orders with another securities company and, by so doing, sold the shares at the market at its discretion, which the Holder had provided with the Branch in accordance with the discretionary-account trading contract previously entered into between them, although the fact that the Holder exercised the SARs on and after the announcement of the Notice and that Corp. A consequently issued new shares was not disclosed.

(iv) No later than 10:47 a.m. of January 11, the trader reported to the Japanese representative of the Branch the above exercise of the SARs and the sale of the shares; on that occasion, however, the representative expressed no objections to the trader's activities and the trader continued the exercise of the SARs and the sale of the shares until January 24.

(v) On January 17, the Branch filed an amended report relating to the large shareholding report and disclosed in it, "the Holder exercised the SARs and acquired 1,689,187 shares of Corp. A on January 10".

-Date of recommendation: July 19, 2007

-Target(s) of recommendation: The Branch and two sales representative

-Administrative disciplinary action(s)

Business Improvement Order

(a) To verify its internal control system and to clarify locus of responsibility, based on this administrative action.

(b) To take and implement preventive measures against recurrence of the above-mentioned violation based on the verification.

(c) To enhance compliance by all executives and employees, and to conduct necessary trainings and other measures for securing proper business management.

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

Representative and CEO: Suspension of performance of duties for eighteen weeks

A trader of trading department: Suspension of performance of duties for seven weeks

(2) Transactions of securities by a securities company's employee with the aim of pursuing speculative profits [Application 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]

○A commissioned sales representative of the 2nd sales division of headquarters of **Marukuni Securities Co., Ltd.** (the "Company") opened a securities transaction account with the Company under the name of hisson. From January 14, 2005 to April 26, 2007, 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, placing the orders and executing trading based on such decisions.

-Date of recommendation: September 14, 2007

-Target(s) of recommendation: One sales representative

-Disciplinary action(s) imposed on the sales representative(s): the commissioned sales representative of the 2nd sales division of headquarters: Suspension of performance of duties for thirteen weeks

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

(i) On October 7, 2004, an executive operating officer concurrently serving as the general manager of the Nishio Branch of **Maruhachi Securities Co. Ltd.** (the "Company") entered into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on this agreement, he executed contracts for trading shares from October 8, 2004 to July 13, 2005.

(ii) Around September, 2004, an operating officer concurrently serving as general manager of the Shonai Branch of Maruhachi Securities Co. Ltd. (the "Company") entered

into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on this agreement, he executed contracts for trading shares from October 6, 2004 to June 20, 2005.

(iii) Around June 2005, a manager of the sales department of the Shonai Branch of Maruhachi Securities Co. Ltd. (the "Company") entered into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on this agreement, he executed contracts for trading shares from June 8, 2005 to November 13, 2006.

(iv) On April 1, 2004, a sales representative of the Fujigaoka Branch of Maruhachi Securities Co. Ltd. (the "Company") entered into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on the agreement, he executed contracts for trading shares from April 14, 2004 to May 12, 2006.

-Date of recommendation: September 28, 2007

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

-Disciplinary action(s)

(i) Business suspension order

(a) Suspension of all services of all sales offices for three business days

(b) Suspension from accepting orders to buy and sell shares in all sales offices for five business days

(c) Suspension from accepting orders to buy and sell shares in the Nishio Branch and the Shonai Branch for one month

(ii) Order for business improvement (a)To implement preventive measures against recurrence to eradicate violations of the law, including actions to enable all officers and employees to thoroughly comply with the law (b) To clarify the locus of responsibility for this violation of the law (c) To fundamentally review the internal audit system (d) To fundamentally review the transaction management system (e) To exactly and adequately explain the background to its being subject to the administrative disciplinary actions to customers who purchased shares at unreasonable offer prices due to violations of paragraph 3 of Article 159 of the SEL)

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case (4), "Acceptance and execution of buying orders for a series of listed securities for the purpose of fixing their prices in the securities exchange".

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

The executive operating officer and general manager of the Nishio Branch: Suspensions of performance of duties for four weeks

The operating officer and general manager of the Shonai Branch: Suspension of performance of duties for four weeks

The manager of sales department of the Shonai Branch: Suspension of performance of duties for two weeks
The sales representative of the Fujigaoka Branch: Suspension of performance of duties for two weeks

(4) Acceptance and execution of buying orders for a series of listed securities for the purpose of fixing their prices in the securities exchange market [Violation of paragraph 3 of Article 159 of the SEL]

○The director concurrently serving as the division director of the retail division and the deputy director of the retail division of **Maruhachi Securities Co. Ltd. (**the "Company"**)** instructed the general managers of a headquarters sales division and of other six sales divisions and offices to solicit customers to buy specific listed stocks for a new listing for which the Company underwrote the public offering, at a limit equivalent to its offer price, and accept and execute buying orders for said stock, in the course of their job duties, for the purpose of temporarily fixing the share price at a level over the offer price from the date of listing.

Consequently, the general managers issued the same instructions to their sales representatives. From April 11 to May 23, 2006, the thusly instructed sales representatives solicited customers to buy said stock at limit equivalent to the offer price, and accepted and executed the buying orders 203 times for 33,200 shares from 103 customers in the securities exchange market.

-Target(s) of recommendation: the Company and two sales representatives
-Disciplinary action(s) imposed on the sales representatives: Not yet decided
(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case (3), "Conclusion of a discretionary account agreement".

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

○The general manager of the foreign exchange sales division (the division name was changed to the foreign exchange division on September 1, 2006) of **Phoenix Securities Co., Ltd.** instructed sales representatives, in the course of his job duties, to solicit customers for the conclusion of brokering agreements specifying the conditions for acceptance of foreign exchange margin trading (the "Brokering agreements") from January to December, 2006, after preparing a list of customers who had cancelled their accounts for foreign exchange margin transactions. The list included general customers who did not fall under the category of "customers with whom the financial futures company has a continuous transactional relationship"

Furthermore, the general manager instructed sales representatives solicit the conclusion of brokering and other agreements with customers whose accounts had not yet been transferred to the Company because they did not agree when the Company took over the foreign exchange margin trading business from other company.

In accordance with those instructions, from February 23, 2006 to January 12, 2007, five sales representatives, in the course of their job duties, solicited conclusion of brokering agreements by making phone calls to 47 general customers who had not requested such solicitation.

-Date of recommendation: October 16, 2007
-Target(s) of recommendation: The Company and one sales representatives
-Administrative disciplinary action(s)
Business improvement order (a)To clarify the locus of responsibility for this violation

of the law, b)To improve and enhance internal control systems, to establish preventive measures against recurrence to eradicate violations of the law and to familiarize all officers and employees with them, c)To improve the business management systems regarding compliance with the law, d)To implement measures to improve and enhance the internal inspection system)

-Disciplinary actions imposed on the sales representatives

The general manager of the foreign exchange division: Suspension of performance of duties for six weeks

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

○A sales representative of the 1st sales section, the 2nd sales division of the Osaka Branch of **Bansei Securities Co., Ltd.** (the "Company") entered into agreements concerning acceptance of transactions of shares with two customers respectively. Under these agreements, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on these agreements, this sales representative executed contracts for trading shares from November 27, 2006 to January 19, 2007.

-Date of recommendation: October 17, 2007

-Target(s) of recommendation: One sales representative

-Disciplinary action(s) imposed on the sales representative

A sales representative of the 1st sales section, the 2nd sales division of the Osaka Branch: Suspension of performance of service for three weeks

(7) Receipt of private information from a parent bank and solicitation using private information received from a parent bank [Violation of item 7, paragraph 1 of Article 12 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company under item 3 of Article 45 of the SEL]

(i) On June 19, 2006, a general manager of the business development division of Mizuho Securities Co., Ltd. equity group (the "Company"), in the course of his job duties, received private information on 72 customers from **Mizuho Corporate Bank, Ltd.**, a parent bank, without obtaining approval from said customers.

(ii) On January 13, 2006, a sales representative of the 4th market sales division of the market sales group of the Company, in the course of his job duties, received private information on 71 customers from **Mizuho Corporate Bank, Ltd.**, a parent bank, without obtaining approval from said customers.

Furthermore, a general manager of the 4th market sales division of the market sales group who was a superior of the sales representative received the aforesaid private information from him, and instructed four sales representatives belonging to that division to solicit new customers based on the said private information. Accordingly, those four sales representatives solicited at lease three securities buying contracts.

-Date of recommendation: October 19, 2007

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

-Administrative disciplinary action(s)

Business improvement order (a) To verify a system for management of customer information and a relevant internal control system based on the issues indicated by the SESC in this inspection, and clarify its attitude to operate business, b)To establish and implement preventive measures against recurrence to ensure appropriately independent

operations from and mutual supervision with the parent company, c) To boost officers' and employees' awareness of compliance with laws, implement necessary training, etc. and enhance internal audits)
-Disciplinary action(s) imposed on the sales representatives
The general manager of the 4th market sales division of the market sales group: Suspension of performance of duties for four weeks
The general manager of the business development division of the equity group: Suspension of performance of duties for three weeks

(8) An extremely inappropriate act conducted by a sales representative in the course of his job duties (Transactions with intention of escaping the provision on prohibited acts pertaining to preventive measures against adverse effects) [Application of item 2, paragraph 1 of Article 64-5 of the FIEA]

(i) As for yen-denominated corporate bonds (the "Bonds") for which **Barclays Capital Japan Ltd.** (the "Company") was acting as a lead manager, a head dealer of credit trading for the Company intended to hold the Bonds for the Company's own account. However, it was found difficult, and he decided to buy the Bonds for an account at **Barclays Bank PLC ("BBPLC")** for which the Company is serving as an agency. Furthermore, the head dealer recognized that this purchase would fall under "selling the securities that the Company is lead managing to a parent firm for six months from the time the Company becomes a lead manager", an act prohibited by item 6, paragraph 1 of Article 12 of the Ordinance of Cabinet Office Concerning Regulation, etc. of Conducts of Securities Company (the "Ordinance of Cabinet Office"), in the course of considering purchase of the Bonds for account at BBPLC.

(ii) The head dealer of credit trading agreed with his old friend who was an employee of A securities company that the following two deals (the "Scheme") would be executed by December 13, 2006 at the latest: (i) a transaction in which A securities company would obtain the Bonds from the Company through public offering (the "Primary transaction"), and (ii) a transaction in which BBPLC for which the Company is serving as an agency would buy the Bonds back from A securities company (the "Secondary transaction"). Consequently, on December 15, 2006, the Primary transaction and the Secondary transaction were made.

(iii) As seen above, the head dealer of credit trading executed a series of transactions based on the Scheme with the intention of escaping the provision of item 6, paragraph 1 of Article 12 of the Ordinance of Cabinet Office.

As for the Secondary transaction made by BBPLC on December 15, 2006, since the Company's compliance division recognized the problem of the Scheme, it was corrected as a transaction in which the buyer was changed from BBPLC to the Company, on December 19, 2006 (correction day).
-Date of recommendation: November 30, 2007
-Target(s) of recommendation: One sales representative
-Administrative disciplinary action(s) imposed on the sales representative: Not yet decided

(9) Transactions of securities by a financial instruments business operator's employee with the aim of pursuing speculative profits [Application 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]
○From June 30, 2004 to April 12, 2007, a then assistant manager of the sales division of

the headquarters of Star Asset Securities Co., Ltd. (the "Company") conducted transactions of shares solely for the purpose of pursuing speculative profits by independently deciding the stocks, the number of shares, the share prices, and whether to buy or sell, asking his acquaintance who had opened an account with another securities company to place the orders based on his decisions.

-Date of recommendation: December 3, 2007

-Target(s) of recommendation: One sales representative

-Administrative disciplinary action(s) imposed on the sales representative:

The assistant manager of sales division: Suspension of performance of duties for three weeks

(10) Inappropriate Segregation Measures [Violation of paragraph 1 of Article 43-3 of the FIEA]

○As of November 7, 2007, **Universal Investment Co., Ltd.** (the "Company") has not managed the portion of money deposited from customers separately from its own asset, spending such money on things such as operating capital.

-Date of recommendation: December 7, 2007

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s):

(i) Business suspension order

Suspension of all businesses of over-the-counter derivative transactions and other transactions for six months

(ii) Business improvement order (a) To exactly account for money and securities deposited by customers and make up for the shortfall instantly b) To place first priority on the preservation of customers' assets without unreasonably consuming the Company's property c) To establish an improvement plan for the Capital-to-Risk Ratio and hold accountability for the Company's financial position in case of increasing capital, etc. d) To explain these administrative disciplinary actions to customers and take appropriate actions e)To enhance internal control systems concerning compliance with the law, establish preventive measures against recurrence to eradicate violation of the law, and familiarize officers and employees with them f) To clarify the locus of responsibility for this violation of the law)

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case (11) "A situation in which the Capital-to-Risk Ratio is less than 120%" and (12) "A situation in which the net assets are less than the minimum requirements"

(11) A situation in which the Capital-to-Risk Ratio is less than 120% [Violation of paragraph 2 of Article 46-6 of the FIEA]

○As of November 7, 2007, the Capital-to-Risk Ratio of **Universal Investment Co., Ltd.** (the "Company") was less than 120%.

-The target(s) of recommendation: The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to case (10) "Inappropriate segregation measures".

(12) A situation in which net assets are less than the minimum net assets requirements [Application of item 3, paragraph 1 of Article 52 of the FIEA]

○As of November 7, 2007, the net assets of **Universal Investment Co., Ltd.** (the "Company") were less than 50 million yen.

-The target(s) of recommendation: The Company

(Note) Regarding the date of recommendation, the administrative disciplinary action(s) and disciplinary action(s) imposed on a sales representative, refer to case (10)

"Inappropriate segregation measures".

(13) A situation in which customer margin is not managed separately from the operator's own asset [Violation of paragraph 1 of Article 91 of the FFTL]

○**Kuniyasu Capital Co., Ltd.** (the "Company") was not managing the portion of customer margin pertaining to foreign exchange margin trading deposited to a covering company for separate management separately from its own asset. For example, said customer margin was diverted for lending to a friend of the president. Consequently, at the end of each month from July to October 2005, in February 2006, and from April 2006 to August 2007, the amount which should have been managed separately (the "Amount for Separate Management") fell short. (At the end of September 2007, there was not a shortage of the amount for segregation measures due to clearance of the lending.)

Although the president and the vice president in charge of segregation measures of customer margin recognized the situation of the segregation measures amount falling short as stated above, they took none of the necessary actions such as finding the causes for this situation.

-Date of recommendation: December 18, 2007

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

-Administrative disciplinary action(s)

(ⅰ) Business suspension order

Suspension of performance of all services (except services approved by the competent authority such as customers' trade) for one month

(ⅱ) Business improvement order (a) To explain these administrative disciplinary actions to customers and take appropriate actions b) To clarify the locus of responsibility for this violation of the law c) To improve business management systems concerning compliance with the law d) To enhance internal control systems concerning compliance with the law, establish preventive measures against recurrence to eradicate violations of the law [especially regarding calculation of the Capital-to-Risk Ratio] e) To implement measures to improve and enhance internal inspection systems)

-Administrative disciplinary action(s) imposed on the sales representative(s):

The president: Suspension of performance of duties for eighteen weeks

The vice president: Suspension of performance of duties for eighteen weeks

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case (14) "Notification of false Capital-to-Risk Ratio"

(14) Notification of false Capital-to-Risk Ratio [Violation of paragraph 1 and 3 of Article 82 and paragraph 1 of Article 79 of the FFTL

○A president and a vice president of **Kuniyasu Capital Co., Ltd.** (the "Company"), in the course of their job duties, calculated a false Capital-to-Risk Ratio greater than the actual value based on an amount equivalent to the covering company's risks, which was underrepresented by conducting the fictitious money transfers to make it appear that the portion of customer margin deposited with a covering company pertaining to covering transactions was transferred to a domestic savings account.

Subsequently, they (i) submitted a securities registration statement in which the false Capital-to-Risk Ratio was stated (at the end of each month for the period from December 2005 to August, 2007, excluding April 2006) to the Director-General of the Kanto Local Finance Bureau、(ii) made documents in which the said Capital-to-Risk Ratio was stated available for public inspection (at the end of December 2005, March, June, September and December 2006, and March and June, 2007), and (iii) submitted a business report in which the said Capital-to-Risk Ratio was stated (for February 2006, February and March 2007) to the Director-General of the Kanto Local Finance Bureau. (The Capital-to-Risk Ratio was appropriately calculated at the end of September 2007.)

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

(Note) Regarding the date of recommendation, the administrative disciplinary action(s), and disciplinary action(s) imposed on sales representatives, refer to case (13), "A situation in which customer margin is not managed separately from the operator's own asset".

(15) Insufficient management of electronic information processing systems [Application of item 5, Article 25-2 of the FFTL Enforcement Ordinance pursuant to item 2 of Article 77 of the FFTL, and Violation of paragraph 1 of Article 85 of the FFTL]

○The SESC found that systems for controlling IT risks of **Shin Nihon Tsusho Co., Ltd.** (the "Company") were extremely insufficient as seen below:

(i) Awareness of IT risks

The president and a director concurrently serving as a general manager of the foreign exchange business division lacked awareness of significance of IT risk management

(ii) Establishment of appropriate systems for controlling risks

The Company did not establish appropriate systems for controlling risks due to the failure to decide basic policy and specific criteria for controlling IT risks.

(iii) System audit

The Company had never conducted system audit since it registered as a financial futures trading company.

Furthermore, the Company did not deploy audit personnel familiar with systems until July 2007

(iv) Improvement of security measures

The Company did not improve security measures, as was seen in its failure to establish basic policies, criteria and procedures for security measures, and in its failure to appoint a security administrator for appropriate management of security measures

(v) Management of Outsourcing

The Company did not appropriately control risks regarding outsourcing

(vi) Contingency plan

The Company did not establish an emergency response system due to failure to formulate a contingency plan.

(vii) Response at the time of failures

A. Response to customers

The Company did not inform customers of system failures incurred except those considered to have significant impacts on them.

Without deciding procedures to handle customers at the time of failures and criteria for compensation of customer losses caused by system failures, the Company dealt with customers in an impromptu manner.

B. Analysis of causes, and countermeasures, etc.

Even when a system failure attributed to a flaw in its program occurred, the Company did not fundamentally improve its systems due to failure to analyze the cause of system failure.

Furthermore, many system failures arose from the Company having left the server overloaded for an extended period of time.

Although abnormal exchange rates were distributed from a exchange rate distributor many times, the company, not being presented any specific improvement measures, did nothing rather than attempting to make any fundamental improvements.

C. System for report to authorities

When registered as a financial futures trading company, the Company was ordered to report any incurred system failures to the Director-General of the Kanto Local Finance Bureau. However, although at least 53 system failures occurred during the period from the registration of the financial futures trading company until the base

date of inspection, 38 of them were not reported to the Director-General of the Kanto Local Finance Bureau.

-Date of recommendation: December 18, 2007

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

-Administrative disciplinary action(s)

Business improvement order (a) To clarify the locus of responsibility for this violation of laws, b) To confirm and review the actual state of systems and causes of system failures sufficiently, improve effective systems for controlling IT risks, in such a way, for example, as to implement the external system audit necessary for system improvement and to enhance the contingency plan necessary for quick recovery actions at the time of system failures, and surely and steadily implement such system management c) To formulate preventive measures against recurrence to eradicate the violation of laws, and familiarize all officers and employees with them, based on these administrative disciplinary actions)

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

The director concurrently serving as the general manager of the foreign exchange business division: Suspension of performance of duties for seven weeks

(16) Insufficient management of undisclosed corporate information [Application of item 5, Article of 123 of Cabinet Office Ordinance on Financial Instruments Business, etc. under item 2, Article 40 of the FIEA]

○The president, the vice president and one other person at **Well Field Securities Co., Ltd.** (the "Company"), in the course of their job duties, obtained information on at least 43 subjects from listed companies for the period from October 2005 to November 26, 2007. Although they recognized that this corporate information should be strictly managed from the viewpoint to prevent insider trading and so on, among them 10 subjects were not registered as corporate information and 2 were registered as corporate information after a delay of one or two weeks.

While obtaining corporate information concerning a certain listed company on November 7 and 8, 2006, which were subsequently not registered, they purchased the stock of the company for the Company's own account on November 13 and 14, 2006. In light to prevent insider trading, etc., this transaction was extremely inappropriate.

-Date of recommendation: February 15, 2008

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

-Administrative disciplinary action(s)

Since the Company discontinued business, no administrative disciplinary actions were taken.

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

The president: Suspension of performance of duties for two weeks

The vice president: Suspension of performance of duties for two weeks

(17) A situation in which there is a risk of insolvency in light of status of property [Application of item 7, paragraph 1 of Article 52 of the FIEA]

○As of January 31, 2008, **Nittsu Trade** (the "Company") had excessive debts.

-Date of recommendation: March 14, 2008

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s):

(i) Business suspension order

a) Suspension of all services (except ones approved individually by the authority) for six months

(ii) Business improvement order (a) To exactly investigate name of investors and the amount of customer's deposits, b) To exactly clarify the amount of the Company's property (assets, liabilities and the net assets), c) To preserve customer deposits and not to conduct acts to unfairly consume the Company's asset, d) To take all actions to protect investors, taking into account fairness among investors, e) To appropriately and thoroughly inform investors of the Business Suspension Order stated above in such a way, for example, to announce it on the storefront of the Company's offices and on its homepage, and consider appropriate responses to investors)

(Note) These administrative disciplinary actions were intended not only for this case, but also for case (18) "A situation in which the net assets are less than the minimum net assets requirements", (19) "A situation in which the Capital-to-Risk Ratio is less than 120%", and (20) "Inappropriate separate management".

(18) A situation in which the net assets are less than the minimum net assets requirements [Application of item 3, paragraph 1 of Article 52 of the FIEA]

○As of January 31, 2008, the net assets of **Nittsu Trade** were less than 50 million yen.

-Target(s) of recommendation: The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to (17) "A situation in which there is a risk of insolvency in light of status of property

(19) A situation in which the Capital-to-Risk Ratio is less than 120% [Violation of paragraph 2 of Article 46-6 of the FIEA]

○As of the January 31, 2008, the Capital-to-Risk Ratio of **Nittsu Trade** was less than 120%.

-Target(s) of recommendation: The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to (17) "A situation in which there is a risk of insolvency in light of status of property

(20) Inappropriate segregation measures [Violation of Article 43-3 of the FIEA]

○**Nittsu Trade** used a portion of money and securities deposited from customers to compensate for losses on foreign exchange margin trading for the Company's own account for the period from April to August, 2007. Consequently, the Company did not appropriately conduct segregation measures of money and securities deposited from customers, as of January 31, 2008.

-Target(s) of recommendation: The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to (17) "A situation in which there is a risk of insolvency in light of status of property

(21) Acceptance of orders for online trading from a customer without verifying the identity of the customer [Violation of paragraph 1 of Article 3 of the PIVL]

○As for customers in relation to the Company's online trading, in April 2007, **Ando Securities Co., Ltd.** (the "Company") conduced the name verification of customer accounts with identical e-mail addresses, and detected many suspicious accounts with different names and addresses, including "same name but different address" and "different name but same address", in which a counterpart of a transaction may pretend to be an account holder. However, at the time of subsequent transactions on such accounts, the Company did not verify the personal identity of customers under the PIVL stipulation of the duty of identity verification of customers by financial institutes, etc. and identity verification of saving accounts, etc.

-Date of recommendation: April 25, 2008

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s): Not yet decided

(22) A situation in which a wrongful act or extremely unjust act has been conducted with regard to Financial Instruments Business and the circumstances are especially serious, etc. [Application of item 9, paragraph 1 of Article 52 and item 2, paragraph 1 of Article 64-5 of the FIEA

○The president of **JNS** (the "Company") violated laws many times as stated below while assisting in a customer's tax evasion, in the course of his job duties.

(i) Assisting in customer's tax evasion, etc

Since a certain customer was earning considerable profits on foreign exchange margin trading around February 2001, the president planned to expand trading with the customer and improve commission income while assisting customer's tax strategy. For those purposes, the president transferred customer margin, etc. from the customer's account to an account for an expatriate while falsifying a transaction in which the customer incurred losses on transactions, and concluded a discretionary account agreement for making foreign exchange margin trading on the account to which funds were transferred, for the period from February 28, 2001 to August 22, 2006.

An officer of the Company in charge of asset management based on the discretionary account agreement made a failed investment as a result of misreading a foreign exchange quotation. As the result, the entire amount of transferred customer's margin, etc. disappeared by May 9, 2006 upon which all contracts were settled, and losses were incurred on the Company's account. The officer planned to conceal the Company's losses for fear of its disclosure by transferring such loss to customers of the Company other than the customer with whom the discretionary account agreement was made ("General Customers").

Although the president recognized that the Company's loss was transferred to the accounts of General Customers by around July 2006, he did nothing about this situation, took no corrective actions, and furthermore instructed the Company's officer in charge of accounting to transfer customer margin with fictitious transactions. As of January 7, 2008, General Customers' accounts incurred the loss of a total of 308 million yen attributable to the Company's accounting.

(ii) Recognized violations of law

a. Being registered as a financial instruments business operator by unfair means
b. Conclusion of a discretionary account agreement
c. Acquisition of customer margin, etc. by unfair means
d. Provision of financial profits to a customer to compensate for the entire losses of the customer on foreign exchange margin trading
e. Notification of a false Capital-to-Risk Ratio and submission of a business report in which false values are stated
f. Misstatements in books and documents concerning the business
g. A situation in which money and securities deposited from customers (customer margin, etc.) are not managed separately from the Company's own asset
h. A situation in which the Capital-to-Risk Ratio is less than 120%

-Date of recommendation: April 25, 2008
-Target(s) of recommendation: The Company and one sales representative
-Administrative disciplinary action(s)

(i) Order for revocation of registration

To revoke the registration (as a financial instruments business operator) No. 26 (September 30, 2007) by the Director-General of the Tokai Local Finance Bureau

(ii) Order for dismissal of officers

Dismissal of the president was ordered

(iii) Business improvement order (a) To complete customer transactions quickly, return money and securities deposited from customers without delay, and not to conduct acts

to unfairly consume the Company's property, b) To take all actions to protect customers, taking into account fairness among customers, c) To thoroughly inform investors of the order for revocation of registration stated above in such a way, for example, as to announce it on the storefront of the Company's offices and on its homepage, and consider appropriate responses to customers)

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

Not yet decided

(23) Insufficient management of securities transactions by a customer in terms of the prevention of unfair trading associated with some corporate information [Application of item 5 of Article 123 of the Ordinance of Cabinet Office concerning Financial Instruments Business, etc. under item 2 of Article 40 of the FIEA]

○In **SBI E Trade Securities Co. Ltd.** (the "Company"), since systems for verifying insider registration were not established in relation to management of securities and other transactions by customers, the omission of registration of a customer who was a concerned insider to listed companies, etc. was found

Furthermore, the Company never conducted transaction examinations to prevent unfair trading associated with some corporate information.

-Date of recommendation: May 13, 2008

-Target(s) of recommendation: The Company

-Administrative Disciplinary Action(s):

Business improvement order (a) To investigate the causes of failure to establish systems for transaction examinations concerning insider trading, and take specific improvement measures including systems for checking whether or not the transaction examinations function appropriately, b) To investigate the causes of occurrence of the omission of insider registration, and to take specific improvement measures including systems for checking the registration work after clarifying problems in terms of management and operation of the insider registration work in the Company, c) To boost officers' and employees' awareness of compliance with laws and conduct necessary education)

(24) Insufficient systems for controlling IT risks [Application of item 14 of Article 123 of the Ordinance of Cabinet Office concerning Financial Instruments Business, etc. under item 2 of Article 40 of the FIEA]

○The SESC found that systems for controlling IT risks of **United World Securities (Japan) KK** were extremely insufficient as seen below.

(i) Insufficient response to issues pointed out in the previous inspection

The insufficient systems for controlling IT risks of the Company were pointed out in the inspection conducted by Okinawa General Bureau in 2004. Although the Company formulated improvement measures for them, it was found that some measures have not implemented. Consequently, as stated below, the SESC found a situation in which the insufficiencies have not improved.

A. General systems for controlling IT risks

Although the board of directors decided to establish a risk management committee as an improvement measure, the Company appointed nobody as a member of committee, and never held a meeting of the committee.

B. Systems for controlling system failures

(a) Regular analysis of system failures, etc.

Although it had been decided to analyze system failures regularly and to discuss measures to improve quality of systems with outsourcers as improvement measures, the Company never analyzed the conditions of occurrences of failures nor discussed

improvement measures with outsourcers. Furthermore, the response to failures cannot be confirmed.

(b) Reports to the board of directors, etc.

Although it had been decided to analyze the conditions of occurrences of failures at the time of system failures, and to report the formulated preventive measures against recurrence to the board of directors as improvement measures, the Company conducted only the report to the board of directors, omitting some records on failures without analysis of the conditions of occurrences of failures or formulating preventive measures against recurrence.

(c) Report to the relevant authority

Although it had been decided to improve systems for reporting to the competent authority and to prevent recurrence as improvement measures, the Company still omitted many reports to the authority because the personnel in charge of the systems did not communicate the failures that were to be reported to responsible personnel for reporting to the authority.

C. Implementation of risk evaluation

(a) PDCA cycle, etc.

Although it had been decided to establish systems for executing the PDCA cycle, etc. as improvement measures, the Company did not take any such measures or identify the locus or kinds of risks.

(b) Formulation of security standards

Although it had been decided to formulate security standards as an improvement measure, the Company neither did so nor did they evaluate the significance and vulnerability of systems and facilities related to systems, etc.

(c) Management of confidential information

Although it had been decided to identify and manage information assets separately, the Company has not yet done so.

D. Systems for crisis management

(a) Approval of board of directors

Although it had been decided that a system contingency plan should be approved by the board of directors as an improvement measure, the Company did not carry this out.

(b) Maintenance of effectiveness

Although it had been decided to conduct a drill based on the system contingency plan as an improvement measure, the Company never conducted it. Furthermore, without reviews associated with the change of organizations, etc., the system contingency plan was insufficient, lacking effectiveness.

E. System audit

Although it had been decided to implement an external system audit and to make a check of this by the internal audit division as improvement measures, the Company did not have systems for checking, with the results of external system audit, etc. not being communicated to the internal audit division.

(ii) Others

In addition to matters stated in (i) above, the SESC found the following flaws in systems for controlling IT risks.

A. System audit

(a) Internal system audit

The internal system audit was not effective, as was seen in the failure to have an IT expert as the personnel responsible for the audit.

(b) External system audit

Although significant defects in security measures were pointed out in the external

system audit, the Company did not take any actions.

B. Improvement in security measures

The SESC found a situation in which quality management was insufficient, as was seen in the failure to implement design reviews and reviews of test results, which are primary issues of quality management, as security measures.

C. Response at the time of failures

(a) Response to customers

Where system failures occur, for example, being unable to place orders for customers, the Company, in principle, is not required to provide any corrective actions such as compensation for losses, based on a disclaimer. However, the Company treated customers unequally, taking corrective actions such as compensation for losses of customers whose orders were commissioned by other securities companies through such companies.

(b) Analysis of causes, etc.

Since the Company did not decide on procedures to respond to system failures, many inexact recovery works caused system failures to expand further. However, the Company did not identify causal recovery works of expansion in failures. Consequently, the analysis of the causes of such system failures was insufficient.

-Date of recommendation: May 13, 2008

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s):

(i) Business suspension order

Suspension of all services for financial instruments business for five business days

(ii) Business improvement order (a) To overhaul systems for controlling IT risks with external audits, etc. and to formulate and implement fundamental improvement measures, b) To review systems for controlling cash segregated as deposits for customers, and formulate and implement preventive measures against recurrence, c) To take actions to exactly verify personal identity of customer's account suspected of identity theft by regularly conducting the name verification of customer accounts with identical e-mail addresses, d) To explain the contents of these administrative disciplinary actions thoroughly to customers and treat them appropriately, e) To take actions to make all officers and employees comply thoroughly with the law, f) To clarify the locus of responsibility for this violation of law)

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case (25) "Shortage of cash segregated as deposits for customers for separate management" and (26) "Failure to verify personal identity of a customer and so on in the case that there is a suspicion that a counterpart of transaction is pretending to be an account holder".

(25) Shortage of cash segregated as deposits for customers for segregation measures [Violation of paragraph 2 of Article 43-2 of the FIEA]

○**As United World Securities (Japan) KK** did not entrust a part of customer's deposits as cash segregated as deposits for customers in May 2007, the amount of cash segregated as deposits for customers became less than the minimum requirements. Although recognizing such a situation in November 2007, the Company continuously did nothing in response. Consequently, as of the base date of calculation (February 1, 2008) closest to the base date of inspection (February 5, 2008), the amount of cash segregated as deposits for customers was less than the minimum requirements.

-Target(s) of recommendation: The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case (24) "Insufficient systems for controlling IT risks".

(26) Failure to verify the personal identity of a customer, etc. in the case that there is a suspicion that a counterpart of transaction is pretending to be an account holder [Violation of paragraph 1 and 2 of Article 3 of the PIVL]

○ In May 2005, October 2006, and May 2007, **United World Securities (Japan) KK** (the "Company") conduced the name verification of customer accounts with identical e-mail addresses, and detected many suspicious accounts with different names and different addresses in which there was a suspicion that a counterpart of transaction was pretending to be an account holder, etc. However, the Company did not enhance necessary systems for identical verification. Consequently, at the time of subsequent transactions on such accounts, the Company did not verify the personal identity of customers based on the laws concerning the duty of identity verification of customers by financial institutes, etc. and the prevention of unfair use of saving accounts, etc.

Target(s) of recommendation: The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case (24) "Insufficient systems for controlling IT risks".

(27) 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]

○In solicitation activities concerning foreign exchange margin transactions until June 2005, a director in charge of audit of **Hirose Tsusho Inc.** (the "Company"), in the course of his job duties, instructed a manager and other employees in charge of customers to continuously solicit potential customers to conclude brokering agreements even on and after July 1, 2005 when the revised FIEA came into force. The Company expected such potential customers to be interested in foreign exchange margin trading. According to these instructions, the manager and other employees in charge of customers communicated the instructions with part-time workers employed by the Company and temporary staff, in and after July 2005. Consequently, the manager in charge of customers and the part-time workers, etc. conducted solicitation for the conclusion of brokering agreements by making phone calls to many potential customers.

Under such circumstances, for the period from July 2005 to December 2006, the manager in charge of customers and one of the part-time workers conducted solicitation for the conclusion of brokering agreements by making phone calls to at least 346 potential customers. Of them, although at least 41 customers indicated that they had no intention of entering into brokering agreements or no desire to be continuously solicited for the same purpose for the period from March to November 2006, they continuously conducted solicitation for the conclusion of brokering agreements, etc. by making phone calls to those customers, for the period from March to December 2006.

-Date of recommendation: June 20, 2008

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

-Administrative disciplinary action(s)

Business improvement order (a)To clarify locus of responsibility for this violation of law, b) To formulate preventive measures against recurrence including implementation of adequate internal training to eradicate violation of laws, and familiarize officers and employees with them, c) To improve and enhance internal control systems including systems for internal inspections, d) To improve business management systems concerning compliance with laws)

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

(28) Making other persons than those registered as sales representatives conduct duties of sales representatives [Violation of paragraph 2 of Article 64 of the SEL as applied mutatis mutandis pursuant to paragraph 5 of Article 65-2 of the SEL]

○A director of the consumer division of the Direct Banking Center of **The Aichi Bank Ltd.**, in the course of his job duties, made about 79 temporary staff and part-time workers belonging to the Center who were not registered as sales representatives conduct solicitation for the purchase of personal government bonds by making phone calls for the period from September 2005 to March 2007.
-Date of recommendation: June 24, 2008
-Target(s) of recommendation: The Company and one sales representative
-Administrative disciplinary action(s):
Business improvement order (a) To investigate causes of recurrence of solicitation for financial instruments by unregistered personnel, b) To formulate and implement effective preventive measures against recurrence based on the found causes, c) To ensure that officers and employees engaged in financial instruments business are thoroughly aware of compliance with laws, d) To clarify the locus of responsibility for this violation of law)
-Disciplinary action(s) imposed on the sales representative: Not yet decided

(29) Transactions of securities by a financial instruments firm's officer with the aim of pursuing speculative profits [Application of item 12, paragraph 1 of Article 117 of Cabinet Office Ordinance on Financial Instruments Business under item 6, Article 38 of the FIEA]
○For the period from November 2005 to January 2008, the chief director of **Aramachi Securities Co., Ltd.** conducted transactions of shares on his own account several times solely for the purpose of pursuing speculative profits.
-Date of recommendation: June 25, 2008
-Target(s) of recommendation: One sales representative
-Administrative disciplinary action(s): Not yet decided

(30) Failure to verify personal identity and refusal of inspection [Violation of paragraph 1 of Article 3 of the PIVL, Application of item 11, Article 198-6 of the FIEA]
(i) Continuous acceptance of transaction orders without verifying customer's identity despite suspicion of transactions being made under fictitious names
The assistant manager of the 2nd section, senior consultant division, Nagoya Branch of Daiwa Securities Co., Ltd. (the "Assistant Manager") opened an account under the name of customer B on July 6, 2006, after an interview with customer B, introduced by customer A, who was sitting with them. At that time, the Assistant Manager was under the belief that customer B was a relative of customer A, and did not verify their relationship. Subsequently, the Assistant Manager conducted operations, such as acceptance of transaction orders and the like for the account (applications for book building pertaining to initial public offering, sales of such shares and instructions on account withdrawals for proceeds, etc.) and reporting on contracts only between customer A and himself. Especially in relation to applications for book building, although repeatedly instructed by the Company to receive them directly from the account holders, the Assistant Manager continued to receive such applications from customer A without a single interview with or phone call to customer B, as well as without verification of identity of customer B, the nature of funds and so on for that period.
As seen above, the SESC found the fact that transaction orders and the like for the account were accepted without having verified the personal identity of the account holder even in the situation of suspicion of transactions under fictitious name, for the period from July 12, 2006 to December 10, 2007.

(ii) Refusal of inspection ntity
Branch, while recognizing that transactions under the name of customer B were

suspected to be transactions under fictitious name, the Assistant Manager called customer A to ask him to collude to prevent this from being detected.
Furthermore, the Assistant Manager was found to falsely answer that all orders accepted were made by customer B when questioned by an inspector on how to accept orders for customer B's account, though they had been made by customer A.
The SESC also found that the Assistant Manager had taken detailed statements on transactions for the account under the name of customer B out of the Company without following the procedures provided by the Company Rules for taking out personal data, and sent them to customer A's home and company office by fax based on a request from customer A,
in an attempt to ensure the collusion stated above.
-Date of recommendation: June 27, 2008
-Target(s) of recommendation: One sales representative
-Administrative disciplinary action(s): Not yet decided

2. Recommendations Based on the Results of Inspections of Investment Management Business Operator and Investment Advisory and Agency Business

(1) Discretionary investment management conducted before the acquisition of a license for operations pertaining to a discretionary investment contract [Violation of paragraph 1 of Article 24 of Act of Regulation etc., on Investment Advisory Business Pertaining to Securities〕

○**Moon Light Capital Ltd.** had provided advice on a certain investment fund, based on an investment advisory contract concluded with an asset management company on August 26, 2003. However, they concluded a discretionary investment contract and were managing said investment fund virtually at their own discretion before December 3, 2003, on which day they received a license for operations pertaining to a discretionary investment contract.
-Date of recommendation: November 16, 2007
-Target(s) of recommendation: The Company
-Administrative disciplinary order
(i) Business suspension order
Prohibition of newly concluding discretionary investment contracts and investment advisory contracts for one month
(ii) Business improvement order (a) To clarify the locus of responsibility for this violation of law b) To improve and enhance internal control systems, formulate preventive measures against recurrence to eradicate the violation of laws, and to familiarize officers and employees with them c) To improve business management systems concerning compliance with laws d) To take actions to enhance systems for internal inspection〕

(2) A situation in which an investment corporation bears costs that should be borne by an interested person of an asset management company [Application of paragraph 1 of Article 214 of Act on Investment Trust and Investment Corporation]

(i) On December 14, 2005, **Japan Hotel and Resort Inc.** (hereinafter referred to as the "Investment Company") concluded a contract for the transfer of real-estate trust beneficiary rights in relation to the acquisition of a building (hereinafter referred to as the "Building") which was intended to be used as an asset to be managed by the Investment Company with an interested person (hereinafter referred to as the "Interested Person") of **Japan Hotel and Resort K.K.** (hereinafter referred to as the "Asset Management Company"). The Asset management Company was entrusted by the Investment Company with asset management. At that time, the Investment Company and the Interested Person agreed that the Interested Person would bear costs related to

a signboard showing the names of the Building's tenants, for which the Interested Person was supposed to place an order by the date of transfer of the trust beneficiary rights for the Building (hereinafter such costs and signboard are referred to as the "Costs" and the "Signboard," respectively).

(ii) Around the end of February 2006, a then executive officer of the Investment Company was requested by a tenant of the Building (hereinafter the "Tenant") to set up the Signboard for which the Interested Person had not yet placed an order. While the officer recognized that the Interested Person was supposed to bear the Costs, the officer decided to make the Tenant place an order for setting up the Signboard with an external contractor, on the assumption that the Investment Company would bear the Costs. On April 17, 2006, as a representative of the Investment Company, the officer entered in a memorandum with the Interested Person (hereinafter referred to as the "Memorandum") that the bearer of the Costs had changed from the Interested Person to the Investment Company. (As for the Memorandum, the officer did not try to consult with or report to other officers of the Investment Company)

(iii) In accordance with the Memorandum, the Investment Company bore 2,341,290 yen in total for the Costs, by paying 1,106,910 yen on May 1, 2006 and 1,234,380 yen on July 10, 2006 to the external contractor which undertook the work of setting up the Signboard.
-Date of recommendation: February 29, 2008
-Target(s) of recommendation: The Company
-Administrative disciplinary action(s)
Business improvement order (a) To improve and enhance systems for compliance with laws and the like, in an attempt to realize healthy and appropriate business operations as an investment corporation b) To formulate and implement effective preventive measures against recurrence and clarify the locus of responsibility)

(3) Breach of duty of loyalty of an asset management company in a conflicts of interest situation [Violation of paragraph 1 of Article 34-2 of Act on Investment Trust and Investment Corporation]

(i) On December 14, 2005, **Japan Hotel and Resort Inc.** (hereinafter referred to as the "Investment Company") concluded a contract for the transfer of real-estate trust beneficiary rights (hereinafter referred to as the "Contract") in relation to the acquisition of a building (hereinafter referred to as the "Building") which was intended to be used as an asset to be managed by the Investment Company with an interested person (hereinafter referred to as the "Interested Person") of **Japan Hotel and Resort K.K.** (hereinafter referred to as the "Asset Management Company"). The Asset management Company was entrusted by the Investment Company with asset management. At that time, the Investment Company and the Interested Person agreed that the Interested Person would bear costs related to a signboard showing the names of the Building's tenants, for which the Interested Person was supposed to place an order by the date of transfer of the trust beneficiary rights for the Building (hereinafter such costs and signboard are referred to as the "Costs" and the "Signboard," respectively).

(ii) Around the end of February 2006, an executive officer of the Investment Company was requested by a tenant of the Building (hereinafter the "Tenant") to set up the Signboard for which the Interested Person had not yet placed an order. While the officer recognized that the Interested Person was supposed to bear the Costs, the officer decided to make the Tenant place an order for setting up the Signboard with an external contractor, on the assumption that the Investment Company would bear the Costs. On April 17, 2006, as a representative of the Investment Company, the officer entered in a memorandum with the Interested Person (hereinafter referred to as the

"Memorandum") that the bearer of the Costs had changed from the Interested Person to the Investment Company. (As for the Memorandum, the officer did not try to consult with or report to other officers of the Investment Company) with or report to other officers of the Investment Company)

(iii) A then president of the Asset Management Company (The executive officer of the Investment Company stated above was concurrently serving as the president of the Asset Management Company at that time.) recognized that the conclusion of the Memorandum caused the Investment Company to have to bear the Costs that should be borne by the Interested Person in the initial Contract. However, the president instructed the Tenant to submit a request to record the Costs as a capital expense that the Investment Company should bear to the Asset Management Company. In accordance with this instruction, the Tenant submitted the request to the Asset Management Company, and the president and a then director of the administrative division of the Asset Management Company approved the request with unanimity on April 26 and May 16, 2006.

-Date of recommendation: February 29, 2008

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s):

Business improvement order (a) To clarify the business attitude pertaining to compliance with laws, establish responsible systems for compliance with laws and internal control systems by top management, and review methods of business operations to steadily actualize them, in an attempt to realize fair and appropriate business operations as an investment management business operator b) To formulate and implement effective preventive measures against recurrence and clarify the locus of responsibility)

(4) Inappropriate systems for management of conflicts of interest [Application of Article 51 of the FIEA]

○**Prospect Residential Advisors, Co., Ltd.** (the "Company") managed the assets of **Prospect Residential Investment Corporation** (the "Investment Corporation") based on a consignment contract pertaining to asset management concluded with the Investment Corporation. In the asset management, when asking for appraisal of real estate acquired from an interested person of the Company's parent company, etc. (the "Interested Person of the Company"), the Company inappropriately appealed to a real estate appraising company in a manner to impair its independence and used an inappropriate process for selection of a real estate agent, in which there was a problem in terms of prevention of conflicts of interest.

(i) Inappropriate appeal to a real estate agent

When asking for appraisal of three pieces of real estate acquired from the Interested Person of the Company, the Company asked a real estate appraising company to calculate an estimated appraisal value (the "Estimated Appraisal Value") and inappropriately appealed to the company in a manner to impair its independence by encouraging the appraising company to calculate the Estimated Appraisal Value at the same level as or over the sale price suggested by the seller. Especially in the case of one of the three pieces of real estate, the Company particularly asked the real estate appraising company to make sure to calculate an Estimated Appraisal Value reaching the sale price suggested by the seller.

(ii) Inappropriate process for selection of a real estate appraising company

When asking for the appraisal of five real estates acquired from the Interested Person of the Company, the Company asked many real estate appraising companies to calculate

the Estimated Appraisal Values after informing them of the sale prices suggested by the seller. If the Estimated Appraisal Values were less than the sale prices suggested by the seller, the Company asked additional appraising companies until values over or close to the suggested prices were given. For all pieces of real estate, the Company asked for appraisal by the real estate appraising company which presented the values closest to or the highest values over the sale prices suggested by the seller. As seen above, the Company followed an inappropriate process for selection of a real estate appraising company, in order to place first priority on the sale prices suggested by the seller.

-Date of recommendation: June 17, 2008

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s): Not yet decided

(5) Noncompliance with the duty of due care concerning inappropriate provision of materials to a real estate appraising company [Violation of paragraph 2 of Article 34-2 of Act on Investment Trust and Investment Corporation]

○When asking for appraisal of pieces of real estate acquired from the Interested Person of the Company, **Prospect Residential Advisors, Co., Ltd.** provided the real estate appraising companies with inappropriate materials and did not provide necessary materials.

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to case (4) "Inappropriate systems for management of conflicts of interest".

3. Recommendations Based on the Results of Inspections of Self-regulatory Organizations, etc.

(1) Insufficiencies concerning listing examinations [Application of Article 153 of the FIEA]

○The SESC found that, for part of the grounds for formulation of profit plans and their reasonability and validity, **Nagoya Stock Exchange Inc.** (the "Exchange") did not conduct sufficient listing examinations on securities to be listed on the Centrex, a financial instruments exchange market operated by the Exchange, in terms of feasibility and the like, when judging the growth possibility of many stocks.

(Reference)

To be more specific, although sufficient examinations were required under the circumstances as stated below, it was found that the Exchange failed to perform them. For example, in many companies applying for listing, (i) there were considerable differences between estimated and actual values for the term in which a company applied for listing, and audit corporations were changed in relation to the validity of sales posted in the previous year, and (ii) as the result of some downward adjustments of sales in the then current term soon after application for listing, it was found that sales were at the minimum level to be considered as continuously growing and so on.

-Date of recommendation: December 13, 2007

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s):

Business improvement order (To take specific and effective measures for improvement as Nagoya Stock Exchange Inc., after analyzing and verifying causes and problems of each item pointed by the SESC)

(Note) These administrative disciplinary actions were intended not only for this case, but also for the case (2) "Insufficiencies pertaining to implementation of measures to improve items pointed out in the previous inspection and on the like"

(2) Insufficiencies pertaining to implementation of measures to improve items pointed out in the previous inspection and on the like [Application of Article 153 of the FIEA]

○Although **Nagoya Stock Exchange Inc.** submitted an improvement report and was supposed to take measures to improve matters of insufficiency pointed out in the previous inspection by the SESC and one by the FSA, it was found that the implementation of part of the measures to improve items pointed out was insufficient.

(Reference)

To be more specific, the following insufficiencies were founded: (i) Although the Exchange was instructed to use information on results of transaction examinations, etc. for rating, in actuality no actions for improvement had been taken. (ii) While, in transaction examinations, items pointed out in the previous inspection had been improved, effectiveness was found to be insufficient due to flaws in the items examined concerning fair price formation in transaction examinations

-Date of target(s): The Company

(Note) Regarding the date of recommendation and the administrative disciplinary action(s), refer to the case (1)"Insufficiencies concerning listing examinations".

(3) Unfair adjustment of bidding for stock lending [Application of Article 156-33 of the FIEA]

○As for the over-lent issues in loans for margin trading, **Japan Securities Finance Co., Ltd.** (the "Company") decided the lending rate (the "Premium Charge") and procured the stock certificates needed for settlement by bidding (the "Bidding for Stock Lending") with securities companies, life and non-life insurance companies and other participants which have the relevant interests.

However, the SESC found that the Company raised the Premium Charge by unfair adjustment of bidding by asking specific participants in some of the Bidding for stock lending to change bidding conditions such as the rate and the number of shares. In addition, it was found that such adjustment of bidding had been conducted since around June 1998 at the latest.

-Date of recommendation: December 14, 2007

-Target(s) of recommendation: The Company

-Administrative disciplinary action(s):

Business improvement order (a) To verify appropriate internal control systems and compliance systems and clarify the locus of responsibility, b) To boost officers' and employees' awareness of investor protection, comply with various rules provided by the Company, conduct necessary training for fair and appropriate business operations and familiarize officers and employees with them, c) To ensure effectiveness of audit functions through fundamental improvements and enhancement of the internal audit division, d) To verify issues for improvement to ensure fairness and appropriateness in relation to the Company's relevant rules and business operations, e) To conduct the improvements necessary to verify transaction records on bidding for stock lending after the fact, f) To formulate and implement preventive measures against recurrence based on a), b), c), d) and e), g) To announce improved activities)

3. Investigations of Unfair Trading and Disclosure

1) Outline

"Unfair trading", such as market manipulation, insider trading, spread of rumors on stock markets or fraudulent means, is an act of impairing fairness and transparency in markets and deceiving investors.

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 financial and capital markets.

The SESC conducts prompt and efficient investigations using the features of the administrative monetary penalty system, which was introduced from April 2005, in order to respond to environmental changes due to more complicated, diverse and globalized financial instruments trading, and to realize highly flexible and strategic market monitoring. The SESC also carries out investigations of criminal cases and files formal complaints for flagrant cases. In this way, the SESC strives to ensure the reliance of financial and capital markets, and protect investors.

The administrative monetary penalty system represents administrative action imposing monetary burdens for violations of FIEA through trial procedures similar to trials. This system requires the verification of less evidence than criminal trials.

In BY 2007, the SESC conducted prompt and efficient investigations by using such features and promoted further utilization of this system. As a result, the number of recommendations for issuance of orders to pay administrative monetary penalties in relation to unfair trading in BY 2007 increased to 21 from 9 in BY 2006, and in relation to false disclosure documents in BY 2007 increased to 10 from 5 in BY 2006.

In BY 2007, based on investigations of criminal cases, the SESC filed a total of ten formal complaints including four cases on charges of market manipulation, two of insider trading, one of spreading rumors on stock markets, two of submission of a false annual securities report, and one of fraudulent means consisting of multiple aspects. The SESC monitored markets effectively while handling the multifaceted cases stated above.

In accordance with "the Financial Instruments and Exchange Act" effective from June 2006, listed companies have been obligated to submit quarterly securitise reports, internal control reports and confirmations of those reports from BY started on and after April 1, 2008. In addition, these documents have been subject to disclosure documents inspection, with submission of false quarterly securities reports subject to administrative monetary penalties, and misstatements of and failure to submit quarterly reports and internal control reports subject to criminal investigation.

The SESC is appropriately responding to the expansion in the coverage and scope of administrative monetary penalties investigation, disclosure documents inspection and investigation of criminal cases while increasing personnel mainly for improving and enhancing systems of such investigations and inspection.

2) Administrative Monetary Penalties Investigation

1. Purpose of Administrative Monetary Penalties

In the past, the criminal penalties were main measures to ensure the effectiveness of regulations on insider trading and other violations of the FIEA. In addition to criminal penalties, however, the administrative 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 FIEA, in order to achieve the administrative objectives of

restraining 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 monetary penalty system was introduced, the SESC established the office of civil Penalties Investigation and Disclosure Documents Examination with the aim of regulating violations that are subject to administrative monetary penalties. Furthermore, the said office was reorganized as the "Civil Penalties Investigation and Disclosure Documents Inspection Division" in July 2006 to enhance systems.

The SESC is authorized to conduct administrative monetary 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 monetary penalties. (Article 20 of the Act for Establishment of the FSA)

If a recommendation for the issuance of an order to pay administrative monetary penalty is made, the Commissioner of the FSA (delegated by the Prime Minister) determines the commencement of trial procedure. Then, trial examiners conduct the trial procedure and prepare 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 monetary penalty.

2. Acts Subject to Administrative Monetary Penalties

Specific acts subject to administrative 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 FIEA)
(2) Submission of an annual securities report (which should be submitted for each BY), etc. containing false entries (Article 172-2 of the FIEA)
(3) Spreading rumors on stock markets; fraudulent means (Article 173 of the FIEA)
(4) Market manipulation (Article 174 of the FIEA)
(5) Insider trading (Article 175 of the FIEA)

3. Authority of Administrative Monetary Penalties Investigation

The authority to conduct administrative monetary penalties investigations in relation to false statements in an annual securities report, a securities registration statement, and other disclosure documents is prescribed as Disclosure Documents Inspection in Article 26 of the FIEA. Under this law, the SESC is authorized to:

(1) Order a person who has filed a securities registration statement, a person who has filed shelf registration statement, a person who has filed an annual securities report, a person who has filed a share buyback purchase report, a person who has filed a status report of parcent company, etc. 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 administrative monetary penalty investigations pertaining to unfair trading such as spread of rumors on stock markets, fraudulent means, market manipulation, and insider trading is prescribed in Article 177 of the FIEA. Under this law, the SESC is authorized to:

(1) Question suspects or related persons,0 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.ed to:

4. Disclosure Documents Inspection

With the aim of protecting public interests and investors by ensuring the adequacy of disclosure, the FIEA 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 a shelf registration statement, a person who has filed an annual securities report, a tender offeror, a person who has filed a report of possession of large volume or any other person to submit reports or materials, and may inspect their books and documents and other items (hereinafter referred to as the "Disclosure Documents Inspection".

Since mid-October 2004, 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 annual securities report 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 a shelf registration statement, a person who has filed an annual securities report, a person who has filed a share buyback report, a person who has filed a status report of parent company etc. an underwriter of securities, or any other related party or person, and inspect these individuals (Article 26 of the FIEA, including the case where the same article is applied mutatis mutandis in Article 27 of the FIEA)

(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 FIEA, including the case where the same article is applied with appropriate modifications pursuant to paragraph 2 of Article 27-22-2 of the FIEA)

(3) The authority to require reporting from a person who has filed subject company's position statement regarding a tender offer, or any other related party or person, and inspect these individuals (paragraph 2 of Article 27-22 of the FIEA)

(4) The authority to require reporting from a person who has filed a report of possession of large volume a joint 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 FIEA)

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

(6) The authority to require reporting from a certified public accountant or auditing firm which has made the audit certification (paragraph 5 of Article 193-2 of the FIEA)

(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 FIEA Enforcement Order)

-The authority to require reporting from a tender offeror, etc. or a person who has filed a subject company position statement, etc. and inspect these individuals during the tender offer period (item 3, paragraph 1 of Article 38-2 of the FIEA 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 FIEA 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 FIEA, the Prime Minister must order a person who has submitted disclosure documents to pay administrative 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 Monetary Penalties"), and may order the person to submit amendment reports (paragraph 1 of Article 10 of the FIEA, etc.).

In Japan's financial and capital markets, approximately 4,800 companies including approximately 3,900 listed companies submit their annual securities reports or other disclosure documents. The SESC collects and analyzes various data and information including the corporate information disclosed by those companies, amendment reports, news reports on those companies, and information from the general public, and the SESC conducts disclosure documents inspection when those documents are possible 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 action, and urges the company causing such a false statement to voluntarily amend its disclosure documents.

3) Investigations of Criminal Cases

1. Purpose of Investigations of Criminal Cases

In the FIEA, 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 financial instruments business operators, etc., but also covers investors and all other persons involved in financial instruments transactions. The SESC is also given the authority to investigate criminal cases under the Act on the Prevention of Transfer of Crime Proceeds, in which the FIEA is applied mutatis mutandis in this regard.

While financial instruments and their transactions are becoming more complicated and diverse, the SESC is investigating criminal cases, looking over the entire primary market and secondary market in order to conduct flexible investigations of criminal cases.

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 articles possessed or left behind by suspects, and retain articles supplied voluntarily or left behind by suspects (Article 210 of the FIEA). As for compulsory investigations with warrants from judges of a court , the SESC is authorized to execute official inspection and search the premises of suspects and seize related evidence (Article 211 of the FIEA).

The scope of criminal cases is specified as a category of acts impairing fair securities trading in relevant cabinet orders (Article 45 of the FIEA Enforcement Order). Most typical criminal cases include submission of false securities registration statements or annual securities reports by issuing companies, insider trading by persons associated with issuing companies, and spreading rumors on stock markets, fraudulent means and market manipulation by any persons.

Criminal cases to be investigated under the Act on the Prevention of Transfer of Crime Proceeds include a customer's act of concealing his/her true name or address when the financial instruments business operator verifies his/her identity.

An investigator of the SESC reports the results of his/her investigations of a suspected criminal case to the SESC (Article 223 of the FIEA, Article 28 of the Act on the Prevention of Transfer of Crime Proceeds). If the SESC is convinced that the case constitutes a violation, the SESC files a formal complaint, and sends the evidence, 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 FIEA, and Article 28 of the Act on the Prevention of Transfer of Crime Proceeds).

4) Filing of Formal Complaints and Recommendations for Unfair Trading

1. Recommendations for Issuance of Orders to Pay Administrative Monetary Penalties

(1) Issuance of Recommendations

In BY 2007, the SESC made 21 recommendations on unfair trading (all against individuals) for the issuance of orders to pay administrative monetary penalties in the total amount of 12.06 million yen. Accordingly, since the introduction of the administrative monetary penalty system in April 2005, the SESC has issued 39 recommendations (35 against individuals, and 4 against corporations) in the total amount of 93.93 million yen. The introduction of the administrative 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 BY 2007 were all related to insider trading. The objectives of administrative monetary penalties include an officer or employee of a listed company, an officer or employee of a company with which a listed company concluded an agreement, a primary recipient of information who learned of important facts from a concerned party of those companies and so on. The contents of those important facts were wide-ranging, for example, business partnership, tender offer, downward revision of one's earning forecast, and invitation of warrant bonds.

Listed companies are promoting activities to prevent insider trading, such as reviewing internal rules and internal management systems. However, while recognizing that their transactions would fall under the category of insider trading, those that were the objectives of administrative monetary penalties still conducted illegal transactions, thinking that small amounts of illegal transactions would not be found out. In this way, they were found to lack awareness of compliance with laws.

Among cases in which recommendations for the issuance of orders to pay administrative monetary penalties were made against officers or employees of companies with which a listed company concluded an agreement and primary recipients of information, the SESC found some cases in which there seemed to be problems regarding the professional ethics of personnel in special positions to learn of important information about listed companies, and regarding the information management systems of the corporations to which they belonged. For example, a certified public accountant conducted transactions using an audited company's internal information which he had obtained in the process of his audit. In addition, there was a case in which employees of the mass media carried out transactions before the announcement of important facts, which they had learned from browsing manuscripts for broadcasting that had been entered into an information terminal.

The amounts of administrative monetary penalties ranged from 40,000 yen to 2.45 million yen

(2) Outline of Recommendations Issued

The outline of recommendations for issuance of orders to pay administrative monetary penalties in connection with unfair trading in BY 2007 is stated below.

In principle, the amount of administrative monetary penalty for insider trading is computed pursuant to Article 175 of the FIEA 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 monetary penalty based on the results of investigation of insider trading of KURAMOTO CO., LTD. shares

An employee of a company with which KURAMOTO CO., LTD. concluded an agreement, in the course of entering into and negotiating this agreement, came to know the fact that KURAMOTO CO., LTD. had decided a business alliance with SCHOTT AG. On November 16 and 17, 2005 before the disclosure of this fact on November 24, 2005, the said employee purchased 3,000 shares in total at 1,877,200 yen.

- Date of recommendation: July 3, 2007
- Penalty: 150,000 yen
- Process following recommendation

Date of decision on the commencement of trial procedure: July 3, 2007

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

Since a written reply admitting these facts 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 monetary penalty based on the results of investigation of insider trading of Senshu Electric Co., Ltd. shares

An employee of Senshu Electric Co., Ltd. (person X, who was ordered to pay administrative monetary penalty) came to know the fact that the company had decided to recruit an underwriter for convertible bonds, in the course of his job duties. On November 6, 2006, before the disclosure of this fact on November 9, 2006, person X sold 200 shares at 540,000 yen.

An employee of Senshu Electric Co., Ltd. (person Y, who was ordered to pay administrative monetary penalty) came to know the fact that the company decided to recruit an underwriter of convertible bonds, in the course of his job duties. On September 5, 2006, before the disclosure of this fact on November 9, 2006, person Y sold 1,000 shares in total at 3,066,000 yen.

-Date of recommendation: October 19, 2007

-Penalty: Person X: 40,000 yen

Person Y: 580,000 yen

-Process following recommendation

Date of decision on the commencement of trial procedure: October 19, 2007

Date of issuance of order to pay penalty: November 8, 2007

Since written replies admitting these facts were submitted by the people who were ordered to pay the penalties, no trial was conducted.

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

An officer of a company with which Kappa Create Co., Ltd. negotiated on the conclusion of a capital and business alliance agreement, and in the course of negotiation on the conclusion of the said agreement, came to know the fact that Kappa Create Co., Ltd. Had decided to enter a business tie-up deal accompanied by a capital alliance with ZENSHO Co., Ltd. The person who was ordered to pay administrative monetary penalty learned of this fact from the said officer, and purchased 4,000 shares at 6,656,000 yen on March 8, 2007, before the disclosure of this fact at 3:15 pm on the same day.

-Date of recommendation: November 2, 2007

-Penalty: 440,000 yen

-Process following recommendation

Date of decision on the commencement of trial procedure: November 2, 2007

Date of issuance of order to pay penalty: November 15, 2007

Since a written reply admitting these facts 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 monetary penalty based on the results of investigation of insider trading of Belx Co., Ltd. shares

A person engaged in business at KY Planning, in the course of his job duties, came to know the fact that KY Planning had decided to make a takeover bid for Belx Co., Ltd. The person who was ordered to pay administrative monetary penalty learned this fact from said person and purchased 7,000 shares in total at 5, 689,000 yen for the period from May 2, 2007 to the 9th of the same month, before the disclosure of this fact on May 22, 2007.

-Date of recommendation: December 14, 2007

-Penalty: 2.45 million yen

-Process following recommendation

Date of decision on the commencement of trial procedure: December 14, 2007

Date of issuance of order to pay penalty: January 11, 2008

Since a written reply admitting these facts 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 monetary penalty based on the results of investigation of insider trading of WDI Corporation shares

An employee of WDI Corporation, in the course of his job duties, came to know the fact that the company would revise its non-consolidated and consolidated earnings forecast downward for the fiscal year ended March 2007. On March 19, 2007, before the disclosure of this fact on April 10, 2007, this employee sold 1,500 shares in total at 1,293,500 yen.

-Date of recommendation: December 14, 2007

-Penalty: 90,000 yen

-Process following recommendation

Date of decision on the commencement of trial procedure: December 14, 2007

Date of issuance of order to pay penalty: February 11, 2008

Since a written reply admitting these facts 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 monetary penalty based on the results of investigation of insider trading of Suncity Co., Ltd. shares

An officer of Suncity Co., Ltd., in the course of his job duties, came to know the fact

that the company had decided to recruit an underwriter of convertible bonds. On May 30 and June 1, 2006, before the disclosure of this fact on July 20, 2006, this officer sold 48 shares at 4,708,800 yen.

-Date of recommendation: January 22, 2008
-Penalty: 530,000 yen
-Process following recommendation
Date of decision on the commencement of trial procedure: January 22, 2008
Date of issuance of order to pay penalty: February 6, 2008
Since a written reply admitting these facts 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 monetary penalty based on the results of investigation of insider trading by a person who received information from an employee of TAKARA PRINTING CO., LTD.

An employee of TAKARA PRINTING CO., LTD. with which Otsuki Strategic Investment Co., Ltd. and nine other companies concluded agreements, in the course of performing those agreements, came to know the fact that Otsuki Strategic Investment Co., Ltd. and nine other companies respectively had decided to make takeover bids for Technol Eight Co., Ltd. and nine other companies. The person who was ordered to pay administrative monetary penalty learned of these facts by said employee, and purchased 11,700 shares of Technol Eight Co., Ltd. and nine other companies in total at 8,339,000 yen for the period from November 10, 2005 to August 6, 2007, before the disclosure of these facts.

-Date of recommendation: January 25, 2008
-Penalty: 1.67 million yen
-Process following recommendation
Date of decision on the commencement of trial procedure: January 25, 2008
Date of issuance of order to pay penalty: February 14, 2008
Since a written reply admitting these facts was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[8] Recommendation for issuance of order to pay administrative monetary penalty based on the results of investigation of insider trading by a recipient of information obtained from a person concerned to TAKARA PRINTING CO., LTD.

An employee of TAKARA PRINTING CO., LTD. with which NSK Ltd. and two other companies concluded agreements, in the course of concluding those agreements, came to know the fact that NSK Ltd. and two other companies respectively had decided to make takeover bids for Amatsuji Steel Ball Mfg. Co., Ltd. and two other companies. The person who was ordered to pay administrative monetary penalty learned these facts from said employee, and purchased 2,100 shares of Amatsuji Steel Ball Mfg. Co., Ltd. and other two companies in total at 4,040,500 yen for the period from December 13, 2005 to October 2, 2006, before the disclosure of these facts.

-Date of recommendation: January 25, 2008
-Penalty: 760,000 yen
-Process following recommendation
Date of decision on the commencement of trial procedure:January 25, 2008
Date of issuance of order to pay penalty: February 14, 2008
Since a written reply admitting these facts was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[9] Recommendation for issuance of order to pay administrative monetary penalty based on the results of investigation of insider trading by employees of Japan

Broadcasting Corporation

A reporter at the Japan Broadcasting Corporation, in the course of his job duties, learned the fact that Kappa Create Co., Ltd. and ZENSHO Co., Ltd. respectively had decided to enter into a business tie-up deal accompanied by a capital alliance from an employee of ZENSHO Co., Ltd.

Person X, Y and Z, ordered to pay administrative monetary penalty respectively, all of them were employees of Japan Broadcasting Corporation, in the course of his job duties, came to know this fact.

Person X purchased 3,150 shares of Kappa Create Co., Ltd. at 5,397,900 yen and 2,500 shares of ZENSHO Co., Ltd. at 3,276,000 yen on March 8, 2007, before the disclosure of this fact at 3:15pm on the same day.

Person Y purchased 3,000 shares of Kappa Create Co., Ltd. at 5,150,000 yen on March 8, 2007.

Person Z purchased 1,000 shares of Kappa Create Co., Ltd. at 1,710,950 yen on March 8, 2007.

-Date of recommendation: February 29, 2008

-Penalty: Person X: 260,000 yen
Person Y: 170,000 yen
Person Z: 60,000 yen

- Process following recommendation

Date of decision on the commencement of trial procedure:February 29, 2008

Date of issuance of order to pay penalty: March 19, 2008

Since written replies admitting these facts were submitted by the people who were ordered to pay the penalties, no trial was conducted.

[10] Recommendation for issuance of order to pay administrative monetary penalty based on the results of investigation of insider trading by a certified public accountant of Ernst & Young ShinNihon LLC

A certified public accountant of Ernst & Young Shin Nihon LLC, with which Marvelous Entertainment Inc. concluded an agreement, in the course of concluding this agreement, came to know the fact that Marvelous Entertainment Inc. would revise its non-consolidated and consolidated earnings forecasts downward for the fiscal year ended March 2007. For the period from March 12, 2007 to the 20th of the same month, this employee sold 261 shares at 12,256,700 yen, before the disclosure of this fact at 3:00 pm on March 20, 2007.

-Date of recommendation: March 18, 2008

-Penalty: 1,340,000 yen

-Process following recommendation

Date of decision on the commencement of trial procedure:March 18, 2008

Date of issuance of order to pay penalty: April 9, 2008

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

[11] Recommendation for issuance of order to pay administrative monetary penalty based on the results of investigation of insider trading by persons concerned to companies with which Seta Corporation negotiated on or entered into agreements

An officer (person (i) who was ordered to pay administrative monetary penalty) of company A, with which Seta Corporation concluded an business trust agreement, in the course of negotiating on conclusion of the agreement, came to know the fact (hereinafter referred to as "the fact") that Seta Corporation had decided to enter into a business tie-up deal with Macy Sales Co., Ltd. On April 4 and 5, 2007, before the disclosure of this fact on April 20, 2007, this officer purchased 26,000 shares of Seta Corporation in total at

9,880,000 yen.

An officer (person (ii) who was ordered to pay administrative monetary penalty) of company B, with which Seta Corporation negotiated on conclusion of a business trust agreement, in the course of negotiating on conclusion of the agreement, came to know the fact On April 13, 2007, this officer purchased 10,000 shares of Seta Corporation in total at 3,925,000 yen.

An officer (person (iii) who was ordered to pay administrative monetary penalty) of company B, with which Seta Corporation negotiated on conclusion of a business trust agreement, in the course of negotiating on conclusion of the agreement, came to know the fact On April 13, 2007, this officer purchased 5,000 shares of Seta Corporation in total at 1,880,000 yen.

An officer (person (iv) who was ordered to pay administrative monetary penalty) of company C, with which Seta Corporation concluded an business trust agreement, in the course of negotiating on conclusion of the agreement, came to know the fact On April 2 and 6, 2007, this officer purchased 6,000 shares of Seta Corporation in total at 2,289,000 yen.

An officer (person (v) who was ordered to pay administrative monetary penalty) of company D, with which Seta Corporation negotiated on conclusion of a business trust agreement, in the course of negotiating on conclusion of the agreement, came to know the fact On April 9 and 11, 2007, this officer purchased 3,000 shares of Seta Corporation in total at 1,099,000 yen.

An officer (person (vi) who was ordered to pay administrative monetary penalty) of company D, with which Seta Corporation negotiated on conclusion of a business trust agreement, in the course of negotiating on conclusion of the agreement, came to know the fact On April 6 and 12, 2007, this officer purchased 8,000 shares of Seta Corporation in total at 2,950,000 yen.

Person (vii), who was ordered to pay administrative monetary penalty, was an officer of company E, which was a business partner of company D. Another officer of company E, in the course of his job duties, learned the fact. The person (vii) came to know the fact in the course of his job duties, and purchased 5,000 shares of Seta Corporation in total at 1,848,000 yen on April 11 and 12, 2007.

-Date of recommendation: April 22, 2008

-Penalty: Person (i) : 1,040,000 yen
Person (ii) : 270,000 yen
Person (iii) : 220,000 yen
Person (iv) : 230,000 yen
Person (v) : 160,000 yen
Person (vi) : 410,000 yen
Person (vii): 250,000 yen

-Process following recommendation

Date of decision on the commencement of trial procedure:April 22, 2008

Date of issuance of order to pay penalty:May 16, 2008

Since written replies admitting these facts were submitted by the people who were ordered to pay the penalty, no trial was conducted.

[12] Recommendation for issuance of order to pay administrative monetary penalty based on the results of investigation of insider trading by an employee of Japan Electronic Materials Corporation

An employee who was engaged in the planning and formulation of sales strategies at Japan Electronic Materials Corporation, in the course of his job duties, came to know the fact that the company would revise its earnings forecast for the fiscal year ended March

2008. On August 6, 2007, before the disclosure of this fact on August 7, 2007, this employee sold 3,400 shares at 5,015,000 yen.
-Date of recommendation: April 25, 2008
-Penalty: 940,000 yen
-Process following recommendation
Date of decision on the commencement of trial procedure:April 25, 2008
Date of issuance of order to pay penalty: May 21, 2008
Since a written reply admitting these facts was submitted by the person who was ordered to pay the penalty, no trial was conducted.

2. Investigations of Criminal Cases and Filing of Formal Complaints

(1) Investigations of Criminal Cases

As for the formal complaints filed in BY 2007, the SESC conducted the necessary compulsory investigations of homes of suspects and related offices, as well as conducting noncompulsory investigations.

(2) Filing of Formal Complaints

Based on the results of investigations of suspected criminal cases, the SESC filed a total of eight formal complaints involving 24 individuals with the public prosecutors. These complaints consisted of the following cases:

* Two cases involving six individuals on charges of spreading rumors on stock markets and fraudulent means (the case of Ohmori Co., Ltd. related to spreading rumors on stock markets and the case of ICF Inc. related to fraudulent means)

* Four cases involving 13 individuals on charges of market manipulation (the case of OA System Plaza Co., Ltd., the case of Nanno Construction Co., Ltd. and the case of OHT Inc. related to market manipulation, and the case of KS Frozen Foods Co., ltd. related to price-fixing)

* Two cases involving five individuals on charges of insider trading (by employees of Takara Printing Co., Ltd. and by employees of Nomura Securities Co., Ltd.)

Among the formal complaints filed in BY 2007, the case of Ohmori Co., Ltd. related to spreading rumors on stock markets and the case of insider trading by employees of Nomura Securities Co., Ltd. were filed with a public prosecutor of Tokyo District Public Prosecutors Office. The case of ICF Inc. related to fraudulent means, the case of OA System Plaza Co., Ltd. and the case of Nanno Construction Co., Ltd. related to market manipulation were filed with public prosecutors of the Osaka District Public Prosecutors Office. The case of KS Frozen Foods Co., ltd. related to price-fixing was filed with public prosecutors of the Nagoya District Public Prosecutors Office. The case of insider trading by employees of Takara Printing Co., Ltd. was filed with public prosecutors of the Sapporo District Public Prosecutors Office. The case of OHT Inc. was filed with public prosecutors of the Saitama District Public Prosecutors Office. To cope with the trend of geographical expansion in the coverage of criminal cases, the SESC has been responding flexibly, effectively and harshly to unfair trading.

(3) Outline of Filed Complaints

[1] OA System Plaza Case related to market manipulation

In mid-October 2006, the two suspects carried out a conspiracy involving OA System Plaza Co., Ltd. shares as follows:
(i) In an attempt to raise the price of OA System Plaza shares and induce active trading of the shares, the suspects manipulated the price of OA System Plaza shares. To be more precise, they conducted a series of transactions composed of the purchase

of approximately 1,260,000 shares in and the sale of approximately 700,000 shares in total, by such means as successively placing market orders or buy orders with price limits to drive up the share price. Furthermore, they placed buy orders for about approximately 300,000 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 193 yen to 250 yen.

(ii) With the aim of misleading other persons to believe that shares were being traded actively, the suspects conducted the fictitious buying and selling of approximately 380,000 shares in total with no intention to transfer the rights relevant to those shares.

[2] Ohmori Case related to spreading rumors on stock markets

The suspect knew, in fact, that there was little possibility that Japan Media Network, a subsidiary of Ohmori Co., Ltd., could launch flat and fixed-rate service of mobile phones for around 4,500 yen per month. However, in an attempt to conduct transactions of Ohmori Co., Ltd. shares and maintain an upward trend of its share price, the suspect instructed employees of the subsidiary to distribute documents to many news reporters, in which it was stated that Japan Media Network would start unmetered mobile phone service for a fixed monthly fee. In addition, the suspect posted documents with the same contents on the subsidiary's website accessible via the Internet. In this way, the suspect spread rumors on the stock market, for the purpose of conducting transactions of securities and causing fluctuating share prices.

[3] Nanno Construction Case related to market manipulation

The five suspects carried out a conspiracy involving Nanno Construction Co., Ltd. shares as follows:

(i) In an attempt to raise the price of Nanno Construction shares and induce active trading of the shares for the period from late November to mid-December in 2002, the suspects manipulated the price of Nanno Construction shares. To be more precise, they conducted a series of transactions composed of the purchase of approximately 9.78 million shares in total and the sale of approximately 10.42 million shares in total, by such means as successively placing buy orders with price limit to drive up the share price. They also placed buy orders for approximately 4.45 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 95 yen to 350 yen. In this way, the suspects conducted a series of transactions and places orders for them which may have misled other persons to believe that shares were being traded actively, causing the price of Nanno Construction shares to fluctuate.

(ii) With the aim of misleading other persons to believe that shares were being traded actively, for the above-mentioned period, the suspects conducted fictitious buying and selling of approximately 5.29 million shares in total with no intention to transfer the rights to those shares.

[4] OHT Case related to market manipulation

In mid-October 2005, the two suspects carried out a conspiracy involving OHT Inc. shares as follows:

(i) In an attempt to raise the price of OHT shares and induce active trading of the shares, the suspects manipulated the price of OHT shares. To be more precise, they conducted a series of transactions composed of the purchase of approximately 2,500 shares in total and the sale of approximately 800 shares in total, by such means as successively placing market orders or buy orders with price limit to drive up the share price. They also placed buy orders for approximately 4,100 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 270,000 yen to 314,000 yen. In this way, the suspects conducted a series of transactions and placed orders for them which may have misled other persons to believe that shares were being traded actively and causing the price of Nanno Construction shares to fluctuate.

(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 720 shares in total with no intention to transfer the rights to those shares.

[5] KS Frozen Foods Case related to price-fixing

The three suspects carried out a conspiracy involving KS Frozen Foods shares in the course of business at the suspected company. In an attempt to maintain and fix the price of KS Frozen Foods Co., Ltd. shares over its initial public offering price of 1,850 yen, for the period from early April to mid-May in 2006, they solicited individual customers to place buy orders for approximately 38,700 shares with price limit at 1,850 yen in violation of ordinances. Furthermore, they executed those orders to hold up the share price. As a result, the price of KS Frozen Foods share was fixed between 1,850 yen and 1,900 yen. In this way, with the aim of fixing the share price, they accepted and executed a series of securities transactions.

[6] Fraudulent means pertaining to acquisition of ICF shares

The four suspects carried out the conspiracy involving ICF Inc. shares, using fraudulent means in conducting share exchange to allow ICF Inc. to acquire all shares of a company governed practically by one of the suspects. To be more specific, the suspects overestimated the company's corporate value and announced that the share exchange ratio based on a share exchange agreement concluded between the company and ICF Inc. and the number of shares to be newly issued by share exchange would be reasonable. They made the company post illusory sales and earnings based on those sales to make it seem that the company's business performance would drastically improve in the future. Furthermore, they overestimated the company's corporate value while pretending to make up its excessive debts with increases in capital, concluded a share exchange agreement to make the company a wholly owned company of ICF Inc. through the decision of board meeting of ICF Inc., and published statements including false values. As seen above, they used fraudulent means for conducting securities transactions.

[7] Insider trading by employees of Takara Printing Co., Ltd.

Two suspects were employees of a printing company engaged in preparation of disclosure documents on corporate information, etc. Takara Printing

(i) Suspect A, in the course of his job duties, came to know the important fact that the business decision-making bodies of three companies with which Takara Printing had concluded business trust agreements in preparation of tender offer statements had decided to make a tender offer for shares of three listed companies. Suspect A planned to purchase shares of the said three listed companies in advance and sell those shares after disclosure of this fact to earn a profit. For the period from August to October 2005 before the disclosure of this fact, Suspect A purchased 61,000 shares of the said three listed companies in total at approximately 54.1 million yen.

(ii) Suspect B, in the course of his job duties, came to know the important fact that the business decision-making bodies of two companies with which Takara Printing had concluded business trust agreements in preparation of tender offer statements, etc. had decided to make a tender offer for shares of two listed companies. Suspects A and B planned to purchase shares of these two listed companies in advance and sell them

after the disclosure of this fact to earn a profit. For the period from May to July 2006 before the disclosure of this fact, they, in conspiracy, purchased 92,500 shares of these two listed companies in total at approximately 83.41 million yen.

[8] Insider trading by employees of Nomura Securities Co., Ltd.

Suspect A, in the course of his job duties, came to know the important fact that each operations decision-making body of Sanko Junyaku Co., Ltd. and other three companies had decided to conduct share exchange, etc. Suspect A and B in conspiracy, or Suspect B solely, purchased stocks of four companies before the disclosure of this important fact, and sold them after the disclosure. Furthermore, suspect C aided and abetted this criminal act, by such means as opening a securities transaction account in his own name and allowing suspect B to use it freely while recognizing suspect B would misuse the account for the said criminal act.

5) Recommendations and Filing of Formal Complaints for Disclosure

1. Recommendations for Issuance of Orders to Pay Administrative Monetary Penalties

(1) Issuance of Recommendations

In BY 2007, the SESC made 10 recommendations on false disclosure documents for the issuance of orders to pay administrative monetary penalties in the total amount of approximtely 1,646 million yen. On June 19, 2008, the issuance of an order to pay administrative monetary penalty of 1,594,579,999 yen was recommended in relation to false statements in the annual securities report submitted by IHI Corporation, which was a record high penalty.

The recommendations made in relation to disclosure documents in BY 2007 covered a wide range of contents. The false disclosure documents included offering disclosure documents (securities registration statements, shelf registration supplements) and ongoing disclosure documents (annual securities reports, semi annual reports, and amendment reports). The types of false statements included understated cost of sales, overstated tangible fixed assets, etc., records of fictitious sales and purchases, overstated values of stock of affiliated company, sales recorded ahead of schedule and so on.

(2) Outline of Recommendations Issued

The recommendations for issuance of orders to pay administrative monetary penalties made in relation to false disclosure documents in BY 2007 is stated below.

Pursuant to Article 172 of the FIEA, if offering disclosure documents are found to contain false entries, the amount of an administrative 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 FIEA, if annual securities reports are found to contain false entries, the amount of an administrative monetary penalty to be imposed is three million yen or 0.003% of the total market value of the shares (in case other ongoing disclosure documents such as semi-annual reports, the amount of the penalty should be equivalent to the half of the case of annual securities reports.), whichever is the greater.

(Note 1) Where the total market value of the shares does not exist, administrative monetary penalties for ongoing disclosure documents containing false entries are calculated using the value obtained by deducting the total amount of liabilities from the total amount of assets recorded in a balance sheet. (Article 33-5-3 of the FIEA)

(Note 2) Administrative monetary penalties for ongoing disclosure documents containing false entries asexplained above are applied solely with regard to annual

securities reports submitted on or after December one harf of the penalties. Regarding annual securities reports 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 amendment reports, is two million yen or 0.002% of the total market value of the shares, (or one half the penalties, if the ongoing disclosure documents is a semi-annual report.), whichever is the greater (paragraph 2 of Article 5 of the Supplementary Provisions of the Law for Partial Revision of the SEL, Law No. 76 of 2005).

[1] Recommendation for issuance of order to pay administrative monetary penalty in relation to a false annual securities report submitted by Tonichi Carlife Group Corporation

By understating the cost of sales, understating selling, general and administrative expenses and some other means, **Tonichi Carlife Group Corporation** made the following arrangements:

(1) Although the company's consolidated net loss was 261 million yen (rounded down to the nearest million yen; this applies to the figure for consolidated net income, interim consolidated net income and consolidated net loss, as respectively mentioned below), the company recorded a net income of 404 million yen in the consolidated profit and loss statement. On January 15, 2007, the company submitted amendment reports related to the annual securities report for the year ended March 2007, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(2) Although the interim consolidated net income should have been 1,101 million yen, the company recorded a net income of 1,803 million yen in the interim consolidated profit and loss statement. On December 13, 2005, the company submitted the semiannual securities report for the six-month period ended September 2005, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(3) Although the consolidated net loss should have been 69 million yen, the company recorded a net income of 1,352 million yen in the consolidated profit and loss statement. On June 23, 2006, the company submitted the annual securities report for the year ended March 2006, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(4) Although the consolidated net loss should have been in the amount of 69 million yen, the company recorded a net income of 836 million yen in the consolidated profit and loss statement. On January 15, 2007, the company submitted the amendment reports related to the annual securities report for the year ended March 2006, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

-Date of recommendation: July 18, 2007
-Penalty: 6 million yen
-Process following recommendation
Date of decision on the commencement of trial procedure: July 18, 2007
Date of issuance of order to pay penalty: August 7, 2007
Since a written reply admitting these facts 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 monetary penalty in relation to a false annual securities report submitted by NITTOC Co., Ltd.

By overstating tangible fixed assets and some other means, NITTOC Co., Ltd. made the following arrangements:

(1) Although the consolidated net assets should have been 3,500 million yen (rounded down to the nearest million yen; this applies to consolidated net assets, as mentioned below), the company recorded the amount of 4,532 million yen in the equity section corresponding to consolidated net assets on the interim consolidated balance sheet. On December 16, 2005, the company submitted the semi-annual securities report for the six-month period ended September 2005, in which the said false balance sheet was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(2) Although the consolidated net assets should have been 3,978 million yen, the company recorded the amount of 5,001 million yen in the equity section corresponding to consolidated net assets on the consolidated balance sheet. On June 29, 2006, the company submitted the annual securities report for the year ended March 2006, in which the said false balance sheet was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(3) Although the consolidated net assets should have been 2,579 million yen, the company recorded the amount of 3,588 million yen in the total net assets section corresponding to consolidated net assets on the interim consolidated balance sheet. On December 15, 2006, the company submitted the semi-annual securities report for the six-month period ended September 2006, in which the said false balance sheet was incorporated, to the Director-General of the Kanto Local Finance Bureau.

-Date of recommendation: November 20, 2007

-Penalty: 3,499,999 yen

-Process following recommendation

Date of decision on the commencement of trial procedure: November 20, 2007

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

Since a written reply admitting these facts 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 monetary penalty in relation to a false annual securities report submitted by NETMARKS INC.

By recording fictitious sales and purchases, NETMARKS INC. made the following arrangements.

(1) Although the consolidated net loss should have been 60 million yen (rounded down to the nearest million yen; this applies to consolidated net income and consolidated net loss, as respectively mentioned below), the company recorded a net income of 346 million yen in the consolidated profit and loss statement. On June 26, 2006, the company submitted the annual securities report for the year ended March 2006, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(2) Although the consolidated net loss should have been 60 million yen, the company recorded a net income of 346 million yen in the consolidated profit and loss statement. On February 15, 2007, the company submitted the amendment reports related to the annual securities report for the year ended March 2006, in which the said false profit and loss statement, to the Director-General of the Kanto Local Finance Bureau.

-Date of recommendation: December 21, 2007

-Penalty: 3 million yen

-Process following recommendation
Date of decision on the commencement of trial procedure: December 21, 2007
Date of issuance of order to pay penalty: January 18, 2008
Since a written reply admitting these facts 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 monetary penalty in relation to a false semiannual securities report submitted by SANYO Electric Co., Ltd.

Although the net assets should have been the amount of 174,641 million yen (rounded down to the nearest million yen; this applies to net assets, as mentioned below), SANYO Electric Co., Ltd. recorded the amount of 226,872 million yen in the equity section corresponding to net assets on the interim balance sheet by overstating the value of affiliates shares and understating the loss provision of affiliates. On December 28, 2005, the company submitted the semi-annual securities report for the six-month period ended September 2005, in which the said false balance sheet was incorporated, to the Director-General of the Kanto Local Finance Bureau.
-Date of recommendation: December 25, 2007
-Penalty: 8.3 million yen
-Process following recommendation
Date of decision on the commencement of trial procedure: December 25, 2007
Date of issuance of order to pay penalty: January 18, 2008
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 monetary penalty in relation to a false annual securities report submitted by ASCII SOLUTIONS Inc.

（1） In relation ongoing disclosure documents:

(i) Although the net assets should have been 520 million yen (rounded down to the nearest million yen; this applies to net income, net assets, interim net loss, and ordinary income and loss and net loss for the period from April 1 to December 31, 2005, as respectively mentioned below), ASCII SOLUTIONS Inc. recorded the amount of 615 million yen in the equity section corresponding to net assets on the balance sheet. In addition, although the net income should have been 56 million yen, the company recorded the amount of 151 million yen in the profit and loss statement. These false statements were created by overstating net sales and transferring expenses to intangible fixed assets. On June 29, 2006, the company submitted the annual securities report for the year ended March 2006, in which the said false balance sheet and profit and loss statement were incorporated, to the Director-General of the Kanto Local Finance Bureau.

(ii) Although the net assets should have been 669 million yen, thecompany recorded the net asset of 1,071 million yen in the total net assets section corresponding to net assets on the interim balance sheet. In addition, although the interim net loss should have been 358 million yen, the company recorded the loss of 51 million yen in the interim profit and loss statements. These false statements were created by overstating accounts receivable trade and inventory assets. On December 21, 2006, the company submitted the semiannual securities report for the six-month period ended September 2006, in which the said false balance sheet and profit and loss statement were incorporated, to the Director-General of the Kanto Local Finance Bureau.

(iii) Although the net assets should have been 669 million yen, the company recorded the net asset of 858 million yen in the total net assets section corresponding to net asset on the interim balance sheet. In addition, although the interim net loss should

have been 358 million yen, the company recorded the loss of 263 million yen in the interim profit and loss statement. These false statements were created by overstating accounts receivable trade. On June 1, 2007, the company submitted the amendment reports related to the semiannual securities report for the six-month period ended September 2006, in which the said false balance sheet and profit and loss statements were incorporated, to the Director-General of the Kanto Local Finance Bureau.

(iv) Although the net assets should have been 196 million yen, the company recorded the net asset of 386 million yen in the total net assets section corresponding to net assets on the balance sheet by overstating advance payments. On June 28, 2007, the company submitted the annual securities report for the year ended March 2007 in which the said false balance sheet was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(2) In relation to the securities registration statements:

(i) Although in truth, the company showed an ordinary loss in the amount of 5 million yen and a net loss in the amount of 8 million yen, the company recorded an ordinary income of 18 million yen and a net income of 15 million yen respectively in the profit and loss statement for the period from April 1 to December 31, 2005 by overstating sales. On March 1, 2006, the company submitted the securities registration statement, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau. In the public offering based on this securities registration statement, ASCII SOLUTIONS Inc. caused 1,500 shares in the total amount of 525 million yen to be acquired on April 5, 2006.

(ii) ASCII SOLUTIONS Inc. submitted the securities registration statement, in which the annual securities report for the year ended March 2007, was incorporated, to the Director-General of the Kanto Local Finance Bureau on August 10, 2007. In the public offering based on this securities registration statement, the company caused 2,650 shares in the total amount of 153.7 million yen to be acquired on August 27, 2007.

-Date of recommendation: February 1, 2008

-Penalty: 19,570,000 yen

-Process following recommendation

Date of decision on the commencement of trial procedure: February 1, 2008

Date of issuance of order to pay penalty: February 21, 2008

Since a written reply admitting these facts 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 monetary penalty in relation to a false annual securities report submitted by MARUZEN Co., Ltd.

By recording sales ahead of schedule, etc., MARUZEN Co., Ltd. made the following arrangements:

(1) Although the consolidated ordinary loss should have been the amount of 939 million yen (rounded down to the nearest million yen; this applies to consolidated ordinary loss, interim consolidated net loss, consolidated net assets and consolidated net loss, as respectively mentioned below) and the interim consolidated net loss should have been the amount of 6,950 million yen, the company recorded a consolidated ordinary loss of 802 million yen and an interim consolidated net loss of 6,815 million yen respectively in the interim consolidated profit and loss statement. In addition, although the consolidated net assets should have been the amount of

4,079 million yen, the company recorded the amount of 5,051 million yen in the equity section corresponding to consolidated net assets on the interim consolidated balance sheet. On December 13, 2005, the company submitted the semiannual securities reportfor the six-month period ended September 2005, in which the said false balance sheet and profit and loss statement were incorporated, to the Director-General of the Kanto Local Finance Bureau.

（2）Although the consolidated ordinary loss should have been the amount of 529 million yen and the consolidated net loss should have been 6,790 million, the company recorded a consolidated ordinary loss of 360 million yen and a consolidated net loss of 6,624 million yen respectively in the consolidated profit and loss statements. In addition, although the consolidated net assets should have been 4,257 million yen, the company recorded 5,261 million yen in the equity section corresponding to consolidated net assets on the consolidated balance sheet. On April 28, 2006, the company submitted the annual securities report for the year ended January 2006, in which the said false profit and loss statement and balance sheet were incorporated, to the Director-General of the Kanto Local Finance Bureau.

-Date of recommendation: March 14, 2008

-Penalty: 1,659,999 yen

-Process following recommendation

Date of decision on the commencement of trial procedure: March 14, 2008

Date of issuance of order to pay penalty: April 3, 2008

Since a written reply admitting these facts 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 monetary penalty in relation to a false annual securities report submitted by MISAWA HOMES KYUSYU Co., Ltd.

By recording sales ahead of schedule and by other means, MISAWA HOMES KYUSYU Co., Ltd. made the following arrangements:

（1）Although the consolidated net loss should have been 261 million yen (rounded down to the nearest million yen; this applies to interim consolidated net income, consolidated net assets, and consolidated net loss, as respectively mentioned below.), a net income of 19 million yen was recorded in the interim consolidated profit and loss statement. In addition, regardless that 1,020 million yen in debts exceeded assets, 443 million yen in consolidated net assets was recorded in the equity section corresponding to the "consolidated net assets" section on the interim consolidated balance sheet. On December 13, 2005, the company submitted the semiannual securities report for the six-month period ended September 2005, in which the said false profit and loss statement and balance sheet were incorporated, to the Director-General of the Fukuoka Local Finance Branch Bureau.

（2）Although the consolidated net loss should have been 141 millionyen, a net income of 155 million yen was recorded in the consolidated profit and loss statement. In addition, regardless that 820 million yen in debts exceeded assets, 659 million yen in consolidated net assets was recorded in the equity section corresponding to consolidated net assets on the consolidated balance sheet. On June 30, 2006, the company submitted the annual securities report for the year ended March 2006, in which the said false profit and loss statement and balance sheet were incorporated, to the Director-General of the Fukuoka Local Finance Branch Bureau.

-Date of recommendation: April 15, 2008

-Penalty: 1,999,999 yen

-Process following recommendation

Date of decision on the commencement of trial procedure: April 15, 2008
Date of issuance of order to pay penalty: May 9, 2008

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

[8] Recommendation for issuance of order to pay administrative monetary penalty in relation to a false annual securities report submitted by SETA Corporation

Although the consolidated net loss should have been 6 million yen (rounded down to the nearest million yen; this applies to consolidated net income and consolidated net assets, as respectively mentioned below.), a net income of 291 million yen was recorded in the consolidated profit and loss statement. In addition, although the consolidated net assets should have been 1,024 million yen, 1,323 million yen was recorded in the total net assets section corresponding to "consolidated net assets" on the consolidated balance sheet. These false statements were created by recording sales ahead of schedule and by other means. On June 27, 2007, the company submitted the annual securities report for the year ended March 2007, in which the said false profit and loss statement and balance sheet were incorporated, to the Director-General of the Kanto Local Finance Bureau.

-Date of recommendation: April 22, 2008
-Penalty: 3 million yen
-Process following recommendation

Date of decision on the commencement of trial procedure: April 22, 2008
Date of issuance of order to pay penalty: May 16, 2008

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

[9] Recommendation for issuance of order to pay administrative monetary penalty in relation to a false annual securities report submitted by CRYMSON Co., Ltd.

By understating the cost price of sales, CRYMSON Co., Ltd. made the following arrangements:

(1) Although the net income should have been 35 million yen (rounded down to the nearest million yen; this applies to net income, interim net loss, net assets, consolidated net loss and consolidated net assets, as respectively mentioned below.), a net income of 467 million yen was recorded in the profit and loss statement. On April 27, 2006, the company submitted the annual securities report for the year ended January 2006, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(2) Although the interim net loss should have been 827 million yen, the company recorded a net loss of 280 million yen in the interim profit and loss statement. In addition, although the net assets should have been 3,856 million yen, 4,866 million yen was recorded in the total net assets section corresponding to "net assets" on the interim balance sheet. On October 24, 2006, the company submitted the semi-annual securities report for the six-year period ended July 2006, in which the said false profit and loss statement and balance sheet were incorporated, to the Director-General of the Kanto Local Finance Bureau.

(3) Although the consolidated net loss should have been 1,227 million yen, the company recorded a net loss of 463 million yen in the consolidated profit and loss statement. In addition, although the net assets should have been 3,483 million yen, the amount of 4,679 million yen was recorded in the total net assets section corresponding to "consolidated net assets" on the consolidated balance sheet. On April 27, 2007, the company submitted the annual securities report for the year ended January 2007, in which the said false profit and loss statement and balance

sheet were incorporated, to the Director-General of the Kanto Local Finance Bureau.
-Date of recommendation: June 3, 2008
-Penalty: 5 million yen
-Process following recommendation
Date of decision on the commencement of trial procedure: June 3, 2008
Date of issuance of order to pay penalty: June 19, 2008
Since a written reply admitting these facts was submitted by the person who was ordered to pay the penalty, no trial was conducted.

[10] Recommendation for issuance of order to pay administrative monetary penalty in relation to a false annual securities report submitted by IHI Corporation

(1) In relation to ongoing disclosure documents:

(i) Although the interim consolidated net loss should have been 10,095 million yen (rounded up or down to the nearest million yen; this applies to interim consolidated net loss and consolidated net income or loss, as respectively mentioned below.), a net loss of 2,817 million yen was recorded in the interim consolidated profit and loss statement, by overstating sales, understating the cost price of sales and by other means. On December 15, 2006, IHI Corporation submitted the semi-annual securities report for the six-month period ended September 2006, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(ii) Although the consolidated net loss should have been 4,593 million yen, a net income of 15,825 million yen was recorded in the consolidated profit and loss statement, by overstating sales, understating the cost price of sales and by other means. On June 27, 2007, IHI Corporation submitted the annual securities report for year ended March 2007, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau.

(2) In relation to securities registration statements

(i) On January 9, 2007, IHI Corporation submitted the securities registration statement, in which the semiannual securities report for the six-month period ended September 2006 was incorporated by reference, to the Director-General of the Kanto Local Finance Bureau. In the public offering based on this securities registration statement, IHI Corporation caused 143 million shares in the total amount of 55,913 million yen to be acquired on January 26, 2007.

(ii) On January 9, 2007, IHI Corporation submitted the securities registration statement, in which the semiannual securities report for the six-month period ended September 2006 was incorporated by reference, to the Director-General of the Kanto Local Finance Bureau. In offering new shares issued by third-party allocation based on this securities registration statement, IHI Corporation caused 21.45 million shares in the total amount of 8,044,608,000 yen to be acquired on February 26, 2007.

(iii) On June 8, 2007, IHI Corporation submitted a shelf registration supplement to the securities registration statement, in which the semiannual securities report for the six-month period ended September 2006 was incorporated by reference, to the Director-General of the Kanto Local Finance Bureau. In the public offering based on this shelf registration supplements, IHI Corporation caused bonds in the total of 30 billion yen to be acquired on June 18, 2007.

-Date of recommendation: June 19, 2008
-Penalty: 1,594,579,999 yen
-Process following recommendation
Date of decision on the commencement of trial procedure: June 19, 2008

Date of issuance of order to pay penalty: July 9, 2008

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

2. Recommendation for the Issuance of Order to Submit Amendment reports

In BY 2007, the SESC made no recommendation for the issuance of an order to submit an amendment reports.

3. Investigations of Criminal Cases and Filing of Formal Complaints

(1) Investigations of Criminal Cases

The formal complaints filed in connection with disclosure in BY 2007 include the Acces Co., Ltd. case related to submission of a false annual securities report, and the IXI Co., Ltd. case related to submission of a false annual securities report. Consequently, the SESC conducted the necessary compulsory investigations of the homes of suspects and related offices, as well as necessary noncompulsory investigations.

(2) Filing of Formal Complaints

Based on the results of investigations of suspected criminal cases, the SESC filed two formal complaints with a public prosecutor involving nine individuals (the Acces Co., Ltd. case related to submission of a false annual securities report, and the IXI Co., Ltd. case related to submission of a false annual securities report) on charges of violation of the SEL.

The Acces Co., Ltd. case related to submission of a false annual securities report was filed with a public prosecutor of Kobe District Public Prosecutors Office, and the IXI Co., Ltd. case related to submission of a false annual securities report was filed with a public prosecutor of Osaka District Public Prosecutors Office.

(3) Outline of Filed Complaints

[1] The Acces Co., Ltd. case related to submission of a false annual securities report

Suspect A and suspect B were the president and director respectively of Acces Co., Ltd., which was the suspected corporation. These suspects conspired to submit the annual securities report, containing false entries created by recording fictitious sales and by other means, for the fiscal year ended March 2005.

[2] The IXI Co., Ltd. case related to submission of a false annual securities report, etc.

Five suspects, in the course of their job duties for IXI Co., Ltd., which was the suspected company, carried out the following conspiracies:

(i) The suspects submitted the annual securities report, containing false entries created through recording fictitious sales abusing circular transactions, for the fiscal year ended March 2003.

(ii) In the offering of shares associated with the listing of the suspected company on the second section of TSE, the suspects submitted the securities registration statement in which a copy of the annual securities report stated in (i) was incorporated. However, this security registration statement contained false statements in relation to important matters.

4. Policy Proposals

1) Outline

To establish a fair, transparent and sound 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 that they take measures to ensure public interest including market integrity and investor protection, where necessary, based on the results of inspections, investigations 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 and Measures Taken Based on Policy Proposals up to BY 2006

From the inception of the SESC in 1992 through BY 2007, the SESC has submitted 15 policy proposals in response to environmental changes surrounding markets. Especially in BY 2006, against the background of an increased number of cases related to unfair trading in issue markets, the SESC submitted three policy proposals to the Commissioner of the FSA on (1) pre-underwriting examination, (2) regulations on transactions distorting market indices, and (3) revision of retention periods for statutory books.

(1) Pre-underwriting examination

Having found a case in which a securities company did not appropriately examine the issuer's business forecasts, the SESC submitted a policy proposal to have securities companies conduct a strict and adequate pre-underwriting examination, on February 16, 2007.

Based on this, the FSA enforced the "Cabinet Office Ordinance on Financial Instruments Business, etc." on September 30, 2007. 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 conductive to the decision as to whether the underwriting of such securities is adequate or not.

(2) Regulations on transactions distorting market indices

Having found wash sales with an aim of fluctuating market indices, the SESC submitted a policy proposal to regulate transactions aimed at distorting market indices so that they would not reflect real market conditions and to regulate securities companies' acceptance of orders for such transactions, on February 16, 2007.

Based on this, the FSA enforced the "Cabinet Office Ordinance on Financial

Instruments Firms' on September 30, 2007. This ordinance restricts or prohibits securities companies' wash sales that have the aim of fluctuating market VWAPs, trading volumes, or other market indices, and securities companies' acceptance of orders for such transactions.

(3) Revision of retention periods for statutory books

Since the statute of limitations for prosecuting the submission of false financial statements and other charges had been extended, the SESC submitted a policy proposal to call for an appropriate review of retention periods for statutory books, in consideration of the extended statute of limitations for prosecution, on February 16, 2007. Based on this, the FSA enforced the "Cabinet Office Ordinance on Financial Instruments Firms" on September 30, 2007. 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.

2. Specific Policy Proposals, etc. in BY 2007

In BY 2007, the SESC submitted no policy proposals. However, the SESC communicated with the FSA and self-regulatory organizations, etc., ways such as expressing the SESC's opinions on measures considered necessary for ensuring market integrity and investor protection at Financial System Council, to boost their awareness of problems and encourage them to take the necessary measures.

With regard to the revision of the administrative monetary penalty system, the Supplementary Provisions of the Law for Partial Revision of the SEL, effective from 2005, prescribes as follows: "In approximately two years, the government shall review the administrative monetary penalty system, including the measures to compute the amount of monetary penalties, the standard amounts for monetary penalties and measures to keep watch for violations of the SESC, taking into consideration how the system under the revised SEL is implemented and how socioeconomic circumstances change, and then the government shall take necessary measures based on the results of such review." In response to this, the SESC, as an enforcement authority, participated in the legal working group established in the First Subcommittee of Sectional Committee on Financial System, Financial System Council, and stated its opinions based on implementation of administrative monetary penalty system and results of its operation. More specifically, the SESC described the current situation and expressed opinions on increasing the amounts for administrative monetary penalties, expansion of the coverage of the subject to administrative monetary penalties, and introduction of systems for increased and reduced penalties in stead of submitting a policy proposal. Based on this, the Law for Partial Revision of the FIEA, containing the above-mentioned contents, was enacted on June 6, 2008, and promulgated on June 13, 2008.

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 strengthen 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 was reorganized into the ongoing five-division system.

In BY 2008, as the result of the request for an increase in personnel mainly for improving systems for civil monetary penalties and disclosure inspections, an increase of 22 officers was approved, despite severe conditions of staff quotas for all government officials. Consequently, the total number of the SESC's personnel is 358 as of the end of BY 2008.

As for the Securities Transaction Surveillance Officers and their divisions at the Local Finance Bureaus, an increase of 20 officers was approved, mainly for administrative civil monetary penalty investigation and disclosure documents inspection, and the total number of such officers stands at 282 as of the end of BY 2008. Combined with the staff quotas of the SESC, the total number stands at 640.

(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 25 private-sector experts in BY 2007, consisting of individuals well versed or experienced in securities business including lawyers and certified public accountants. The appointment of private-sector experts started in BY 2000, and 88 of such professionals were in office as of the end of June 2008.

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 reason 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 financial instruments business operators, regular market surveillance, and market oversight.

Even after the completion of its fundamental development in 2001, efforts to review and enhance each function of this system have been continuously made aiming at more efficient operations.

In BY 2007, the SESC has supported adjustments 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" based on the philosophy 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) Improvement Seminar for Officials of the SESC

The SESC has accumulated expertise on various surveillance methods through actual inspections and analysis of their results so far, and provided officials with such expertise through on-the-job training and seminars to improve their quality. In recent years, the environments surrounding financial and capital markets are drastically changing day by day. For example, systems of transactions have become more complicated and diverse, new financial instruments have been developed one after another, and cross-boarder transactions and online trading have been rapidly expanding. To respond exactly to such circumstances, the SESC has implemented seminars not only for fundamental operations but also specialized in derivatives, etc. in which each official can master highly sophisticated special knowledge and skills. The SESC has also conducted training to deepen the understanding of details of institutional revisions pertaining to the FIEA enforced in September 2007.

While the development and utilization of SESC personnel has been more significant, middle-level supervisors in positions to coach subordinates directly have been playing more important roles. Therefore, meetings for middle-level supervisors are held in an attempt to foster their awareness.

Furthermore, the SESC had officials in the SESC's executive bureau participate in seminars hosted by IOSCO (International Organization of Securities Commission), SEC (Securities and Exchange Commission, the U.S.A.) and so on, and is dispatching its officials to CFTC (Commodity Futures Trading Commission, the U.S.A.) and FSA (The UK Financial Services Authority), in order to enable them to master methods of surveillance and inspections in overseas regulators and use them for market surveillance by the SESC.

2) Efforts to reach out to Market Participants and Investors

As a part of "Collaboration with stakeholders for market integrity", the second mainstay of "Policy Statement", the SESC is making efforts to communicate with investors actively and widely, aiming to enhance dialogue with market participants and provide more information to markets. Reach out means include informal meetings, lecture meetings, lectures and the SESC's website. By providing information about the SESC's activities, etc. through such means, the SESC attempts to deepen the understanding of market participants and individual investors about the SESC and to enhance their confidence in financial and capital markets. In addition, the SESC encourages market participants and investors, through the above-mentioned means 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, a regulatory authority for Japanese financial and capital markets, by closely exchanging information and the SESC has a close relationship of information exchange with Japan-based Financial Instruments Exchanges, the Japan Securities Dealers Association, and other SROs.

The SESC has also been exchanging opinions with market participants, Japan Securities Clearing Corporation, Japan Securities Depository Center Inc. and other parties concerned to markets which are playing important roles to enhance market

discipline. In addition, to cope with the trend of expansion in the geographical coverage of criminal cases, the SESC has been strengthening cooperation with the police and the prosecution authorities, and exchanging opinions with the police, etc. toward eliminating the involvement of anti-social forces in financial and capital markets.

With a rapid increase of cross-border transactions of financial instruments 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 the 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 182 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 to discuss and exchange opinions on realities and tasks of securities administration. Under such circumstances where international transactions are increasing in financial and capital 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 sends its Chairman or Commissioner to attend the Annual Conference of IOSCO.

As for the most recent one, Mr. Kumano, Commissioner of the SESC, attended the 33rd Annual Conference held in Paris in May 2008. 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 five specialized working groups (SC: Standing Committees). The SESC is a member of the Standing Committee 4 (SC4) on enforcement and exchange of information, 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 framework 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 Multilateral MOU, or make an official commitment to seek a legal authority to enable signing the Multilateral MOU, by January 1, 2010 at the latest. In May 2006, Japan submitted an application to sign the Multilateral MOU.

In February 2008, Japan was approved as a signatory country of the Multilateral MOU. Consequently, the SESC has become able to exchange information necessary for enforcement mutually with other signatory countries of the Multilateral MOU.

(2) Bilateral Cooperation with Overseas Regulators

(i) Exchanging information and opinions

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.

The SESC also exchanges opinions with senior officials of overseas regulators where needed. In BY 2007, during the period of the international conference of IOSCO held in November 2007 in Tokyo, the SESC received visits by Chairman Christopher Cox, the SEC of the U.S.A, Acting Chairman Walter Lukken, the CFTC of the U.S.A., CEO Hector Sants, FSA of the U.K., and Chairman Kim Yong-Duk, Financial Supervisory Commission of Korea, in which exchanges of opinions were carried out with Chairman Sado 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 financial and capital market. 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

The FSA of Japan became a signatory to the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information formulated by IOSCO in February 2008 (Multilateral MOU), which is an information sharing framework among multiple securities authorities. Consequently, the FSA of Japan became able to mutually exchange information necessary for surveillance and enforcement among multiple securities authorities all over the world which are signatories to Multilateral MOU, and intends to ensure fairness in further cross-border securities markets under international cooperation.

(3) Seminar for Overseas Regulators

In March 2008, the SESC invited 21 securities regulators in charge of enforcement and other issues from Asian emerging countries (11 countries in total), and held the "7th 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 presentations initiated by officials of the SESC, the FSA of Japan and Japanese SROs acting as lecturers or coordinators.

6. Expansion of the SESC's Scope of Operations under the Revised FIEA and Related Issues

1) Outline

The Law for Partial Revision of the FIEA was enacted on June 6, 2008, and promulgated on June 13, 2008. Cabinet orders, cabinet office ordinances and other regulations have been effective on December 12. 2008. (However the revisions in relation to the firewall regulations among financial instruments business operators, banks and insurance firms, and the establishment of systems for managing conflicts of interest shall come into effect from a date to be specified by a cabinet order, within one year from the day of promulgation.)

Under this law, the FIEA and other relevant laws are enhanced in order to strengthen the competitiveness of Japan's financial and capital markets. Accordingly, markets that limit participants to specified investors with financial expertise (markets for professional investors) will be created, investment funds will be diversified, and the ban on concurrent posts by financial instruments business operators will be abolished (revision of the firewall regulations). Furthermore, increasing of the amounts for administrative monetary penalties will be raised and the coverage of violations subject to monetary penalties will be expanded.

With this revision, the coverage and the scope of inspections and investigations conducted by the SESC will also be expanded. As for the creation of markets for professional investors, it is necessary to ensure the effectiveness of simple frameworks for providing information to professional investors while disclosure regulations are eased in markets for professional investors. Therefore, the administrative monetary penalty system and criminal penalty provisions are enhanced, in consideration of cases such as those in which the provided or disclosed information was false. The SESC will conduct investigations and inspections for such false information. Until now, the SESC has conducted investigations on misstatements in disclosure documents in which financial statements based on foreign accounting criteria are incorporated. Based on such practical experience, the SESC will handle "specified securities information" and "information on an issuer", in terms of whether or not they are appropriately provided or disclosed to markets for professional investors. (Article 27-35, etc. of the FIEA)

With regard to revision of firewall regulations, the ban will be abolished on holding the concurrent posts of director of a financial instruments business operator engaged in securities business and of officer of its parent or subsidiary bank, and a notification system will be introduced. (Article 31-4 of the FIEA) Accordingly, it is required that systems for managing conflicts of interest be strengthened, in order to ensure effectiveness in preventing customer's interests from being unfairly harmed due to conflicts of interest, and to establish a comprehensive internal control system as a financial group. The SESC will also inspect the circumstances of the improvement in such systems. Based on the contents of Cabinet Office Ordinances and the guidelines for surveillance to be formulated in accordance with this revision, as well as on practical experience, the SESC intends to conduct appropriate inspections in consultation with the concerned parties. (Paragraph 3, Article 56-2 of the FIEA)

Furthermore, the administrative monetary penalty system was reviewed and the authority to file applications to the courts for prohibition or suspension of violations against the FIEA, etc. was newly delegated to the SESC as stated below.

2) Expansion of the SESC's Scope of Operations under the Revised FIEA

1. Review of the administrative monetary penalty system

The administrative monetary penalty system was introduced in April 2005 in order to achieve the administrative objective of restraining violation and to ensure the effective regulations. It is necessary to sufficiently restrain acts of violations in financial and capital markets in an attempt to improve fairness and transparency in markets. From this perspective, it is necessary to ensure further effectiveness in preventing violations through administrative monetary penalties. Consequently, this review of the administrative monetary penalty system includes the revision of measures for computing amounts of monetary penalties and coverage of violations subject to this system, the introduction of systems for increased and reduced monetary penalties, the extension of the statute of limitations, and the review of trial procedures

Primary revisions are as follows:

(1) Review of measures for computing amounts in the administrative monetary penalty system

Raising levels administrative monetary penalties were raised to prevent acts of violation effectively.

(i) False statements in offering disclosure documents (Article 172-2 of the Revised FIEA)

Penalty: 2.25% of total offering account (4.5% in the case of shares)

(Current provision: 1% (2%))

(ii) False statements in ongoing disclosure documents (Article 172-4 of the Revised FIEA)

Penalty: 6 million yen or 6/100,000 of the total market value , whichever is greater

(Current provision: 3 million yen or 3/100,000 of the total market value, whichever is greater) (Half of the amount in the case of quarterly securities reports, semiannual securities reports, extraordinary securities reports)

(iii) Spread of rumors on stock markets/Frandulent means (Article 173 of the Revised FIEA)

Penalty: (The highest price during the one-month period after the violation − Purchase prices, etc. until the end of violation) × Number of shares held

(Current provision: Profits and losses realized by sales and purchases within the one-month period after the start of violation)

(iv) Market manipulation (Article 174-2 of the Revised FIEA)

Penalty: Profits and losses realized by sales and purchases during the period of violation + (The highest price during the one-month period after the violation - Purchase prices, etc. until the end of violation) × Number of shares held

(Current provision: Profits and losses realized by sales and purchases during the period of violation + Profits and losses realized by reversing trade within the one-month period after the end of violation)

(v) Insider Trading (Article 175 of the Revised FIEA)

Penalty: (The highest price within the two-week period after disclosure of the material fact −urchase price) × Number of shares purchased

(Current provision: [The closing price on the day following the day of disclosure of the material fact −purchase price] × Number of shares purchased)

(2) Expanding the coverage of violations subject to administrative monetary penalties.

(i) No submission of offering disclosure documents (Article 172 of the Revised FIEA)
Penalty: 2.25% of the total offering amount (4.5% in the case of shares)

(ii) No submission of ongoing disclosure documents (Article 172-3 of the Revised FIEA)
Penalty: Amount equivalent to the audit fee in the previous BY (4 million yen in the case that an audit was not conducted in the previous BY) (Half those amounts in the case of quarterly and semiannual securities reports)

(iii) Failure to give public notice for commencing tender offer, etc. (Article 172-5 and 172-6 of the Revised FIEA)
Penalty: 25% of the total purchase amount

(iv) No submission of report of prossession of large volume, etc. (Article 172-7 and 172-8 of the Revised FIEA)
Penalty: 1/100,000 of the total market value of the issuer of relevant shares

(v) False specified securities information in relation to securities for a professional Investor (Article 172-9～172-11 of the Revised FIEA)
Penalty: Same as statutory disclosure

(vi) Market manipulation involving wash sales (Article 174 of the Revised FIEA)
Penalty: (The highest price during the one-month period after the violation − Purchase prices until the end of violation) × Number of shares held

(vii) Illegal stabilization operation trade (Article 174-3 of the Revised FIEA)
Penalty: (The average price during the one-month period after the violation − The average price during the period of the violation) × Number of shares held + Profits and losses realized by illegal purchases and sales

(3) Introducing systems for increased and reduced administrative monetary penalties (Paragraph 12 and 13, Article 185-7 of the Revised FIEA)
In order to surely deter acts of violation, urge the construction of autonomous systems for preventing and detecting them, and prevent their recurrence in the future, systems for increased and reduced administrative monetary penalties were established.
(System for increased administrative monetary penalties) Increasing the amount of administrative monetary penalties to 150% in cases where a person who has been subject to an administrative monetary penalty in the past five years has committed another securities violation.
(System for reduced administrative monetary penalties)Reducing the amount of administrative monetary penalties by half in cases where violation has been reported by the offender prior to an investigation by the authorities.

(4) Extension of the statute of limitations (Article 178 of the Revised FIEA)
The statute of limitations was extended from the current three years to five years to ensure effectiveness of restraining by including violations which have been recognized in the past. (When five years have passed from the day when an act of violation subject to administrative monetary penalties was committed, a decision on commencement of trial procedures cannot be issued.)

(5) Review of trial procedures (Article 185-10 and 185-13 of the Revised FIEA)
For smooth and appropriate implementation of trial procedures, the following were revised in relation to trial procedures:

(i) The respondent is required to file notification of the place to which documents pertaining to the trial procedures should be served

(ii) The clarification that an interested person may request access to case records, except in cases where there are justifiable grounds.

2. Filing applications to the courts for prohibition or suspension of acts of violation

When a court finds that there is an urgent necessity and that it is necessary and appropriate for the public interest and protection of investors, it may give an order to a person who has conducted any act in violation of the FIEA for prohibition or suspension of such act, subject to the filing of a petition by the Commissioner of the FSA. (Paragraph 1, Article 192 of the FIEA) The authority to conduct investigations necessary for filing such applications is delegated to the Commissioner of the FSA. (Article 187 of the FIEA)

If the SESC, which supervises transactions of securities on a daily basis, directly files such applications, and conducts investigations to do so, it was considered that quick and flexible response to violations would be possible. Therefore, in the recent revision, said authorities were delegated to the SESC. (However, the Commissioner of the FSA shall not be precluded from exercising his/her authority.) (Paragraph 4, Article 194-7 of the FIEA) For invoking this authority, it is further necessary to repeatedly and specifically review the kinds of cases that are targeted and the kinds of methods that are used. In addition, the SESC intends to make efforts to ensure market fairness and protection of investors, using the SESC's authority strategically and flexibly.

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 Act (FIEA) 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 FIEA**

- 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**

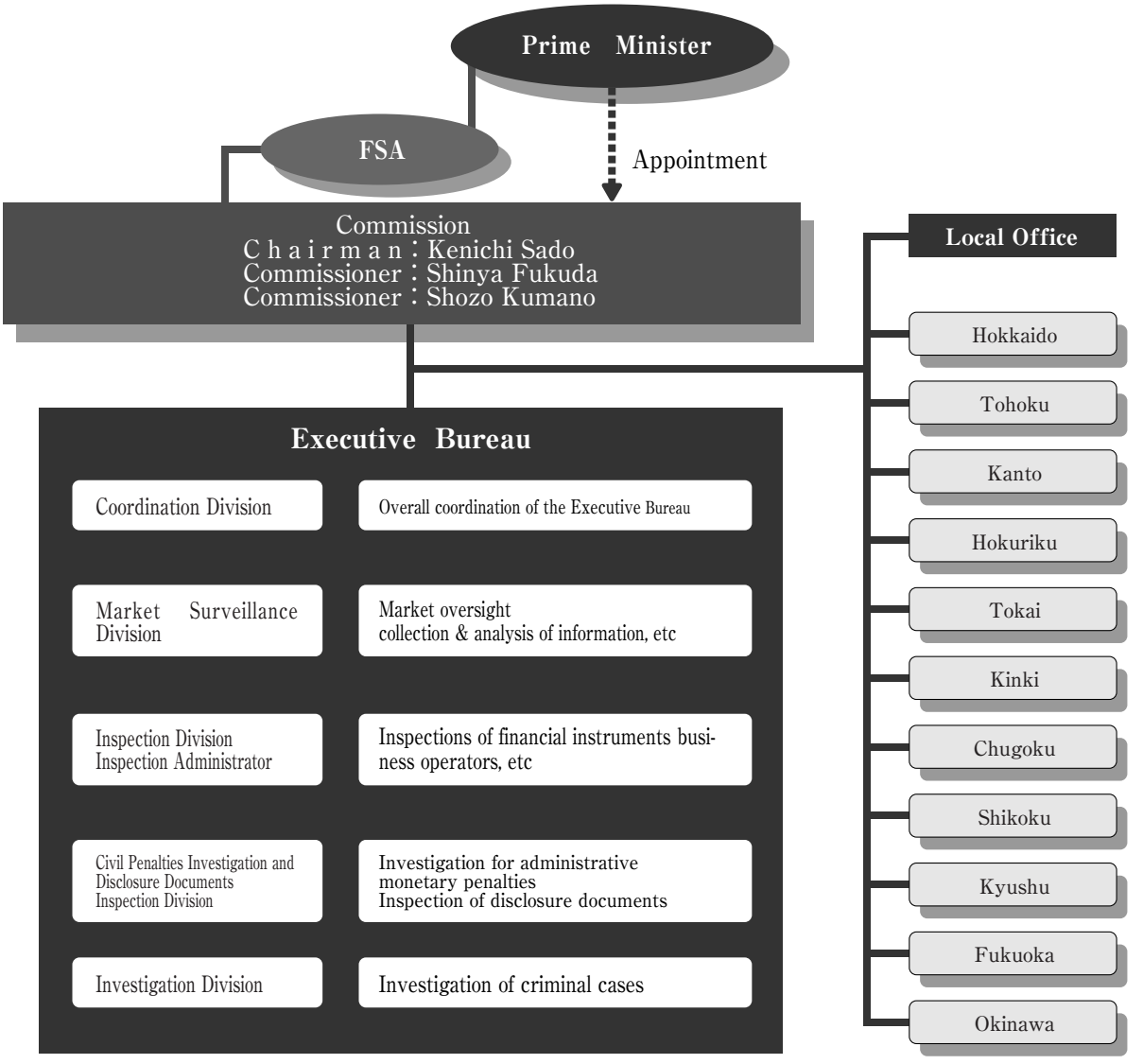
- Further cooperation with overseas regulators, including proactive information exchange as well as surveillance of electronic trading, thus precluding any loopholes in market oversight

– 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

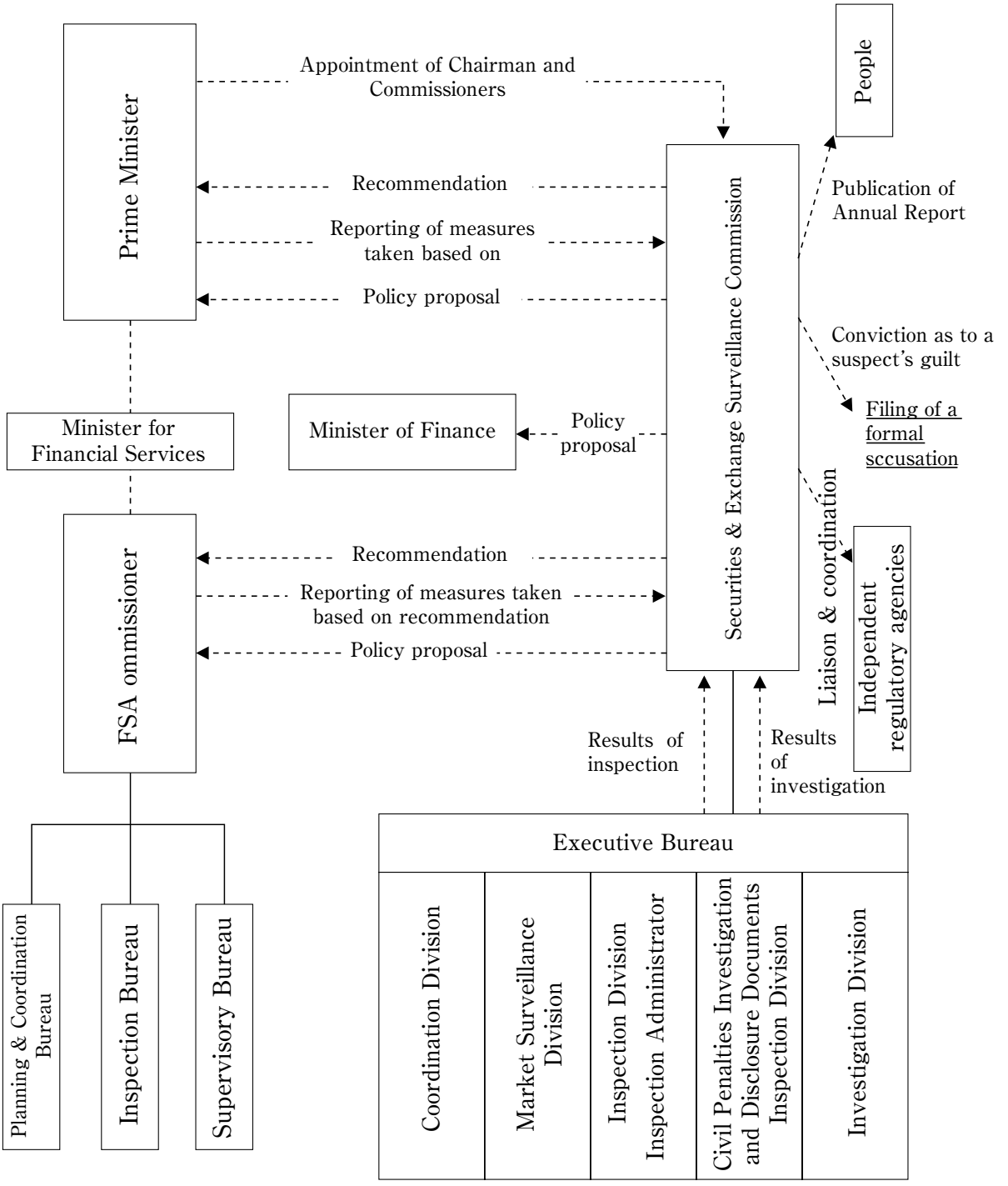
Organization of the SESC



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

Table 2

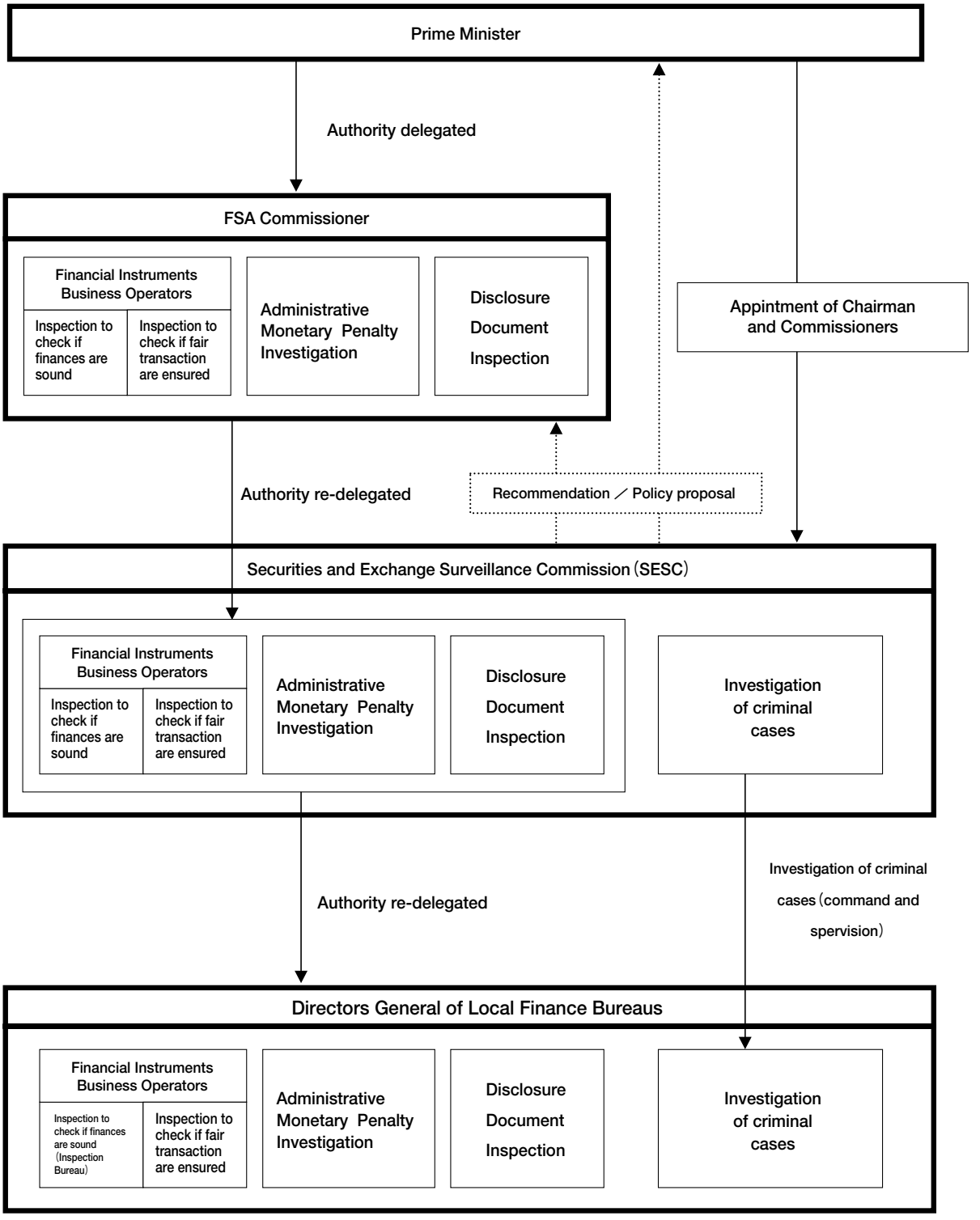
Conceptual Chart for Supervision of Securities Transactions



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).

Table 3

Conceptual Chart of Relationship among the Prime Minister, FSA Commissioner, 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. (SEL: Article 194-6 (7))

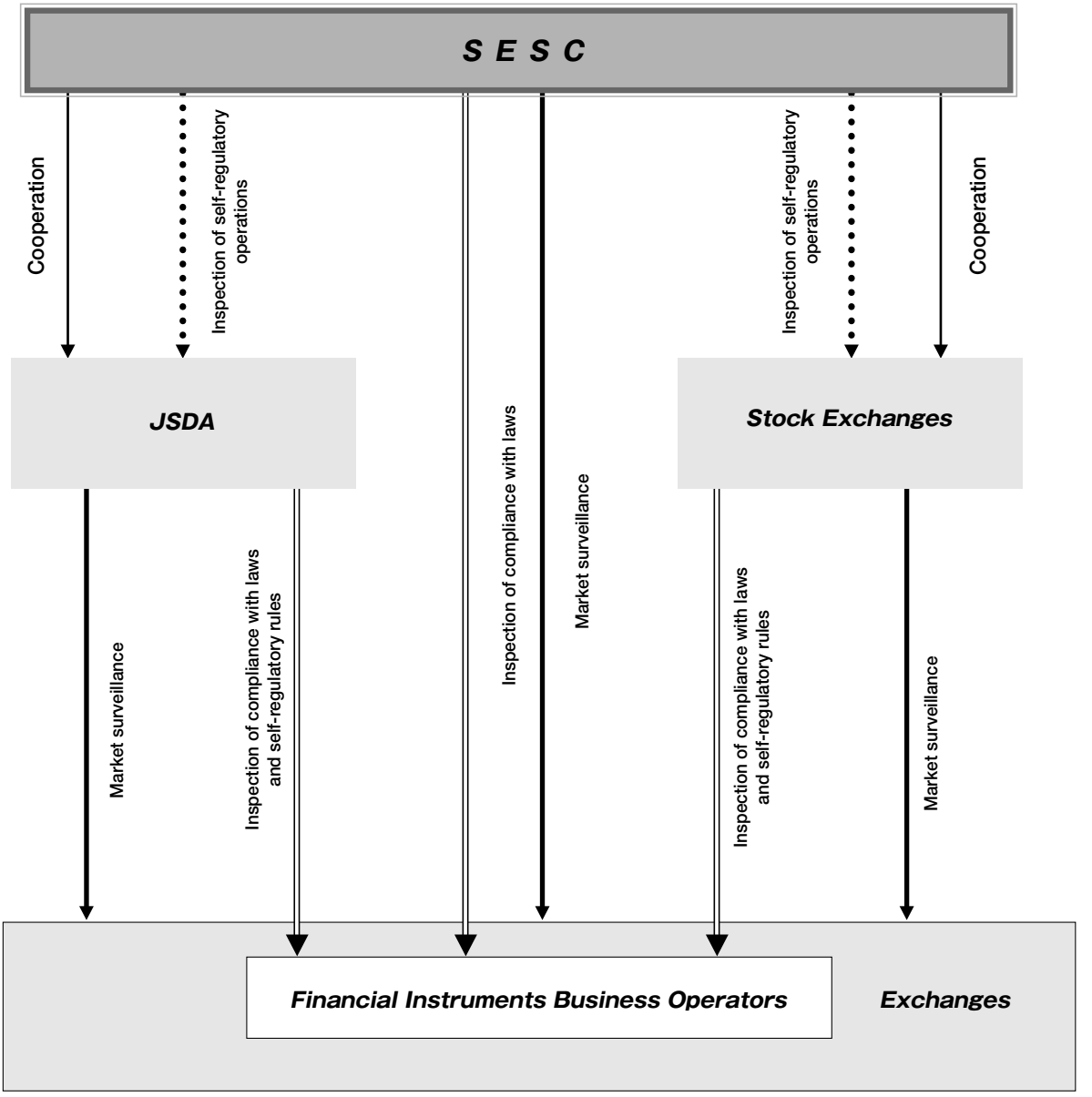
(Note2) For an investigation of a criminal offence, the SESC directs and supervises the Director General of a Local Finance Bureau or the Director of its branch office. The SESC may, deeming it necessary for investigating a criminal offence, direct and supervise firsthand an official of a Local Finance Bureaus or the Director of its branch office. (SEL: Article 224(4) and (5))

(Note3) The SESC does not delegate authority to the Director-General of local finance bureaus, etc. related to financial instruments business operators designated in the following public notices

- The public notice to designate a financial instruments business operator, etc. under paragraph 5, Article 44 of the Order for Enforcement of the FIEA and paragraph 2, Article 136 of the Order for Enforcement of Act on Investment Trust and Investment Corporation
- The public notice to designate a financial instruments business operator, etc. under paragraph 6, Article 24 of the Order for Enforcement of Act on the Prevention of Transfer of Crime Proceeds

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 2007

Summary of Notable Cases Subject to Recommendations Issued by the SESC in Business Year 2007
(1)Recommendations based on inspections of securities companies and other entities

(Example)

◎ 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, etc.

uly 2007 to June 2008)

Date of recommendation	Details of violations	Process following recommendation
28.Sep.07	◎Conclusion of a discretionary account agreement (1) On October 7, 2004, an executive operating officer concurrently serving as the general manager of the Nishio Branch of Maruhachi Securities Co. Ltd. (the "Company") entered into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on this agreement, he executed contracts for trading shares from October 8, 2004 to July 13, 2005. (2) Around September, 2004, an operating officer concurrently serving as general manager of the Shonai Branch of Maruhachi Securities Co. Ltd. (the "Company") entered into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on this agreement, he executed contracts for trading shares from October 6, 2004 to June 20, 2005. (3) Around June 2005, a manager of the sales department of the Shonai Branch of Maruhachi Securities Co. Ltd. (the "Company") entered into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on this agreement, he executed contracts for trading shares from June 8, 2005 to November 13, 2006. (4) On April 1, 2004, a sales representative of the Fujigaoka Branch of Maruhachi Securities Co. Ltd. (the "Company") entered into an agreement concerning acceptance of transactions of securities with a customer in the course of his job duties. Under the agreement, the Company was authorized to determine all conditions of each contract, such as whether to buy or sell shares, the kinds of stocks, the number of shares of each stock, and the buying or selling prices, without obtaining approval from the concerned customer for each such contract. Based on the agreement, he executed contracts for trading shares from April 14, 2004 to May 12, 2006. ◎Acceptance and execution of buying orders for a series of listed securities for the purpose of fixing their prices in the securities exchange The director concurrently serving as the division director of the retail division and the deputy director of the retail division of Maruhachi Securities Co. Ltd. (the "Company") instructed the general managers of a headquarters sales division and of other sales divisions and offices to solicit customers to buy specific listed stocks for a new listing for which the Company underwrote the public offering, at a limit equivalent to its offer price, and accept and execute buying orders for said stock, in the course of their job duties, for the purpose of temporarily fixing the share price at a level over the offer price from the date of listing. Consequently, the said general managers issued the same instructions to their sales representatives. From April 11 to May 23, 2006, the thusly instructed sales representatives solicited customers to buy said stock at limit equivalent to the offer price, and accepted and executed the buying orders 203 times for 33,200 shares from 103 customers in the securities exchange market.	Disciplinary action(s) imposed on the Company Order for business suspension · Suspension of all services of all sales offices for the period from October 22 to 24, 2007 · Suspension from accepting orders to buy and sell shares in all sales offices for the period from October 25 to 31, 2007 · Suspension from accepting orders to buy and sell shares in the Nishio Branch and the Shonai Branch for the period from November 1 to 30, 2007 Order for business improvement · To implement preventive measures against recurrence to eradicate violations of the law, including actions to enable all officers and employees to thoroughly comply with the law · To clarify the locus of responsibility for this violation of the law · To fundamentally review the internal audit system · To fundamentally review the transaction management system · To exactly and adequately explain the background to its being subject to the administrative disciplinary actions to customers who purchased shares at unreasonable offer prices due to violations of paragraph 3 of Article 159 of the former SEL) Disciplinary action(s) imposed on the sales representative(s) · The executive operating officer and general manager of the Nishio Branch: Suspension of performance of duties for four weeks · The operating officer the Shonai Branch: Suspension of performance of duties for four weeks · The manager of sales department of the Shonai Branch: Suspension of performance of duties for two weeks · The sales representative of the Fujigaoka Branch: Suspension of performance of duties for two weeks · The director concurrently serving as the division director of the retail division: Not yet decided · The director concurrently serving as the deputy director of the retail division: Not yet decided

Date of recommendation	Details of violations	Process following recommendation
16.Oct.07 (Kinki)	◎Solicitation of conclusion of brokering agreements by making visits or phone calls to customers who have not requested such solicitation The general manager of the foreign exchange sales division (the division name was changed to the foreign exchange division on September 1, 2006) of Phoenix Securities Co., Ltd. instructed sales representatives, in the course of his job duties, to solicit customers for the conclusion of brokering agreements specifying the conditions for acceptance of foreign exchange margin transactions (the "Brokering agreements") from January to December, 2006, after preparing a list of customers who had cancelled their accounts for foreign exchange margin transactions. The said list included general customers who did not fall under the category of "customers with whom the financial futures company has a continuous transactional relationship" Furthermore, the general manager instructed sales representatives solicit the conclusion of brokering and other agreements with customers whose accounts had not yet been transferred to the Company because they did not agree when the Company took over the foreign exchange margin transactions business from other company. In accordance with those instructions, from February 23, 2006 to January 12, 2007, five sales representatives, in the course of their job duties, solicited conclusion of brokering agreements by making phone calls to 47 general customers who had not requested such solicitation.	Disciplinary action(s) imposed on the Company Order for business improvement (i) To clarify the locus of responsibility for this violation of the law (ii) To improve and enhance internal control systems, to establish preventive measures against recurrence to eradicate violations of the law and to familiarize all officers and employees with them (iii) To improve the business management systems regarding compliance with the law, (iv) To implement measures to improve and enhance the internal inspection system (v) To report on responses to (i) - (iv) in writing. To report on the implementation of (ii) - (iv) in writing every three months for the time being. Disciplinary action(s) imposed on the sales representative(s) ・Suspension of performance of duties for six weeks
13.Dec.07	○Insufficiencies concerning listing examinations The SESC found that, for part of the grounds for formulation of profit plans and their reasonability and validity, Nagoya Stock Exchange Inc. (the "Exchange") did not conduct sufficient listing examinations on securities to be listed on the Centrex, a financial instruments exchange market operated by the Exchange, in terms of feasibility and the like, when judging the growth possibility of many stocks. (Reference) To be more specific, although sufficient examinations were required under the circumstances as stated below, it was found that the Exchange failed to perform them. For example, in many companies applying for listing, (i) there were considerable differences between estimated and actual values for the term in which a company applied for listing, and audit corporations were changed in relation to the validity of sales posted in the previous year, and (ii) as the result of some downward adjustments of sales in the then current term soon after application for listing, it was found that sales were at the minimum level to be considered as continuously growing and so on. ○Insufficiencies pertaining to implementation of measures to improve items pointed out in the previous inspection and on the like Although Nagoya Stock Exchange Inc. submitted an improvement report and was supposed to take measures to improve matters of insufficiency pointed out in the previous inspection by the SESC and one by the FSA, it was found that the implementation of part of the measures to improve items pointed out was insufficient. (Reference) To be more specific, the following insufficiencies were founded: (i) Although the Exchange was instructed to use information on results of transaction examinations, etc. for rating, in actuality no actions for improvement had been taken. (ii) While, in transaction examinations, items pointed out in the previous inspection had been improved, effectiveness was found to be insufficient due to flaws in the items examined concerning fair price formation in transaction examinations	Disciplinary action(s) imposed on the Company Order for business improvement ・To take specific and effective measures for impovement as Nagoya Stock Exchange Inc., after analyzing and verifying causes and problems of each item pointed by the SESC ・To submit a business improvement plan, and then report on the progress of implementation in relation to the above-mentioned matters, every three months for the time being.
18.Dec.07	◎Insufficient management of electronic information processing systems The SESC found that systems for controlling IT risks of Shin Nihon Tsusho Co., Ltd. (the "Company") were extremely insufficient as seen below: (1)Awareness of IT risks The president and a director concurrently serving as a general manager of the foreign exchange business division lacked awareness of significance of IT risk management. (2) Establishment of appropriate systems for controlling risks The Company did not establish appropriate systems for controlling risks due to the failure to decide basic policy and specific criteria for controlling IT risks. (3) System audit The Company had never conducted system audit since it registered as a financial futures trading company. Furthermore, the Company did not deploy audit personnel familiar with systems until July 2007. (4) Improvement of security measures The Company did not improve security measures, as was seen in its failure to establish basic policies, criteria and procedures for security measures, and in its failure to appoint a security administrator for appropriate management of security measures. (5)Management of Outsourcing The Company did not appropriately control risks regarding outsourcing. (6) Contingency plan The Company did not establish an emergency response system due to failure to formulate a contingency plan.	Disciplinary action(s) imposed on the Company Order for business improvement (i) To clarify the locus of responsibility for this violation of laws (ii) To confirm and review the actual state of systems and causes of system failures sufficiently, improve effective systems for controlling IT risks, in such a way, for example, as to implement the external system audit necessary for system improvement and to enhance the contingency plan necessary for quick recovery actions at the time of system failures, and surely and steadily implement such system management (iii) To formulate preventive measures against recurrence to eradicate the violation of laws, and familiarize all officers and employees with them, based on these administrative disciplinary actions

Date of recommendation	Details of violations	Process following recommendation
18.Dec.07	(7)Response at the time of failures A. Response to customers The Company did not inform customers of system failures incurred except those considered to have significant impacts on them. Without deciding procedures to handle customers at the time of failures and criteria for compensation of customer losses caused by system failures, the Company dealt with customers in an impromptu manner. B. Analysis of causes, and countermeasures, etc. Even when a system failure attributed to a flaw in its program occurred, the Company did not fundamentally improve its systems due to failure to analyze the cause of system failure. Furthermore, many system failures arose from the Company having left the server overloaded for an extended period of time. Although abnormal exchange rates were distributed from a exchange rate distributor many times, the company, not being presented any specific improvement measures, did nothing rather than attempting to make any fundamental improvements. C. System for report to authorities When registered as a financial futures trading company, the Company was ordered to report any incurred system failures to the Director-General of the Kanto Local Finance Bureau. However, although at least 53 system failures occurred during the period from the registration of the financial futures trading company until the base date of inspection, 38 of them were not reported to the Director-General of the Kanto Local Finance Bureau.	(iv) To report on responses to (i) -(iii) in writing. To report on the implementation of (ii)and (iii) in writing every three months for the time being. Disciplinary action(s) imposed on the sale representative Suspension of performance of duties for seven weeks
29.Feb.08	○A situation in which an investment corporation bears costs that should be borne by an interested person of an asset management company (1) On December 14, 2005, Japan Hotel and Resort Inc. (hereinafter referred to as the "Investment Company") concluded a contract for the transfer of real-estate trust beneficiary rights in relation to the acquisition of a building (hereinafter referred to as the "Building") which was intended to be used as an asset to be managed by the Investment Company with an interested person (hereinafter referred to as the "Interested Person") of Japan Hotel and Resort K.K. (hereinafter referred to as the "Asset Management Company"). The Asset management Company was entrusted by the Investment Company with asset management. At that time, the Investment Company and the Interested Person agreed that the Interested Person would bear costs related to a signboard showing the names of the Building's tenants, for which the Interested Person was supposed to place an order by the date of transfer of the trust beneficiary rights for the Building (hereinafter such costs and signboard are referred to as the "Costs" and the "Signboard," respectively). (2) Around the end of February 2006, a then executive officer of the Investment Company was requested by a tenant of the Building (hereinafter the "Tenant") to set up the Signboard for which the Interested Person had not yet placed an order. While the officer recognized that the Interested Person was supposed to bear the Costs, the officer decided to make the Tenant place an order for setting up the Signboard with an external contractor, on the assumption that the Investment Company would bear the Costs. On April 17, 2006, as a representative of the Investment Company, the officer entered in a memorandum with the Interested Person (hereinafter referred to as the "Memorandum") that the bearer of the Costs had changed from the Interested Person to the Investment Company. (As for the Memorandum, the officer did not try to consult with or report to other officers of the Investment Company) (3) In accordance with the Memorandum, the Investment Company bore 2,341,290 yen in total for the Costs, by paying 1,106,910 yen on May 1, 2006 and 1,234,380 yen on July 10, 2006 to the external contractor which undertook the work of setting up the Signboard.	Disciplinary action(s) imposed on the Company Order for business improvement (i) To improve and enhance systems for compliance with laws and the like, in an attempt to realize healthy and appropriate business operations as an investment corporation (ii) To formulate and implement effective preventive measures against recurrence and clarify the locus of responsibility (iii) To take actions for (i) and (ii), and report on their implementation in writing.
13.May.08	○Insufficient management of securities transactions by a customer in terms of the prevention of unfair trading associated with some corporate information In SBI E Trade Securities Co. Ltd. (the "Company"), since systems for verifying insider registration were not established in relation to management of securities and other transactions by customers, the omission of registration of a customer who was a concerned insider to listed companies, etc. was found. Furthermore, the Company never conducted transaction examinations to prevent unfair trading associated with some corporate information.	Disciplinary action(s) imposed on the Company Order for business improvement (i)To investigate the causes of failure to establish systems for transaction examinations concerning insider trading, and take specific improvement measures including systems for checking whether or not the transaction examinations function appropriately (ii)To investigate the causes of occurrence of the omission of insider registration, and to take specific improvement measures including systems for checking the registration work after clarifying problems in terms of management and operation of the insider registration work in the Company (iii) To boost officers' and employees' awareness of compliance with laws and conduct necessary education (iv) To report on responses to (i) - (iii) in writing by June 23, 2008

Date of recommendation	Details of violations	Process following recommendation
17-Jun.-08	○Inappropriate systems for management of conflicts of interest Prospect Residential Advisors, Co., Ltd. (the "Company") managed the assets of Prospect Residential Investment Corporation (the "Investment Corporation") based on a consignment contract pertaining to asset management concluded with the Investment Corporation. In the said asset management, when asking for appraisal of real estate acquired from an interested person of the Company's parent company, etc. (the "Interested Person of the Company"), the Company inappropriately appealed to a real estate appraising company in a manner to impair its independence and used an inappropriate process for selection of a real estate agent, in which there was a problem in terms of prevention of conflicts of interest. (1) Inappropriate appeal to a real estate agent When asking for appraisal of three pieces of real estate acquired from the Interested Person of the Company, the Company asked a real estate appraising company to calculate an estimated appraisal value (the "Estimated Appraisal Value") and inappropriately appealed to the company in a manner to impair its independence by encouraging the said appraising company to calculate the Estimated Appraisal Value at the same level as or over the sale price suggested by the seller. Especially in the case of one of the three pieces of real estate, the Company particularly asked the real estate appraising company to make sure to calculate an Estimated Appraisal Value reaching the sale price suggested by the seller. (2) Inappropriate process for selection of a real estate appraising company When asking for the appraisal of five real estates acquired from the Interested Person of the Company, the Company asked many real estate appraising companies to calculate the Estimated Appraisal Values after informing them of the sale prices suggested by the seller. If the Estimated Appraisal Values were less than the sale prices suggested by the seller, the Company asked additional appraising companies until values over or close to the suggested prices were given. For all pieces of real estate, the Company asked for appraisal by the real estate appraising company which presented the values closest to or the highest values over the sale prices suggested by the seller. As seen above, the Company followed an inappropriate process for selection of a real estate appraising company, in order to place first priority on the sale prices suggested by the seller. ○Noncompliance with the duty of due care concerning inappropriate provision of materials to a real estate appraising company When asking for appraisal of pieces of real estate acquired from the Interested Person of the Company, Prospect Residential Advisors, Co., Ltd. provided the real estate appraising companies with inappropriate materials and did not provide necessary materials.	Disciplinary action(s) imposed on the Company Not yet decided

(2) Recommendations for orders to pay administrative monetary penalties (Unfair Trading)

uly 2007 to June 2008)

Date of recommendation	Details of violations	Process following recommendation
29.Feb.08	Insider trading A reporter at the Japan Broadcasting Corporation, in the course of his job duties, learned the fact that Kappa Create Co., Ltd. and ZENSHO Co., Ltd. respectively had decided to enter into a business tie-up deal accompanied by a capital alliance from an employee of ZENSHO Co., Ltd. Person X, ordered to pay administrative monetary penalty, who was an employee of Japan Broadcasting Corporation, in the course of his job duties, came to know this fact, and purchased 3,150 shares of Kappa Create Co., Ltd. at 5,397,900 yen and 2,500 shares of ZENSHO Co., Ltd. at 3,276,000 yen on March 8, 2007, before the disclosure of this fact at 3:15pm. A reporter of Japan Broadcasting Corporation, in the course of his job duties, learned the fact that Kappa Create Co., Ltd. and ZENSHO Co., Ltd. respectively had decided to enter into a business tie-up deal accompanied by a capital alliance from an employee of ZENSHO Co., Ltd. Person Y, ordered to pay administrative monetary penalty, who was an employee of Japan Broadcasting Corporation, in the course of his job duties, came to know this fact, and purchased 3,000 shares of Kappa Create Co., Ltd. at 5,150,000 yen on March 8, 2007, before the disclosure of this fact at 3:15pm. A reporter of Japan Broadcasting Corporation, in the course of his job duties, learned the fact that Kappa Create Co., Ltd. and ZENSHO Co., Ltd. respectively had decided to enter into a business tie-up deal accompanied by a capital alliance from an employee of ZENSHO Co., Ltd. Person Z, ordered to pay administrative monetary penalty, who was an employee of Japan Broadcasting Corporation, in the course of his job duties, came to know this fact, and purchased 1,000 shares of Kappa Create Co., Ltd. at 1,710,950 yen on March 8, 2007, before the disclosure of this fact at 3:15pm. Penalty: Person X : 260,000 yen Person Y : 170,000 yen Person Z : 60,000 yen	Date of decision on the commencement of procedure for judgment February 29, 2008 Date of issuance of order to pay penalty March 19, 2008 Since written replies admitting these facts were submitted by the people who were ordered to pay the penalties, no trial was conducted.
18.Mar.08	Insider trading An employee (certified public accountant) of Ernst & Young ShinNihon LLC, with which Marvelous Entertainment Inc. concluded an agreement, in the course of concluding this agreement, came to know the fact that Marvelous Entertainment Inc. would revise its non-consolidated and consolidated earnings forecasts downward for the fiscal year ended March 2007. For the period from March 12, 2007 to the 20th of the same month, this employee sold 261 shares at 12,256,700 yen, before the disclosure of this fact at 3:00 pm on March 20, 2007. Penalty: 1,340,000 yen	Date of decision on the commencement of procedure for judgment March 18, 2008 Date of issuance of order to pay penalty April 9, 2008 Since a written reply admitting these facts was submitted by the person who was ordered to pay the penalty, no trial was conducted.

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

(From July 2007 to June 2008)

Date of recommendation	Details of violations	Process following recommendation
25.Dec.07	False semiannual securities report Although the net assets should have been the amount of 174,641 million yen (rounded down to the nearest million yen; this applies to net assets, as mentioned below), SANYO Electric Co., Ltd. recorded the amount of 226,872 million yen in the equity section corresponding to net assets on the interim balance sheet by overstating the value of affiliates shares and understating the loss provision of affiliates. On December 28, 2005, the company submitted the semiannual securities report for the six-month period ended September 2005, in which the said false balance sheet was incorporated, to the Director-General of the Kanto Local Finance Bureau. Penalty: 8.3 million yen	Date of decision on the commencement of procedure for judgment December 25, 2007 Date of issuance of order to pay penalty January 18, 2008 Since a written reply admitting these facts was submitted by the person who was ordered to pay the penalty, no trial was conducted.
19.Jun.08	False securities report IHI Corporation made the following arrangements. (1) In relation to securities reports (i) Although the interim consolidated net loss should have been in the amount of 10,095 million yen (rounded up or down to the nearest million yen; this applies to interim consolidated net loss and consolidated net income or loss, as respectively mentioned below.), a net loss of 2,817 million yen was recorded in the interim consolidated profit and loss statement, by overstating sales, understating the cost price of sales and by other means. On December 15, 2006, IHI Corporation submitted the semiannual securities report for the six-month period ended September 2006, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau. (ii)Although consolidated net loss should have been in the amount of 4,593 million yen, a net income of 15,825 million yen was recorded in the consolidated profit and loss statement, by overstating sales, understating the cost price of sales and by other means. On June 27, 2007, IHI Corporation submitted the securities report for year ended March 2007, in which the said false profit and loss statement was incorporated, to the Director-General of the Kanto Local Finance Bureau. (2) In relation to securities registration statements (i) On January 9, 2007, IHI Corporation submitted the securities registration statement, in which the semiannual securities report for the six-month period ended September 2006 was incorporated by reference, to the Director-General of the Kanto Local Finance Bureau. In the public offering based on this securities registration statement, IHI Corporation caused 143 million shares in the total amount of 55,913 million yen to be acquired on January 26, 2007. (ii) On January 9, 2007, IHI Corporation submitted the securities registration statement, in which the semiannual securities report for the six-month period ended September 2006 was incorporated by reference, to the Director-General of the Kanto Local Finance Bureau. In offering new shares issued by third-party allocation based on this securities registration statement, IHI Corporation caused 21.45 million shares in the total amount of 8,044,608,000 yen to be acquired on February 26, 2007. (iii) On June 8, 2007, IHI Corporation submitted a shelf registration supplement to the securities registration statement, in which the semiannual securities report for the six-month period ended September 2006 was incorporated by reference, to the Director-General of the Kanto Local Finance Bureau. In the public offering based on this shelf registration supplements, IHI Corporation caused bonds in the total of 30 billion yen to be acquired on June 18, 2007. Penalty: 1,594,579,999 yen	Date of decision on the commencement of procedure for judgment June 19, 2008 Date of issuance of order to pay penalty July 9, 2008 Since a written reply admitting these facts was submitted by the person who was ordered to pay the penalty, no trial was conducted.

Introduction of Chairman and Commissioners

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.

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).

The Securities and Exchange Surveillance Commission
3-1-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Tel：+81（3）3581-7868
Fax：+81（3）3581-2151
Website：http://www.fsa.go.jp/sesc/english/index.htm