

Annual Report
2020/2021

Securities and Exchange Surveillance Commission

Annual Report 2020/2021

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[Disclaimer: This is a provisional translation for reference purpose. The Japanese version is the original.]

Introduction

The Securities and Exchange Surveillance Commission (“SESC”) is a collegiate organization within the Financial Services Agency (“FSA”), consisting of a Chairman and two Commissioners. Our mission is to ensure the fairness and transparency of Japan’s capital markets, protect investors, contribute to the sound development of the markets, and support the sustainable growth of the national economy.

Founded in 1992, the SESC has entered its 29th year. At the beginning, filing criminal charges was the main means of law enforcement, but over the years, the authority to monitor markets has been enhanced and strengthened, including the introduction of the administrative monetary penalty payment system in 2005 and the expansion of the authority of inspections in 2007. Its organization has also been expanded, with the number of divisions increased from two at the time of founding to six. Through the expansion and enhancement, the SESC has contributed to improving the soundness of the markets not only by filing criminal charges against cases of malicious violation but also by using its inspection and investigation authorities and the administrative monetary penalty system more actively.

Key Achievements

As the environment surrounding capital markets is changing very rapidly, the SESC needs to be well informed of the circumstances of problems that might occur in the markets in order to respond to them in an appropriate manner.

In 2020, the SESC conducted timely market surveillance, including information collection and analysis focusing on potential risks from macro perspectives. In cooperation with self-regulatory organizations (“SROs”) and foreign market oversight authorities, we also closely monitored new events in both domestic and foreign markets and promoted initiatives to develop our market monitoring arrangements and improve surveillance means.

Regarding the monitoring of Financial Instruments Business Operators (“FIBOs”), the SESC formulated and published the “Basic Principles of Securities Business Monitoring,” which set out the basic concept and procedures of future securities business monitoring by reviewing relations between the past SESC policies and FSA-published inspection and supervision policies.

We also continued to implement and strengthen integrated on-site and off-site monitoring activities based on risk assessment, proceed with constructive dialogue, promote customer-oriented business conduct, and correct inappropriate sales and solicitation of financial instruments that may cause damage to investors.

Furthermore, we effectively used the administrative monetary penalty system to perform prompt and efficient investigations and inspections, and to make rigorous responses to serious and egregious market misconduct. From the viewpoint of preventing serious and egregious market misconduct, we strove to identify the root causes of such conduct and to promote active external communications.

Future Challenges

In recent years, financial and capital markets are dramatically changing due to the globalization of investment and business activities and progress in the digitalization of financial institutions, transactions and instruments.

On the other hand, the current Japanese economy is in a dire situation under the impact of the COVID-19 pandemic. In the initial stage of the pandemic, the Japanese economy suffered the steepest postwar contraction. Later, it has been rebounding thanks to the effects of various policies and the improvement of foreign economies. However, the economy still remains below the level seen before the pandemic, with recovery being still halfway through. We would like to watch the impacts of such economic conditions on financial and capital markets.

As the FSA's key policies include the establishment of highly functional, attractive financial and capital markets, the SESC must try to secure the fairness and transparency of the markets and protect investors by implementing five measures to achieve its three goals—holistic oversight, timely oversight, and in-depth oversight.

For the development of the Japanese economy, the SESC will make further efforts to develop fair, transparent, trusted and attractive capital markets and protect investors by conducting more effective and efficient market surveillance while promoting the further enhancement of markets' self-regulation function in close cooperation with relevant authorities and SROs.

This annual report outlines the SESC's activities in FY2020 and explains its views pursuant to Article 22 of the Act for Establishment of the Financial Services Agency. We sincerely hope that this report will be shared by as many market participants and investors as possible and contribute to deepening their understanding of the SESC's activities and establishing fair and transparent markets.

June 2021

Mitsuhiro Hasegawa

Chairman

Securities and Exchange Surveillance Commission

SESC's History

Year	Changes in SESC's authority and organization	Key events & activities
1991		Series of securities and financial scandals
1992	SESC established in the Ministry of Finance	
1993		Filing of criminal charges: Market manipulation related to Nihon Unisys, Ltd. shares (first criminal charge filed by SESC)
1998	Financial Supervisory Agency established: SESC comes under its jurisdiction	
2001	Financial Supervisory Agency reorganized into Financial Services Agency	Major reorganization of central government agencies
2005	Administrative monetary penalty system introduced SESC mandated to exercise administrative monetary penalty investigation SESC mandated to exercise administrative monetary penalty inspection on disclosure statements Additional inspection authority for securities companies, etc. granted to SESC (inspection of financial soundness, inspection of investment advisors)	Filing of criminal charges: False statements in securities report related to Kanebo, Ltd.
2006	Five-division structure introduced (Planning and Management Division, Market Surveillance Division, Securities Business Monitoring Division, Administrative Monetary Penalty Investigation and Disclosure Inspection Division, and Criminal Investigation Division) Additionally mandated to exercise administrative monetary penalty investigation of market manipulation using spoofing orders; authority to conduct criminal investigation expanded	Filing of criminal charges: Spreading of rumors, fraudulent means related to Livedoor Marketing Co., Ltd. shares Filing of criminal charges: Insider trading related to Nippon Broadcasting System, Inc. shares
2007	Additionally mandated to exercise authority on inspections of investment funds	Financial Instruments and Exchange Act in full effect
2008	Additionally mandated to exercise authority to conduct disclosure statements inspection on quarterly securities reports and internal control reports; additionally mandated to exercise authority to conduct investigation for potential imposition of administrative monetary penalties on violations in quarterly securities reports (1) Additionally mandated to exercise authority to conduct disclosure statements inspection on false disclosure statements in tender offer notifications, reports of possession of large volume (2) Additionally mandated to exercise authority to conduct investigation for potential imposition of administrative monetary penalties related to market manipulation by means of fictitious or collusive sales and purchases (3) Additionally mandated to exercise authority to file petitions for court injunctions against violations by unregistered business operators	
2010	Additionally mandated to exercise authority to inspect credit rating agencies	

Year	Changes in SESC's authority and organization	Key events & activities
2011	<p>Additionally mandated to exercise authority to inspect group companies (consolidation regulation of large securities companies introduced)</p> <p>Six-division structure introduced (Planning and Management Division, Market Surveillance Division, Securities Business Monitoring Division, Market Misconduct Investigation Division, Disclosure Inspection Division, and Criminal Investigation Division)</p> <p>Cross-Border Investigation Office set up</p>	
2012	<p>Additionally mandated to exercise authority to inspect trade repositories</p>	<p>Filing of criminal charges, recommendation for administrative monetary penalty: False statements in securities report related to Olympus Corporation</p> <p>Recommendation for administrative disciplinary action, filing of criminal charges: AIJ Investment Advisors Co., Ltd. (Use of fraudulent means on discretionary investment contract . related to Pension Fund)</p>
2013	<p>Additionally mandated to exercise authority to conduct disclosure statements inspections on external conspirators who allegedly assisted in submission of false disclosure documents and administrative monetary penalty investigations on market misconduct committed by asset managers on client accounts, and summon alleged violators as part of administrative monetary penalty investigations</p>	<p>Recommendation for administrative disciplinary action: MRI International, Inc. (false notification, etc. related to MARS)</p>
2014	<p>Additionally mandated to exercise authority to conduct administrative monetary penalty investigations and criminal investigations against providing of insider information and transaction encouragement which became subject to insider trading regulation.</p> <p>Additionally mandated to conduct inspections on financial instruments business operators handling commodity derivatives</p>	
2015	<p>Digital Forensic Solutions Office set up</p> <p>Additionally mandated to exercise authority to conduct inspections on specified financial benchmark administrators</p>	<p>Filing of criminal charges: Market manipulation, spreading of rumors, use of fraudulent means, failure to submit reports of possession of large volume related to New Japan Chemical Co., Ltd. shares</p> <p>Recommendation for administrative monetary penalty: False statements in securities report related to Toshiba Corporation</p>
2016	<p>Office of Market Monitoring set up</p> <p>Litigation Office set up</p>	<p>Recommendation for administrative disciplinary action: Arts Securities Co., Ltd. (false notification, etc. related to medical fee receipt bonds)</p>
2017		<p>Filing of criminal charges: Use of fraudulent means by Arts Securities Co., Ltd., etc. (related to medical fee receipt bonds); market manipulation related to Stream Co., Ltd. shares</p>

Year	Changes in SESC's authority and organization	Key events & activities
2018	Additionally mandated to exercise authority to conduct inspections on high speed trading business operators	Filing of criminal charges: False statements in securities report related to Nissan Motor Co., Ltd. Recommendation for administrative monetary penalty: Manipulation of market for long-term government bond futures by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
2019		Recommendation for administrative monetary penalty: False statements in securities report related to Nissan Motor Co., Ltd.
2020	IT Strategy Office set up Additionally mandated to exercise authority to conduct inspections on financial instruments business operators handling crypto-assets derivatives and electronically recorded transferable rights *	Filing of criminal charges: Transaction encouragement related to Don Quijote Holdings Co. shares

* Additionally mandated to exercise authority to conduct inspections on financial service intermediaries operating securities brokerage business (an act to amend the “Act on Sales, etc. of Financial Instruments, etc. for the Improvement of the Convenience for and Protection of Customers of Financial Services” was enacted in June 2020, put into force in November 2021)

Abbreviations

Anti-Criminal Proceeds Act	Act on Prevention of Transfer of Criminal Proceeds (Act No. 22 of 2007)
APRC	IOSCO Asia Pacific Regional Committee
BY	Business Year (from July 1 to June 30)
Consolidated Financial Statements Regulation	Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Regulation No. 59 of 1963)
EMMoU	Enhanced Multilateral Memorandum of Understanding of concerning Consultation and Cooperation and Exchange of Information
FIBOs	Financial Instruments Business Operators
FIEA	Financial Instruments and Exchange Act (Act No. 25 of 1948)
Order for Enforcement of the FIEA	Order for Enforcement of the Financial Instruments and Exchange Act (Cabinet Order No. 321 of 1965)
FIEs	Financial Instruments Exchanges
Financial Statements Regulation	Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Regulation No. 59 of 1963)
FSA	Financial Services Agency
FSA Establishment Act	Act for Establishment of the Financial Services Agency (Act No. 130 of 1998)
FY	Fiscal Year (from April 1 to March 31)
HST	High-Speed Trading
ICT	Information and Communication Technology
IOSCO	International Organization of Securities Commissions
JPX-R	Japan Exchange Regulation
JSDA	Japan Securities Dealers Association
MMoU	Multilateral Memorandum of Understanding of concerning Consultation and Cooperation and Exchange of Information
PTS	Proprietary Trading System
SESC	Securities and Exchange Surveillance Commission
SROs	Self-Regulatory Organizations
TOB	Takeover Bid

Chapter 1. SESC Activity Summary

1 Overview of Activities in Fiscal Year 2020

In FY2020 (April 2020-March 2021), the economic environment surrounding Japanese securities markets went through various changes. At the beginning of the fiscal year, the Japanese economy continued to deteriorate rapidly in an extremely severe situation under the impact of the COVID-19 pandemic. While the economy is rebounding thanks to the effects of various policies and an overseas economic improvement, weakness is still increasing in some areas. It is necessary to keep a close watch on the impact of such economic situation on the financial and capital markets.

Against this backdrop, the Securities and Exchange Surveillance Commission (SESC) conducted timely market surveillance gathering and analyzing information in consideration of the domestic and overseas circumstances in FY2020. In its investigation and inspection, the SESC not only made recommendations for administrative actions and filings of criminal charges of violations of laws, but also made efforts to identify the root causes of the violations in order to prevent the recurrence.

2 Recommendations for Administrative Monetary Penalty Payment Orders and Filings of Criminal Charges of Market Misconduct

(1) Recommendations and filings of criminal charges of market misconduct

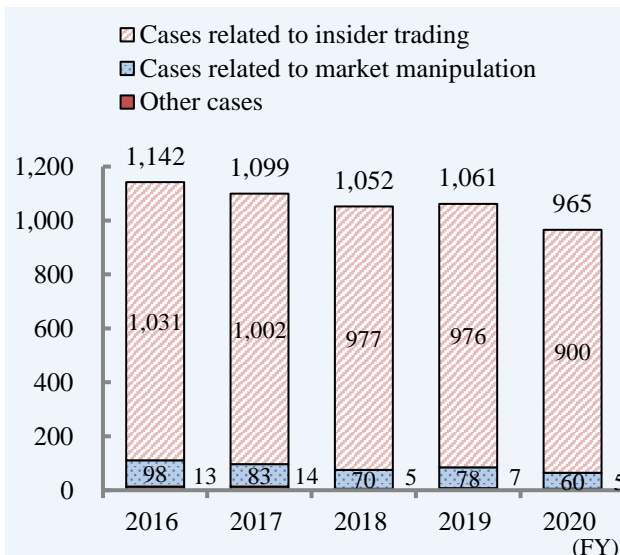
In FY2020, the SESC made recommendations for administrative monetary penalty payment orders in 14 market misconduct

cases (eight insider trading cases and six market manipulation cases) and two filings of criminal charges of market misconduct.

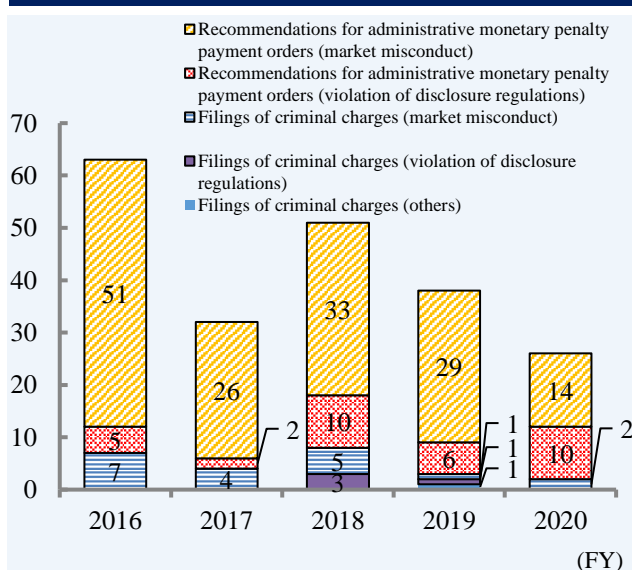
(2) Case examination for detecting market misconduct

The total number of cases examined for detecting market misconduct was 965 in FY2020.

Examined Cases for Market Misconduct



Recommendations and Filings of Criminal Charges



(3) Trends in market misconduct

With rapid changes in the business environment as a background, the SESC made recommendations in insider trading cases where material facts included tender offers, business alliances and new share issuances.

Regarding the regulations prohibiting persons from providing insider information or encouraging others to make transaction, the SESC recommended an administrative monetary penalty payment order in one insider information provision case. The offender in the case provided insider information on multiple issues. The SESC also filed the first criminal charge solely against a violation of the transaction encouragement regulation since the regulations were introduced in April 2014.

Market manipulation schemes have continuously become more complicated and sophisticated. The SESC made recommendations for administrative monetary penalty payment orders in the following cases: i) a wrongdoer artificially raised stock prices of an exchange by purchasing shares at higher prices than the prices of the exchange through a Proprietary Trading System (“PTS”), ii) a wrongdoer raised the stock prices by repeating minimum-lot purchases, and iii) a wrongdoer implemented false transactions by matching their own trading orders with opposite ones through accounts in the names of its own, relatives and acquaintances. The SESC also filed a criminal charge in a case where an offender made stabilizing transactions to artificially prevent margin requirements from being raised.

(4) Policy going forward

Going forward, the SESC will continue to study the improvement of its surveillance systems and review the methods of examination and investigation in order to respond to changes in economic situations and trading methods.

In addition to announcing recommendation cases on its website, the SESC proactively disseminates information on trends, overviews of the recommendation cases and points that can be improved in the management system for insider trading at listed companies, and messages that the SESC wants to convey to listed companies in casebooks of administrative monetary penalty and other publications to prevent the occurrence and recurrence of market misconduct.

3 Identifying and Addressing Violations of Disclosure Regulations and Prevention of Recurrence of Violations

(1) Recommendations regarding disclosure regulations

In FY2020, the SESC made recommendations for administrative monetary penalty payment orders in 10 disclosure regulations violation cases.

(2) Trends and causes of the violations of disclosure regulations

In the cases where the SESC made recommendations for administrative monetary penalty payment order, there were cases of inappropriate accounting practices, such as understating the cost of sales by long-term record-

ing of fictitious year-end inventory and understating the cost of sales at overseas subsidiaries in order to overstate net income. In addition, there was a case of false statements in annual securities reports, such as failing to disclose the related transactions in the "Notes on Transactions with Related Parties."

(3) Policy going forward

Transactions are increasingly complex, corporate operations are more globalized, and the business models are diversifying and transforming. In these circumstances, early detection and early corrective actions against violations of disclosure regulations are essential. For that purpose, the SESC will continue to gather information on listed companies and conduct analysis with a focus on the risk of the violations, as well as conduct timely and multifaceted inspections of disclosure statements.

In addition, the SESC will engage in dialogues and enhance mutual understanding on the background and causes of violations with the management and outside directors of listed companies that have committed violations of disclosure regulations, to assist them in building internal systems for proper information disclosure. The SESC will also proactively communicate with listed companies and their audit firms regarding the details of the actual violations of disclosure regulations detected in inspections of disclosure statements. Such efforts will collectively contribute to preventing the occurrence and recurrence of violations of disclosure regulations.

4 Implementing Integrated On-Site and Off-Site Monitoring of FIBOs¹

(1) Basic monitoring policy for securities business

Since the 2016 business year,² the SESC has been conducting risk assessments of all FIBOs through off-site examination involving analyses of the business environment, including economic and industrial trends, as well as FIBOs' business models. Based on the respective risk assessments of FIBOs in off-site examination, the SESC has selected entities for on-site inspections in collaboration with the Local Financial Bureaus.

In carrying out on-site inspections, the SESC aims not only to point out legal problems and make recommendations for administrative actions, but also to assess the problems in a holistic manner and pursue the root causes to assist FIBOs in preventing the recurrence of the problems.

In cases where the SESC identifies issues in business control environments that need to be improved but that have yet to become serious problems, the SESC has shared its views on the issues with the management of the FIBOs under inspection to encourage them to build effective internal control environments.

(2) Recommendations regarding FIBOs

In FY2020, the SESC made recommendations for administrative actions against FIBOs in five cases.

These cases involved FIBOs that engaged in gravely problematic operations as they

¹ In this document, "FIBOs" refers to any business operator subject to securities monitoring, including Financial Instruments Business Operators, Registered Financial Institutions, Financial Instruments Intermediary

Service Providers, Qualified Institutional Investor Business Operators, and credit rating agencies.

² The 2016 business year refers to the period from July 1, 2016, to June 30, 2017.

lacked awareness in complying with the law and investor protection: i) a foreign exchange margin trader that illegally failed to confirm customers' willingness to accept solicitation and violated the prohibition of re-solicitation, ii) an investment management firm that failed to faithfully conduct investment management business for beneficiary owners of an investment trust with the due care of a prudent manager, and iii) an investment adviser/agent that provided false information to customers in relation to solicitation for the conclusion of financial instruments contracts.

(3) Policy going forward

While the number of business operators subject to the SESC's monitoring total approximately 7,700, whose sizes, business operations and products are diverse, there are business operators that are still lacking awareness and controls for basic compliance with the law and investor protection. The SESC will endeavor to accurately identify potential risks through its effective and efficient monitoring based on the annual "Monitoring Priorities for Securities Businesses."

The SESC will also keep a close watch on the impact of the COVID-19 pandemic on FIBOs' business environments and operations. Especially in cases where the SESC identifies the necessity for early, in-depth examinations with regard to possible violations of relevant regulations or problems related to business operations, the SESC will conduct on-site inspection to verify the problems.

5 Response to the Advance of Digitalization

(1) Further promotion of digitalization in market surveillance

In recent years, rapid digitalization has been having a significant impact on all capital markets and market participants. For example, the market landscape is being transformed as a result of the proliferation of high-speed algorithmic trading. In addition, new products and transactions, such as crypto-assets, are emerging. The SESC has enhanced the functions of the trading surveillance system to keep up with such rapid changes in the market environment and implement more effective and efficient market surveillance. The SESC has also established the IT Strategy Office to further promote digitalization in market surveillance operations strategically in a cross-sectoral manner.

(2) Policy going forward

The SESC will continue discussions to further promote digitalization in market surveillance operations strategically in a cross-sectoral manner to keep up with changes in the market environment and implement more effective and efficient market surveillance.

6 Cooperation with Relevant Organizations and Proactive Communication with Stakeholders

(1) Cooperation with relevant organizations

The SESC works with self-regulatory organizations (e.g., Financial Instruments Firms Associations, Financial Instruments Exchanges, and Self-Regulation Organization; hereinafter "SROs") on a daily basis in examining market transactions and in monitoring

the appropriateness of members' operations. The SESC further strengthened its cooperative relationship with SROs through periodic discussions to share emerging issues related to market surveillance. In FY2020, the SESC had such periodic discussions with SROs 13 times as well as discussions with FIBOs and other organizations to exchange views.

Regarding cooperation with foreign authorities, the SESC participates in various multilateral discussions at International Organization of Securities Commissions ("IOSCO") and actively engages in exchanges of views on a bilateral basis. In addition, for investigations into market misconduct cases using cross-border transactions, the SESC made a total of 33 requests for information to foreign authorities pursuant to the IOSCO MMoU (Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information) in FY2020.

(2) Proactive communication with stakeholders

The SESC publicizes information on individual cases at the time of recommendations. In addition, for the purpose of enhancing self-discipline in the market, the SESC continuously endeavors to enhance its communications with retail investors and other market participants with respect to the significance, details and root causes of the cases and to let them know the activities of the SESC, through the publication of various casebooks, contribution of articles, and holding of lectures. In FY2020, the SESC proactively conducted external outreach through its website, media outlets and a total of 30 seminars to market participants, certified public accountants, lawyers, and other stakeholders.

FY2020 KEY TOPIC

FORMULATION AND PUBLICATION OF “BASIC PRINCIPLES OF SECURITIES BUSINESS MONITORING” (JUNE 26, 2020)

The SESC has conducted seamless on-site and off-site monitoring of all FIBOs based on risk based approach in cooperation with relevant FSA divisions since July 2016.

Such monitoring is based not only on the FIEA and other laws or regulations but also on the “Strategy & Policy,” “Monitoring Priorities for Securities Businesses” and “Securities Monitoring Guidelines.”

The SESC has recently formulated and published the “Basic Principles of Securities Business Monitoring” to clarify and share points to focus on and matters to note in inspection and supervision and promote seamless on-site and off-site securities business monitoring, based on concepts and approaches not only in the “Strategy & Policy” but also in the Comprehensive Guidelines for Supervision, principles and theme-specific discussion papers published by the FSA.

Basic Principles of Securities Business Monitoring

Basic Principles of Securities Business Monitoring

1. Basic Principles

- (1) The SESC continues strict examinations as to whether FIBOs are properly performing their businesses based on laws and regulations.
- (2) The SESC also ascertains the whole picture of the problems, including the likelihood of non-compliance with minimum standards in the future. When investigating their root causes and conducting examinations from a forward-looking perspective, the SESC continuously focuses on the status of FIBOs' systems for business operations.

*Regarding FIBOs belonging to a financial group, etc., the SESC conducts monitoring from a multifaceted perspective, covering the business models and business policies of the relevant financial group as a whole.

2. Approaches for Monitoring

(1) Rule-based examinations

The SESC conducts strict examinations based on the Financial Instruments and Exchange Act, and other relevant laws and regulations. When applying specific provisions, the SESC takes into account significant interests that should be protected by law in light of the purport and purpose of laws and regulations.

(2) Investigating root causes and assessing the likelihood of non-compliance with minimum standards in the future

The SESC conducts its investigations and assessment based on the FSA's Comprehensive Guidelines for Supervision as well as concepts and approaches in the FSA's Supervisory Approaches, principles and theme-specific discussion papers.

(3) Monitoring priorities for each business year

The SESC decides priorities in the Strategy & Policy of the SESC (updated every three years) and the annual Monitoring Priorities for Securities Businesses, while referring to the FSA's Summary Points from Strategic Directions and Priorities.

(4) Monitoring procedures

For inspection procedures, the SESC utilizes the Securities Monitoring Guidelines.

3. Abolition of the Securities Inspection Manual

- Structures and Systems Part (mostly overlapping the Comprehensive Guidelines for Supervision)
⇒ Taken over by the Comprehensive Guidelines for Supervision

“Business Operations Systems”

Business management system	Risk management system
Internal control system and legal compliance system	Internal (external) audit system
	Crisis management system

The development of business operations systems based on the five viewpoints specified on the left remains important for investigations of root causes of problems and examinations from a forward-looking perspective.

- “Business operations Part” (checklist) ⇒ Abolition

*The abovementioned handling of the Structures and Systems Part and the Business Operations Part of the Securities Inspection Manual will be enforced at the same time as this paper is formulated.

Chapter 2. Activity Report for Fiscal Year 2020

2-1 EXAMINATION OF TRANSACTIONS AND COLLECTION / ANALYSIS OF WIDE-RANGING INFORMATION

1. Purpose of Market Surveillance

To realize holistic and timely market oversight in response to changes in the market environment, the SESC positions market surveillance as an entrance for information. This is because market surveillance aims at detecting any possible market misconduct through monitoring the primary and secondary markets, as well as collecting and analyzing an extensive range of information on the overall financial and capital markets.

For the above reason, the SESC routinely receives a wide range of information from investors and others, and promptly circulates the information to the relevant divisions within the SESC (or the relevant divisions within the FSA, if the information relates to affairs under the jurisdiction of the FSA). The SESC also cooperates with SROs to gather a variety of information related to the financial and capital markets. Based on the information, the SESC analyzes the background of individual transactions and market trends, examines transactions for possible market misconduct, and reports to the relevant divisions in the SESC if any suspicious transactions are identified. Recently, the SESC has also closely monitored crypto-asset-related businesses operated by listed companies and their affiliated companies, in cooperation with the FSA's relevant divisions and Financial Instruments Exchanges ("FIEs").

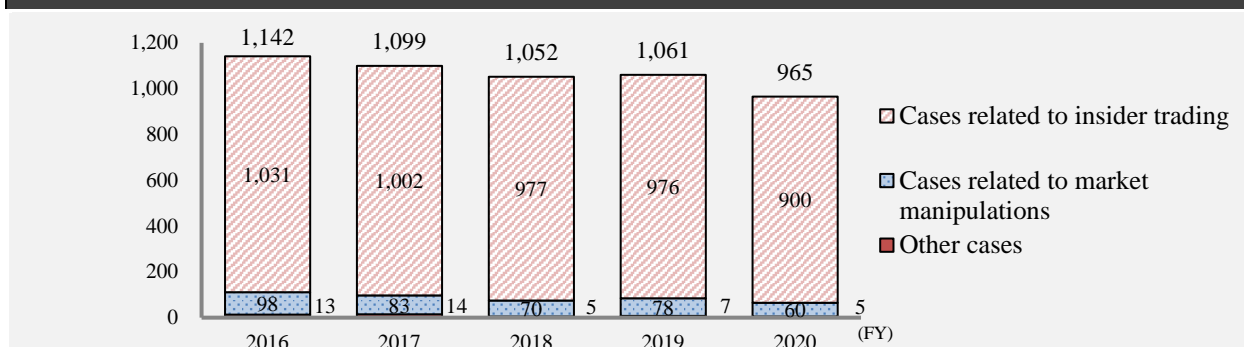
The SESC implements effective market surveillance with close cooperation among each of the functions, i.e. information collection, market trend analysis and transaction examinations, and collaboration among the relevant divisions.

2. Status of Transaction Examinations

The forms of market misconduct are influenced by the external environment, such as macro-economic trends and advances in information technology. Against a backdrop of the increasing risk of market misconduct associated with the increased uncertainty in the global economy, the number of cases the SESC examined to detect suspicious market misconduct reached 965 in FY2020.

The breakdown of category of surveillance is 900 possible insider trading cases, 60 possible market manipulation cases, and five others, including the use of fraudulent means and spreading rumors.

As for high-speed trading ("HST"), the SESC focused on fact finding for the purpose of effective monitoring of HST transactions. Specifically, the SESC analyzed HST transactions by, for example, examining orders placed and executed by HST operators. The SESC also examined transactions for possible market misconduct in cooperation with SROs.

Fig. 2-1-1: Cases examined for market misconduct

3. Overview of Market Monitoring

The SESC established the Office of Market Monitoring in the Market Surveillance Division to conduct market oversight in a holistic and timely manner in June 2016, and has enhanced its ability to collect and analyze a wide range of market information.

(1) Information collection and whistleblowing

(i) Efforts to collect information

Information from market participants and investors represents candid opinions in the markets and can trigger the SESC's investigation and inspection. The SESC believes it is important to collect useful information from as many stakeholders as possible.

In FY2020, therefore, the SESC announced its 24-hour acceptance of information provision through the Internet in an easy-to-understand form on a SESC brochure page calling for information provision and used a poster with a QR (quick response) code and other ways to lead investors to provide information. In a proactive effort to collect information, if information providers were believed to have useful information, the SESC asked them to present such information. In FY2020, the SESC received 6,300 information reports from the public.

The SESC also provides preparatory consultation to whistleblowers through a dedicated Contact Point for Whistleblowing and examines information before formally accepting it. In FY2020, two tips from whistleblowers were accepted. Even if an information report does not fall under the definition of whistleblowing, the SESC utilizes the reported information for market monitoring.

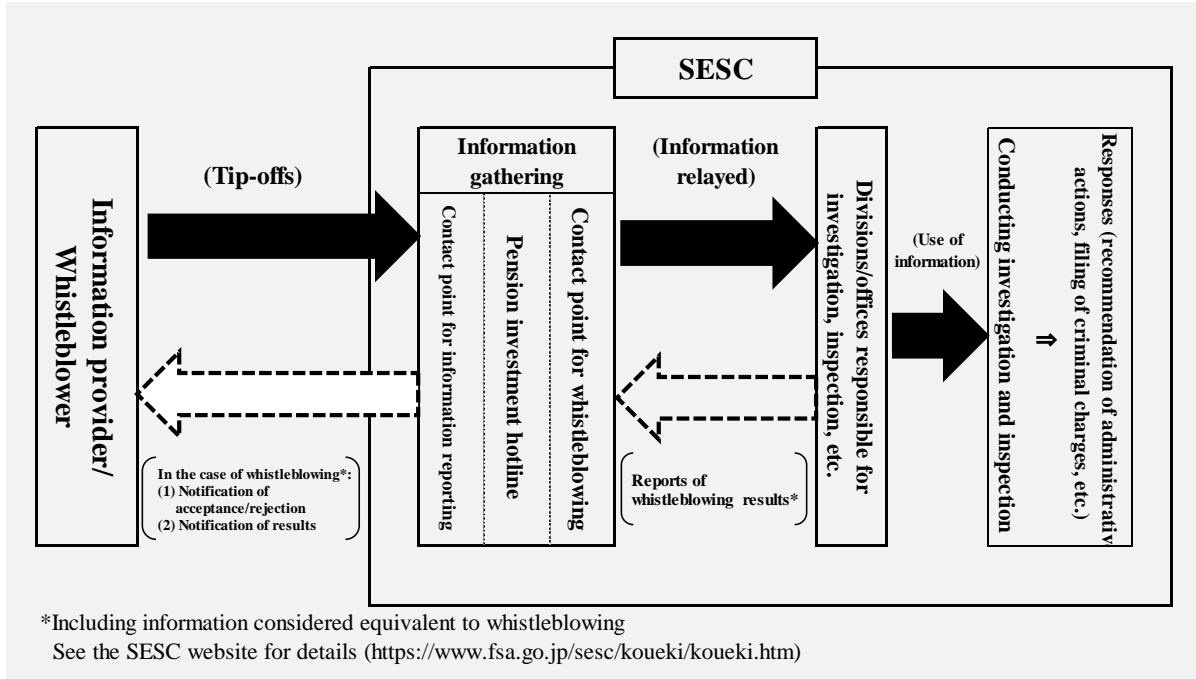
(ii) Use of collected information

Information/tips of possible market misconduct are reviewed at the Contact for Information Gathering and relayed to relevant SESC divisions responsible for inspection and investigation.

For example, the SESC found a case of insider trading based on an investigation triggered by reported information that a representative of Company A's subsidiary sold Company A shares while being aware that Company A was planning to revise its financial performance downward.

As there are three contact points according to the specifics of information received, the SESC asks readers of this report to refer to the examples shown in the SESC website³ and provide as specific information as possible concerning market misconduct. The SESC will continue its efforts to gather a wide range of highly useful information.

Fig. 2-1-2: Flow of information



(2) Market trend analysis

In addressing cases of “fraudulent finance,”⁴ the SESC has utilized information gathered from market participants, such as investors and securities companies. The SESC has also enhanced its market monitoring by collecting and analyzing information that covers both the primary and secondary markets in close cooperation with Local Financial Bureaus’ relevant divisions and FIEs. As a result, some listed companies with problems, including those that released false information in connection with the issuance of new shares or stock acquisition rights allocated to third parties, have been delisted and withdrawn from the capital market. As there are emerging cases of attempts to conduct market misconduct by using complex finance schemes or the issuance of shares to overseas funds, the SESC will keep a close eye on these activities.

Given recent new developments, such as listed companies’ or their affiliates’ expansion into crypto asset-related businesses, the SESC will continue to monitor market trends carefully, specifically from the perspective of monitoring listed companies’ market misconduct, in cooperation with the FSA’s relevant divisions and FIEs.

³ Examples of "requested information" on SESC website: <https://www.fsa.go.jp/sesc/watch/example.html> (Japanese version only)

⁴ "Fraudulent finance" refers to a series of fraudulent trading practices comprised of inappropriate acts in the primary or secondary market.

Furthermore, in FY2015, the SESC established a system that enables its staff to make use of centrally managed information gathered and analyzed in the course of market monitoring. Since FY2018, the SESC has further expanded the range of information gathered. It has also considered how a future database should be developed in order to enable multifaceted and multilinear use across all monitoring operations of the SESC and improve retrieval performance.

(3) Forward-looking analysis

Since July 2016, the SESC has monitored markets with a forward-looking perspective, focusing on domestic and foreign risk factors and environmental changes, by analyzing the effects of global macroeconomic and market changes on the financial performance of listed companies.

In FY2020, the SESC analyzed industries with consideration given to domestic and foreign economic trends, earnings trends and other factors, and conducted risk analysis regarding the impacts of COVID-19 on each industry. In doing so, the SESC collected information through interviews with private-sector experts. The SESC shared the results of the analyses within the organization and with the FSA's relevant divisions.

4. Future Challenges

(1) Effective and sophisticated monitoring of high-speed trading

In light of the widespread use of HST, the SESC, based on information provided by FIEs and other sources, will continue to identify and analyze the characteristics of transactions, orders and executions by HST operators. The SESC will also share information and exchange opinions on HST operators with the FSA's relevant divisions and FIEs and steadily monitor HST transactions.

(2) Sophistication of analysis from a forward-looking perspective

The SESC will conduct analyses in a forward-looking manner by maintaining and deepening relationships with private-sector experts, acquiring a wide range of information on potential risks associated with uncertainties in the global economy in a timely manner, and by enhancing cooperation among the relevant divisions.

(3) Promotion of digitalization

Recently, amid the development of new financial products and advanced transactions, as well as high-speed and complex transactions, it is necessary to verify and analyze an enormous quantity of data expeditiously, in order to conduct efficient and effective surveillance of market misconduct. To conduct seamless market surveillance, it is necessary to build up a system that can collect and search for data required for verification and analysis more efficiently and effectively. To resolve these challenges, the SESC has made efforts to introduce RPA (Robotic Process Automation) systems and sophisticate the analysis systems, and the SESC will promote further digitalization.

(4) Promotion of measures to increase receipt of information and whistleblowing

To promote the reporting of useful information from the public, the SESC will continue to consider measures to enhance convenience for information providers.

2-2 INVESTIGATION INTO MARKET MISCONDUCT

1. Purpose of Investigation into Market Misconduct

The SESC investigates insider trading, market manipulation, the spread of rumors, the use of fraudulent means and other suspected market misconduct subject to an administrative monetary penalty payment order, pursuant to the FIEA.

As timely oversight is required in response to environmental changes regarding markets, the SESC's prompt and efficient investigation with recommendations for administrative monetary penalty payment orders in mind aims to deter misconduct, ensure the fairness and transparency of securities markets, and protect investors.

2. Overview of Cases in FY2020

The SESC promptly and efficiently investigates suspected market misconduct cases through the active use of the administrative monetary penalty system. In FY2020, there were 14 cases of market misconduct (eight cases of insider trading and six cases of market manipulation) for which the SESC made recommendations for administrative monetary penalty payment orders.

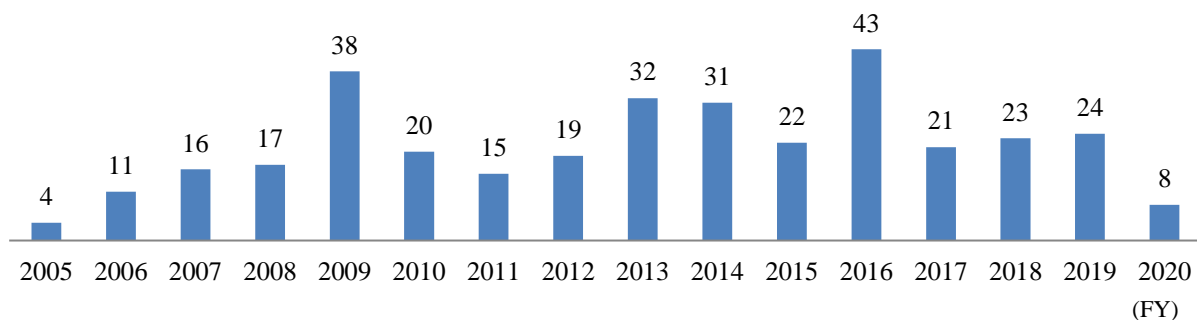
(1) Insider trading

In FY2020, there were eight cases of insider trading for which the SESC made recommendations for administrative monetary penalty payment orders (See Fig. 2-2-1).

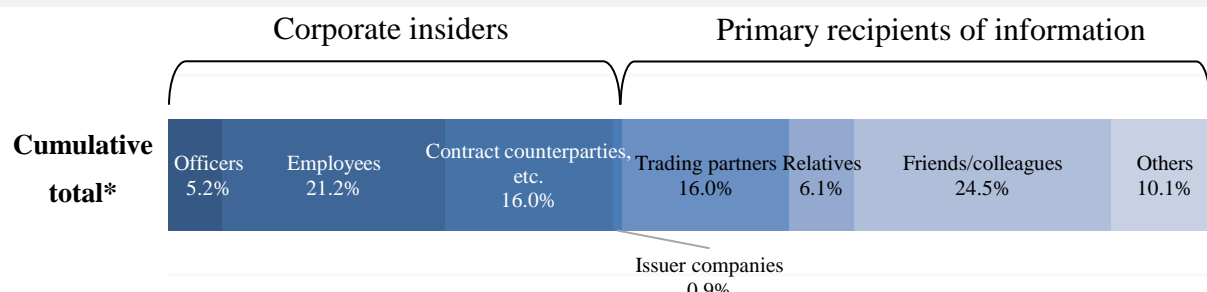
Of the eight violators who engaged in insider trading, five individuals (62.5%) were primary recipients of information from corporate insiders and three were corporate insiders (37.5%). The share for primary recipients of information was higher. The primary recipients of information were friends, colleagues or acquaintances of corporate insiders as information providers, including no trading partners or relatives of information providers. The three corporate insiders were contract negotiators with listed companies or such negotiators' directors or employees, including no director or employee of issuer companies or tender offerors (See Fig. 2-2-2).

While there were no cases of insider trading by directors of listed companies among the eight cases subjected to the abovementioned recommendations, there were two cases of insider trading by recipients of information from directors of listed companies. Directors of listed companies must manage information about material facts appropriately and take the initiative to prevent insider trading. However, the SESC still found such cases where directors provided information to others even without a need to do so for the performance of job duties and caused insider trading.

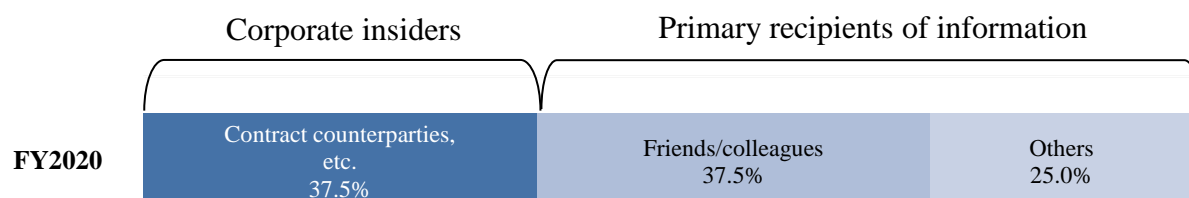
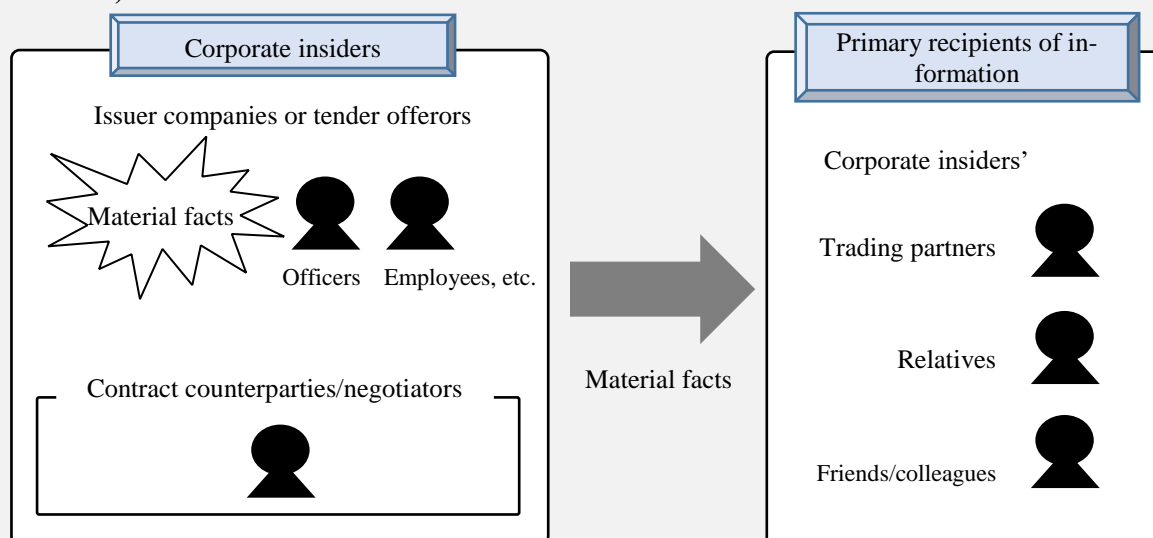
Regarding the regulations on the provision of insider information and transaction encouragement, there was one case of insider information provision. The violator provided information on multiple stocks.

Fig. 2-2-1: Number of cases of insider trading

Note: The numbers include cross-border cases.

Fig. 2-2-2: Attributes of violators of insider trading regulations

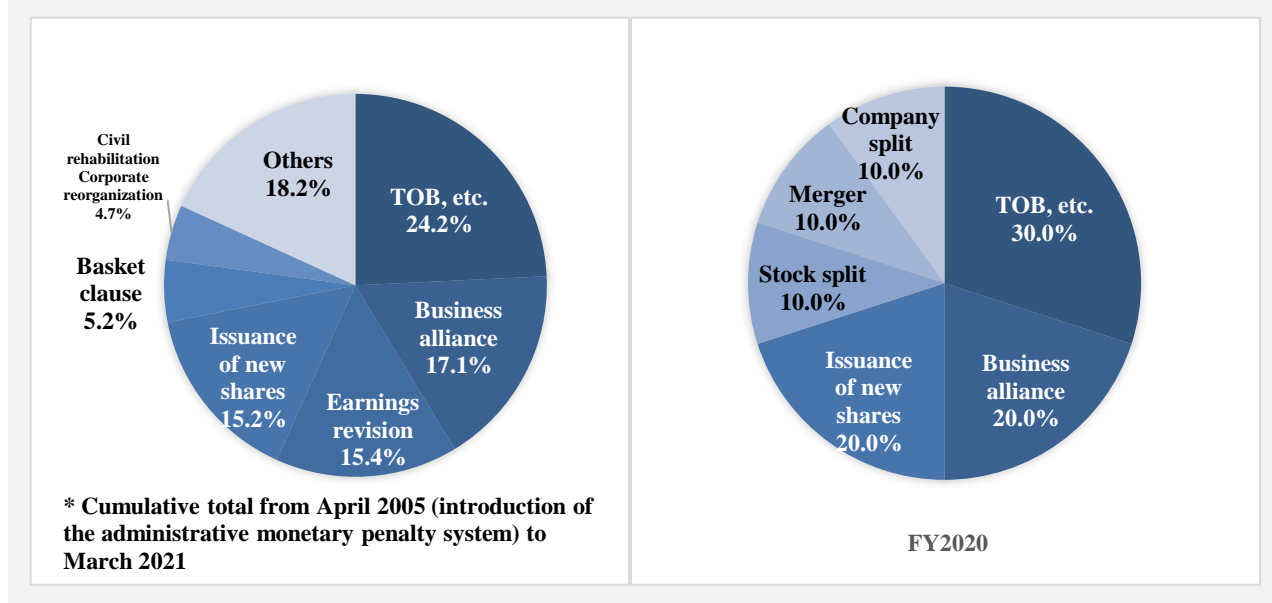
* Cumulative total from April 2005 (introduction of the administrative monetary penalty system) to March 2021

**(Reference) Attributes of violators**

In FY2020, the SESC made a total of eight recommendations concerning 10 material facts (the number of recommendations and the number of material facts do not match because there were cases in which those aware of multiple unpublished material facts conducted insider trading). The 10 material facts included three related to TOBs (30.0%), two related to business alliance (20.0%), two related to the issuance of new shares (20.0%) and the other three (30.0%) related to a stock split, a merger and a company split (See Fig. 2-2-3).

When companies negotiate TOB, business alliance and other deals with various outside parties, the periods of time between decisions and their publication generally tend to become long. Material information for these deals therefore needs to be managed very carefully.

Fig. 2-2-3: Breakdown of insider trading cases by material fact



Through its insider trading investigation, the SESC identified listed companies that had established internal rules for preventing insider trading but failed to have the rules understood sufficiently and those that had failed to include statements about the prohibition of transaction encouragement into internal rules.

Key Case (insider trading)

Overview	Date of recommendation /amount of administrative monetary penalty	Points
A director of a listed company provided his acquaintance with a material fact the director learned in the course of work and the acquaintance bought shares before the disclosure of the material fact.	October 20, 2020 270,000 yen	<ul style="list-style-type: none"> • A director of a listed company provided insider information while he was not required to do so in the course of his work. • The violator used a brokerage account opened in the name of another person.

Key Case (insider information provision)

Overview	Date of recommendation /amount of administrative monetary penalty	Points
<ul style="list-style-type: none"> • An employee of a listed company became aware of a material fact in the course of his work and provided the fact to his acquaintance for the purpose of allowing the acquaintance to earn profit. • The employee also provided the same acquaintance with a material fact about another stock in the position of an employee of a contract negotiator. 	January 15, 2021 4.51 million yen ⁵	The information provider and the primary recipient of information consulted with each other and used a brokerage account opened in the name of another acquaintance in a bid to prevent the insider trading from being exposed.

(2) Market manipulation

In FY2020, the SESC made recommendations for administrative monetary penalty payment orders for six cases of market manipulation, all of which involved manipulation by retail investors. They included the first ever case in which the SESC recommended an administrative monetary penalty payment order over an illegal stabilizing transaction.

Trading schemes became more complex and sophisticated in the year. For instance, a retail investor bought shares in a proprietary trading system (“PTS”) at higher prices than on a stock exchange to artificially raise stock exchange prices, repeated minimum-lot buying to raise stock prices, or conducted wash trading⁶ using accounts opened in the names of himself, his relatives and acquaintances to match his sell order with another’s buy order.

Key Case (market manipulation)

Overview	Date of recommendation /amount of administrative monetary penalty	Points

⁵ The person subject to the administrative monetary penalty payment order not only violated the regulation on information provision but also conducted insider trading. The penalty amount represents a combination of penalty amounts for the two acts.

⁶ “Wash trading” refers to trade designed not to transfer rights. In typical wash trading, one person buys and sells the same stock at the same price simultaneously.

A retail investor conducted a series of transactions for the purpose of stabilizing the stock prices of Company A above a delisting threshold fixed by a stock exchange.	September 11, 2020 13.34 million yen	This was the first administrative monetary penalty payment order case in which illegal stabilizing transactions were identified under Article 159-3 of the FIEA.
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3. Future Challenges

(1) Appropriate application of laws and regulations

The SESC continued to find many cases involving transactions by those who received material information or transaction encouragement from directors or other stakeholders of listed companies. The SESC will appropriately apply laws and regulations to information provision and transaction encouragement by such insiders of listed companies.

Market manipulation cases included the first recommendation case of illegal stabilizing transactions, the use of a PTS, and other complex and sophisticated schemes. The SESC will appropriately apply laws and regulations to these trading schemes. Due to changes in the economic environment in Japan and abroad, share prices are affected by economic activities and judgments on corporate valuation which were not assumed when the FIEA was established. Regarding cases of insider trading, the SESC will appropriately decide whether data falsification and some other incidents that do not fall under the incidents listed individually as a material fact under the FIEA amount to "material facts concerning operation, business or property of the listed company, etc. that may have a significant influence on investors' investment decisions." In order to implement market surveillance seamlessly, it is important to continue to apply laws and regulations appropriately.

(2) Handling of cross-border transactions

With respect to market misconduct involving cross-border transactions, the SESC will identify the circumstances in a more effective and efficient manner through collaboration with foreign authorities using the Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information between securities authorities and a wide-ranging exchange of information and opinions with foreign regulatory authorities.

(3) Proactive communications

As a means of enhancing market discipline, the SESC appropriately distributes information⁷ after making recommendations by website posting, press briefings and "Message to the Markets."⁸ The SESC also gives lectures, contributes articles on a variety of topics and publishes "Casebook of Administrative Monetary Penalties." Going forward, the SESC will continuously endeavor to

⁷ For example, the FSA and the SESC have published "FAQ Regarding Insider Trading Regulation" to allow ordinary people to make fair stock and other investments without worries.

⁸ In April 2019, the SESC email newsletter was revamped and renamed "Message to the Markets" <https://www.fsa.go.jp/sesc/message/index.html>

enhance its external communications and provide easy-to-understand explanations of cases for administrative monetary penalty order recommendations. The SESC will also use various opportunities to tell investors and company officials that not only their insider trading, but also the provision of insider information and transaction encouragement would run counter to the FIEA. These efforts are designed to forestall market misconduct.

(4) Improvement of digital forensic technology

For market misconduct investigations, it is important to ensure the restoration and preservation of data contained in electronic devices possessed by investigated entities. Along with the advancement of information technology, available communication tools, such as SNS, have become diverse, and the volume of data contained by such tools has expanded. In response, the SESC will work to further improve its digital forensic technology.



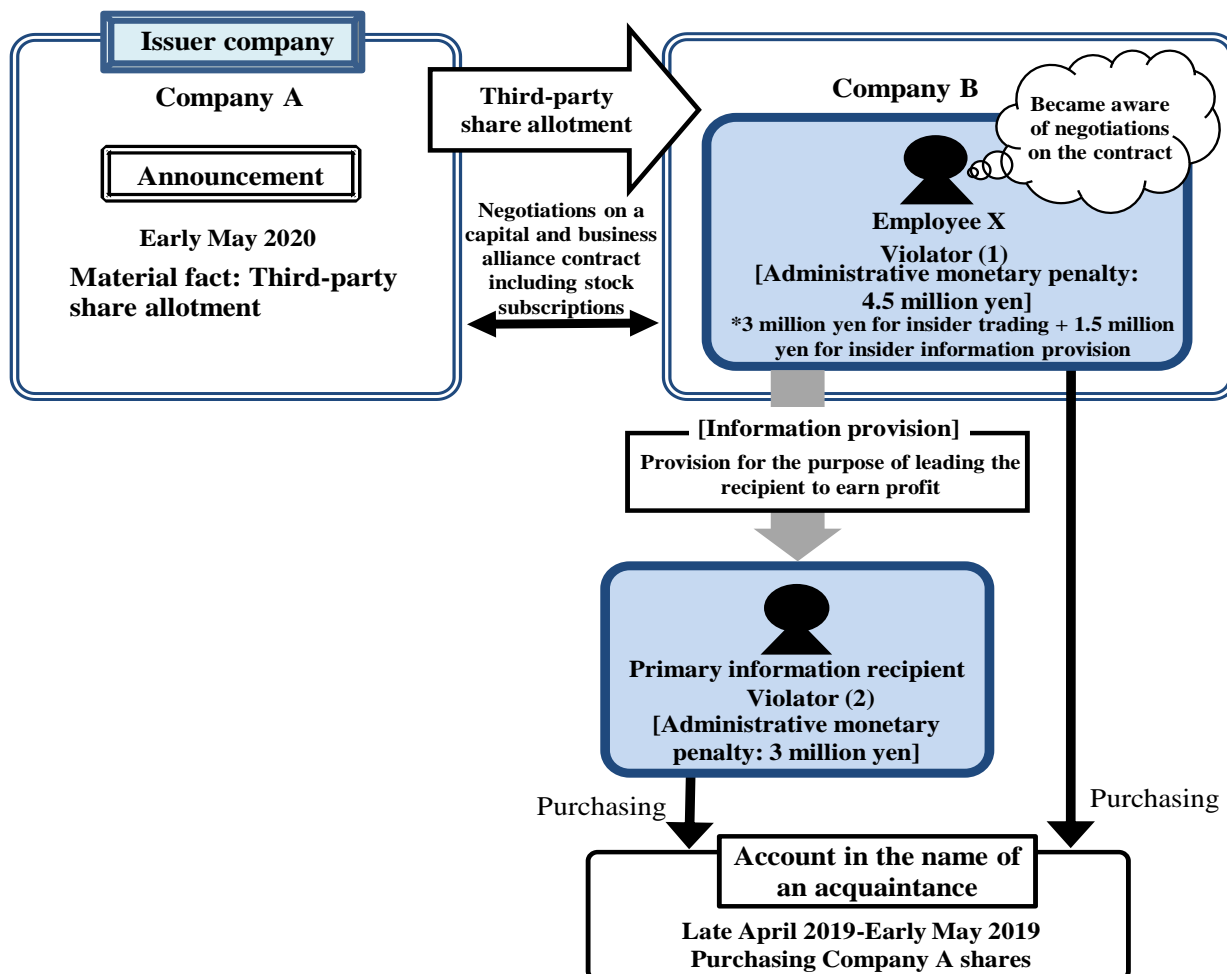
We don't miss unnatural transactions

Message to market participants

When market misconduct like insider trading is alleged, the SESC investigates brokerage or bank accounts owned by suspects who trade in shares at an advantageous time before the publication of material facts or facts concerning tender offers, as well as a wide range of information on the related parties. The SESC tries to detect illegal acts by checking transactions carried out in someone else's name and unnatural fund transfers between those related parties.

For instance, the SESC has detected numerous market misconduct cases using accounts opened in someone else's name. In those cases, the SESC investigates not only transaction parties but also nominal holders of such accounts. In an insider trading case subjected to a recommendation for administrative disciplinary actions in FY2020, as illustrated below, parties to a transaction carried out in someone else's name used a cash payment, rather than a bank transfer, in a bid to conceal the transaction.

The administrative monetary penalty payment orders the SESC has recommended regarding market misconduct, including insider trading, market manipulation and the use of fraudulent means, since the introduction of the administrative monetary penalty system in 2005 have ranged from the minimum of 20,000 yen to the maximum of some 4 billion yen. The SESC always monitors transactions, irrespective of the size of transaction or the amount of administrative monetary penalty payment order, and takes resolute actions against market misconduct even if the relevant benefits are small.



2-3 INSPECTION & INFORMATION GATHERING ON VIOLATIONS OF DISCLOSURE REGULATIONS

1. Purpose of Disclosure Statements Inspection

The FIEA's disclosure regulations are aimed at protecting investors by providing them with information for making appropriate investment decisions in primary and secondary markets. Specifically, issuers of securities are required to submit disclosure documents, such as Securities Registration Statements and Annual Securities Reports, which provide details on their business profiles and financial conditions, among others. The Prime Minister makes these disclosure documents available for public inspection, allowing such information to be disclosed to investors.

Investors are thus enabled to make investment decisions based on the disclosure documents submitted by the issuers of securities. If such documents contain false information or lack information that should have been included, investors who base their investment decisions on such documents may unexpectedly suffer losses.

To avoid such a situation, the SESC inspects disclosure statements. If the submitted documents contain false statements, the SESC requires those submitters to make corrections for the purpose of providing correct information to investors and makes recommendations for administrative monetary penalty payment orders against securities issuers who have violated disclosure regulations by including materially false information in the documents. The SESC is also engaged in various initiatives to prevent occurrences or recurrences of violations of disclosure regulations.

2. Disclosure Statements Inspection and Trends of Violations in FY2020

In FY2020, in light of disclosure regulation violations by a major global company based in Japan, the SESC collected and analyzed information with a focus on the risk of listed companies violating disclosure regulations and identified suspected violators at an early time, conducting flexible and multi-faceted disclosure statements inspection.

Through these activities in FY2020, the SESC conducted 27 cases of disclosure document inspection, including those continued from the previous year, and completed 13 cases. In 10 of the completed cases, the SESC found material misstatements and other violations in the disclosure documents, such as securities reports, and recommended administrative monetary penalty payment orders. In the cases for inspection, including those that were not subjected to the recommendation for monetary penalty payment orders, the SESC encouraged document submitters to voluntarily submit amended reports as necessary.

In cases where violations of disclosure regulations by listed companies were identified through inspection, furthermore, the SESC discussed the background and causes of such violations with their management, including board members, irrespective of whether or not recommendations for administrative monetary penalty payment orders were made. By sharing awareness with them, the SESC encouraged them to develop internal systems for proper information disclosure, in order to prevent

recurrences of violations. Concerning listed companies that were not very proactive in developing such internal systems, the SESC cooperated with relevant organizations (financial instruments exchanges, audit firms and others) in preventing recurrences of similar violations of disclosure regulations.

(1) Cases in which an administrative monetary penalty was recommended

Key cases

	Overview	Date of recommendation/ amount of administrative monetary penalty	Background
1	The company failed to note transactions with its officer as “Transactions with Related Parties” in a consolidated financial statement, although such transactions were required to be noted as such.	July 7, 2020 12 million yen	<ul style="list-style-type: none"> • The company’s president and accounting officer failed to fully understand laws and regulations. • With the company’s internal control failing to work, its governance system was very vulnerable.
2	<ul style="list-style-type: none"> • The company conducted inappropriate accounting practices, including the booking of fictitious year-end inventories to understate the cost of sales. • The company conducted various inappropriate accounting practices involving a huge amount of money for several years. 	December 12, 2020 2,163,334,996 yen	<ul style="list-style-type: none"> • The company’s accounting authority concentrated on its accounting person. • The company’s culture failed to give priority to adequate accounting practices. • The company’s internal checks on the accounting division were defective.
3	<ul style="list-style-type: none"> • The company conducted inappropriate accounting practices, including the understatement of the cost of sales. • The company has conducted such inappropriate accounting practices since before its listing. 	January 29, 2021 396.15 million yen	<ul style="list-style-type: none"> • As the company’s president forced its officers and employees to attain excessive earnings targets under the bias toward earnings, the company attempted to disguise an overseas subsidiary as having achieved an earnings target. • A vice president and others responsible for financial reports of the company allegedly ordered or tolerated inappropriate accounting practices.

In cases where the SESC recommended administrative monetary penalty payment orders in FY2020, false statements or failures to state facts that should have been stated in securities reports were found, including the overstatement of net income through inappropriate accounting practices, such as the understatement of the cost of sales. They also included a failure to provide “Notes on Transactions with Related Parties” (see SESC Column titled “Why must transactions with related parties be noted?”), false statements resulting from inappropriate accounting practices of overseas subsidiaries (see SESC Column titled “Is overseas subsidiary management all right?”) and false statements in amended reports submitted voluntarily by a listed company.

(2) Others

Even in cases where serious false statements affecting investment decisions by investors in specific companies are not found in inspection of these companies’ disclosure documents, the SESC encourages the submitters of these disclosure documents to voluntarily present amended reports as necessary to provide accurate information to investors.

In cases where defects in internal control are identified through disclosure statements inspection of a company, the SESC discusses how to correct or improve internal control with the management of the company to forestall violations of disclosure regulations.

The SESC also conducts inspection regarding “specified involvement”⁹ as necessary.

FY2020 saw no case for encouraging companies to voluntarily present amended reports and identified no specific fact of involvement.

3. Future Challenges

(1) Upgrading analysis capabilities

The SESC will gather and analyze information on listed companies with a focus on the risk of violation of disclosure regulations occurring against the backdrop of the growing complexity of transactions, progress in the globalization of companies, and the diversification and transformation of business models. The SESC will also conduct flexible and multi-faceted disclosure document inspection in order to detect and correct violations of disclosure regulations at an early time.

(2) Actions to prevent occurrence or recurrence of violations of disclosure regulations

(i) Sharing awareness with management

If listed companies violate disclosure regulations, the SESC will discuss the background and causes of such violations and share awareness with the companies’ management, including board members, to encourage them to develop systems for adequate information disclosure to prevent

⁹ Acts which facilitate or instigate the submission, provision or public announcement of disclosure documents containing materially false statements.

the occurrence or recurrence of such violations. If listed companies are not proactive in establishing and developing such information disclosure systems, the SESC will share information on such listed companies with financial instruments exchanges and relevant audit firms as necessary.

(ii) Proactive communication with stakeholders

In an effort to prevent violations of disclosure regulations, the SESC has always delivered as clear explanations as possible when providing information on cases where recommendations for monetary penalty payment orders were made (on the SESC's website, at media briefings, etc.). The SESC also promotes listed companies' internal discussions towards appropriate information disclosure and dialogue between listed companies and their certified public accountants/audit firms by annually publishing a case book presenting actual cases of violations identified through inspection. Through such proactive communications with stakeholders, the SESC will continue its efforts to prevent the occurrence or recurrence of violations of disclosure regulations.



Why must transactions with related parties be noted?

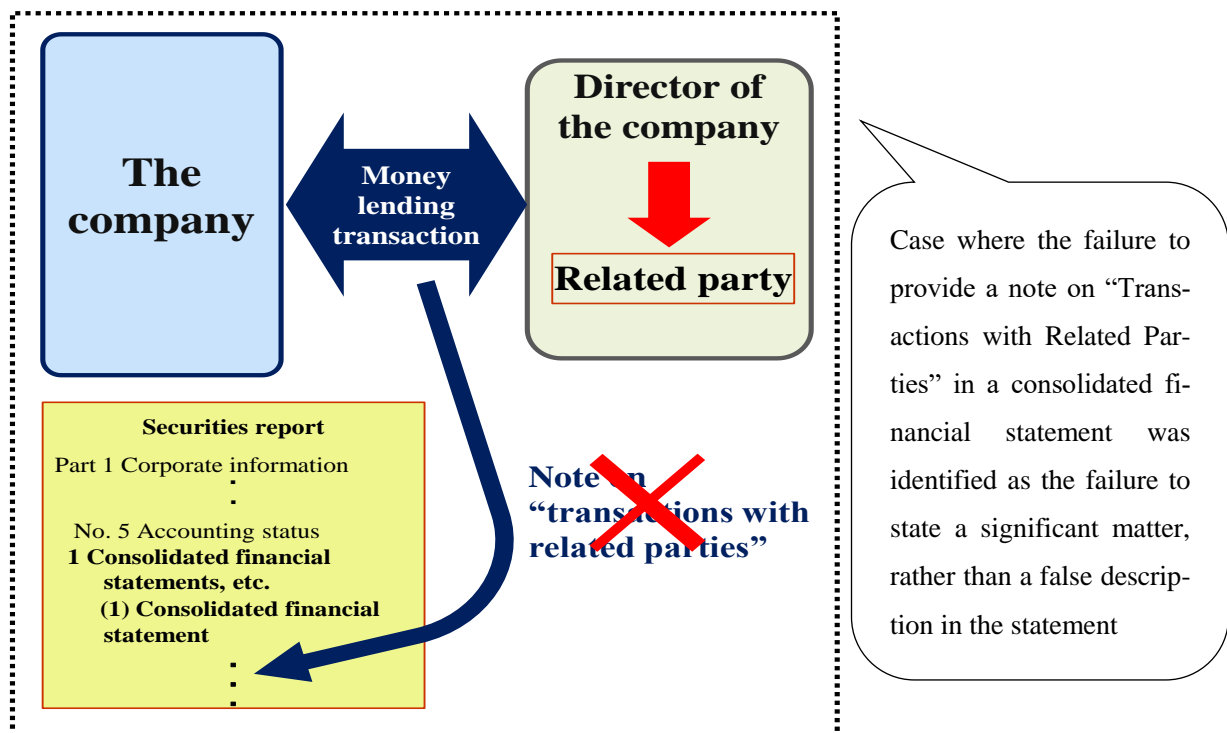
Message to listed companies (1)

Related parties include listed companies' parents, subsidiaries, major shareholders, officers, etc. (Article 8-17 of Financial Statements Regulation, Article 15-4 of Consolidated Financial Statements Regulation). When listed companies make transactions with related parties, the contents of important ones among them must be noted for each party (Article 8-10 of Financial Statements Regulation, Article 15-4-2 of Consolidated Financial Statements Regulation).

In a transaction between a listed company and its related party, the company and its related party may not necessarily be on an equal footing. The related party may exert an influence on the company's financial conditions and business performance. Even in the absence of any direct transaction between the company and its related party, the presence of the related party may exert an influence on the company's financial conditions and business performance (Section 2 of Accounting Standard for Related Party Disclosures). In this way, listed companies' transactions with their related parties can be expected to exert a major influence on investors' investment decisions and are required to be disclosed.

Specific case

The company sent a large remittance to one of its directors (amounting to the company's related party). The remittance represented a money lending transaction that amounted to an important transaction that must be noted as a transaction with a related party in consolidated financial statements. However, the company failed to provide such note in those statements.



Listed companies should fully understand the reason for the requirement for their transactions with their related parties to be noted and should adequately disclose such transactions based on laws, regulations and accounting standards.



Is overseas subsidiary management all right?

Message to listed companies (2)

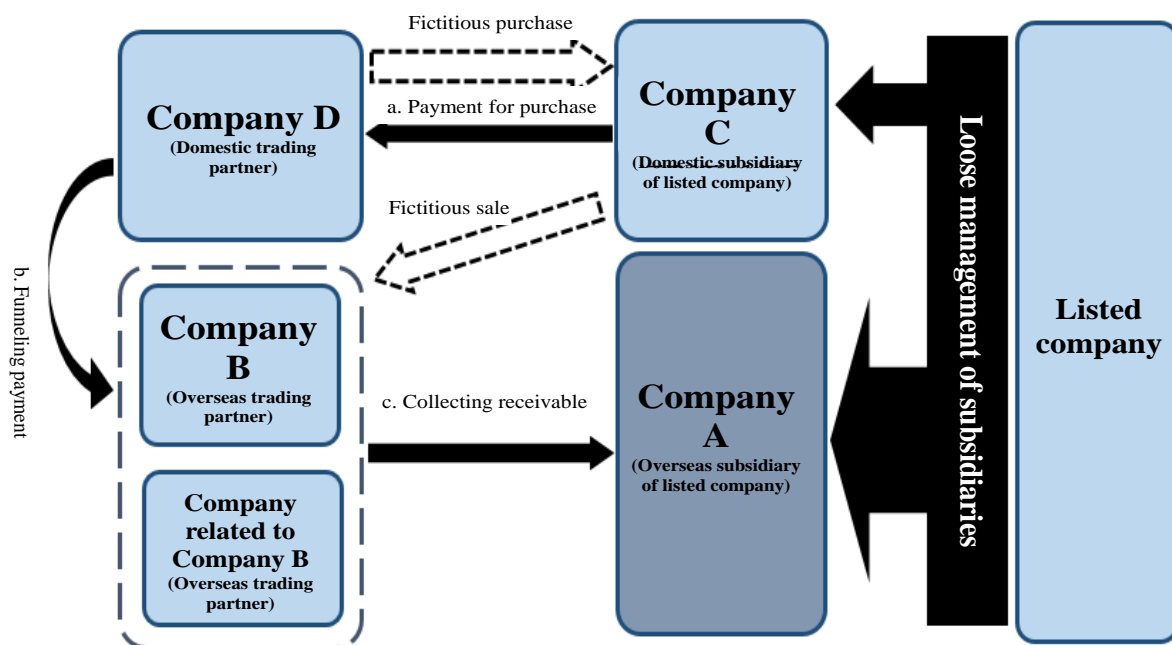
Recently, accounting misconduct has been detected at overseas subsidiaries of listed companies. Such misconduct may be attributable to listed companies' loose management of their overseas subsidiaries. For instance, a listed company practically entrusted a local person with the management of its overseas subsidiary entirely. In another case, even though a person was sent by a listed company to manage an overseas subsidiary and regional business operations, the person failed to set up any invulnerable or functional internal control system. In such situations, new business operations or transactions led to inappropriate accounting and other misconduct.

Specific case

Company A, an overseas subsidiary of a listed company, conducted the following inappropriate accounting practices to increase sales (see the transaction illustration below):

- (i) Company A overstated sales through fictitious transactions with its trading partner Company B and its affiliate (hereinafter referred to as Company B, etc.).
- (ii) In a bid to use funds at Company C (a domestic subsidiary of the listed company) headed by Company A's former representative, Company A funneled Company C's payment to Company D for a fictitious purchase to Company B, etc. to collect Company A's receivable from Company B, etc.

Illustration of transactions in (ii)



In this case, a Japanese officer was stationed at the overseas subsidiary. As the subsidiary's authority concentrated on the Japanese officer, however, no sufficient check and balance system was in place. The listed company in Japan failed to fully control the overseas subsidiary's management of overdue receivables or credit facility. Furthermore, the auditor's audit failed to cooperate fully with the internal audit and the accounting auditor's audit, and this incomplete co-operation rendered the overseas subsidiary to be insufficiently audited for two years.

2-4 MONITORING OF FINANCIAL INSTRUMENTS BUSINESS OPERATORS

1. Purpose of Monitoring Securities Businesses

The SESC accurately recognizes the operational and financial status of Financial Instruments Business Operators (“FIBOs”) through seamless on-site and off-site monitoring. If any problem is found, the SESC, where necessary, recommends that the Prime Minister and the FSA Commissioner take appropriate measures or provides necessary information to the supervisory departments in the FSA. In this way, the SESC encourages FIBOs to establish proper governance and risk management systems, administer their businesses in accordance with laws, regulations and market rules and perform their function as market intermediaries appropriately, for example, as gatekeepers. The purpose of monitoring securities businesses is, thus, to maintain a market environment in which investors are able to invest comfortably.

2. Achievements of Monitoring (Risk Assessment)

The number of FIBOs subject to the SESC’s monitoring is approximately 7,700 in total, with their sizes, operations and products ranging wide. Some of these FIBOs have not had adequate awareness towards or systems for legal and regulatory compliance and investor protection. Therefore, it is important to monitor them efficiently and effectively in accordance with the respective characteristics of FIBOs based on the Basic Principles of Securities Business Monitoring (see Key Topic) so as to identify their risks at an early time. (See Figure 2-4-1).

Since July 2016, in its off-site monitoring of all FIBOs, the SESC has conducted risk assessment, including an analysis of the business environment covering economic and industrial trends, as well as business models, in collaboration with the relevant divisions of the FSA. In assessing risks, the SESC has closely examined the business operations of each FIBO, while conducting a cross-sectoral review of major securities companies focusing on governance, IT system management, risk management, internal audit, etc.

Based on the results of the risk assessment using multi-faceted risk evaluation, the SESC in collaboration with Local Finance Bureaus selected the FIBOs subject to on-site monitoring. In conducting on-site monitoring, the SESC verified the FIBOs’ products and trading schemes. When problems were detected, the SESC looked into their root causes and made recommendations for administrative disciplinary actions or informed the FIBOs of issues relating to their business operations.

The SESC also communicated with Local Finance Bureaus on a daily basis and shared relevant information with them in a timely fashion. The SESC also proactively provided advice and guidance to Local Finance Bureaus with respect to their on-site monitoring.

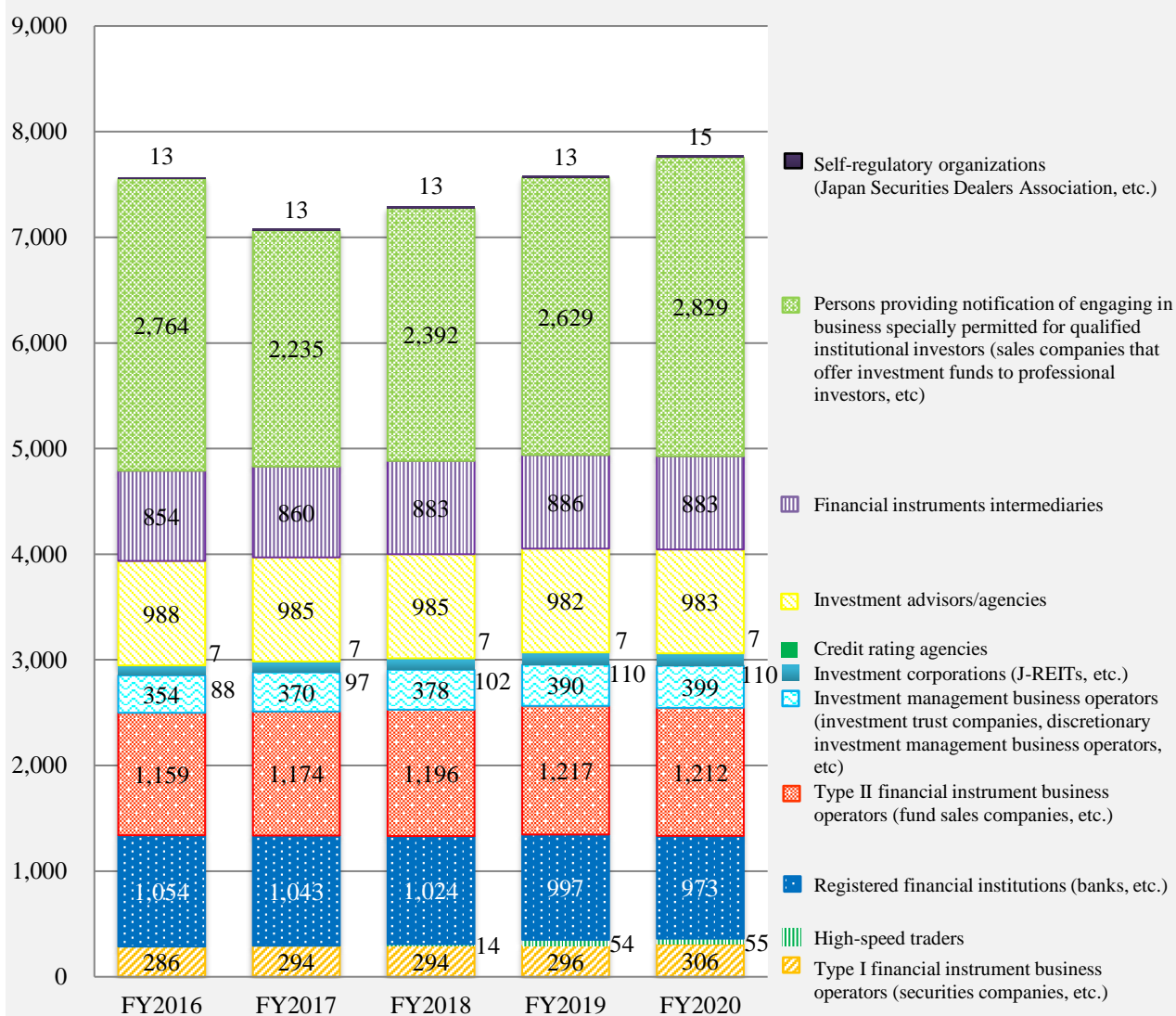
Fig. 2-4-1: Number of FIBOs subject to monitoring (at the end of each fiscal year)

Fig. 2-4-2: Summary of Monitoring Priorities for Securities Businesses (BY 2020) ¹⁰

Summary of Monitoring Priorities for Securities Businesses (July 2020-June 2021)

Basic monitoring policy

- The SESC will continue to select the businesses subject to on-site monitoring based on the off-site risk assessment of all securities business. The SESC will carry out off-site risk assessment in collaboration with the relevant bureaus of the JFSA and conduct assessment from a multifaceted perspective including business models and other factors.
- Through its on-site monitoring, the SESC aims not only to point out problems and to take actions such as making recommendations for administrative disciplinary actions, but also to analyze the whole picture of the problems to identify their root causes, so that businesses can address them and prevent recurrence. Furthermore, if the need to improve business operations or other potential issues is identified before any problems materialize, the SESC will share the findings with the monitored businesses and urge them to build effective internal control environments or take other actions to address the issues.

Activity policy for the current business year

- Bearing in mind that expanding product lineups to include overseas financial products and higher-return funds and the impact of the coronavirus pandemic on the management environment and business operations of FIBOs, the SESC will continue to proactively conduct on-site monitoring for in-depth examinations particularly in any of the following situations.
 - ① a relevant law and/or regulation is breached or there is a deficiency in business operations that requires a prompt in-depth examination;
 - ② a financial instrument is offered with an unclear risk profile, necessitating an examination of its solicitation activities;
 - ③ the actual situation of business operations is not fully comprehended from an information analysis based on off-site monitoring (including where there is a long period between examinations);
 - ④ there is a possible serious problem concerning investor protection (e.g. inappropriate segregated management of customer assets)
- With regard to unregistered FIBOs, the SESC will actively collect and analyze information, conduct investigations in collaboration with relevant agencies, and seek court injunctions to cease and suspend activities that violate the FIEA so as to contain the spread of damage to investors.

《Monitoring strategies for various FIBO business models》

Type I FIBOs	Major securities business groups	<ul style="list-style-type: none"> Development of governance/risk control environments that support domestic and overseas business operations and efforts to establish a sustainable business model Efforts to establish an effective and principle-based compliance environment, efforts to instill and establish customer-oriented business conduct, and efforts to enhance AML/CFT measures Private placements business, investment business risks, and risk management across the group as a whole, including overseas Control environments for conflict of interest management for banking/securities collaboration (securities businesses under the three mega banking groups) Swiftly conduct on-site monitoring where it is necessary to confirm the actual sales practices at sales offices.
	Foreign securities firms	<ul style="list-style-type: none"> Progress of overseas outsourcing of back office operations and development of internal control environments that respond to structural changes in business models Trends of products sold to Japanese financial institutions and the risks of these products
	Online securities firms	<ul style="list-style-type: none"> Status of internal control environments connected with increases in products they offer, and with their launch and expansion of face-to-face sales activities in collaboration with independent financial advisors (IFAs), all the while bearing in mind the group's overall strategy and management policies Status of system risk management that covers cyber security
	Semi-major/regional securities firms	<ul style="list-style-type: none"> Inappropriate solicitation and other conducts that are inappropriate from the viewpoint of investor protection including steps taken to conform to the principle of suitability Business models and governance of securities firms whose major shareholders and management structure changed due to participation of new investors
	Foreign currency margin transactions business operators	<ul style="list-style-type: none"> Status of disclosure of risk information, implementation of stress tests, and reflection of the results of the stress tests to capital
Investment management business operators		<ul style="list-style-type: none"> Control environment for management of conflicts of interests and outsourced investment management to ensure that investment management business operators fulfill the duty of loyalty and duty of due care of investors Systems put in place to ascertain fair market values Status of investments in alternative assets.
Investment advisors/agencies		<ul style="list-style-type: none"> Misleading advertisements, solicitation activities using false explanations
Type II FIBOs/QII business operators, and others		<ul style="list-style-type: none"> Funds advertising high returns and actual existence of business project to be invested (Type II FIBOs/QII business operators) Risk-based securities monitoring in light of the firm's particular business types (registered financial institutions, credit rating agencies, securities finance companies, self-regulatory organizations, etc.)
Unregistered business operators		<ul style="list-style-type: none"> Proactively exercise the investigative authority to seek court injunctions to cease and suspend activities that violate the FIEA. Publicly disclose the name, name of representative, nature of illegal conduct, etc. of unregistered business operators. Proactively collaborate with the JFSA's Supervisory Bureau, LFBs, Consumer Affairs Agency and other investigative authorities.
<ul style="list-style-type: none"> With regard to operations pertaining to high-speed trading, examine internal control environments for brokerage businesses, as well as order execution, trading control, etc., across multiple markets: stock exchanges, private trading systems (PTS) and dark pools. With regard to operations involving cryptoasset derivatives, security tokens, commodity futures, etc., analyze information and examine these operations in line with the risk characteristics of each business category. 		

《Collaboration with relevant agencies, and dissemination of monitoring results》

- The SESC will collaborate closely with Local Finance Bureaus (LFBs) from the planning stage of both off-site and on-site monitoring, and conduct joint examinations if needed. In addition, the SESC will collect and share information with LFBs, consider appropriate monitoring methods, and focus on training that LFBs require.
- The SESC will continue collaborating closely with self-regulatory organizations, and conduct efficient monitoring by exchanging information in a timely manner.
- The SESC will encourage FIBOs to make voluntary improvement by sharing the monitoring results and other information to their auditors and outside directors.

(Published in August 2020)

¹⁰ BY 2020 refers to the period from July 1, 2020, to June 30, 2021.

(1) Securities companies

As for securities companies, the SESC in FY 2020 verified the establishment of customer-oriented business conduct focusing on adequate investment solicitation, based on the revision of the Comprehensive Guidelines for Supervision (clarifying the principle of suitability). As the impact of the COVID-19 pandemic was seen, the SESC also monitored their handling of customers' holding of investment assets with wildly fluctuating prices and malicious transactions taking advantage of investor anxiety.

Furthermore, the SESC conducted proactive on-site monitoring of, for example, companies that were plagued with concerns about specific cases of legal violations and business administration arrangements and that needed to be subjected to in-depth investigation at an early stage and those that needed to be investigated with respect to their handling and solicitation of products with unclear risks.

Of the 35 securities companies of which on-site monitoring was completed in FY2020, the SESC notified 11 of their problems found through the monitoring and made recommendations for administrative disciplinary actions against two for committing serious breaches of laws and regulations, such as placing advertisements making indications that were significantly different from facts.

Key cases:

Company name	Date of recommendation	Description
FX PRIME by GMO Corporation	August 4, 2020	While being aware that an over-the-counter foreign exchange margin transaction system provided by the company was not designed to avoid slippage in market orders, the company thought that there would be no problem if quoting Company A's slippage research report (that did not specify the occurrence of slippage) and included into its web advertisement an article that claimed there was "no slippage (0%) according to a survey by Company A" and significantly differed from facts.
Createjapan Co., Ltd.	November 13, 2020	The company, which handles FX daily futures contracts, was found to be violating the requirement for confirmation of customers' acceptance of solicitation and the prohibition on repeated solicitation regarding foreign exchange margin transaction solicitation towards potential customers' opening of new accounts.

(2) Investment management business operators

The SESC conducted on-site monitoring of investment management business operators to monitor their control environment for management of conflicts of interest and outsourced investment management and their systems put in place to ascertain fair market values to ensure that they fulfill the duty of loyalty to customers and duty of due care of a prudent manager.

Of the five investment management business operators of which on-site monitoring was completed in FY2020, the SESC notified three of their problems found through the monitoring and made a recommendation for administrative disciplinary actions against one that was identified as failing to engage in investment management business with the due care of a prudent manager for right holders.

Key case:

Company name	Date of recommendation	Description
i Global Asset Management Co., Ltd.	January 29, 2021	Regarding investment trusts that the company established and managed, it failed to fully examine the realities and management of investment arrangements and approaches before or after their establishment. Despite its insufficient examination on the realities of investment approaches for investment trusts, it briefed marketers and beneficiaries of those investment trusts with documents indicating that investment approaches for those trusts would ensure stable returns.

(3) Type II financial instruments business operators

Regarding Type II FIBOs, which include sellers of loan-type funds, the SESC conducted monitoring focusing on funds claiming high yields and on whether businesses in which the funds were investing actually existed. The SESC also promptly conducted on-site monitoring of business operators considered to carry high risks, based on the analysis of information provided by investors.

(4) Investment advisors/agencies

The SESC monitored investment advisors/agencies to make sure that they were neither using advertisements that may mislead customers nor soliciting customers based on false explanations. The SESC also conducted on-site monitoring of investment advisors/agencies considered to carry high risks.

In FY2020, the SESC completed on-site monitoring of three investment advisors/agencies and notified them of their problems found through the monitoring. The SESC also made recommendations for administrative disciplinary actions against two of the three for serious breaches of laws

and regulations, including the use of false information for soliciting the conclusion of investment advisory contracts and the lending of a corporate name to a third party.

Key cases:

Company name	Date of recommendation	Description
IGM Financial Group Inc.	April 14, 2020	On its website, the company provided false reports disguising losses as gains in its advisory business achievements. By indicating documents that could lead to information having no relation with its investment advisory achievements being interpreted as such achievements, the company solicited the conclusion of investment advisory contracts.
Progress Mind Co., Ltd.	June 12, 2020	<p>The company led a party that was not registered as a FIBO to provide investment advisory/agency services in the name of the company.</p> <p>The company provided a document describing its representative director as an advisor/analyst before the conclusion of an investment advisory contract. Nevertheless, the representative director personally employed some persons to provide advisory services without personally providing such services.</p>

(5) Petitions for court injunction against violations of the FIEA

To prevent damage to investors from fraud caused by unregistered business operators, the SESC took rigorous actions against unregistered business operators, such as seeking the court to grant an injunction in cooperation with the FSA, Local Finance Bureaus and other law enforcement authorities. As necessary, the SESC publicly disclosed the name of an unregistered business operator, the name of its representative, and the specifics of legal and regulatory violations.

Key case:

Defendant	Date of petition (name of court)	Description	Date of injunction order
Wealth design Co., Ltd. and its manager	November 10, 2020 (Tokyo District Court)	Without being registered as Type II financial instruments business operators, the defendants solicited retail investors to acquire multiple financial instruments categorized as shares in foreign collective investment schemes and led at least 1,125 retail investors to invest at least 3 billion yen.	December 24, 2020 (Tokyo District Court)

(6) Issues requiring attention

In conducting on-site monitoring, it is important that the SESC not only points out legal problems and makes recommendations for administrative actions but also analyzes the whole picture of the problems to identify their root causes, so that FIBOs can address them and design effective measures to prevent recurrences of the problems.

To that end, in cases where the SESC has recognized the need to improve business control systems although problems have yet to materialize, the SESC has shared the findings with the FIBOs under the on-site monitoring to encourage them to create effective internal control systems.

Example cases:

(i) Enhancing governance over sales of high-risk products to regional financial institutions

To expand its customer base, the company plans to focus on sales of high-risk structured bonds to regional financial institutions. However, it is concerned that small and medium-sized regional institutions could take excessive risks incommensurate with their financial strengths in a bid to maintain earnings.

Therefore, the company must develop optimum sales arrangements to define and clarify processes to confirm, judge and approve the suitability of attributes, sizes and systems of regional financial institutions to the complexity and other characteristics of high-risk products.

(ii) Customer-oriented business conduct

Given that aged people account for a large share of the company's retail customers, it may be more important for the company to give due consideration to sales approaches to aged customers. Instead of giving priority to their and the company's profits, the company's salespersons should thoroughly implement customer-oriented business conduct to effectively achieve the co-existence and co-prosperity of the company and its customers.

3. Future Challenges

(1) Enhancing monitoring of securities businesses

While the number of business operators subject to the SESC's monitoring has increased to approximately 7,700 since the enforcement of the FIEA, their sizes, businesses and products are diverse. Furthermore, there are business operators that still do not have adequate arrangements for compliance with fundamental laws and regulations, and investor protection. To monitor FIBOs efficiently and effectively, the SESC has integrated on-site and off-site monitoring of FIBOs since July 2016.

The SESC will continue to verify the effectiveness of governance and the appropriateness of risk management and to enhance securities business monitoring so that the challenges and problems FIBOs are facing will be identified earlier through risk assessment based on the analysis of the business environments, including economic and business trends.

Following the effectuation of the revised Act on Sales, etc. of Financial Instruments enacted in June 2020, the SESC will conduct the risk-based monitoring of intermediary financial service providers subjected newly to the securities monitoring in cooperation with relevant FSA divisions, based on their registration status.

(2) Enhancing feedback

In conducting on-site monitoring, the SESC has focused on finding and responding to violations of laws and regulations. Going forward, by grasping the whole picture of recognized issues and identifying their causes, the SESC will also provide the kind of feedback that helps business operators develop effective measures to prevent problems.

Furthermore, the SESC will provide feedback on the results of off-site monitoring that would contribute to encouraging FIBOs to ensure appropriate conduct of business, such as information on challenges common across sectors as well as best practices.



Examine financial instruments fully according to their characteristics

Message to asset management companies

Investment means at asset management companies have recently become diverse and complicated in line with economic trends and market environment changes, as well as the progress made in digitalization and the diversification of investor needs, leading to the formulation and provision of various financial instruments

Asset management companies for their part have a fiduciary duty to the investors who entrust their investment to these companies. Under the FIEA, these companies are required to act in good faith with regard to the interests of investors (a duty of loyalty) and take care of business as asset management experts (the duty of due care of a prudent manager).

When entrusting their investment authority to others or formulating and providing financial instruments for investment in funds managed by others, for instance, asset management companies must implement and continue the sufficient examination and verification of asset investment and management means at the trustees or investment targets.

In the SESC's on-site monitoring in FY2020, however, an asset management company that invests most of its customers' money in overseas funds in a fund of funds format was found to be establishing and managing investment trusts without sufficient examination or verification of investment targets, failing to fulfill the duty of due care of a prudent manager.

Asset management companies might have more opportunities to formulate and manage instruments for investment in foreign assets in line with the diversification and complication of investment means. When investing in foreign funds, particularly, they must implement and continue the sufficient examination and verification of their instruments and investment schemes according to their characteristics, considering that it would be difficult to grasp the entire picture or reality of foreign funds.



Beware of unregistered financial instruments business operators

Message to investors

1. Financial instruments business operators without registration (unregistered FIBOs)

Persons who operate financial instruments business without statutory registration are violating the FIEA.

The FIEA requires those operating financial instruments business, including the following, to be registered as financial instruments business operators:

- (i) Soliciting the acquisition of shares in funds
- (ii) Soliciting the acquisition of corporate bonds, private equity shares, limited liability company membership rights or other securities by those other than their issuers
- (iii) Managing assets invested or provided (management limited to securities investment)
- (iv) Providing investment advice

Those who conduct business operations including the following examples must be registered under the FIEA:

- Soliciting or arranging customers to sign contracts for subscriptions to a cooperative investing in foreign exchange margin transactions by offering to pay dividends every month
- Soliciting customers to acquire investment instruments sold by foreign business operators and arranging them to conclude contracts for the acquisition
- Providing investment advice to customers in exchange for payment by offering to tell them of stock names expected to see price hikes.

Before purchasing financial instruments, investors should consider their sellers from various viewpoints by referring to the FSA website to check if they are registered with authorities.

2. Unregistered FIBOs doing damage to investors

Unregistered FIBOs engage in the following fraudulent cases that do damage to investors regarding foreign exchange margin, binary option and crypto-asset transactions:

- Investors made foreign exchange margin transactions with a foreign business operator as recommended by partners gained through a matching service for a marriage hunting app or by reliable acquaintances, but they failed to obtain their realized profits from the business operator and later lost contact with the business operator.
- Lured by a scheme to gain high returns on investment in crypto-assets or commodity futures (including those for crude oil, gold and grains) as recommended by acquaintances or through SNS, investors deposited investment money or purchased crypto-assets. Initially, they were able to receive dividends or obtain repayments. Later, however, the payment service suddenly stopped, leaving investors unable to receive dividend payments or the repayment of cash deposits or crypto-assets.
- An investor paid a high price to buy a USB memory stick from an old university friend who claimed that it contained knowhow for secure money-making transactions. He then made transactions with a foreign unregistered FIBO as recommended but failed to earn any profit on the transactions.

Beware that many unregistered FIBOs, while conducting little business, fraudulently solicit investment by offering to guarantee principal repayment and profit and cause damage to investors.

(They may repay the principal or pay dividends to some investors depending on investment from other investors to pretend to be doing business. Even if they agree to repay the principal, investors should remain cautious.)

2-5 INVESTIGATION OF CRIMINAL CASES

1. Purpose of Criminal Investigation

The SESC responds strictly to material, malicious market misconduct in order to maintain financial and capital markets in which investors and market participants are able to participate with confidence. That has led to the establishment of fairness and transparency, and to the building of market participants' trust in markets. In 1992, with its establishment, the SESC was given the authority to investigate criminal cases as a unique power of the SESC staff, with the aim of uncovering the truth about malicious acts that harm the fairness of financial instruments transactions and protecting investors under Article 210 of the FIEA. In addition, some of the acts prescribed in the Anti-Criminal Proceeds Act, which regulates cross-border money laundering, are now subject to the SESC's criminal investigation under Article 32 of the Anti-Criminal Proceeds Act.

2. Overview of Criminal Cases in FY2020

Given the increasingly global, complex and sophisticated trading activities in the financial markets, the SESC flexibly investigates criminal cases in both primary and secondary markets. In FY2020, the SESC filed two criminal charges, one was an insider trading case and the other was a market manipulation case. These include the first insider trading case in which a criminal charge was filled solely for transaction recommendation.

Case	Date of filing criminal charges	Filed with
Transaction recommendation related to Don Quijote Holdings Co., Ltd shares	December 22, 2020	Public prosecutor of the Tokyo District Public Prosecutors Office
Market manipulation related to Nichidai Corporation shares	March 26, 2021	Public prosecutor of the Osaka District Public Prosecutors Office

3. Notable Criminal Charges Filed in FY2020

(1) Charge in the case of transaction recommendation related to Don Quijote Holdings Co., Ltd shares

The SESC filed a criminal charge against a suspect with the Tokyo District Public Prosecutors Office for violation of the Financial Instruments and Exchange Act (“FIEA”) on December 22, 2020.

Case overview

The suspect was a president and chief executive officer of Don Quijote Holdings Co., Ltd. (“DQHD”), which listed its shares on the first section of the Tokyo Stock Exchange.

Around early August 2018, in the course of duty, the suspect received the material facts that (i) the executive decision-making body of FamilyMart UNY Holdings Co., Ltd. made a decision to conduct a tender offer for DQHD shares and (ii) the executive decision-making body of DQHD made a decision to purchase shares of UNY Co., Ltd. accompanied by changes in subsidiaries.

The suspect recommended his/her acquaintance A several times to purchase DQHD shares during the month of September 2018, before the disclosure of the material facts for the purpose of enabling acquaintance A to make a profit by purchasing DQHD shares in advance.

Following the recommendation by the suspect, acquaintance A purchased a total of 76,500 DQHD shares for a total of about 430 million yen between around early September 2018 and around early October 2018 before the disclosure of the material facts, although there was no exemption clause applicable under the FIEA.

In this case, the suspect, who had been serving as representative director and chief executive officer of Don Quijote, knew the facts regarding the tender offer and recommended his acquaintance to trade in Don Quijote shares before the publication of the facts for the purpose of leading the acquaintance to earn profit. Given various factors, including the position of the suspect and the impact on market fairness, the SESC concluded that the act was highly malicious and filed a criminal charge solely for the transaction recommendation for the first time ever.

(2) Market manipulation related to Nichidai Corporation shares

The SESC filed criminal charges against two suspects with the Osaka District Public Prosecutors Office for violation of the Financial Instruments and Exchange Act (hereinafter, “FIEA”) (Stabilizing transaction) on March 26, 2021.

Case overview

For the purpose of stabilizing the share price, criminal suspect A and B, in conspiracy, had been conducting a series of sales and purchases, and entrustments of the shares of NICHIDAI

CORPORATION listed on the securities market established by the Tokyo Stock Exchange, Inc. in an attempt to keep the share price at 3,050 yen or less, a level at which the measures to raise the security deposit ratio for margin transactions etc. were removed.

Specifically, from around 2:55 p.m. to around 3:00 p.m. on March 9, 2018, suspect A and B (i) sold a total of 195,700 shares under the name of suspect A via two securities firms in order to curb the price rise by way of placing a large number of limit sell orders at the price of 3,045 yen etc. on the market and (ii) entrusted the sale of a total of 186,900 shares under the name of suspect A and others via three securities firms, thereby stabilizing the share price between 3,050 yen and 3,035 yen in violation of the provisions of the Order for Enforcement of the FIEA.

For the purpose of stabilizing the share price, suspect A had been conducting a series of sales and purchases, and entrustments of the shares in an attempt to keep the share price 3,820 yen or less, a level at which the measures to raise the security deposit ratio for margin transactions were avoided.

Specifically, from around 2:58 pm to around 3:00 pm on March 16, 2018, suspect A (i) sold a total of 84,400 shares under the name of suspect A via two securities firms in order to curb the price rise by placing a large number of limit sell orders at the price of 3,815 yen etc. on the market and (ii) entrusted the sale of a total of 47,600 shares under the name of suspect A via a securities firm, thereby stabilizing the share price between 3,820 yen and 3,810 yen in violation of the provisions of the Order for Enforcement of the FIEA.

In this case, the suspects artificially made it impossible to apply margin transaction regulations, which play a key role in the market. Given various factors, including the impact of the act on the fairness of the market, the SESC concluded that the act was highly malicious and filed the criminal charge.

4. Issues regarding Investigation of Criminal Cases

The SESC will exercise its authority for criminal investigation and filing criminal charges in co-operation with criminal prosecutors and other relevant authorities to appropriately take rigorous actions against severe and malicious market misconduct. The SESC will continuously keep an eye not only on frequently occurring misconduct that can be easily categorized into typical types of violations, such as insider trading and market manipulation, but also on various sorts of market misconduct in order to ensure seamless market monitoring.

It is also essential for the SESC to flexibly respond to changes in the environment surrounding financial transactions. For example, the recent developments in information technology have made it easier for anyone to use advanced communication devices and has led to the arrival of SNS and other types of communication tools that were not anticipated when regulations on insider trading and other market misconduct were introduced. In addition, the increase in the number of cross-border transactions has inevitably made it necessary to seek international cooperation in monitoring markets. To adapt to various changes in the environment, the SESC will continuously contribute to enhancing

fairness and transparency of the market by developing human resources with expertise in criminal investigation, while upgrading computer systems used in criminal investigations and further strengthening cooperation with relevant institutions, including foreign authorities.

2-6 ENHANCING INFRASTRUCTURE FOR SURVEILLANCE (DIGITALIZATION AND HUMAN RESOURCES)

1. Adapting to Progress in Digitalization

In recent years, the remarkable progress made in digitalization has had a great impact on financial markets and market participants as a whole, as exemplified by the significant changes in the market environment caused by the diffusion of algorithm-based high-speed trading and the arrival of new types of products and transactions, such as crypto-assets. In light of the changes in the market environment, trends in domestic and international financial technology, and the promotion of digitalization by regulatory and law enforcement organizations, the SESC adequately responded to market environment changes, such as the diffusion of high-speed trading, and enhanced the functions of the transaction monitoring system to implement market surveillance effectively and efficiently in FY2020. The SESC also established the IT Strategy Office to further strategically promote digitalization in market surveillance operations in a cross-sectoral manner.

2. Future Challenges for Further Promotion of Digitalization

(1) Study on the further promotion of digitalization for market surveillance

To respond to market environment changes and implement market surveillance more effectively and efficiently, the SESC will continue to strategically study in a cross-sectoral manner the further promotion of digitalization in market surveillance operations, including the development of functions to accurately identify and analyze suspicious orders and transactions from huge order and transaction data and detect signs of market misconduct from various data available on SNS and other Internet sites.

(2) Promoting information sharing with market participants

To ensure that financial markets are fair and transparent, it is essential that regulatory authorities, self-regulatory organizations and market participants, such as financial institutions, regularly have dialogues to create an information sharing system that improves efficiency in industry-wide business operations.

For example, from the viewpoint of increasing the efficiency of its investigations and inspections, the SESC, in cooperation with financial institutions and relevant administrative organizations, will promote a shift to digital online deposit account inquiry services based on the Digital Government Execution Plan (Cabinet decision on December 20, 2019).

(3) Improving digital forensic technology and enhancing system development

The IT environment surrounding the SESC has been becoming more and more complex, diverse, and sophisticated, and the amount of data to be processed has grown. For instance, electronic devices (smartphones, tablet devices, etc.) have become more varied. Security and other functions

have become more sophisticated. Furthermore, the growing use of new IT services, such as cloud services, has been coupled with the greater complexity and growing capacity of data to be acquired in the SESC's data obtaining activities.

Responding to such changes in the environment surrounding market surveillance, the SESC aims to enhance its IT environment for protecting, recovering, analyzing and storing electronic data and to further improve digital forensic techniques to properly secure data in diverse and sophisticated electronic devices.

In FY2020, the SESC enhanced and expanded digital forensic systems to efficiently conserve electronic data related to diversifying electronic devices, such as smartphones, and to cloud services. The SESC will continue to develop systems required to improve the conservation and analysis of electronic data and upgrade networks.

3. Staff Training

(1) Human resources development

To develop human resources with expertise and a broad perspective on market surveillance, the SESC provides various training programs for its staff to learn about the methodologies for conducting inspection and investigation.

In FY2020, with the aim of developing human resources with basic IT knowledge contributing to inspection and investigation, the SESC implemented the ICT (Information and Communication Technology) human resources development program to enhance the IT expertise of its staff, as it did in FY2019.

In addition, the SESC participated in seminars provided by IOSCO and foreign authorities to learn monitoring, investigation and inspection techniques at foreign authorities and enhance the capability to handle international cases through the improvement of skills to analyze and investigate market misconduct using cross-border transactions, etc. (For details, see Section 2-8-3-(2)).

(2) Recruitment of personnel with expertise

In order to realize professional market surveillance in response to changes in the environment surrounding the SESC, the SESC is strengthening its investigation and inspection systems by actively hiring personnel with diverse backgrounds and professional skills, including legal experts (e.g., judges, prosecutors and lawyers), certified public accountants and information technology experts.

The personnel with such backgrounds and skills engage in inspections and investigations of listed companies and securities companies or in criminal investigations targeting serious and malicious violations of laws and regulations. In addition, personnel with IT expertise play an active role in digital forensic operations.

2-7 EFFORTS TO ENHANCE MARKET DISCIPLINE

1. Enhancing Dissemination of Information

(1) Dissemination of information through news media and various media, such as websites

When recommending administrative actions or filing criminal charges as a result of its inspection or investigation, or making an important policy decision, the SESC publishes information on relevant cases through the media. In publishing the cases, the SESC actively responds to requests for interviews from media organizations, such as newspapers and TV stations. In addition, the SESC seeks to exchange opinions and has dialogue with media personnel to encourage them to disseminate information in the form of commentaries or opinions covering the implications and analysis of the cases.

From the viewpoint of strengthening market self-discipline, the SESC not only makes announcements concerning recommendations and criminal charges related to individual cases but also formulates and publishes annual casebooks¹¹ that identify the implications and details of specific cases as well as issues related to them. While using the casebooks, the SESC actively provides lectures and contributes commentaries to relevant journals to forestall violations and misconduct.

To make market participants, including retail investors, understand its activities more easily, the SESC also posts up-to-date information on its activities on its website, including summaries of cases in which the SESC made recommendations or filed criminal charges, as well as details of given lectures and published commentaries. For the complicated cases, diagrams visualizing relations between related parties as well as cash flow are added in the publications.

The SESC also issues "Message to the Markets," which summarizes the SESC's activities and perceptions in a simple, easy-to-understand format on its website and contributes such message to ACCESS FSA (a newsletter from the FSA). With respect to cases in which the SESC made recommendations or filed criminal charges in particular, the SESC strives to enhance the contents of the information released by using diagrams visualizing the implications, characteristics and causes of the cases and alert messages for investors so that the details of and issues related to those cases are accurately communicated. Latest information on the "Message to the Markets" can be checked with Twitter.

The SESC will actively enhance external communications in order to reach out to the wider public in the future.

(2) Meetings at local finance bureaus

To enhance market discipline for the fairness and transparency of financial markets and investor protection, it is important to raise the awareness of market participants on the SESC's market monitoring. Given that cases of market misconduct can take place throughout Japan due to the widening

¹¹ "Casebook of administrative monetary penalties under the Financial Instruments and Exchange Act—Market Misconduct," "Casebook of Inspection of Disclosure Statements," and "Overview and Casebook of Monitoring of Securities Businesses."

range of activities by problematic business operators and the prevalence of the Internet, it is necessary for the SESC to enhance its presence across Japan.

In this respect, the SESC has held its meetings at Local Finance Bureaus since FY2015. In FY2020, it held an online meeting (at the Hokuriku Local Financial Bureau on August 26, 2020) due to the COVID-19 pandemic. Through the meetings, the SESC endeavors to communicate its views, enhance its presence and strengthen cooperation with the Local Financial Bureaus.

In conjunction with such meetings, the SESC exchanges opinions with local market participants to deepen their understanding of the SESC's activities and perceptions. When such meetings are held on a face-to-face basis, the SESC briefs local news media on the purposes of such meetings and an overview of SESC activities to make the SESC's presence more visible in each region.

Through such efforts, the SESC aims at implementing rigorous and appropriate market monitoring for the fairness and transparency of markets and investor protection, while strengthening cooperation with Local Finance Bureaus and regional market participants.

2. Cooperation with Relevant Organizations

(1) Cooperation with self-regulatory organizations

SROs, such as Financial Instruments Firms Associations, Financial Instruments Exchanges, and Self-Regulatory Organization, are engaged in their own daily market monitoring activities, such as the examination of market transactions, the management of listed companies and checks on the adequacy of their members' operations. The SESC works closely with SROs from the perspective of efficient and effective market monitoring.

For further collaboration towards enhancing market discipline and market monitoring functions, the SESC regularly holds meetings with Japan Exchange Regulation (JPX-R) and the JSDA to exchange views on emerging issues facing securities markets and to share issues of mutual interest. In FY2020, the SESC continued to strengthen the collaboration and shared information and perceptions in a timely manner through active discussions on challenges and issues regarding market monitoring.

Believing that these efforts will further promote the sharing of views between the SESC and SROs and contribute to enhancing market discipline functions through voluntary initiatives, the SESC will continue its active exchange of information and communicate its perceptions to achieve closer collaboration.

(2) Cooperation with relevant authorities (prosecutors, police, etc.)

In cases where the SESC, in the course of market misconduct inspection and investigation, identifies unregistered financial instruments business operators selling fraudulent financial instruments or activities that may be associated with anti-social forces, the SESC cooperates with police authorities by sharing information to deal with these cases. In criminal investigations, the SESC

works in cooperation on a daily basis with prosecutors who the SESC files criminal charges with, which is an example of how the SESC endeavors to strengthen relationships with relevant authorities.

The SESC expands and deepens cooperation with these authorities through the daily exchange of information and meetings, sharing awareness and information from a broad perspective and know-how related to the collection and analysis of evidence.

In addition, the SESC exchanges views and information with regional public prosecutors' offices, prefectural police and regional taxation bureaus on various occasions.

To reinforce the market discipline function in financial markets through voluntary efforts by market participants, the SESC proactively has dialogue and shares awareness with market participants by offering lectures at and exchanging views with bar associations, etc.

3. Active Contribution to the Enhancement of Market Environment

To establish highly fair and transparent financial markets and maintain investors' confidence in the markets, market rules should be aligned with changes in the environment surrounding the markets. To ensure fairness in transactions, investor protection and public interests, under Article 21 of the FSA Establishment Act, the SESC is empowered to make a policy proposal to the Prime Minister, the FSA Commissioner or the Minister of Finance in order to facilitate the appropriate development of rules that reflect the status of markets, if it is considered necessary as a result of its inspection or investigation.

The policy proposals are intended to incorporate the SESC's views regarding laws, regulations and SRO's rules formed through comprehensive analyses of the outcomes of its inspection and investigation, into various measures taken by the government and SROs. Thus, the SESC's proposals are treated as key information when regulatory authorities and SROs formulate their policy measures.

Specifically, when the SESC recognizes room for improvement in relevant laws, regulations or SRO's rules to reflect the actual practice of trading activities, the SESC points out its findings and, from the perspective of ensuring fair trading, investor protection or public interests, it presents issues to be discussed with respect to how laws, regulations and SROs' rules should be enforced and requests the revision of existing laws, regulations or SROs' rules.

In recent years, the SESC has made two such proposals, one concerning the provision of information to investors in loan-type funds (December 7, 2018) and the other concerning the establishment of procedures for gathering and analyzing digital evidence for criminal investigations (February 26, 2019). The SESC made a total of 26 such proposals from its establishment in 1992 to the end of FY 2020.

The SESC will actively make proposals regarding measures that are deemed necessary as a result of inspection and investigation based on the FIEA.

2-8 CONTRIBUTING TO GLOBAL MARKET SURVEILLANCE

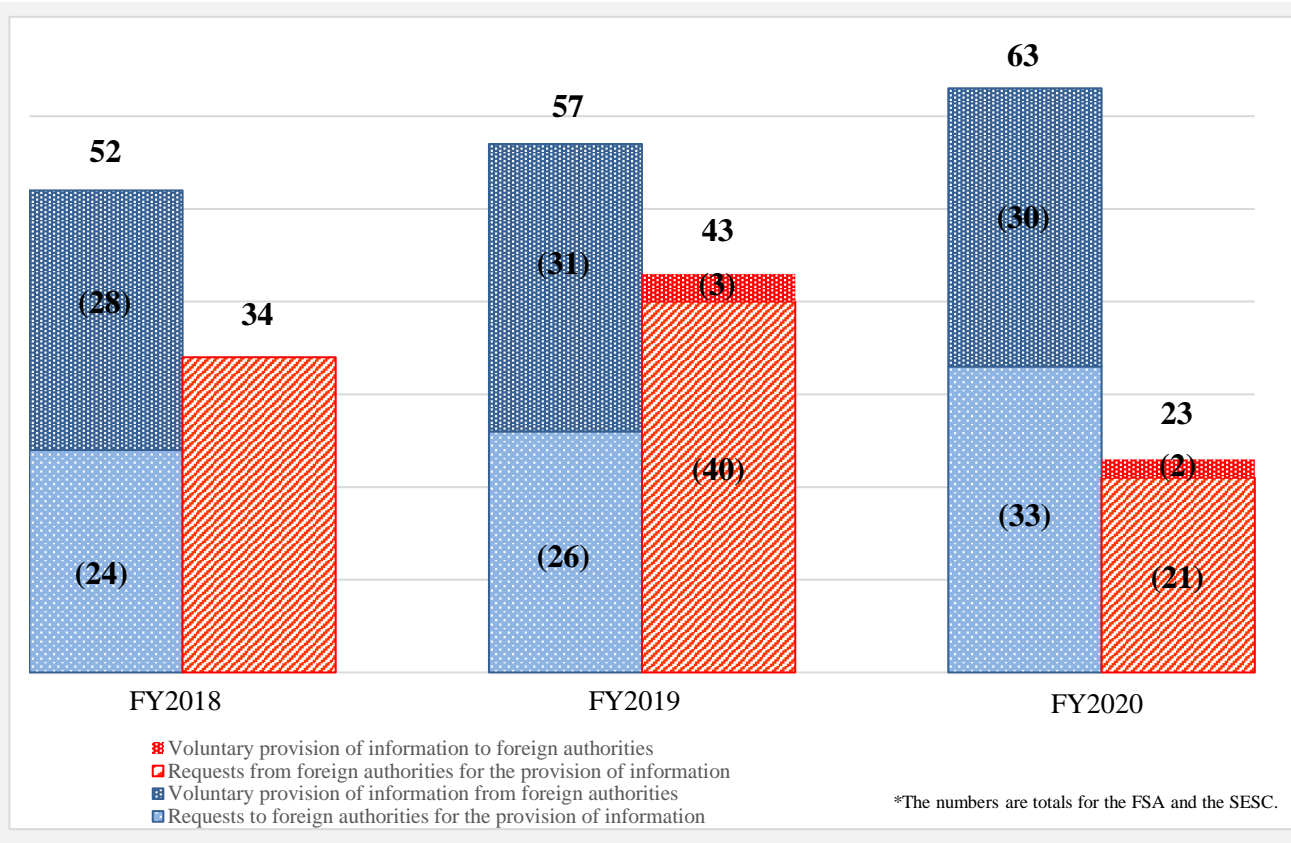
1. Overview of Global Market Monitoring

The recent environment surrounding markets indicates growing uncertainty about the future course of the global economy under the impact of the expanding COVID-19 pandemic. Financial markets in Japan are now under the great influence of global macroeconomic trends and specific events due to expanding cross-border transactions and the further globalization of markets, as indicated by Japanese companies' proactive overseas business expansion, Japanese institutional investors' increasing investment in foreign markets, and foreign investors' rising participation in Japanese markets.

In such a market environment, it is important for the SESC to work more closely with foreign authorities. In its medium-term activity policy titled "Strategy & Policy 2020-2022" published in January 2020, the SESC calls for "intelligence gathering through closer cooperation with foreign authorities" and "enhanced contribution to global market oversight," demonstrating its plans to step up cooperation with foreign authorities.

In the past, the SESC has exchanged information with overseas authorities based on IOSCO Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information ("IOSCO MMoU"), and has taken appropriate law enforcement actions against violations caused by cross-border transactions.

Fig. 2-8-1: Information exchange with foreign authorities pursuant to IOSCO MMoU



In order to continue smooth cooperation with overseas authorities, the SESC works to foster a relationship of trust among authorities, and based on this relationship of trust, further strengthen cooperation in terms of information exchange, investigations and inspections, and law enforcement, and also will utilize relevant information on the law enforcement cases and legal systems of foreign authorities obtained through the cooperation for its market surveillance.

Furthermore, the SESC proactively raises issues related to international cooperation that are identified through its surveillance activities and shares information at bilateral meetings as well as multi-lateral meetings, such as those at IOSCO. In this way, the SESC endeavors to contribute to market surveillance on a global level.

2. Activities at IOSCO

IOSCO is an international organization that aims to fill the gap between securities regulations across jurisdictions and promote cooperation between securities regulators. It is comprised of 229 member organizations of various countries and regions, including 129 ordinary, 33 associate, and 67 affiliate members (all figures as of the end of March 2021). The SESC joined IOSCO as an associate member in October 1993 (the FSA is an ordinary member).

IOSCO holds its Annual Conference under the leadership of the Presidents Committee, the organization's highest decision-making body. In the conference, top officials of the member organizations and other participants discuss and exchange views on the current status and issues of securities regulations. To conduct appropriate market surveillance in Japan amid increasing cross-border transactions in financial and capital markets, it is extremely important for the SESC to deepen its cooperative relationships with foreign authorities by exchanging information and views. SESC Commissioners and senior administrative staff members regularly participate in the Annual Conference for this reason. IOSCO planned to hold the Annual Conference in Dubai in June 2020, but the conference was implemented in the form of an online meeting in November due to the expansion of the COVID-19 pandemic. SESC administrative staff members participated in the conference. In FY2020, all IOSCO meetings were held online.

SESC Commissioners and senior administrative staff members also regularly participate in IOSCO Asia-Pacific Regional Committee ("APRC"), which serves as a forum to discuss issues specific to the region. During FY2020, the APRC held five meetings in July, September and November 2020 and in January and March 2021. SESC senior administrative staff members and other officials took part in these meetings. In addition, the APRC convened the enforcement directors' meeting in March 2021, where a SESC staff member participated as a presenter. In this way, the SESC has been trying to enhance cooperation with securities authorities in the Asia-Pacific region.

IOSCO also has the IOSCO Board, consisting of regulators from various countries and regions who discuss key regulatory issues in international markets and propose practical solutions to the issues. Under the board, there are eight committees discussing specific policy issues. The SESC has become a member of Committee 4 to discuss law enforcement and information sharing. In September

2020 and January 2021, the SESC participated in Committee 4 meetings, sharing responses to market misconduct using new financial instruments, such as crypto-assets, and to illegal investment solicitation using new communication tools, such as social networking services and discussing measures to effectively deter them.

The SESC also participates in the IOSCO Screening Group, which screens applications submitted by regulators to become signatories to the MMoU or the enhanced MMoU (EMMoU). As a result of screening in FY2020, three regulators, including the Abu Dhabi Financial Services Regulatory Authority, signed the EMMoU.

3. Cooperation with Foreign Authorities

(1) Exchanging views with foreign authorities

The SESC proactively exchanges views with foreign authorities and globally operating financial institutions to promptly grasp international financial and capital market trends and foreign securities regulators' initiatives for ensuring market integrity and to promote their understanding of the SESC's activities.

In January 2021, the second Japan-China Capital Markets Forum was held online, with about 400 participants from the two countries' securities authorities and securities market organizations. After presentations on specific achievements of Japan-China capital market cooperation, participants discussed structural reforms of Japanese and Chinese capital markets, the future course of bilateral capital market cooperation, the development of derivatives markets, capital markets' roles in the aging society and other topics. SESC Chairman Hasegawa attended the meeting, delivering a closing address.

(2) Sending staff members to foreign authorities and participating in short-term training programs

The SESC has sent staff members as secondees to the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, the U.K. Financial Conduct Authority, the Hong Kong Securities and Futures Commission, the Thailand Securities and Exchange Commission, the Malaysia Securities Commission and the Monetary Authority of Singapore. The aim of the secondment is to have them learn about and analyze foreign authorities' methodologies in surveillance, investigation and inspection, and to introduce Japanese methods and knowledge to foreign authorities. The SESC has also sent staff members to short-term training programs hosted by IOSCO or foreign authorities. In FY2020, IOSCO and foreign securities regulatory authorities hosted online training programs, in which more SESC staff officials than usual participated.

The SESC also offers regular training programs on Japan's market surveillance and investigation of market misconduct for selected trainees from financial regulatory authorities in emerging economies. The trainees are invited to the Global Financial Partnership Center set up within the FSA or training programs run by the Japan International Cooperation Agency. In FY2020, although most

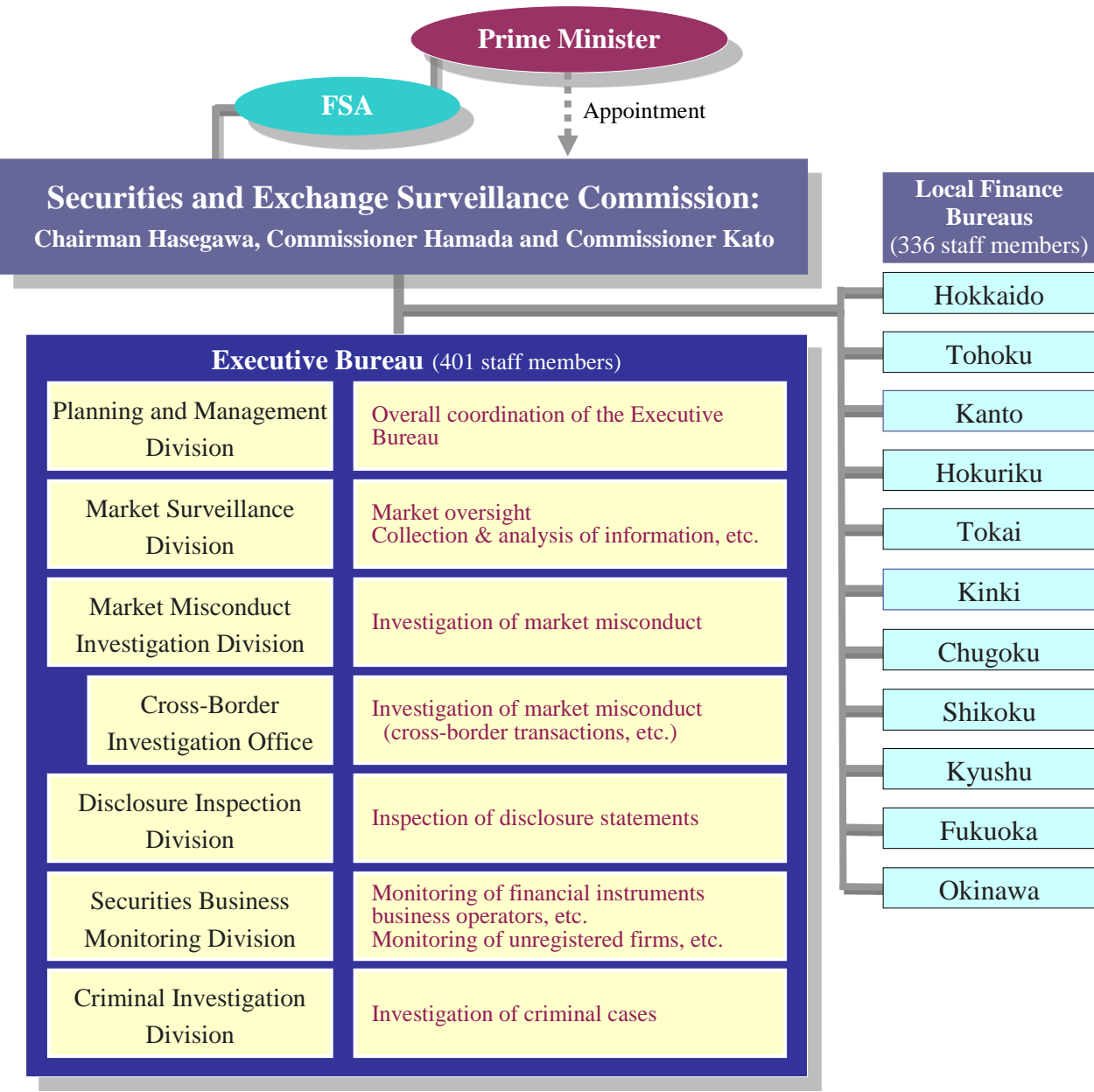
of the training programs were held online due to the COVID-19 pandemic, the SESC proactively provided lectures for these programs.

To reinforce the global market surveillance regime, the SESC will strengthen networks with foreign authorities to share concerns with each other through the secondment of SESC staff members to these foreign authorities, the exchange of views with staff of foreign authorities and courtesy calls to foreign authorities by senior SESC officials.

Appendices

Chart 1

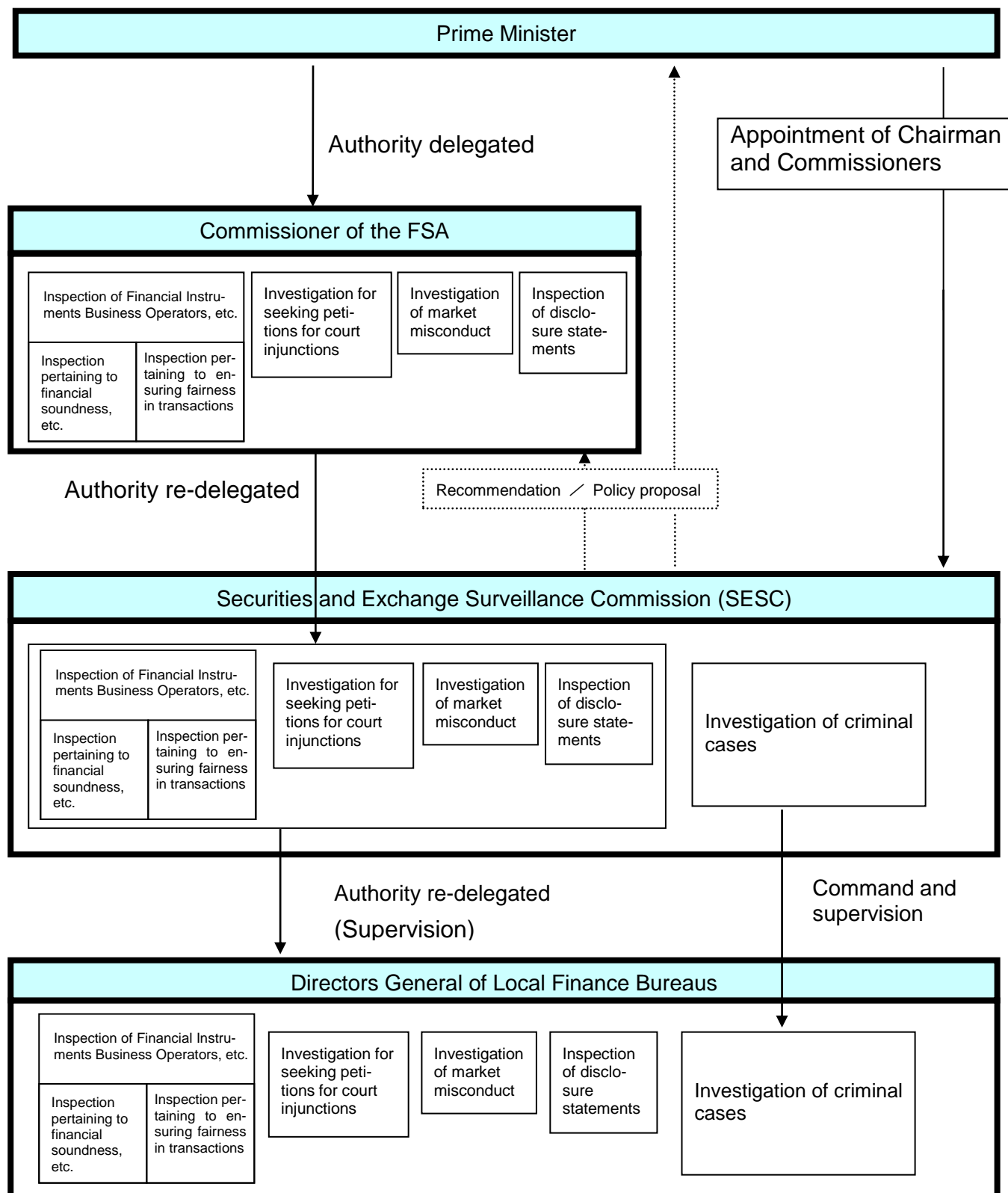
Organization Chart



Note: Staff members of Executive Bureau are quota as at the end of FY2021.

Chart 2

Relationship 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))

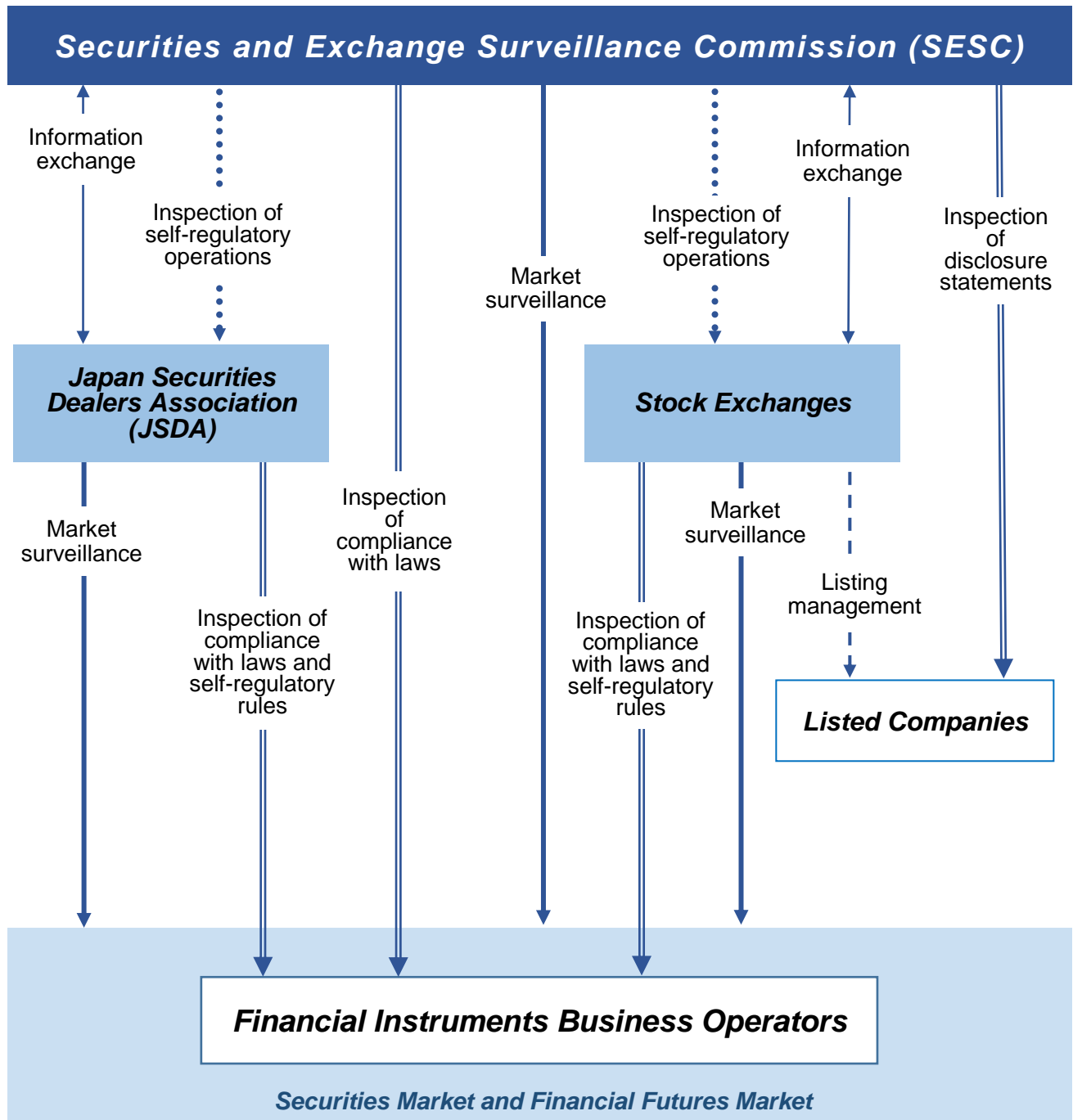
(Note 2) For an investigation of a criminal offence, the SESC directs and supervises the Director General of a Local Finance Bureau or the Director of its branch office. The SESC may, deeming it necessary for investigating a criminal offence, direct and supervise firsthand an official of a Local Finance 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

Chart 3

Relationship with Self-Regulatory Organizations



Table

Activities in Figures

Table of Summary

Unit: Number of cases

Category		Fiscal year	1992 to 2015	2016	2017	2018	2019	2020	Total
Criminal charges			181	7	4	8	3	2	205
Recommendations			899	91	38	54	49	29	1,160
	Recommendations based on securities inspections		514	35	10	11	14	5	589
	Recommendations for administrative monetary penalty payment orders (market misconduct)		287	51	26	33	29	14	440
	Recommendations for administrative monetary penalty payment orders (false statements in disclosure statements, etc.)		94	5	2	10	6	10	127
	Recommendations for order to submit correction report, etc.		4	0	0	0	0	0	4
Announcement of results of inspection of persons making notification for business specially permitted for qualified institutional investors			59	23	4	0	2	0	88
Petition for a court injunction, etc., against unregistered business operator or solicitation without the filing of securities registration statements			17	1	2	2	3	1	26
Proposals			24	0	0	2	0	0	26
Securities inspections	Financial instrument businesses operators		3,016	37	25	55	64	41	3,238
	Type I financial instrument businesses operators		2,195	16	19	35	44	34	2,343
	Type II financial instrument businesses operators		276	9	2	7	4	1	299
	Investment management firms Investment advisories/agencies		545	12	4	13	16	6	596
	Registered financial institutions		346	0	0	3	2	0	351
	Persons making notification for business specially permitted for qualified institutional investors		114	20	0	4	0	2	140
	Financial instruments intermediaries		68	2	0	4	2	2	78
	Credit rating agencies		9	0	0	0	1	1	11
	Self-regulatory organizations		32	0	0	0	2	0	34
	Investment corporations		48	1	0	1	1	0	51
	Other		13	1	0	1	1	1	17
	Total		3,646	61	25	68	73	47	3,920
Market oversight			14,816	1,142	1,099	1,052	1,061	965	20,135

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

August 4, 2020

Securities and Exchange Surveillance Commission

Monitoring Priorities for Securities Businesses (July 2020–June 2021)

Introduction

The missions of the Securities and Exchange Surveillance Commission (SESC) are: (1) ensuring market integrity and transparency/protection of investors, (2) contributing to the sound development of markets, and (3) contributing to sustainable economic growth.

Under these missions, the purpose of the SESC's monitoring of financial instruments business operators (FIBOs, or securities businesses¹) is to ensure investors' confidence in the markets. For this purpose, the SESC encourages FIBOs² to enhance self-discipline in performing their function as market intermediaries and to operate properly in compliance with relevant laws, regulations, and market rules. It also seeks to examine the actual situations of securities businesses swiftly and in depth.

In "*Strategy & Policy of the SESC 2020-2022*," released in January 2020, the SESC cited "risk-based examination of financial instruments business operators" as one of the concrete measures to fulfill its mission for the period. For this measure, the SESC has been collaborating with relevant departments of the Financial Services Agency (JFSA), based on "*Assessments and Strategic Priorities*,"³ etc.

Under such circumstances, the SESC formulated and published⁴ in June of this year its "Basic Principle Of Security Business Monitoring" (hereinafter, "Basic Principle") to clarify and share points to focus on and matters to note in inspection/supervision for further promoting seamless on-site and off-site securities business

¹ "Monitoring of securities businesses" in this document includes both on-site and off-site monitoring. On-site monitoring means inspections conducted at the site, while off-site monitoring means a wide range of monitoring activities carried out by the SESC, Local Finance Bureaus and others, other than on-site inspections, which may include interviews with and reports from FIBOs and information collection through exchanges of opinions with relevant parties.

² FIBOs or securities businesses are any businesses that are subject to securities monitoring pursuant to the Financial Instruments and Exchange Act, including financial instruments business operators, registered financial institutions, financial instruments intermediaries, persons who have notified that they are engaging in business specially permitted for qualified institutional investors, credit rating agencies, and other entities.

³ Combines "Strategic Directions and Priorities" and "Progress and Assessment of the Strategic Directions and Priorities," and has been published since business year 2018.

⁴ The "Inspection Manual for Financial Instruments Business Operators" (otherwise known as the "Securities Inspection Manual") was discontinued as part of this approach.

monitoring, and announced that it would be conducting securities business monitoring pursuant not only to the SESC's own policies but also the Comprehensive Guidelines for Supervision published by the FSA and the ideas and approaches presented in discussion papers, etc., for each principle and sector.

This document outlines the basic monitoring policy for FIBOs and sets forth the areas of focus in the monitoring activities in the 2020–2021 business year.

1. Monitoring Priorities for Securities Businesses

(1) General environment surrounding securities businesses

The global economy continued its gentle recovery until the beginning of this year but, although domestic stock prices rose in the second half of last year, trading volume declined and interest rates remained at historically low levels. Under these circumstances, competition over commission fees has intensified among FIBOs, making it difficult to secure earnings under conventional business models reliant on commission income.

With digitalization making steady headway, the securities industry has seen HFT volume climb, legal reforms passed to bring cryptoasset derivatives under regulation, and regulations put in place to govern security tokens, raising the importance to establish internal control environments for them.

In addition, robust cybersecurity against cyberattacks remains vital as next year's Tokyo Olympic and Paralympic Games approach.

Efforts must also be made to adopt more sophisticated Anti-Money Laundering/Counter the Financing of Terrorism (hereinafter, "AML/CFT") approaches in line with FATF's fourth mutual evaluation of Japan.

At the same time, the worldwide coronavirus pandemic has destabilized financial and capital markets in Japan and elsewhere, and due attention must be paid to the impact of the coronavirus pandemic on economies and markets.

(2) Approach to monitoring securities businesses

Securities businesses subject to monitoring by the SESC currently total approximately 7,500. These firms offer an increasingly diverse, complex set of services and products, and include businesses that have yet to introduce adequate basic control environments for compliance and investor protection.

Regulatory authorities must therefore make their best efforts to conduct effective, efficient monitoring of securities businesses as well as to promptly identify risks that could undermine investors' confidence based on the risk characteristics of FIBOs, and to do so with limited human and other resources in view of "basic principles".

The SESC will continue working with the relevant bureaus of the JFSA in making risk assessments of all FIBOs and other companies to be monitored from a multifaceted perspective extending beyond business categories and scale to include business models and other factors, and conducting seamless on-site/off-site monitoring whereby companies are selected for on-site monitoring on a risk basis.

In conducting on-site monitoring, the SESC aims not only to point out problems and to take actions such as making recommendations for administrative disciplinary actions, but also to analyze the whole picture of the problems to identify their root causes, so that businesses can address them and prevent recurrence.

Furthermore, if the need to improve business operations or other potential issues is identified before any problems materialize, the SESC will share the findings with the monitored businesses and urge them to build effective internal control environments or take other actions to address the issues.

(3) Activities in the last business year

In the last business year, with respect to security firms, the SESC thoroughly conducted on-site monitoring after gathering information on business model trends and the circumstances surrounding overseas outsourcing of back office operations, and understanding each company's risks. As a result, some securities firms were found to have compensated certain customers for losses or committed other malicious violations of laws and regulations, and multiple cases have been uncovered of problematic sales approaches and customer service that include making solicitations that disregard the investment intentions of elderly customers, undertaking trades at the initiative of sales personnel primarily to generate commission fees, and not accepting termination of investment trusts. The SESC also examined AML/CFT measures in a prioritized fashion in view of growing international interest.

With respect to investment management business operator, the SESC conducted on-site monitoring on business operators belonging to corporate groups or primarily outsourcing investment management as well as private placement

business of real estate investment trust(REIT) from the perspective of control measures ,including those to prevent conflicts of interest. As a result of the on-site monitoring, the SESC found the case where a business operator had failed to perform investment management business faithfully on behalf of beneficiary owners of investment trusts. In this case, a business operator included the custodian fee increase as one of the termination conditions, in the negotiation with outsourcing contractors over the company' s own termination fee and accepted the custodian fee increase without examining its rationale. This imposed burdens on the assets of customers having no liability whatsoever under the outsourcing agreements.

With respect to Type II FIBOs and investment advisors/agencies, the SESC identified high risk businesses from among the large number of businesses falling under these categories and carried out on-site monitoring based on the analyses of risks associated with their products and information provided by outside sources. As a result, multiple cases of impropriety were uncovered at investment advisory and agency business operators, including a case of name-lending to a third party, a case in which an investment advisory company posted false investment advisory performance and posted articles designed to look as though they were posted by third party on a website, and another case in which a customer's trading was used and illegitimate advice provided to benefit a third party other than the customer.

The SESC also conducted on-site monitoring on credit rating agencies.

Furthermore, the SESC sought court injunctions to force the cessation and suspension of activities at, among others, unregistered Type II FIBOs that caused a large amount of damage to general investors.

(4) Policy for activities in the current business year

As it is becoming increasingly difficult for the traditional business model dependent on sales commission income to secure earnings, many FIBOs are seeking to transform to a stable-earning structure by increasing assets under management as a sales method in recent years. They have also begun expanding their product lineups to include overseas financial products and higher-return funds.

Due attention must also be paid to the impact of the coronavirus pandemic on the management environment and business operations of FIBOs.

In the current business year, the SESC will assess risks focusing on the situation such as the above, and continue to proactively conduct on-site monitoring for in-depth examinations where it is necessary to comprehend further details in the event that:

- ① a relevant law and/or regulation is breached or there is a deficiency in business operations that requires a prompt in-depth examination;
- ② a financial instrument is offered with an unclear risk profile, necessitating an examination of its solicitation activities;
- ③ the actual situation of business operations is not fully comprehended from an information analysis based on off-site monitoring (including where there is a long period between examinations); or
- ④ there is a possible serious problem concerning investor protection (e.g., inadequacy in the segregated management of customer assets).

With regard to unregistered FIBOs, the SESC will actively collect and analyze information, conduct investigations in collaboration with relevant agencies, and seek court injunctions to cease and suspend activities that violate the FIEA so as to contain the spread of damage to investors.

2. Industry-wide and thematic monitoring priorities

The SESC will aim to work closely with the relevant departments of the JFSA to look into and monitor the following as thematic monitoring priorities applied across the industry through appropriate methods required for each theme in accordance with the “*Assessments and Strategic Priorities*.”

- ① Changes to customer service and business models attributable to the coronavirus pandemic
Examples: (i) addressing customers whose investment assets have been affected by significant price fluctuations, (ii) malicious transactions that take advantage of investor anxiety, (iii) the impacts of dramatic environmental changes on financial condition and management, including the sustainability of business models reliant on conventional face-to-face sales, and (iv) examination of the appropriateness of underwriting services in keeping with financing demand

- ② Firm establishment of customer-oriented business conduct prioritizing appropriate investment solicitations based on the clarification of the principle of suitability
For example, while bearing in mind the possibility of inappropriate sales to investors that may arise from excessive sales targets and significant burdens beyond the front-line resources for sales, the SESC will focus on factors which are in the background of such problems, including the status of the establishment of the necessary internal control environments, the intention of management, and insufficient distribution of managerial resources.
- ③ sufficiency of cyber security measures, and the status of risk management in systems that include securities businesses utilizing blockchain
- ④ Firm establishment of internal control environments for AML/CFT
- ⑤ Implementation of measures to improve or prevent the recurrence of matters pointed out in results of internal audits or examinations by self-regulatory organizations (SROs)

In addition to the above, the SESC will flexibly examine FIBOs on other themes in response to changes in the environment surrounding them.

3. Monitoring strategies for various FIBO business models

Based on the previous business year's monitoring results and the impact of the coronavirus pandemic on the securities sector, the SESC will examine a FIBO if the SESC has concerns regarding its violation of relevant laws and regulations or inadequate separate management, taking into considerations the scale of FIBOs' businesses and the type of service. The examination will be conducted with focus on the following points.

(1) Major securities business groups ⁵

The SESC will continue to monitor major securities business groups on a continuous basis with regard to such matters as the development of governance and risk control environments that support domestic and overseas business operations, efforts to establish a sustainable business model, efforts to establish an

⁵ Major securities business groups: Japanese securities companies with global operations

effective and principle-based compliance environment, efforts to instill and establish customer-oriented business conduct, and efforts to enhance AML/CFT measures. In doing so, the SESC will take into consideration the management environment surrounding each business group.

The SESC will monitor the private placements business, investment business risks, and risk management across the group as a whole, including overseas.

For securities businesses under the three mega banking groups, given their intentions to expand their customer bases through banking and securities collaborations, the SESC will monitor their control environments to manage conflict of interests and other control measures, in addition to the points listed above.

Also, the SESC will swiftly conduct on-site monitoring where it is necessary to confirm the actual sales practices at sales offices.

(2) Foreign securities firms

The SESC will monitor the development of internal control environments that respond to the progress of overseas outsourcing of back office operations as part of the group strategy and structural changes in business models.

In light of the prolonged low interest rate environment, the SESC will also examine the trends in finance products sold to Japanese financial institutions and other investors and the risks of these products.

(3) Online securities firms

With online trading becoming increasingly popular, the SESC will examine the status of internal control environments at online securities firms connected with increases in products they offer, and with their launch and expansion of face-to-face sales activities in collaboration with independent financial advisors (IFAs), all the while bearing in mind the group's overall strategy and management policies as well as the synergetic effects gained from collaboration with banks and non-financial groups.

Also, the SESC will continue to examine their implementation of system risk management that covers cyber security.

(4) Semi-major securities firms and regional securities firms

With semi-major and regional securities firms facing a severe business environment made more so by a growing outflow of customer funds through the aging of customers and inheritance as well as by the coronavirus pandemic, the SESC

in its inspections heretofore has discovered problematic behavior in terms of investor protection at several firms, including improper solicitations regarding foreign stocks and high-yield financial instruments, and it will continue to rigorously examine this point, including steps taken to conform to the principle of suitability.

In addition, the SESC will examine the securities firms whose major shareholders or management structure changed due to participation of foreign capital or other investors from the perspective of business model and governance.

(5) Foreign currency margin transactions (FX transactions) business operators

For FX transactions business operators, the SESC will examine their response to the revision of the Cabinet Office Ordinance to strengthen settlement risk management, which includes disclosure of risk information, implementation of stress tests, and a reflection of the results of the stress tests to capital.

(6) Investment management business operators

To ensure that investment management business operators fulfill the duty of loyalty and duty of due care of investors, the SESC will continue examining control environment for the management of conflicts of interests and outsourced investment management.

The SESC will also examine the systems put in place to ascertain fair market values, and continue to ascertain the status of investments in alternative assets.

(7) Investment advisors/agencies

The SESC will examine whether or not any misleading advertisements are used, or if any solicitation activity is conducted using false explanations based on the past monitoring result.

(8) Type II FIBOs and QII business operators

For Type II FIBOs (including sellers of loan-type funds) and QII business operators, the SESC will conduct monitoring with a focus on funds advertising high returns and the actual existence of the business project in which investment is to be made. In addition, the SESC will conduct risk-based examinations through the analyses of information provided by investors and other sources.

(9) Other securities businesses subject to monitoring pursuant to the FIEA

For other securities businesses, including securities finance firms, credit rating agencies, registered financial institutions, and SROs, the SESC will conduct risk-based monitoring in light of the firm's particular business type.

(10) Unregistered business operators

To prevent damage to investors caused by unregistered business operators, the SESC will strengthen cooperation with the JFSA's Supervisory Bureau, LFBs, Consumer Affairs Agency and other investigative authorities. Where appropriate, the SESC will exercise its investigative authority to seek court injunctions that will force these firms to cease and suspend their activities that violate the FIEA.

The SESC will also continue to take strict actions, including public disclosure of the firms' names, the names of their representatives, and the nature of their illegal conduct.

The SESC will examine operations pertaining to high-speed trading carried out by Type I FIBOs, looking at internal control environments for brokerage businesses, including the order management and system management environments designed to prevent erroneous orders and abnormal operations, as well as order execution, trading control, etc., across multiple markets: stock exchanges, private trading systems (PTS) and dark pools.

With regard to operations involving cryptoasset derivatives, security tokens, commodity futures, etc., for which laws/regulations were put in place through revisions to the FIEA, the SESC will analyze information in collaboration with the relevant bureaus of the JFSA and examine these operations in line with the risk characteristics of each business category.

4. Cooperation with relevant organizations

The SESC will work closely with LFBs through direct communication from the planning stage of both off-site and on-site monitoring, including information sharing, and also conduct joint examinations as needed in order to maximize their respective functions. If a case that involves multiple LFBs occurs, the SESC will exercise its guidance and coordination functions by, for instance, determining ways to collect and share information and considering appropriate monitoring methods. It will also focus on the necessary training to support such activities of LFBs and others.

The SESC will also continue collaborating closely with SROs and share the matters detected and current perspectives on issues as needed by exchanging information in a timely manner. By doing so, the SESC conducts the efficient monitoring of securities businesses and will contribute to ensure market fairness and transparency as well as protect investors.

5. Dissemination of monitoring results and other initiatives

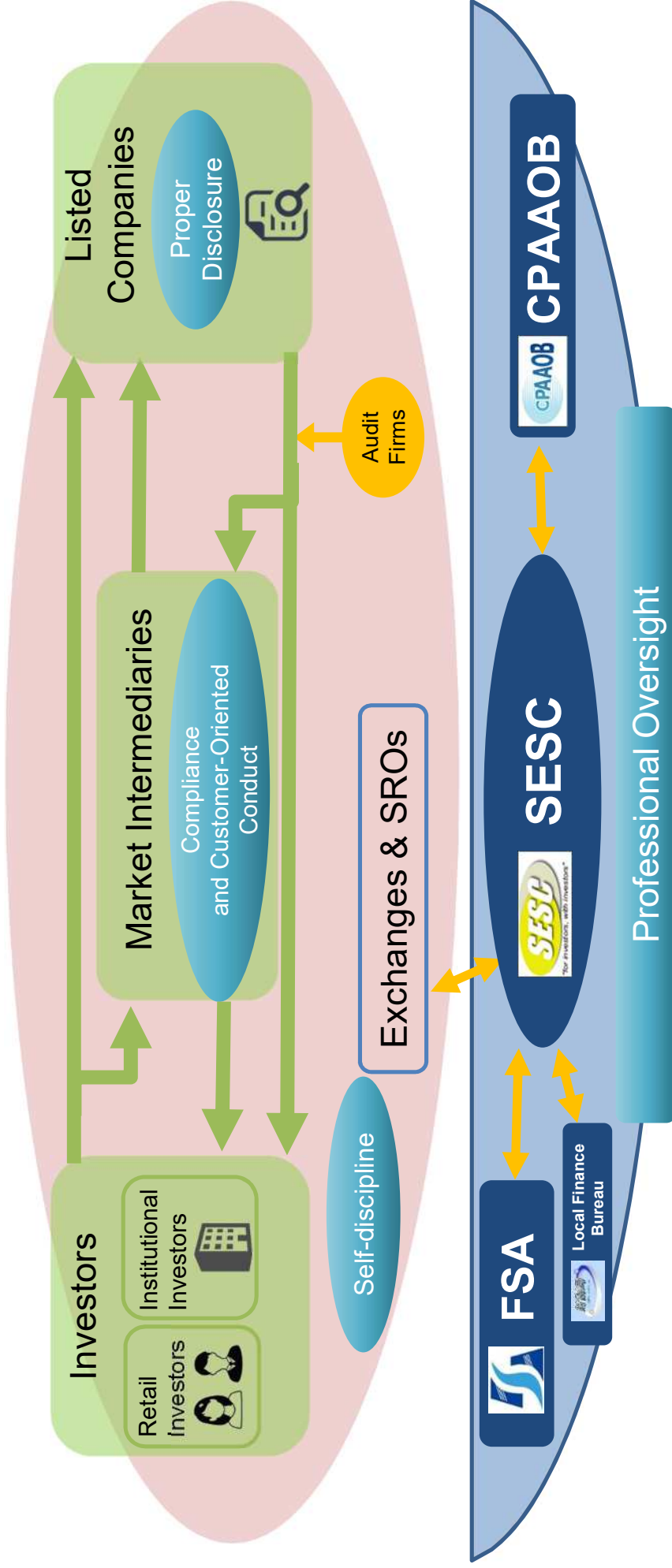
The SESC will encourage voluntary improvement efforts by providing FIBOs with feedback on problems and their root causes found in the monitoring of securities businesses, and sharing the monitoring results with parties related to such audits and outside directors at the time of review, in cooperation with the relevant departments of the JFSA if necessary.

The SESC will also endeavor to provide the public with more information about the results of its monitoring of securities businesses in a specific and straightforward manner as a way to help market participants correctly understand the SESC's perspectives on issues requiring attention, including the publication of the *“Overview of Monitoring of Securities Businesses and Case Studies.”*

Strategy & Policy of the SESC 2020-2022

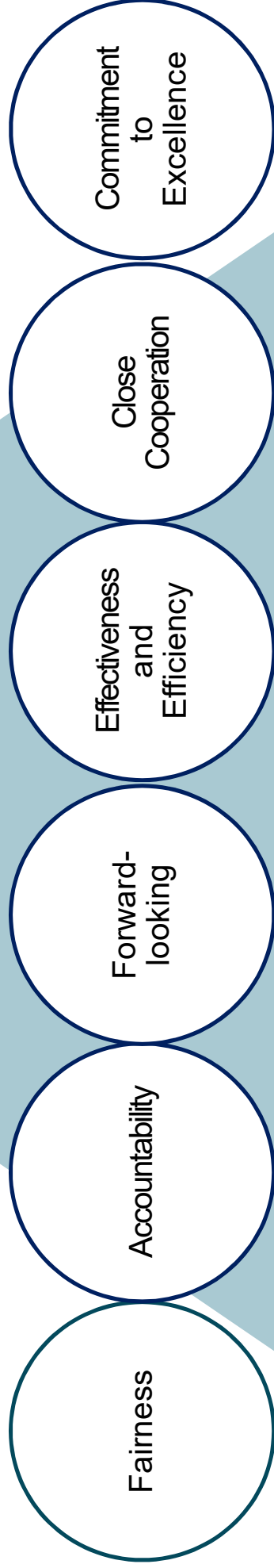
SESC's Vision on Market

Markets with strong confidence, where market participants share the goal of sound market development and secured investor protection, fulfill their expected roles and deliver their expertise



Strategy & Policy of the SFSC 2020-2022 (Cont.)

Values and Goals



Holistic oversight

- Vigilance against emerging products and transactions
- Surveillance of multiple markets and cross-markets activities
- Protection of investors in consideration of their diverse characteristics (e.g. age, life stage)
- Comprehensive analysis of cases and cross-sectoral application of findings
- Enhanced outreach to stakeholders

Timely oversight

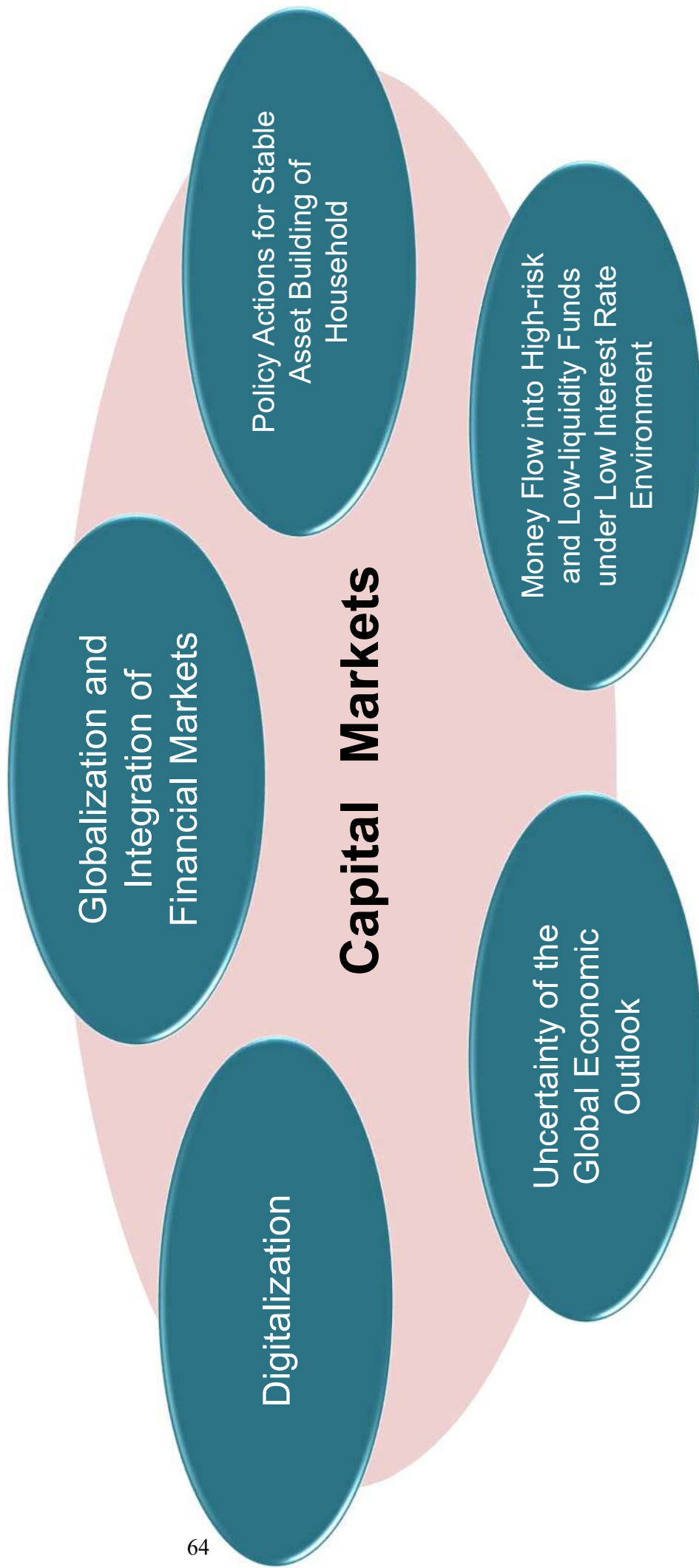
- Early detection of potential market misconduct
- Preemptive actions against market abuse
- Effective investigation and early corrective action

In-depth oversight

- Identifying root causes of the problems
- Recognition of structural issues of the markets through in-depth and cross-sectoral analysis

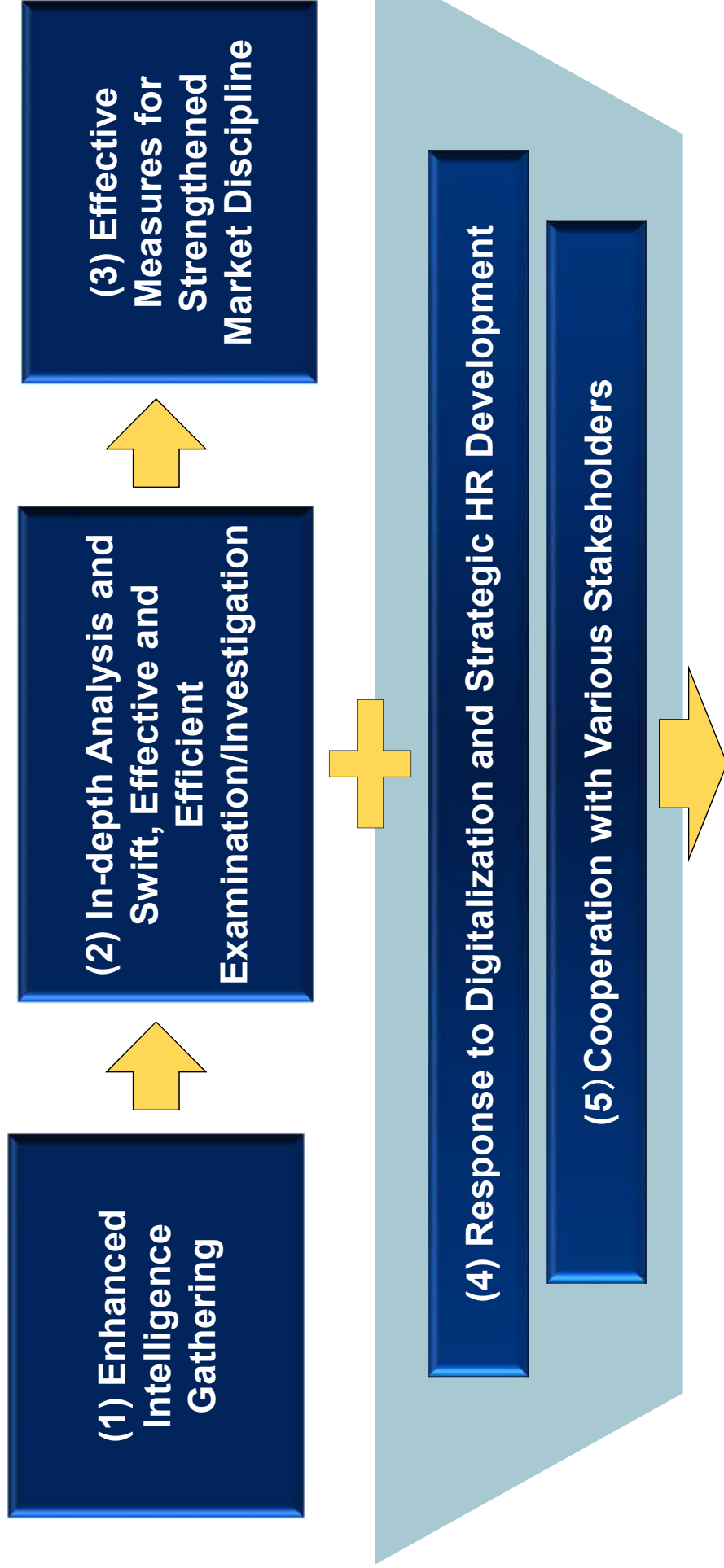
Strategy & Policy of the SFSC 2020-2022 (Cont.)

Market Environment & Challenges



Strategy & Policy of the SFSC 2020-2022 (Cont.)

Mid-term Policy Priorities



Mid-term Policy Priorities

(1) Enhanced Intelligence Gathering

- Forward-looking surveillance from macro-economic perspectives
- Cross-sectoral surveillance across financial markets
- Intelligence gathering through closer cooperation with foreign authorities

Information gathering with due attention to the risk of potential misconduct, such as money flow into high-risk, low-liquidity investment funds

Equity / fixed income, cash / derivative, primary/secondary markets, etc.



Mid-term Policy Priorities

(2) In-depth Analysis and Swift, Effective and Efficient Examination/Investigation

- Multi-directional/dimensional analysis and review
- Swift recommendation of administrative penalty
- Effective and efficient examination and investigation of cross-border cases
 - Active information exchange through IOSCO MMoU
- Rigorous enforcement of criminal investigation against market misconduct
- Risk-based monitoring of securities business
 - Monitoring of compliance with rules and customer oriented business
 - Analysis of group-wide strategies, business type and size.
- Proactive response to cases where investors are harmed

- Petitions for court injunction against unregistered firms to suspend the violation
- Monitoring of inappropriate sales and solicitations of financial products

Mid-term Policy Priorities

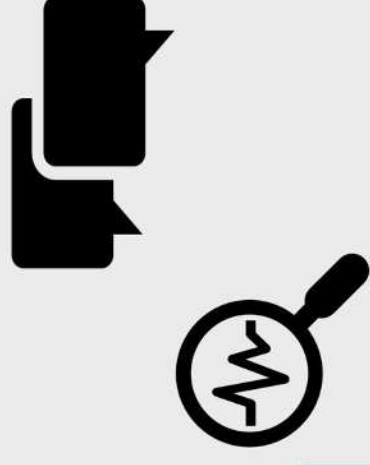
(3) Effective Measures for Strengthened Market Discipline

- Multi-dimensional/directional use of outputs from monitoring activities
 - Policy proposals to the FSA
- Enhancement of root-cause analysis and engagement with stakeholders to prevent recurrence of market abuse
 - Preventing misconducts by sharing identified issues with managements of entities under examination/investigation
- Enhanced outreach domestically and globally for pre-emptive measure against market misconduct

- Website, casebooks, articles, etc.
- Investor alerts on recent investment frauds/scams

- Extensive measures for seamless surveillance

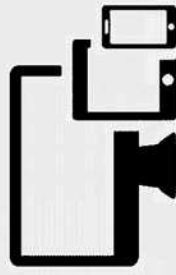
Vigilance against emerging products and transactions



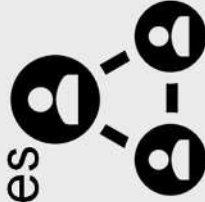
Mid-term Policy Priorities

(4) Response to Digitalization and Strategic HR Development

- Advanced and efficient surveillance with digitalized technologies
- Swift response to rapid digitalization in the capital market



- Strategic HR development (market abuse, corporate disclosure and securities business monitoring)



(5) Cooperation with Various Stakeholders

- Closer cooperation with SROs
- Enhanced cooperation with stakeholders

Foreign authorities and other organizations including those relevant to investor protection

- Enhanced contribution to global market oversight

Proactive participation in international discussions, e.g. IOSCO



Strategy & Policy 2020-2022

- For Trusted and Attractive Capital Markets -

January 24, 2020

Securities and Exchange Surveillance Commission

Mission

Through proper and appropriate oversight, the SESC

1. Ensures market fairness and transparency, and protects investors
2. Contributes to the sound development of capital markets
3. Contributes to sustainable economic growth

SESC's Market Vision

Markets with strong confidence, where market participants share their commitment towards the sound development of capital markets and solid investor protection, fulfill their expected roles and exercise their professionalism

Philosophy

Fairness
Accountability
Forward-looking
Effectiveness and Efficiency
Close Cooperation
Commitment to Excellence

Market Environment and Challenges

In December 2019, the SESC, whose mission is to protect investors and market integrity, inaugurated its 10th term under new leadership.

Since its inception, the SESC has pursued criminal prosecutions against flawed and material market misconduct and has made recommendations for administrative monetary penalty payment orders and administrative actions for violations of securities laws. The SESC has also conducted oversight through exercising its authority over investigations and inspections in an effort to ensure the fairness and transparency of the markets and protection of investors.

At present, capital markets are undergoing substantial changes:

- Regarding structural changes, an increase in the number of offshore investments and the globalization of companies (diversifying corporate operations towards overseas subsidiaries, outsourcing, etc.) are further accelerating the globalization of capital markets and closer integration of various financial markets.
- Regarding fund flows, the global ultra-low interest rate environment is driving the flow of funds into higher-risk and lower-liquidity funds, which exacerbates the uncertainty of the global economic outlook in the face of geopolitical risks.
- Furthermore, rapid digitalization is having a significant impact on all capital markets and market participants. Financial institutions are being pressed to overhaul their business models due to progress in technology, such as AI and in the utilization of data, and the market landscape is being transformed as a result of the proliferation of high-speed algorithmic trading. In addition, new products and transactions, such as crypto-assets are emerging.

In addition, the policy priorities of the Financial Services Agency (FSA) are encouraging financial institutions to accommodate the diverse needs of users. For its part, the SESC will make a greater contribution to enabling households' stable asset building and realizing a virtuous circle of fund flow through the solid protection of investors' interests and market integrity.

Keeping up with such substantial changes in the environment, in the 10th term, the SESC will focus on achieving three goals based on its values: holistic, timely,

and in-depth oversight. In order to attain these goals, the SESC will pursue five policy priorities.

Goals

1. Holistic oversight

(1) Vigilance against new financial products and transactions

Extensive monitoring and analysis of risks relating to new products and transactions

(2) Surveillance of multiple markets and cross-market activities

Comprehensive surveillance of a wide range of market transactions, in equity/fixed-income markets, cash/derivative markets, and primary/secondary markets

(3) Protecting investors of diverse characteristics

Promoting investor protection that reflects diverse investors in terms of knowledge, experience and competence, including elderliness

(4) Holistic and comprehensive investigation of cases and cross-sectoral application of findings

Exercising holistic and comprehensive investigation referring to cross-sectorial relevant precedents and to reveal the root cause of misconduct

(5) Enhanced outreach to stakeholders

Enhancing outreach to stakeholders with the aim of preventing misconduct

2. Timely oversight

(1) Early detection of market misconduct

Early detection and timely investigation and inspection of potential misconduct in the markets

(2) Preemptive actions against market misconduct

Before identified problems are materialized, if necessary, urging entities under investigation or inspection to take necessary measures for prevention of violations

(3) Effective investigation and inspection, and swift corrective action

Early and effective identification of issues and swift responses to them

in investigation and inspection

3 . In-depth oversight

(1) Identifying root causes of problems

When a violation of a securities law is identified, focusing on the substance of the problems, unravelling their root causes and engaging in an in-depth discussion with the entities involved, so that they can take actions proactively for improvements and prevent recurrences of similar violations

(2) Recognizing structural issues of the markets through in-depth and cross-sectoral analysis

Identifying structural issues in the markets and contributing to the improvement of relevant regulations through root causes analysis of the misconduct and cross-sectoral application of the findings

Five policy priorities to achieve the goals

1 . Enhanced intelligence gathering

(1) Forward-looking surveillance with macro-economic perspectives

- The SESC will conduct forward-looking market oversight through constant market monitoring and industry sector analysis with macro-economic perspectives.
- Specifically, to detect clues for investigation and inspection, the SESC will analyze the sectors and companies that might have potential risks of misconduct based on its insight of macro-economic trends. The findings will be shared with relevant divisions within the SESC for their investigations and inspections.

(2) Cross-sectoral surveillance across financial markets

- The SESC will exercise multi-dimensional monitoring and conduct cross-sectoral surveillance of equity/fixed-income markets, cash/derivative markets, and primary/secondary markets.

(3) Intelligence gathering through closer cooperation with foreign authorities

- The SESC will further strengthen fostered relationships with foreign

authorities, especially among enforcement divisions, and bolster cooperation in the surveillance, investigations and inspections, and enforcement. The SESC will leverage information obtained from foreign authorities, such as insights on enforcement and regulatory frameworks, in its own oversight activities.

2 . In-depth analysis and swift and effective investigations and inspections

(1) Multi-directional/dimensional analysis and review

- Transactions are increasingly complex, corporate operations are more globalized, and the business models of financial firms are undergoing structural transformation. In these circumstances, untraditional and new types of violations of securities laws are emerging. The SESC will be attentive to potential risks to investors and respond to them without being fixed to the past precedents¹.

(2) Swift recommendation for administrative monetary penalty payment orders

- As the nature of violations becomes more varied and complex, the SESC will proactively and flexibly conduct investigations and inspections, so that it can swiftly bring recommendations for an administrative monetary penalty payment order. By doing so, the SESC will also reveal the facts of market misconduct and disclosure violations and contribute to their prevention.

(3) Effective and efficient investigations and inspections of cross-border cases

- The SESC will actively pursue cases involving cross-border transactions as well as misstatements of multi-national corporations through working with foreign authorities. Through those operations, the SESC will perform effective and efficient investigations and inspections corresponding to the nature of respective cases.

¹ Notably, in the term 2017-2019, the SESC pursued a case of unique method of spoofing (as "the use of fraudulent means" specified in Article 158 of the Financial Instruments and Exchange Act), cases of manipulation in listed derivative markets, cases of false statements in non-financial information, and cases of exaggerated or false claims in website advertisements.

(4) Rigorous enforcement of criminal investigation against market misconduct

- Serious cases of insider trading, market manipulation, spreading rumors, fraudulent means and false statements in financial reporting can be subject to the criminal penalties. The SESC will take rigorous enforcement actions against material and egregious violations by exercising its powers of criminal investigation. In such instances, the SESC will cooperate with criminal investigators and prosecutors as well as foreign authorities in order to effectively reveal the facts, including who is to blame.

(5) Risk-based examination of financial instruments business operators

- The SESC will conduct risk-based and integrated examination of financial instruments business operators (FIBOs).
- Regarding off-site examination, the SESC will work with supervisory divisions of the FSA and the Local Finance Bureaus to assess risks of violations of securities laws by FIBOs, taking into account not only business types and scales of the FIBOs, but also their business models, group-wide strategies and management policies. Based on the risk assessments, the SESC will select entities for on-site inspection.
- Regarding on-site inspection, the SESC will perform in-depth analysis of the products and transaction schemes offered by the FIBOs. To ensure such products are provided to investors appropriately, the SESC will review the appropriateness of the FIBO's business operation from the viewpoint of investor protection, including compliance with rules and customer-oriented business conduct.

(6) Proactive response to cases where investors are harmed

- The SESC will identify and respond to the FIBOs' inappropriate selling and promotion of financial products as well as insufficient internal management systems that could harm investors. Also, in the case of unregistered business operators, the SESC will actively file petitions with the courts to issue prohibition orders. In this way, the SESC will proactively fulfill its mission of investor protection.

3. Effective measures for strengthened market discipline

(1) Multi-dimensional/directional use of insights from investigations and inspections

- In its investigations and inspections, the SESC will not limit itself to narrowly defined “exits,” such as recommendations for administrative actions or criminal prosecutions. Rather, the SESC will make full use of all intelligence² gathered from each case in its oversight activities and engagement with stakeholders.
- The SESC will conduct investigations and inspections based on extensive perspectives. If the findings of investigations and inspections suggest structural problems in the markets, the SESC will take actions to realize better market environments through providing inputs to relevant policymaking.

(2) Root-cause analysis and engagement with stakeholders to prevent recurrence of market abuse

- When the SESC identifies a violation of a securities law during its investigation or inspection, it will not only pursue administrative actions or monetary penalty payment orders, but will also assess the problem in a holistic manner and pursue the root causes. Thus, the SESC will engage in in-depth discussions with the management of the entities under investigation or inspection and prevent recurrence of violations.
- When the SESC identifies potential market abuse during its investigation or inspection before it is materialized, the SESC will share its view on the issue with the management of entities under investigation or inspection to prevent violations from occurring.

(3) Enhanced outreach domestically and globally as pre-emptive measures against market misconduct

- The SESC will highlight the significance, focus and details of the case in the press release of specific cases at the time of the recommendations as well as in the casebooks it publishes³. The aim is to strengthen market integrity through providing information that is both concrete and comprehensive.
- To prevent investors from being harmed by market misconduct, the SESC will enhance issuance of warnings, such as investor alerts.

(4) Extensive measures for seamless surveillance

- The SESC will always keep a close eye on developments in the markets,

² Information which could have add-value for other cases

³ “Casebook of Administrative Monetary Penalties Imposed under the Financial Instruments and Exchange Act – Market Misconduct Section,” “Casebook of Inspection of Disclosure Documents,” and “Securities Monitoring Overview and Casebook”

including emerging products and transactions as well as those that might be outside its surveillance. Through outreach and policy proposals, the SESC will take necessary actions in order to conduct seamless surveillance.

4 . Response to digitalization and strategic HR development

(1) Advanced and efficient surveillance with digitalized technologies

- The SESC will develop a more effective and efficient surveillance mechanism in light of technological advancements in markets and the use of digitalized technologies for the surveillance activities by other regulatory authorities and enforcement organizations. To this end, the SESC will work with its peer organizations to leverage digitalization in its market surveillance systems.

(2) In-time response to rapid digitalization in the capital market

- To achieve comprehensive market surveillance, the SESC will analyze and respond in a timely manner to new products and transactions that emerge as a result of rapid progress in digitalization.
- To adapt to the rapid progress of digitalization and increases in the volume of handled data, the SESC will further utilize digital forensics technology⁴ in its overall technological environment.

(3) Strategic HR development

- As digitalization is advancing, transactions are more complex, and companies are significantly globalizing, the SESC will work to equip its human resources with specialized skills and broad perspectives in market surveillance so that the SESC can duly fulfill its mission.

5 . Cooperation with various stakeholders

(1) Closer collaboration with SROs

- To support proactive oversight by self-regulatory organizations (SROs), the SESC will share its intelligence with them in a timely manner and reinforce the self-disciplinary mechanism of the market.
- In order to realize more effective and efficient market surveillance, the SESC will also continue to review the way it cooperates with the SROs.

⁴ Technology for analyzing electronic data and preserving it as evidence

- To keep up cross-sectoral surveillance that covers multiple financial markets, the SESC will work with the width and quality of its market monitoring.

(2) Enhanced cooperation with stakeholders

- To reinforce its existing cooperative relationship with SROs, foreign authorities and peer organizations, the SESC will expand its coordination with other stakeholders, including those involved in market fairness/transparency and investor protection, and thereby strengthen overall surveillance functions.

(3) Enhanced contribution to global market oversight

- As for oversight issues relating to cross-border transactions, the SESC will raise and share emerging issues both at the bilateral and multilateral venues with foreign authorities by proactively participating in the discussions at, for example, the International Organization of Securities Commissions. By doing so, the SESC aims to contribute to global market surveillance and international cooperation.
- By being closely involved in global market surveillance activities among regulators, the SESC will be attentive to emerging issues and major market developments, including key enforcement cases by other regulators. The SESC will apply those insights to its market oversights.

Moving forward

The SESC keeps its initiative towards “holistic, timely and in-depth” oversight.

This paper is based on our current observation on the capital market conditions and, in view of the rapidly evolving market environment, the SESC will review its Strategy & Policy through the PDCA cycle⁵, for accurately identifying challenges and proactively taking necessary actions. The SESC will continue to closely engage with outside advisors and other stakeholders to fulfill its mission.

⁵ A method for continuous improvement by repeating the “Plan, Do, Check, Act” cycle



"for investors, with investors"

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 moreover our relationship with investors.

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.