Annual Report 2013/2014

Securities and Exchange Surveillance Commission

JAPANESE GOVERNMENT

Message from the Chairman

The Securities and Exchange Surveillance Commission (SESC) is fulfilling its mission of ensuring the integrity of capital markets and protecting investors. This year is the 23rd year since its establishment in 1992.

Amid the restructuring of international regulatory frameworks, Japanese markets have been experiencing dynamic changes. For instance, a series of amendments has been made to the Financial Instruments and Exchange Act (FIEA), and innovations continue to be made in financial products and trading methods. In order for the SESC to conduct efficient and effective market oversight, it needs to respond appropriately to these changes. Two further issues for the SESC in connection with the inspection of financial instruments business operators are: (1) further improving its risk sensitivity with respect to the diverse business types of financial instruments business operators, to the characteristics of customers (personal investors, corporate pensions, etc.), and to financial instruments and transactions, which are becoming increasingly complex and diverse; and (2) strengthening its capacity for collecting and analyzing information accordingly. Moreover, the SESC will need to cooperate closely with overseas regulators in dealing with cross-border transactions, which are conducted frequently, and it will need to continue to take firm action against unfair trading and unlawful activities, etc. committed by professional investors in Japan and overseas.

Since sound market operation requires shared recognition of problems and close information exchange with self-regulatory organizations, relevant authorities and organizations playing important roles in market fairness, in addition to further strengthening its cooperative relationships with such organizations, the SESC aims to reinforce its dialogue with market participants and its dissemination of information to the market.

The SESC commits itself to pursuing its mission of being “feared by wrongdoers and trusted by ordinary investors.”

December 2014

Kenichi SADO
Chairman
Securities and Exchange Surveillance Commission

Annual Report 2013/2014

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1. Towards Enhanced Market Integrity

The Securities and Exchange Surveillance Commission (hereinafter referred to as “SESC”) is engaged in market surveillance under a mission of ensuring the integrity of capital markets and protecting investors.

The SESC for the 8th term was established in December 2013, and it announced “Towards Enhanced Market Integrity” as a medium-term policy statement (hereinafter referred to as “Policy Statement”; See Chapter 2) in January 2014. Under the Policy Statement the SESC formulated three policy directions, consisting of: (1) Market oversight with prompt and strategic actions; (2) Enhanced surveillance in response to the globalization of markets; and (3) Efforts for enhanced market integrity. In addition, pursuant to these three policy directions, the SESC has the policy of striving to secure effective and efficient market surveillance with strong emphasis on prioritized items: (1) Proactive market oversight through enhanced information-collecting ability; (2) Strict action against severe and malignant market misconduct and false disclosure statements; (3) Timely and efficient inspections in response to disclosure violations; (4) Use of administrative monetary penalty system against market misconduct, etc.; (5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected; (6) Responding to malicious businesses engaged in fraudulent operations; (7) Effective dissemination of information; and (8) Enhanced cooperation with self-regulatory organizations.

1. Activities in FY2013

During FY2013 (April 1, 2013–March 31, 2014), which is the period covered by this publication, the SESC was engaged in market surveillance as described below and strategically utilized the power and human resources with which it has been vested.

With respect to routine market surveillance, the SESC continued its efforts, including accepting information from ordinary investors, etc., conducting market oversight targeting primary and secondary markets, cooperating with overseas regulators in view of the globalization of markets, reviewing insider trading, market manipulation and fraudulent means, and responding to new financial instruments, etc. Sometimes the information collected or the market oversight would reveal certain conduct impairing the fairness of transactions and other problems. In these events, following an investigation and inspection by the relevant divisions within the SESC, the SESC would make a recommendation for administrative disciplinary actions or file a criminal charge.

Inspections of financial instruments business operators and the like revealed cases in which a type I financial instruments business operator engaged in inappropriate conduct related to Yen LIBOR, one of the most important financial indicators serving as reference interest rates for financial institutions in the management of funds, and another type I financial instruments business operator participated in providing special benefits to deemed civil servants who were executives and regular employees of welfare pension plans. The inspections of type II financial instruments business operators also revealed cases in which one operator diverted money deposited by a customer to the payment of a dividend to another customer, and another operator made false statements to customers in relation to the

conclusion of fund contracts and their solicitation. In addition, with regard to investment advisories/agencies, cases in which non-registered operators that solicited or handled private placement of overseas funds and other operators engaged in improper labeling significantly different from the facts or exaggerated advertising that could bring about misleading or false results were identified. In cases where a serious violation of laws or regulations was found, including the financial instruments business operators involved in these cases, the SESC has made recommendations for administrative disciplinary actions. Furthermore, from the perspectives of public interest and investor protection, the SESC has also filed petitions for court injunctions under Article 192 of the Financial Instruments and Exchange Act (FIEA) against financial instruments business operators which provided customers with false information for fund solicitation and non-registered operators that solicited or handled private placement of overseas funds. Additionally, as a result of investigations and inspections of persons making notification for business specially permitted for qualified institutional investors, etc., the SESC also announced the names of financial instruments business operators which had provided customers with false information for fund solicitation, non-registered operators who had been engaged in financial instruments businesses, those who had been involved in fraudulent appropriation of customers' assets, or others who had violated laws and regulations.

With respect to market misconduct, the SESC made recommendations for administrative monetary penalty payment orders against several cases, including an officer of a client having a business relationship with a listed company who was engaged in insider trading using an account in the name of another person based on information obtained during the course of his/her duties; and several recipients who were also engaged in insider trading using the information obtained from the officer, and market manipulation in a manner intended to raise the share prices by placing buying orders at high limit prices and executing them at high prices, and by matching buying orders and selling orders placed at high limits at around the same time for the purpose of inducing sales and purchases of the shares. In addition, with respect to a case of market misconduct by both Japanese and foreign professional investors using cross-border transactions, etc., the SESC conducted close investigation of a day trading investment company involved in market manipulation for the purpose of inducing sales and purchases of shares by placing selling and buying orders in multiple price ranges above best ask and below best bid without any intention of executing them, and an officer and others of an overseas investment company who used fraudulent means including making a false report on some specific stock with the intention to cause fluctuations in the market price, in close collaboration with overseas regulators with the aid of a global framework for cooperation and information exchange. As a result, the SESC also made recommendations for administrative monetary penalty payment orders.

With respect to the violation of disclosure requirements, the SESC made recommendations to the FSA to order an administrative monetary penalty against a person, etc., who caused investors to purchase stock acquisition rights through invitations to subscribe based on disclosure documents carrying false statements on substantive matters in a manner of submitting annual securities reports, etc., containing material misstatements on important matters including overstating sales together with securities registration statements referring thereto. In the case where the SESC made recommendations to the FSA in recognition of

false disclosure statements in financial reports as a result of inspection and the issuers failed to make the required revision despite the SESC urging them to do so due to the need to revise the annual securities report, etc., the SESC made recommendations to the FSA to order them to submit correction reports.

With respect to malicious offenses which impair market integrity, the SESC filed accusations against a case in which a violator spread a rumor about plural listing stocks by posting on the Internet despite the absence of reasonable grounds with the intention to cause fluctuations in the market price in favor of his/her trading. Furthermore, with regard to a case in which a secretary to an officer of a listed company was engaged in insider trading based on the material facts obtained in the course of his/her duties, the SESC continuously exposed a wide range of malicious criminal acts targeting overall markets, including filing accusations against the perpetrators.

With respect to the enhancement of market discipline, the SESC has worked with financial instruments exchanges and financial instruments firms associations, etc., to share their respective awareness of problems through exchanges of information, such as regular meetings. In addition, the SESC has continued to actively engage in dialogue with market participants and dissemination of information to the market so as to encourage the voluntary efforts of each market participant. Specifically, the SESC made speeches at compliance forums for listed companies organized by different securities exchanges throughout Japan, and contributed articles to various public relations and mass media. The SESC also used the SESC Email Magazine in an effort to disseminate details of its activities, its awareness of problems and other information in a timely manner. Furthermore, in order to enhance the transparency of market surveillance administration and to encourage the self-discipline of market participants, the SESC published an edition of the *Casebook on the Administrative Monetary Penalties under the FIEA—Violation of Disclosure Requirements* in June 2013 and an edition of the *Casebook on the Administrative Monetary Penalties under the FIEA—Market Misconduct* in August 2013, which are compilations of preceding cases recommended to the commissioner of the FSA for administrative monetary penalty.

2. Future Challenges

As described above, the SESC has been engaged in effective and efficient market surveillance for the past year.

On the other hand, given the dynamically changing environment surrounding the Japanese market, as seen in the situations where revisions of FIEA and innovative financial instruments and trades have advanced with the aid of information technology, the SESC's market surveillance needs to address these changes appropriately. In addition, in conducting inspections of financial instruments business operators, the SESC believes it essential to further enhance its ability to identify potential problems with consideration given to each characteristic of diverse business types of financial instruments business operators, customers (individual investors, corporate pensions, etc.), and increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly. Furthermore, with regard to violations involving cross-border transactions, the SESC is required to continue to respond harshly to

market misconduct by both Japanese and foreign professional investors, while enhancing surveillance on frequently conducted cross-border trading in cooperation with overseas regulators.

The SESC will continue to do its best to handle these challenges appropriately, perform more effective and efficient market surveillance, and sustain investors' confidence in the market to secure the protection of investors.

2. SESC's Policy Statement

The Securities and Exchange Surveillance Commission (SESC) formulates a policy statement as a midterm strategy for a three-year term, when starting its new framework for each term. In the wake of the launch of the 8th term on December 13, 2013, the SESC formulated and announced its policy statement for the 8th term on January 21, 2014.

This chapter will discuss the basic concept and details of the policy statement for the 8th term.

Formulation of the SESC's Policy Statement for the 8th Term

1.Basic Concept of the Policy Statement

The policy statement for the 8th term follows the basic patterns of the policy statement for the 7th term and adds new elements on the basis of the track record and experiences of market surveillance activities over the past three years.

The "basic concept" of the policy statement for the 8th term places emphasis on the first pillar "Market oversight with prompt and strategic actions," which inherit the key concept of the policy statement for the 7th term for the purpose of addressing important issues in the current market on a timely basis, making strategic use of each resource held by the SESC. The new policy statement adds a new stance to take the most effective measures in collaboration with the Financial Services Agency, Securities Exchanges, investigative authorities including overseas regulators, and other relevant authorities based on the description of each case. In addition, the policy statement also clarifies the stance of placing importance on information collection and analysis activities serving as the foundation of routine market surveillance.

Next, in respect of the second pillar "Enhanced surveillance in response to the globalization of markets," the policy statement clarifies the stance of implementing the market surveillance on a global basis by strengthening cooperation with overseas regulators and authorities further, given the situation where the SESC has been required to address increasing cross-border cases. For example, in order to conduct effective monitoring of large securities companies, etc., engaging in operations globally, the SESC plans to conduct an inspection in view of both domestic and overseas operations, making proactive use of a global inspection and supervision framework, such as "Supervisory Colleges" that have been established by the relevant authorities both in Japan and abroad for the purpose of inspecting specific financial instruments business operators and others. In addition, the policy statement for the 8th term also sets the medium-term goals, consisting of strengthening the network with overseas regulators including personnel exchanges with authorities in Asian countries as well as developing human resources capable of addressing global cases.

The third pillar, "Efforts for enhanced market integrity," has also remained unchanged from the policy statement for the 7th term. Specifically, the SESC not only commits itself to delivering its awareness of problems detected through inspections and investigations to the Financial Services Agency and self-regulatory organizations, etc., but also aims to improve the dissemination of information to market participants with the aim of conveying its awareness of problems to them in a comprehensive manner. The SESC considers it important to ensure recipients have a clear picture of information that will be provided by the SESC in the form of press releases, publications, lecture meetings, and the like.

The SESC's policy statement for the 8th term is aimed at conducting effective and efficient market surveillance, focusing especially on the following eight points, as policy priorities based on the three pillars mentioned above.

The first policy priority is "Proactive market oversight through enhanced information-collecting ability." The SESC suggested a renewed focus on improving its capability to collect quality information in respect of its overall market surveillance activities. In addition, the SESC will unravel the overall picture of market abuse throughout primary and secondary markets and then carry out appropriate law enforcement, such as regarding fraudulent finances that have been detected by the SESC in past years. Furthermore, the SESC also considers it necessary to pay attention to transactions that have been recognized as problematic from a market fairness perspective even though they have not always been our surveillance objects before, and considering how to address them.

The second policy priority is "Strict action against severe and malignant market misconduct and false disclosure statements." The SESC will continue to take strict actions against severe and malignant market abuse through investigation of criminal cases and clarify facts and seek liability in cooperation with the investigative authorities, including overseas regulators, based on the description of each case. The SESC indicates in this policy priority that, based on recent experiences, including cooperation with the police agency in the case of AIJ and collaboration with the US Securities and Exchange Commission in the case of MRI, it will actively explore collaboration with other relevant authorities when such collaboration is likely to facilitate a more effective and efficient investigation than a standalone investigation by the SESC.

The third policy priority is "Timely and efficient inspections in response to disclosure violations." Disclosure document inspections and investigations will be aimed at having listed companies provide accurate corporate information fairly, equally and in a timely manner. If a company makes false disclosure statements, the SESC will encourage the company to exercise its initiatives for autonomous and timely disclosure of accurate corporate information to the market, and encourage related parties to achieve such appropriate disclosure. The SESC will, if necessary, point out business management issues to which the false statements or other disclosure violations can be attributed, in order to recommend improvement.

The fourth policy priority is "Use of the administrative monetary penalty system against market misconduct, etc.," which is almost the same as in the policy statement for the 7th term. The SESC intends to provide necessary proposals on the regulatory system regarding market misconduct, based on the investigation results as needed.

The fifth policy priority is "Efficient and effective inspections corresponding to the characteristics of the firms to be inspected," which adheres fundamentally to the policy statement for the 7th term. The number of financial instruments business operators to be inspected has increased to as many as 8,000. In light of conducting an inspection efficiently and effectively to address the current situation, the SESC plans to improve its information collection and analysis capabilities, establish a system to select firms and business areas on the basis of the information analysis results, and work on the development and establishment of know-how and inspection methods. In addition, the SESC will continue to approach globally active securities firms with a forward-looking perspective, in particular, to verify the appropriateness of internal control and risk management systems with the aid of information collected by inspection and supervisory departments of the Financial Supervisory Agency through their monitoring activities. Since it is of high importance to have these firms organize and improve internal control systems, the SESC aims to examine the

appropriateness of internal control and risk management systems efficiently and effectively, by making the best use of the information collected by supervisory departments.

The sixth policy priority is “Responding to malicious businesses engaged in fraudulent operations.” This is newly added as an independent policy priority, given the rapid increase in its weight in the market surveillance activities, especially in recent years. The SESC has the policy of commencing an inspection of malicious operators as early as possible with the aim of identifying the actual state of violation of laws and regulations and preventing the damage from spreading. In addition, the SESC also aims to collect and analyze information from various channels in order to determine a target operator and enhance its framework to address malicious operators. In respect of highly malicious financial instruments business operators, the SESC will collaborate with a police agency to take strict actions. Furthermore, the SESC has filed petitions for court injunctions under Article 192 of the Financial Instruments and Exchange Act (FIEA) against seven unregistered entities, etc., since FY2010, and plans to actively exercise this authority in the future.

The seventh policy priority is “Effective dissemination of information.” This is also newly added as an independent policy priority. In order for the SESC to fulfill its missions to ensure the integrity of capital markets as well as to protect investors, it is essential not only to detect violations but also to make effective use of such results to take preventive measures. From these points of view, the SESC will improve the description and explanation of publications, such as press releases of individual cases and the Casebook on Administrative Monetary Penalties under the FIEA, so that the audience will be able to understand the points and problems in each case appropriately in a comprehensive manner. In addition, the SESC will review its website in consideration of user friendliness and also improve the dissemination of information in the English language as well.

The eighth policy priority is “Enhanced cooperation with self-regulatory organizations,” which continues to be raised as a policy statement priority since the 7th term. The SESC intends to share information and awareness of problems with self-regulatory organizations, etc., in order to strengthen the market surveillance function as a whole and tackle market surveillance integrally.

2.Details of the SESC’s Policy Statement

Details of the SESC’s policy statement for the 8th term, which was developed and announced on the basis of the background and basic concepts mentioned above, are as stated on the next page.

January 21, 2014

Securities and Exchange Surveillance Commission

Toward Enhanced Market Integrity

- SESC's Policy Statement for the 8th Term* -

1. Mission

The Securities and Exchange Surveillance Commission (SESC) is committed to pursuing the following mission:

○ To ensure the integrity of capital markets, and

○ To protect investors

2. Policy Directions

The Japanese capital markets have been experiencing dynamic changes. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods through the use of IT, etc. Cross-border transactions are expanding. The SESC is determined to handle issues that need to be addressed in a timely manner by constantly keeping an eye on such market trends and collecting/analyzing information with even greater sensitivity.

(1) Market oversight with prompt and strategic actions

- Strategic use of our regulatory tools (e.g. recommendations, criminal charges, court petitions and policy proposals), early handling of current issues in the market and cooperation with supervisory authorities and self-regulatory organizations (SROs) to effectively address issues according to their contents
- Timely acknowledgement and proactive responses to emerging issues by summing up and analyzing recent market trends as well as information obtained from external sources and through oversight activities

(2) Enhanced surveillance in response to the globalization of markets

- Closer cooperation with overseas regulators to conduct market oversight activities on a global basis, in response to growing cross-border transactions and international activities by investment funds and other market participants as well as their increasing impact on Japanese markets and investors
- Effective inspections of globally active and large-scale securities firms with consideration of their international business, utilizing international supervisory frameworks such as information exchanges with overseas regulators
- Fostering personnel that can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel

(3) Efforts for enhanced market integrity

- Contributing to the rule-making processes at the Financial Services Agency (FSA) and other relevant authorities by raising relevant regulatory issues identified through our market oversight activities
- Outreach to market participants, through cooperation with SROs and other channels, to encourage their self-discipline in the interests of market integrity. Closer communications with market participants and more effective dissemination of information in order to communicate the concerns of the SESC effectively

The SESC believes that our contributions toward fair, transparent and quality capital markets will help develop the Japanese capital markets and vitalize their international competitiveness through the implementation of comprehensive and effective market oversight activities based on the policy directions set out above.

* *SESC Chairman Kenichi Sado and Commissioners Masayuki Yoshida and Mari Sono were appointed and started their new 3-year term on December 13, 2013*

3. Policy Priorities

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

(1) Proactive market oversight through enhanced information-collecting ability

- Timely detection of issues in the market through summary/analysis of information obtained through various channels and through examinations of individual transactions and research of market trends, to proactively carry out market surveillance
- A multifaceted surveillance of both primary and secondary markets, to unravel the overall picture of market abuse and carry out appropriate law enforcement
- Paying attention to transactions that have been recognized as problematic from a market fairness perspective, even though they have not always been our surveillance objects before, and considering how to address them
- Clarification of facts of cross-border market abuse and carrying out appropriate law enforcement against them, through investigation requests of overseas regulators with active use of exchange-of-information frameworks amongst securities regulators

(2) Strict action against severe and malignant market misconduct and false disclosure statements

- Taking strict action against severe and malignant market abuse such as insider dealing, market manipulation, spreading of rumors, fraudulent means and false disclosure statements, by exercising the right to investigate criminal cases. Cooperating with investigative authorities, overseas regulators and other related organizations to effectively clarify facts and seek liability, according to the contents of the matter

(3) Timely and efficient inspections in response to disclosure violations

- Implementation of timely and efficient disclosure inspections in order to ensure that the market participants are fairly and equally provided with accurate corporate information without delay
- Encouraging a listed company or any other issuer, if it has made false disclosure statements, to exercise its initiatives for autonomous and timely disclosure of accurate corporate information to the market as well as encouraging related parties to achieve such appropriate disclosure. Pointing out business management issues that were the cause of the false disclosure statements and other abuse, if necessary, and suggest improvement

(4) Use of administrative monetary penalty system against market misconduct, etc.

- Implementation of timely and efficient inspections and investigations, taking advantage of the administrative monetary penalty system, for insider dealing, market manipulation, spreading of rumors, fraudulent means, and other market misconduct, etc.
- Continuing to making necessary proposals on the regulatory system regarding market misconduct, based on investigation results

(5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected

- Conducting efficient and effective inspection through strengthening the capabilities to collect and analyze information, establishing a system to select firms and business areas to be inspected based on information and analysis results, as well as development and establishment of know-how and inspection methods corresponding to the characteristics of firms to be inspected, due to the expansion of scope of firms to be inspected
- Conducting inspections of globally active securities firms, verifying the appropriateness of internal controls and risk management systems and, from a forward-looking perspective, utilize information that the inspection and supervisory departments of the Financial Services Agency (FSA) collect through their monitoring activities

(6) Responding to malicious businesses engaged in fraudulent operations

- Conducting inspections of malicious Financial Instruments Business Operators and Persons making Notification for Business Specially Permitted for Qualified Institutional Investors that are engaged in fraudulent operations and cause damage to investors at an early stage in order to identify violations of the law and to prevent the expansion of damage, from the perspective of protecting investors. Collecting/analyzing information through various channels upon selecting the firms to be inspected and enhancing the system to promptly respond to problematic firms. Taking strict actions against highly malicious firms, in cooperation with the organizations concerned.
- Taking proactive actions against the selling of funds by unregistered entities, by enhancing cooperation with the FSA, the Local Finance Bureaus and investigative authorities, and actively utilizing the authority to seek petitions for court injunctions (Article 192 of the FIEA)

(7) Effective dissemination of information

- Specific explanation to ensure accurate communication of the contents of the matter and issues in press announcements related to recommendations and other individual matters
- Effective outreach through enhancing the contents of announcements for cases of administrative monetary penalty and major findings in securities inspections from the perspective of preventing violations
- Reviewing the website of the SESC to make it easier for users and information providers to use, as well as focusing on outreach in English

(8) Enhanced cooperation with SROs

- Implementing surveillance by sharing information and concerns with SROs, to enhance the overall market surveillance function. Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors

3. Market Surveillance

1) Outline

1. Purpose of Market Surveillance

Market surveillance is positioned as the “entrance for information” at the Securities and Exchange Surveillance Commission (SESC), which aims not only to collect and analyze extensive amounts of information on overall financial and capital markets for the realization of comprehensive and proactive market surveillance corresponding to the changing environments surrounding the markets, but also to detect any suspicious or market misconduct or services as early as possible by conducting market surveillance targeted at the primary and secondary markets. For the above reason, the SESC receives a wide range of information from the public, such as ordinary investors, on a daily basis, and promptly circulates this information to the relevant divisions within the SESC (or to the relevant division within the Financial Services Agency (FSA), etc. if the information relates to affairs under the jurisdiction of the FSA, etc.). The SESC also cooperates with self-regulatory organizations (SROs) to gather a variety of information related to financial and capital markets. Based on this information, the SESC analyzes the background of individual transactions and market trends, examines transactions for possible market misconduct, and reports to the SESC’s relevant divisions, if any suspicious transactions are discovered.

2. Activities Conducted in FY2013

Financial and capital markets have been facing challenges, such as the growth of electronic trading and high-speed transactions, the growing cross-border transactions and international activities by investment funds and other market participants, and the occurrence of fraud and misconduct in fundraising through the stock market, etc. In facing these challenges, the Market Surveillance Division has, in FY2013, made efforts to achieve comprehensive and proactive market surveillance.

Specifically, the SESC received 6,401 items of information from ordinary investors and other market participants and renewed the website of the SESC Information Service Desk, including postings of Examples of information for the purpose of collecting useful information. In addition, the SESC collected a wide range of information regarding financial and capital market trends, such as high-frequency trading, non-commitment type rights offering and other latest topics, making in-depth analysis on the backgrounds of individual transactions and market trends in order to conduct market surveillance targeting primary and secondary markets.

The SESC strove to improve the market oversight and made speedy analysis of transactions that could potentially impair market integrity among those actually performed in the market. In FY2013, the SESC reviewed 1,043 transactions consisting of price formation (86), insider trading (943), and others (14).

2) Receiving Information from the Public

1. Outline

The SESC receives a wide range of information from the public, including ordinary investors and other market participants, as part of its information gathering from financial and capital markets.

Such information is important and useful because it reflects the candid opinions of investors in the markets, and therefore can lead the SESC to exercise its authority to conduct inspections of securities companies and other entities, investigations of market misconduct, investigations of international transactions and related issues, inspections of disclosure statements, and investigations of criminal cases.

Therefore, the SESC receives information by a variety of means, such as telephone, letters, visits and the internet, to hear from as many people as possible. To attract more information, the SESC has proactively called for information through various means, including public seminars led by officers of the SESC.

When information is provided on a dispute between a financial instruments business operator and an investor, and when the information provider seeks individual settlement of the dispute, while the information might be effectively utilized in inspections or others activities by the SESC, the SESC basically refers the providers to the "Financial Instruments Mediation Assistance Center," which provides a service on consulting for complaint/dispute resolution for customers of financial instruments business operators. In addition, the SESC also refers to appropriate consultation services for people who have complaints on commodity futures trading or other products that do not fall under the jurisdiction of the SESC.

2. Receiving Information

In FY2013, the SESC received 6,401 reports of information from the public, of which 18 reports were received by the Pension Investment Hotline (described below). The breakdown of the means used by the public in providing the information were 4,316 referrals via the internet, 1,518 by telephone, 395 in writing, 56 visits, and 116 referrals from the local finance bureaus, showing that referrals via the internet accounted for approximately 70% of the total.

In terms of the contents, there were reports on individual stocks (4,040), such as market manipulation, insider trading, or spreading of rumors, on issuers (402), such as suspicious financing or false disclosure statements with annual securities reports, etc., on financial instruments business operators for their sales practices or other issues (907), and on others (1,052), such as opinions, etc.

Among the reports related to individual stocks, suspicions of market manipulation (2,735) are most common, followed by suspicions of spreading of rumors / use of fraudulent means (401), and insider trading (279).

The reports on issuers were on false disclosure statements with annual securities reports, etc. (224), on suspicious financing (17), and on timely disclosure (34), etc.

Diverse information was also provided on financial instruments business operators for their sales practices or other issues, such as trouble in trading systems (102), inappropriate solicitations in light of the customer's knowledge (7), etc.

〈Contact Address〉

SESC Information Service Desk

Securities and Exchange Surveillance Commission

Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3581-9909
Facsimile: +81-3-5251-2136
Internet: https://www.fsa.go.jp/sesc/watch/

In receiving information through its website, the SESC has thorough confidentiality controls in place for any personal information and detailed information that is provided by the information provider.

In addition, the SESC provides the Pension Investment Hotline, a dedicated contact for collecting important and useful information regarding pension management, in order to figure out the actual operations of discretionary investment management business operators.

All of the information provided to the Pension Investment Hotline is delivered to pension professionals at the SESC for conducting active and high quality analyses. The SESC utilizes such analyzed data for efficient and effective inspections.

〈Pension Investment Hotline〉
SESC Pension Investment Hotline Desk
Securities and Exchange Surveillance Commission
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3506-6627
E-mail: pension-hotline@fsa.go.jp

[Desired information example]

(i) Information regarding suspicious management of assets by DIM business operators;
(ii) Information regarding inappropriate solicitation of discretionary pension fund management agreements;
(iii) Information regarding inappropriate provision of information for solicitation of discretionary pension fund management agreements;
(iv) Information regarding investment management by DIM business operators, without complying with agreements or commitments

[Points to be considered in providing the information]

- Informants disclose their “names” in light of the provision of useful information;
- “Pension professionals” will listen to problems in the case that an informant provides specially detailed information.

Furthermore, the SESC set up a whistleblowing contact and also provides telephone counseling. The SESC makes it a rule to keep each informant’s information strictly confidential. In addition, pursuant to the Whistleblower Protection Act (enforced in April 2006), whistleblowers are protected from dismissal and other forms of disadvantageous treatment administered on the grounds that the person has reported information for the sake of public interest.

〈Contact Address〉

SESC Contact for Whistle-blowing and Assistance
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3581-9854*
Email:koueki-tsuho.sesc@fsa.go.jp
Facsimile: +81-3-5251-2198
URL: http://www.fsa.go.jp/sesc/koueki/koueki.htm
* Whistle-blowing is to be submitted in writing (mail correspondence, e-mail or FAX) whereas consultations are conducted by phone.

3. Use of Information Provided

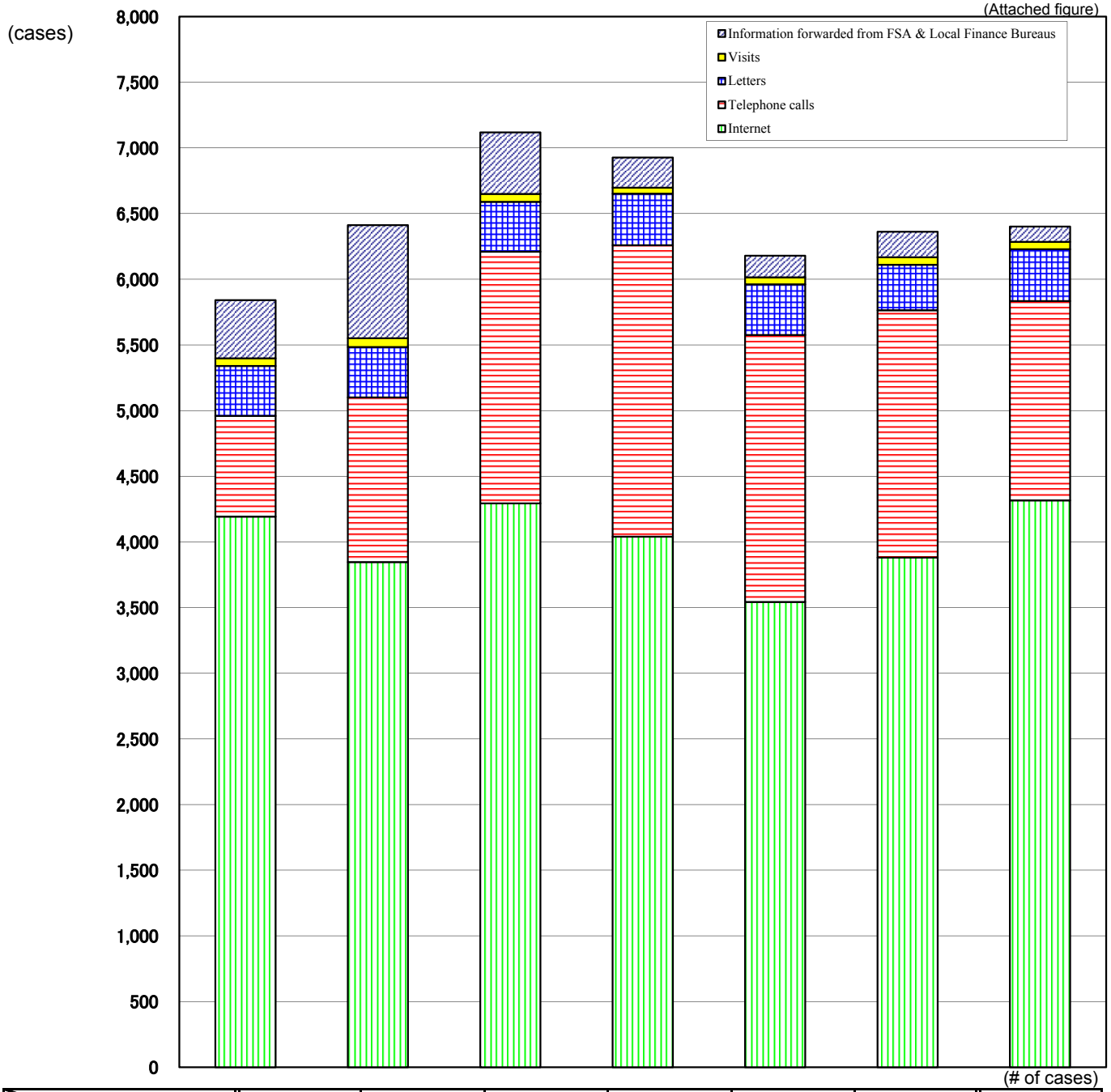
The SESC receives approximately 6,000 to 7,000 items of information per year. After circulation of the information to the relevant divisions within the SESC and the subsequent review of the details thereof, each relevant division at the SESC utilizes the information for market oversight, inspections of securities companies and other entities, investigations of market misconduct, investigations of international transactions and related issues, inspection of disclosure statements, investigations of criminal cases and other purposes, according to their degree of importance and usefulness.

In view of conducting efficient and effective inspections and investigations with limited human resources, the SESC is now collecting and investigating various information provided by the Financial Services Agency and other relevant ministries and agencies, overseas regulators, self-regulatory organizations, financial instruments business operators and others. Together with the information described above, the information provided at the SESC Information Reception Service Desk has been utilized for identifying problems.

In addition, a wide variety of information is provided at the SESC Information Reception Service Desk. In March 2014, for the purpose of improving the utilization of information provided, the SESC renewed the website of the SESC Information Service Desk, and posted Examples of information including changes in entry form to achieve improved user-friendliness.

Information Received

(Attached figure)



(# of cases)

Category \ Business year / Fiscal year	2007	2008	2009	2010	2011	2012	2013
Total	5,841	6,412	7,118	6,927	6,179	6,362	6,401
Pension Investment Hotline	–	–	–	–	–	23	18
Internet	4,193	3,847	4,293	4,040	3,543	3,881	4,316
Telephone calls	766	1,253	1,917	2,219	2,033	1,883	1,518
Letters	381	384	380	393	385	346	395
Visits	58	67	60	45	54	57	56
Information forwarded from FSA & Local Finance Bureaus	443	861	468	230	164	195	116

Note 1: Until BY2008, "business year basis" July-June. Starting FY2009, "fiscal year basis" April-March

Note 2: Pension Investment Hotline had started in April 2012

Received Information, Classified by Content

1. Old classifications

(Unit: cases)

Classification \ Year	2007	2008
[Individual stocks, etc.]		
A. Profit guarantee and loss compensation	5	3
		(1)
B. Insider trading	558	510
		(108)
C-1. Annual securities reports, etc. containing false statements	189	239
		(64)
C-2. Unreported offering	27	44
		(24)
D. Market manipulation	2,126	1,975
		(539)
E-1. Spreading rumors	995	814
		(185)
E-2. Other	712	1,204
		(303)
(Subtotal)	4,612	4,789
		(1,224)
[Sales practices of financial instruments business operators]		
F. Solicitation with decisive predictions	10	16
		(2)
G. Conclusion of discretionary account contracts	8	9
		(3)
H. Excessive solicitation to a large number of nonspecific customers	3	4
		(1)
I. Inappropriate solicitations in light of the customer's knowledge	7	32
		(14)
J. Unauthorized transactions	41	47
		(15)
K. Other	778	930
		(253)
K-1. Bucketing	-	-
		(-)
K-2. Irregularities in legal account books	6	0
		(0)
K-3. Trading in executive's or employee's own account	15	5
		(1)
K-4. Other legal violations	245	160
		(31)
K-5. Violation of self-regulatory rules	75	28
		(4)
K-6. Other item concerning sales stance	437	737
		(217)
(Subtotal)	847	1,038
		(288)
[Other]		
L. Opinion on SESC, etc.	35	29
		(8)
M. Opinion on securities administration or policy	36	120
		(46)
N. Other	311	436
		(186)
(Subtotal)	382	585
		(240)
Total	5,841	6,412
		(1,752)

2. New classifications

(Unit: cases)

Classification \ Year	2009	2010	2011	2012	2013
A. Individual stocks					
a. Transaction constraints					
1. Spreading rumors or use of fraudulent means	627	608	813	990	401
2. Market manipulation	2,753	2,468	1,995	2,297	2,735
3. Insider trading	385	463	327	252	279
0. Other	50	58	80	201	615
b. Disclosure					
1. False statement in large holdings report	11	5	6	4	0
2. Not submitting large holdings reports	54	34	6	7	9
0. Other	9	4	0	0	1
(Subtotal)	3,889	3,640	3,227	3,751	4,040
B. Issuers					
a. Legal disclosure					
1. Unreported offering	45	29	19	21	3
2. Financing	143	64	20	15	17
3. Annual securities reports, etc. containing false statements	152	141	136	110	224
4. Not submitting annual securities reports, etc.	109	25	27	21	16
5. Internal controls report	2	5	10	0	0
6. Takeover bid without prior notice	14	3	1	0	1
0. Other	65	38	32	17	12
b. Association or securities exchange rules					
1. Timely disclosure	53	62	22	51	34
0. Other	2	3	5	6	1
c. Other					
1. Governance, etc.	27	17	19	8	10
0. Other	223	210	149	187	84
(Subtotal)	835	597	440	436	402
C. Financial instruments business operators					
a. Prohibited acts, etc.					
1. Solicitation with decisive predictions	20	16	18	19	9
2. Unauthorized transactions	57	17	19	22	16
3. Profit guarantee and loss compensation	4	3	6	3	2
0. Other legal violation	153	101	135	162	100
b. Business administration					
1. Inappropriate solicitations in light of the customer's knowledge	122	79	55	11	7
2. System related	141	219	76	37	102
0. Other item concerning sales practices	752	626	443	319	371
c. Accounting					
1. Irregularities in legal account books	20	22	32	13	19
2. Financial health, risk management	25	21	5	5	5
d. Association or securities exchange rule					
1. Violation of self-regulatory rules	12	3	19	10	12
e. Other					
0. Other	43	35	70	189	264
(Subtotal)	1,349	1,142	878	790	907
D. Other					
a. Opinion, request, etc.					
1. Opinion on SESC, etc.	34	77	362	296	171
2. Opinion on securities administration or policy	107	97	79	76	61
b. Other					
1. Unregistered business operators	208	258	277	192	242
2. Unlisted stock	471	732	559	376	77
3. Funds	29	70	46	58	82
0. Other	196	314	311	387	419
(Subtotal)	1,045	1,548	1,634	1,385	1,052
Total	7,118	6,927	6,179	6,362	6,401

(Note 1) Up to BY 2008 "Accounting period basis" was from July to June next year. From FY 2009, "Fiscal year basis" is from April to March next year.
(Note 2) Number of cases in the overlapping period of FY 2009 (April 2009 - June 2009) that were shifted to the "Fiscal Year basis" are shown in ( ) in FY 2008 .
(Note 3) Dual trading and bucketing prohibition regulations were eliminated in April 1, 2005.

3) Market Trend Analysis

1. Outline

The SESC broadly analyzes the background of individual transactions and market trends based on gathered information on financial and capital market trends and takes advantage of them to exercise timely market surveillance.

Specifically, for the purpose of dealing with fraud and misconduct in fundraising through the stock market (fraudulent finance), in addition to market surveillance in both the primary and secondary markets, the SESC has also been engaged in comprehensive and proactive market surveillance, including assessment of the structure and influence on the market of new financial instruments, etc.

2. Market Surveillance Covering both Primary and Secondary Markets

(1) Responding to fraudulent finance

In recent years, cases of market misconduct have been detected in the primary market as well as in the secondary market. For example, a suspect acquires newly issued shares through fictitious capital contribution (paid-in by pretense money), contributions in kind of overvalued real estate properties, or abuse of debt equity swaps and so on, and then he/she sells the shares on the secondary market using a complex combination of insider trading, market manipulation, and spreading of rumors. In consequence, he/she obtains unfair profits. “Fraudulent finance” refers to these kinds of market misconduct, consisting of inappropriate behavior both in the primary market in fundraising (issuing of new shares, warrants, etc.) and in the secondary market.

The allocation of new shares to a third party is a typical technique of such fraudulent finance. In general, the allocation of new shares to a third party is a method in which a listed company that needs to raise funds allocates new shares to specific persons and accepts investments from them. Compared with public offerings, the allocation of new shares to a third party makes it difficult for independent parties from the company and the third party to assess the procedure of fundraising. It could potentially cause inappropriate behavior, including cases where expenditure spent by the company issuing new shares could be flowed back to the persons and/or firms underwriting the allocation of new shares to a third party and used as contribution by them, or where a property contributed in kind could be excess fair value due to over-evaluation of assets. In addition, the issuance of a lot of new shares via such fundraising could bring about a dilution of existing shareholders’ interests. As a result, persons who are undesirable from the points of view of existing executives and shareholders of the company could take control of the company. And they could change the board members or make cash of the company flow out through an inappropriate financial transaction.

In close cooperation with Director of Securities and Exchange Surveillance Department and securities auditors responsible for accepting the submission of securities registration statements or securities reports at local finance bureaus as well as with financial instruments exchanges (listed control division and the trading examination division), the SESC monitors fraudulent finance cases, covering both the primary and secondary markets through the collection and analysis of disclosed information on listed companies and information from financial instruments exchanges, as well as information

provided by ordinary investors and securities companies and other market participants.

From the viewpoint of monitoring fraudulent finance, the SESC also endeavors to find the actual status of allocations of new shares to third parties by listed companies, through analyzing the results of prior consultations between the listed companies and local finance bureaus / financial instruments exchanges.

In detecting fraudulent finance, the SESC has grasped the overall activities related to fraudulent finance and applied Article 158 of the Financial Instruments and Exchange Act stipulating fraudulent means to investigate persons and firms related to fraudulent finance. Up to now, the SESC has filed criminal complaints in 7 cases and recommended an order of an administrative monetary penalty payment in 1 case.

(2) Analysis of issues underlying market trends

In tandem with the aforementioned collection and analysis of information on individual stocks or individual transactions, the SESC also collects and analyzes a wide range of information in order to grasp the context of market trends.

Focused areas of activities in FY2013 are as follows.

(i) Trends in non-commitment rights offering

Rights offering (capital increase by gratis allotment of warrants) is a means of capital increase through the allocation of warrants to be listed on the financial instruments exchange for a certain period of time to all existing shareholders without charge. Shareholders allotted the warrants in proportion to their existing holdings are entitled to purchase new additional shares directly from the company by exercising the rights within a defined period and making subsequent payment of the exercise value; such rights holders may sell their warrants in the market instead of exercising them. In cases where the current stock price of the company is higher than the sum total of the current market price of the warrant and the exercise price, investors also have opportunities to make a profit through arbitrage by purchasing a warrant, exercising the rights, and promptly selling the new shares.

Unlike other means of capital increase, such as public offering or the allocation of new shares to a third party, rights offering is said to have advantages for existing shareholders in avoiding the dilution of the existing holdings (if they don't exercise their warrants, their holdings could be diluted, but they could compensate their losses by selling their warrants in the market). In response to some requests for positive utilization of this scheme, the statutes and systems have been revised.

There are two types of rights offering: "commitment" and "non-commitment." In commitment rights offering, a company issuing new shares acquires any warrants unexercised after the exercise period, and the company sells them to the underwriters, and the underwriters should exercise the warrants and then sell the newly issued shares in the market. In non-commitment rights offering, any warrants unexercised are to be forfeited. Issuances of rights offerings since FY2010 are as shown in the table below. In particular, the number of issuances of rights offerings increased to 19 in FY2013, most of which are accounted for by non-commitment offerings (based on a resolution for issuance).

Status of issuance of rights offerings

FY(based on resolution for issuance)	Total issuance	Of which, non-commitment type
FY2010	1	1
FY2011	0	0
FY2012	2	2
FY2013	19	16

In view of the situation mentioned above, the SESC collected and analyzed the information on stock price development and the state of exercise of the warrants with respect to stocks with respect to which the rights offerings were made in FY2013. In particular, the SESC information exchanged primarily on characteristics and problems of non-commitment type rights offerings with the Financial Services Agency, the Tokyo Stock Exchange, Inc. (currently Japan Exchange Group, Inc.) and others.

Also note that, while a case of non-commitment rights offering indicates that a securities company, etc., was closely involved in the procedure of the capital increase, they are not responsible for underwriting the warrants unexercised and don't strictly need to be liable for examination or other assessment of the capital increase requirements. So like in the case of the allocation of new shares to a third party, non-commitment type rights offerings would not be verified or assessed by a third party with respect to the credit standing of the company and the use of funds, etc. For this reason, the SESC will continue to monitor the trends in rights offerings.

(ii) Issuance of new shares for a share exchange

Making a non-listed company a subsidiary through a share exchange by a listed company has virtually the same economic effect as a subscription by way of a private placement for in-kind contribution. Since the share exchange has been increasingly used for mergers and acquisitions, the SESC has been closely monitoring the enterprise valuation of each target company. In particular, the SESC conducted analyses of the case examples of share exchanges that were carried out from January 2012 to March 2013.

3. Surveys Aimed at Comprehensive and Proactive Market Surveillance, Including Assessment of the State of New Financial Instruments, etc.

The SESC conducted a wide range of timely surveys on the actual state of new financial instruments, transaction techniques and events, etc., that have been increasing in importance in both domestic and overseas markets in recent years.

<Examples of analyzed cases in FY2013>

(1) Survey on new transactions in the market

Amid the improving environment, market players have been increasingly interested in the accelerated speed of transactions and changes in volatility through high frequency trading (HFT) and algorithmic trading. In addition, given the current situation where computers play a central role in market trades, market attention is also drawn to

the impacts of system trouble on the market, such as human operational errors, program failure, and cyber attacks. For these reasons, the SESC conducted surveys on the reality of HFT ordering schemes and market manipulation in Europe and the United States, and trends in regulatory authorities and movements of regulations, including EU Market Abuse Directive Regulations. In addition, the SESC also conducted research and analysis on the enhancement of system compliance in the United States. Furthermore, the SESC also conducted a survey on block trades (large volume of off-market trades between parties) that have been increasing among those who do not favor the trend of the accelerated speed of transactions in the market.

(2) Survey on recent investor and issuer trends in the market

The SESC conducted a survey on the trends and attributes of overseas initial public offerings (IPOs) amid improving market conditions on a global basis. In addition, the SESC also researched crowd funding, which has been attracting attention as a new means of financing for companies in the start-up phase, with a focus on certain advanced cases in Europe and the United States.

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(3) Identification of the actual state of new unfair financial transactions using the Internet

While new changes are being introduced in the financial market due to the wide spread of the Internet, the SESC has investigated the current state of online betting, digital currency, and so forth. In addition, the SESC has also investigated the trends in regulations on disclosure of corporate information using social media in Europe and the United States.

The results of these surveys have been shared within the SESC and have proven useful in comprehensive and proactive market surveillance, including in responding to new financial instruments. Furthermore, the SESC has also exchanged information with the relevant FSA departments and with SROs, etc., in an effort to share its awareness of market surveillance issues and problems.

4) Market Oversight

1. Outline

In market oversight, which is conducted off-site to detect suspicious transactions, the SESC first extracts the following kinds of stocks based on its routine surveillance of market trends and on information obtained from various sources. The SESC then requests financial instruments business operators to provide detailed reports or submit materials related to the securities transactions.

(1) Stocks showing sharp rises or declines in price or other suspicious movements
(2) Stocks for which “material facts” were published which might have a significant influence on investors’ investment decisions
(3) Stocks which are topical in newspapers, magazines or on internet bulletin boards
(4) Stocks mentioned in information obtained from the general public

Next, based on these reports and materials, the SESC examines transactions with

suspected market manipulation, insider trading, or fraudulent means that impair market integrity. At the same time, the SESC examines whether the financial instruments business operators involved in these transactions have committed any misconduct, such as violating regulatory rules of conduct.

If these examinations reveal any suspicious transactions, they are reported to the SESC's relevant divisions for further clarification of the transactions.

2. Legal Basis

In market oversight, when the SESC finds it necessary and appropriate for ensuring the fairness of financial instruments trading and protecting investors, it requests financial instruments business operators and other related persons to submit reports and materials on securities transactions. The authority delegated to the SESC is stipulated in the Financial Instruments and Exchange Act (FIEA).

3. Results of Market Oversight

(1) Results

The number of market oversight conducted by the SESC and the local finance bureaus in FY2013 are as follows.

The number of transactions examined		FY2013 (April 2013 - March 2014)	FY2012 (April 2012 - March 2013)
Total		1,043	973
	SESC	410	400
	Local Finance Bureaus	633	573
(Breakdown of examination items)			
Price Formation		86	84
Insider trading		943	875
Other matters (fraudulent means, etc.)		14	14

The SESC and the local finance bureaus conduct day-to-day market surveillance in the markets, and examine particular transactions as necessary. Along with collecting information related to market oversight, at the stage of market oversight examination, the SESC strives to conduct swift analyses of actual individual market transactions that are suspected of violating market integrity.

In addition, as a result of collection and analysis of information related to financing trends in the primary market, the SESC also examines suspected cases of fraudulent finance by fraudulent means, etc.

(2) Cases Examined

The following are some of the common examples of market oversight.

(i) Examples of reasons for conducting examination related to insider trading of shares:

(a) After the announcement of Company A's takeover bid (TOB) for the shares of Company B, the share price of Company B rose significantly, so an

examination was conducted into the transactions of Company B stock prior to the TOB. Moreover, a securities company informed the SESC of suspicious transactions using borrowed-name accounts. An examination was carried out based on such information.

(b) When Company C announced a downward revision of its results forecast, its share price fell sharply. Then, transactions made prior to the announcement were examined.

(c) When Company D announced a share issuance by third-party allotment, its share price fell sharply. Then, transactions prior to the announcement were examined.

(d) When the SESC received information that "someone gained large profit through insider trading" in the shares of Company E, the SESC began to examine if there was insider trading involving a concerned contractor.

(e) Prior to the announcement of a public offering of new shares in Company F, the turnover of Company F stock increased, and the share price appeared to trend downward. Consequently, the SESC conducted a review into whether there had been insider trading.

(ii) Examples of reasons for conducting examination related to price formation:

(a) The price and trading volume of Company G shares rose sharply for no apparent reason.

(b) As a result of reviewing the price formation for shares of Company H, a report was received from a financial instruments exchange that a specific client was suspected of market manipulation using the technique of *Misegyoku* sham order transactions.

(c) With specific information on *Misegyoku* concerning the shares of Company I reported by an ordinary investor, the SESC confirmed orders placed with a financial instruments exchange, and found that several orders had been cancelled all at once.

(d) The SESC received a report on the fact that a specific person was conducting market manipulation concerning the shares of Company J.

(iii) Examples of reasons for conducting surveillance related to other aspects:

(a) The financial position of Company K did not improve even after repeated financing, and there was information about an unusually large sum of cash withdrawals. As such, an examination was carried out to check for fraudulent means, etc.

(b) With regard to Company L's announcement of financing with real estate contributed in kind, appropriateness of the appraisal value of the real estate contributed for the financing was found to be doubtful. As such, an examination was carried out to check for fraudulent means.

(c) After Company M had raised funds, information was received from a financial instruments business operator, etc. that the shares of Company M were being sold in large quantities on the market. Consequently, the SESC conducted a review for fraudulent means, etc.

(d) Specific information was received to the effect that messages on several

stocks which was clearly contrary to fact had been posted on internet bulletin boards, and that the share prices had fluctuated. Consequently, the SESC conducted a review from the perspective of the spreading of rumors, etc.

(3) Response to cross-border transactions

As seen in Japanese stock markets where the trading value of brokerage trading by foreign investors accounted for approximately 60% of overall brokerage trading in 2013, cross-border transactions are becoming matters of course. Therefore, the SESC has been making efforts to preclude any loopholes in market oversight by collecting information on cross-border transactions, if necessary, from financial instruments business operators, even at the stage of market surveillance examination (see Chapter 10 for further details).

4. Close Cooperation with Self-Regulatory Organizations (SROs)

Day-to-day market surveillance activities are also conducted by SROs, such as Financial Instruments Exchanges, etc., and Financial Instruments Firms Associations. The SESC cooperates closely with these SROs.

(1) Cooperation with Financial Instruments Exchanges, etc., and Financial Instruments Firms Associations

In addition to monitoring the price movements and orders instigated by investors in secondary markets in real time, financial instruments exchanges, etc., also conduct ex-post trading examinations of orders and transactions suspected of being in violation of a law or regulation. The results of these trade reviews are reported to the SESC as required. A system is also in place for financial instruments exchanges (Trading Examination Division), to share information promptly with the SESC, especially in cases where unusual transactions are recognized that have a high possibility of constituting market misconduct. In the primary markets as well, information exchange between the SESC and the listing review and control divisions of financial instruments exchanges, is also promoted with regard to movements of listed companies.

The Japan Securities Dealers Association (JSDA), an authorized financial instruments firms association, in October 2008, made a partial amendment to the *Regulations Concerning Establishing a Sale and Purchase Management System for the Prevention of Market Misconduct* (effective in April 2009), requiring JSDA members to report to the SESC and to the JSDA if they become aware of possible insider trading. Based on this, since April 2009, the SESC has utilized the Trading Examination Results Reports received from JSDA members as initial information in its transaction reviews pertaining to insider trading, and as reference information in transaction reviews that are already in progress. The JSDA also examines the sales and purchases of over-the-counter securities, and reports the results of these examinations to the SESC.

Furthermore, the JSDA also operates the Japan-Insider Registration & Identification Support System (J-IRISS), a system for registering and managing information on the executive officers of listed companies in order to prevent insider trading. Financial instruments exchanges as well as the FSA and the SESC are making cooperative efforts designed to expand the number of listed companies participating in J-IRISS.

Specifically, in January 2011, Review Teams for the Prevention of Insider Trading

were established at the JSDA and securities exchanges nationwide to conduct in-depth examinations on more effective measures for preventing insider trading. In June 2011, the results of this initiative were published in the *Report on the Review into the Use of J-IRISS for Preventing Insider Trading*.

In light of these developments, in June 2011, the Director-General of the Planning and Coordination Bureau and the Director-General of the Supervisory Bureau at the FSA, together with the Secretary-General of the Executive Bureau at the SESC, sent a joint letter to the Chairman of the JSDA and to the presidents and the chairpersons of the boards of directors at each exchange. The letter was entitled *Efforts for the Prevention of Insider Trading through the Use of J-IRISS and Other Means (Requests)*, and it called for cooperation to further promote action for the prevention of insider trading, such as by utilizing the J-IRISS. In addition, the SESC has also supported various initiatives aimed at preventing insider trading, such as introducing its significance through various types of publicity activities.

Additionally, note that the registration rate of listed companies to J-IRISS is 77.5% as of March 31, 2014.

(2) Use of “Compliance WAN”

The “Compliance WAN” system uses a dedicated line connecting the network of nationwide securities companies with national securities exchanges, the JSDA, the SESC and with the local finance bureaus, and electronically transfers the transaction data. Before the use of “Compliance WAN,” transaction data was submitted by floppy disks, email and various other means, but by unifying these means into a single method utilizing a highly secure dedicated network, Compliance WAN has the following advantages:

(i) A reduction of risk of the leakage of personal information and the loss of storage media in the transfer of transaction data;

(ii) A reduction in the amount of time needed to request submissions and in the process to receive transaction data, leading to more efficient market oversight activities; and

(iii) For securities companies, a possible reduction in costs for the submission of transaction data.

5) Future Challenges

The market surveillance operations collect and analyze a broad range of information on the overall financial and capital markets, and also examines transactions if necessary, thereby functioning as the “entrance for information” for the SESC. The success of the ensuing inspections of securities companies, investigations of market misconduct, investigations of international transactions and related issues, inspection of disclosure statements, investigations of criminal cases, disclosure statement inspections, and so forth depends on the outcomes of market surveillance. Therefore, not only will it be necessary to respond timely to market changes, but there is also a need to aim for effective and efficient market surveillance by prompt and appropriate responses against emerging risks.

Looking at current market trends, cross-border transactions have become a part of everyday trading. For instance, in recent years, the majority of orders for trading on Japanese stock markets have been conducted from overseas, and the majority of trading is being

performed by professional investors in Japan and overseas. In addition, as seen in HFT, trades have become more highly advanced and complicated, while new financial instruments are being developed one after the other. In order to grasp the new methodologies of market misconduct using such contracts and financial instruments, and to detect any cause of fraudulent activities, it is necessary to collect a wider range of information and analyze and utilize it continuously.

Given these situations, the Market Surveillance Division needs to fulfill its mission as an "entrance for information" while cooperating with a wider range of market participants for market surveillance.

(1) Initiatives aimed at proactive market surveillance

Leveraging comprehensive analysis of information collected through various channels as well as the review and research of individual transactions and market trends, the SESC will identify problems in the market on a timely basis and carry out market surveillance in a proactive manner with the aim of monitoring the overall primary and secondary markets for securities in a multifaceted way.

In addition, given the possibility that some new form of serious misconduct, such as fraudulent finance cases, could always be committed, the SESC will also conduct market surveillance, paying close attention to the emergence of any new types of misconduct, while analyzing the problems behind market trends in response to the changing environment surrounding the market.

(2) Establishment of more highly effective systems for collecting, analyzing and utilizing information

The SESC will continuously strive to expand and diversify external information sources, strengthen the capacity to analyze the information collected, and establish a more highly effective and valid framework for market oversight, inspections of securities companies and other entities, investigation of market misconduct, investigation of international transactions and related issues, inspection of disclosure statements, investigation of criminal cases, and other purposes.

(3) Strengthening of response to cross-border transactions and professional investors in Japan and overseas

With respect to cross-border transactions, the SESC will actively collect information from overseas regulators, etc. In addition, the SESC will actively strive to grasp market misconduct carried out by professional investors in Japan and overseas who are well versed in investment techniques and who have ample funds.

(4) Strengthening of response to a shift to electronic trading and high-speed transactions

The SESC will pay close attention to transactions in the market, keeping a watchful eye on the trend toward faster transaction techniques and changes in volatility such as through HFT, etc., and algorithmic trading.

Furthermore, given that cases of market misconduct conducted via non-face-to-face internet transactions ("*Misegyoku*" sham order transactions, etc.) are frequently seen, the SESC will continue to strive to grasp these kinds of acts of market manipulation, and will continue to cooperate with SROs and other organizations.

4. Inspections of Securities Companies and Other Entities

1) Outline

1. Purpose of Inspections of Securities Companies and Other Entities

The objective of the inspections of securities companies and other entities for ensuring fairness and transparency of the Japanese capital and financial markets and protecting investors is to ensure investor confidence in the markets, through conducting on-site examination of the business operations and financial soundness of financial instruments business operators, and by urging them to conduct businesses in accordance with laws, regulations and market rules on the basis of self-discipline, and fulfill the market intermediary function including duties as gatekeepers, in a proper manner.

2. Authority of Inspections of Securities Companies and Other Entities

(1) Since its inception in 1992, the Securities and Exchange Surveillance Commission (SESC) has conducted inspections to ensure fairness in financial transactions. Furthermore, in July 2005, when the revised Securities and Exchange Act (SEA, the predecessor to the Financial Instruments and Exchange Act (FIEA)), etc. came into force to reinforce market surveillance functions, the authority to inspect financial soundness of securities companies, financial futures dealers and others, and the authority to inspect investment trust companies and others, formerly conducted by the Inspection Bureau of the Financial Services Agency (FSA), were delegated to the SESC. At the same time, under the revised Financial Futures Trading Act (FFTA), companies dealing with foreign exchange margin trading (FX) were classified as financial futures dealers subject to the SESC inspection.

Since the FIEA came fully into effect in September 2007, regulated entities subject to the SESC inspection have been expanded to those engaged in sales or solicitation of equity units of collective investment schemes (funds) and those engaged in the management of these funds that primarily invest in securities or financial derivatives transactions. Furthermore, the SESC has been authorized to inspect those who provide services commissioned by financial instruments business operators, Financial Instruments Firms Associations and Financial Instruments Exchanges and others. Moreover, in April 2010, the authority to inspect credit rating agencies and designated grievance machinery, etc. was granted to the SESC. In addition, since November 2012, regulation and oversight on trade repositories (TRs) were introduced. Thus, the scope of inspections by the SESC has been expanded in recent years.

As for contents of inspections of securities companies and other entities, Article 51 of the FIEA was newly established when the FIEA came fully into effect in 2007. The Article enabled the FSA to order financial instruments business operators to improve their business conduct, when deemed necessary and appropriate for the public interest or for the protection of investors. Consequently, the SESC has conducted inspections focusing on internal controls, in addition to individual violations of laws and regulations.

(2) Based on the results of these inspections, the SESC may recommend to the prime minister and the commissioner of the FSA that administrative disciplinary actions should be taken for ensuring the fairness of transactions, protecting investors and securing other

public interests.

In response to such a recommendation, etc., if appropriate, the prime minister, the commissioner of the FSA, the Director-General of the Local Finance Bureau or any other competent authorities may take administrative disciplinary action, etc. against the inspected entity, such as an order for rescission of registration, an order for suspension of business, or an order to take business improvements, upon a formal hearing with the entity.

In addition, when the SESC recommendation is made against a sales representative of a financial instruments business operators, a registered financial institution, or a financial instruments intermediaries service provider, a relevant Financial Instruments Firms Association to which the registration affairs of the relevant sales representative are delegated from the prime minister, if appropriate, may take disciplinary action, either rescinding such sales representative's registration or suspending such sales representative's licenses, if appropriate, upon hearings with the association member to which such sales representative belongs.

3. Activities in FY2013

The circumstances surrounding SESC securities inspections have undergone considerable changes. For example: (i) There has been a diversification and increase in the number of business operators subject to inspection; (ii) There has been a diversification and increased complexity in financial instruments and transactions; (iii) From the experience of the global financial crisis, there has been a greater need to prevent a securities group that engages in large and complex business operations as a group from falling into management crisis; and (iv) The use of IT systems in financial products and transactions, etc. has grown. Recently, securities inspections have revealed cases of extremely serious violations of laws and regulations in succession with regard to market integrity and investor protection, such as the AIJ incident, a case in which the Japan Investor Protection Fund had to make compensations, and insider trading cases concerning public stock offerings.

Given these situations, during FY2013, from the viewpoint of performing efficient, effective and valid inspections, the SESC has been trying to determine risk-based priorities for conducting inspections in consideration of each business category and other characteristics, introducing inspections with prior notice, and strengthening coordination with supervisory departments.

With respect to securities groups that engage in large and complex group-wide business operations, the SESC initiated approaches to inspect the adequacy of internal control systems, etc., from a forward-looking perspective, as well as to grasp the situation of the groups as a whole on a daily basis.

With respect to inspections of discretionary investment management businesses operators, the SESC conducted focused inspection using information, etc., received via the Pension Investment Hotline.

In addition, with respect to type II financial instruments business operators, the SESC conducted focused inspections on operators who were engaged in selling funds to a large number of individual investors in light of the lessons learned from the MRI incident. In particular, the SESC commenced the approach to check whether each newly registered operator had established appropriate operational and management systems in accordance with the description stated in registration application as early as possible (inspection of

registration matters).

As a result of these approaches, in FY2013, the SESC conducted inspections of 271 cases (commencement basis) (a total of 387 cases) and notified points to be corrected at 118 business operators where problems were detected with respect to violations of laws and regulations and internal control structure, etc. In addition, the SESC also made recommendations for administrative disciplinary actions against 18 cases in which serious violations of laws or regulations were detected, including cases of type II financial instruments business operators who engaged in false notification for the investment of funds, and cases of illegal sales and solicitation of overseas funds by unregistered investment advisories/agencies. With regard to 11 cases in which the SESC identified serious violations of laws and regulations by persons making notification for business specially permitted for qualified institutional investors (hereinafter referred to as “QII Business Operators”), the SESC made public the inspection results of these cases.

With respect to the filing of a petition for court injunctions (Article 192 of the FIEA), the SESC, using the authority for investigations for such a petition (Article 187 of the FIEA), filed a petition against unregistered entities and QII Business Operators who violated the FIEA.

2) Securities Inspection Policy and the Program

From 2009 onwards, an inspection year corresponds to a fiscal year, from April 1 and ending on March 31 of the following year.

In order to conduct securities inspections systematically, the SESC develops a Securities Inspection Policy and the Program for every inspection year.

The Basic Inspection Policy stipulates inspection priorities and other fundamental inspection policies for the relevant inspection year. The Securities Inspection Plan specifies the scope of inspections, such as the types and the number of entities to be inspected in that inspection year among entities subject to inspections.

The Securities Inspection Policy and the Program for FY2013 were published on April 16, 2013.

(Provisional Translation)
April 16, 2013
Securities and Exchange Surveillance Commission

The Securities Inspection Policy and the Program for 2013

I. Securities Inspection Policy

1. Basic Direction

(1) Role of securities inspections

The mission of the Securities and Exchange Surveillance Commission ("SESC") is to ensure fairness and transparency of the Japanese capital and financial markets and to protect investors.

The objective of securities inspections for the achievement of this mission is to ensure investor confidence in the markets, through conducting on-site examination of the business operations and financial soundness of financial instruments business operators ("FIBOs"), and by urging them to conduct businesses in accordance with laws, regulations and market rules on the basis of self-discipline, and play the market intermediary function including duties as gatekeepers, in a proper manner.

Therefore, the SESC should, through securities inspections, examine FIBOs' compliance of laws and regulations, and verify the internal control systems behind individual problems.

The SESC will continue to take rigorous actions against illegal activities that undermine confidence in the fairness and transparency of the markets or impair investors' rights, by exercising its own authority and mobilizing all its human resources and capabilities, and will thus play a role in sending alerts to the markets.

(2) Environmental changes, surrounding securities inspection —diversification and increase in the number of BOs—

As a result of a series of regulatory reforms, including the implementation of the Financial Instruments and Exchange Act ("FIEA"), business operators subject to inspection ("BOs") have diversified and they have increased to around some 8,000 in total. In addition, technological developments in finance, and prevalent cross-border transactions and international activities of market participants, such as investment funds, lead to more diverse and complex financial instruments and transactions being dealt by FIBOs.

In the wake of the recent global financial turmoil, authorities around the world have been making efforts to be able to ascertain the business and risks of entire financial groups. Under these circumstances, it is necessary to constantly monitor the groups' financial soundness as a whole for large-scale securities groups that engaged in complex business operations as a group.

It has become more important than ever to ensure the security of IT systems as a trading infrastructure, because individual investors have increased transactions via the Internet, and institutional investors have increased the execution of massive and complex transactions, using the systems that process a large volume of diverse and high speed orders.

In particular, a systems failure at a financial instruments exchange or FIBO could have a significant impact on the market and on customer transactions. Therefore, the IT system needs intensive verification in terms of the appropriateness of risk management.

(3) Challenges surrounding securities inspections

Recently, securities inspections have revealed cases of extremely serious violations of laws and regulations in succession with regard to market integrity and investor protection, such as the AIJ incident, a case in which the Japan Investor Protection Fund had to make compensations, and the insider trading cases concerning public stock offerings.

These cases caused serious damage to investors' confidence in the market intermediary function of FIBOs.

In the light of this circumstance, securities inspections need not only verify the compliance of individual laws and regulations, but also urge FIBOs to improve compliance posture and professional ethics in the course of business management and internal control activities, in order to recover investors' confidence in the market intermediary functions.

In addition, there have been many cases of illegal sales and solicitation of unlisted stocks and funds by unregistered business operators causing losses to personal investors and consumers, resulting in social problems in recent years. Therefore, as for unregistered business operators and persons making notification for business specially permitted for qualified institutional investors ("QII business operators"), committing violations of the FIEA, the SESC will need to continue to take rigorous action in close cooperation with relevant authorities to make full use of its faculty to file petitions for court injunctions and to conduct investigations therefor.

(4) Towards efficient, effective and viable securities inspections corresponding to the characteristics of the business operators subject to inspection

In order to adjust to environmental changes surrounding securities inspections such as diversification and the increase in the number of BOs, and in order to tackle the challenge of recovering investors' confidence in the market's intermediary function, the SESC needs to utilize limited human resources appropriately and effectively in order to conduct efficient, effective and viable inspections.

Toward this direction, it will be required to properly determine inspection priorities. Therefore, the SESC will further enhance its ability to identify potential problems with consideration of (i) the characteristics of diverse business types of FIBOs, (ii) the characteristics of customers, and (iii) the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly.

Furthermore, when determining inspection priorities for individual BOs, the SESC will collect and analyze a variety of information concerning them, corresponding to their business types, sizes, other characteristics and the market conditions at the time, and then utilize a risk-based approach to decide which BOs to inspect, considering their market positions and inherent problems in a comprehensive manner. In addition, with regard to the execution of inspections, the SESC also clarifies the scope of inspections and inspection measures according to its inspectorial targets and its issues.

As for business operators conducting discretionary investment management business ("DIM business operators"), the SESC will continue the Intensive Inspection starting last year based on the results of the sweeping surveys conducted by the Financial Services Agency (FSA).

On the other hand, it is pointed out that the situation where no securities inspections have been conducted for many of the small and medium-sized FIBOs for a long period of time constitutes a risk to investor protection. Therefore, it is necessary to increase the ratio of inspected BOs (the coverage of the inspection).

In addition, the SESC will conduct a broad and prospective review on how to conduct more efficient, effective and viable inspections, and continue working to strengthen its posture and capabilities.

2. Inspection Implementation Policy

(1) Focuses of verification corresponding to the characteristics of BOs

1) Verifications focused on business types and other characteristics

A. Verification of the market intermediary functions of FIBOs

In order to secure fair, transparent and high-quality financial and capital markets, it is extremely important for FIBOs to fully exercise their duties of gatekeepers in preventing market abuse by persons and entities from participating in financial and capital markets, through customer management, transaction surveillance, and underwriting examination. The SESC therefore focuses on verifying whether FIBOs fulfill these missions properly.

Specifically with regard to the revised Act on Prevention of Transfer of Criminal Proceeds on April 1, 2013, taking into consideration the importance of personal identification at the time of transactions and the appropriate reporting of suspicious transactions in terms of international cooperation in anti-money laundering and combating against terrorist financing, the SESC verifies whether FIBOs examine their customers' objectives of transactions and their occupations when a new account is opened, whether they properly conduct re-identification of customers when identity theft is suspected, whether they properly report suspicious transactions, and whether they have established systems for conducting these activities properly. The SESC will also, through information gathering, examine whether FIBOs have developed preventive measures against transactions with anti-social forces.

FIBOs play an important role in intermediary functions through the securities underwriting business by which enterprises can raise funds for business operations from investors in the market. The SESC will examine whether FIBOs properly engage in securities underwriting business, including underwriting examinations, information control, transaction surveillance and securities allotment from the perspective of the capital markets' integrity and investor protection. In particular, in connection with new listings, the SESC will verify whether examination systems appropriately function in underwriting public offering. In addition, as for FIBOs that arrange and distribute securitized instruments and high-risk derivatives products, their risk management systems and sales management systems will be examined.

B. Verification of the management of material non-public information (prevention of unfair insider trading)

In the wake of insider trading problems occurring in connection with public stock offerings, the SESC will focus on verifying whether FIBOs strictly manage material

non-public information from the perspective of preventing unfair insider trading. Specifically, the SESC will verify whether FIBOs have developed viable management systems with regard to registration and information barriers (e.g. Chinese wall) of such material non-public information as public stock offerings of listed companies, surveillance of insider transactions, and prevention of any improper distribution and misuse of information.

C. Verification of measures against conduct that may hinder fair pricing

The SESC will verify whether there are any practices that could hinder fair pricing by means of direct and/or brokered orders, and further examine the transaction surveillance systems of FIBOs to prevent such practices. In doing so, the SESC will verify whether viable transaction surveillance is conducted from the viewpoint of preventing unfair trading. In particular, the SESC will examine whether surveillance is focused on specific dates, such as the pricing date for public stock offering, and on specific trading timing, such as just before closing, or on specific customers who repeatedly place large orders that could affect pricing in the market, as well as whether measures are taken to identify the original customers for orders consigned from foreign-related entities. The SESC will also examine management systems, including the management of delivery failures, for short selling regulations (such as checking the indication of short selling, price regulations, the prohibition of naked short selling, and the obligation to deliver documents related to public stock offering).

As far as FIBOs with online trading or electronic facilities for DMA (direct market access) are concerned, in view of the cases of revelation of market manipulation by means of *misegyoku* (false orders to manipulate prices) using Internet transactions, the SESC will examine whether FIBOs have established viable trade surveillance systems based on the peculiarities of electronic transactions, such as customer orders feeding directly into the market.

D. Verification of the solicitation for investment

In order to protect investors and secure genuine and fair sales and solicitation operations, the SESC will focus on verifying whether FIBOs solicit customers for investment in an appropriate manner and take good care of them.

Regarding verification of solicitation for investment, the SESC will verify, from the viewpoint of the principle of suitability, whether FIBOs are appropriately soliciting investment in light of customers' knowledge, experience, and assets, as well as investment

purpose, and whether they are fully held accountable for their solicitation in accordance with the characteristics of individual customers.

In particular, the SESC will also examine whether, upon sales and cancellations, including switching of investment trusts, appropriate explanations are provided regarding important information that affects customers' investment decision-making, such as product characteristics, risk characteristics, profits/losses, dividends, commissions, and investment trust fees.

For the sale of over-the-counter ("OTC") derivatives products and complex structured bonds similar to OTC derivatives products, the SESC will examine whether appropriate explanations are provided regarding important risks and other factors that affect decisions for investment in such products, including the probable maximum losses and the settlement money on cancellation.

In addition, the SESC will verify whether widely exposed advertisements to investors include any misleading indications regarding investment returns, market factors and the state of orders. The SESC will also examine the establishment of the troubleshooting system important for investor protection.

E. Verification of the appropriateness of business and legal compliance of IMBOs

While investment management business operators, etc. ("IMBOs") are entrusted fund managements for investors' interests, it is very difficult for the investors to directly monitor how their assets are being managed. Therefore, from the viewpoint of investors protection, the SESC will examine IMBOs' compliance with relevant laws and regulations, including the fiduciary duty of loyalty and due care of a prudent manager, and the viability of their systems for managing conflicts of interest in relation to transactions with interested parties and the due diligence function.

The inspection conducted in FY2011 revealed a case in which some DIM business operators, entrusted with the discretionary investment management of corporate pension funds, provided false explanations with regard to solicitation for conclusion of discretionary investment management contracts, and also delivered customers with investment reports containing false details, thereby violating its fiduciary duty of loyalty and harming the interests of the corporate pensions. Therefore, based on the results of FSA's sweeping surveys on DIM business operators, the SESC has been conducting Intensive Inspections on DIM business operators in cooperation with the supervisory

Bureau of FSA since FY2012.

In conducting the Intensive Inspections, the SESC has strengthened its systems for collecting and analyzing information on pension fund management by setting up the dedicated channel for collecting significant and useful information from external sources (Pension Investment Hotline), with assigned specialists in pension fund management.

Active approaches by the specialists to information providers etc., their interactive method of collecting information and their high-quality analyses are viable for placing the priority on inspections and clarifying the focus in inspections. Therefore, the SESC will reinforce these efforts to conduct more effective and efficient inspections.

F. Verification of the business management systems of CRAs

The SESC will verify whether credit rating agencies ("CRAs") have established business management systems, and whether they have appropriately disclosed information relating to their rating policies from the perspective of preventing conflicts of interest and preserving the fairness of the rating process.

G. Verification of FBOs' compliance with laws and regulations

Regarding business operators engaging in the fund management and sales of interests of collective investment schemes (funds) (meaning IMBOs engaged in self-management business and Type II FIBOs, including QII business operators; "FBOs"), inspections have revealed many cases of legal violations, such as failure in segregation management of funds (misappropriation of funds and unexplained expenditure), false explanations and notices, misleading indications, name-lending to unregistered business operators, and QII business operators selling and managing funds without satisfying the conditions for specially permitted businesses of registering themselves. In light of these circumstances, the SESC will examine FBOs' compliance with laws and regulations, including the appropriateness of business operations and the segregation in fund management.

Furthermore, with regard to QII business operators, securities inspections have identified malicious cases in which some operators committed violations of the FIEA and other wrongdoings. The SESC will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions, etc. If violations of the FIEA or acts impairing investor protection are confirmed in the securities inspections or investigations, the SESC will file petitions for injunctions and/or publicize the names of the inspected or investigated entities, the names of their representatives, acts

of violation of laws and regulations, etc., where necessary.

H. Verification of compliance with laws and regulations by investment advisors/agencies

Regarding investment advisors/agencies, many cases of legal violations have been identified in inspections, including engagement in unregistered businesses, name lending to unregistered business operators and inappropriate provision of information to customers, due to a remarkable lack of basic legal knowledge and sense of legal compliance among their officers and employees. In view of these cases, the SESC will focus on examining their compliance with laws and regulations.

I. Verification of the functions of SROs etc.

As for self-regulatory organizations ("SROs"), the SESC will examine capabilities and functions of self-regulatory operations, as well as their systems necessary for exercising their functions properly. Specifically, the SESC will conduct verification with regard to the establishment of self-regulatory rules for their members, their regulatory enforcement, such as on-site and off-site reviews, and penalties, listing examination and transaction surveillance. In conducting verification of listing examination, the SESC will also look into the SROs' on-going measures to thwart participation of anti-social forces in the financial and capital markets, including the collection of information on the involvement of anti-social forces in issuing companies and listed companies.

As for financial instruments exchanges, clearing houses, depository trust institutions, etc., in consideration of the "Principles for Financial Market Infrastructures" finalized by the IOSCO, the SESC will examine the development of their systems, such as IT system risk management, in order to verify whether they are well prepared to function as financial market infrastructure.

J. Dealing with unregistered BOs

To deal with serious FIEA violations, such as sales and solicitations of unlisted stocks and funds by unregistered BOs, the SESC will strengthen ties with supervisory departments and investigative authorities, and, where necessary, will make proper use of its authority to conduct investigations necessary to file petitions for court injunctions. If such conducts are confirmed as violating the FIEA or impairing investor protection, the SESC will file petitions for injunctions etc., and publicize the names of unregistered business operators, the names of their representatives, facts of violation of laws and regulations, and other relevant information.

2) Verification of internal control systems and financial soundness

A. Verification of internal control systems

In the case where an inspection shows problems related to business operations, the SESC will endeavor to comprehend the whole picture of problems by examining the appropriateness and viability of the internal control systems and risk management systems ("internal control systems etc."). In examining internal control systems etc., the SESC will pay attention to the engagement and commitment of the senior management and concerned parties in the system management.

In particular, as for large-scale securities groups engaging in complex business operations as a group for which establishing internal control systems, etc. is considered to be important given their market position and business characteristics, the SESC will constantly monitor the status of the group's business operation and financial situation as a whole, put weight on the appropriateness of their internal control systems, etc., from a forward-looking viewpoint, and make inspections according to the introduction of consolidated regulations and the supervision of securities companies.

B. Verification of IT system risk management

In recent years, FIBOs have become increasingly dependent on IT systems in their business operations. At the same time, online participation in securities transactions and FX trading have become usual among individual investors, and the volume of transactions handled by the Proprietary Trading System ("PTS") has increased. Accordingly, IT systems are important infrastructures of financial transactions.

Under these circumstances, it is very important to secure the stability of IT systems and establish crisis management measures from the viewpoint of protecting investors and ensuring public confidence in the market and FIBOs. The SESC will examine the appropriateness and viability of management systems for the IT systems risk preventive measures, and the efficacy of business continuity plans, including erroneous order placement prevention, IT systems troubleshooting, information security management, and outsourcing management. The SESC will also verify the engagement of senior management in the development of the IT systems risk management.

C. Verification of financial soundness

Inspections of Type I FIBOs have shown cases that seem attributable to deterioration of financial condition, such as the misappropriation of the Trusts for the Separate Management of Money and Securities ("TSMMS") and the Trusts for the Segregated

Management of Cash Margins and Other Deposits ("TSMCM"), and the defection in net assets and capital adequacy ratios against statutory requirement. The SESC will focus its examination on the status of TSMMS and TSMCM, and the status of net assets and capital adequacy ratios in close corporation with the supervisory department, the Japan Securities Dealers Association, and the Japan Investor Protection Fund.

(2) Implementation of efficient, effective and viable inspections

1) Risk-based prioritization of the inspection reflecting business type and other characteristics

The SESC will take on a risk-based approach in selecting which BOs to inspect based on the following viewpoints in principle, taking into account the business types, sizes and other characteristics of the business operators subject to inspection, and adjusting to the market condition at the time.

When cross-sectoral issues in the market have been identified, the SESC will flexibly conduct special inspections, as needed, on the BOs facing the same issues.

Prior to the onset of the inspection of individual BOs the SESC will identify issues to be examined, and will conduct inspections focused on them.

A. BOs to inspect on a regular basis

Type I FIBOs (including registered financial institutions) conduct transactions with a large number of investors including individual investors, thereby playing a central role in the market, and IMBOs are entrusted with fund management for investors' interests. The SESC will, in principle, conduct regular inspections on Type I FIBOs and IMBOs in view of their positions to play central roles in the markets, and verify their financial soundness and the appropriateness of their business operations.

CRAs assign credit ratings highly influential on the investors' decision-making, and publish and widely provide them to users. The SESC will, in principle, conduct regular inspections on CRAs and verify their business management systems in light of their roles as information infrastructure in the financial and capital markets and in view of the purpose of the international financial regulatory reform.

In effect, however, due to the severe human resource constraint at the SESC, it would be difficult to conduct regular inspections uniformly across all the above business types. The SESC will take a flexible approach in deciding the frequency and the scope of inspection

of each business type, while endeavoring to grasp its overall circumstances in close cooperation with supervisory departments.

In particular, the SESC will continue to conduct the Intensive Inspections on DIM business operators as described in (1) 1) E above.

The SESC will select BOs to inspect through actively collecting and analyzing information provided by supervisory departments and external sources, and at the same time, taking into account changes in the market conditions, the position in the market, and inherent problems of individual BOs in a comprehensive manner.

B. BOs to inspect as needed

With regard to Type II FIBOs, Investment Advisors/Agencies, Financial Instruments Intermediaries, etc., given their business types, sizes and other characteristics, and the situation where the number of BOs is extremely large compared with human resources of the SESC, the SESC will select BOs to inspect individually through actively utilizing information provided by supervisory departments and external sources, taking into account their membership in SROs and status of compliance with laws and regulations.

With regard to these BOs, the SESC will introduce new measures to check the setup status of their operational systems as early as possible after their registration.

Furthermore, with regard to QII business operators, the SESC will actively utilize information on compliance status with laws and regulations, information provided by supervisory departments and external sources to select QII business operators to inspect individually, and will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions.

C. Unregistered business operators

In order to deal with serious FIEA violations by unregistered BOs, the SESC will, as necessary, select BOs to inspect individually as in B above, while assessing the effect of the November 2011 amendment of the FIEA to repeal illegal sales and contracts, and appropriately conduct investigations necessary to file petitions for court injunctions.

2) Implementation of viable inspection

A. Inspection with prior notice

The SESC initiates inspections without prior notice in principle. The SESC, however, will

give prior notice to specific BOs, where necessary, taking into full account the characteristics of their businesses, the focuses and the efficiency of inspection, and the reduction of burden on the inspected BOs in a comprehensive manner.

B. Enhancement of interactive dialogue

The SESC will endeavor to share its recognition of problems in business operation through interactive dialogue with the inspected BOs. In particular the SESC will ascertain their perception of the senior management team responsible for the development of internal control systems, etc. through exchange opinions, and encourage them to make voluntary efforts for improvement.

C. Rigorous actions against conduct hindering the efficacy of inspections

On one hand, most BOs gain a better understanding of the importance of interactive dialogue in inspections, but on the other, some BOs refuse inspection and make other conduct hindering the efficacy of inspections. The SESC will take rigorous actions against such conduct in order to completely fulfill its mission.

3) Enhancement of cooperation with the FSA and Local Finance Bureaus

The SESC will strengthen the cooperation with supervisory offices of the FSA and Local Finance Bureaus in the Ministry of Finance by sharing information and recognition through timely exchanging useful information between supervision and inspection. Furthermore, for large-scale securities groups that engage in complex business operations as a group, the SESC will seek seamless cooperation between its on-site inspections and the supervisory departments' off-site monitoring.

With respect to the relationship with the Inspection Bureau of the FSA, in order to share common awareness of the issues and to implement effective inspection on entities within the same financial business group, the SESC will, where necessary, collaborate and exchange information with the Inspection Bureau in initiating inspections of entities constituting a financial conglomerate.

The SESC will strengthen cooperation with overseas securities regulators through exchange of necessary information and the coordination of implementation of inspection with regard to inspections on foreign-owned business operators operating in Japan, Japanese business operators with overseas offices, foreign business operators operating overseas for Japanese investors, and Japanese business operators with overseas business connections. In addition, the SESC will appropriately cooperate with major overseas securities regulators with regard to

the inspection on CRAs and to its participation in supervisory colleges established for large-scale global-based securities companies.

Given the identified cases of fraudulent practices by FBOs as well as the sale and solicitation of unlisted stocks and funds by unregistered business operators, the SESC will strengthen its cooperation with the supervisory departments and police and prosecutors.

4) Cooperation with SROs

With respect to relationship with the SROs, the SESC will further enhance coordination between its own inspection and the SROs' audits and examinations on their members so as to improve all the functions of the oversight activities over FIBOs. From this perspective, the SESC will promote cooperation with the SROs, through coordination for inspection programs, information exchange and training programs.

5) Revision and publication of the Inspection guideline and the Inspection Manual

From the perspective of rigorous action against conduct hindering the efficacy of inspections as well as more efficient and effective inspections, the SESC will revise both the Securities Inspection Guideline, which stipulates the procedures and other fundamental matters for inspections, and the Inspection Manual for FIBOs in accordance with regulatory reforms. The SESC will publish updated guidelines and manuals so as to improve the transparency and predictability of its inspections.

This Inspection Policy has been prepared based on the situation surrounding the markets as of April 2013, and is subject to revision as necessary.

II. Securities Inspection Program

1. Basic Concept

(1) The SESC formulates the Inspection Implementation Program in accordance with the Inspection Implementation policy in line with the above Securities Inspection Policy. It should be noted that exceptional action may be taken in response to any changes in market conditions and/or factors related to specific BOs.

(2) In conducting inspections, the SESC and all the Securities and Exchange Surveillance Departments of Local Finance Bureaus in the Ministry of Finance ("the SESDs") will conduct efficient and effective inspections together, concerning how to actively use joint inspections and inspections exchange. The SESC will also work together with the SESDs, and support them by sharing inspection techniques and information, and the processing of

inspection results.

2. Basic Securities Inspection Program

Type I FIBOs (including Registered Financial Institutions), IMBOs, and CRAs	150 companies (110 out of 150 to be inspected by the SESDs) (including the Intensive Inspections of DIM Business Operators)
Type II FIBOs, Investment Advisories/Agencies, QII Business Operators, and Financial Instruments Intermediaries, etc.	To be inspected based on individual information and condition
SROs etc.	To be inspected as necessary
Unregistered Business Operators	To be inspected as necessary

Note: The above numbers of inspections are subject to change due to revisions of the Inspection Program within the year and/or implementations of special inspections.

3) Amendment of Inspection Manual for Financial Instruments Business Operators, etc.

1. Background for Amendment

The partial amendment of the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." was announced in order for the Financial Services Agency to promote initiatives to cut off relations with antisocial forces.

Based on this partial amendment, the SESC announced a proposal on the partial amendment of the “Inspection Manual for Financial Instruments Business Operators, etc.” and put its proposals out for public comment (from February 27, 2014, to March 28, 2014).

2. Points of Amendments (Proposal)

Given that key points required for the arrangement of a framework, consisting of (1) prevention of transactions with antisocial forces (entrance), (2) after-the-fact checking and internal control, and (3) exclusion of transactions with antisocial forces (entrance), are added to the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc., the SESC added the inspection items regarding the response against antisocial forces.

4) Record of Inspections

(1) In FY2013, the SESC commenced inspections on 69 type I financial instruments business operators, 9 registered financial institutions, 19 investment management firms, 108 type II financial instruments business operators, 29 investment advisories/agencies, 23 QII Business Operators, 8 financial instruments intermediaries, 2 financial instruments exchanges and 1 financial instruments exchange holding company (see the Table below).

(2) Among the inspections completed during FY2013 (including those commenced in FY2011 and FY2012), the SESC made recommendations to the prime minister and the commissioner of the FSA to take administrative disciplinary actions against 18 cases in which the SESC identified material violations of laws and ordinances. Based on the recommendations, the relevant supervisory departments already took administrative disciplinary actions.

In addition, with respect to any problems detected in the inspections not limited to the cases subject to the above recommendations, the SESC notifies each of the financial instruments business operators and also the relevant supervisory departments of such problem with the aim of serving the objective of off-site monitoring.

Also note that the recommendation cases in FY2013 are described in part 6) in this chapter, and the main problems the SESC identified in the inspections completed in FY2013 are discussed in part 7) in this chapter. Additionally, for the purpose of timely dissemination of information, disclosure recommendation cases are posted on the website upon occurrence, and the main problems are provided quarterly.

Separate Table: Progress of Inspections in FY2013

	Plan	Actual			Actual	Of which

Type of business	[Number of operators inspected] (Note 1)	[Number of operators inspected] (Note 1) (Commenced)	[Total number of inspections] (Note 2) (Commenced)	Number of operators to be inspected (Note3) [Total] (Note.2)		[Number of operators inspected] (Note 1) (completion)	commenced in FY2011 and FY2012
Type I financial instruments business operators	150 operators	69	70	278		63	22
Registered financial institutions		9	9	1,107		14	5
Investment management firms		16	27	314		46	33
Investment corporations		3	3	60		3	0
Credit rating agencies		0	0	7		0	0
Type II financial instruments business operators	Inspected as needed	108	146	1,272		81	4
Investment advisories/agencies		29	81	1,008		40	17
QII business operators		23	34	3,022		22	9
Financial instruments intermediaries		8	11	791		10	3
Self-regulatory organizations	Inspected as necessary	3	3	13		3	0
Other	-	3	3	-		1	0
Total		271	387	7,872		283	93

Notes:
1. The numbers of business operators inspected which have registered for multiple business types have been classified according to their respective main businesses.
2. With respect to the total number of inspections, the numbers of business operators which have been inspected and have registered for multiple business types have been classified according to their respective main businesses
3. The number of business operators subject to inspection is as of March 31, 2014.

5) Summary of Inspection Results

1. Inspections of Type I Financial Instruments Business Operators

In FY2013 inspections on 77 type I financial instruments business operators (including registered financial institutions; the same applies hereafter in this chapter) were completed, and problems were found in 39 of them. Of these, 5 business operators had problems related to market misconduct, 10 had problems related to investor protection, 6 had problems related to financial soundness or accounting, and 27 had problems related to other business operations.

In FY2013, the SESC detected behaviors in violation of the FIEA, such as inappropriate conduct related to Yen LIBOR, receipt of non-public customer information from the parent bank, etc., and the provision of special benefits to officers of three employees' pension funds.

In addition, as a result of intensive inspections of the management systems of material non-public information in consideration of the latest problems concerning insider trading cases related to public offerings, the SESC detected a case in which solicitation activities were made in disregard of the troubled state regarding the handling of material non-public information under the sales management system.

Furthermore, the SESC also detected inappropriate solicitation for the switching of investments between investment trust beneficiary certificates and bonds without the establishment of a business operation system to provide appropriate explanation to customers.

2. Inspections of Type II Financial Instruments Business Operators

In FY2013, inspections on 81 type II financial instruments business operators were completed and problems were found in 16 business operators (including business operators which mainly engage in business other than type II financial instruments business and in which problems were found related to type II financial instruments business). Of these, 12 business operators had problems related to investor protection, 1 had problems related to financial soundness or accounting, and 9 had problems related to other business operations.

Among funds that may be handled by type II financial instruments business operators under the FIEA, when handling "business-type funds," it is essential for the operators to provide appropriate explanation to each customer on a face-to-face basis, because they are not required to provide general public disclosure of information aimed at potential investors.

Under such situations, in FY2013, there have been problematic acts undermining the public interest and investor protection, including the diversion of money contributed and false statements to customers, especially by MRI and other problematic operators handling financial instruments with high risk to retail investors.

3. Inspections of Investment Advisories/Agencies

In FY2013, inspections on 40 investment advisories/agencies, and problems were found in 31 business operators (including the business operators mainly engaged in business other than investment advisories/agencies, in which problems related to investment advisory and agency business were found). Of these, 21 business operators had problems related to investor protection, and 16 had problems related to other business operations.

In FY2013, the SESC detected unregistered handling of public offerings or private placements of foreign investment securities. Among such serious violations of laws and regulations, an operator described received finder's fees through its overseas subsidiary from the issuer or manager of the overseas fund, contrary to the explanation that it had not received any sales commissions, etc., from the overseas management operator.

4. Inspections of Investment Management firms, etc.

In FY2013, inspections on 49 investment management firms, etc., were conducted, and problems were found in 23 business operators (including business operators mainly engaged in business other than investment management business, in which problems related to the investment management business were found). Of these, 13 business operators had problems related to investor protection, 2 had problems related to financial soundness or accounting, and 16 had problems related to other business operations.

○ Intensive inspections of discretionary investment management businesses operators

Following the revelation of the AIJ case, since the SESC recognized it necessary to prioritize verifying their status of operations and compliance with laws and regulations in consideration of the business category and the customer characteristics of the corporate pension funds, the SESC and local financial bureaus inspected 47 discretionary investment management businesses operators as part of intensive inspections on discretionary investment management firms that have been carried out since FY2012 in cooperation with supervisory departments, based on the results of sweeping surveys of discretionary investment management firms conducted by the Financial Services Agency.

In conducting the intensive inspections in FY2013, the SESC made extensive reviews on the following points based on the AIJ case:

- whether or not the relevant operator performs approaches, solicitations and explanations in an appropriate manner in the process of concluding discretionary investment contracts;
- whether or not the relevant operator makes investment decisions and instructions in an appropriate manner on the basis of a sufficient survey of assets under management at the commencement of investment management under a discretionary investment contract;
- whether or not the relevant operator appropriately monitors the state of investment assets under the discretionary investment contract and reports the state properly to each customer, and others

As a result of intensive inspections in FY2012 and FY2013, since 5 operators proved to have violated the laws and regulations, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

The details of the violations detected were as follows:

- The operator failed to conduct careful valuations, etc., or careful studies when providing investment instructions under the discretionary investment contract (violation of a prudent manager’s obligation of due care).
- Solicitation materials for the discretionary investment indicated a track record containing the return of other instruments (false and misleading statement).
- When soliciting or concluding a discretionary investment contract with a sole investment in a single investment trust, the relevant operator failed to explain the material fact that there were restrictions on the termination and extension of redemption with regard to other investment trusts with the same final investment target as the above investment trust

(misleading statement).

- The relevant operator provided "deemed public servants" with frequent entertainment for the purpose of the conclusion of the discretionary investment contract (provision of special benefits).
- The relevant operator received excess management fees in respect of the discretionary investment contract concluded with a customer, and the reported net asset value of the investment assets without proper evaluation at the market value (violation of a prudent manager's obligation of due care, etc.).

In addition, problems were found in 20 business operators, some of who failed to conduct appropriate monitoring and due diligence in respect of external funds (including overseas funds) that were incorporated in the assets under management.

5. Inspections of QII Business Operators

In FY2013, inspections on 22 QII business operators were completed, and problems were recognized in 12 of them (including business operators whose main business is not business specially permitted for qualified institutional investors, but for whom a problem related to business specially permitted for qualified institutional investors was recognized).

Specifically, the problems detected include conducting solicitation or investment management without meeting the requirements of QII Business Operators due to failure to receive contributions from qualified institutional investors under the FIEA, soliciting funds using solicitation materials containing misstatement or omission of the actual facts relating to the handling of success fees and dividend payments, etc., soliciting or broking of initial public offering stocks, etc., without the registration of financial instruments business in violation of the FIEA, and diverting money contributed to funds, etc., deemed as having significant problems with operational management in light of investor protection.

6. Inspections of Financial Instruments Intermediaries

In FY2013, inspections on 10 financial instruments intermediaries were completed, and problems were found in 2 of them. Of these, 2 had problems related to other business operations.

6) Recommendations Based on the Results of Inspections, etc.

The cases in which the SESC made recommendations for administrative disciplinary actions, etc., in FY2013 are described below.

In addition, the SESC has announced company names, representative names, cases of conduct in violation of laws and regulations, and other information, when it has detected any behavior in violation of the FIEA and/or any problematic acts with regard to the protection of investors instead of recommendations since FY2012, because QII Business Operators are not subject to administrative disciplinary actions.

1. Recommendations Based on the Results of Inspections of Type I Financial Instruments Business Operators, etc.

(1) RBS Securities Japan Limited (RBS Securities Japan Limited Tokyo Branch) (Date of recommendation: April 5, 2013)

(i) Inappropriate conduct related to Yen LIBOR

[Article 51 of the FIEA]

A trader and his/her colleagues at RRBS Securities Japan Limited (the “Company”) continuously approached Yen LIBOR submitters and made requests to fluctuate Yen LIBOR submissions in order to affect Yen LIBOR in favor of derivative transactions related to Yen interest rates by him/her and his colleagues.

In addition, in light of the fact that the Company has failed to identify such misconduct for a long period of time and has not taken any appropriate measures, it is acknowledged that its internal control system has serious deficiencies.

(ii) Receipt of non-public customer information from the Parent Bank, etc.

[Article 153(1)(vii) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 44(3)(iv) of the FIEA]

The Chief Operating Officer (hereinafter referred to as “COO”) of the Company involved himself in the banks' business by attending meetings to discuss the issues of the bank’s consolidation on a routine basis. Under such circumstances, the COO on several occasions and the then Chief Executive Officer of the Company on one occasion respectively, received non-public customer information of Tokyo branches of the Company.

In addition, the Compliance Department of the Company did not initiate any factual investigations even after the faults of these issues, including the problem that the COO attended meetings regarding the bank consolidation, were pointed out from the inside, which means that its internal control system has serious deficiencies.

(2) Deutsche Securities Inc.

(Date of recommendation: December 5, 2013)

○ Provision of special benefits to officers of three employees’ pension funds

[Article 117(1)(iii) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 38(vii) of the FIEA]

Whereas officers at employees’ pension funds are legally considered public officers, it was identified that the Pension Solution Department of Deutsche Securities Inc. had provided officers of three employees’ pension funds with substantial benefits through gifts and entertainment with regard to contracts for financial instruments transactions.

(3) Liaison Japon Co., Ltd. (former trade name: Profit Securities Co., Ltd.)

(Date of recommendation: January 17, 2014)

(i) Situation in which the amount of net assets fell short of the legal minimum amount of net assets

[Article 52(1)(iii) of the FIEA (when falling under Article 29-4 (1)(v)b of the FIEA)]

The amount of net assets of Liaison Japon Co., Ltd. (the “Company”) fell short of the legal minimum amount of net assets (50,000,000 yen) as a result of the provision of allowance for bad loans due to the difficulty of collection of short-term loans.

(ii) Significant problems with operational management in light of investor protection

[Article 51 of the FIEA]

When conducting solicitation for sales of corporate bonds for a limited liability company (the Bonds) with the business purpose of making investment in bonds to be issued by Company A, the Company opened a sales branch in part of the office of

Company B, which has a close relationship with Company A, and employed an employee of Company B as a commission based sales representative for the purpose of making him/her sell the Bonds. However, the solicitation was made in an extremely sloppy manner without adequate recognition of the operating situation at the sales branch.

2. Recommendations Based on the Results of Inspections of Type II Financial Instruments Business Operators

(1) Rights Management Inc.

(Date of recommendation: April 16, 2013)

(i) Making false statements to customers in relation to the solicitation of trust beneficiary rights

[Article 38 (1) of the FIEA]]

Rights Management Inc. (the "Company") conducted misleading displays for solicitation, making false statements to customers to the effect that a purchase of trust beneficiary rights from the Company could bring about attractive profits in a short time.

(ii) False reporting in response to an order for the production of reports

[Article 52(1)(vi) of the FIEA]

In reply to an order for production of the report from the director general of the Kanto Local Financial Bureau, the Company made a false report about the fact of the misleading displays for solicitation as mentioned above (i)

(iii) Unregistered selling of trust beneficiary rights

[Article 52(1)(ix) of the FIEA]

The trust beneficiary rights sold by the Company were not registered by the prime minister, in violation of the laws and regulations which require said registration.

(iv) Continuation of solicitations for new acquisition of the trust beneficiary rights despite the recognition of inappropriate management and administration of the trust beneficiary rights

[Article 52(1)(ix) of the FIEA]

The Company continued to sell the trust beneficiary rights with the knowledge that the trust property was not managed and administrated properly contrary to the original investment objective. In addition, the Company failed to check any materials supporting evidence, and simply delivered to customers reports on the status of trust property that contained suspicious operating revenues, etc., orally given by the issuer.

(v) Inadequacy of description in document delivered before the conclusion of the contract

[Article 37-3(1) and Article 37-4(1) of the FIEA]

When the Company sold trust beneficiary rights, the SESC detected several inadequacies, including the absence of legally required items on the documents delivered to customers before and upon conclusion of the contract.

(2) MRI INTERNATIONAL, INC.

(Date of recommendation: April 26, 2013)

(i) Diverting investments of customers for the payment of dividends and redemptions to other customers

[Article 52(1)(ix) of the FIEA)]

MRI INTERNATIONAL, INC. (the "Company") diverted funds invested by customers not for the use of business purposes but for the payment of dividends and redemptions to other customers. Although the payment of dividends and redemptions to customers were delayed, the Company continued solicitation for the acquisition of fund equities.

(ii) Making false statements to customers in relation to the conclusion of financial instrument transaction contracts and their solicitation

[Article 38(i) of the FIEA)]

As a result of reviewing the details of the Company's website, customer brochures and other documents, the SESC detected that, contrary to the actual state of the fund management as mentioned above (i), the Company provided customers with false information to the effect that "investments would be used exclusively for the business" and that "it would pay customers dividends out of the profits realized in the business."

(iii) Preparing business reports with false statements and submitting such reports to the director-general of the Kanto Local Finance Bureau

[Article 47-2 of the FIEA]

The Company stated figures that differed from the actual situation for the total assets, and the total liabilities and net assets at the end of each business year, and submitted these business reports to the director-general of the Kanto Local Finance Bureau.

(iv) False reporting in response to an order for production of reports

[Article 52(1)(vi) of the FIEA]

The Company replied that it had performed an internal assessment of the trust accounts jointly with a third-party institution in response to an order for the production of reports issued by the SESC to the Company in the course of this inspection. However, it was not found that such an internal assessment had been performed by the Company jointly with a third-party institution.

In addition, the United States Securities and Exchange Commission assisted in this inspection.

(3) With Asset Management Inc.

(Date of recommendation: August 2, 2013)

(i) Solicitation carried out while knowing that the fund management was inappropriate

[Article 52(1)(ix) of the FIEA]

With Asset Management Inc. (the "Company") conducted solicitation to conclude a contract for a fund while knowing that Company A acting as an advisor of the fund was not registered as a money lending business, and continued to provide funds to Company A in a loose manner. In addition, when extending monetary loans to Company A, the Company failed to check the necessary conditions regarding the fund management that should have been conducted, such as confirmation of the financial condition of the Company A.

(ii) The situation in which the internal control system regarding the employee management system was inadequate due to inappropriate handling of the offering or private placement of corporate bonds.

[Article 52(1)(ix) of the FIEA]

Sales representatives of the Company solicited multiple customers and had them

acquire corporate funds for the solicitation of funds. While such conduct by the sales representatives were regarded as unregistered handling of public offerings or private placements of corporate bonds, the representative director and the management division of the Company accepted such misconduct in a loose manner.

(iii) Providing customers with false statements regarding solicitation for the acquisition of fund equities

[Article 38(i) of the FIEA]

Sales representatives of the Company conducted solicitation for the acquisition of fund equities using investment reports containing false performance data on investments that were far higher than the actual results.

(4) Devex Ltd.

(Date of recommendation: August 30, 2013)

(i) Making false statements to customers in relation to the solicitation of acquisition of fund equities

[Article 38(i) of the FIEA]

For the purpose of conducting solicitation of acquisition of fund equities, Devex Ltd. (the "Company") delivered and explained to customers the documents with description to the effect that money contributed to the fund would be invested in foreign exchange margin trading. However, the Company intended to use the money for business operations for the company and failed to manage the funds raised in practice for any purpose described in the above.

(ii) Conducting solicitation of the acquisition of fund equities without securing segregated management

[Article 40-3 of the FIEA]

The Company conducted solicitation of the acquisition of fund equities while it failed to secure segregated management of the money contributed to the funds.

(iii) Conducting fraudulent or significantly inappropriate acts on fund transactions

[Article 52(1)(ix) of the FIEA]

While the Company diverted the money for its internal expenses and recognized the fraudulent transactions, it continued to carry out solicitation of acquisition of fund equities and solicited customers to sell the fund equities held and to reinvest the proceeds in other private placement bonds.

(iv) False reporting in response to an order for the production of reports

[Article 52(1)(vi) of the FIEA]

In reply to the order for production of a report from the Director General of the Kanto Local Financial Bureau, the Company made a false report about the fact of the number of the equity investors and others.

(5) Zeke Investment Advisory Co., Ltd.

(Date of recommendation: December 9, 2013)

(i) False statement and other inappropriate acts concerning solicitation for the conclusion of financial instruments contracts

[Article 38(i), Article 40-3, Article 47-2 and Article 52(1)(vi)&(ix) of the FIEA]

Zeke Investment Advisory Co., Ltd. (the "Company") diverted money contributed to a fund for its internal expenses. However, the Company continued to conduct solicitation,

making false statements to customers in relation to the conclusion of fund contracts to the effect that investments would be used exclusively for the target business. In addition, the Company also conducted solicitation for the acquisition of fund equities while it failed to secure segregated management of the money contributed to the funds. Furthermore, the Company made false statements by submitting a false business report in response to an order for the production of reports from the authorities without reporting the actual state of multiple funds.

(ii) Inspection evasion

[Article 198-6(xi) of the FIEA]

The representative director and his/her colleagues of the Company refused entry to their office to inspectors of the SESC on the first date of onsite inspection without reasonable grounds, and deleted electronic files in order to conceal the facts.

(6) PROUD Asset Management Co., Ltd.

(Date of recommendation: March 25, 2014)

○ Involvement in misconduct by helping an unregistered entity conduct solicitation for the acquisition of equities in limited partnership for investment

[Article 51 and 52 (1)(i) of the FIEA]

The corporate auditor of PROUD Asset Management Co., Ltd. (the “Company”) had a concurrent position as a director of another company and actively engaged in fraudulent transactions at such other company. In addition, the representative director of the Company had been connected to the bank account of the former trade name of the Company, the current trade name of the Company, and others).

In addition, the Company had not engaged in type II financial instruments business since July 2013.

3. Recommendations Based on the Results of Inspections of Investment Advisories/Agencies

(1) K2 Investment Co., Ltd.

(Date of recommendation: September 27, 2013)

○ Unregistered handling of public offerings or private placements of foreign investment securities

[Article 29 of the FIEA]

Without registration as a type I financial instruments business as required by the FIEA, K2 Investment Co., Ltd. (the "Company") was involved in concluding contracts for the acquisition of foreign investment securities by providing explanation on the product details of the foreign investment securities and giving support for the application procedure for the acquisition. By so doing, the Company was involved in business operations related to the solicitation or private placements of foreign investment securities and received fees in consideration of acquisition contracts from the management company and other parties involved who were entrusted by the issuer of foreign investment securities.

(2) Abraham Private Bank Ltd.

(Date of recommendation: October 3, 2013)

(i) Unregistered handling of private placements of equities in foreign funds

[Article 29 of the FIEA]

Without registration as a type I or II financial instruments business as required by the FIEA, Abraham Private Bank Ltd. (the "Company") was involved in concluding contracts for the acquisition of foreign investment securities and foreign collective investment schemes (collectively referred to as "Foreign Funds") by providing explanation of the product details of the Foreign Funds and giving support for the application procedure for the acquisition. By so doing, the Company was involved in business operations related to the solicitation or private placements of the Foreign Funds and received fees in consideration of acquisition contracts from the issuer of the Foreign Funds.

(ii) Advertising significantly different from the facts or causing people to have a wrong perception.

[Article 37 (2) of the FIEA]

As a result of inspection of the advertisements of the Company, the SESC detected the following situations in which the advertisements differed significantly from the facts.

○ The Company indicated that the investment instrument under the advisory services by the Company achieved the highest return in comparison with rivals' investment instruments.

○ The Company showed that the fees of the investment instrument handled by the Company were the cheapest among the instruments in the same field.

○ The Company described the fact that it had not received any sales commissions, etc., from the investment management operator, etc.

(iii) Provision of property benefits for addition of profits for customers, etc.

[Article 41-2(v) of the FIEA]

The Company was required by a customer who had concluded an investment advisory agreement with the Company to exempt said customer from the payment of advisory fees on the grounds that the actual performance was far from the envisaged performance based on the track record, and the Company actually relieved said customer from the full payment of the advisory fees for two years.

(3) IFA Japan Co., Ltd.

(Date of recommendation: October 3, 2013)

○ Unregistered handling of private placements of foreign investment securities

[Article 29 of the FIEA]

Without registration as a type I financial instruments business as required by the FIEA, IFA Japan Co., Ltd. (the "Company") was involved in concluding contracts for the acquisition of foreign investment securities by providing explanation on the product details of the foreign investment securities and giving support for the application procedure for the acquisition. By so doing, the Company was involved in business operations related to solicitation or private placements of foreign investment securities and received fees in consideration of acquisition contracts from the management company and other parties involved who were entrusted by the issuer of foreign investment securities.

(4) Travis Consulting Co., Ltd.

(Date of recommendation: February 21, 2014)

○ Having unregistered entities solicit or sell fund equities in the name of the Company

[Article 36-3 of the FIEA]

Travis Consulting Co., Ltd. (the "Company") caused two unregistered business operators engage in investment advisory services including the conclusion of investment advisory agreements and advisory services on domestic stock prices via e-mail in the name of the Company.

(5) K2 Investment Co., Ltd.

(Date of recommendation: March 5, 2014)

○ Violation of a business suspension order

[Article 52 (1)(vi) of the FIEA]

Ignoring a business suspension period ordered by the Financial Services Agency, the Representative Director of K2 Investment Co., Ltd. (the "Company") posted a seminar video on the website of the Company with the aim of soliciting investment trust beneficiary certificates, etc. Consequently, the Company entered into a new agreement relating to viewing of the seminar on the video with customers to grant access rights and collect subscription fees.

In addition, the Company also provided investment advice concerning the acquisition of individual securities by e-mail.

4. Recommendations Based on the Results of Inspections of Investment Management Firms, etc.

(1) Plaza Asset Management Co., Ltd.

(Date of recommendation: June 25, 2013)

○ Making representations that would cause a misunderstanding of important matters with respect to the solicitation or conclusion of discretionary investment contracts

[Article 117(1)(ii) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 38(vii) of the FIEA]

For the purpose of solicitation or conclusion of discretionary investment contracts under the conditions that the fund managed by the Company would be incorporated in the portfolio, Plaza Asset Management Co., Ltd. (the "Company") provided a general explanation that the fund had a comparatively high liquidity risk, but failed to explain material facts for judgment on investment, including the fact that the acceptance of termination of another fund with the same portfolio companies had been suspended.

(2) KTOs Capital Partners Co., Ltd.

(Date of recommendation: June 28, 2013)

○ Provision of special benefits to officers of pension funds

[Article 117(1)(iii) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 38(vii) of the FIEA]

KTOs Capital Partners Co., Ltd. (the "Company") provided officers of multiple pension funds including employees' pension funds with substantial benefits through frequent entertainments.

The Company was approved as a registered investment advisories/agencies in June

2009, and also licensed as a registered investment management operator in June 2010. The SESC detected that the Company had entertained the officers in order to receive advisory fees and conclude discretionary investment contracts.

(3) Amadeus Advisors Inc.

(Date of recommendation: August 30, 2013)

(i) Receiving excess discretionary management fees (violation of fiduciary duty)

[Article 42 (1) of the FIEA]

Amadeus Advisors Inc. (the "Company") allocated in its portfolio investment in limited partnership for investment that was organized by the Company and hierarchically composed of anonymous partnerships concluded under individual discretionary investment contracts. However, the Company failed to provide reasonable explanation on what investment effects the hierarchical composition of these anonymous partnerships would have. In addition, the Company received discretionary management fees from each anonymous partnership merely through internal delivery of customer assets. As a result, the Company received excess discretionary management fees in the hierarchical composition of anonymous partnerships without providing adequate explanation to its customers.

(ii) Failure to conduct surveys required to make investment decisions (violation of a prudent manager’s obligation of due care)

[Article 42(2) of the FIEA]

The Company made investments without surveys, etc., that should have been made for the selection of investees. In addition, the Company also failed to monitor the post-investment situations, etc.

(iii) Inappropriate reporting of net asset value of the investment assets without proper evaluation at the market value (violation of a prudent manager’s obligation of due care, etc.)

[Article 42(2) and Article 42-7(1) of the FIEA]

The Company failed to make assessment of the net asset value (NAV) of the funds organized by the Company at proper market value and reported to each pension fund and trust bank NAVs that differed significantly from the facts. The Company also delivered investment reports containing NAVs that differed significantly from the facts.

(4) Global Arena Capital Inc.

(Date of recommendation: December 11, 2013)

(i) Making false statements to customers in relation to the solicitation of equities in a collective investment scheme

[Article 38(i) of the FIEA]

In the solicitation of acquisition of equities in a collective investment scheme, the Company provides false explanations contrary the facts to potential investors, in particular, regarding the business to be invested in, the characteristics of the dividends, and the profile of the Company.

(ii) Investing or diverting money contributed by customers for other purposes

[Article 42(1) of the FIEA]

The Company failed to make investment in the oil business as defined in the contract and other documents and invested in other assets (the Company's shares and land

with no relation to the oil business). In addition, partial assets contributed by the customers were diverted for their working capital.

(iii) Situation in which the amount of net assets fell short of the legal minimum amount of net assets

[Article 47-2 and Article 52(1)(iii) of the FIEA (when falling under Article 29-4 (1)(v)b of the FIEA)]

The Company booked an increase in its net asset value due mainly to in-kind contribution of land that was received from the subsidiary. However, the Company failed to register any transfer of the land. In addition, the actual net asset value of the company, after the revision based on the fact, proved to fall short of the legal minimum amount of net assets (50,000,000 yen). Furthermore, the Company submitted a business report containing a net asset value contrary to the fact to the regulator.

5. Announcement of the Results, etc., of Inspections of QII Business Operators

(1) F-BRAND Co., Ltd.

(Announcement date: April 4, 2013)

(i) Making false statements to customers in relation to the solicitation of financial instrument transaction contracts

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

F-BRAND Co., Ltd. (the "Company") encouraged customers who owned equity interests in the anonymous partnership organized by F-SEED Co., Ltd. (hereinafter referred to as "Seed") to transfer the money contributed to the anonymous partnership at Seed to the Company and solicited them to buy an anonymous partnership organized by the Company that would be mainly invested in foreign exchange margin trading. However, since the money to be contributed to the Company was already used up and impaired by the management by Seed, it was practically impossible to transfer the money to the Company. In addition, the Company had no intention to invest the money in foreign exchange margin trading, and there was no such fact. Therefore, the Company's behavior proved to fall under false statements to customers.

(ii) Diversion of money contributed to the anonymous partnership

The Company diverted the money contributed for the use of expenses of Seed that had nothing to do with the investment purposes and the relevant expenses as set forth in the contract with the customers.

(2) Limit Investage. Inc.

(Announcement date: June 26, 2013)

(i) Making false statements to customers in relation to the solicitation of financial instrument transaction contracts

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

With or without earnings from the fund operations, Limit Investage. Inc. (the "Company") recognized fictitious earnings and paid distributions to customers out of the fictitious earnings. In addition, the Company also intended to receive performance fees out of fictitious net earnings after the deduction of distributions, and in fact it handled the

procedure in line with this intention. However, contrary to the fact, the Company concealed the intention and the handling mentioned above, and solicited a fund to customers using solicitation materials, etc., with a description such that the fund would neither pay distributions to the customers nor receive performance fees without positive earnings.

(ii) Diversion of money contributed to the fund

The Company diverted money contributed for the use of expenses of the Company that had nothing to do with the investment purposes and the relevant expenses as set forth in the contract with the customers.

(iii) Consignment of solicitation to an unregistered entity

The Company entered into an outsourcing agreement with an unregistered entity and caused the operator to solicit or sell fund equities.

(3) Plusone Economy Co., Ltd.

(Announcement date: December 11, 2013)

(i) Indication of conducting financial instruments business by an unregistered entity and solicitation for the conclusion of financial instruments contracts

[Article 31-3-2 (i) & (ii) of the FIEA]

Despite the absence of registration of financial instruments business, Plusone Economy Co., Ltd. (the "Company") stated that it was able to engage in trading or broking initial public offering stocks, etc., and solicited such stocks to customers.

(ii) False reporting in response to an order for production of reports

In reply to an order for the production of a report from the director-general of the Kanto Local Financial Bureau, the Company misrepresented that it did not engage in selling funds, despite the fact that the Company actually engaged in soliciting funds.

(4) Smiling Partners Co., Ltd.

(Announcement date: February 4, 2014)

(i) Making false statements to customers in relation to the solicitation of financial instrument transaction contracts

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

Smiling Partners Co., Ltd. (the "Company") stated in its website that it engaged in solicitation by itself and the funds were managed by its exclusively employed professional trader. However, the Company provided customers with false statements in relation to the solicitation of financial instrument transaction contracts, including the fact that the professional trader concerned had no longer been with the Company since a certain point of time.

(ii) Significant problems with operational management in light of investor protection

The Company continued to solicit the fund while the foreign investment manager engaged in the investment of the fund suspended the payment of redemption proceeds and dividends of the fund. In fact, the management of the fund by the Company was conducted in an extremely sloppy manner.

(5) Soulagement Co., Ltd.

(Announcement date: February 4, 2014)

(i) Making false statements to customers in relation to the conclusion of financial instruments transactions and their solicitation

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

Soulagement Co., Ltd. (the "Company") described in its website and solicitation materials that the Company engaged in solicitation by itself and would invest the money contributed to a fund in foreign exchange margin trading, with the description that the investment performance could fluctuate on a monthly basis. However, the Company failed to invest the money contributed to the fund in foreign exchange margin trading, and instead placed the money solely into unsecured fixed-rate bonds issued by a foreign corporation, which constituted making false statements to customers in relation to the solicitation of financial instrument transaction contracts.

(ii) Significant problems with operational management in light of investor protection

The Company continued to solicit the fund despite the suspended payment of redemption proceeds and dividends of the fund. In fact, the management of the fund by the Company was made in an extremely sloppy manner.

(6) Asset Ark LLC No.1 through No.5

(Announcement date: March 10, 2014)

(i) Making false statements to customers in relation to the conclusion of financial instruments transactions and their solicitation

[Article 38(i) of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63(4) of the FIEA]

Asset Ark LLC (the "Company") made false statements to customers in relation to the solicitation of financial instrument transaction contracts. For example, the Company explained to customers that the principal investment value would be secured at maturity and 1% dividend on the principal investment could be achieved once per two months without fail, contrary to the fact that the fund could not be an instrument with a guaranteed principal and fixed rate dividends.

(ii) Significant problems with operational management in light of investor protection

The Company failed to check the use of money contributed to the fund. In addition, the Company diverted the money contributed to the fund in order to pay dividends to customers. In fact, the management of the fund by the Company was conducted in an extremely sloppy manner.

(7) Win Seiwa K.K.

(Announcement date: March 26, 2014)

(i) Unregistered business operations related to type II financial instruments business and investment management business

[Article 29 of the FIEA]

Win Seiwa K.K. engaged in private placement and investment of equities in the fund without contribution by QII Business Operators, while the fund was required to be contributed by QII Business Operators.

7) Other Main Problems Observed with Respect to Inspections of Securities Companies and Other Entities

In addition to the cases in which the SESC made recommendations for administrative disciplinary actions, etc., the main problems observed in the inspections of financial instruments business operators, etc., that were completed in FY2013 were as follows.

1. Problems Observed with Respect to Inspections of Type I Financial Instruments Business Operators

(1) Problems related to investor protection

(i) Making representations that would cause a misunderstanding of important matters in relation to the solicitation of financial instrument transaction contracts

[Article 117(1)(ii) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 38(vii) of the FIEA]

The problematic operator stated in its solicitation material relating to the structured note to the effect that, if TOPIX increases after the issuance of the structured note, the market value of the note would increase in conjunction with TOPIX. However, the market value of the structured note did not always increase in tandem with a rise in TOPIX, which caused misunderstanding among the investors.

(ii) Failure to appropriately notify the required information to customers who opened specific accounts

[Article 123(1)(viii) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 40(ii) of the FIEA]

In the event of capital increase through shareholder allocation ("paid-in capital increase") in respect of shares held by a customer who has opened a specific account with a problematic operator, the system of the problematic operator computes the average acquisition price per stock on each customer who owned the relevant stock shares as if he/she were deemed to have applied for the cash capital increase on the following business day after the final date of granting of the right, regardless of whether he/she applied or not.

Therefore, the problematic operator was required to revise the average acquisition prices per stock for customers who did not applied for the cash capital increase. However, since the values for a part of those who did not apply were not revised, the problematic operator issued capital gain statements containing wrong income values.

(iii) Inadequate internal control system relating to solicitation of foreign bonds

The problematic operator considered that, since it only solicited foreign bonds issued by issuers with high credit ratings, it considered that the instructions and guidance on that matter were left to each sales department or branch office. Accordingly, the management division failed not only to provide any instruction and guidance required for appropriate solicitation, but also to monitor the status of solicitation on foreign bonds conducted by sales representatives by means of call records, etc.

As a result of inspections on the solicitation of foreign bonds conducted in FY2013, the SESC detected that several sales representatives had conducted "solicitation that may mislead investors to have the perception that foreign bonds are guaranteed in principal and/or interest” at multiple departments and branch offices.

(iv) Failure to deliver a pre-contract document

[Article 37-3 (1) of the FIEA]

When a customer opened a securities settlement account in respect of Japanese government bonds, the problematic operator failed to prepare and deliver a pre-contract document that should have been provided to the customer.

(v) Inappropriate solicitation for switching of investments between investment trust beneficiary certificates and bonds in light of investor protection

The FIEA requires financial instruments business operators to provide explanations regarding the important items related to investment trust switching (Article 123(1)(ix) of the Cabinet Office Ordinance on Financial Instruments Business]. In particular, this provision requires financial instruments business operators to arrange an appropriate explanation and operational framework so that investors will be able to make reasonable investment judgment at their sole discretion.

The problematic operator conducted solicitation toward many potential investors with the aim of switching investment trust beneficiary certificates from Brazilian Real-dominated investment trust beneficiary certificates (investing in THE US corporate bonds) and Brazilian Real-dominated World Bank Bonds, and vice versa.

The two financial instruments above are different in terms of product categories in that the former is an investment trust beneficiary certificate and the latter is a bond. However, given that fees will be generated for the switching and the two instruments are dominated in Brazilian Real with the same currency risk against Japanese Yen, it should be required to provide adequate explanation to each investor about the characteristics of each instrument and the fees incurred for the switching as required in the case of switching between investment trust beneficiary certificates, in order that the investors will be able to make reasonable investment judgment.

However, while the problematic operator restricted the termination of each of the two instruments in the short-term period, it failed to monitor the switching between the two different instruments in light of the characteristics of each instrument. In addition, due to a lack of thorough notification of the characteristics of the two instruments to sales representatives, the SESC detected multiple inappropriate solicitation activities in which sales representatives provided wrong explanations about the currency risk to investors.

Note: The term "solicitation for switching" refers to a solicitation not only to sell an investment trust held and to reinvest the proceeds in another trust, but also to sell securities held and to reinvest the proceeds in other securities.

(2) Problems related to financial soundness or accounting

(i) Miscalculation of the capital-to-risk ratio, etc.

[Article 46-6 of the FIEA]

The problematic operator miscalculated the capital-to-risk ratio in the manner shown below and submitted the wrong data to the regulator.

For the measurement of market risk of a stock certificate in respect of (a) the general market risk equivalent amount, (b) the individual risk equivalent amount, and (c) the risk equivalent amount of individual stocks whose market values exceed 20% of the total positions, each amount should have been computed as the market value multiplied by

8% or 16%, respectively. However, the problematic operator computed each amount by multiplying the market value by 4% or 12%, respectively.

Note: This case was based on the capital-to-risk ratio prior to the latest amendment, which came into effect at the end of March 2012.

(ii) Miscalculation of the capital-to-risk ratio, etc.

[Article 46-6 of the FIEA]

The problematic operator miscalculated the capital-to-risk ratio in the manner shown below and submitted the wrong data to the regulator.

○ For the measurement of the market risk equivalent amount, the problematic operator failed to add the market risk equivalent amount in respect of Company A multiplied by 50/100 to the market risk equivalent amount, despite the requirement that the such exemption is only applicable if the value of Company A stock held exceeds the amount of its non-fixed capital multiplied by 25/100.

(iii) Miscalculation of the capital-to-risk ratio, etc.

[Article 46-6 of the FIEA]

The problematic operator miscalculated the capital-to-risk ratio in the manner showed below and submitted the wrong data to the regulator.

i. When deducting the appraisal value of land used as collateral for its own debts from the amount of fixed assets subject to deduction, the problematic operator computed the appraisal value of land using a wrong roadside adjustment factor.

ii. The individual risk equivalent amount in respect of stocks, excluding the representative stock price indexes of the designated countries, should be computed as the total sum of the market values of short or long positions of each stock multiplied minus the excess value of individual stocks above 20% of the total positions, then multiplied by 8%. However, the problematic operator computed the amount as the total sum of the market values of short or long positions of each stock multiplied by 4%.

iii. The risk equivalent amount of individual stocks whose market values exceed 20% of the total positions should be computed as the excess value of individual stocks above 20% of the total positions multiplied by 16%. However, the problematic operator computed the amount as the excess value of individual stocks above 20% of the total positions multiplied by 12%.

iv. The counterparty risk equivalent amount of financial institution with eligible credit rating in respect of depositing foreign currency should be computed as the book value of such deposit multiplied by 1.2%. However, the problematic operator failed to recognize the risk amount.

Note: These cases ii and iii above were based on the capital-to-risk ratio prior to the latest amendment, which came into effect at the end of March 2012.

(3) Problems related to other business operations

(i) Inappropriate operations in respect to the conducting of financial instruments intermediary services

The problematic bank concluded a financial instruments intermediary services agreement with its securities subsidiary, and stipulated in its internal rules the scope of securities services by the bank as solely comprising the opening securities accounts,

prohibiting solicitation activities involving financial instruments handled by the subsidiary.

However, the management team of the problematic bank failed to initiate the establishment of a practical management framework regarding the prohibition of solicitation activities on securities services as set forth in the internal rules. Accordingly, the bank gave priority to achieving earnings relating to the fee income received by the securities subsidiary and engaged in promoting securities services in order to achieve the goals. The SESC detected such frequent inappropriate operations.

(ii) Breaches of duty to verify identity

[Article 4 (1) of the Act on Prevention of Transfer of Criminal Proceeds]

When taking over the business pertaining to foreign exchange margin trading (hereinafter, "FX Trading") from Company A, the problematic operator received the customer management ledger prepared by Company A and deemed each customer whose identification had already been verified by Company A in order to commence FX Trading business with them.

However, the ledger was inadequate due to the absence of records regarding identification measures and required identification matters as set forth in the Act on Prevention of Transfer of Criminal Proceeds.

Therefore, although it was necessary to take necessary measures to identify each customer taken over from Company A again in order to commence FX Trading with them, the problematic operator commenced the trade without taking the necessary steps.

(iii) Failure to submit an accident report

[Article 50(1) of the FIEA]

When the problematic operator learned that an incident occurred in violation of laws and regulations, it recognized the necessity to notify the regulator of the incident without delay. On the other hand, since the problematic operator was also preparing for an amendment of the Statement of Operation Procedures, it failed to submit an accident report because there was concern that the notification could give the regulator an unfavorable impression.

(iv) Inappropriate internal control system for handling of fee exemption

In a situation where no regulations were defined with regard to the handling of fee exemption for customers, the problematic operator exceptionally exempted some customers from paying the fees without taking sufficient consideration of the exemption.

(v) Inappropriate internal control system for solicitation for sales of structured notes

○ Solicitation made prior to the screening of customers in light of adequacy

The problematic operator recognized that it was required by the internal rules to submit an application for solicitation (adequateness screening) to the headquarters in advance to obtain approval when sales representatives solicit and sell structured notes to a customer.

However, sales representatives of the problematic operator violated the internal rules

and solicited potential customers prior to the approval. They usually submitted the application to the headquarters after confirming the customers' intention to purchase the notes (after the solicitation).

Moreover, the SESC detected the insufficient arrangement of internal rules for the purpose of making proper judgment on the adequateness of each customer.

○ Inappropriate management of the number of persons to be solicited for private distribution of structured notes

The problematic operator was required by its internal rules to manage the number of persons subject to solicitation (49 persons or less) per security at the headquarters, based on the submission of application sheets from sales representatives.

However, as described above, the headquarters could not manage the number of persons to be solicited because the application sheets were not submitted from sales representatives in cases where customers had no interest in purchasing the structured notes.

(vi) Inappropriate handling of margin money deposited for margin transaction

It was pointed out in the audit report of the Japan Securities Dealers Association (JSDA) regarding the problematic operator that there were findings of "frequent acts causing customers to withdraw margin in violation of the legal requirement (30% margin requirement)" (hereinafter referred to as "Inappropriate Withdrawal"), and the JSDA warned the operator about the immediate need to improve the handling of margin money. However, the operator failed to take sufficient measures to prevent the recurrence of the Inappropriate Drawing, without ensuring to keep all officers and employees familiar with regulations on the handling of margin money deposited for margin transactions. As a result, the SESC detected an insufficient management system for handling of margin money deposited for margin transactions and there remained frequent acts of Inappropriate Drawing.

(vii) Inappropriate sales management system regarding material non-public information

The problematic operator overlooked the troubled state regarding the handling of material non-public information under the sales management system.

○ An employee who worked at the department in charge of providing investment information to sales branch offices carelessly furnished sensitive information on a specific stock (capital increase, etc.) seemingly obtained from an external party personally to a branch manager for the purpose of solicitation for investment, neglecting his duty to manage and handle the information more carefully in light of the treatment of material non-public information.

○ In addition, the recipient branch manager also carelessly utilized the sensitive information for the purpose of solicitation for investment, neglecting his duty to manage and handle the information more carefully in light of the treatment of material non-public information.

2. Problems Observed with Respect to Inspections of Type II Financial Instruments Business Operators

○ **Problems related to investor protection**

○ **Inappropriate internal control system in relation to the preparation of a document**

delivered to customers

With regard to "securities equivalents" or fund equities (confined to "business-type funds") that may be handled by type II financial instruments business operators under the FIEA, it is essential for the operators to provide appropriate explanation to each customer on a face-to-face basis, because they are not required to provide a general public disclosure of information aimed at potential investors. In addition, securities equivalents generally have low liquidity with high likelihood of not being able to realize dividends from investment earnings or distribute assets smoothly on a timely basis. It is highly considered that the explanation of liquidity risk is most important.

The problematic operator handled membership rights of the overseas LLC investing in a land banking business which were handled by the problematic operator. Since the transfer of the rights requires the approval of all the other members, it is regarded as intrinsically difficult in such case to realize dividends from investment earnings or distributing assets until the disposal of investee assets. As a result, the membership rights of the overseas LLC had extremely low liquidity.

For this reason, contrary to the strong necessity to explain the detailed characteristics carefully to customers in that dividends on earnings and distribution of assets are not necessarily implemented within a certain period of time, the problematic operator provided inappropriate description on the solicitation materials that may mislead the customer to have the perception that dividends on earnings and distribution of assets would be implemented within a certain period of time. Therefore, the SESC detected an inadequate internal control system in relating to the preparation of a document delivered to customers.

3. Problems Observed with Respect to Inspections of Investment Advisories/Agencies

(1) Problems related to investor protection

(i) Failure to provide adequate explanation required for the understanding of customers in respect of delivering a pre-contract document when concluding financial instruments transaction contracts

[Article 117(1)(i) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 37-3(1) and Article 38(vii) of the FIEA]

The problematic operator was required by its internal rules to deliver a pre-contract document to each customer via an electromagnetic method (the Internet) and ask each customer to confirm the details of the document by answering "Yes" or "No" to each question on the Internet.

However, this system allowed the problematic operator to accept an application from each customer to enter into an investment advisory agreement even if the customer selected "No." Accordingly, the operator failed to establish a structure to check whether each customer really confirmed the details of the pre-contract document prior to the conclusion of the agreement.

In addition, the SESC detected the fact that the problematic operator had entered into an investment advisory agreement with a few customers who had answered that they had not confirmed the details of pre-contract document.

(ii) Recommending customers to commence trading with an overseas unregistered foreign exchange margin trading business operator

The problematic operator, on its membership site, recommended the members to deal with an overseas unregistered foreign exchange margin trading business operator in order to avoid the restrictions on leveraging by the regulator and engage in a high-leveraged forex transaction.

(2) Problems related to other business operations

(i) Failure to take dispute resolution measures relating to investment advisory services

[Article 37-7(1) and Article 47-2 of the FIEA]

The problematic operator declared at the time of application for registration that it had already concluded agreements with Bar Association A and other institutions regarding the dispute resolution measures. However, in fact, the operator had failed not only to conclude any such agreements but also to take such dispute resolution measures.

In addition, the problematic operator stated that it had concluded such agreements as part of a "dispute settlement system" required as described in the business report that was submitted to the Kanto Finance Bureau.

(ii) Failure to notify change of operational procedure, etc.

[Article 31(1) of the FIEA]

The problematic operator notified in the written application for registration that Officer A was responsible for overseeing the division providing investment advisory services. However, Officer A was not involved in such duty and the operator failed to notify the Kanto Finance Bureau to that effect.

(iii) Inappropriate internal systems to manage employees

Senior Advisor A of the problematic operator was a former representative director of a financial instruments business operator that had received rescission of the registration, and was not allowed to become an officer of any other financial instruments business operators or an employee specified by a Cabinet Order for at least five years from the rescission date. However, Senior Advisor A is involved in making investment decisions regarding domestic listed stocks and providing investment advice to customers as an employee specified by a Cabinet Order as set forth in Article 6 (2) of the Cabinet Office Ordinance on Financial Instruments Business Act (a person who makes an investment judgment on the basis of the analysis of values, etc., of financial instruments).

The President and Representative Director of the problematic operator did not understand the above-mentioned fact and overlooked the inappropriate situation.

(iv) Inappropriate internal control systems relating to advertisement screening

The result of the inspection of the problematic operator revealed that there were many inappropriate descriptions in the situations as shown below in respect to the advertisement screening system to review the points for the prevention of misleading investors.

○ The problematic operator posted in the advertisement to the effect that its instrument should be highlighted as the "No.1 instrument choice for savings purposes." However, this advertisement could potentially mislead ordinary investors to perceive this instrument as being the best among the wide scope of financial instruments categorized as savings-type

products. Accordingly, the expression in the advertisement had the problem of making investors believe that respondents had selected this instrument as No.1 from among the scope of specific instruments.

○ The problematic operator posted in the advertisement to the effect that its service should be highlighted as a "No.1 consulting service on overseas investment." However, this advertisement could potentially mislead ordinary investors to perceive the operator's service as being the best among those who provided overseas investment consulting services. Accordingly, the expression in the advertisement had the problem of making investors believe that respondents had selected this operator as No.1 from among the scope of specific operators.

○ The problematic operator expressed the term "cumulative amounts of investment advisory contracts, etc." and indicated the relevant value in the advertisement. However, this advertisement could potentially mislead ordinary investors to perceive the value as the total sum of investments made by customers of the operators based on investment advisory contracts with the operator. Accordingly, the expression in the advertisement made it difficult for investors to recognize that the value included the future accumulated investments from potential investors who might receive investment advisory services.

(v) Failure to confirm the identity of customers under the Act on Prevention of Transfer of Criminal Proceeds

[Article 4(1) and Article 6(1) of the Act on Prevention of Transfer of Criminal Proceeds]

The problematic operator failed to verify the identity of some customers at the time of the transaction.

In addition, while the operator confirmed the identity of other customers at the time of the transaction, it failed to prepare records as set forth under the Act on Prevention of Transfer of Criminal Proceeds.

4. Problems Observed with Respect to Inspections of Investment Management Firms

(1) Problems related to investor protection

(i) Misstatement

[Article 117(1)(ii) of the Cabinet Office Ordinance on Financial Instruments Business based on Article 38(vii) of the FIEA]

In concluding a discretionary investment contract, the problematic operator provided customers with solicitation materials with the description of the fund concerning track record, etc., for explanation. However, such materials proved to include misstatements regarding computation of the track record containing the return of other components that were not actually incorporated in the fund.

(ii) Breach of obligation to notify professional investors

[Article 34 the FIEA]

In concluding a discretionary investment contract with a professional investor, such as a pension fund, etc., the problematic operator failed to notify the pension fund, etc., to the effect that the professional investor might request the operator to treat itself (pension fund, etc.) as a customer other than a professional investor.

(iii) Failure to deliver legal documents and commencement of investment

management prior to the determination of institution

[Article 37-3(1) and Article 37-4(1) of the FIEA]

In concluding a discretionary investment contract, the problematic operator commenced the investment management prior to the determination of the institution and conclusion of the discretionary investment contract, since the operator was strongly requested by the customer to commence the investment management as early as possible. As a result, the operator delivered the pre-contract documents and contract conclusion documents to the customer two or three months after the commencement of investment management.

(iv) Inappropriate customer support associated with the implementation of a fund-restructuring plan

The problematic operator received two proposals regarding the restructuring ("Restructuring Plan") with respect to the ownership policy of a fund beneficiary certificate (whether to continue to hold the fund beneficiary certificate or convert it into another fund beneficiary certificate) from investment management firms who managed the fund in which the portfolio of the customers under the investment discretionary contract with the operator was incorporated. However, it turned out that the problematic operator had failed to conduct appropriate due diligence with respect to the impact on the operations of the customer assets due to differences in investment strategies, investment assets and investment methodologies between these proposals.

(v) Inappropriate operational control system relating to the calculation of market value of the fund assets

For the purpose of computing net asset value of the investment trust, in the evaluation of private equities incorporated in the investment trust, the problematic operator was required by its internal rules to deem the latest trading value of the stock as the market value.

However, while the operator actually traded the relevant stock, it computed the stock price according to a different evaluation method (computation made based on the financial statements, etc., of the unlisted company).

For this reason, the operator computed the net asset values of the investment trust. Furthermore, based on the incorrect net asset values, the operator calculated and received excessive trust and other fees.

(vi) Improper statements of investment reports

[Article 42-7(1) of the FIEA]

As a result of verifying the description of investment reports that were delivered by the problematic operator to customers, the SESC detected errors in "volumes of securities" on investment property to be described as legal requirements.

(vii) Failure to fulfill adequate monitoring of the operations of investment management business

The problematic operator incorporated private placement bonds issued by Company A in the investment portfolio under a discretionary investment contract. However, the problematic operator failed to take appropriate countermeasures, against the facts that:

(a) the interest payments of the private placement bonds had been delayed; (b) the debts of Company A (issuer) exceeded its assets; and (c) the credit risk of Company A had sharply worsened. Accordingly, it was recognized that the operator had conducted inappropriate monitoring of the investment assets and its conduct was problematic in light of the protection of investor protection.

(2) Problems related to financial soundness, accounting, etc.

○ Failure to properly grasp the amount of net assets

While recognizing the possibility that investment securities held had been impaired significantly, the problematic operator continued to record the assets recorded at their book values and failed to grasp the market value of the assets held appropriately and verify the amount of the net assets, under the excuse that the operator had difficulty in contacting the issuer and obtaining the material for evaluation.

Note: As part of the inspection, the SESC made on-site verification of the issuer's location, but it was unclear whether or not the issuer really engaged in business operations.

(3) Problems related to other business operations

(i) Involvement in activities of concern that could fall under solicitation for the acquisition of foreign investment trust securities, etc., by an overseas investment management operator without registration as a financial instruments business operator

Based on the entrustment contract, the problematic operator provided an overseas investment management operator with information relating to domestic QII Business Operators. However, the overseas investment management operator, without registration as a type I financial instruments business operator, may possibly have engaged in solicitation for the acquisition of the foreign investment trust securities, etc. managed by the overseas operator, including providing information on the financial instruments directly to domestic QII Business Operators based on the information given by the problematic operator.

Although the problematic operator was aware of the above situation, it was knowingly involved in the activities and provided information to the overseas investment management operator without adequate consideration of the illegality of the solicitation for acquisition.

(ii) Inadequate internal control systems to prevent conflicts of interest

In allocating investment trust securities and investment securities (hereinafter referred to as "Investment Trust, etc.") in a portfolio based on a discretionary investment contract, the problematic operator was in a position to receive management fees from the customers with whom the problematic operator had concluded a discretionary investment contract, as well as remuneration in consideration of information regarding the customers from investment management firms who were engaged in managing the Investment Trust, etc., that was allocated in the portfolio. Accordingly, the problematic operator had a stronger incentive to allocate the Investment Trust, etc.

Although the problematic operator recognized that this situation might cause a conflict of interest, it failed to take any effective measures to avoid a conflict of interest.

(iii) Inadequate monitoring system

In terms of conducting due diligence regarding hedge funds that were incorporated in the investment assets, while the problematic operator recognized it necessary to conduct continuous monitoring activities, it failed to conduct any monitoring thereafter.

(iv) Inadequacy of legal requirements regarding entrustment of authority over investment

[Article 42-3(1) of the FIEA]

The problematic operator entrusted a part of the authority of its investment another investment management firms. However, the operator failed to define the matters as set forth in laws and regulations (Article 42-3(1) of the FIEA).

(Matters regarding Commissioning of Investment Management Authorities (Article 131 of the Cabinet Office Ordinance on Financial Instruments Business))

- the statement that the whole or part of authorities to carry out investment management on behalf of an interest holder is commissioned and the name or trade name of a person to whom the authorities are commissioned;
- the summary of commissioning; and
- in the case where a remuneration for commissioning is paid out of properties under investment management, the amount of such remuneration.

8) Petitions for Court Injunctions against Unregistered Entities, etc.

With regard to unregistered entities and QII Business Operators involved in fraudulent business (hereinafter referred to as “Unregistered Entities, etc.”), the FSA and the SESC have taken actions such as provision of information to police agencies, etc., issuance of warning letters to Unregistered Entities, etc., and announcement of names of such business operators, followed by actions of investigative authorities, because of the difficulty of applying the FSA/SESC’s usual administrative disciplinary actions such as supervision and inspection against them, unlike business operators that have registered under the FIEA.

However, as damage to investors in recent years due to illegal sales of private equities is expanding, and fund equities by Unregistered Entities, etc., have been recognized as a social problem, the FSA and SESC have been expected to make use of petitions to the court for injunctions against Unregistered Entity, etc., under Article 192 of the FIEA (hereinafter referred to as “Article 192 petition” in this section) and investigations pursuant to Article 187 of the FIEA (hereinafter referred to as “Article 187 investigation” in this section).

Upon the filing of a petition from the SESC, when a court finds that there is an urgent necessity and that it is appropriate and necessary for the public interest and investor protection, the court may enjoin a person who has conducted or will conduct an act in violation of the FIEA, from the acts stated above.

Articles similar to Articles 192 and 187 of the FIEA have existed from the time when the Securities and Exchange Act was enacted in 1948, referring to U.S. securities legislation, but they had not been utilized for a substantial amount of time. An amendment to the FIEA in 2008, however, delegated the authority for the Article 192 Petition and the Article 187 Investigation to the SESC, which is routinely monitoring illegal financial activities through market surveillance and inspections. In addition, an amendment to the FIEA in 2010 introduced severe fines of up to 300 million yen against corporations that violate a court

injunction, in order to ensure the effectiveness of the injunction. From the viewpoint of prompt and flexible responses, the SESC has also become able to delegate the authority for Article 192 Petition and Article 187 Investigation to the director-general of a Local Finance Bureau, etc.

Furthermore, an amendment to the FIEA in 2011 has expanded regulations concerning unregistered entities as follows:

- Nullification, in principle, of a sales and purchase contract, etc. in cases where an unregistered entity has made a sale or other type of transfer of unlisted securities;
- Prohibition of acts for solicitation and advertisement by unregistered entities (imprisonment with work for not more than one year, a fine of not more than one million yen);
- Increased penal provisions for unregistered entities
  Before revision: Imprisonment with work for not more than three years, a fine of not more than three million yen
  After revision: imprisonment with work for not more than five years, a fine of not more than five million yen;
- Penal provisions against corporations conducting business without registration or without license made heavier than provisions for non-corporations
  ⇒ For a corporation conducting financial instruments business without registration: a fine of not more than 500 million yen; and
- Previously, an Article 192 petition was only possible at the district court governing the domicile of the respondent. Now, an Article 192 petition can also be filed with the district court governing the place where the offense is committed (expansion of jurisdiction for Article 192 petitions).

In response to these institutional developments, the SESC worked vigorously to collect and analyze information on Unregistered Entities, etc., in cooperation with the supervisory departments of the FSA and local finance bureaus as well as investigative authorities. Then, in FY2010, the SESC filed an Article 192 petition, for the first time since the introduction of the system, against a company and its officers who had been in the business of soliciting private equities without registration, and this resulted in an order being issued by the court. The SESC successively endeavored to work in line with these institutional developments.

In addition, since FY2012, even in cases where the SESC does not file an Article 192 petition, it has made public the company name, representative name, conduct in violation of laws and regulations, and other information if the results of the Article 187 investigation reveal any act of violation of the FIEA or any problem in the light of the protection of investors.

The following is a list of cases in FY2013 where the results of an Article 192 petition and an Article 187 investigation were announced.

(i) Lifestage Limited

(Petition date：November 12, 2013)

Lifestage Limited (hereinafter referred to as “Company L"), Company L's Representative Director A and Company L's Related Person B (hereinafter collectively referred to as "Company L, etc."), without a registration under the FIEA, solicited many retail investors to purchase rights under an investment contract in which Company L's

overseas subsidiary was to manage the money contributed and distributed profits to the investors, and caused many of them to acquire the rights. Subsequently, Company L, etc., changed the rights to be solicited and intensified the solicitation activities for the acquisition of the rights.

Therefore, on November 12, 2013, the SESC filed an Article 192 petition with the Tokyo District Public Prosecutors Office for an injunction against Company L, etc., for violations of the FIEA (engaging in the business of handling public offerings or private placements of rights listed in Article 2(2)(v) or (vi) of the FIEA, without a registration under the FIEA).

In response to this petition, the Tokyo District Public Prosecutors Office issued an injunction against Company L, etc., on November 26, 2013, as per the content of the petition.

(ii) IMVISION Co., Ltd.

(Petition date: January 10, 2013)

IMVISION Co., Ltd. (QII Business Operators; hereinafter referred to as “Company I”) and Company I's Representative Director A (hereinafter collectively referred to as "Company I, etc.") conducted solicitation for the acquisition of rights under 12 anonymous partnership agreements with the same business subject to investment, received contributions from many investors and managed the money contributed. However, Company I did not meet the requirements for specially permitted businesses for qualified institutional investor, etc. In addition, Company I, etc., diverted the money contributed for dividends and expenses of Company I and thereby inappropriately used significant amounts of the money contributed.

Therefore, on January 10, 2014, the SESC filed an Article 192 petition with the Nagoya District Court for an injunction against Company I, etc., for violations of the FIEA (making false statements to customers in relation to the solicitation of financial instrument transaction contracts when engaging in operations of private placements as set forth in Article 63(1)(i) of the FIEA, and investment of money or other properties invested or contributed from a person who holds the following rights or other rights specified by a Cabinet Order, as an investment mainly in securities, etc., conducted based on analyses of values, etc., of financial instruments).

On January 24, 2014, Company I filed a petition for commencement of bankruptcy proceedings, and on the same day the Nagoya District Court made a declaration of commencement of bankruptcy proceedings. Accordingly, given that the rights and interests pertaining to the administration or disposition of Company I's property were transferred to the bankruptcy trustee appointed by the court, the SESC determined that the violations of the FIEA were unlikely and that Company I's assets would be liquidated fairly and appropriately by the bankruptcy trustee under the supervision of the Nagoya District Court in the future. As a result, the SESC withdrew the petition on January 31, 2014.

9) Future Challenges

In inspections of securities companies and other entities, the SESC needs to address the

challenge of restoring the confidence of market intermediary functions from investors, given that extremely serious cases have recently been revealed successively in light of ensuring the fairness and transparency of capital markets and protecting investors, such as the AIJ case, insider trading cases related to public offerings, and the MRI case, while adjusting to environmental changes including diversification and the increase in the number of business operators subject to inspection.

For this reason, the SESC will address the measures shown below in the Securities Inspection Policy and the Program for 2014 (see next page) with the object of performing efficient and effective inspections of securities companies and other entities.

(1) In order to properly determine inspection priorities, the SESC will further enhance its ability to identify potential problems with consideration of the characteristics of diverse business types of financial instruments business operators, the characteristics of their customers, and the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly, and select securities companies, etc., to be inspected in terms of risk profile and narrow down the points of inspection.

(2) With regard to large-scale securities groups that engage in complex business operations as a group, the SESC will properly combine both on-site and off-site monitoring and inspections in cooperation with supervisory departments throughout the fiscal year.

(3) With respect to type II financial instruments business operators, given that there have been problematic acts undermining the public interest and investor protection, especially by MRI and other problematic operators handling financial instruments with high risk for retail investors, the SESC will make intensive inspections of operators who engage in the solicitation and sales of funds to a large number of retail investors on an ongoing basis.

(4) With respect to discretionary investment management operators, the SESC will analyze and scrutinize the problems detected in the intensive inspections that have been carried out since FY2012, and will continuously conduct inspections while focusing on the effectiveness of monitoring and due diligence.

(5) With respect to investment advisories/agencies, given that there were cases of illegal sales and solicitation of overseas funds by unregistered entities and other serious and malicious violations of the FIEA that were detected in the inspections conducted in FY2013, the SESC will conduct inspections with a focus on the verification of legal compliance, solicitation and disclosure systems, etc., in particular, to identify similar illegal acts.

(6) With respect to violations of the FIEA by fund operators and unregistered entities and QII Business Operators, the SESC will appropriately utilize the authority to conduct securities inspections and investigations necessary to file petitions for court injunctions. If violations of the FIEA or impairment of investor protection are identified, the SESC will, where necessary, file petitions to the court for injunctions, etc., and publicize the company

names, representative names, conduct in violation of laws and regulations, and other relevant information.

(Provisional Translation)

March 25, 2014

Securities and Exchange Surveillance Commission

The Securities Inspection Policy and the Program for 2014

I. Securities Inspection Policy

1. Basic Direction

(1) Role of securities inspections

The mission of the Securities and Exchange Surveillance Commission (SESC) is to ensure fairness and transparency of the Japanese capital and financial markets and to protect investors.

The objective of securities inspections for the achievement of this mission is to ensure investor confidence in the markets, through conducting on-site examination of financial instruments business operators (FIBOs) with regard to the business operations and their financial soundness, and by urging them to operate businesses in accordance with laws, regulations and market rules on the basis of self-discipline, and play the market intermediary function including duties as gatekeepers, in a proper manner.

Therefore, the SESC should, through securities inspections, examine FIBOs' compliance of laws and regulations, and verify the internal control systems behind individual problems.

The SESC will continue to take rigorous actions against illegal activities that undermine confidence in the fairness and transparency of the markets or impair investors' rights, by exercising its own authority and mobilizing all its human resources and capabilities, and will thus play a role in sending alerts to the markets.

(2) Environmental changes surrounding securities inspection

—Diversification and increase in the number of BOs—

As a result of a series of regulatory reforms, including the implementation of the Financial Instruments and Exchange Act (FIEA), business operators (BOs) subject to inspection have diversified and they have increased to around some 8,000 in total. In addition, technological developments in finance, and prevalent cross-border transactions and international activities of market participants, such as investment funds, lead to more diverse and complex financial instruments and transactions being conducted by FIBOs.

In the wake of the global financial turmoil, authorities around the world have been making

efforts to be able to ascertain the business and risks of entire financial groups for large-scale securities groups. Under these circumstances, it is necessary to constantly monitor the groups' financial soundness as a whole for those engaged in complex business operations as a group.

It has become more important than ever to ensure the security of IT systems as a trading infrastructure, because individual investors have increased transactions via the Internet, and institutional investors have increased the execution of massive and complex transactions, using the systems that process a large volume of diverse and high speed orders.

In particular, a systems failure at a financial instruments exchange or FIBO could have a significant impact on the market and on customer transactions. Therefore, the IT system needs intensive verification in terms of the appropriateness of risk management.

(3) Challenges surrounding securities inspections

Recently, securities inspections have revealed cases of extremely serious violations of laws and regulations in succession with regard to market integrity and investor protection, such as the AIJ incident, the other case in which the Japan Investor Protection Fund had to make compensation, and the insider trading cases concerning public stock offerings. With regard to Type II FIBOs, including the case of MRI International, it was revealed that some FIBOs handling high-risk financial products for individual investors committed wrongdoings that harm the public interest or investors, such as misappropriating investment, issuing false notifications to investors, etc.

To prevent such serious wrongdoings that damage investors confidence in the market intermediary function of FIBOs, it is necessary to implement securities inspections rapidly and properly. Furthermore, securities inspections need not only to verify compliance with individual laws and regulations, but also to continuously urge FIBOs to improve their compliance posture and professional ethics in the course of business management and internal control activities.

In addition, there have been many cases of illegal sales and solicitation of unlisted stocks and funds by unregistered BOs causing losses to retail personal investors and consumers, resulting in social problems in recent years. Therefore, as for unregistered BOs and persons making notification for business specially permitted for qualified institutional investors ("QII business operators"), committing violations of the FIEA, the SESC will need to continue to take rigorous actions in close cooperation with relevant authorities to make full use of its faculty to file petitions for court injunctions and to conduct investigations therefor.

(4) Towards efficient, effective and viable securities inspections corresponding to the characteristics of the BOs subject to inspection

In order to adjust to environmental changes surrounding securities inspections, such as diversification and the increase in the number of BOs, and in order to tackle the challenge of recovering investors confidence in the market's intermediary function, the SESC needs to utilize limited human resources appropriately and effectively in order to conduct efficient, effective and viable inspections.

Toward this direction, it will be required to properly determine inspection priorities. Therefore, the SESC will further enhance its ability to identify potential problems with consideration of (i) the characteristics of diverse business types of FIBOs, (ii) the characteristics of customers, and (iii) the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly.

Furthermore, when determining inspection priorities for individual BOs, the SESC will collect and analyze a variety of information concerning them, corresponding to their business types, sizes, other characteristics and the market conditions at the time, and then utilize a risk-based approach to decide which BOs to inspect, considering their market positions and inherent problems in a comprehensive manner. In addition, with regard to the execution of inspections, the SESC also clarifies the scope of inspections and inspection measures according to its inspectorial targets and its issues.

As for business operators conducting discretionary investment management business ("DIM business operators"), the SESC will continuously conduct inspections on them, analyzing and examining problems, discovered in the course of intensive inspections conducted since FY2012.

On the other hand, the SESC will increase the number of inspections in order to reduce the number of small and medium-sized FIBOs which have not been inspected for a long period of time and to reduce their risks to investor protection.

In addition, the SESC will conduct a broad review on how to conduct more efficient, effective and viable inspections, and continue working to strengthen its posture and capabilities.

2. Inspection Implementation Policy

(1) Focuses of verification corresponding to the characteristics of BOs

1) Verifications focused on business types and other characteristics

A. Verification of the market intermediary functions of FIBOs

In order to secure fair, transparent and high-quality financial and capital markets, it is extremely important for FIBOs to fully exercise their duties of gatekeepers in preventing market abuse by persons and entities participating in financial and capital markets, through customer management, transaction surveillance, and underwriting examination. The SESC therefore focuses on verifying whether FIBOs fulfill these missions properly.

In view of the revised Act on Prevention of Transfer of Criminal Proceeds, taking into consideration the importance of personal identification at the time of transactions and the appropriate reporting of suspicious transactions in terms of international cooperation in anti-money laundering and combating against terrorist financing, the SESC verifies whether FIBOs examine their customers' objectives of transactions and their occupations when a new account is opened, whether they properly conduct re-identification of customers when identity theft is suspected, whether they properly report suspicious transactions, and whether they have established systems for conducting these activities properly. The SESC will also examine whether FIBOs have established an internal system to prevent new transactions with anti-social groups, to examine the existing transactions with them, and to address dissolving such transactions, if any, under the proactive involvement of top management, in order to block relations with them organizationally.

FIBOs play an important role in intermediary functions through the securities underwriting business by which enterprises can raise funds for business operations from investors in the market. The SESC will examine whether FIBOs properly engage in securities underwriting business, including underwriting examinations, information control, transaction surveillance and securities allotment from the perspective of the capital markets' integrity and investor protection. In particular, in connection with new listings, the SESC will verify whether examination systems appropriately function in underwriting public offering. In addition, as for FIBOs that arrange and distribute securitized instruments and high-risk derivatives products, their risk management systems and sales management systems will be examined.

B. Verification of the management of material non-public information (prevention of unfair insider trading)

In view of insider trading problems in connection with public stock offerings and the revision of the FIEA as a result of these problems, the SESC will focus on verifying whether FIBOs strictly manage material non-public information from the perspective of preventing unfair insider trading. Specifically, the SESC will verify whether FIBOs have developed viable management systems with regard to registration and information barriers (e.g. Chinese wall) of such material non-public information as public stock offerings of listed companies, surveillance of insider transactions, and prevention of any improper distribution and misuse of information.

C. Verification of measures against conduct that may hinder fair pricing

The SESC will verify whether there are any practices that could hinder fair pricing by means of direct and/or brokered orders, and further examine the transaction surveillance systems of FIBOs to prevent such practices. In doing so, the SESC will verify whether viable transaction surveillance is conducted from the viewpoint of preventing unfair trading. In particular, the SESC will examine whether surveillance is focused on specific dates, such as the pricing date for public stock offering, and on specific trading timing, such as just before closing, or on specific customers who repeatedly place large orders that could affect pricing in the market, as well as whether measures are taken to identify the original customers for orders consigned from foreign-related entities. The SESC will also examine management systems, including the management of delivery failures, for short selling regulations (such as checking the indication of short selling, price regulations, the prohibition of naked short selling, and the obligation to deliver documents related to public stock offering).

As far as FIBOs with online trading or electronic facilities for DMA (direct market access) are concerned, in view of the cases of revelation of market manipulation by means of *misegyoku* (false orders to manipulate prices) using Internet transactions, the SESC will examine whether FIBOs have established viable trade surveillance systems based on the peculiarities of electronic transactions, such as customer orders feeding directly into the market.

D. Verification of the solicitation for investment

In order to protect investors and secure genuine and fair sales and solicitation operations, the SESC will focus on verifying whether FIBOs solicit customers for investment in an appropriate manner and take good care of them.

Regarding verification of solicitation for investment, the SESC will verify, from the viewpoint of the principle of suitability, whether FIBOs are appropriately soliciting investment in light of customers' knowledge, experience, and assets, as well as the investment purpose, and whether they are fully held accountable for their solicitation in accordance with the characteristics of individual customers.

In particular, the SESC will also examine whether, upon sales and cancellations, including switching of investment trusts, appropriate explanations are provided regarding important information that affects customers' investment decision-making, such as product characteristics, risk characteristics, profits/losses, dividends, commissions, and investment trust fees.

For the sale of over-the-counter (OTC) derivatives products and complex structured bonds similar to OTC derivatives products, the SESC will examine whether appropriate explanations are provided regarding important risks and other factors that affect decisions for investment in such products, including the probable maximum losses and the settlement money on cancellation.

In addition, the SESC will verify whether FIBOs have established systems for soliciting and explaining to aged customers or those customers with less knowledge of and experience with investment who utilize the Nippon Individual Savings Account (NISA).

Moreover, the SESC will verify whether widely exposed advertisements to investors, solicitation material, include any misstatements or misleading indications regarding investment returns, market factors and the state of orders. The SESC will also examine the establishment of the troubleshooting system important for investor protection.

E. Verification of the appropriateness of business and legal compliance of IMBOs

While investment management business operators, etc. (IMBOs) are entrusted with fund management for investors' interests, it is very difficult for the investors to directly monitor how their assets are being managed. Since many IMBOs incorporate external funds, including overseas ones, in their management portfolios, it is increasingly important for them to conduct due diligence and monitoring activities in a proper manner.

In particular, recent inspections of IMBOs revealed that they have violated laws and regulations, including misleading explanations about important matters in customer

solicitation activities, etc., the provision of special profits to customers, the violation of the duty of loyalty for discretionary investment management services and of the duty of care of a good manager. Therefore, the SESC will properly collect and analyze related information by utilizing the Pension Investment Hotline, determine the inspection priorities, and examine the viability of due diligence and monitoring activities, the appropriateness of investment solicitation activities, the status of compliance with laws and regulations concerning the duty of loyalty and the duty of care of a good manager, their systems for managing conflicts of interest in relation to transactions with interested parties, etc.

F. Verification of the business management systems of CRAs

The SESC will verify whether credit rating agencies (CRAs) have established business management systems, and whether they have appropriately disclosed information relating to their rating policies from the perspective of preventing conflicts of interest and preserving the fairness of the rating process.

G. Verification of FBOs' compliance with laws and regulations

Regarding BOs engaging in the fund management and sales of interests of collective investment schemes (funds) (meaning IMBOs engaged in self-management business and Type II FIBOs, including QII business operators; "FBOs"), inspections have revealed many cases of legal violations, such as failure in segregation management of funds (misappropriation of funds and unexplained expenditure), false explanations and notices, misleading indications, name-lending to unregistered BOs, and QII business operators selling and managing funds without satisfying the conditions for specially permitted businesses of notification. In light of these circumstances, the SESC will examine FBOs' compliance with laws and regulations, including the appropriateness of business operations and the segregation in fund management.

In cases of overseas funds, it is difficult to check detailed contents or characteristics of products directly, and if Japanese laws and regulations cannot apply to such products directly, it is difficult to protect the rights and interests of investors. In view of this, the SESC will make efforts to examine whether BOs selling such products conduct sufficient and appropriate due diligence and monitoring activities for related funds and their issuers, managers, etc. in consideration of the risks involved in such products, and whether there are any problems of customer solicitation activities, in light of the principle of suitability and other investor protection.

Furthermore, with regard to QII business operators, securities inspections have identified malicious cases in which some operators committed violations of the FIEA and other wrongdoings. Thus, SESC will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions, etc. If violations of the FIEA or acts impairing investor protection are confirmed in the securities inspections or investigations, the SESC will file petitions for injunctions and/or publicize the names of the inspected or investigated entities, the names of their representatives, acts of violation of laws and regulations, etc., where necessary.

H. Verification of compliance with laws and regulations by investment advisors/agencies

FY2013 inspections revealed that some investment advisors/agencies committed serious legal violations of selling and soliciting financial instruments to customers without necessary registration as Type I or Type II operators. Some of them stated that they did not receive sales commissions, etc. from overseas funds, but in fact they did receive commissions from issuers, etc. of overseas funds, according to the amount of purchase by customers, by way of their overseas subsidiaries. In view of these cases, the SESC will focus on examining, especially investment advisors'/agencies' compliance with laws and regulations, and their systems for soliciting and explaining to customers whether there are similar cases.

I. Verification of the functions of SROs etc.

As for self-regulatory organizations (SROs), the SESC will examine capabilities and functions of self-regulatory operations, as well as their systems necessary for exercising their functions properly. Specifically, the SESC will conduct verification with regard to the establishment of self-regulatory rules for their members, their regulatory enforcement, such as on-site and off-site reviews, and penalties, listing examination and transaction surveillance. In conducting verification of listing examination, the SESC will also look into the SROs' on-going measures to thwart intrusion of anti-social forces in the financial and capital markets, including the collection of information on the involvement of anti-social forces in issuing companies and listed companies.

As for financial instruments exchanges, clearing houses, depository trust institutions, etc., in consideration of the "Principles for Financial Market Infrastructures" finalized by the IOSCO, the SESC will examine the development of their systems, such as IT system risk management, in order to verify whether they are well prepared to function as financial market infrastructure.

J. Dealing with unregistered BOs

To deal with serious FIEA violations, such as sales and solicitations of unlisted stocks and funds by unregistered BOs, the SESC will strengthen ties with supervisory departments and investigative authorities, and, where necessary, will make proper use of its authority to conduct investigations necessary to file petitions for court injunctions. If such conducts are confirmed as violating the FIEA or impairing investor protection, the SESC will file petitions for injunctions etc., and publicize the names of unregistered BOs, the names of their representatives, facts of violation of laws and regulations, and other relevant information.

2) Verification of internal control systems and financial soundness

A. Verification of internal control systems

In the case where an inspection shows problems related to business operations, the SESC will endeavor to comprehend the whole picture of problems by examining the appropriateness and viability of the internal control systems and risk management systems (internal control systems etc.). In examining internal control systems, etc., the SESC will pay attention to the engagement and commitment of the senior management and concerned parties in the system management.

In particular, as for a large-scale securities group engaging in complex business operations as a group for which establishing internal control systems, etc., is considered to be important given its market position and business characteristics, the SESC will constantly monitor the status of the group's business operation and financial situation as a whole, and conduct inspections by putting weight on the appropriateness of the internal control systems, etc., from a forward-looking viewpoint. Specifically, the SESC will identify problems and risks common to the industry by fully monitoring the actual conditions of business operations through off-site hearings throughout the year in further collaboration with supervisory departments and implement more effective and efficient on-site inspections by focusing on specific examination themes. In addition, a cycle will be established so as to effectively utilize findings of inspections in the monitoring of the following year.

B. Verification of IT system risk management

In recent years, FIBOs have become increasingly dependent on IT systems in their business operations. At the same time, online participation in securities transactions and FX trading have become usual among individual investors. Accordingly, IT systems are important infrastructures of financial transactions.

Under these circumstances, it is very important to secure the stability of IT systems and establish crisis management measures from the viewpoint of protecting investors and ensuring public confidence in the market and FIBOs. The SESC will examine the appropriateness and viability of management systems for the IT systems risk preventive measures, and the efficacy of business continuity plans, including erroneous order placement prevention, IT systems troubleshooting, information security management, and outsourcing management. At the same time, the SESC will also verify whether the top management fully understands the importance of the IT systems risk preventive measures and whether they proactively engage in the investment and management of the IT systems and the risk management activities.

C. Verification of financial soundness

Inspections of Type I FIBOs have shown cases that seem attributable to deterioration of financial conditions, such as the misappropriation of the Trusts for the Separate Management of Money and Securities (TSMMS) and the Trusts for the Segregated Management of Cash Margins and Other Deposits (TSMCM), and defects in net assets and capital adequacy ratios against statutory requirement. The SESC will focus its examination on the status of TSMMS and TSMCM, and the status of net assets and capital adequacy ratios in close corporation with the supervisory department, the Japan Securities Dealers Association, and the Japan Investor Protection Fund.

(2) Implementation of efficient, effective and viable inspections

1) Risk-based prioritization of the inspection reflecting business type and other characteristics

The SESC will take on a risk-based approach in selecting which BOs to inspect based on the following viewpoints in principle, taking into account the business types, sizes and other characteristics of the BOs subject to inspection, and adjusting to the market condition at the time.

When cross-sectoral issues in the market have been identified, the SESC will flexibly conduct special inspections, as needed, on the BOs facing the same issues.

Prior to the onset of the inspection of individual BOs the SESC will identify issues to be examined, and will conduct inspections focused on them.

A. BOs to inspect on a regular basis

Type I FIBOs (including registered financial institutions) conduct transactions with a large number of investors including individual investors, thereby playing a central role in the market, and IMBOs are entrusted with fund management for investors' interests. The SESC will, in principle, conduct regular inspections on Type I FIBOs and IMBOs in view of their positions to play central roles in the markets. The SESC will conduct regular inspections on Type II FIBOs, particularly on those which sell funds to many individual investors from the viewpoint of investor protection.

CRAs assign credit ratings highly influential on the investors' decision-making, and publish and widely provide them to users. The SESC will, in principle, conduct regular inspections on CRAs in light of their roles as information infrastructure in the financial and capital markets and in view of the purpose of the international financial regulatory reform.

In effect, however, due to the severe human resource constraint at the SESC, it would be difficult to conduct regular inspections uniformly across all the above business types. The SESC will take a flexible approach in deciding the frequency and the scope of inspection of each business type, while endeavoring to grasp the overall circumstances in close cooperation with supervisory departments.

The SESC will select BOs to inspect through actively collecting and analyzing information provided by supervisory departments and external sources, and at the same time, taking into account changes in the market conditions, the position in the market, and inherent problems of individual BOs in a comprehensive manner.

B. BOs to inspect as needed

With regard to investment advisors/agencies, financial instruments intermediaries, etc., given their business types, sizes and other characteristics, and the situation where the number of BOs is extremely large compared with human resources of the SESC, the SESC will select BOs to inspect individually through actively utilizing information provided by supervisory departments and external sources, taking into account their membership in SROs and status of compliance with laws and regulations.

Furthermore, with regard to QII business operators, the SESC will actively utilize information on compliance status with laws and regulations, information provided by supervisory departments and external sources to select QII business operators to inspect

individually, and will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions.

C. Inspection of registered information

For Type II FIBOs and investment advisors/agencies, in addition to A and B above, the SESC will check the setup status in terms of whether they have established a business management system as reported in the application for registration as early as possible after their registration (hereinafter the "Inspection of Registered Information").

D. Unregistered BOs

In order to deal with serious FIEA violations by unregistered BOs such as the sale or solicitation of private equity, funds, the SESC will select BOs to inspect individually as in B above, and appropriately conduct investigations necessary to file petitions for court injunctions.

2) Implementation of viable inspection

A. Inspection with prior notice

The SESC initiates inspections without prior notice in principle. The SESC, however, will give prior notice to specific BOs, where necessary, taking into full account the characteristics of their businesses, the focuses and the efficiency of inspection, and the reduction of burden on the inspected BOs in a comprehensive manner.

B. Enhancement of interactive dialogue

The SESC will endeavor to share its recognition of problems in business operation through interactive dialogue with the inspected BOs. In particular the SESC will ascertain their perception of the senior management team responsible for the development of internal control systems, etc. by exchanging opinions, and encourage them to make voluntary efforts for improvement.

C. Rigorous actions against conduct hindering the efficacy of inspections

On one hand, most BOs gain a better understanding of the importance of interactive dialogue in inspections, but on the other, some BOs refuse inspection and make other conduct hindering the efficacy of inspections. The SESC will take rigorous actions against such conduct in order to fulfill its mission.

3) Enhancement of cooperation with the FSA and Local Finance Bureaus

The SESC will strengthen the cooperation with supervisory offices of the FSA and Local Finance Bureaus in the Ministry of Finance by sharing information and recognition through timely exchanging useful information between supervision and inspection. Furthermore, for large-scale securities groups that engage in complex business operations as a group, the SESC will seek seamless cooperation between its on-site inspections and the supervisory departments' off-site monitoring.

With respect to the relationship with the Inspection Bureau of the FSA, in order to share common awareness of the issues and to implement effective inspection on entities within the same financial business group, the SESC will collaborate with the Inspection Bureau in initiating inspections of entities constituting a financial conglomerate, and further strengthen coordination concerning the establishment of verification themes, the time and method of on-site inspections, and other matters.

The SESC will strengthen cooperation with overseas securities regulators through the exchange of necessary information and the coordination of implementation of inspection with regard to inspections on foreign-owned BOs operating in Japan, Japanese BOs with overseas offices, foreign BOs operating overseas for Japanese investors, and Japanese BOs with overseas business connections. In addition, the SESC will appropriately cooperate with major overseas securities regulators with regard to the inspection on CRAs and to its participation in supervisory colleges established for large-scale global-based securities companies.

Given the identified cases of fraudulent practices by FBOs as well as the sale and solicitation of unlisted stocks and funds by unregistered BOs, the SESC will strengthen its cooperation with the supervisory departments and police and prosecutors.

4) Cooperation with SROs

With respect to relationship with the SROs, the SESC will further enhance coordination between its own inspection and the SROs' audits and examinations on their members so as to improve all the functions of the oversight activities over FIBOs. From this perspective, the SESC will promote cooperation with the SROs, through coordination for inspection programs, information exchange and training programs.

5) Revision and publication of the Inspection Guideline and the Inspection Manual

From the perspective of rigorous action against conduct hindering the efficacy of inspections as well as more efficient and effective inspections, the SESC will revise both the Securities

Inspection Guideline, which stipulates the procedures and other fundamental matters for inspections, and the Inspection Manual for FIBOs in accordance with regulatory reforms. The SESC will publish updated guidelines and manuals so as to improve the transparency and predictability of its inspections.

This Inspection Policy has been prepared based on the situation surrounding the markets as of March 2014, and is subject to revision as necessary.

II. Securities Inspection Program

1. Basic Concept

(1) The SESC formulates the Inspection Implementation Program in accordance with the Inspection Implementation policy in line with the Securities Inspection Policy above. It should be noted that exceptional action may be taken in response to any changes in market conditions and/or factors related to specific BOs.

(2) In conducting inspections, the SESC and all the Securities and Exchange Surveillance Departments of Local Finance Bureaus in the Ministry of Finance will conduct efficient and effective inspections together, concerning how to actively use joint inspections and inspectors exchange. The SESC will also work together with such departments, and support them by sharing inspection techniques and information, and processing inspection results.

2. Basic Securities Inspection Program

Type I FIBOs (including Registered Financial Institutions), Type II FIBOs, IMBOs, and CRAs	150 companies (110 out of 150 to be inspected by the SESDs)
Investment Advisories/Agencies, QII Business Operators, and Financial Instruments Intermediaries, etc.	To be inspected based on individual information and the conditions
Inspection of Registered Information	To be inspected depending on the number of cases of registration, etc.
SROs etc.	To be inspected as necessary
Unregistered BOs	To be inspected as necessary

Note: The above numbers of inspections are subject to change due to revisions of the Inspection Program within the year and/or implementations of special inspections.

5. Investigation of Market Misconduct

1) Outline

1. Purpose of Investigation of Market Misconduct

Investigation of market misconduct is conducted based on the FIEA, under which acts are subject to administrative monetary penalties, such as insider trading, market manipulation, spreading of rumors and fraudulent means, for the purpose of ensuring the fairness of transactions in securities markets.

[Administrative monetary penalty system]

The administrative monetary penalty system serves as an administrative monetary penalty system, which was introduced in April 2005 through amendment to the Securities and Exchange Act (SEA) in 2004, in order to impose administrative monetary penalties on violators and to achieve the administrative objectives of deterring unlawful acts so as to ensure the effectiveness of regulations, in addition to criminal charges, against certain acts stipulated under the FIEA, such as insider trading, market manipulation, spreading of rumors and fraudulent means, as well as false disclosure statements.

The SESC is working to implement prompt and efficient investigation utilizing features of the administrative monetary penalty system in order to achieve prompt and strategic market surveillance which responds to environmental changes surrounding markets, thereby ensuring market integrity and transparency, and protecting investors.

If violations are revealed as a result of investigation of market misconduct, the SESC makes a recommendation to the prime minister and the commissioner of the Financial Services Agency (FSA) for the issuance of an order to pay an administrative monetary penalty (Article 20 of the Act for Establishment of the FSA) (hereinafter referred to as a “Recommendation”). Upon the Recommendation, the commissioner of the FSA (delegated by the prime minister) determines the commencement of trial procedures. After trial examiners conduct trial procedures, they prepare a draft decision on the case. Based on this draft decision, the commissioner of the FSA (delegated by the prime minister) makes the decision on whether to issue an order to pay an administrative monetary penalty.

2. Authority for Investigation of Market Misconduct

The authority to conduct administrative monetary penalty investigations in relation to market misconduct has been prescribed in Article 177 of the FIEA, under which the SESC has been authorized to:

(1) order persons concerned with a case or witnesses to appear, to question or have these persons submit a written opinion or a written report;
(2) order persons concerned to submit books and documents or other items, or to retain the submitted items;
(3) enter any business office of the persons concerned with a case and other necessary sites to inspect books, documents, and other items; and
(4) request public offices or public or private organizations to provide necessary information.

3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties

After the introduction of the Administrative Monetary Penalty System, a series of amendments to the FIEA, etc. have expanded the scope of market misconduct subject to administrative monetary penalties and have raised the amounts of administrative monetary penalties.

Currently the scope of the acts of market misconduct subject to administrative monetary penalties and the amounts of those penalties are as follows:

(1) Spreading of rumors and fraudulent means (Article 173 of the FIEA)

Administrative monetary penalty:

Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on own account at the end of the violation (i.e. spreading of rumors or fraudulent means), and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

Note: If a financial instruments business operator, etc., conducts market misconduct on account of a customer, etc., in cases where it is conducted in the fund operations, the amount of administrative monetary penalty shall be equal to three times the amount of investment. In other cases, the amount of administrative monetary penalty shall be equal to the sum of fees, rewards and other considerations (the same applies hereinafter).

(2) Fictitious or collusive sales and purchases (Article 174 of the FIEA)

Administrative monetary penalty:

Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on own account at the end of the violation (i.e. fictitious or collusive sales and purchase), and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(3) Market manipulation (Article 174-2 of the FIEA, Article 174 of the former FIEA)

Administrative monetary penalty:

Aggregate of (i) the profit or loss locked in on own account during the period of the violation (i.e. market manipulation through actual transactions), and (ii) the difference between the value of sales, etc. (purchase, etc.) related to short (long) position on own account at the end of the violation, and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(4) Illegal stabilizing transactions (Article 174-3 of the FIEA)

Administrative monetary penalty:

Aggregate of (i) the profit or loss related to the violation (i.e. illegal stabilizing transactions), and (ii) with regard to a position on own account at the start of the violation, the amount obtained by multiplying D (the difference between the average price during the one month after the violation, and the average

price during the period of the violation) by V (the volume of said position)

(5) Insider trading (Article 175 of the FIEA)

Administrative monetary penalty:

Difference between the value of sales, etc. (purchases, etc.) related to the violation (insider trading) (limited to those made during six months prior to the publication of material facts), and the product of the lowest (highest) price during the two weeks after the publication of material facts and the volume of the said sales, etc. (purchases, etc.)

(6) Tipping and trade recommendation (Article 175-2 of the FIEA)

Administrative monetary penalty:

Computed as the value of the benefit from trading performed by the recipient based on an act of violation (tipping and trade recommendation) multiplied by 1/2

Note: The violating act is newly subject to an administrative monetary penalty by the enforcement of the Act for Amendment of the Financial Instruments and Exchange Act (Law No. 5, 2013), which shall be applicable to violating acts committed on or after April 1, 2014.

Notes: 1. In cases where the violator has received an administrative monetary penalty payment order within the past five years, the amount of the administrative monetary penalty shall be multiplied by a factor of 1.5.

2. For cases of insider trading related to the acquisition of treasury stock by a listed company, etc., where the violator made a declaration prior to the investigation by the authorities, the amount of the administrative monetary penalty shall be halved.

4. Activities in FY2013

(1) In FY2013, there were 35 cases of market misconduct (on the basis of the number of violators) recommended to the commissioner of the FSA (prime minister). The administrative monetary penalty applicable to these cases amounted to 71,610,000 yen (excluding cases related to Chapter 6; the same applies to Chapter 5.2 below).

(2) Eight years have passed since the introduction of the administrative monetary penalty system. Given the accumulation of practical knowhow on the investigation of market misconduct, the SESC formulated and announced the "Basic Guidelines on Investigation of Market Misconduct" in August 2013, which define the basic idea of the investigation of market misconduct and standard implementation procedures with the aim of enhancing the transparency of the investigation procedure.

2) Recommendations for Orders to Pay Administrative Monetary Penalties Based on the Results of Investigation of Market Misconduct

1. Overview of Recommendations

(1) In FY2013, there were 35 Recommendations made on market misconduct. Among these, 28 were insider trading cases, and 7 were market manipulation, a significant

increase from the 13 in FY2012. The maximum amount of penalty applied to a violator was 13,140,000 yen in an insider trading case, and the minimum was 120,000 yen in a market manipulation case. As a result, since April 2005, when the administrative monetary penalty system was introduced, the total number of Recommendations on insider trading has reached 161 (by 155 individuals and by 6 corporations) amounting to 329,230,000 yen, while the total number of Recommendations on market manipulation has reached 34 (all by individuals) amounting to 105,030,000 yen.

One of the cases recommended by the SESC in FY2103 was a case of insider trading by persons who had received material nonpublic information from an officer negotiating the conclusion of a contract with NCXX Inc. In this case, an officer of a company who had been negotiating the conclusion of a stock subscription contract with NCXX Inc. came to know of a material fact in the course of negotiations, and engaged in insider trading using the other person's account despite the presence of his/her own account. In addition, the officer tipped the others mentioned with the information, and the three recipients also engaged in insider trading.

There was another case of market manipulation related to the shares of Mammy Mart Corporation and one other stock. In this case, a person residing in a regional area became involved in market manipulation on the Internet using his/her own account and another person's account.

(2) Looking at the attributes of violators in the recommendations made related to insider trading in FY2013, compared to FY2012, cases committed by primary recipients of information accounted for a large portion, the same as in FY2012.

Looking at the attributes of persons who passed on insider information, there was a high proportion of cases where the persons who obtained such information as parties to conclude a contract passed on the insider information, the same as in FY2012.

Looking at the types of material facts involved, there was an increase in the number of revisions of business results forecast, business alliances or dissolutions thereof, and tender offers, the same as in FY2012. In addition, there were new items of material facts pertinent to the new issuance of shares, such as mergers and subsidiaries. The material facts pertaining to violations are becoming more diverse.

Changes in Number of Recommendation Cases by Attribute of Violator

	FY2012	FY2013
Corporate insider	5	10
Officer, etc. of issuer	4	4
Party to a contract	1	6
Tender offeror or other concerned party	0	0
Officer, etc. of tender offeror	0	0
Tender offeror and party to a contract	0	0
Primary recipient of information	8	18
Corporate material fact	3	13
Tender offer	5	5
No. of cases recommendations, by FY	13	28

Changes in Number of Recommendation Cases by Type of Material Fact

	FY2012	FY2013
Issuance of stock, etc.	0	6
Acquisition of treasury stock	0	1
Stock split	0	1
Merger	0	3
Business alliance or dissolution thereof	3	5
Share transfer resulting in a transfer of controlling interest of a subsidiary	1	0
Commencement of a new business	1	0
Revision of earnings forecast, etc.	3	6
Basket clause	3	0
Event about a subsidiary	0	2
Tender offer	5	5
No. of cases recommendations, by FY	13	28

Changes in Number of Recommendation Cases, by Attribute of Transmitter of Information

	FY2012	FY2013
Transmission of material facts	3	13
Officer, etc. of issuer	2	4
Party to a contract	1	9
Transmission of information on tender offer	5	5
Officer, etc. of tender offeror	1	2
Tender offeror and party to a contract	4	3
Officer, etc. of target party	2	3

Notes: 1. “FY” is April to March of the following year.
2. No. of recommendation cases is recorded on the basis of the number of violators.
3. As for No. of recommendation cases, by type of material fact, when a violator committed insider trading, being aware of multiple material facts, the case is recorded redundantly in relevant types of material facts. Therefore, the aggregate of the number of cases in each box may not be consistent with the figure in No. of cases recommendations, by FY.

2. Brief Summary of Recommendations Issued in FY2013

With respect to the cases recommended for orders to pay administrative monetary penalties on market misconduct in FY2013, the following is a brief summary of those cases:

(1) Recommendation on Insider Trading

(i) Recommendation on insider trading related to the shares of S x L Corporation by a person receiving information from an employee of a tender offeror

The violator received material nonpublic information from an employee of YAMADA DENKI CO., LTD. (hereafter referred to as “YAMADA”) who had come to know of the information in the course of his/her duties. The information concerned a material fact that the organ which was responsible for making decisions on the execution of the operations of YAMADA had decided to make a tender offer for the shares of S x L Corporation (hereinafter referred to as "S x L"). While in receipt of that information, the violator purchased a total of 15,000 S x L shares on his/her own account at the amount of 990,000 yen on July 4, 2011, prior to the above fact being announced on August 13, 2011.

[Date of Recommendation] April 19, 2013
[Amount of administrative monetary penalty] 790,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: April 19, 2013
Date of order to pay administrative monetary penalty: May 23, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ii) Recommendation on insider trading by an officer of a subsidiary of ISHII HYOKI CO., LTD.

The violator was an officer of Ishii Hyoki Solar Co., Ltd. (hereinafter referred to as “Ishii Hyoki Solar”), a subsidiary of ISHII HYOKI CO.,LTD. (hereinafter referred to as “ISHII HYOKI”), who, in the course of his/her duties, had come to know of the material fact that the organ which was responsible for making decisions on the execution of the operations of Ishii Hyoki Solar had decided to dissolve the operations of Ishii Hyoki Solar. While knowing that fact, the violator purchased a total of 7,700 ISHII HYOKI shares on the account of a family-owned company of the violator at the amount of 5,544,000 yen from August 23 and 24, 2011, prior to the above fact being announced on August 31, 2011.

[Date of Recommendation] May 10, 2013
[Amount of administrative monetary penalty] 3,120,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: May 10, 2013
Date of order to pay administrative monetary penalty: June 5, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(iii) Recommendation on insider trading by a person receiving information from an officer of Kenko.com. Inc.

The violator received material nonpublic information from an officer of Kenko.com. Inc. (hereinafter referred to as “Kenko.com”) who had come to know of the information in the course of his/her duties. The information concerned a material fact that the organ which was responsible for making decisions on the execution of the operations of Kenko.com had decided to make a capital increase through the allocation of new shares to a third party, in which Rakuten, Inc. was to be the allottee. While in receipt of that information, the violator purchased a total of 8 Kenko.com shares on his/her own account at the amount of 328,500 yen during the time from about 9:00 AM to about 9:46 AM on May 17, 2012, prior to the above fact being announced at about 3:30 PM on May 17, 2012.

[Date of Recommendation] May 28, 2013
[Amount of administrative monetary penalty] 240,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: May 28, 2013
Date of order to pay administrative monetary penalty: June 21, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(iv) Recommendation on insider trading by an employee of COSEL CO., LTD.

The violator was an employee of COSEL Co., LTD. (hereinafter referred to as “COSEL”), who, in the course of his/her duties, had come to know of the material fact that the organ which was responsible for making decisions on the execution of the operations of COSEL had decided to acquire its treasury shares. While knowing that fact, the violator purchased a total of 12,000 COSEL shares on his/her own account at the amount of 10,487,400 yen during the period from June 6, 2012, to June 8, 2012, prior to the above fact being announced on June 13, 2012.

[Date of Recommendation] June 14, 2013
[Amount of administrative monetary penalty] 1,920,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: June 14, 2013
Date of order to pay administrative monetary penalty: July 18, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(v) Recommendation on insider trading by a person receiving information from an officer of AnGes MG, Inc.

The violator received material nonpublic information from an officer of AnGes MG, Inc.

(hereinafter referred to as "AnGes MG") who had come to know of the information in the course of his/her duties. The information concerned the material fact that the organ, which was responsible for making decisions on the execution of the operations of AnGes MG, had decided to form a business alliance with Mitsubishi Tanabe Pharma Corporation. While in receipt of that information, the violator purchased a total of 16 AnGes MG shares on his/her own account at the amount of 594,950 yen at about 10:53 AM on July 2, 2012, prior to the above fact being announced about at 11:30 AM on July 2, 2012.

[Date of Recommendation] July 23, 2013
[Amount of administrative monetary penalty] 1,020,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: July 23, 2013
Date of order to pay administrative monetary penalty: August 23, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(vi) Recommendation on insider trading by a person receiving information from another person negotiating a conclusion of a contract with OKWave.

The violator received material nonpublic information from an officer of BRICKs Corporation (hereinafter referred to as “BRICKs”), who had been negotiating the conclusion of a contract for a capital and business alliance with OKWave, and who had come to know of the information in the course of negotiations for conclusion of the contract. The information concerned the material fact that the organ, which was responsible for making decisions on the execution of the operations of OKWave, had decided to form a business alliance with BRICKs. While in receipt of that information, the violator purchased a total of 1,300 OKWave shares on his/her own account at the amount of 1,017,600 yen during the time from about 2:18 PM to 3:26 PM on October 23, 2012, prior to the above fact being announced about at 4:00 PM on October 23, 2012.

[Date of Recommendation] August 30, 2013
[Amount of administrative monetary penalty] 860,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: August 30, 2013
Date of order to pay administrative monetary penalty: April 18, 2014

(vii) Recommendation on insider trading related to the shares of So-net Entertainment Corporation by a person receiving information from an employee of a tender offeror

The violator received material nonpublic information from an employee of SONY CORPORATION (hereinafter referred to as "SONY") who had come to know of the information in the course of his/her duties. The information concerned the material fact that the organ, which was responsible for making decisions on the execution of the operations of SONY had decided to make a tender offer for the shares of So-net Entertainment Corporation (hereinafter referred to as "So-net"). While in receipt of that information, the violator purchased a total of 12 So-net shares on his/her own account

at the amount of 3,907,500 yen during the time from about 11:34 AM to 1:36 PM on August 3, 2012, prior to the above fact being announced on August 10, 2012.

[Date of Recommendation] August 30, 2013
[Amount of administrative monetary penalty] 2,890,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: August 30, 2013
Date of order to pay administrative monetary penalty: September 27, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(viii) Recommendation on insider trading by an employee of TODA CORPORATION

The violator was an employee of TODA CORPORATION (hereinafter referred to as "TODA") who had come to know of material nonpublic information in the course of his/her duties. The information concerned the material fact regarding that, compared to the most recent forecast for the company's net income for the period ending March 2013 that had been announced on August 9, 2012, a difference had arisen in the new calculated forecast, which is regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While knowing that information, the violator purchased a total of 9,000 TODA shares on his/her own account at the amount of 2,169,000 yen during the time from about 12:34 PM to 1:49 PM on October 31, 2012, prior to it being announced at about 3:00 PM on October 31, 2012, that the newly calculated forecast of the net loss was 39,800,000,000 yen.

[Date of Recommendation] September 25, 2013
[Amount of administrative monetary penalty] 520,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: September 25, 2013
Date of order to pay administrative monetary penalty: October 17, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ix) Recommendation on insider trading related to the shares of Ost Japan Group Inc. by persons receiving information from a party to a contract with a tender offeror

1. The violator (i) received information from an officer of a subsidiary of Ost Japan Group Inc. (hereinafter referred to as "Ost Japan Group"), who had been negotiating the conclusion of a contract for a capital and business alliance with FUJI YAKUHIN CO., LTD. (hereinafter referred to as "FUJI YAKUHIN"), and who had come to know of material nonpublic information in the course of negotiations for conclusion of the contract. The information concerned the material fact (hereinafter referred to as "Material Fact") that the organ which was responsible for making decisions on the execution of the operations of FUJI YAKUHIN had decided to make a tender offer for the shares of Ost Japan Group. While in receipt of that information, the violator (i)

purchased a total of 3,000 Ost Japan Group shares on his/her own account at the amount of 968,700 yen during the period from November 29, 2012 to December 7, 2012, prior to the above fact being announced on January 10, 2013.

2. Violator (ii), while in receipt of information on the Material Fact from the officer of the subsidiary of Ost Japan Group, purchased a total of 2,300 Ost Japan Group shares on his/her own account at the amount of 810,400 yen during the period from December 27, 2012 to January 8, 2013, prior to the above fact being announced on January 10, 2013.

[Date of Recommendation] October 29, 2013
[Amount of administrative monetary penalty]
Violator (i): 1,450,000 yen
Violator (ii): 1,050,000 yen
[Process following Recommendation]
(Violator (i))
Date of decision to start trial procedures: October 29, 2013
Date of order to pay administrative monetary penalty: November 27, 2013

Since a written reply admitting these facts was submitted by the violator (i), no trial hearing was conducted.

(Violator (ii))
Date of decision to start trial procedures: October 29, 2013
Date of order to pay administrative monetary penalty: February 28, 2014

With regard to the recommendation, the respondent (Violator (ii)) submitted a written reply denying the facts of the violation, insisting that he/she did not receive any word like "tender offer" or "takeover bid" regarding the receipt of the Material Fact. Therefore, in this case, this point was in dispute.

Following the trial procedures, the Commissioner of the FSA made the decision to order payment of the administrative monetary penalty, arguing that, in conducting the transactions in this case, the respondent (Violator (ii)) was acknowledged to have received the Material Fact.

(x) Recommendation on insider trading by a person receiving information from another person negotiating a conclusion of a contract with a subsidiary of Noritsu Koki Co., Ltd.

The violator received material nonpublic information from an officer of Zenkokutsuhan Co., Ltd. (hereinafter referred to as “Zenkokutsuhan”), who had been negotiating with NK Relations Co., Ltd. (hereinafter referred to as “NKR”) about the conclusion of a contract for the transfer of shares of Zenkokutsuhan and seven other companies, and who had come to know of the information in the course of negotiations for conclusion of the contract. The information concerned the material fact that the organ which was responsible for making decisions on the execution of the operations of NKR had decided to acquire shares including a change in controlling interest in its indirect subsidiary. While in receipt of that information, the violator purchased a total of

8,000 Noritsu Koki Co., Ltd. shares on own his/her account and on account of a relative of the violator at the amount of 2,546,000 yen on December 10 and 20, 2012, prior to the above fact being announced on December 21, 2012.

[Date of Recommendation] October 29, 2013
[Amount of administrative monetary penalty] 470,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: October 29, 2013
Date of order to pay administrative monetary penalty: November 27, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xi) Recommendation on insider trading related by employees of a party negotiating a conclusion of a contract with SystemSoft Corporation and by a person receiving information from that employee

1. Violator (i) was an employee of Power Technology Co., Ltd. (hereinafter referred to as “Power Technology”) and had come to know of material nonpublic information in the course of his/her duties through an officer of Power Technology. The information concerned the material fact (hereinafter referred to as "Material Fact") that the organ, which was responsible for making decisions on the execution of the operations of SystemSoft Corporation (hereinafter referred to as “SystemSoft”), had decided to conclude a merger contract with Power Technology, which the officer had come to know of in the course of negotiations for the conclusion of the merger agreement. While knowing the Material Fact, the violator (i) purchased a total of 4,900 SystemSoft shares on his/her own account at the amount of 343,000 yen on October 24, 2012, prior to the above fact being announced on October 31, 2012.

2. Violator (ii) was an employee of Power Technology and had come to know of the Material Fact in the course of his/her duties through the officer, while the officer had come to know of the Material Fact in the course of negotiations for the conclusion of the merger agreement. While knowing the Material Fact, the violator (ii) purchased a total of 13,200 SystemSoft shares on his/her own account at the amount of 983,400 yen on October 29, 2012, prior to the above fact being announced on October 31, 2012.

3. Violator (iii), while in receipt of information on the Material Fact from the violator (ii), purchased a total of 6,300 SystemSoft shares on his/her own account at the amount of 466,200 yen on October 26, 2012, prior to the above fact being announced on October 31, 2012.

[Date of Recommendation] November 26, 2013
[Amount of administrative monetary penalty]
Violator (i) 550,000 yen
Violator (ii) 1,430,000 yen
Violator (ii) 680,000 yen

[Process following Recommendation] (The same date applied to all of violators)
Date of decision to start trial procedures: November 26, 2013
Date of order to pay administrative monetary penalty: December 19, 2013

Since a written reply admitting these facts was submitted by all violators, no trial was conducted.

(xii) Recommendation on insider trading by an employee of Wacom Co., Ltd.

The violator was an employee of Wacom Co., Ltd. (hereinafter referred to as “Wacom”) who came to know of material nonpublic information in the course of his/her duties. The information concerned the material fact that, compared to the most recent forecast for the company’s consolidated net sales for the period ending March 31, 2013, which was announced on October 19, 2012, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While knowing that information, the violator purchased a total of 35 Wacom shares on his/her own account at the amount of 9,129,600 yen during the time from about 9:02 AM to 9:07 AM on January 23, 2013, prior to it being announced at about 3:00 PM on January 23, 2013, that the newly calculated forecast of net sales was 62,500,000,000 yen.

[Date of Recommendation] December 20, 2013
[Amount of administrative monetary penalty] 2,030,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: December 20, 2013
Date of order to pay administrative monetary penalty: January 23, 2014

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xiii) Recommendation on insider trading by a person receiving information from an employee of SUNNY SIDE UP Inc.

The violator received material nonpublic information from an employee of SUNNY SIDE UP Inc. (hereinafter referred to as "SUNNY SIDE UP") who came to know of the information in the course of his/her duties. The information concerned the material fact that, compared to the most recent forecast for the company’s consolidated ordinary income and net income for the period ending June 30, 2013, which was announced on November 5, 2012, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While in receipt of that information, the violator purchased a total of 1000 SUNNY SIDE UP shares on his/her own account at the amount of 1,004,600 yen on January 22, 2013, prior to it being announced on January 24, 2013, that the newly calculated forecasts of ordinary income and net income were 613,000,000 yen and 356,000,000 yen, respectively.

[Date of Recommendation] January 28, 2014

[Amount of administrative monetary penalty] 680,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: January 28, 2014
Date of order to pay administrative monetary penalty: February 28, 2014

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xiv) Recommendation on insider trading by a person receiving information from an officer of WILL Co., Ltd.

The violator received material nonpublic information from an officer of WILL Co., Ltd. (hereinafter referred to as “WILL”) who had come to know of the information in the course of his/her duties. The information concerned the material fact that the organ, which was responsible for making decisions on the execution of the operations of WILL, had decided to split the shares of WILL. While in receipt of that information, the violator purchased a total of 5 WILL shares on his/her own account at the amount of 646,300 yen during the time from about 2:31 PM to about 2:33 PM on November 26, 2012, prior to the above fact being announced about at about 3:30 PM on November 26, 2012.

[Date of Recommendation] January 28, 2014
[Amount of administrative monetary penalty] 600,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: January 28, 2014
Date of order to pay administrative monetary penalty: February 28, 2014

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xv) Recommendation on insider trading by an officer of a party negotiating a conclusion of a contract with NCXX Inc. and persons receiving information from the officer

1. The violator (i) was an officer of a party negotiating a conclusion of a contract with NCXX Inc. (hereinafter referred to as “NCXX”), who had come to know of material nonpublic information in the course of negotiations for conclusion of the contract. The information concerned a material fact (hereinafter referred to as "Material Fact") that the organ which was responsible for making decisions on the execution of the operations of NCXX had decided to solicit an underwriter for the shares to be issued. While knowing the Material Fact, the violator purchased a total of 91 NCXX shares on his/her own account at the amount of 2,062,890 yen during the period from January 9, 2013, to January 11, 2013, prior to the above fact being announced on January 23, 2013.

2. Violator (ii), while in receipt of the Material Fact from the violator (i), purchased a total of 80 NCXX shares on his/her own account at the amount of 1,851,900 yen during the period from January 18, 2013, to January 21, 2013, prior to the above fact being announced on January 23, 2013.

3. Violator (iii), while in receipt of the Material Fact from the violator (i), purchased a total of 65 NCXX shares on his/her own account and on the account of a family-owned company of the violator (iii), at the amount of 1,524,850 yen during the period from January 18, 2013, to January 21, 2013, prior to the above fact being announced on January 23, 2013.

4. Violator (iv), while in receipt of the Material Fact from the violator (i), purchased a total of 100 NCXX shares on his/her own account at the amount of 2,343,900 yen on January 21, 2013, prior to the above fact being announced on January 23, 2013.

[Date of Recommendation] February 7, 2014
[Amount of administrative monetary penalty]
Violator (i): 1,530,000 yen
Violator (ii): 1,300,000 yen
Violator (iii): 1,040,000 yen
Violator (iv): 1,600,000 yen
[Process following Recommendation] (The same date applied to all of violators)
Date of decision to start trial procedures: February 7, 2014
Date of order to pay administrative monetary penalty: March 10, 2014

Since a written reply admitting these facts was submitted by all violators, no trial was conducted.

(xvi) Recommendation on insider trading by an employee of a party to a contract with TANAKA CHEMICAL CORPORATION and by a person receiving information from the employee

1. The violator (i) was an employee of Panasonic Corporation (hereinafter referred to as "Panasonic") who had come to know of material nonpublic information in the course of fulfilling of the transaction contract concluded between Panasonic and TANAKA CHEMICAL CORPORATION (hereinafter referred to as "TANAKA CHEMICAL"). The information concerned the material fact (hereinafter referred to as "Material Fact") that the organ, which was responsible for making decisions on the execution of the operations of TANAKA CHEMICAL, had decided to form a business alliance with SUMITOMO CHEMICAL COMPANY, LIMITED with respect to the fulfillment of the contract concluded between TANAKA CHEMICAL and Panasonic. While knowing the Material Fact, the violator (i) purchased a total of 2,500 TANAKA CHEMICAL shares on his/her own account at the amount of 875,700 yen during the time from about 10:29 AM to 2:23 PM on March 28, 2013, prior to the above fact being announced at about 4:00 PM on March 28, 2013.

2. Violator (ii), while in receipt of the Material Fact from the violator (i), purchased a total of 1,900 TANAKA CHEMICAL shares on his/her own account at the amount of 683,400 yen during the time from about 2:10 PM to 2:56 PM on March 28, 2013, prior to the above fact being announced at about 4:00 PM on March 28, 2013.

[Date of Recommendation] February 25, 2014

[Amount of administrative monetary penalty]
Violator (i): 680,000 yen
Violator (ii): 500,000 yen
[Process following Recommendation] (The same date applied to all of violators)
Date of decision to start trial procedures: February 25, 2014
Trial procedures underway (as of April 30, 2014)

(xvii) Recommendation on insider trading by an employee of a party negotiating the conclusion of a contract with COSMOS INITIA Co., Ltd.

The violator was an employee of DAIWA HOUSE INDUSTRY CO., LTD. (hereinafter referred to as “DAIWA HOUSE INDUSTRY”) and had come to know of material nonpublic information in the course of his/her duties through an another employee of DAIWA HOUSE INDUSTRY. The information concerned the material fact that the organ, which was responsible for making decisions on the execution of the operations of COSMOS INITIA Co., Ltd. (hereinafter referred to as “COSMOS INITIA”), had decided to form a business alliance with DAIWA HOUSE INDUSTRY and to issue shares to make a capital increase through the allocation of new shares to a third party, in which DAIWA HOUSE INDUSTRY was to be allotted.

While knowing that information, the violator purchased a total of 17,000 COSMOS INITIA shares on his/her own account at the amount of 13,220,000 yen during the period from April 12, 2013, to April 15, 2013, prior to the above fact being announced on April 16, 2013.

[Date of Recommendation] February 25, 2014
[Amount of administrative monetary penalty] 13,140,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: February 25, 2014
Date of order to pay administrative monetary penalty: March 24, 2014

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xviii) Recommendation on insider trading related to the shares of MEGANE TOP CO., LTD. by an officer receiving information from another officer of a party to a contract with a tender offeror

The violator, who was an officer of a client (hereinafter referred to as "Client") having business relations with MEGANE TOP CO., LTD. (hereinafter referred to as "MEGANE TOP"), had come to know of material nonpublic information in the course of his/her duties through another officer of the Client concerning the fact that the organ which was responsible for making decisions on the execution of the operations of Tomizawa Co., Ltd. (hereinafter referred to as “Tomizawa”) had decided to make a tender offer for the shares of MEGANE TOP. Said officer of MEGANE TOP had come to know of the information in the course of fulfilling a non-disclosure agreement concluded between Tomizawa and MEGANE TOP, and subsequently, another officer of the Client had come to know of the information in the course of his/her duties. While knowing the tender offer fact in this case, the violator purchased a total of 2,000 MEGANE TOP shares on his/her

own account at the amount of 2,620,000 yen on April 15, 2013, prior to the above fact being announced on April 16, 2013.

[Date of Recommendation] March 11, 2014
[Amount of administrative monetary penalty] 190,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: March 11, 2014
Date of order to pay administrative monetary penalty: April 18, 2014

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xix) Recommendation on insider trading by a person negotiating a conclusion of a contract with SUPER TOOL CO., LTD. and persons receiving information from the officer

1. The violator (i) was a person negotiating the conclusion of a contract with SUPER TOOL CO., LTD. (hereinafter referred to as “SUPER TOOL”) who came to know of material nonpublic information in the course of negotiations for conclusion of the contract. The information concerned the material fact (hereinafter referred to as "Material Fact") that, compared to the most recent forecast for the company’s consolidated net sales for the period ending March 31, 2013, which was announced on October 17, 2012, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While knowing the Material Fact, the violator (i) purchased a total of 6,000 SUPER TOOL shares on his/her own account at the amount of 1,938,000 yen on April 15, 2013, prior to it being announced at about 3:10 PM on April 18, 2013, that the newly calculated forecast of net sales was 6,274,000,000 yen.

2. Violator (ii), while in receipt of the Material Fact from the violator (i), purchased a total of 3,000 SUPER TOOL shares on his/her own account at the amount of 961,000 yen during the period from April 15, 2013, to 10:06 AM on April 18, 2013, prior to it being announced at about 3:10 PM on April 18, 2013.

3. Violator (iii), while in receipt of the Material Fact from violator (i), purchased a total of 1,000 SUPER TOOL shares on his/her own account at the amount of 320,000 yen on April 16, 2013, prior to it being announced at about 3:10 PM on April 18, 2013.

[Date of Recommendation] March 28, 2014
[Amount of administrative monetary penalty]
Violator (i): 910,000 yen
Violator (ii): 460,000 yen
Violator (iii): 150,000 yen
[Process following Recommendation] (The same date applied to all of violators)
Date of decision to start trial procedures: March 28, 2014
Date of order to pay administrative monetary penalty: April 23, 2014

Since a written reply admitting these facts was submitted by all violators, no trial was conducted.

(2) Recommendation on Market Manipulation

(i) Recommendation on market manipulation related to the shares of Mammy Mart Corporation, and one other issue

For the purpose of inducing sales and purchases of the shares as indicated below,

(a) With regard to the shares of Mammy Mart Corporation, during the period of nine trading days from about 9:12 AM on February 10, 2012, to about 3:09 PM on February 23, 2012, the violator purchased a total of 2,500 shares of the company while selling a total of 4,300 shares of the company on his/her own account, out of his/her involvement in purchasing 4,100 shares and selling 6,200 shares, including in a manner intended to raise the share prices by matching buying orders placed at market price with selling orders placed at higher prices than the latest contract price at around the same time, and by supporting the lower prices through placement of multiple buying orders below best ask. In this way, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

(b) With regard to the shares of Kurogane Kosakusho Ltd., during the period of eight trading days from about 2:19 PM on March 30, 2012, to about 1:23 PM on April 10, 2012, the violator purchased a total of 57,000 shares of the company while selling a total of 58,000 shares of the company on his/her own account, out of his/her involvement in purchasing 106,000 shares and selling 107,000 shares, including in a manner intended to raise the share prices by matching buying orders placed at market price with selling orders placed at higher prices than the latest contract price at around the same time, and by supporting the lower prices through the placement of multiple buying orders below best ask. In this way, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] May 28, 2013
[Amount of administrative monetary penalty] 120,000 yen
[Process following Recommendation]
Date of decision to start procedures: May 28, 2013
Date of order to pay penalty: June 21, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ii) Recommendation on market manipulation related to the shares of 21LADY Co., Ltd.

For the purpose of inducing sales and purchases of the shares of 21LADY Co., Ltd, during the period of ten trading days from about 10:11 AM on May 16, 2012, to about 12:46 PM on May 30, 2012, the violator purchased a total of 1,450 shares of the company while selling a total of 1,356 shares of the company, including in a manner

intended to raise the share prices by matching buying and selling orders, and by consecutively placing large buying orders at higher prices than the latest contract price to make them be executed at higher prices. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] June 14, 2013
[Amount of administrative monetary penalty] 3,600,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: June 14, 2013
Date of order to pay administrative monetary penalty: July 18, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(iii) Recommendation on market manipulation related to the shares of FULLCAST TECHNOLOGY CO., LTD.

For the purpose of inducing sales and purchases of the shares of FULLCAST TECHNOLOGY CO., LTD., during the period of nine trading days from about 1:47 PM on November 22, 2010, to about 9:35 AM on December 3, 2010, the violator purchased a total of 63 shares of the company while selling a total of 86 shares of the company, including in a manner intended to raise the share prices by matching buying and selling orders, and by consecutively placing large buying orders at higher prices than the latest contract price, etc. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] June 27, 2013
[Amount of administrative monetary penalty] 1,080,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: June 27, 2013
Date of order to pay administrative monetary penalty: January 23, 2014

With regard to the recommendation, the respondent submitted a written reply denying the facts of the violation, insisting that the respondent had no intention to induce other investors to follow sales and purchases of the shares through the transactions, and that the transactions had not been made on his/her own account. Therefore, in this case, this point was in dispute.

Following the trial procedures, the Commissioner of the FSA made the decision to order payment of the administrative monetary penalty, arguing that, in conducting the transactions in this case, it could be recognized that the respondent had the intention to induce sales and purchases of the shares, and that the transactions were made on his/her own account.

(iv) Recommendation on market manipulation related to the shares of CK SAN-ETSU Co., Ltd.

For the purpose of inducing sales and purchases of the shares of CK SAN-ETSU Co., Ltd., during the period of ten trading days from about 9:48 AM on April 5, 2012, to about 1:17 PM on April 18, 2012, the violator purchased a total of 11,200 shares of the company while selling a total of 10,900 shares of the company, including in a manner intended to raise the share prices by matching buy orders placed at market price or at higher prices than the latest contract price, and by raising closing prices through the placement of buying orders at higher prices than the latest contract price just before the close of market hours to make them be executed at higher prices. In this way, on his/her own account and on the account of a family-owned company of the violator, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] September 25, 2013
[Amount of administrative monetary penalty] 5,960,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: September 25, 2013
Date of order to pay administrative monetary penalty: October 17, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(v) Recommendation on market manipulation related to the shares of Financial Products Group Co., Ltd.

For the purpose of inducing sales and purchases of the shares of Financial Products Group Co., Ltd., during the time from about 11:17 AM to about 3:00 PM on October 9, 2012, the violator purchased a total of 53,100 shares of the company while conducting behavior such as placing buying orders of 3,500 shares of the company, including in a manner intended to raise the share prices by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases of the shares and entrustment that would cause fluctuations in the market price of the shares.

[Date of Recommendation] October 11, 2013
[Amount of administrative monetary penalty] 7,000,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: October 15, 2013
Date of order to pay administrative monetary penalty: November 8, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(vi) Recommendation on market manipulation related to the shares of STEP CO., LTD.

For the purpose of inducing sales and purchases of the shares of STEP CO., LTD., during the period of 2 trading days from about 2:04 PM on October 12, 2012, to about 3:00 PM on October 15, 2012, the violator purchased a total of 177,900 shares of the company while conducting behavior such as placing buying orders of 23,800 shares of the company, including in a manner intended to raise the share prices by consecutively placing large buying orders at higher prices than the latest contract price to make them be executed at higher prices, and by supporting the lower prices through the placement of multiple buying orders. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases of the shares and entrustment that would cause fluctuations in the market price of the shares.

[Date of Recommendation] October 11, 2013
[Amount of administrative monetary penalty] 5,910,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: October 15, 2013
Date of order to pay administrative monetary penalty: November 8, 2013

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(vii) Recommendation on market manipulation related to the shares of FinTech Global Incorporated

For the purpose of inducing sales and purchases of the shares of FinTech Global Incorporated, during the period of 2 trading days from about 0:45 PM on March 26, 2013, to about 2:59 PM on March 27, 2013, the violator purchased a total of 2,043 shares of the company while conducting behavior such as placing buying orders of 2,383 shares of the company, including in a manner intended to raise the share prices by matching buy orders placed at market price with sell orders placed at higher prices than the latest contract price at around the same time, and by placing buy orders at market price to make them be executed at higher prices. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Date of Recommendation] March 11, 2014
[Amount of administrative monetary penalty] 6,140,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: March 11, 2014
Trial procedures underway (as of April 30, 2014)

3. Subsequent Progress of Recommendations Issued Prior to FY2012

(1) Trial procedures

Among the cases recommended by the SESC in or before FY2012, the following is a summary of the process of a case in which the order for the administrative monetary

penalty payment had not yet been issued before the “Annual Report 2012/2013” was released.

○Recommendation on market manipulation related to the shares of MIMAKI ENGINEERING CO., LTD.

With regard to the recommendation, the respondent submitted a written reply denying the facts of the violation, insisting that the transactions did not fall under activities to create the misunderstanding that there was active trading in these shares, nor did they fall under those causing fluctuations in the market price of the shares. In addition, the respondent asserted that he/she had no intention to induce other investors to follow sales and purchases of the shares. Therefore, in this case, this point was in dispute.

Following the trial procedures, on December 10, 2013, the Commissioner of the FSA made the decision to order payment of the administrative monetary penalty, arguing that, in conducting the transactions in this case, it could be recognized that the transactions fell under the activities to create the misunderstanding that there was active trading in these shares and to cause fluctuations in the market price of the shares, and that the transactions were made on his/her own account.

* In relation to the decision in this case, the person filed an action for revocation of the administrative disposition with the Tokyo District Court on December 26, 2013.

(2) Revocation actions against a decision of administrative monetary penalty payment

Among cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2012, the following is a summary of the process of a case in which the court’s judgment had not yet been made before the “Annual Report 2012/2013” was released.

○ Recommendation on market manipulation related to the shares of The Gifu Bank, Ltd. [Recommendation for an administrative monetary penalty payment order (November 16, 2012); Issuance of an administrative monetary penalty payment order (April 16, 2013); Action for revocation of an administrative disposition with the Tokyo District Court (May 15, 2013)]

Action for revocation is pending as of April 30, 2014.

3) Future Challenges

With regard to violations related to market misconduct, such as insider trading, while there are criminal penalties and the administrative monetary penalty system as enforcement measures to ensure the effectiveness of regulations, it is necessary to restrain the application of criminal penalties which would have significant impacts on violators. The administrative monetary penalty system is expected to ensure the effectiveness of regulations by taking actions appropriate to the level and state of violations for which criminal charges are not essential. Furthermore, it can deal with each case more quickly than for criminal penalties. Using such features of the administrative monetary penalty system, the SESC will make efforts to achieve prompt and strategic market surveillance, by

conducting speedy and efficient investigations and addressing the issues shown below:

(1) Given that a number of cases remain on insider trading by a primary recipient of information, and market manipulation using online trading and multiple accounts, the SESC will strive to make investigations more speedy and efficient by improving investigation methods, boosting investigation ability through training, etc., and fostering personnel.

(2) Given that some of the cases of market misconduct were conducted by residents of rural areas, the SESC will also actively address cases of market misconduct in rural areas, in cooperation with the local finance bureaus in each region.

(3) Amid ongoing digitalization, up to now, the SESC has promoted the maintenance and improvement of equipment and software required for works such as preserving, restoring, analyzing and evidencing electromagnetic records (hereinafter referred to as "digital forensics") and has also provided personnel with training programs and other opportunities by digital forensics experts. Following these approaches, the SESC will strive to promote swift and efficient investigations, such as by enhancing and enriching the digital forensics management systems and their active application to practical investigation of market misconduct.

(4) In order to prevent market misconduct, the SESC will improve its database on recommendation cases as well as diversifying its dissemination of information channels, and promoting voluntary enhancement of discipline by market participants.

(5) The SESC will address the expansion of the scope of administrative monetary penalties due to the amendment of the FIEA.

6. Investigation of International Transactions and Related Issues

1) Outline

1. The Purpose and Authority of Investigation of International Transactions and Related Issues

The Purpose and Authority of Investigation of international transactions and related issues (investigation of market misconduct made mainly by persons residing in foreign countries) are the same as those described in Chapter 5. Investigation of Market Misconduct (See 1) Outline: Section 1. Purpose of Investigation of Market Misconduct, Section 2. Authority for Investigation of Market Misconduct, and Section 3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties).

2. Activities in FY2013

(1) In FY2013, pursuant to the results of investigations conducted by the Office of Investigation of International Transactions and Related Issues, there were seven cases of international transactions and related issues (on the basis of the number of offenders) or of being recommended to the commissioner of the FSA (prime minister). The administrative monetary penalties applicable to these cases amounted to 4,536,450,000 yen.

(2) The SESC is strengthening its cooperation with overseas regulators, by exchanging information based on the information exchange framework of the Multilateral MOU (see section 1) in Chapter 10). Accordingly, it has achieved steady results, such as detecting international transactions and related issues using cross-border transactions. Looking at the current financial and capital markets, market participants such as investment funds have been increasingly involved in cross-border transactions or other international activities as part of their day-to-day operations. These trends have had an increasingly important effect on Japanese stock markets and investors. Given these trends, the SESC has taken steps to strengthen collaboration with overseas regulators so as to dedicate itself to reinforcing global market surveillance.

In light of such circumstances, the SESC set “response to the globalization of markets” as one of the new pillars of its policy directions in the *SESC’s Policy Statement for the 7th Term*, which was formulated in January 2011 (this idea has been also inherited as "Enhancement of surveillance in response to the globalization of markets" in the SESC policy statement for the 8th term, which was formulated in January 2014), thereby laying out its policy of strengthening global market surveillance. Under this initiative, as a response to the globalization of markets, the SESC stepped forward to further develop its human resources and organizational structures, and as part of these efforts, in August 2011, it established the Office of Investigation for International Transactions and Related Issues in the Administrative Monetary Penalty Division, which specializes in investigating any possible offense of international transactions and related issues involving cross-border transactions by professional investors.

During FY2013, the Office of Investigation for International Transactions and Related

Issues investigated suspected insider trading executed by professional investors in Japan and overseas prior to large public offerings of new shares. Among these cases, it filed four recommendations for administrative monetary penalty payment orders (see 2) 2. (iii) through (vi) below).

A case of fraudulent means related to the shares of Wedge Holdings Co., Ltd. was the first recommendation for a case of fraudulent means, which was subject to the largest-ever administrative monetary penalty (4,096,050,000 yen) among cases of market misconduct (see 2) 2. (ii) below).

In addition, with respect to a case of market manipulation by Juggernaut Capital Management Pte. Ltd. and a case of insider trading by MAM Pte. Ltd., the SESC recommended an administrative monetary penalty order through close cooperation with the Monetary Authority of Singapore. Furthermore, with regard to a case of fraudulent means related to the shares of Wedge Holdings Co., Ltd. and a case of market manipulation by Select Vantage Inc., the SESC also recommended an administrative monetary penalty order as a result of close collaboration with the Securities and Exchange Commission Thailand and the Ontario Securities Commission, respectively.

2) Recommendations for Orders to Pay Administrative Monetary Penalties Based on the Results of Investigation of International Transactions and Related Issues

1. Overview of Recommendations

In FY2013, there were seven recommendations made on international transactions and related issues. Among these, four were insider trading cases, two were market manipulation and one was a fraudulent means case. The maximum penalty applied to an offender was 4,096,050,000 yen, and the minimum was 60,000 yen.

Looking at the attributes of offenders subject to administrative monetary penalties in the recommendations made related to insider trading, all of the cases were committed by primary recipients of information.

Looking at the attributes of persons who passed on insider information, they are all employees working at securities companies who received insider information as parties having contractual relationships or similar positions.

Looking at the types of material facts involved, they were all issuances of new shares (public offerings).

Changes in Number of Recommendation Cases by Attribute of Offender

	FY2012	FY2013
Corporate insider	0	0
Officer, etc. of issuer	0	0
Party to a contract	0	0
Tender offeror or other concerned party	0	0
Officer, etc. of tender offeror	0	0
Tender offeror and party to a contract	0	0
Primary recipient of information	6	4
Corporate material fact	6	4
Tender offer	0	0
No. of cases recommended to prosecutor, by FY	6	4

Changes in Number of Recommendation Cases by Type of Material Fact

	FY2012	FY2013
Issuance of stock, etc.	6	4
Dividends of surplus funds	0	0
Business alliance or dissolution thereof	0	0
Civil rehabilitation or corporate reorganization	0	0
Incurrence of damage	0	0
Information on financial result	0	0
Basket clause	0	0
Other material facts	0	0
Tender offer	0	0
No. of cases recommended to prosecutor, by FY	6	4

Changes in Number of Cases Recommended to prosecutor, by Attribute of Transmitter of Information

	FY2012	FY2013
Transmission of corporate materials facts	6	4
Officer, etc. of issuer	0	0
Party to a contract	6	4
Transmission of information on tender offer	0	0
Officer, etc. of tender offeror	0	0
Tender offeror and party to a contract	0	0
Officer, etc. of target party	0	0

Notes: 1. “FY” is April to March of the following year.
2. No. of cases recommended to prosecutor is recorded on the basis of offenders.

2. Brief Summary of Recommendations Issued in FY2013

With respect to the cases recommended for orders to pay administrative monetary penalties on international transactions and related issues in FY2011, the following is a brief summary of those cases:

(i) Recommendation for an administrative monetary penalty payment order for market manipulation by Juggernaut Capital Management Pte. Ltd.

Juggernaut Capital Management Pte. Ltd. (the offender subject to the administrative monetary order; hereinafter referred to as "Juggernaut") is a limited private company incorporated under the Companies Act of the Republic of Singapore. Juggernaut was empowered to make an investment management decision on the assets of a hedge fund, which was incorporated as a limited company under the laws of the Cayman Islands (the “Feeder Fund”), holding all of the voting rights attached to the shares of the Feeder Fund, based on an investment management agreement by and among the Feeder Fund and the trustee of the other hedge fund, which was incorporated as a trust under the laws of the Cayman Islands (the “Master Fund”).

Juggernaut, by its representative and others, in relation to its business, concerning shares of Rise Inc., from around 8:33 on March 21, 2012, to around 15:08 on April 25, 2012, for 26 trading days, with the purpose of inducing transactions from other market participants for shares of Rise Inc., under the names of the Master Fund, among other things, raised the market price of the share by placing massive purchase orders at prices equal to or below the best bid and by placing orders by a minimum order unit at a price higher than the current market price, and placed massive market-on-close purchase orders at the closing sessions to participate in creating the closing prices, and, thus, in total, on the account of the Feeder Fund, it purchased 13,492,000 shares and sold 10,188,400 shares while it placed purchase orders of 246,134,300 shares in Rise Inc. This constituted a series of purchase and sales orders that would mislead other persons into believing that there was active trade in RISE shares, and that would cause fluctuations in the prices of the shares of Rise Inc.

[Date of Recommendation] July 31, 2013
[Amount of administrative monetary penalty] 431,180,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: July 31, 2013
Trial procedures underway (as of April 30, 2014)

(ii) Recommendation for an administrative monetary penalty payment order for using fraudulent means regarding the securities of Wedge Holdings Co., Ltd.

Offender X was in a position to control the Asia Partnership Fund Group (“APF Group”) as a director and in other capacities of its member companies. The APF Group

was comprised of companies including Wedge Holdings Co., Ltd. ("Wedge Holdings"), Showa Holdings Co., Ltd. ("Showa Holdings") and A.P.F. Hospitality Co., Ltd. (investment company headquartered in the Kingdom of Thailand; hereinafter referred to as “Hospitality”).

For the purpose of pumping up the prices of the securities of Wedge Holdings held by Showa Holdings and their family companies, Violator X used a series of fraudulent means as shown below, pumped up the prices of the securities of Wedge Holdings and, thereby, influenced the price of the securities for the purpose of causing a fluctuation of quotations on securities.

- On March 4, 2010, he/she directed Wedge Holdings to make a disclosure on the Timely Disclosure network (“TDnet”) that stated, with respect to the subscription by Wedge Holdings of the convertible debentures issued by Hospitality (face value: 800 million yen), Wedge Holdings would expect an acquisition of Hospitality shares by exercising the conversion rights of the convertible debentures as well as the increase in investment profits, such as interest income.

However, Hospitality, due to its corporate form, was prohibited from issuing convertible debentures under the Civil and Commercial Code of Thailand. Consequently, it could not obtain an issuance approval from the Securities and Exchange Commission Thailand. In fact, relating to the subscription of the convertible debenture issued by Hospitality, Wedge Holdings could not expect the acquisition of Hospitality shares by exercising the conversion rights. Nor could it expect the increase in investment profits, such as interest income, to be paid by Hospitality, whose debts exceeded its assets. The convertible debenture did not have an asset value of 800 million yen.

- From March 5 to 12, 2010, Offender X disguised the payment on the convertible debentures by rotating funds less than its payment amount, 800 million yen, among APF Group companies including Wedge Holdings and Hospitality.
- On March 9, 2010, Offender X directed Wedge Holdings to make a disclosure on TDnet of false information that stated that it would expect an increase in investment profits, such as interest income, as well as giving a related earnings estimate. These disclosures did not reflect the material circumstances, which would give rise to doubts regarding the asset value of the convertible debentures.

[Date of Recommendation] November 1, 2013
[Amount of administrative monetary penalty] 4,096,050,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: November 1, 2013
Trial procedures underway (as of April 30, 2014)

(iii) Recommendation for an administrative monetary penalty payment order for insider trading by Nissay Asset Management Corporation

Nissay Asset Management Corporation (the offender subject to the administrative monetary order; hereinafter referred to as "Nissay Asset") was empowered to manage the assets in relation to its 33 clients and/or funds including, but not limited to, Nissay

Domestic Equity Active DB, Nissay Domestic Equity Mother Fund, Nissay Balanced Active Mother Fund, and Nissay Japanese Equity Research Value Mother Fund, based on investment management agreements and/or the investment trust agreements which Nissay Asset had entered into. Employees X and Y of Nissay Asset were in charge of the investment management of said assets as fund managers.

On June 28, 2010, Employee X was tipped by employee A of a securities company with the material information that the executive decision-making body of INPEX Corporation ("INPEX") had made a decision to launch a follow-on public offering of its shares, which at first another employee (employee B) of said securities company had learnt of through negotiation on the underwriting agreement and which later employee A had learnt of in the course of his/her duties, and, by June 30, 2010, at the latest, Employee Y was tipped by employee X with said material information. Having been tipped as such, from June 29 to July 1, 2010, prior to the publication of said material information on July 8, 2010, Employees X and Y sold shares of INPEX as investment management based on the investment management agreements and/or the investment trust agreements mentioned above. Accordingly, on the accounts of its clients and/or funds, Nissay Asset sold a total of 1,574 shares of INPEX for 781,585,985 yen.

[Date of Recommendation] December 2, 2013
[Amount of administrative monetary penalty] 410,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: December 2, 2013
Date of order to pay penalty: January 16, 2014

Since a written reply admitting these facts was submitted by the offender, no trial was held.

(iv) Recommendation for an administrative monetary penalty payment order for insider trading by Stats Investment Management Co., Ltd.

Stats Investment Management Co., Ltd. (the offender subject to the administrative monetary order; hereinafter referred to as "Stats") was empowered to manage the assets of two Cayman domiciled unit trusts, the Ginga Service Sector Fund and the Ubiquitous Master Series Trust Class D Fund, based on investment management agreements which Stats had entered into.

By July 2, 2010, at the latest, Stats, through its officer who was in charge of the investment management of said assets as fund manager, was tipped by employee A of a securities company with the material information that the executive decision-making body of INPEX Corporation ("INPEX") had made a decision to launch a follow-on public offering of its shares, which at first another employee (employee B) of said securities company had learnt of through negotiation on the underwriting agreement and which later employee A had learnt of in the course of his/her duties. Having been tipped as such, on July 6, 2010, prior to the publication of said material information on July 8, 2010, said officer sold shares of INPEX as investment management based on the

investment management agreements mentioned above. Accordingly, on the account of the said funds, Stats sold a total of 456 shares of INPEX for 218,473,000 yen.

[Date of Recommendation] December 2, 2013
[Amount of administrative monetary penalty] 540,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: December 2, 2013
Trial procedures underway (as of April 30, 2014)

(v) Recommendation for an administrative monetary penalty payment order for insider trading by Finnowave Investments, Inc.

Finnowave Investments, Inc. (the offender subject to the administrative monetary order; hereinafter referred to as “FWI”) was empowered to manage the fund assets of a Cayman domiciled company investment trust, HADOH Fund Ltd., based on an investment management agreement that FWI had entered into.

By July 2, 2010, at the latest, FWI, through its officer who was in charge of the investment management of said assets as fund manager, was tipped by employee A of a securities company with the material fact that the executive decision-making body of INPEX Corporation (“INPEX”) had made a decision to launch a follow-on public offering of its shares, which at first another employee (employee B) of said securities company had learnt of through negotiation on the underwriting agreement and which later said employee A had learnt of in the course of his/her duties. Having been tipped as such, from July 7 to July 8, 2010, prior to the publication of said material fact on July 8, 2010, said officer sold shares of INPEX as investment management based on the investment management agreement mentioned above. Accordingly, on the account of the said fund, FWI sold a total of 500 shares of INPEX for 239,499,500 yen.

[Date of Recommendation] December 2, 2013
[Amount of administrative monetary penalty] 170,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: December 2, 2013
Date of order to pay penalty: January 16, 2014

Since a written reply admitting these facts was submitted by the offender, no trial was held.

(vi) Recommendation for an administrative monetary penalty payment order for insider trading by MAM Pte. Ltd.

MAM Pte. Ltd. (the offender subject to the administrative monetary order; hereinafter referred to as "MAM") is a private limited company incorporated under the Companies Act of the Republic of Singapore. MAM was empowered to manage the fund of a Cayman domiciled unit trust, Ubiquitous Master Series Trust Class G Fund, based on an investment management agreement which MAM had entered into with the trustee of

said fund.

On July 27, 2010, MAM, through X and Y who were in charge of the investment management of said assets as fund manager, was tipped by employee A of a securities company with the material fact that the executive decision-making body of Nippon Sheet Glass Co., Ltd. (“NSG”) had made a decision to launch a follow-on public offering of its shares, which at first another employee (employee B) of said securities company had learnt through negotiation of the underwriting agreement and which later said employee A had learnt in the course of his/her duties. Having been tipped as such, from July 27 to August 24, 2010, prior to the publication of said material fact on August 24, 2010, X and Y sold shares of NSG as investment management based on the investment management agreement mentioned above. Accordingly, on the account of said fund, MAM sold a total of 3,478,000 shares of NSG for 751,568,206 yen, and, among such sales, on the accounts of officers and/or employee of MAM (“Officers”), MAM through X and Y, traded in 7.47 percent and 6.22 percent thereof, which were equivalent to the contribution ratio of Officers to the fund as of July and August 2010, respectively.

[Date of Recommendation] December 2, 2013
[Amount of administrative monetary penalty] 8,040,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: December 2, 2013
Trial procedures underway (as of April 30, 2014) .

(vii) Recommendation for an administrative monetary penalty payment order for market manipulation by Select Vantage Inc.

Select Vantage Inc. (the offender subject to the administrative monetary order; hereinafter referred to as "Select Vantage"), whose registered office is located at The Mason Complex, Suites 19 & 20, The Valley, Anguilla, is a so-called proprietary trading firm (investment firm that pursues profit with its own money, not depositors’ money) running a day-trading business worldwide.

Select Vantage, through traders who could be described as its proprietary trading force, in relation to its business, concerning shares of Torishima Pump Mfg. Co., Ltd. (“Torishima”) and Hoshizaki Electric Co., Ltd. (“Hoshizaki”), with the purpose of inducing transactions from other market participants for the said shares, during 72 trade cycles in total from April 12 to April 24, 2012, traded said shares by placing a series of purchase and sale orders at multiple prices lower (or higher) than the best bid (or offer) without the intention to trade them, and thus, on its own account, with respect to the shares of Torishima, purchased and sold 47,000 shares in total while placing orders for the purchase of 1,536,400 shares and for the sale of 811,900 shares in total, and, with respect to the shares of Hoshizaki, purchased and sold 61,900 shares in total while placing orders for the purchase of 2,062,700 shares and for the sale of 1,311,700 shares in total. This constituted a series of purchase and sale orders that would mislead other persons into believing that there was active trade in said shares, which would cause fluctuations in the prices of said shares.

[Date of Recommendation] February 18, 2014
[Amount of administrative monetary penalty] 60,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: February 18, 2014
Date of order to pay penalty: March 24, 2014

Since a written reply admitting these facts was submitted by the violator, no trial was held.

3. Subsequent Progress of Recommendations Issued Prior to FY2012

Among the cases recommended by the SESC in or before FY2012, the following is a summary of the process of the case in which the order for the administrative monetary penalty payment had not yet been issued before “SESC Activities in FY2012” was released.

○ Recommendation for an administrative monetary penalty payment order for insider trading by a receipient of information from an employee of a company that was in negotiations for a contract with Tokyo Electric Power Company, Inc.

With regard to the recommendation made on June 8, 2012, for an administrative monetary penalty payment order for a case of insider trading by a recipient of information from an employee of a company that was in negotiations for a contract with Tokyo Electric Power Company, Inc., on June 27, 2013, the Commissioner of the FSA made the decision to order Respondent A and First New York Securities L.L.C. to pay administrative monetary penalties of 60,000 yen and 14,680,000 yen, respectively.

* In relation to the decision in this case, Respondent A filed an action for revocation of the administrative disposition with the Tokyo District Court on July 26, 2013.

3) Future Challenges

Looking at the current financial and capital markets, market participants such as investment funds have increasingly been involved in cross-border transactions or other international activities as part of their day-to-day operations. For instance, in recent years, foreign players have come to place the majority of their orders for trading on Japanese stock markets. Given these trends, the SESC needs to address the challenges as given below, make efficient and effective identification of the facts in cases of market misconduct using cross-border transactions and global money flows, and also aim to secure fairness and transparency in the markets in cooperation with overseas securities regulators.

(1) Strengthening further cooperation with overseas securities regulators

As seen in the cases of insider trading by MAM Pte. Ltd., market manipulation by Juggernaut Capital Management Pte. Ltd., market manipulation by Select Vantage Inc., and fraudulent means related to the shares of Wedge Holdings Co., Ltd. that were recommended by the SESC in FY2013, these cases of misconduct were carried

out by persons and/or related entities residing in foreign countries. This is the reason why the SESC needs to closely coordinate with overseas securities regulators. Up to now, the SESC has actively cooperated with overseas securities regulators through information exchange frameworks among these regulators (Multilateral MOU, etc.) with the aim of coping with the ongoing globalization of market misconduct. From now on, it will strengthen further communications with overseas securities regulators and enhance the global network. On that basis, the SESC will address the clarification of facts of market misconduct using cross-border transactions with the aim of securing effective information exchange frameworks.

(2) Developing human resources capable of responding to international transactions

In the process of investigating market misconduct using cross-border transactions, it is essential to secure human resources with global communication skills as well as language and specialist expertise for coordination with overseas regulators and analysis of information. Therefore, the SESC needs to develop its staff to achieve these skills and expertise.

Specifically, the SESC will promote personnel exchanges with overseas securities regulators and send officials to training sessions presented by overseas regulators. By so doing, it will endeavor to foster human resources capable of responding appropriately to on-going globalization trends, aiming to improve its ability to analyze and investigate market misconduct using cross-border transactions and enhance overseas networks.

(3) Reinforcing the capacity to respond to increasingly complex and diversified financial instruments and transactions

With the progress of innovation in global financial and capital markets, financial instruments and transactions have also become more and more complex and diverse. In order to address these changes appropriately, the SESC will strive to clarify the facts regarding new financial instruments and transaction types precisely so as to detect and uncover market misconduct using them.

7. Inspection of Disclosure Statements

1) Outline

1. Purpose of Inspection of Disclosure Statements

The disclosure system under the Financial Instruments and Exchange Act (FIEA) provides accurate, fair and timely disclosure of the business contents and financial details, etc. of issuers and other relevant persons of securities, by obligating issuers of securities to submit various disclosure documents, including a securities registration statement, and by making the documents available for public inspection in order to encourage investors to make adequate investment decisions in the primary and secondary markets for securities. By doing so, it aims to protect investors.

To ensure effectiveness in the disclosure system described above, the FIEA prescribes that, when the prime minister finds it necessary and appropriate, he/she may order a person who has filed a securities registration statement, an annual securities report or a shelf registration statement, or a tender offeror or a person who has filed a report of possession of large volume, etc. to submit reports or materials, or may arrange inspection of their books, documents and other articles (hereinafter referred to as “inspection of disclosure statements”).

Inspection of disclosure statements has been carried out to contribute to the ensuring of market integrity and investor protection, which is the mission of the Securities and Exchange Surveillance Commission (SESC), by means of (i) ensuring accurate company information provided to the markets fairly and quickly and (ii) suppressing breaches in the disclosure regulations.

If, as a result of inspection of disclosure statements, disclosure documents are found to contain false disclosure statements, etc. on material issues, the SESC makes a recommendation for an order to pay an administrative monetary penalty. In cases where an amendment report, etc. for such disclosure documents has not been submitted, the SESC makes a recommendation for an order to submit an amendment report, etc.

In this way, when deemed necessary, the SESC issues an order for administrative actions and other measures to the prime minister and the commissioner of the Financial Services Agency (FSA).

In cases where false disclosure statements in financial reports are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily, from the viewpoint of requiring appropriate disclosure.

2. Authority of inspection of disclosure statements

In the financial and capital markets in Japan, based on the provisions of the FIEA, disclosure documents are submitted from issuers obliged to submit annual securities reports, etc., including from approximately 3,500 listed companies. The specific authority for inspection of disclosure statements of disclosure documents includes the following:

(1) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to 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 an internal control report, a person who has filed a quarterly securities report, a person who has filed a semiannual securities report, a person who has filed an extraordinary report, a person who has filed a share buyback report, a person who has filed a status report of parent company, etc., a person who is found to have had an obligation to file any of these documents, an underwriter of securities, or any other related party or witness (Article 26 of the FIEA (including cases where it is applied mutatis mutandis pursuant to Article 27 of the FIEA))

(2) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a tender offeror, or a person who is found to have had an obligation to have made a purchase or other type of acceptance of share certificates, etc. by tender offer, a person specially interested in either of these persons, or any other related party or witness (Article 27-22(1) of the FIEA (including cases where it is applied mutatis mutandis pursuant to Article 27-22-2(2) of the FIEA))

(3) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to, a person who has filed a Position Statement, a person who is found to have had an obligation to file a subject company's position statement, or any related party or witness (Article 27-22(2) of the FIEA)

(4) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a person who has filed a Report of Possession of Large Volume, a person who is found to have had an obligation to file a large shareholding report, a joint holder of either of these large shareholdings, or any other related party or witness (Article 27-30(1) of the FIEA)

(5) The authority over requiring submission of reports and materials from a company that is an issuer of the shares, etc. related to a report of possession of large volume, or a witness (Article 27-30(2) of the FIEA)

(6) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to an issuer who provided or publicized specified information, an issuer who is found to have had an obligation to provide or publicize specified information, an underwriter of securities related to specified information, or any other related party or witness (Article 27-35 of the FIEA)

(7) The authority over requiring appearance, questioning, or provision of opinions or reports with respect to cases related to an administrative monetary penalty against a person who has facilitated or induced submission of disclosure documents containing false statements, etc. (hereinafter referred to as "Involvement in False Statements, etc."), and/or entering of business office thereof and conducting inspection of books, records and other materials (Article 177(1) of the FIEA)

(8) The authority over requiring submission of reports and materials from a certified public accountant or audit firm that has conducted an audit certification (Article 193-2(6) of the FIEA).

Note 1: The SESC has not been delegated authority for the following, excluding the authority for inspections on cases related to an administrative monetary penalty:

- The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a person who has filed a securities registration statement before the effective date of the statement. (Article 38-2(1)(i) of the FIEA Enforcement Order)
- The authority over requiring the submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a person who has filed a shelf registration statement before the effective date of the statement. (Article 38-2(1)(ii) of the FIEA Enforcement Order)
- The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a tender offeror, etc. or a person who has filed a subject company's position statement, etc. during the tender offer period (Article 38-2(1)(iii) of the FIEA Enforcement Order).

Note 2: The commissioner of the FSA may also exercise the authorities as listed below:

- The authority over submission of reports and materials, out of items (1) through (6) and (8) above (proviso of Article 38-2(1) of the FIEA Enforcement Order); and
- The authority over submission of reports and materials, out of item (7) above (proviso of Article 194-7(2) of the FIEA)

3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties

If, as a result of inspection of disclosure statements, disclosure documents are found to contain false disclosure statements, etc. on material issues, the SESC makes a recommendation for an order to pay an administrative monetary penalty to the prime minister and the commissioner of the FSA (Article 20 of the Act for Establishment of the FSA). In the event that a recommendation is made seeking the issuance of an order to pay an administrative monetary penalty, the commissioner of the FSA delegated by the prime minister determines the commencement of trial procedures. Then, trial examiners conduct the trial procedures and prepare a draft decision on the case. Based on this draft decision, the commissioner of the FSA delegated by the prime minister decides whether to issue an order to pay the administrative monetary penalty or not.

Since the introduction of the administrative monetary penalty system, the SESC has expanded the scope of violations subject to administrative monetary penalties, and increased the amounts of those penalties, in accordance with the Act for the Partial Amendment of the Securities and Exchange Act (Act 76 of 2005 law), the Act for the Partial Amendment of the Securities and Exchange Act, etc. (Act 65 of 2006 law), the Act for the Partial Amendment of the Financial Instruments and Exchange Act, etc. (Act 65 of 2008 law), and the Act for the Partial Amendment of the Financial Instruments and Exchange Act, etc. (Act 86 of 2012 law).

The primary violations subject to administrative monetary penalties and the amounts of

those penalties are as follows:

(1) The act of having securities acquired or selling securities, through a public offering or secondary distribution, etc., despite the non-acceptance of required notification for reasons including the failure to submit a securities registration statement (offering disclosure for public offering or secondary distribution, etc.). (Article 172 of the FIEA)

Penalty: 4.5% of the total amount of shares, etc. (2.25% in case of offering, or secondary distribution, etc.)

Note: The amendment of the FIEA in 2008 has rendered the above-mentioned act subject to administrative monetary penalties, which shall be applicable to public offerings or secondary distributions to be commenced on or after December 12, 2008.

(2) The act of having securities acquired or selling securities, through a public offering or secondary distribution etc., using a securities registration statement, etc. (offering disclosure for public offering or secondary distribution, etc.) containing false disclosure statements (Article 172-2 of the FIEA, Article 172 of the former FIEA)

Penalty: 4.5% of the total amount of shares, etc. (2.25% in the case of offering or secondary distribution, etc.)

Note: The amendment shall be applicable to offering disclosure documents to be submitted on or after December 12, 2008. The amount of administrative monetary penalty prior to the amendment was 2% of the total amount of shares, etc. (1% in the case of offering or secondary distribution, etc.).

(3) The act of not submitting an annual securities report, etc. (continuous disclosure documents for each business year) (Article 172-3 of the FIEA)

Penalty: Amount equivalent to the audit fee for the previous business year (or 4 million yen in the case where an audit was not conducted for the previous business year) (half of these amounts in the case of a quarterly or semiannual securities report)

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to annual securities reports, etc., whose business year starts on or after December 12, 2008.

(4) The act of submitting an annual securities report (continuous disclosure documents for each business year), etc., containing false disclosure statements (Article 172-4 of the FIEA, 172-2 of the former FIEA)

Penalty: 6 million yen or 6/100,000ths of the total market value of the issuer, whichever is greater (half of that amount in the case of a quarterly securities report, semiannual securities report or extraordinary report, etc.)

Note 1: The amendment shall be applicable to annual securities reports, etc., started on or after December 12, 2008. The amount of administrative monetary penalty prior to the amendment was 3 million yen or 3/100,000ths of the total market value of the issuer, whichever is greater (half of that amount in the case of a quarterly securities report, a semiannual securities report, an extraordinary report, etc.)

Note 2: The amendment of the FIEA in 2006 has made a submission of false disclosure statements on a quarterly securities report subject to administrative monetary penalties, which shall be applicable to the business year starting from April 1, 2008 or later.

(5) The act of purchasing or accepting share certificates, etc. without issuing a public notice for commencing a tender offer (Article 172-5 of the FIEA)

Penalty: 25% of the total purchase amount

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to purchasing or accepting share certificates, etc., on or after December 12, 2008.

(6) The act of issuing a public notice for commencing tender offer containing false disclosure statements, or submitting a tender offer notification, etc. containing false statements (Article 172-6 of the FIEA)

Penalty: 25% of the total market value of purchased share certificates, etc.

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to tender offers containing false statements commenced on or after December 12, 2008.

(7) The act of not submitting reports of possession of large volume, or change report (Article 172-7 of the FIEA)

Penalty: 1/100,000 of the total market value of the issuer of the share certificates, etc.

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to large shareholding reports or change reports whose deadline for submission is on or after December 12, 2008.

(8) The act of submitting reports of possession of large volume, or change report, etc. containing false statements (Article 172-8 of the FIEA)

Penalty: 1/100,000 of the total market value of the issuer of the share certificates, etc.

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to large shareholding reports or change reports submitted on or after December 12, 2008.

(9) The act of conducting a specified solicitation or offer, etc., having securities acquired or selling securities while specified information on securities is not provided or publicized (Article 172-9 of the FIEA)

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

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to any violations conducted on or after December 12, 2008.

(10) The act of conducting a specified solicitation or offer, etc., through the provision or publication of specified information on securities containing false information, having securities acquired or selling securities (Article 172-10 of the FIEA)

Penalty:

(a) in the case where the specified information on securities is publicized:
2.25% of the total offering amount (4.5% in the case of shares)

(b) in the case where the specified information on securities is not publicized:
the amount obtained by multiplying the amount listed in (a) by the number listed

below:

$$\frac{\text{the number of persons receiving the specified information on securities}}{\text{the number of persons subject to the specified solicitation or offer, etc.}}$$

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to any violations conducted on or after December 12, 2008.

(11) The act of providing or publicizing information on the issuer, etc., that contains a false statement, etc. (Article 172-11 of the FIEA)

Penalty:

(a) in the case where the information on the issuer, etc., is publicized:

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

(b) in the case where the information on the issuer, etc., is not publicized:

the amount obtained by multiplying the amount listed in (a) by the number listed below:

$$\frac{\text{the number of persons receiving the information on the issuer, etc.}}{\text{the number of persons subject to receipt of the information on the issuer, etc.}}$$

Note: The amendment of the FIEA in 2008 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to any violations conducted on or after December 12, 2008.

(12) The act of involvement in specified activities (Article 172-12 of the FIEA)

Penalty: Amount equal to the fees, commissions, other rewards that have been paid or are to be paid to persons involved in specified activities

Note: The amendment of the FIEA in 2012 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to any violations conducted on or after September 6, 2013.

Additionally, with regard to the violations listed in (2), (4), (7), (10), (11) and (12) above, if the violator made a declaration prior to the investigation by the authorities, the amount of the administrative monetary penalty shall be halved (Article 185-7 (12) of the FIEA). On the other hand, if the violator has received an administrative monetary penalty payment order within the past five years, the amount of the administrative monetary penalty shall be increased 1.5-fold (Article 185-7 (13) of the FIEA).

4. Activities in FY2013

(1) In FY2013, the SESC completed false disclosure statements of 34 listed companies, and based on the results of those inspections, there were nine cases subject to the recommendations for orders to pay administrative monetary penalties, totaling 1,048,369,999 yen, in relation to violations of disclosure requirements such as disclosure documents containing false disclosure statements, etc., on important matters, of which the SESC additionally made a recommendation for an order to submit an amendment report, etc., on one case in which an amendment report, etc., for such disclosure documents was not submitted. (*)

In a case where false disclosure statements are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily.

* If disclosure documents are found to contain false statements, etc. on material issues and an amendment report, etc., for such disclosure documents has not been submitted, the SESC will make a recommendation for an order to submit the amendment report, etc.

Total number of inspections completed		34
(of these inspections)	Recommended for an order to pay an administrative monetary penalty	9
	Recommended for an order to submit an amendment report, etc.	1
	Did not recommend for an order to pay an administrative monetary penalty, but urged voluntary amendment	3

(2) Eight years have passed since the introduction of the administrative monetary penalty system. Given that the inspection of disclosure statements have been practically established, the SESC formulated the "Basic Guidelines on Disclosure Statements Inspection" that define its basic concepts on inspection of disclosure statements and the standard procedures, etc., for conducting the inspections, etc., with the aim of enhancing the transparency of the inspection procedures, and announced the guidelines in August 2013.

2) Recommendations of Orders to Pay Administrative Monetary Penalties Based on the Results of Inspection of Disclosure Statements

1. Overview of Recommendations

The recommendations made in FY2013 in relation to the violations of disclosure regulations included those related to false disclosure statements of securities registration statements and annual securities reports.

The SESC found various types of false disclosure statements in the process of disclosure statements inspection. For example, the SESC found fictitious sales, understating of cost of sales, failure to record investment securities, overstating of goodwill, understating of advances received, and understating of allowance for doubtful accounts.

In FY2013, the largest amount of administrative monetary penalty in relation to the violation of disclosure requirements was 414,770,000 yen. The recommendation to order to pay for this penalty was made to the prime minister and commissioner of FSA against false statements in annual securities reports, etc., of Riso Kyoiku Co., Ltd.

2. Brief Summary of Recommendations Issued in FY2013

In FY2013, an outline of the cases subject to the recommendations for issuance of

orders to pay administrative monetary penalties is as follows:

* The “former FIEA” before amendment by Act 65 of the 2008 law is hereinafter referred to as the “former FIEA” in this chapter.

(1) Recommendation for Order of Administrative Monetary Penalty Payment

(i) Recommendation in relation to false disclosure statements in annual securities reports, etc. of G. taste Co., Ltd.

1. G. taste Co., Ltd. (hereinafter referred to in this subparagraph (i) as “G. taste”), when conducting consolidation procedures to reacquire a controlling interest of an affiliate which used to be a consolidated subsidiary of G. taste for the purpose of making the affiliate its consolidated subsidiary again, overstated goodwill and falsified other financial reports as well for the company without recognizing past investment losses or damages to the company.

As a result of these fraudulent acts, G. taste submitted to the Director General of the Tohoku Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting item
1	August 14, 2009	1st quarterly securities report for the 51st business year	1st quarter consolidated accounting period from April 1, 2009, to June 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,703 million yen, but were stated as 4,683 million yen.	・ Overstating goodwill
2	November 13, 2009	2nd quarterly securities report for the 51st business year	2nd quarter consolidated cumulative period from April 1, 2009, to September 30, 2009	Quarterly consolidated income statement	Quarterly net loss was found to be 1,136 million yen, but was stated as 181 million yen.	・ Understating loss on the extinguishment of tie-in shares, etc.
3	February 12, 2010	3rd quarterly securities report for the 51st business year	3rd quarter consolidated cumulative period from April 1, 2009, to December 31, 2009	Quarterly consolidated income statement	Quarterly net loss was found to be 952 million yen, but was stated as 22 million yen.	・ Understating loss on the extinguishment of tie-in shares, etc.

4	June 24, 2010	Annual securities report for the 51st business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Income statement	Net loss was found to be 612 million yen, but positive 292 million yen was stated as income.	・Understating loss on the extinguishment of tie-in shares, etc.

2. G. taste submitted to the Director General of the Tohoku Local Finance Bureau its offering disclosure documents as listed below "containing false statements on material issues," as stipulated in Article 172-2 (1) of the FIEA, and had others acquire the securities, through the offering based on the offering disclosure documents:

(1) its securities registration statement (No.1 and No.2 bonds with share options) incorporating the quarterly securities report for the 1st quarter ended June 2009 (see 1. in the table shown above), which contained false statements on important matters, on August 14, 2009, and had others acquire its bonds with share options at the amount of 1,650,000,000 yen, through an offering based on said securities registration statement on August 31, 2009.

(2) its securities registration statement (No.2 share options) incorporating an annual securities report for the fiscal year ended March 2010 (see 4. in the table shown above), which contained false statements on important matters, on October 4, 2010, and had others acquire 20 of its share options at the amount of 101,135,700 yen (including the amount to be paid at the exercise of said share options), through an offering based on said securities registration statement on October 21, 2010.

(3) its securities registration statement (No.3 bonds with share options) incorporating the annual securities report for the fiscal year ended March 2010 (see 4. in the table shown above), which contained false statements on important matters, on October 4, 2010, and had others acquire its bonds with share options at the amount of 200,000,000 yen, through an offering based on said securities registration statement on October 21, 2010.

(4) its securities registration statement (No.4 and No.5 share options) incorporating the annual securities report for the fiscal year ended March 2010 (see 4. in the table shown above), which contained false statements on important matters, on October 4, 2010, and had others acquire its bonds with share options at the amount of 170,000,000 yen, through an offering based on said securities registration statement on October 21, 2010.

[Date of Recommendation] April 23, 2013
[Amount of administrative monetary penalty] 101,450,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: April 23, 2013
Date of order to pay penalty: May 23, 2013

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(ii) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Oki Electric Industry Co., Ltd.

Oki Electric Industry Co., Ltd. had its overseas consolidated subsidiary, which is engaged in the printer business, overstate accounts receivable trade by recording fictitious sales, understate the provision of allowance for doubtful accounts relating to receivables, and falsify other financial reports. As a result of these fraudulent acts, Oki submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., "containing false statements on material issues," as stipulated in Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	August 12, 2009	1st quarterly securities report for the 86th business year	1st quarter consolidated accounting period from April 1, 2009, to June 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 42,692 million yen, but were stated as 55,260 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts, etc.
2	November 12, 2009	2nd quarterly securities report for the 86th business year	2nd quarter consolidated accounting period from July 1, 2009, to September 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 42,374 million yen, but were stated as 54,708 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts, etc.
3	February 9, 2010	3rd quarterly securities report for the 86th business year	3rd quarter consolidated accounting period from October 1, 2009, to December 31, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 40,244 million yen, but were stated as 52,630 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts, etc.

4	June 29, 2010	Annual securities report for the 86th business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Consolidated income statement	Consolidated ordinary income was found to be 1,875 million yen, but was stated as 8,768 million yen. Consolidated net loss was found to be 3,280 million yen, but positive 3,619 million yen was stated as income.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 47,578 million yen, but were stated as 64,810 million yen.	
5	August 12, 2010	1st quarterly securities report for the 87th business year	1st quarter consolidated accounting period from April 1, 2010, to June 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 37,464 million yen, but were stated as 51,336 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts, etc.
6	November 12, 2010	2nd quarterly securities report for the 87th business year	2nd quarter consolidated accounting period from July 1, 2010, to September 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 33,279 million yen, but were stated as 48,380 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts, etc.

7	February 10, 2011	3rd quarterly securities report for the 87th business year	3rd quarter consolidated accounting period from October 1, 2010, to December 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 57,973 million yen, but were stated as 73,193 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts ・ Overstating accounts receivable-trade by failing to record rebates, etc.
8	June 29, 2011	Annual securities report for the 87th business year	Consolidated accounting period from April 1, 2010, to March 31, 2011	Consolidated income statement	Consolidated ordinary income was found to be 1,192 million yen, but was stated as 5,906 million yen. Consolidated net loss was found to be 31,783 million yen, but was stated as 27,001 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts ・ Overstating accounts receivable-trade by failing to record rebates, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 38,859 million yen, but were stated as 59,903 million yen.	

9	August 11, 2011	1st quarterly securities report for the 88th business year	1st quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 34,747 million yen, but were stated as 55,525 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts ・ Overstating accounts receivable-trade by failing to record rebates, etc.
10	November 11, 2011	2nd quarterly securities report for the 88th business year	2nd quarter consolidated cumulative period from April 1, 2011, to September 30, 2011	Quarterly consolidated income statement	Consolidated ordinary loss was found to be 5,222 million yen, but was stated as 856 million yen. Consolidated quarterly net loss was found to be 9,660 million yen, but was stated as 5,000 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts ・ Overstating accounts receivable-trade by failing to record rebates, etc.
			2nd quarter consolidated accounting period from July 1, 2011, to September 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 30,473 million yen, but were stated as 53,609 million yen.	
11	February 10, 2012	3rd quarterly securities report for the 88th business year	3rd quarter consolidated cumulative period from April 1, 2011, to December 31, 2011	Quarterly consolidated income statement	Consolidated ordinary income was found to be 355 million yen, but was stated as 3,925 million yen. Consolidated quarterly net loss was found to be 10,599 million yen, but was stated as 6,295 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts ・ Overstating accounts receivable-trade by failing to record rebates,

			3rd quarter consolidated accounting period from October 1, 2011, to December 31, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 30,018 million yen, but were stated as 52,053 million yen.	etc.
12	June 28, 2012	Annual securities report for the 88th business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated income statement	Consolidated ordinary income was found to be 9,075 million yen, but was stated as 14,550 million yen. Consolidated net income was found to be 1,555 million yen, but was stated as 8,000 million yen.	・ Overstating accounts receivable-trade by recording fictitious sales ・ Understating provision of allowance for doubtful accounts ・ Overstating accounts receivable-trade by failing to record rebates, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 41,251 million yen, but were stated as 67,524 million yen.	

[Date of Recommendation] April 26, 2013
[Amount of administrative monetary penalty] 16,800,000 yen
[Process following Recommendation]
Date of to start trial procedures: April 26, 2013
Date of order to pay penalty: June 5, 2013

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(iii) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Japan Care Service Group Corporation

When goodwill was capitalized at the time of acquisition of a business, Japan Care Service Group Corporation (hereinafter referred to in this subparagraph (iii) as “Japan Care Service”) should have implemented a test for potential impairment of such assets in light of the estimates of future cash flows thereof as of the end of March 2009. Despite this fact, Japan Care Service failed to check the presence or absence of such indication of impairment and ultimately did not recognize impairment losses on the assets. In addition, for recognition and measurement of impairment loss on real estates rented or leased to others, Japan Care Service misestimated the future cash flows used for the calculation of utility values, and

eventually understated the impairment losses.

As results of these fraudulent acts, Japan Care Service submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-2 (1) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	June 29, 2009	Annual securities report for the 19th business year	Consolidated accounting period from April 1, 2008, to March 31, 2009	Consolidated income statement	Consolidated net loss was found to be 1,964 million yen, but was stated as 1,654 million yen.	・Failing to record impairment loss ・Overstating goodwill, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 455 million yen, but were stated as 753 million yen.	
2	August 14, 2009	1st quarterly securities report for the 20th business year	1st quarter consolidated accounting period from April 1, 2009, to June 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 634 million yen, but were stated as 925 million yen.	・Overstating goodwill, etc.
3	November 13, 2009	2nd quarterly securities report for the 20th business year	2nd quarter consolidated accounting period from July 1, 2009, to September 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 602 million yen, but were stated as 886 million yen.	・Overstating goodwill, etc.
4	February 15, 2010	3rd quarterly securities report for the 20th business year	3rd quarter consolidated accounting period from October 1, 2009, to December 31, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 739 million yen, but were stated as 1,016 million yen.	・Overstating goodwill, etc.

5	June 30, 2010	Annual securities report for the 20th business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Consolidated balance sheet	Consolidated net assets were found to be 864 million yen, but were stated as 1,124 million yen.	・Overstating goodwill, etc.
6	August 13, 2010	1st quarterly securities report for the 21st business year	1st quarter consolidated accounting period from April 1, 2010, to June 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 654 million yen, but were stated as 908 million yen.	・Overstating goodwill, etc.
7	November 12, 2010	2nd quarterly securities report for the 21st business year	2nd quarter consolidated accounting period from July 1, 2010, to September 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 836 million yen, but were stated as 1,086 million yen.	・Overstating goodwill, etc.
8	February 14, 2011	3rd quarterly securities report for the 21st business year	3rd quarter consolidated accounting period from October 1, 2010, to December 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,271 million yen, but were stated as 1,516 million yen.	・Overstating goodwill, etc.
9	June 30, 2011	Annual securities report for the 21st business year	Consolidated accounting period from April 1, 2010, to March 31, 2011	Consolidated income statement	Consolidated net income was found to be 321 million yen, but was stated as 584 million yen.	・Failing to record impairment loss ・Overstating goodwill ・Overstating land and buildings rented or leased to others, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,058 million yen, but were stated as 1,580 million yen.	
10	August 15, 2011	1st quarterly securities report for the 22nd business year	1st quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 998 million yen, but were stated as 1,559 million yen.	・Overstating goodwill ・Overstating land and buildings rented or leased to others, etc.

11	November 14, 2011	2nd quarterly securities report for the 22nd business year	2nd quarter consolidated accounting period from July 1, 2011, to September 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,039 million yen, but were stated as 1,595 million yen.	・Overstating goodwill ・Overstating land and buildings rented or leased to others, etc.
12	February 14, 2012	3rd quarterly securities report for the 22nd business year	3rd quarter consolidated accounting period from October 1, 2011, to December 31, 2011	Quarterly consolidated income statement	Consolidated net loss was found to be 31 million yen, but positive 146 million yen was stated as income.	・Understating impairment loss ・Overstating goodwill ・Overstating land and buildings rented or leased to others, etc.
				Quarterly consolidated balance sheet	Consolidated net assets were found to be 956 million yen, but were stated as 1,657 million yen.	
13	June 28, 2012	Annual securities report for the 22nd business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated balance sheet	Consolidated net assets were found to be negative 89 million yen, but were stated as positive 494 million yen.	・Overstating goodwill ・Overstating land and buildings rented or leased to others, etc.

[Date of Recommendation] June 14, 2013
[Amount of administrative monetary penalty] 21,000,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: June 14, 2013
Date of order to pay penalty: July 18, 2013

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(iv) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Meiji Machine Co., Ltd.

1. Meiji Machine Co., Ltd. (hereinafter referred to in this subparagraph (iv) as “Meiji Machine”) overstated work in process by fabricating fictitious slips and exchanging costs fraudulently through a cost management system at a subsidiary of Meiji Machine, an action which was attributable to Meiji Machine's inadequate management structure of the subsidiary. In addition, the subsidiary requested its client agencies and transportation companies servicing logistics operations to issue fictitious receipts or order sheets, which caused Meiji Machine to record fictitious

sales, etc.

As a result of these fraudulent acts, Meiji Machine submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-2 (1) and (2) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	June 27, 2008	Annual securities report for the 133rd business year	Consolidated accounting period from April 1, 2007, to March 31, 2008	Consolidated income statement	Consolidated ordinary loss was found to be 563 million yen, but positive 172 million yen was stated as income. Consolidated net loss was found to be 929 million yen, but was stated as 487 million yen.	・Overstating work in process ・Overstating goodwill ・ Recording fictitious sales, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 5,965 million yen, but were stated as 8,114 million yen.	
2	August 14, 2008	1st quarterly securities report for the 134th business year	1st quarter consolidated accounting period from April 1, 2008, to June 30, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 5,947 million yen, but were stated as 8,094 million yen.	・Overstating work in process ・Overstating goodwill, etc.
3	November 14, 2008	2nd quarterly securities report for the 134th business year	2nd quarter consolidated accounting period from July 1, 2008, to September 30, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 5,860 million yen, but were stated as 7,966 million yen.	・Overstating work in process ・Overstating goodwill, etc.

4	February 13, 2009	3rd quarterly securities report for the 134th business year	3rd quarter consolidated accounting period from October 1, 2008, to December 31, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 5,439 million yen, but were stated as 7,605 million yen.	・Overstating work in process ・Overstating goodwill, etc.
5	June 26,2009	Annual securities report for the 134th business year	Consolidated accounting period from April 1, 2008, to March 31, 2009	Consolidated income statement	Consolidated ordinary loss was found to be 573 million yen, but was stated as 163 million yen. Consolidated net loss was found to be 1,098 million yen, but 688 million yen was stated.	・Overstating work in process ・Overstating goodwill ・Recording fictitious sales, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 4,558 million yen, but were stated as 7,118 million yen.	
6	August 14, 2009	1st quarterly securities report for the 135th business year	1st quarter consolidated accounting period from April 1, 2009, to June 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 4,690 million yen, but were stated as 7,212 million yen.	・Overstating work in process ・Overstating goodwill, etc.
7	November 13, 2009	2nd quarterly securities report for the 135th business year	2nd quarter consolidated accounting period from July 1, 2009, to September 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 4,345 million yen, but were stated as 6,564 million yen.	・Overstating work in process ・Overstating goodwill, etc.
8	February 15, 2010	3rd quarterly securities report for the 135th business year	3rd quarter consolidated accounting period from October 1, 2009, to December 31, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 4,572 million yen, but were stated as 6,622 million yen.	・Overstating work in process ・Overstating goodwill, etc.

9	February 13, 2012	3rd quarterly securities report for the 137th business year	3rd quarter consolidated cumulative period from April 1, 2011, to December 31, 2011	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 369 million yen, but was stated as 550 million yen.	・Failing to record cost of goods sold, etc.

2. Meiji Machine submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement incorporating the annual securities report for the fiscal year ended March 2009 (see 5. in the table shown above) and the quarterly securities report for the 1st quarter ended June 2009 (see 6. in the table shown above), both of which contained false statements on important matters, on September 18, 2009, and had others acquire 300 of its share option certificates at the amount of 1,504,741,200 yen (including the amount to be paid at the exercise of said share options) and the securities, through an offering based on said securities registration statement on October 6, 2009.

[Date of Recommendation] June 19, 2013
[Amount of administrative monetary penalty] 82,710,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: June 19, 2013
Date of order to pay penalty: August 5, 2013

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(v) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Obic Co., Ltd.

Obic Co., Ltd. (hereinafter referred to in this subparagraph (v) as “Obic”) had invested in corporate bonds (private placement), whose funds were to be invested in an overseas real estate project. However, since the issuer of the corporate bonds went bankrupt, Obic evaluated the potential redemption of the bonds solely in reliance on the joint and several guarantors’ capability to make repayment. Subsequently, Obic identified the event suggesting the possibility that the joint and several guarantors were heavily indebted or otherwise in a weak financial position. However, due mainly to the inadequate evaluation system of the bonds, Obic failed to verify the impact from the event sufficiently and miscalculated the value of the bonds. As a result, Obic failed to record loss on valuation of the investment securities, etc., relating to the bonds.

As a result of these fraudulent acts, Obic submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	February 14, 2012	3rd quarterly securities report for the 45th business year	3rd quarter consolidated cumulative period from April 1, 2011, to December 31, 2011	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 6,025 million yen, but positive 7,242 million yen was stated as income.	・Failing to record loss on valuation of investment securities, etc.
2	June 29, 2012	Annual securities report for the 45th business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated income statement	Consolidated net loss was found to be 2,910 million yen, but positive 10,357 million yen was stated as income.	・Failing to record loss on valuation of investment securities, etc.

[Date of Recommendation] June 21, 2013
[Amount of administrative monetary penalty] 8,849,999 yen
[Process following Recommendation]
Date of decision to start trial procedures: June 21, 2013
Date of order to pay penalty: August 5, 2013

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(vi) Recommendation in relation to false disclosure statements in annual securities reports, etc., of KYCOM Holdings Co., Ltd.

KYCOM Holdings Co., Ltd. (hereinafter referred to in this subparagraph (vi) as “KYCOM”) identified the fact that the land acquired by its subsidiary in 1998, which was originally intended to be used as land for a software development factory and training facilities, had never been used for the purpose above after the acquisition, due mainly to the reduction of office area resulting from its weak business performance and technological progress. However, KYCOM neither treated the land as an idle asset nor recognized extraordinary losses based on the application of impairment accounting rules appropriately. Consequently, KYCOM overstated the value of the land. Moreover, when there were successive cancellations for changes in specifications and improvement works relating to software that originally was to be sold in the market as products, KYCOM overstated the work in process without recognizing losses, even though there was no likelihood of any objective events that would enable these products to be sold.

As a result of these fraudulent acts, KYCOM submitted to the Director General of the Hokuriku Local Finance Bureau its annual securities reports, etc., “containing

false statements on material issues," as stipulated in Article 172-2 (1) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	June 26, 2009	Annual securities report for the 42nd business year	Consolidated accounting period from April 1, 2008, to March 31, 2009	Consolidated balance sheet	Consolidated net assets were found to be 1,542 million yen, but were stated as 2,003 million yen.	・Overstating land ・Overstating work in process, etc.
2	June 25, 2010	Annual securities report for the 43rd business year	Consolidated accounting period from April 1, 2009, to March 31, 2010	Consolidated income statement	Consolidated net loss was found to be 41 million yen, but positive 30 million yen was stated as income.	・Overstating land and failing to record extraordinary loss due to the application of impairment accounting ・Overstating work in process and failing to record the cost of goods sold, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,509 million yen, but were stated as 2,042 million yen.	
3	August 13, 2010	1st quarterly securities report for the 44th business year	1st quarter consolidated accounting period from April 1, 2010, to June 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,463 million yen, but were stated as 2,013 million yen.	・Overstating land ・Overstating work in process, etc.
4	November 12,2010	2nd quarterly securities report for the 44th business year	2nd quarter consolidated cumulative period from April 1, 2010, to September 30, 2010	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 127 million yen, but was stated as 48 million yen.	・Overstating land and failing to record extraordinary loss due to

			2nd quarter consolidated accounting period from July 1, 2010, to September 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,435 million yen, but were stated as 1,980 million yen.	the application of impairment accounting ・Overstating work in process and failing to record the cost of goods sold, etc.
5	February 10, 2011	3rd quarterly securities report for the 44th business year	3rd quarter consolidated cumulative period from April 1, 2010, to December 31, 2010	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 102 million yen, but was stated as 28 million yen.	・Overstating land and failing to record extraordinary loss due to the application of impairment accounting ・Overstating work in process and failing to record the cost of goods sold, etc.
			3rd quarter consolidated accounting period from October 1, 2010, to December 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,465 million yen, but were stated as 2,005 million yen.	
6	June 28, 2011	Annual securities report for the 44th business year	Consolidated accounting period from April 1, 2010, to March 31, 2011	Consolidated balance sheet	Consolidated net assets were found to be 1,322 million yen, but were stated as 1,748 million yen.	・Overstating land ・Overstating work in process, etc.
7	August 12, 2011	1st quarterly securities report for the 45th business year	1st quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,303 million yen, but were stated as 1,724 million yen.	・Overstating land ・Overstating work in process, etc.
8	November 11, 2011	2nd quarterly securities report for the 45th business year	2nd quarter consolidated accounting period from July 1, 2011, to September 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,318 million yen, but were stated as 1,735 million yen.	・Overstating land ・Overstating work in process, etc.

9	February 10, 2012	3rd quarterly securities report for the 45th business year	3rd quarter consolidated accounting period from October 1, 2011, to December 31, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,278 million yen, but were stated as 1,689 million yen.	・Overstating land ・Overstating work in process, etc.
10	June 28, 2012	Annual securities report for the 45th business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated balance sheet	Consolidated net assets were found to be 1,431 million yen, but were stated as 1,842 million yen.	・Overstating land ・Overstating work in process, etc.
11	August 10, 2012	1st quarterly securities report for the 46th business year	1st quarter consolidated accounting period from April 1, 2012, to June 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,418 million yen, but were stated as 1,825 million yen.	・Overstating land ・Overstating work in process, etc.
12	November 13, 2012	2nd quarterly securities report for the 46th business year	2nd quarter consolidated accounting period from July 1, 2012, to September 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,459 million yen, but were stated as 1,858 million yen.	・Overstating land ・Overstating work in process, etc.

[Date of Recommendation] October 25, 2013
[Amount of administrative monetary penalty] 27,000,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: October 25, 2013
Date of order to pay penalty: November 27, 2013
Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(vii) Recommendation in relation to false disclosure statements in annual securities reports, etc., of LCA Holdings Corporation

1. LCA Holdings Corporation (hereinafter referred to in this subparagraph (vii) as “LCA”), when making a private placement of new shares through the contribution of assets in kind such as land and buildings during the business year ended May 2009, overestimated part of values of the land and buildings constituting said assets in kind and also overstated investment properties and net assets, etc.

As a result of these fraudulent acts, LCA submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-2 (1) of the former FIEA

and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	August 20, 2009	Annual securities report for the 45th business year	Consolidated accounting period from May 21, 2008, to May 20, 2009	Consolidated balance sheet	Consolidated net assets were found to be negative 18 million yen, but were stated as positive 325 million yen	・Overstating investment properties and net assets, etc.
2	October 5, 2009	1st quarterly securities report for the 46th business year	1st quarter consolidated accounting period from May 21, 2009, to August 20, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 282 million yen, but were stated as positive 62 million yen	・Overstating investment properties and net assets, etc.
3	January 4, 2010	2nd quarterly securities report for the 46th business year	2nd quarter consolidated accounting period from August 21, 2009, to November 20, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 543 million yen, but were stated as negative 198 million yen	・Overstating investment properties and net assets, etc.
4	April 6, 2010	3rd quarterly securities report for the 46th business year	3rd quarter consolidated accounting period from November 21, 2009, to February 20, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 687 million yen, but were stated as negative 316 million yen	・Overstating investment properties and net assets, etc.
5	August 18, 2010	Annual securities report for the 46th business year	Consolidated accounting period from May 21, 2009, to May 20, 2010	Consolidated income statement	Consolidated net loss was found to be 963 million yen, but was stated as 928 million yen.	・Overstating rents for investment properties ・Overstating investment properties and net assets, etc.
				Consolidated balance sheet	Consolidated net assets were found to be negative 608 million yen, but were stated as negative 229 million yen	

6	October 4, 2010	1st quarterly securities report for the 47th business year	1st quarter consolidated accounting period from May 21, 2010, to August 20, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 740 million yen, but were stated as negative 352 million yen	・Overstating investment properties and net assets, etc.
7	January 4, 2011	2nd quarterly securities report for the 47th business year	2nd quarter consolidated accounting period from August 21, 2010, to November 20, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 669 million yen, but were stated as negative 273 million yen	・Overstating investment properties and net assets, etc.
8	April 5, 2011	3rd quarterly securities report for the 47th business year	3rd quarter consolidated cumulative period from May 21, 2010, to February 20, 2011	Quarterly consolidated income statement	Consolidated quarterly ordinary loss was found to be 77 million yen, but was stated as 51 million yen. Consolidated quarterly net loss was found to be 245 million yen, but was stated as 219 million yen.	・Overstating rents for investment properties ・Overstating investment properties and net assets, etc.
			3rd quarter consolidated accounting period from November 21, 2010, to February 20, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 675 million yen, but were stated as negative 271 million yen	
9	August 19, 2011	Annual securities report for the 47th business year	Consolidated accounting period from May 21, 2010, to May 20, 2011	Consolidated balance sheet	Consolidated net assets were found to be negative 82 million yen, but were stated as positive 330 million yen	・Overstating investment properties and net assets, etc.
10	October 4, 2011	1st quarterly securities report for the 48th business year	1st quarter consolidated accounting period from May 21, 2011, to August 20, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 277 million yen, but were stated as positive 144 million yen	・Overstating investment properties and net assets, etc.

11	December 28, 2011	2nd quarterly securities report for the 48th business year	2nd quarter consolidated accounting period from August 21, 2011, to November 20, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 369 million yen, but were stated as positive 60 million yen	・Overstating investment properties and net assets, etc.
12	April 4, 2012	3rd quarterly securities report for the 48th business year	3rd quarter consolidated accounting period from November 21, 2011, to February 20, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 91 million yen, but were stated as 530 million yen.	・Overstating investment properties and net assets, etc.
13	August 10, 2012	Annual securities report for the 48th business year	Consolidated accounting period from May 21, 2011, to May 20, 2012	Consolidated balance sheet	Consolidated net assets were found to be 235 million yen, but were stated as 683 million yen.	・Overstating investment properties and net assets, etc.
14	October 4, 2012	1st quarterly securities report for the 49th business year	1st quarter consolidated accounting period from May 21, 2012, to August 20, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 527 million yen, but were stated as 984 million yen.	・Overstating investment properties and net assets, etc.
15	December 28, 2012	2nd quarterly securities report for the 49th business year	2nd quarter consolidated accounting period from August 21, 2012, to November 20, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 498 million yen, but were stated as 963 million yen.	・Overstating investment properties and net assets, etc.
16	April 5, 2013	3rd quarterly securities report for the 49th business year	3rd quarter consolidated accounting period from November 21, 2012, to February 20, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be 402 million yen, but were stated as 876 million yen.	・Overstating investment properties and net assets, etc.
17	August 20, 2013	Annual securities report for the 49th business year	Consolidated accounting period from May 21, 2012, to May 20, 2013	Consolidated balance sheet	Consolidated net assets were found to be 242 million yen, but were stated as 664 million yen.	・Overstating investment properties and net assets, etc.

18	October 4, 2013	1st quarterly securities report for the 50th business year	1st quarter consolidated accounting period from May 21, 2013, to August 20, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be 146 million yen, but were stated as 568 million yen.	・Overstating investment properties and net assets, etc.

2. LCA submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below “containing false statements on material issues,” as stipulated in Article 172-2 (1) of the FIEA, and had others acquire the securities, through the offering based on the offering disclosure documents:

(1) In respect of the securities registration statement (stock) filed on April 28, 2009, to (stock) with the information of "Type of the property to be contributed and the value thereof" with regard to the scheduled allocatee of Owners Hill Karuizawa Co., Ltd. (hereinafter referred to as "Owners Hill"), as stated in Note 4 and Note 8 "Value of Real Estate Property" with reference to Part I [Security information] No.1 [Particulars of public offering] 2.[Method and terms of stock offering] (1) [Method of public offering], LCA stated regarding the values of the land and buildings to be contributed relating to Owners Hill (hereinafter referred to as "the Buildings, etc.") that "the total value of the land is 1,693,049 thousand yen and the total value of the buildings is 211,565 thousand yen." However, the actual values of the Buildings, etc., were substantially below the values given above. In addition, with regard to the adequateness and reasonableness of the evaluation thereof, an appraisal report written by a real estate appraiser and an attorney's written opinion stated and certified that the values of a portion of the Buildings, etc., were based on a significantly overstated rental income as underlying data for computation in determining the values of the Buildings, etc. Despite these facts above, LCA failed to provide these material facts, and indicated regarding the values of the Buildings, etc., that "the total value of the land is 1,693,049 thousand yen and that the total value of the buildings is 211,565 thousand yen." Furthermore, in the Securities Registration Statement, LCA stated, "Pursuant to Article 207, Paragraph (9), Item (iv) of the Companies Act, the Company received an appraisal report written by a real estate appraiser and an attorney's written opinion to the effect that the value of this Real Estate Property was reasonable and adequate. The Company determined the value of this Real Estate Property with the aim of ensuring the fairness of the issuance value of stock by achieving the appraisal report written by a real estate appraiser and the attorney's written opinion in accordance with the provisions of the Companies Act." This description sounds as if the total value of the land described in the Securities Registration Statement was adequate and appropriate as a result of the true and correct values of the Buildings, etc., through a fair computation process. In this way, LCA submitted its securities registration statement (stock), which contained false statements on important matters, and had others acquire 116,619,100 of its shares at the amount of 2,915,477,500 yen, through a

public offering based on said securities registration statement on May 18, 2009.

(2) On July 15, 2009, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) for the consolidated fiscal year from May 21, 2008, to May 20, 2009, including a description of its consolidated balance sheet as of May 20, 2009, to the effect that LCA had positive net assets at the amount of 325 million yen contrary to the fact that it had negative net assets at the amount of 18 million yen. LCA had others acquire 5,229,000 of its shares at the amount of 80,003,700 yen, through a public offering based on said securities registration statement on July 31, 2009.

(3) On July 15, 2009, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (share options) for the consolidated fiscal year from May 21, 2008 to May 20, 2009, including a description of its consolidated balance sheet as of May 20, 2009, to the effect that LCA had positive net assets at the amount of 325 million yen contrary to the fact that it had negative net assets at the amount of 18 million yen. LCA had others acquire 192 of its share options at the amount of 944,544,000 yen (including the amount to be paid at the exercise of said share options), through an offering based on said securities registration statement on July 31, 2009.

(4) On March 19, 2010, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) incorporating the annual securities report for the fiscal year ended May 2009 (see 1. in the table shown above) and the quarterly securities report for the 2nd quarter ended November 2009 (see 3. in the table shown above), which contained false statements on important matters, and had others acquire 43,518,100 of its shares at the amount of 234,997,740 yen, through a public offering based on said securities registration statement on April 5, 2010.

(5) On November 7, 2011, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the 1st quarter ended August 2011 (see 10. in the table shown above), which contained false statements on important matters, and had others acquire 18,112,200 of its shares at the amount of 146,708,820 yen, through a public offering based on said securities registration statement on November 24, 2011.

(6) On November 7, 2011, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (share options) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the 1st quarter ended August 2011 (see 10. in the table shown above), which contained false statements on important matters, and had others acquire 4,125 of its share options at the amount of 389,647,500 yen (including the amount to be paid at the exercise of said share options), through a public

offering based on said securities registration statement on November 24, 2011.

(7) On November 7, 2011, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock options) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the 1st quarter ended August 2011 (see 10. in the table shown above), which contained false statements on important matters, and had others acquire 375,000 of its share options at the amount of 346,125,000 yen (including the amount to be paid at the exercise of said share options), through a public offering based on said securities registration statement on December 1, 2011.

(8) On June 18, 2012, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the third quarter ended February 2012 (see 12. in the table shown above), which contained false statements on important matters, and had others acquire 24,934,700 of its shares at the amount of 381,500,910 yen, through a public offering based on said securities registration statement on July 4, 2012.

(9) On June 18, 2012, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (share options) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the third quarter ended February 2012 (see 12. in the table shown above), which contained false statements on important matters, and had others acquire 113,000 of its share options at the amount of 1,746,189,000 yen (including the amount to be paid at the exercise of said share options), through a public offering based on said securities registration statement on July 4, 2012.

[Date of Recommendation] December 4, 2013
[Amount of administrative monetary penalty] 353,290,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: December 4, 2013
Date of order to pay penalty: February 13, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(viii) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Yukiguni Maitake Co., Ltd.

Yukiguni Maitake Co., Ltd. (hereinafter referred to in this subparagraph (viii) as “Yukiguni Maitake”), in respect of expenses paid for the planned acquisition of an area of land which was given up by Yukiguni Maitake in 1998, which should have been fully charged off, Yukiguni Maitake had continuously recognized the expenses

as assets in the form of construction in progress. Subsequently, Yukiguni Maitake acquired other land and overstated the land for the purpose of avoiding recognition of losses from the expenses above through the combination of expenses treating them as if they were acquisition expenses for the land. In addition, Yukiguni Maitake also deferred a portion of the expenditure relating to the expenses for advertisement served in the business year ended March 2012 to the following year or later, and understated the advertisement expenses for the business year ended March 2012.

As a result of these fraudulent acts, Yukiguni Maitake submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., "containing false statements on material issues," as stipulated in Article 172-2 (2) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	February 13, 2009	3rd quarterly securities report for the 26th business year	3rd quarter consolidated accounting period from October 1, 2008, to December 31, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 4,498 million yen, but were stated as 5,653 million yen.	・ Overstating land, etc.
2	August 14, 2009	1st quarterly securities report for the 27th business year	1st quarter consolidated accounting period from April 1, 2009, to June 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,904 million yen, but were stated as 5,061 million yen.	・ Overstating land, etc.
3	November 13, 2009	2nd quarterly securities report for the 27th business year	2nd quarter consolidated accounting period from July 1, 2009, to September 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,849 million yen, but were stated as 5,005 million yen.	・ Overstating land, etc.
4	August 12, 2011	1st quarterly securities report for the 29th business year	1st quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 4,497 million yen, but were stated as 5,667 million yen.	・ Overstating land, etc.

5	November 14, 2011	2nd quarterly securities report for the 29th business year	2nd quarter consolidated accounting period from July 1, 2011, to September 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,499 million yen, but were stated as 4,840 million yen.	・ Overstating land, etc.
6	February 14, 2012	3rd quarterly securities report for the 29th business year	3rd quarter consolidated cumulative period from April 1, 2011, to December 31, 2011	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 1,892 million yen, but was stated as 1,602 million yen.	・Understating advertisement expenses ・ Overstating land, etc.
			3rd quarter consolidated accounting period from October 1, 2011, to December 31, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,268 million yen, but were stated as 4,722 million yen.	
7	June 29, 2012	Annual securities report for the 29th business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated income statement	Consolidated net loss was found to be 2,504 million yen, but was stated as 2,171 million yen.	・Understating advertisement expenses ・ Overstating land, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 2,672 million yen, but were stated as 4,169 million yen.	
8	August 10, 2012	1st quarterly securities report for the 30th business year	1st quarter consolidated accounting period from April 1, 2012, to June 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,744 million yen, but were stated as 3,213 million yen.	・ Overstating land, etc.
9	November 14, 2012	2nd quarterly securities report for the 30th business year	2nd quarter consolidated accounting period from July 1, 2012, to September 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,087 million yen, but were stated as 2,518 million yen.	・ Overstating land, etc.

10	February 14, 2013	3rd quarterly securities report for the 30th business year	3rd quarter consolidated accounting period from October 1, 2012, to December 31, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,091 million yen, but were stated as 2,477 million yen.	・ Overstating land, etc.
11	June 28, 2013	Annual securities report for the 30th business year	Consolidated accounting period from April 1, 2012, to March 31, 2013	Consolidated balance sheet	Consolidated net assets were found to be 910 million yen, but were stated as 2,243 million yen.	・ Overstating land, etc.
12	August 9, 2013	1st quarterly securities report for the 31st business year	1st quarter consolidated accounting period from April 1, 2013, to June 30, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be 447 million yen, but were stated as 1,737 million yen.	・ Overstating land, etc.

[Date of Recommendation] December 10, 2013
[Amount of administrative monetary penalty] 22,500,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: December 10, 2013
Date of order to pay penalty: January 16, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(ix) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Riso Kyoiku Co., Ltd.

1. Riso Kyoiku Co., Ltd. (hereinafter referred to in this subparagraph (ix) as “Riso Kyoiku”) inappropriately inflated its sales in the course of providing private education services including cram schools and tutor dispatched education. In particular, Riso Kyoiku recognized revenues upon presentation of invoices on monthly tuition fees. Under normal circumstances, Riso Kyoiku should have treated money already received for lessons not implemented at the end of business year as advance received and cancelled the tuition fees already recognized as revenues. However, Riso Kyoiku recognized such money as revenues and overstated sales through fraudulent manners, including pretending that there were many absences for lessons whose tuition fees were not to be refunded. In addition, Riso Kyoiku also had its subsidiaries overstate their net sales through false recognition of tuition fees that were provided free of charge or at a discount as if the regular fees were fully

paid.

As a result of these fraudulent acts, Riso Kyoiku submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., "containing false statements on material issues," as stipulated in Article 172-2 (1) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting
1	May 27, 2009	Annual securities report for the 24th business year	Consolidated accounting period from March 1, 2008, to February 28, 2009	Consolidated income statement	Consolidated net income was found to be 307 million yen, but was stated as 661 million yen.	・Overstating net sales ・Understating advanced tuition, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,546 million yen, but were stated as 2,104 million yen.	
2	October 14, 2009	2nd quarterly securities report for the 25th business year	2nd quarter consolidated cumulative period from March 1, 2009, to August 31, 2009	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 197 million yen, but was stated as 422 million yen.	・Overstating net sales ・Understating advances received, etc.
			2nd quarter consolidated accounting period from June 1, 2009, to August 31, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,547 million yen, but were stated as 2,329 million yen.	
3	January 13, 2010	3rd quarterly securities report for the 25th business year	3rd quarter consolidated accounting period from September 1, 2009, to November 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,390 million yen, but were stated as 1,798 million yen.	・Overstating net assets due to the past overstatement of net sales, etc.

4	May 26,2010	Annual securities report for the 25th business year	Consolidated accounting period from March 1, 2009, to February 28, 2010	Consolidated income statement	Consolidated net income was found to be 1,144 million yen, but was stated as 1,371 million yen.	・Overstating net sales ・Understating advances received, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,879 million yen, but were stated as 2,663 million yen.	
5	July 14, 2010	1st quarterly securities report for the 26th business year	1st quarter consolidated accounting period from March 1, 2010, to May 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,436 million yen, but were stated as 2,114 million yen.	・Understating advances received, etc.
6	October 13, 2010	2nd quarterly securities report for the 26th business year	2nd quarter consolidated cumulative period from March 1, 2010, to August 31, 2010	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 222 million yen, but was stated as 481 million yen.	・Overstating net sales ・Understating advances received, etc.
			2nd quarter consolidated accounting period from June 1, 2010, to August 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,582 million yen, but were stated as 2,625 million yen.	
7	January 13, 2011	3rd quarterly securities report for the 26th business year	3rd quarter consolidated accounting period from September 1, 2010, to November 30, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,440 million yen, but were stated as 2,152 million yen.	・Understating advances received, etc.
8	May 26, 2011	Annual securities report for the 26th business year	Consolidated accounting period from March 1, 2010, to February 28, 2011	Consolidated income statement	Consolidated net income was found to be 870 million yen, but was stated as 1,366 million yen.	・Overstating net sales ・Understating advances received, etc.

				Consolidated balance sheet	Consolidated net assets were found to be 1,608 million yen, but were stated as 2,887 million yen.	
9	July 13, 2011	1st quarterly securities report for the 27th business year	1st quarter consolidated accounting period from March 1, 2011, to May 31, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 938 million yen, but were stated as 1,963 million yen.	・Understating advances received, etc.
10	October 14, 2011	2nd quarterly securities report for the 27th business year	2nd quarter consolidated cumulative period from March 1, 2011, to August 31, 2011	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 105 million yen, but was stated as 364 million yen.	・ Overstating net sales ・Understating advances received, etc.
			2nd quarter consolidated accounting period from June 1, 2010, to August 31, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,200 million yen, but were stated as 2,738 million yen.	
11	January 13, 2012	3rd quarterly securities report for the 27th business year	3rd quarter consolidated accounting period from September 1, 2011, to November 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 978 million yen, but were stated as 2,396 million yen.	・Understating advances received, etc.
12	May 25, 2012	Annual securities report for the 27th business year	Consolidated accounting period from March 1, 2011, to February 29, 2012	Consolidated income statement	Consolidated net income was found to be 834 million yen, but was stated as 1,295 million yen.	・ Overstating net sales ・Understating advances received, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,582 million yen, but were stated as 3,323 million yen.	

13	July 13, 2012	1st quarterly securities report for the 28th business year	1st quarter consolidated accounting period from March 1, 2012, to May 31, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 675 million yen, but were stated as 2,557 million yen.	・Understating advances received, etc.
14	October 15, 2012	2nd quarterly securities report for the 28th business year	2nd quarter consolidated cumulative period from March 1, 2012, to August 31, 2012	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 43 million yen, but was stated as 560 million yen.	・ Overstating net sales ・Understating advances received, etc.
			2nd quarter consolidated accounting period from June 1, 2012, to August 31, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,176 million yen, but were stated as 3,434 million yen.	
15	January 11, 2013	3rd quarterly securities report for the 28th business year	3rd quarter consolidated cumulative period from March 1, 2012, to November 30, 2012	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 41 million yen, but was stated as 665 million yen.	・ Overstating net sales ・Understating advances received, etc.
			3rd quarter consolidated accounting period from September 1, 2012, to November 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,104 million yen, but were stated as 3,468 million yen.	
16	May 17, 2013	Annual securities report for the 28th business year	Consolidated accounting period from March 1, 2012, to February 28, 2013	Consolidated income statement	Consolidated net income was found to be 150 million yen, but was stated as 1,527 million yen.	・ Overstating net sales ・Understating advances received, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 2,533 million yen, but were stated as 5,651 million yen.	

17	July 16, 2013	1st quarterly securities report for the 29th business year	1st quarter consolidated accounting period from March 1, 2013, to May 31, 2013	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 894 million yen, but was stated as 479 million yen.	・Overstating net sales ・Understating advances received, etc.
				Quarterly consolidated balance sheet	Consolidated net assets were found to be 2,699 million yen, but were stated as 6,232 million yen.	
18	October 15, 2013	2nd quarterly securities report for the 29th business year	2nd quarter consolidated cumulative period from March 1, 2013, to August 31, 2013	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 708 million yen, but positive 184 million yen was stated as income.	・Overstating net sales ・Understating advances received, etc.
			2nd quarter consolidated accounting period from June 1, 2013, to August 31, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be 7,280 million yen, but were stated as 11,291 million yen.	

2. Riso Kyoiku submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below “containing false statements on material issues,” as stipulated in Article 172-2 (1) of the FIEA, and had others acquire the securities through the offering based on the offering disclosure documents:

(1) its securities registration statement by reference to the annual securities report for the fiscal year ended February 2011 (see 8. in the table shown above) and the quarterly securities report for the 1st quarter ended May 2011 (see 9. in the table shown above), which contained false statements on important matters, on September 12, 2011, and had others acquire 600,000 of its share options at the amount of 4,203,100,000 yen (including the amount to be paid at the exercise of said share options), through the offering based on said securities registration statement on September 27, 2011.

(2) its securities registration statement by reference to the annual securities report for the fiscal year ended February 2012 (see 12. in the table shown above) and the quarterly securities report for the 1st quarter ended May 2012 (see 13. in the table shown above), which contained false statements on important matters, on October 12, 2012, and had others acquire 623,633 of its share options at the amount of 4,281,011,096 yen (including the amount to be paid at the exercise of said share options), through an offering based on said securities registration statement on October 29, 2012.

[Date of Recommendation] March 7, 2014
[Amount of administrative monetary penalty] 414,770,000 yen
[Process following Recommendation]
Date of decision to start trial procedures: March 7, 2014
Date of order to pay penalty: April 18, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(2) Recommendation for order to Submit Amendment Report and Other Supporting Documents

○ Recommendation for order of amendment report and other supporting documents in relation to false disclosure statements in annual securities reports, etc., of LCA Holdings Corporation

1. LCA Holdings Corporation (hereinafter referred to as “LCA”), when making private placement of new shares through contribution of assets in kind such as land and buildings during the business year ended May 2009, overestimated a part of values of the land and buildings constituting said assets in kind and also overstated investment properties and net assets, etc.

As a result of these fraudulent acts, the annual securities report that was submitted by LCA Holdings to the Director General of the Kanto Local Finance Bureau is acknowledged to have false statements constituting “false statement[s] or record[s] with respect to material issue[s]” as provided in Article 10(1) of the FIEA, as applied mutatis mutandis pursuant to Article 24-2 (1) and Article 24-4-7 (4) of the FIEA, as described in the table below.

No.	Disclosure Document		False Disclosure Statement			
	Submission date	Document	Accounting period	Statement on Finance and Accounting	Content	Accounting item
1	August 20, 2009	Annual securities report for the 45th business year	Consolidated accounting period from May 21, 2008, to May 20, 2009	Consolidated balance sheet	Consolidated net assets were found to be negative 18 million yen, but were stated as positive 325 million yen	・Overstating investment properties and net assets, etc.

2	August 18, 2010	Annual securities report for the 46th business year	Consolidated accounting period from May 21, 2009, to May 20, 2010	Consolidated income statement	Consolidated net loss was found to be 963 million yen, but was stated as 928 million yen.	・Overstating rents for investment properties ・Overstating investment properties and net assets, etc.
				Consolidated balance sheet	Consolidated net assets were found to be negative 608 million yen, but were stated as negative 229 million yen	
3	January 4, 2011	2nd quarterly securities report for the 47th business year	2nd quarter consolidated accounting period from August 21, 2010, to November 20, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 669 million yen, but were stated as negative 273 million yen	・Overstating investment properties and net assets, etc.
4	April 5, 2011	3rd quarterly securities report for the 47th business year	3rd quarter consolidated cumulative period from May 21, 2010, to February 20, 2011	Quarterly consolidated income statement	Consolidated quarterly ordinary loss was found to be 77 million yen, but was stated as 51 million yen. Consolidated quarterly net loss was found to be 245 million yen, but was stated as 219 million yen.	・Overstating rents for investment properties ・Overstating investment properties and net assets, etc.
			3rd quarter consolidated accounting period from November 21, 2010, to February 20, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 675 million yen, but were stated as negative 271 million yen.	
5	August 19, 2011	Annual securities report for the 47th business year	Consolidated accounting period from May 21, 2010, to May 20, 2011	Consolidated balance sheet	Consolidated net assets were found to be negative 82 million yen, but were stated as positive 330 million yen.	・Overstating investment properties and net assets, etc.

6	October 4, 2011	1st quarterly securities report for the 48th business year	1st quarter consolidated accounting period from May 21, 2011, to August 20, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 277 million yen, but were stated as positive 144 million yen.	・Overstating investment properties and net assets, etc.
7	December 28, 2011	2nd quarterly securities report for the 48th business year	2nd quarter consolidated accounting period from August 21, 2011, to November 20, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 369 million yen, but were stated as positive 60 million yen.	・Overstating investment properties and net assets, etc.
8	April 4, 2012	3rd quarterly securities report for the 48th business year	3rd quarter consolidated accounting period from November 21, 2011, to February 20, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 91 million yen, but were stated as 530 million yen.	・Overstating investment properties and net assets, etc.
9	August 10, 2012	Annual securities report for the 48th business year	Consolidated accounting period from May 21, 2011, to May 20, 2012	Consolidated balance sheet	Consolidated net assets were found to be 235 million yen, but were stated as 683 million yen.	・Overstating investment properties and net assets, etc.
10	October 4, 2012	1st quarterly securities report for the 49th business year	1st quarter consolidated accounting period from May 21, 2012, to August 20, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 527 million yen, but were stated as 984 million yen.	・Overstating investment properties and net assets, etc.
11	December 28, 2012	2nd quarterly securities report for the 49th business year	2nd quarter consolidated accounting period from August 21, 2012, to November 20, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 498 million yen, but were stated as 963 million yen.	・Overstating investment properties and net assets, etc.
12	April 5, 2013	3rd quarterly securities report for the 49th business year	3rd quarter consolidated accounting period from November 21, 2012, to February 20, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be 402 million yen, but were stated as 876 million yen.	・Overstating investment properties and net assets, etc.

13	August 20, 2013	Annual securities report for the 49th business year	Consolidated accounting period from May 21, 2012, to May 20, 2013	Consolidated balance sheet	Consolidated net assets were found to be 242 million yen, but were stated as 664 million yen.	・Overstating investment properties and net assets, etc.
14	October 4, 2013	1st quarterly securities report for the 50th business year	1st quarter consolidated accounting period from May 21, 2013, to August 20, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be 146 million yen, but were stated as 568 million yen	・Overstating investment properties and net assets, etc.

2. LCA submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below “containing false statements on material issues,” as stipulated in Article 172-2 (1) of the FIEA, and had others acquire the securities, through an offering based on said offering disclosure documents:

(1) In respect of the securities registration statement (stock) filed on April 28, 2009, to (stock) with the information of "Type of the property to be contributed and the value thereof" with regard to the scheduled allocatee of Owners Hill Karuizawa Co., Ltd. (hereinafter referred to as " Owners Hill"), as stated in Note 4 and Note 8 "Value of Real Estate Property" with reference to Part I [Security information] No.1 [Particulars of public offering] 2.[Method and terms of stock offering] (1) [Method of public offering], LCA stated regarding the values of the land and buildings to be contributed relating to Owners Hill (hereinafter referred to as "the Buildings, etc.") that "the total value of the land is 1,693,049 thousand yen and that the total value of the buildings is 211,565 thousand yen." However, the actual values of the Buildings, etc., were substantially below the values given above. In addition, with regard to the adequateness and reasonableness of the evaluation thereof, an appraisal report written by a real estate appraiser and an attorney's written opinion stated and certified that the values of a portion of the Buildings, etc., were based on a significantly overstated rental income as underlying data for computation in determining the values of the Buildings, etc. Despite these facts above, LCA failed to provide these material facts, and indicated regarding the values of the Buildings, etc., that "the total value of the land is 1,693,049 thousand yen and that the total value of the buildings is 211,565 thousand yen." Furthermore, in the Securities Registration Statement, LCA stated, "Pursuant to Article 207, Paragraph (9), Item (iv) of the Companies Act, the Company received an appraisal report written by a real estate appraiser and an attorney's written opinion to the effect that the value of this Real Estate Property was reasonable and adequate. The Company determined the value of this Real Estate Property with the aim of ensuring the fairness of the issuance value of the stock by achieving the appraisal report written by the real estate appraisers and the attorney's written opinion in accordance with the provisions of the Companies Act." This

description sounds as if the total value of land described in the Securities Registration Statement was adequate and appropriate as a result of the true and correct values of the Buildings, etc., through a fair computation process. In this way, LCA submitted its securities registration statement (stock), which contained false statements on important matters, and had others acquire 116,619,100 of its shares at the amount of 2,915,477,500 yen, through a public offering based on said securities registration statement on May 18, 2009.

(2) On July 15, 2009, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) for the consolidated fiscal year from May 21, 2008 to May 20, 2009, including a description of the consolidated balance sheet as of May 20, 2009, to the effect that LCA had positive net assets at the amount of 325 million yen, contrary to the fact that it had negative net assets at the amount of 18 million yen. LCA had others acquire 5,229,000 of its shares at the amount of 80,003,700 yen, through a public offering based on said securities registration statement on July 31, 2009.

(3) On July 15, 2009, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (share options) for the consolidated fiscal year from May 21, 2008 to May 20, 2009, including a description of its consolidated balance sheet as of May 20, 2009, to the effect that LCA had positive net assets in the amount of 325 million yen, contrary to the fact that it had negative net assets in the amount of 18 million yen. LCA had others acquire 192 of its share options at the amount of 944,544,000 yen (including the amount to be paid at the exercise of said share options), through an offering based on said securities registration statement on July 31, 2009.

(4) On March 19, 2010, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) incorporating the annual securities report for the fiscal year ended May 2009 (see 1. in the table shown above) and the quarterly securities report for the 2nd quarter ended November 2009 (see 3. in the table shown above), which contained false statements on important matters, and had others acquire 43,518,100 of its shares at the amount of 234,997,740 yen, through a public offering based on said securities registration statement on April 5, 2010.

(5) On November 7, 2011, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the 1st quarter ended August 2011 (see 10. in the table shown above), which contained false statements on important matters, and had others acquire 18,112,200 of its shares at the amount of 146,708,820 yen, through a public offering based on said securities registration statement on November 24, 2011.

(6) On November 7, 2011, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (share options) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the 1st quarter ended August 2011 (see 10. in the table shown above), which contained false statements on important matters, and had others acquire 4,125

of its share options at the amount of 389,647,500 yen (including the amount to be paid at the exercise of said share options), through a public offering based on said securities registration statement on November 24, 2011.

(7) On November 7, 2011, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock options) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the 1st quarter ended August 2011 (see 10. in the table shown above), which contained false statements on important matters, and had others acquire 375,000 of its share options at the amount of 346,125,000 yen (including the amount to be paid at the exercise of said share options), through a public offering based on said securities registration statement on December 1, 2011.

(8) On June 18, 2012, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (stock) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the third quarter ended February 2012 (see 12. in the table shown above), which contained false statements on important matters, and had others acquire 24,934,700 of its shares at the amount of 381,500,910 yen, through a public offering based on said securities registration statement on July 4, 2012.

(9) On June 18, 2012, LCA submitted to the Director General of the Kanto Local Finance Bureau its securities registration statement (share options) incorporating the annual securities report for the fiscal year ended May 2011 (see 9. in the table shown above) and the quarterly securities report for the third quarter ended February 2012 (see 12. in the table shown above), which contained false statements on important matters, and had others acquire 113,000 of its share options at the amount of 1,746,189,000 yen (including the amount to be paid at the exercise of said share options), through a public offering based on said securities registration statement on July 4, 2012.

[Date of Recommendation] December 4, 2013
[Process following Recommendation]
Date of the hearing: December 13, 2013
Date of order to submit an amendment report: December 19, 2013

3. Subsequent Progress of Recommendations Issued Prior to FY2012

(1) Trial procedures

Among the cases recommended by the SESC in or before FY2012, the following is a summary of the processes of cases in which the trial procedures are still in pending and orders for the administrative monetary penalty payment had not yet been issued before the “SESC Activities in FY2012” was released.

○ Recommendation for order to pay administrative monetary penalties in relation to false disclosure statements in annual securities reports, etc., of Shiomi Holdings Corporation

With respect to the case of false disclosure statements in annual securities reports, etc., of Shiomi Holdings Corporation that was recommended by the SESC on January 20, 2012, the commissioner of the Financial Services Agency (FSA) decided to discontinue the trial procedure on December 3, 2013, after the Tokyo District Court gave an order of discontinuance of bankruptcy proceedings against the respondent upon giving an order of commencement of bankruptcy proceedings.

○ Recommendation for order to pay administrative monetary penalties in relation to false disclosure statements in annual securities reports, etc., of Japan Wind Development Co., Ltd.

The process is in court as of April 30, 2014 with regard to the case of false statements in annual securities reports, etc., of Japan Wind Development Co., Ltd. that was recommended by the SESC on March 29, 2013.

(2) Revocation actions against decision of administrative monetary penalty payment

Among the cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2012, the following is the summary of the process of the case in which the court's judgment had not been made before "SESC Activities in FY2012" was released.

○ Recommendation in relation to false disclosure statements in annual securities reports, etc., of JVC Kenwood Holdings, Inc.

[The SESC made a recommendation for an order of an administrative monetary penalty payment on June 21, 2010; the Commissioner of the FSA made a decision to order payment of the administrative monetary penalty on December 9, 2010; JVC Kenwood Holdings, Inc. filed an action for revocation of an administrative disposition on December 24, 2010; the Tokyo District Court rendered a judgment on February 10, 2012 (the plaintiff appealed the ruling); and the Tokyo High Court rendered a judgment on March 28, 2013.]

On June 29, 2012, the Tokyo District Court rendered a judgment that thoroughly rejected the claims made by the plaintiff (respondent), and the plaintiff appealed the ruling.

On March 28, 2013, the Tokyo High Court rendered a decision and rejected the defendants' appeal with the following rationales: (a) the exercise price of share options (initial exercise price) shall be unambiguously determined at the time of acquisition of share options; (b) with regard to Article 172-2 (1)(i) of the FIEA, the time when the plaintiff made others acquire the share options should be the base point in time to determine the amount of the administrative monetary penalty; and (c) the amount to be paid at exercise of the share options should be interpreted as the amount of the exercise price of the share options (initial exercise price) at the time when the plaintiff made others acquire the share options.

○ Recommendation in relation to false disclosure statements in annual securities reports, etc., of Crowd Gate Co., Ltd.

[The SESC made a recommendation for an order of an administrative monetary penalty payment on January 27, 2012; the Commissioner of the FSA made a decision to

order payment of the administrative monetary penalty on March 2, 2012, and October 22, 2012; Crowd Gate Co., Ltd. filed an action for revocation of an administrative disposition on November 20, 2012; and the Tokyo District Court rendered a judgment on February 14, 2012.]

On February 14, 2014, the Tokyo District Court rendered a decision and rejected the defendants' appeal with the following rationales: (a) the provisions of Article 172-2 (1)(i) of the FIEA shall not necessarily be applicable to the case where the issuer had any specific economic benefit or where there was any general or abstract possibility to cause the issuer to have any specific economic benefit; and (b) the term "important matters" listed in Article 172-2 (1)(i) of the FIEA shall not solely refer to primary investors who could be solicited directly by the issuer, and all indirect investors who could achieve financial instruments from the primary investors should be considered when referring to the conditions having impact on investors' decisions. Then, the plaintiff appealed the ruling.

(3) Revocation actions against order regarding submission of amendment report, etc.

Among the cases in which respondents filed an action for the revocation of order regarding the submission of an amendment report, etc., in or before FY2012, the following is a summary of the process of a case in which the court's judgment had not been made before "SESC Activities in FY2012" was released.

○ Recommendation for an order to submit an amendment report with respect to the annual securities report containing false disclosure statements that was submitted by Japan Wind Development Co., Ltd.

[The SESC made a recommendation for an order regarding the submission of an amendment report on March 29, 2013; the Director General of the Kanto Local Finance Bureau made a decision to order to submit an amendment report on April 12, 2013; Japan Wind Development Co., Ltd. filed an action for revocation of the order regarding the submission of an amendment report on April 12, 2013.]

The process is in court with regard to the case of false disclosure statements in annual securities reports, etc., of Japan Wind Development Co., Ltd. that was recommended by the SESC on March 29, 2013.

3) Voluntary Amendment, etc., Based on Results of Inspection of Disclosure Statements

In cases where false disclosure statements are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily, from the viewpoint of requiring appropriate disclosure when it is acknowledged that annual securities reports, etc., should be corrected. The following is an overview of cases for voluntary amendment and findings by the regulators.

(i) Company A (listed on the Nagoya Stock Exchange, Inc., Second Section, Industry: Manufacturing (Other products))

Under the umbrella of Company A, its subsidiary in China (Company B) serves as an OEM supplier (meaning a company supplying equipment to other companies to resell or incorporate into another product using the reseller's brand name), and supplies OEM products (low-end

standardized products) to Company C, which was established in China for the purpose of selling the products. Without checking if Company A or Company B controlled the decision-making body of Company C, Company A excluded Company C from the scope of consolidation. However, an officer of Company B owned virtually all of the shares of Company C, and Company C specialized in selling products under the OEM agreement with Company B. Given the situation, it was reasonably acknowledged that Company C was heavily dependent on Company B in business. Therefore, the SESC reasonably acknowledged that Company A should include Company C again in the scope of consolidation and exclude unrealized gains on intercompany transactions. As a result, the SESC urged Company A to correct the annual securities reports, etc.

(ii) Company D (Listed on the Tokyo Stock Exchange, Inc., Second Section, Industry: Wholesale)

With the aim of advancing negotiations advantageously with regard to a large system development project, Company D engaged in providing preceding services to the customer prior to the receipt of orders. However, even in the case where Company D failed to receive an order from the customer, the business division of Company D continued to provide said preceding services to the customer at its own discretion without notifying the administration department of the failure. In addition, it recorded the expenses incurred as work in process. After the internal investigation, Company D understood that the recording of work in process should be regarded as inappropriate accounting treatment, and recognized lump-sum losses immediately upon detection. However, given that all expenses incurred after the failure to receive orders should be dealt with as expenses as soon as they incur, the SESC encouraged Company D to revise the annual securities reports, etc.

4) Future Challenges

In performing inspection of disclosure statements, taking into account that the environment surrounding securities markets is changing, the SESC will strive to conduct more diverse and advanced inspection of disclosure statements, from the following perspectives:

(1) In order to implement quick and efficient disclosure statements inspections with an eye to ensuring that market participants are fairly and equally provided with accurate corporate information without delay, the SESC will strive to improve the capacity of its inspections, by improving inspection techniques and by developing human resources through training. Furthermore, in order to efficiently detect signals of concealed false disclosure statements, etc., the SESC will continue striving to collect an extensive variety of information inside and outside the markets, and will also improve the associated analytical techniques.

(2) If a listed company or any other issuer has made false disclosure statements, the SESC will encourage it to initiate self-directive and timely disclosure of accurate corporate information to the market and will also encourage the related parties to achieve such appropriate disclosure. In so doing, the SESC will, where appropriate, point out findings regarding problems on the internal control serving as a cause for false disclosure

statements, etc., to urge it to improve them. If the company sets up an independent committee for the examination of any suspected accounting fraud, the SESC will, after verifying the independency, neutrality and specialty of the independent committee as well as the validity and objectivity of the examination methodology, utilize the examination thereof to make judgment on the factual findings of the inspection of disclosure statements, if appropriate.

(3) In light of enhancing inspection techniques and technologies (digital forensics), such as preserving, restoring and analyzing electromagnetic records saved on computers, mobile phones and other electronic devices, as well as making such records admissible as evidence, the SESC will utilize digital forensics actively.

(4) If a doubt arises with respect to accounting fraud through a cross-border transaction by a listed company or a foreign consolidated subsidiary, the SESC will obtain materials in close cooperation with overseas securities regulators and examine the cases.

(5) From the perspective of enhancing its market surveillance functions, the SESC will promote cooperation with financial instrument exchanges and the Japanese Institute of Certified Public Accountants (JICPA), as well as with the relevant departments of the FSA, by sharing the SESC's identified challenges and related information on false statement cases, etc. In addition, from the perspective of enhancing its market discipline functions, the SESC will work on publicizing the easily understandable dissemination of information on false statement cases, etc.

8. Investigation of Criminal Cases

1) Outline

1. Purpose of Investigation of Criminal Cases

For the purpose of maintaining financial and capital markets in which investors and other market participants are able to participate with trust, it is important to strictly punish any offenders of market rules, as a precondition to ensuring the fairness and transparency of these markets, and to nurture feelings of trust among all market participants. With the aim of clarifying the truth behind any malicious acts that impair the fairness of financial instruments and transactions for the protection of investors, since the establishment of the Securities and Exchange Surveillance Commission (SESC) in 1992, SESC officials have been exclusively authorized to conduct investigations of criminal cases. Currently, the SESC is also partially authorized to investigate criminal cases under the Act on Prevention of Transfer of Criminal Proceeds (APTCP), which was established to prevent global money laundering.

Amid greater diversity, and as globalized financial instruments and transactions become more complex and complicated, the SESC investigates criminal cases comprehensively and proactively in both primary and secondary markets.

2. Authority and Scope of Investigation of Criminal Cases

Specifically, two types of authority are stipulated under the Financial Instruments and Exchange Act (FIEA) with regard to the investigation of criminal cases: voluntary investigation (as defined in Article 210 of the FIEA) and compulsory investigation (as defined in Article 211, etc., of the FIEA). The SESC is authorized to conduct administrative level (voluntary) investigations, including questioning suspects in, or witnesses to, a violation of the law or regulations, inspecting articles possessed or left behind by a suspect, and provisionally holding articles provided voluntarily or left behind by a suspect. The SESC is also authorized to carry out compulsory investigations, visits, searches and seizures conducted based on a warrant issued by a judge.

The scope of criminal cases is prescribed in a government ordinance as a category of acts impairing fair securities trading (Article 45 of the FIEA Enforcement Order). Most typical criminal cases include the submission of a false annual securities report by an issuing company, insider trading by a corporate insider, or the spreading of rumors, fraudulent means or market manipulation by any persons.

Under the APTCP, in cases where a financial instruments business operator confirms the identity of individuals, an act by a customer to conceal his or her name or address is also subject to investigation as a criminal case (Article 30 of the APTCP).

At the conclusion of a criminal case investigation, the SESC officials report the results of the investigation to the SESC (Article 223 of the FIEA, Article 30 of the APTCP). In the event that the investigation leads the committee members to have a strong belief that the case constitutes a violation, the SESC shall file a formal complaint with a public prosecutor, and if there are any items that have been retained or seized in the SESC's investigation, they shall be sent together with a list of retained/seized articles to the public prosecutor (Article 226 of the FIEA, Article 30 of the APTCP).

3. Activities in FY2013

In FY2013, the SESC filed complaints with public prosecutors for three criminal charges. In each case, the SESC filed the complaints with the public prosecutors offices in either the Tokyo or Nagoya districts, and investigated criminal cases with a broader vision in FY2013. In addition, with regard to a case of exaggerated advertising by MRI INTERNATIONAL, Inc. (a type II financial instruments business operator under the FIEA; hereinafter referred to as “MRI”), since MRI has its headquarters in the United States, the money contributed by Japanese investors was managed in the United States, the SESC engaged in close cooperation with the U.S. Securities and Exchange Commission (SEC) to clarify facts and seek liability of the related parties. At the request of the SESC, the SEC filed a civil complaint against MRI in the United States District Court for the District of Nevada, and the court ordered an asset freeze, etc., on MRI and its representatives, etc., in the State of Nevada.

2) Complaints

1. Summary

In FY2013, based on the results of criminal investigation, the SESC filed criminal charges with the following district public prosecutors offices for a total of three cases (three individuals), consisting of one case (one individual) of suspected insider trading, one case (one individual) of suspected market manipulation, and one case (one individual) of spreading of rumors.

Name of case	Accusation date	Office
Insider trading case concerning the shares of eAccess Ltd. by an employee of eAccess Ltd.	April 30, 2013	Tokyo District Public Prosecutors Office
Market manipulation case concerning the shares of Central General Development Co., Ltd.	July 12, 2013	Tokyo District Public Prosecutors Office
A case of spreading of rumors by means of abusing electronic bulletin boards	March 19, 2014	Nagoya District Public Prosecutors Office

2. Outline of Cases

(1) Formal complaints against market misconduct

(i) Insider trading case concerning shares of eAccess Ltd. involving an employee of eAccess Ltd.

This was a typical insider trading case with the suspect being a corporate insider, in which he/she as a secretary to the director of an issuing company had come to know a material fact regarding the company's decision to form a business alliance with an

external company and conduct a share-swap deal with the parent company thereof, and he/she purchased a large number of shares of the issuing company prior to the fact being announced.

The suspect was an employee engaged in duties as secretary to the chairman and representative director at eAccess Ltd. (hereinafter referred to as “eAccess”), a mobile communications services business whose shares were listed on the market opened by the Tokyo Stock Exchange, Inc. Around the period from September 28, 2012, to September 29, 2012, during the course of the secretary’s duties, the suspect became aware of a material non-public fact that the organ responsible for making decisions on the execution of the operations of eAccess had decided to form a business alliance with SoftBank Mobile Corp., a company engaged in the same business line with eAccess, and to make a share-swap deal with SoftBank Corp., the parent company of SoftBank Mobile Corp. Despite the absence of any legal exception, the suspect purchased a total of 698 shares of eAccess for a total price of 10,470,000 yen in the name of the suspect at around 9:00 a.m. on October 1, 2012, prior to the announcement of the material fact.

(ii) Market manipulation case concerning shares of Central General Development Co., Ltd.

This was a typical market manipulation case, in which the suspect was involved in consecutively placing large buying orders of the above shares at higher prices to make them be executed at higher prices and supporting the lower prices through the placement of multiple buying orders (so-called *Misegyoku* sham order transactions by placing large orders and cancelling them before they are executed with the intent of manipulating the market), as well as matching buying and selling orders at the suspect’s intended prices (“wash trade” [*Kasou*]) both on the suspect’s own account and on the accounts of others.

With the intent of obtaining economic benefit through manipulation of the share prices of Central General Development Co., Ltd. whose shares are listed on the Second Section of the Tokyo Stock Exchange, Inc., for nine trading days from January 31, 2011, to February 10, 2011, the suspect inflated the share price from 425 yen to 670 yen in the market by means of the steps described in (1) and (2) below, and then in turn sold 138,800 shares at the higher inflated price in the suspect’s name and the names of others:

(1) For the purpose of inducing sales and purchases of the shares of Central General Development Co., Ltd., the suspect conducted the following actions on the suspect’s own account and on the accounts of others:

(a) The suspect purchased a total of 67,600 shares of the company, including by consecutively placing large buying orders at higher prices than the latest contract price to make them be executed at higher prices; and

(b) The suspect was involved in market manipulation including placing buying orders of 30,500 shares of the company through a series of transactions of the company's securities and commissioning broker(s) to trade the shares, in such a manner as to

cause other investors to have the misconception that the shares were being traded actively in the market, and also causing fluctuations in the market price of the shares.

(2) The suspect conducted wash trade (*Kasou*) transactions of the shares by matching buying and selling orders of 50,100 shares of the stock at the same time to execute them at higher prices without the purpose of transferring rights in the same name as mentioned in (1), for the purpose of causing other investors to have misconceptions regarding the trading of the shares, including the misconception that the shares were being traded actively in the market.

(iii) A case of spreading of rumors by means of abusing electronic bulletin boards

This is a case of spreading of rumors in which, with the purpose of selling stocks purchased by the suspect at their peak, the suspect repeatedly wrote messages of unsupported rumors to the effect that these prices of the stocks could jump up significantly on electronic bulletin boards on the Internet.

With regard to the case by means of misusing electronic bulletin boards, this was the second case in which the SESC filed a criminal complaint against the suspect.

The suspect spread false rumors for the purpose of trading the shares of Kaneyo Co., Ltd. listed on the Second Section of the Osaka Stock Exchange, Inc. and other two stock certificates as well as causing fluctuations in the market price of the shares. Around the period from January 23, 2013, to February 18, 2013, the suspect wrote messages on electronic bulletin boards entitled "Stock Research Message Board" and/or "Stock Discussion Board between Mr. Y and funny members" via the Internet by recording the character data in the storage device of the server computer through operating a personal computer located at the company at which the suspect served as representative director, including uploading information without rational reasons to the effect that:

(a) I have just received confidential information from a professional speculator who intends to inflate the stock price of 3209 - Kaneyo tomorrow;

(b) The stock price of 6775 - TB Group could double due to potential heavy buying by speculative investors; and

(c) Today's special recommendation: buy 6862 - Minato Electronics; double-digit gain potential due to massive buying by speculative sources. This undervalued stock could rocket after a turnaround with strong support from foreign exchange rate at 80 yen against the US dollar, which could trigger a substantial revision of earnings.

The suspect put the information in the state that could be provided for browsing of many and unspecified persons, and by doing so, spread false rumors for the purpose of trading and fluctuating the shares.

3) Future Challenges

With regard to criminal investigation, the SESC will address the following issues in order to react flexibly and promptly to environmental changes of markets and to improve the effectiveness of surveillance.

Through these efforts, by speedy criminal filings against malicious violations, the SESC is trying to warn market participants, including private investors, and will prevent any recurrence of similar types of violations.

(1) Strict actions against severe and malignant market misconduct and false disclosure statements

As stated in the SESC's policy statement for the 8th term (published on January 21, 2014; see Chapter 2), the SESC places emphasis on "Strict action against severe and malignant market misconduct and false disclosure statements" as one of its prioritized items. In particular, the SESC will take strict actions against severe and malignant market misconduct through the investigation of criminal cases with respect to violations including insider trading, market manipulation, spreading of rumors, fraudulent means and false disclosure statements.

In addition, the SESC will continue to cooperate with investigative authorities, overseas regulators and other related organizations to effectively clarify facts and seek liability, according to the contents of the matter.

In fact, with regard to the case of exaggerated advertising by MRI, since MRI has its headquarters in the United States, the money contributed by Japanese investors was managed in the United States, so the SESC engaged in close cooperation with the U.S. Securities and Exchange Commission (SEC) to clarify facts and seek liability of the related parties. At the request of the SESC, the SEC filed a complaint against MRI, and the United States District Court for the District of Nevada ordered an asset freeze, etc., on MRI and its representatives, etc., in the State of Nevada.

(2) Monitoring a wide variety of crimes

Criminal cases impairing the fairness of the market include insider trading, market manipulation, spreading of rumors, fraudulent means, false disclosure statements, and the submission of false annual securities reports, etc. (window-dressing of accounts, which have become increasingly complex and sophisticated). The SESC continues to address a wide range of these categorized criminal cases to conduct more effective and efficient market surveillance.

(i) Countermeasures against insider trading

In recent years, reflecting the ongoing change and diversification of business models as well as intensified global competition, the enhancement of capital through public offering or the allocation of new shares to a third party by listed companies became popular as well as the method of being unlisted through management buyout (MBO), etc. In such situation, the risks of insider trading are implied in these transactions.

Thus, the SESC will continue its surveillance of the overall market and all transactions suspected of being insider trading—for example, a transaction made in a timely manner prior to a material fact being announced—, and analyzing the primary factors of insider trading. The SESC will also strive to set up preventive measures and communicate with Self-Regulatory Organizations (SROs), listed companies and relevant industries to prevent insider trading and to find evidence of insider trading promptly.

(ii) Countermeasures against market manipulation

The SESC recognizes two types of broad trends in recent cases of market manipulation: manipulation using techniques such as *Misegyoku* sham order transactions in which individual day traders exploit online trading, and more methodical and artificial price manipulation performed by *shite-suji*, professional speculators. In cooperation with stock exchanges, the SESC will endeavor to detect problematic cases at an early stage, and will continue to take all possible measures when exercising surveillance over market manipulation.

(iii) Countermeasures against window-dressing

The SESC will continue its work of analyzing and examining the financial information of listed companies to facilitate the prompt exposure of malicious cases of window dressing designed to deceive investors. The SESC is going to charge all suspects who are involved in window dressing, regardless of whether they are inside or outside the company. As a matter of fact, companies facing financial problems tend to commit window dressing, and such companies also face the risk of committing fraudulent finance because of their cash-strapped condition. Hence, the SESC tries to conduct investigation of window-dressing cases in combination with surveillance of fraudulent finance from a multidimensional perspective.

(iv) Countermeasures against spreading of rumors

In line with the trend of Internet trading becoming increasingly popular among investors in recent years, electronic bulletin boards have also become utilized as information resources for investors. On the opposite side, the SESC has received a large amount of information relating to the spreading of rumors, most of which has been caused by “whispering information” given over the Internet. Therefore, the SESC will engage in surveillance for such conduct and take strict actions against those who are acknowledged to have violated the laws and regulations.

(3) Responding to the globalization of markets

Along with the globalization of financial industries and rapid economic growth of emerging markets like Asian countries, the numbers of cross-border transactions and expansions of foreign capitals or foreign investors into Japanese markets are continuously increasing. Under such circumstances, in addition to market misconduct such as insider trading and market manipulation, malicious fraudulent trading cases have been caused by those who are well versed in financial instruments and exchange transactions across borders.

For example, the case of exaggerated advertising by MRI could be regarded as a financial fraud case in which a type II financial instruments business operator with its headquarters in the United States fraudulently managed money through its managed account in the United States, which was directly remitted by Japanese investors. Thus, the SESC will continue to cooperate with overseas regulators much more actively to ensure thoroughly guarded market surveillance. Especially, the SESC will make the most of international information exchange frameworks, including the Multilateral Memorandum of Understanding (MMOU) adopted by the International Organization of

Securities Commissions (IOSCO).

(4) Responding to the spread of crime in rural areas

As seen in the case of market manipulation conducted by day traders residing in local areas, the SESC found that the nationwide spread of online trading facilitates rural investors' involvement in crimes related to securities transactions, and also found that there is some risk of insider trading or other for such people who are close to emerging companies in rural areas. Amid such circumstances, the SESC will continue to strengthen its cooperation with the investigative authorities and local finance bureaus, etc., in each area, and will adopt a stance of clarifying the truth behind offenses, no matter where they are committed, and filing accusations with public prosecutors.

(5) Strengthening digital forensics operations

For conducting investigations efficiently and effectively, it is important to use information technology or digital forensics especially for tracing the proof of crime. The SESC focuses on collecting evidence through implementing the seizure of computers, mobile phones and other devices in order to restore and analyze the data saved on those devices.

Therefore, in addition to the active recruitment of specialists in digital forensics, the SESC has been providing practical training to its staff, in an effort to acquire and accumulate technical know-how. It has also been systematically expanding its equipment and software necessary for digital forensics.

The SESC will continue its endeavor to strengthen both the human and equipment aspects of its digital forensics operations in an effort to conduct investigations into criminal cases more effectively and more efficiently.

(6) Development of human resources

In exercising criminal case investigations, the SESC focuses on developing staff members' skills of questioning suspects or witnesses, and of reviewing and verifying seized articles.

The SESC will continue its commitment to developing the required human resources, such as through personnel exchanges with prosecutors and enhancing training, and through human-resource management oriented toward development and training.

9. Policy Proposals

1) Outline

To establish a fair, highly transparent and sound market, and to maintain investor confidence in that market, the rules of the market should respond to changes in the environment surrounding it. Therefore, with regard to measures considered necessary to ensure fairness in trading or to secure investor protection and other public interests, the Securities and Exchange Surveillance Commission (SESC) can submit policy proposals to the prime minister, the commissioner of the Financial Services Agency (FSA), or the minister of finance pursuant to Article 21 of the Act for Establishment of the FSA, where necessary based on the results of inspections, investigations or other relevant activities, in order to have the rules appropriately maintained to reflect the actual conditions of the market.

Policy proposals are submitted after the SESC has comprehensively analyzed the important issues identified in the results of its inspections and investigations. These proposals clarify the SESC's views on laws, regulations and self-regulatory rules, and it is intended that they will be reflected in the policies of the administration and of self-regulatory organizations. The policy proposals submitted by the SESC serve as an important consideration in the policy response of regulatory authorities.

In terms of the substance of specific policy proposals, when existing laws, regulations and self-regulatory rules are found to be insufficient in light of the situation of the securities market, the SESC draws attention to that fact. It then presents issues to be considered regarding the state of laws, regulations and self-regulatory rules from the perspective of ensuring market integrity and securing investor protection and other public interests, and calls on them to be reviewed.

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

1. Specific Policy Proposals and Measures Taken Based on Policy Proposals

From its inception in 1992 through FY2012, the SESC submitted 23 policy proposals. In FY2013, no policy proposal was submitted. However, the FSA made the required revision in FY2013 based on the following policy proposal submitted to the prime minister and the commissioner of the FSA:

○ Ensuring accuracy when providing credit ratings or making them available to the public

In the inspections of credit rating agencies, there was a case in which a credit rating agency mistakenly provided or made available to the public incorrect credit ratings which were different from those the credit rating agency had actually determined. Therefore, the SESC submitted a policy proposal to the prime minister and the commissioner of the FSA to the effect that it was necessary to establish a statute which directly prescribed the obligation of CRAs to ensure accuracy in disclosing credit ratings. Given the proposal, the FSA revised the "Cabinet Office Ordinance on Financial Instruments Business, etc." and established a statute to ensure accuracy in disclosing credit ratings as part of prescribing the obligation of credit rating agencies to achieve an appropriate internal

framework, which went into effect on September 2, 2013.

2. Other Initiatives

Some initiatives are deemed necessary to ensure market fairness and investor protection, but do not reach the stage of policy proposals. For such initiatives, the SESC communicates its awareness of issues through information exchanges with administrative departments of the FSA and self-regulatory organizations, and urges necessary policy responses. The SESC endeavors to contribute to the revisions of systems and the amendment of rules in self-regulatory organizations.

3) Future Challenges

Based on the results of inspections and investigations, etc. pursuant to the FIEA and other laws, with regard to measures believed necessary, the SESC submitted policy proposals with the aim of having them reflected in the measures implemented by the administration and self-regulatory organizations. Furthermore, with regard to matters that do not require a revision of laws or regulations, and with regard to matters that are not directly linked to policy proposals, the SESC strengthened its function of providing information, such as actively communicating its awareness of issues to the FSA, self-regulatory organizations and so forth, aiming to share its awareness of issues. The SESC intends to continue to proactively work on this.

10. Measures to Respond to the Globalization of Markets

1) Cooperation with Overseas Regulators and Global Market Surveillance

The SESC set “Enhanced surveillance in response to the globalization of markets” as one of the new pillars of its policy directions in the *SESC’s Policy Statement for the 8th Term*, which was formulated in January 2014, thereby laying out its policy of strengthening global market surveillance. Among others, the SESC stepped forward to fostering personnel that can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel (see Chapter 2). The SESC will share information using the framework among multiple securities regulators and request overseas regulators to assist investigation on any market misconduct using cross-border transactions. At the same time, it will keep its eye on both primary and secondary markets and strengthen its monitoring of cross-border transactions so as to ensure thoroughly guarded market surveillance.

1. Activities in the International Organization of Securities Commissions (IOSCO)

The International Organization of Securities Commissions (hereinafter referred to as “IOSCO”) is an international organization acting with the aim of establishing international harmony of securities regulations and mutual collaboration among regulatory authorities. IOSCO is composed of 201 organizations representing each country or region (of which 124 are ordinary members, 13 are associate members, and 64 are affiliate members). The SESC became an associate member of IOSCO in October 1993. (Note: the FSA participates in IOSCO as an ordinary member representing Japan.)

In IOSCO, the Annual Conference led by the Presidents Committee, the supreme decision-making body of IOSCO, is held. At the conference, the top-level management of securities regulators from various countries and regions meet together to discuss and exchange opinions on the current situation and challenges in respective securities regulations. As the number of cross-border transactions in financial and capital markets increases, it is extremely important to strengthen international collaborative relationships through the exchange of information and opinions with regulators from various countries in order to carry out proper market surveillance in Japan. Therefore, from the SESC, the Commissioner attends the Annual Conference of IOSCO. In addition, the Commissioner also participates in the Asia-Pacific Regional Committee (APRC), which is one of the regional committees of IOSCO, to focus on regional issues relating to securities regulation. In this way, the SESC is striving to enhance 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 IOSCO Board, which is made up of the regulatory authorities of various countries or regions, and eight Policy Committees were created under it. The SESC has been a member of Committee 4 (C4), which was set up to carry out discussion of law enforcement issues and information exchange.

C4 is working on the exchange of information and cooperation in law enforcement among the national regulators with the aim of dealing with market misconduct and securities crimes using so-called cross-border transactions across multiple countries. In FY2013, C4 had a discussion on exploring elements that work as a credible deterrence in

the sanction system in each country against market misconduct as well as promoting dialogue with uncooperative regulators of countries and regions. The SESC also explained about recent market misconduct in the securities markets and its cooperation with overseas regulators at the C4 on-site meetings. In addition, C4 discussed the recent trends regarding regulatory and law enforcement in each country. The SESC has also participated in meetings of the Screening Group (SG) to examine the documents submitted to the IOSCO secretariat by regulators applying for participation in the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (hereinafter referred to as the "MMOU"), which is an information sharing framework among multiple securities regulators. Given that more than 10 years have passed since the MMOU was adopted, the SG has also examined the possibility of functional enhancement of the MMOU in light of changes in the market since 2013.

2. Utilization of Information Exchange Frameworks

(1) It is absolutely essential to share information among securities regulators in different countries in order to address market misconduct that may impair the fairness of transactions in multiple countries' markets, as international activities of market participants such as cross-border transactions and investment funds in financial and capital markets have become increasingly common.

With regard to building the information exchange framework with overseas securities regulators, the FSA has entered into bilateral 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), United States
- Commodity Futures Trading Commission (CFTC), United States
- Australian Securities and Investments Commission (ASIC), Australia
- Securities and Futures Commission (SFC), Hong Kong
- Securities Commission (SC) (currently, Financial Markets Authority (FMA)), New Zealand

(2) With respect to the MMOU, IOSCO resolved at its Annual Conference held in Colombo in April 2005 that each member regulator was required to become a signatory of the MMOU or to commit to securing the required legal authority to be a signatory of the MMOU not later than January 1, 2010. Later, at IOSCO's Annual Conference held in Montreal in 2010, IOSCO resolved to ask all participating regulators to become MMOU signatories by January 1, 2013. With regard to unsigned regulators, IOSCO has actually taken steps to provide technical assistance to such regulators and post the progress of establishment of the legal system to become a signatory of the MMOU on its website. IOSCO plans to take step-by-step measures including restricting representatives of unsigned regulators from assuming important positions, including IOSCO Board Members, the Chairperson of the Regional Committee and the Chairperson or Vice Chairperson of the Policy Committee from September 2013, requesting representatives of unsigned regulators assuming the positions above to resign from the positions from

March 2014, prohibiting unsigned regulators from participating in any policy committee from June 2014, and restricting unsigned regulators from exercising their voting rights from September 2014.

As of March 31, 2014, the number of signatories of the MMOU is 101, and the number of unsigned regulators that committed to securing the required legal authority to be a signatory of the MMOU is 20.

In Japan, after screening by SG following the application to IOSCO submitted in May 2006, the FSA was approved as a signatory to the MMOU in February 2008. As a consequence, it has become possible for the SESC, through the FSA, to mutually exchange information with other signatories if necessary for surveillance and law enforcement purposes.

(3) Utilizing these frameworks for information exchange, the SESC recommended administrative disciplinary actions for the issuance of orders to pay administrative monetary penalties on market misconduct using cross-border transactions in the Japanese market in FY2013. The main cases are as follows:

(i) Recommendation for administrative disciplinary action

○ The SESC made a recommendation for administrative disciplinary action, through collection of information with the aid of the MMOU (see Chapter 4. 6) 2 (2)), for a case in which MRI INTERNATIONAL, INC. diverted funds invested by customers not for the use of business purposes but for the payment of dividends and redemptions to other customers.

(ii) Recommendations for issuance of orders to pay administrative monetary penalties

○ Insider trading (one case)

After 2010 a few cases revealed that insider trading had been executed by professional investors in Japan and overseas who had received material facts from a sales-person working at a securities company acting as lead managing underwriter, with respect to concentrated large public offerings of new shares after the economic downturn caused by the Lehman Brothers bankruptcy in 2010. Among these cases, the SESC made recommendations in FY2013, through the collection of information with the aid of the MMOU (see Chapter 6. 2) 2 (vi)), for an order of an administrative monetary penalty payment regarding a case of insider trading by MAM Pte. Ltd., a company incorporated under the Companies Act of the Republic of Singapore.

○ Market manipulation (two cases)

The SESC made a recommendation for an order of an administrative monetary penalty payment, through the collection of information with the aid of the MMOU (see Chapter 6. 2) 2 (i) & (vii)), in two cases in which Juggernaut Capital Management Pte. Ltd., a company incorporated under the Companies Act of the Republic of Singapore, and Select Vantage Inc., whose registered office is located in British Anguilla, engaged in a series of transactions that were to effect a change in the market price of shares with the purpose of inducing transactions for shares of companies listed on the Japanese stock exchange.

○ Fraudulent means (one case)

The SESC made a recommendation for an order of an administrative monetary penalty payment, through the collection of information with the aid of the MMOU (see Chapter 6. 2) 2 (ii)), in a case in which the offender (a director of Wedge Holdings Co., Ltd.) used a series of fraudulent means including the disclosure of false information and fake payment on convertible debentures by rotating funds for the purpose of pumping up the prices of securities of Wedge Holdings Co., Ltd., and influenced the price of said securities for the purpose of causing a fluctuation of quotations on said securities.

(4) In addition to the cases described above, there were some cases in which overseas securities regulators imposed administrative sanctions on violators pursuant to local laws and regulations as a result of the exchange of information with regulators based on the original information given by the market surveillance of the SESC. Thus, the SESC steadily reinforced its cooperation with overseas securities regulators.

3. Exchange of Views

The SESC is working on identifying recent trends in international financial and capital markets as well as the efforts by overseas regulators for ensuring market integrity. The SESC is also working to promote understanding of its activities. Therefore, the SESC actively exchanges views with overseas securities regulators and globally active financial institutions. In FY2013, the SESC exchanged views with overseas securities regulators, including those in the United States, Australia, Hong Kong, Thailand, China, South Korea, Mongolia, India, Malaysia, Vietnam, the Cayman Islands, and the British Virgin Islands, as well as with financial institutions with global operations and international industry organizations, etc.

2) Development of Organizational Structures and Human Resources

1. Development of Organizational Structures in response to the Globalization of Markets

The SESC has proceeded to develop organizational structures for conducting global market surveillance and inspections utilizing international inspection and supervisory frameworks. Specifically, in addition to newly establishing the position of Deputy Secretary General of International and Intelligence Services, staff members in charge of international transactions have been assigned to each division within the SESC, such as specialist examiners and specialist investigators related to international matters, to conduct investigations by utilizing information exchange frameworks.

Given the fact that cross-border transactions by both Japanese and global professional investors accounted for a large percentage in the Japanese securities market in recent years, the SESC established the Office of Investigation for International Transactions and Related Issues in the Administrative Monetary Penalty Division in August 2011, which specializes in investigating possible market misconduct by professional investors both in Japan and overseas using cross-border transactions, in response to the ongoing globalization of the markets.

2. Participation in Short-Term Training Courses and Secondment to Overseas Regulators

In order for the SESC's staff members to acquire the surveillance and inspection techniques used by overseas regulators, and to then apply those techniques in market surveillance operations at the SESC, or to share the methodologies and know-how accumulated by the Japanese regulators to the overseas regulators, the SESC has sent its staff members to participate in short-term training courses, hosted by the US SEC, the US CFTC, the UK Financial Services Authority (FSA; currently changed to the Financial Conduct Authority (FCA) in the UK), and the Hong Kong Securities & Futures Commission (SFC).

As part of the initiatives, the SESC has newly dispatched its staff member to the Securities and Exchange Commission of Thailand for about three months from November 2013. Through the dispatch of personnel to these overseas regulators, the SESC aims to share awareness of issues and to strengthen the network among the regulators as well as global market surveillance systems.

In addition, similar to the above initiatives, with the aim to exchange opinions regarding the latest surveillance and inspection methodologies with overseas regulators, the SESC has dispatched its staff members to participate in short-term training courses hosted by the SEC (US), the Monetary Authority of Singapore (MAS), IOSCO, and APEC, etc.

3) Future Challenges

Amid an increase in cross-border transactions in financial and capital markets, the SESC will continue to have the policy of adopting an appropriate response against any market misconduct made by overseas investors in the Japanese market in close cooperation with overseas regulators, comprehensively taking into account the maliciousness, the effectiveness of punishment, responses of overseas regulators, etc. on the basis of each case.

At the same time, the SESC needs to address the challenges listed below, recognizing it as essentially important to enhance international cooperation with securities regulators as well as developing human resources through personal exchanges with overseas regulators and improving organizational systems, in order to secure effective inspections using an international inspection/supervision framework and global market surveillance.

(1) To respond effectively to market misconduct using cross-border transactions, through active collection of information with the aid of an information exchange framework and enhanced cooperation with overseas securities regulators.

(2) To further develop human resources capable of addressing global cases, through the enhancement of a training program at each division within the SESC and the dispatch of its staff members to short-term training courses hosted by overseas regulators and international organizations.

(3) To strengthen international cooperation with overseas regulators including by actively exchanging views at international meetings and by strengthening information transmission of the SESC's activities to overseas countries.

(4)To activate cooperation with securities regulators in emerging Asian countries, and to provide support for the maintenance of market surveillance systems in emerging Asian countries, such as by offering know-how on the inspection of securities companies or law enforcement.

11. Efforts to Enhance Surveillance Activities and Functions

1) Reinforcement and Strengthening of the Market Surveillance System

1. Reinforcement of Organization

(1) Reinforcement of Organization

The Securities and Exchange Surveillance Commission (SESC), which initially had a two-division system comprising the Coordination and Inspection Division and the Investigation Division, now has six divisions with extensive and diverse roles divided by the functions of the SESC in line with the past process of delegating authority to conduct administrative monetary penalty investigations and expanding its authority to conduct inspections for the purpose of enhancing and strengthening the market surveillance function.

In FY2014, amid severe conditions for overall quotas of national public service personnel under a tight budget, as a result of requesting an increase in personnel as one of the main pillars of improving the system of information collection and analysis and the inspection system against type II financial instruments business operators, an increase of 13 officers was approved. This brings the total SESC staff quota to 409 as of the end of FY2014.

As to the securities transactions surveillance officers (divisions) at the local finance bureaus, an increase of 22 officers was approved, mainly for improving the system of inspection of securities companies and other entities, bringing the quota to 354 as of the end of FY2014. Combined with the staff quotas of the SESC, the total number stands at 763.

(2) Appointment of Private-Sector Experts

From the perspective of ensuring effective market surveillance and boosting professional expertise among its officers, during FY2013, the SESC reinforced its investigation and inspection systems by employing a total of 26 private-sector experts with specialized knowledge and experience in the securities business, including attorneys and certified public accountants. The appointment of private-sector experts started in 2000, and, as of the end of FY2013, 122 such professionals were employed at the SESC.

2. Improvement of Capacity for Collecting and Analyzing Information

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

Due to the need to ascertain all of the facts relating to securities transactions by analyzing complicated and massive amounts of data, 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 information system that can be widely used in the operations of the SESC, including the investigation of criminal cases, the investigation of market misconduct, the inspection of disclosure statements, the inspection of securities companies and other entities, day-to-day market surveillance, and market oversight.

Even after the completion of its fundamental development in FY2001, efforts to review and enhance each of its functions have continued to be made, aimed at achieving more efficient operations.

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

(2) Better Staff Training

The SESC has aimed at improving the quality of the staff by providing them with OJT and seminars for the acquisition of know-how about oversight techniques on investigations and inspections. Staff members also learn the latest information on financial and capital markets from lectures by outside instructors, etc. These are some of the efforts to enhance staff quality.

In order to accurately respond to new challenges of more complex and diverse types of transactions, the increase of cross-border transactions, and trading techniques on a rapid basis, training is being provided to enable each staff member to acquire specialized knowledge and skills regarding new financial instruments and transaction techniques, investigation techniques on cross border transactions, investigation techniques using digital forensics, etc.

3. Enhancement of Systems Infrastructures to Support Market Surveillance

At the phase of design for the next-generation SCAN-System (Integrated Financial Services Agency (FSA) Business Support System (partial operation commencement planned in FY2014)) based on the “Optimization Plan for Business Processes and Systems concerning the Inspection and Supervision of Financial Institutions and Securities and Exchange Surveillance” (as per the decision dated March 28, 2006, by the e-Government Promotion Conference, FSA), the SESC considered ways of having IT-system designed for each business process, and succeeded in not only raising business efficiency but also in sophisticating business processes incorporating changes in external environments, for example, the adoption of XBRL technology in the EDINET system. The system design phase was completed by FY2010. Since FY2011, as work commenced on development of the system, the SESC has conducted various verifications in accordance with the progress of the development.

Regarding digital forensics, the SESC started to consider its introduction in FY2008, completed the first equipment plan to secure an operating environment on restoring and evidencing electronic records in FY2010, and implemented the second equipment plan to achieve its data analysis environment in FY2011. In FY2013, the SESC procured additional equipment in light of the changing IT environment, such as higher performance and larger capacity, and established the private network system with the aim of facilitating the enhancement of environments for the more effective use of equipment.

2) Dialogue with Market Participants and Efforts to Strengthen the Dissemination of Information to the Market

1. Overview

As part of its “outreach activities for enhanced market integrity,” which is the third mainstay of the policy statement, *Towards Enhanced Market Integrity*, the SESC mentions enhancing dialogue with individual investors and other market participants, and providing more information to markets. As such, the SESC is making efforts to communicate with market participants actively and widely, and uses a variety of creative means to do so, including information exchanges, lectures, public talks, press releases, contribution to various public relations media, and the SESC website and email magazine. By providing details of its activities and other information in a timely and easily understood fashion, the SESC aims to increase the understanding of its efforts among market participants.

2. Dissemination of information through mass media, etc.

When the SESC makes a recommendation for administrative disciplinary actions or files a criminal accusation based on its investigations or inspections, or when it makes an important policy decision, the SESC publicizes the case or decision through a press conference. In so doing, the SESC has a policy not only to provide a mere description of each case but also to explain the detailed impact on the market and society with the aim of providing the audience with an accurate understanding of each case. Furthermore, the SESC also actively addresses requests for interviews and writings, etc., from various media, such as newspapers, magazines, and TV.

3. Status of exchanging information with market participants and holding forums, etc.

As part of approaches to prevent market misconduct, etc., the SESC actively engages in exchanging information with organizations with important roles in ensuring market integrity practices, and holding forums for market participants with the view of sharing the awareness of key issues identified by the SESC.

Specifically, the SESC provides lectures on the compliance forum for listed companies across the nation and regularly contributes articles to several media outlets to provide guidance on how to establish an internal control system of listed companies, etc. In addition, the SESC also transmits information to a wide range of audiences including financial instruments business operators, etc., self-regulatory organizations, attorneys and audit firms, aiming to encourage each market participant to strengthen its self-discipline.

Furthermore, the SESC provide lectures on its activities for university and law school students through forums, etc. (see Appendix 2-9).

4. Enhancement of website

The SESC transmits information through its website in a timely manner, including an overview of recommendations for administrative disciplinary action or criminal accusations, and details of lecture presentations and writings, from the viewpoint of helping market participants understand the SESC's market surveillance. In addition, the SESC also provides "mail delivery services" to those who have registered their e-mail address. Each registrant receives new information, such as an overview on recommendations for administrative

disciplinary action or criminal accusations, details of lecture presentations and writings, and other matters that are listed on the website on a daily basis. Furthermore, the SESC publishes "the SESC Mail Magazine" on a monthly basis, which contains the activities of the SESC and the key points on the awareness of issues. The number of the registrants has increased constantly, and the number of the registrants is approximately 4,000 as of the end of FY2013.
(Http://www.fsa.go.jp/haishin/sesc/index.html)

In addition, from the viewpoint of enhancing overseas dissemination of transmission, the SESC posts on its English website the SESC's profile (English version), its annual report, which was partially translated into English from "Activities of the Securities and Exchange Surveillance Committee," the "Inspection Manual for Financial Instruments Business Operators" and the "Securities Inspection Policy," which are likely to arouse the interest of overseas market participants, etc.

Furthermore, in February 2014, the SESC renewed the layout of its website for the Japanese version in terms of user friendliness.

3) Cooperation with Relevant Authorities

1. Cooperation with the related FSA departments

In order to ensure market integrity and transparency and investor protection, in properly executing its work, it is essential that the SESC shares its awareness of issues with the FSA, which is the regulatory agency for Japan’s financial and capital markets. The SESC works on using various opportunities to cooperate with the FSA. For example, in addition to daily information exchanges, it widely shares problems of the moment between executives and personnel in charge. For the supervisory college established for large and globally active financial institutions, the SESC fulfills its role to provide explanations and cooperates with the FSA and exchanges information with overseas regulators. From the standpoint of its role in the surveillance of market rules, the SESC thus exchanges information with the FSA regarding market governance.

The SESC delegates part of its work to Directors-General of Local Finance Bureaus, etc. The surveillance officers unit of each local finance bureau performs its delegated work under the director-general, etc. The Local Finance Bureau Inspectors Meeting is held every year, with the aim of sharing awareness of problems regarding matters which require national cooperation, such as problems in market surveillance. From the viewpoint of sharing awareness of problems regarding fraudulent finance, the Joint Conference for Local Finance Bureau Inspectors and Financial Instrument Exchange Supervisory Officers and Securities Inspectors with the Supervisory Bureau and the Planning and Coordination Bureau of the FSA (hereinafter referred to as the “Trilateral Joint Conference”) has been held regularly as part of the SESC’s efforts to share and deepen awareness of problems among the related FSA departments.

2. Close cooperation with self-regulatory organizations

Self-regulatory organizations (financial instruments exchanges, the Financial Instruments and Exchange Dealers Association, etc.) conduct day-to-day market surveillance activities, such as by checking trading examination screening and listing control or assessing the appropriateness of operations conducted by operators belonging to each institution or listing

management and market surveillance. For this reason, from the point of view of achieving efficient and effective market surveillance, the SESC has been working on close coordination with each market surveillance department of these self-regulatory organizations.

In addition, in order to achieve further cooperation with self-regulatory organizations to enhance its market integrity and market surveillance functions, the SESC actively exchanges information on various problems and issues in the field of market surveillance with self-regulatory organizations, aiming to share awareness.

Specifically, the SESC receives from each self-regulatory organization reports of its activities on a regular basis for exchanging information. In addition, the SESC holds information exchange meetings with the Japan Securities Dealers Association and the Japan Exchange Regulation on a wide range of subjects. In FY2013, the SESC also exchanged information with the Type II Financial Instruments Firms Association and the Financial Instruments Mediation Assistance Center. At the “Trilateral Joint Conference” as mentioned above, the SESC invited persons in charge at other self-regulatory organizations in order to implement active discussions and information exchanges.

Furthermore, the SESC also provides arrangements on inspection planning for each securities inspection, etc., to enhance collaboration.

The Japan Securities Dealers Association has conducted training sessions for internal control supervisory managers and assistant internal control supervisory managers as defined in the self-regulatory rules with the aim of enhancing the compliance capability of members, etc. The SESC has dispatched lecturers to these training sessions. Officials of self-regulatory organizations also participate in the SESC training programs for SESC officials in order to share know-how, etc.

4) Future Challenges

The SESC will address the following issues in order to accurately respond to changes in the conditions surrounding markets, and to achieve more effective and efficient market surveillance as a whole.

(1) Reinforcement of organization and development of human resources

Along with advances in innovation of financial instruments and transactions, cross-border transactions and international activities by investment funds and other market participants have become everyday occurrences. Amid such circumstances, the market environment is also undergoing changes. One such change is that the techniques of misconduct are becoming more diverse and complex, including market misconduct committed by professional investors in Japan and overseas. In addition, the SESC also needs to address the expansion of market surveillance due to the revision of the FIEA.

The SESC believes that, on top of enriching its organization and personnel, developing human resources equipped with specialized knowledge and skills is important for responding accurately to these kinds of changes. On this basis, the SESC will continue its efforts to develop human resources, such as by implementing personnel exchanges with other ministries and agencies, utilizing on-the-job training, enriching its staff training, and by making planned appointment of staff to certain positions.

(2) Improvement in information collection and analysis capabilities

The SESC will respond to changes in the environments surrounding markets, collect information regarding movements, and analyze problems behind market trends and individual transactions with the aim of facilitating market surveillance flexibly.

In addition, the SESC will review and enhance the internal systems of information for improvement of accuracy and credibility in risk-based market surveillance.

Furthermore, the SESC intends to enhance its ability to identify potential problems with consideration of the characteristics of diverse business operators, the characteristics of their customers, and the characteristics of increasingly complex and diverse financial instruments and transactions, and strengthen its capabilities to collect and analyze information accordingly.

(3) Improvement in dissemination of information

In addition to the cooperation with self-regulatory organizations, etc., that has been addressed so far, the SESC will improve its disclosure and dissemination of information to investors with the aim of ensuring market integrity and protecting investors against market misconduct and fraudulent solicitation from unregistered operators, given an increase in insider trading cases by primary recipients of information and fraudulent transactions of private equities.

At the same time, in order to enhance the transparency of the market surveillance administration and encourage market participants to be self-disciplined, the SESC will actively transmit information on past cases in which administrative monetary penalties were imposed.

Furthermore, with regard to the points at issue under the laws and regulations that have been found in the process of market surveillance activities, the SESC intends to notify such points to the FSA and/or self-regulatory organizations for the purpose of playing a part in improving the market rules.

In addition, the SESC will review the layout of its English website in consideration of user friendliness, as well as improving the contents listed on the website in view of enhancing overseas dissemination of information.

(4) Further cooperation with the regulators concerned

Turning to the circumstances surrounding the SESC, as a result of a series of regulatory reforms, including the enforcement of the Financial Instruments and Exchange Act (FIEA), the scope of securities companies and other entities subject to inspection has diversified, and the number of these entities has reached almost 8,000. The SESC is also being called on to respond strictly to serious and malicious market misconduct, especially to malicious operators involved in fraudulent solicitation and sales that could damage investors. Moreover, as progress in online trading is helping to eliminate geographical restrictions on securities transactions, the SESC is also being required to respond to the geographical spread of violations of laws and regulations, including market misconduct.

Under these circumstances, in order for the SESC to achieve its mission, it will need to conduct efficient, effective and viable market surveillance, by accurately and effectively utilizing its limited human resources, including those in the securities and exchange surveillance departments at local finance bureaus. Thus far, the SESC has promoted the sharing of its awareness of problems and the unification of viewpoints on surveillance activities with local finance bureaus through day-to-day exchange of information and

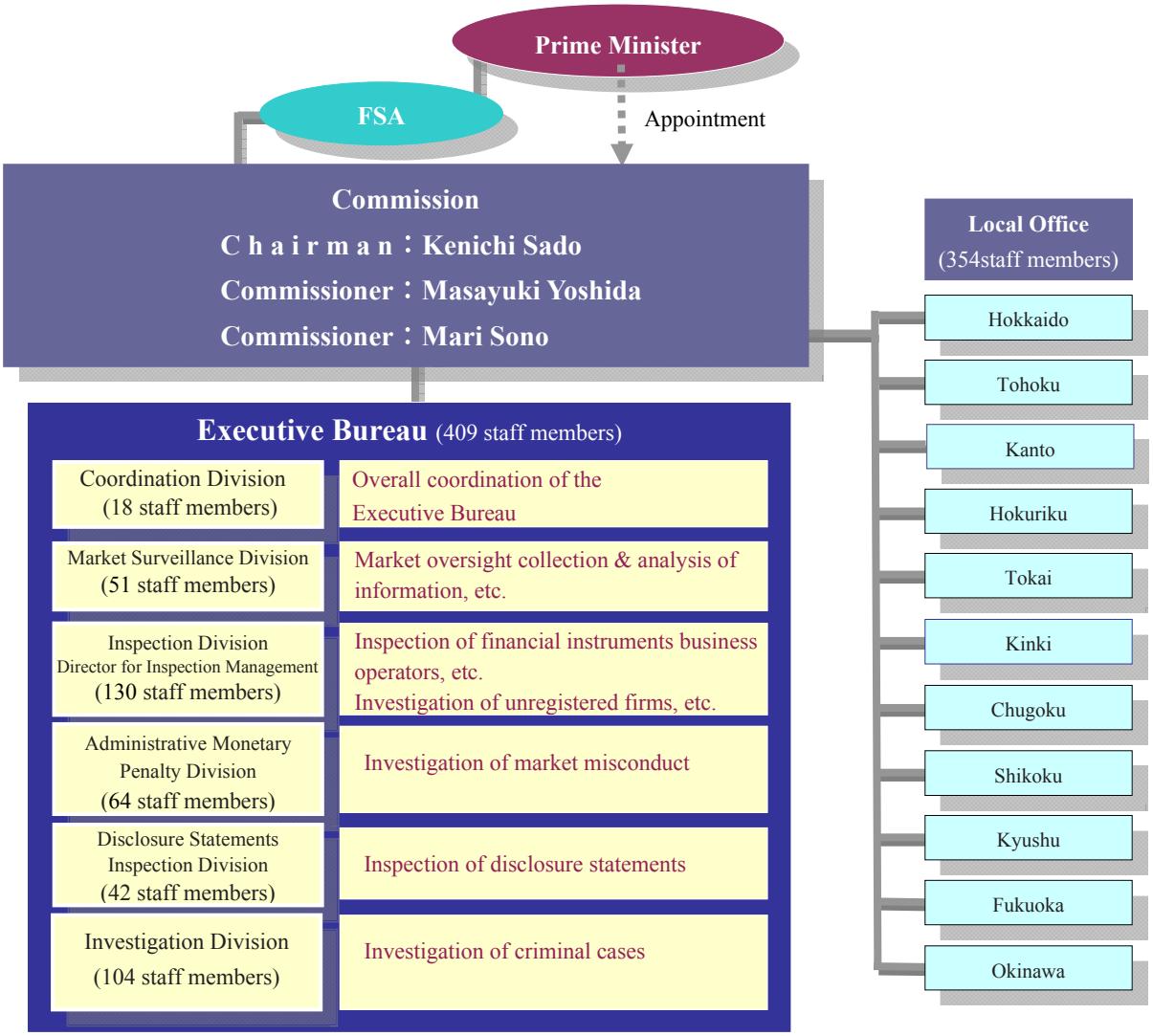
various kinds of meetings and training. Going forward, though, the SESC will exercise its overall strength so that effective market surveillance can be carried forward.

Furthermore, the SESC will facilitate the enhancement of overall market surveillance activities through the active exchange of information with the FSA and self-regulatory organizations for the purpose of sharing awareness of problems.

Appendixes

Table 1

Organization

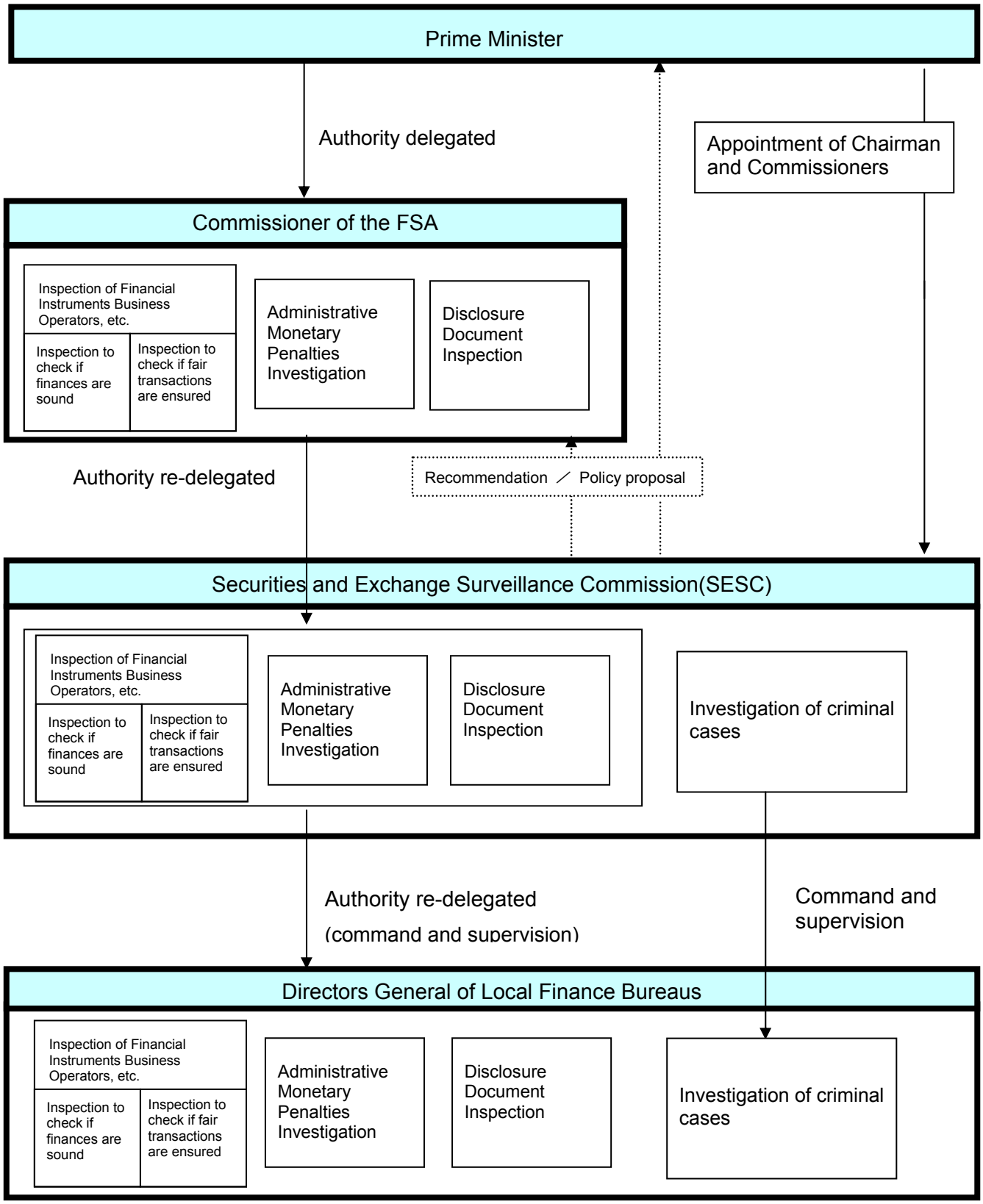


Note1: Staff members of Executive Bureau are quota as at the end of FY2014.

Note2: In July 2006, the SESC was transformed from 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 Inspection Division) into five divisions (the Coordination Division, the Market Surveillance Division, the Inspection Division, the Civil Penalties Investigation and Disclosure Documents Inspection Division, and the Investigation Division). Furthermore, in July 2011, the Civil Penalties Investigation and Disclosure Documents Inspection Division was divided into two divisions (the Administrative Monetary Penalty Division and the Disclosure Statements Inspection Division), meaning that the SESC was transformed into six divisions. In August 2011, the Office of Investigation for International Transactions and Related Issues was established within the Administrative Monetary Penalty Division, to investigate transactions, etc. conducted by persons in foreign countries.

Table 2

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



(Note 1) 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. (FIEA: Article 194-7 (8))

(Note 2) 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. (FIEA: Article 224(4) and (5))

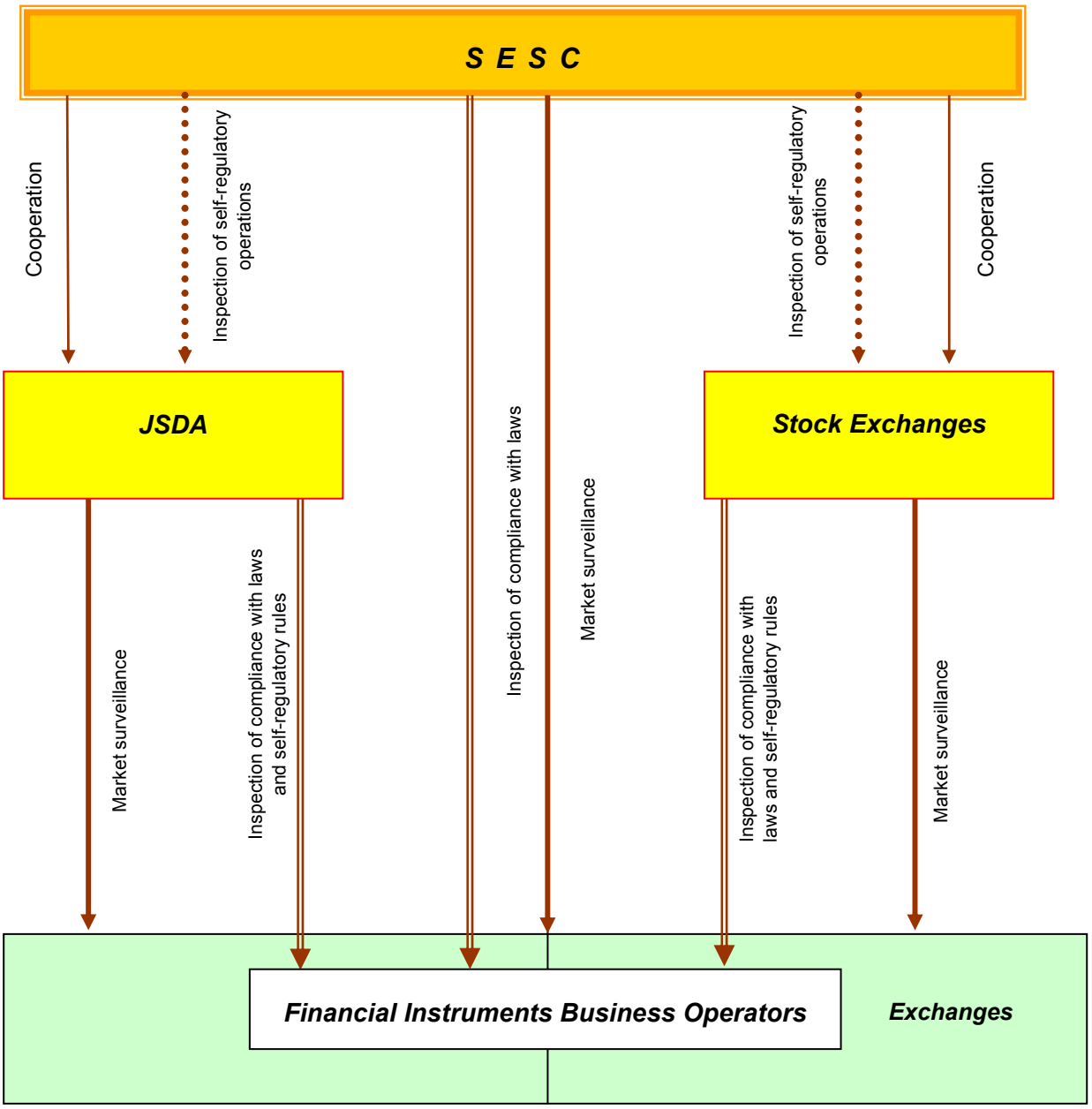
(Note 3) The SESC does not delegate authority to the Director-General of local finance bureaus, etc. related to financial instruments business operators etc designated in the following public notices

- 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 operators, etc. under paragraph 6, Article 28 of the Order for Enforcement of Act on the Prevention of Transfer of Crime Proceeds

(Note 4) In addition to the above, filing in court to prohibit or suspend violations based on provisions of FIEA Article 192 Paragraph 1, and its prerequisite investigation authority based on provisions of FIEA Article 187, are delegated from the Commissioner of the FSA to the SESC. The FIEA was amended to enable redelegation of said filings and investigation authority to Director General of Local Finance Bureau or the Director of its branch office.

Table 3

Relationship with Self-Regulatory Organizations



Note: The same system applies to financial futures.

Table 4

Activities in figures

Table of Summary

Unit: Number of cases

Business year /Fiscal year / Category	1992 to 2005	2006	2007	2008		2009	2010	2011	2012	2013	Total
Criminal charges	85	13	10	13	(4)	17	8	15	7	3	167
Recommendations	326	43	59	50	(19)	74	64	45	62	70	774
Recommendations based on securities inspections	316	28	28	18	(4)	21	19	16	20	18	480
Recommendations to pay administrative monetary penalty (market misconduct)	9	9	21	20	(10)	43	26	18	32	42	210
Recommendations to pay administrative monetary penalty (false statements in disclosure	0	5	10	12	(5)	10	19	11	9	9	80
Recommendations for order to submit revised report, etc.	1	1	0	0	(0)	0	0	0	1	1	4
Petition for a court injunction , etc., against unregistered business operator or solicitation without the filing of securities registration	-	-	-	0	(0)	0	2	3	1	2	8
Proposals	12	3	0	4	(4)	4	2	1	1	0	23
Securities inspections: Financial instrument businesses operators	1,369	150	187	191	(62)	176	148	148	153	222	2,682
Type I financial instrument businesses operators	1,330	99	138	117	(20)	91	91	85	57	69	2,057
Type II financial instrument businesses operators	-	-	2	1	(1)	22	6	14	20	108	172
Investment management firms Investment advisories/agencies	39	51	47	73	(41)	63	51	49	76	45	453
Registered financial institutions	143	27	32	25	(4)	24	28	32	28	9	344
Persons making notification for business specially permitted for qualified institutional investors	-	-	0	0	(0)	1	2	6	21	23	53
Financial instruments intermediaries	1	1	1	0	(0)	1	1	9	9	8	31
Credit rating agencies	-	-	-	-	-	-	0	4	3	0	7
Self-regulatory organizations	7	6	1	5	(2)	5	1	0	0	3	26
Investment corporations	2	7	10	7	(1)	9	6	2	0	3	45
Other	0	1	2	0	(0)	0	0	1	0	3	7
Total	1,522	192	233	228	(69)	216	186	202	214	271	3,195
Market oversight	5,374	1,039	1,098	1,031	(276)	749	691	913	973	1,043	12,635

Notes

1. Total number of securities inspections refers to the number of cases that have been started.
2. In addition to the inspections of Type I financial instrument businesses operators (former domestic securities companies) above, Local Finance Bureaus and other organizations conduct inspections of individual branches of those Type I financial instrument businesses operators (former domestic securities companies) that are assigned to the SESC.
3. Up until business year 2006, "investment management firms" was "former investment trust management businesses," and "investment advisories/agencies" was "former investment advisories."
4. Up until business year 2008, there was a "business year basis" of July to June the following year, and since fiscal year 2009, there has been an "accounting year basis" of April to March the following year.
5. The numbers in parentheses ( ) in business year 2008 refer to the number of cases in the period (April-June 2009) which overlap with fiscal year 2009 during the transition to the "accounting year basis."

Introduction of Chairman and Commissioners

Chairman　Kenichi SADO

Kenichi SADO was appointed Chairman of the SESC in July 2007. Before being appointed to the 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　Masayuki YOSHIDA

Masayuki YOSHIDA was appointed a commissioner of the SESC in December 2010. Before being appointed to the Commission, he served as a Advisor, Nagashima Ohno & Tsunematsu Law Firm .

Commissioner　Mari SONO

Mari SONO was appointed a commissioner of the SESC in December 2013. Before being appointed to the Commission, she served as a Senior Partner, Ernst & Young ShinNihon LLC.

Logo of Securities and Exchange Surveillance Commission

SESC

"for investors, with investors"

∗ Note: The two ellipses crossing each other symbolize the securities markets and financial futures markets, which are both subject to our surveillance; the cooperation between the SESC and other domestic authorities concerned; and, what's more, our relationship with investors.

And the slogan "for investors, with investors" represents the principle position of the SESC, which was established to protect investors and respect its relationship with them.

The Securities and Exchange Surveillance Commission

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