

Annual Report 2023/2024

Securities and Exchange Surveillance Commission

Annual Report for FY2023* Overview

June 2024

Securities and Exchange Surveillance Commission

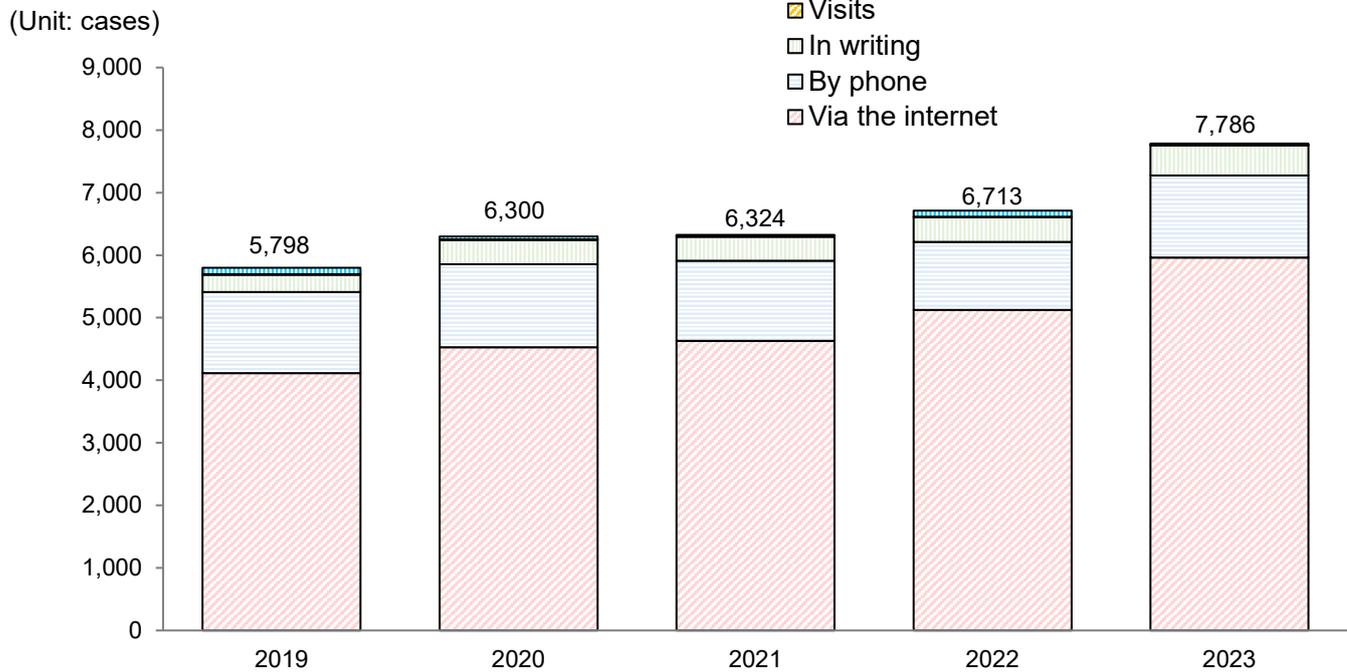


*The period from April 1, 2023 to March 31, 2024

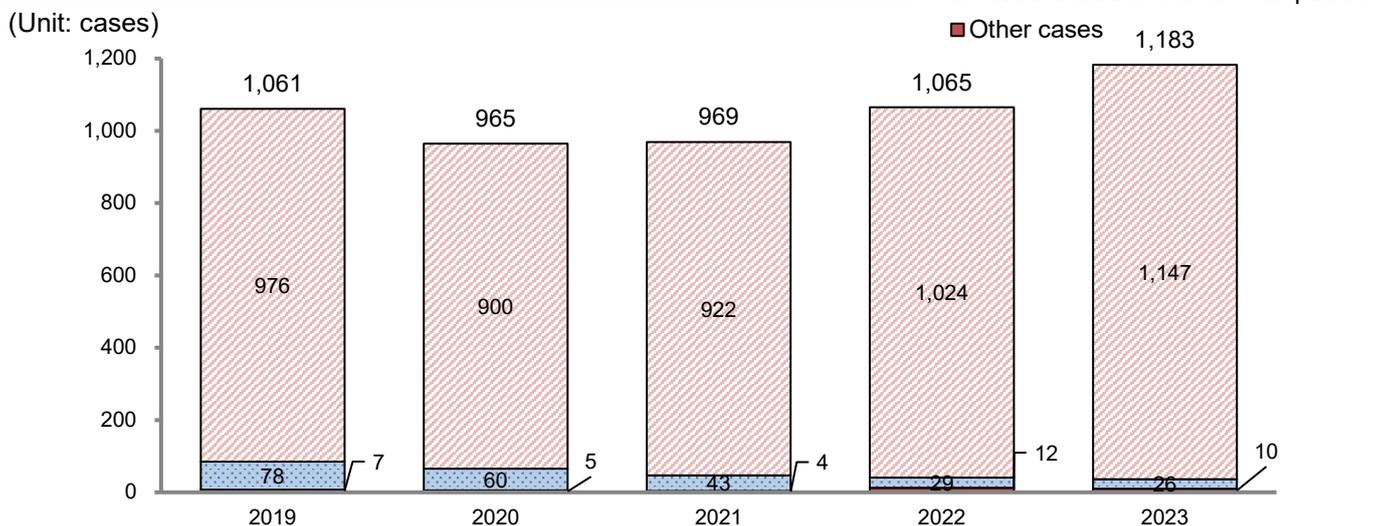
1 Outline of SESC's Activities in FY2023 (1)

- The SESC collected information broadly on the market as a whole, including 7,786 pieces of information received via the Contact Point for Information Reporting, etc. Based on the collected information, it conducted 1,183 examinations of transactions that were suspected as market misconduct.
- The SESC made recommendations for administrative disciplinary actions for eight cases, as a result of conducting inspections of Financial Instruments Business Operators (FIBOs) based on a risk-based approach.
- The SESC conducted rigorous criminal investigations against serious and malicious violations (filing of criminal charges for four cases), while promptly responding to market misconduct (recommendations for administrative monetary penalty payment orders for 17 cases) and violation of disclosure regulations (the same for eight cases).
- In accordance with “strengthening of the capability to address non-traditional and new types of violations” listed in the “Strategy & Policy of the SESC 2023-2025,” the SESC took appropriate actions against those non-traditional and new types of violations, such as its first recommendation for an administrative monetary penalty for unfair trading through high-speed trading.

Number of cases of information received



Number of examined cases for market misconduct*

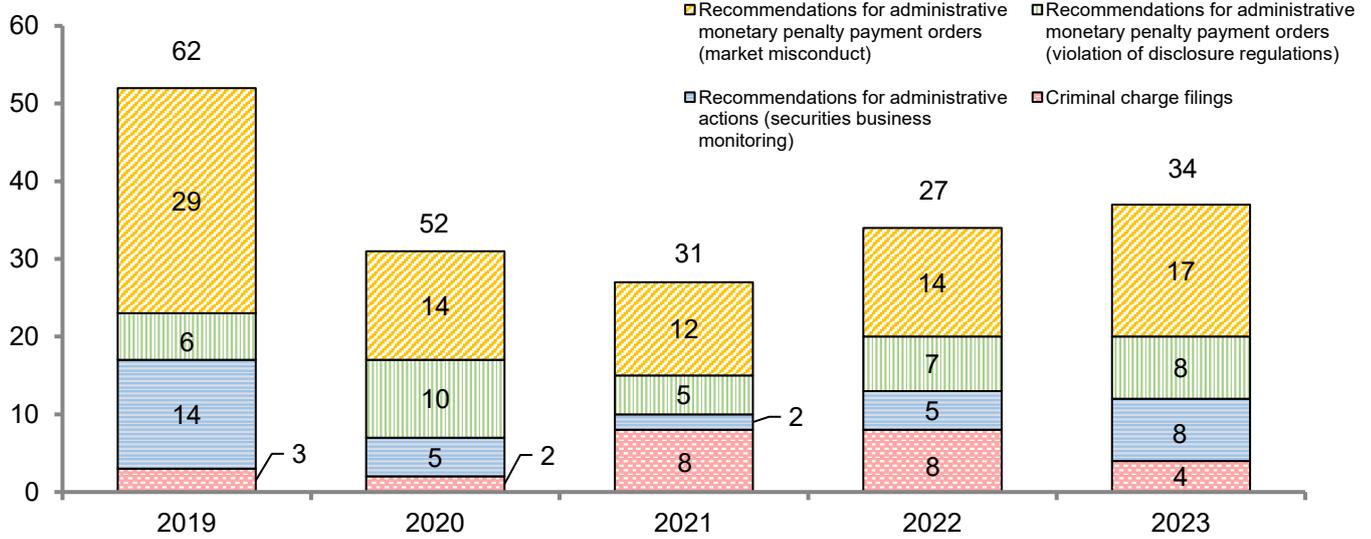


* These numbers reflect the cases that the SESC examined as to whether the relevant transaction falls under a transaction suspected as market misconduct, with the trading data obtained from securities companies and financial instruments exchanges, etc., based on the information received via the Contact Point for Information Reporting, etc. and other various types of information

1 Outline of SESC's Activities in FY2023 (2)

Number of cases for recommendations and criminal charge fillings

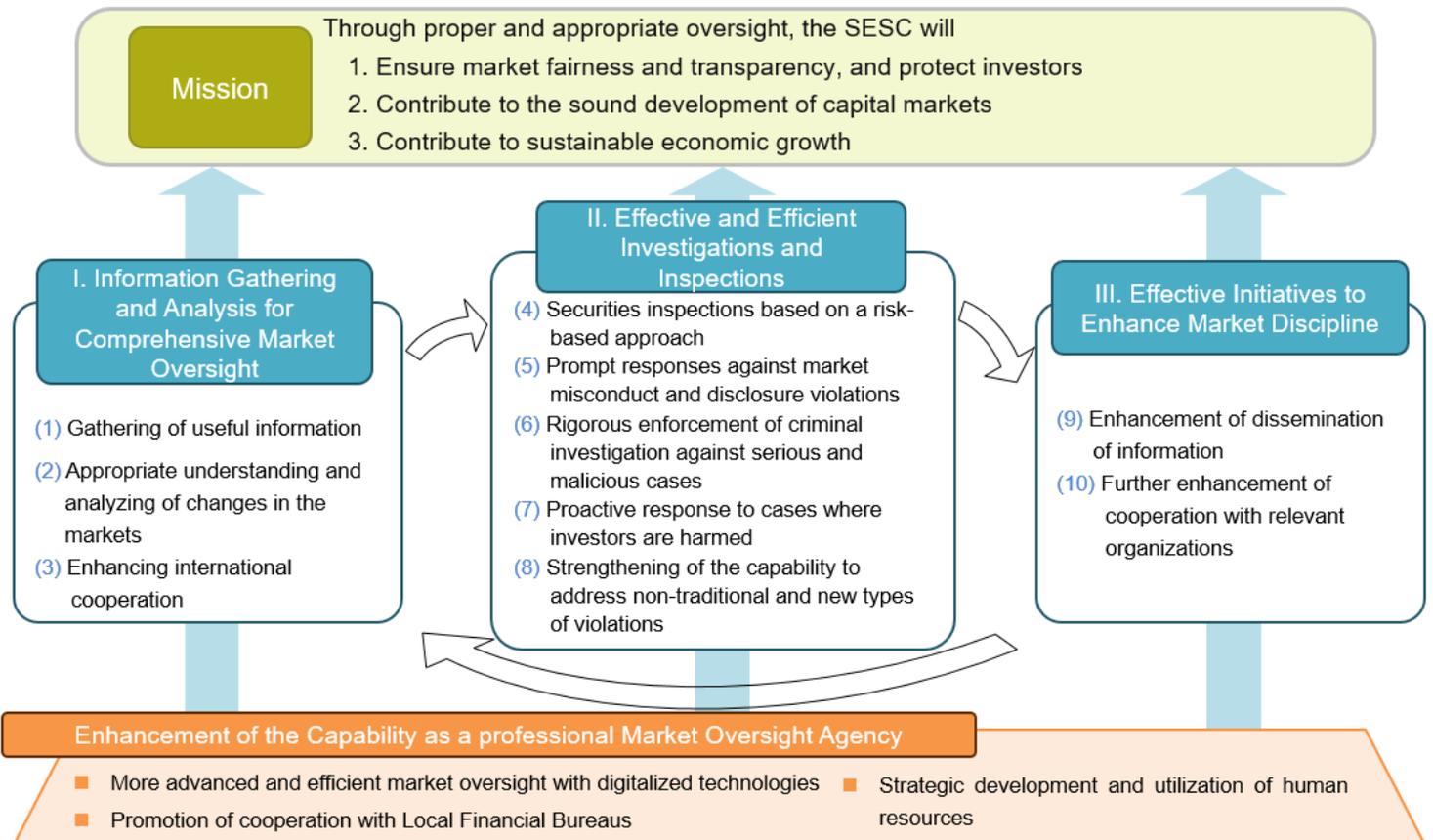
(Unit: pieces)



Strategy & Policy of the SESC 2023-2025

Strategy & Policy of the SESC 2023-2025 - For Trusted, Fair and Transparent Markets in Response to the Changing Times -

※Published on January 27, 2023



Securities Business Monitoring of FIBOs (Recommendations for Administrative Disciplinary Actions)

- The SESC conducted risk assessment based on the size and type of business
 - analyzed operational risks and issues by the size and type of business
- The SESC conducted inspections based on the risk assessment
 - inspected 65 FIBOs and made eight recommendations for administrative disciplinary actions
- The SESC also took initiatives to encourage FIBOs to build effective internal control environments
 - described “Items to be noted” (issues that have yet to develop into problems but should be improved) in the notifications of completion of inspection in order to share awareness with the inspected FIBOs

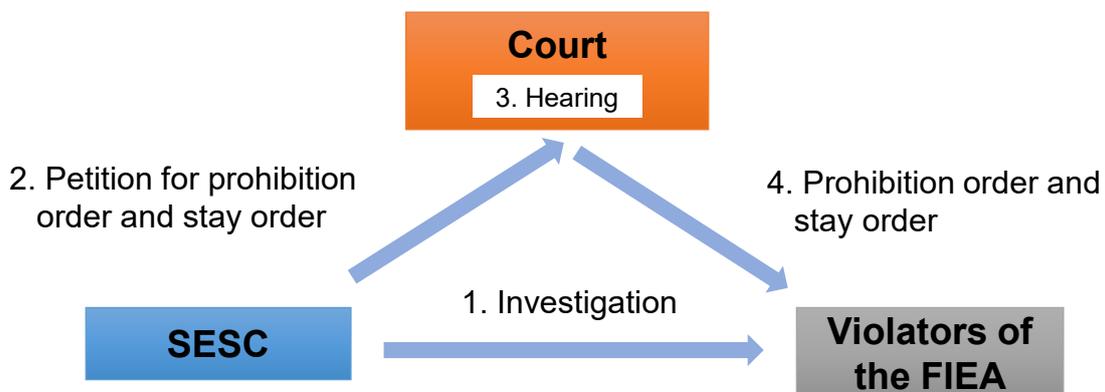
Major cases for recommendation (securities inspections)

Company name	Date of recommendation	Overview
Chibagin Securities Co., Ltd. (Type I FIBO) Chiba Bank, Ltd. and Musashino Bank, Ltd. (Registered Financial Institutions)	Jun. 9, 2023	<p>Chibagin Securities [Business operations in violation of the Principle of Suitability]</p> <ul style="list-style-type: none"> • The Company solicited a large number of customers for complex structured bonds on a long-term and continuous basis, without understanding customer attributes such as their investment policies and experience in a timely and appropriate manner. In addition, the Company did not provide at least three customers with explanations in a manner and to the extent in light of those customers' attributes. • The Company also did not develop a sufficient control environment for compliance with the Principle of Suitability. As a result, the Company was unable to prevent inappropriate sales solicitations that violated the Principle of Suitability. <p>Chiba Bank and Musashino Bank [Problems in investor protection in financial instruments intermediary service]</p> <ul style="list-style-type: none"> • The Companies did not develop an appropriate control environment for conducting financial instruments intermediary service, and induced customers to purchase structured bonds without confirming the customer attributes, which resulted in the business operation by Chibagin Securities that violated the Principle of Suitability.
Miki Securities Co., Ltd. (Type I FIBO)	Sep. 15, 2023	<p>[Business operations in violation of the Principle of Suitability]</p> <ul style="list-style-type: none"> • The Company entered into a financial instruments transaction agreement with customers, without providing them with explanations in a manner and to the extent necessary in light of those customers' attributes, despite knowing that they did not have cognitive and decision making capacity sufficient at least to make foreign equity transactions. • The Company's business promotion system was inappropriate due to an extremely business-oriented corporate culture that disregarded suitability for customers. In addition, the Company's compliance environment was inappropriate, as its monitoring and internal audits became a mere formality and conducted no effective verification conducted, and the Company's control environment for legal compliance was inappropriate. Furthermore, the Company's business management system was inappropriate, as the management prioritized the excessive business promotion over the establishment and development of a compliance and internal control environment, and overlooked the weak internal control environment.
SBI Securities Co., Ltd. (Type I FIBO)	Dec. 15, 2023	<p>[Conduct of accepting, etc. orders to buy listed financial instruments on a financial instruments exchange market while knowing that these orders would result in the formation of manipulative quotations not reflecting actual market status by causing fluctuations, etc. in prices of the listed financial instruments]</p> <ul style="list-style-type: none"> • From December 2020 to September 2021, in initial public offerings of three stocks for which the Company served as lead managing underwriter, the Company aimed to keep their opening prices above their offering prices. For this purpose, the Company requested employees at its Hong-Kong arm and several financial instruments intermediary service providers to solicit purchase orders for the three stocks at limit prices equal to their offering prices before the opening session on the listing date, and accepted such purchase orders from nine institutional investors and 174 retail investors.

2 Monitoring of FIBOs (Unregistered Business Operators, etc.)

- The SESC filed a petition for the issuance of a prohibition and stay order by the court against acts in violation of the FIEA committed by unregistered business operators in order to prevent the spread of investor damage.
- The SESC enhanced cooperation with relevant organizations, including other related divisions of the Financial Service Agency, Local Finance Bureaus, law enforcement authorities and the Consumer Affairs Agency.

Flow of filing a petition



Cases of a petition

Respondent	Date of petition filing	Overview
S DIVISION HOLDINGS INC., STEPCAPITALMANAGEMENT, Inc. and their manager	Jun. 28, 2023 (Osaka District Court)	<ul style="list-style-type: none"> • S DIVISION HOLDINGS INC. (SDH), a Philippine corporation, and one of its officers (I) conducted public offerings of its corporate bonds (foreign bonds) without statutory notification, while STEPCAPITALMANAGEMENT Co., Ltd. (Capital Co., Ltd.), a group company of SDH, and one of its officers (the same person as SDH's officer) also (II) conducted public offerings of its corporate bonds without statutory notification and (III) dealt in public offerings of SDH's corporate bonds without statutory registration. • SDH had at least 2,340 retail investors purchase over 15 billion yen of its corporate bonds (foreign bonds) (including at least approximately 5.6 billion yen of those offered without statutory notification), while Capital had at least 2,001 retail investors purchase over 5.2 billion yen of its corporate bonds including at least approximately 0.46 billion yen of those offered without statutory notification).

Investigations of Market Misconduct (Recommendations for Administrative Monetary Penalty Payment Orders)

➤ Insider trading

- Recommendations were made for 13 cases. (including one cross-border case)
- The SESC recommended a case in which three employees of a business partner company of a listed company subsidiary engaged in insider trading by misuse of information obtained in the course of their duties.

➤ Market manipulation and fraudulent means

- Recommendations were made for four cases. (including two cross-border cases)
- The SESC recommended a case in which an individual investor, for the purpose of stabilizing the market price of a listed stock, prevented the share price from falling by engaging in wash trade while placing buy orders layered at lower prices.

Major cases where a recommendation was made (market misconduct)

Overview	Date of recommendation Amount of administrative monetary penalty	Key points
<p>【Insider trading】 Three employees of a client company of a subsidiary of the Japan Steel Works, Ltd. learned of a material fact in the course of their duties and sold shares through a margin transaction before a public announcement.</p>	<p>Oct. 27, 2023 (A)1,850,000 yen (B)720,000 yen (C)2,410,000 yen</p>	<ul style="list-style-type: none"> • The second administrative monetary penalty recommendation case in which the basket clause of a subsidiary was applied. • Those who violated insider trading regulations are employees of a listed company and subsidiaries of the listed companies.
<p>【Providing information and Encouraging transactions】 An officer of CONTEC CO., LTD. became aware of the fact of a tender offer, etc. in relation to his/her duties and provided information to three acquaintances with the aim of gaining profits by having them purchase shares before the announcement. In addition, the officer recommended two acquaintances to purchase shares.</p>	<p>Feb. 16, 2024 4,770,000 yen</p>	<ul style="list-style-type: none"> • The highest number of cases in which the same violator provided information to and encouraged transactions with multiple persons. (5 people) • The SESC also made recommendations on insider trading violations committed by three persons who received insider information.
<p>【Market manipulation】 An individual investor, for the purpose of stabilizing the stock price of OHMORI Co., Ltd., engaged in wash trade while placing buy orders layered at lower prices.</p>	<p>Mar. 22, 2024 2,280,000 yen</p>	<ul style="list-style-type: none"> • The second administrative monetary penalty recommendation case in which stabilizing the market was applied.
<p>【fraudulent means】 Quadeye -affected closing prices by cancelling on-close orders one microsecond (one millionth of a second) before the market close in six stock trades with its high-speed trading.</p>	<p>Mar. 26, 2024 7,900,000 yen</p>	<ul style="list-style-type: none"> • First recommendation for administrative monetary penalty payment order against market misconduct with high-speed trading.

Inspections of Violations of Disclosure Regulations (Recommendations for Administrative Monetary Penalty Payment Orders)

- Recommendations were made for eight disclosure regulation violation cases.
- The SESC made recommendations for the following cases:
 - Cases in which an act that should have facilitated the submission of false disclosure documents (specified involvement act *) was conducted.
 - Inappropriate accounting treatment by stating an excessive amount of sales and cost of sales due to the misappropriation of company assets by employees of the Company
 - Cases in which inappropriate accounting procedures, such as the overstatement of sales due to fund circulation transactions, were performed.
- The SESC discussed the backgrounds and causes of violations of disclosure regulations with management officials of the listed companies to share awareness of the issues in order to prevent the occurrence and recurrence of the violations.

Major cases where a recommendation was made (violation of disclosure regulations)

Person/Company subject to payment order Amount of administrative monetary penalty	Overview	Background and cause of inappropriate accounting practices
<p>A person</p> <p>Aug. 4, 2023 1,500,000 yen</p>	<p>【specified involvement act】</p> <ul style="list-style-type: none"> • When a company submitting disclosure documents made a foreign corporation a subsidiary, the person subject to the administrative monetary penalty payment order (individual) conducted an act that should have facilitated the submission of false disclosure documents by the company submitting disclosure documents by overestimating the share value, which is the premise for the subscription price of the shares of the said corporation. 	<ul style="list-style-type: none"> • Because of the close personal relationship between the person subject to the administrative monetary penalty payment order (the person) and the director of the company submitting the disclosure documents, the person wanted to respond to the request of the company that was in need. • Because there are no strict rules for share valuation operations, as required by accounting audits, it was thought that inappropriate share valuations would be difficult to uncover and would not later become an issue.
<p>amana inc.</p> <p>Dec. 15, 2023 38,000,000 yen</p>	<ul style="list-style-type: none"> • The Company conducted inappropriate accounting treatment by stating an excessive amount of sales and cost of sales due to the misappropriation of company assets by employees of the Company. 	<ul style="list-style-type: none"> • For a long time, certain customers were handled by a single person in charge, who had discretion to prepare and send invoices, etc. • Business processes, such as the approval of payments to external contractors by supervisors, had become ineffective. • Management's explanations to employees about management's responses to past fraud cases and business flow due to enhanced internal controls were inadequate, leading to a decline in individual compliance awareness.

* An act which facilitates the submission, etc. of fake disclosure documents, etc. or an act which incites the former act

5 Criminal Investigations (Filing of Criminal Charges)

- The SESC filed four criminal charges.
 - One insider trading case, one case of submitting of a false annual securities report, one case of spreading rumors and using fraudulent means, and one market manipulation case.
- The SESC exercises its authority for criminal investigation to take rigorous actions against severe and malicious market misconduct in order to achieve fair and transparent markets.

Major criminal charge cases

Case	Date of filing	Overview
Transaction recommendation related to the shares of IR Japan Holdings, Ltd.	Jun. 6, 2023	<ul style="list-style-type: none"> • The suspect (former executive vice president and chief operating officer of the issuing company) came to know the fact of the downward revision of the company's consolidated earnings forecast in the course of duty and, to have two individuals avoid losses by having the two individuals sell the company's share in advance, recommended that the two individuals sell the share prior to the announcement of the fact.
Submission of a false annual securities related to Proroute Marumitsu Co., Ltd.	Oct. 31, 2023	<ul style="list-style-type: none"> • Five suspects (representative director of the largest shareholder corporation, etc.) conspired to submit an annual securities report that falsely stated that suspect company's business was in the black by booking fictitious sales even though the corporate suspect's operating profit and loss were in the red.
Spreading of rumors and use of fraudulent means related to the shares of Proroute Marumitsu Co., Ltd.	Nov. 20, 2023	<ul style="list-style-type: none"> • Three suspects (representative director of the largest shareholder corporation, etc.) conspired to have officers and employees of the issuing company make a false announcement concerning the conclusion of a share exchange agreement with the aim of increasing the share price of the issuing company.
Market manipulation related to the shares of NICHIRYOKU Co., Ltd.	Feb. 13, 2024	<ul style="list-style-type: none"> • The suspect not only used multiple accounts under different names but also used numerous wash trades to sharply increase trading volume of the issuing company's share and techniques such as placing a series of high limit orders and buying the shares at high prices to create high prices for the shares, thereby significantly influencing the share prices in the market that should have been created by the supply and demand balance.

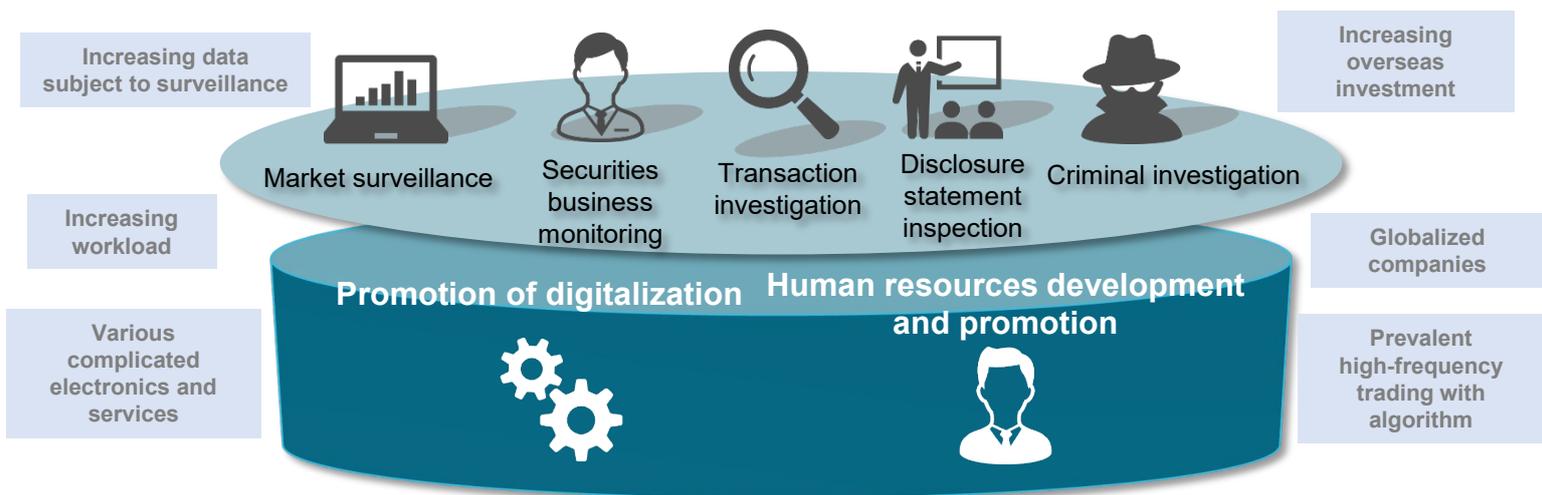
Development of Infrastructure to Support Market Oversight (Utilization of Digital Technology and Human Resources)

The SESC is promoting initiatives

- to upgrade and enhance the efficiency of market oversight operation through the utilization of digital technology
 - to strengthen system functions to support market oversight
 - to start using online account and deposit statement inquiry services provided by private operators (Initiated in May 2023) *
 - to further enhance its capability of digital forensics and upgrade the digital forensics system
- to improve SESC staff members' professional skills through on-the-job training and to hire personnel with high expertise

* Approximately 200 financial institutions participate in the services (as of March 2024). Digitalizing operational work on inquiring and responding will reduce workloads of both financial institutions and the SESC.

Development of infrastructure to support market oversight



Active participation by outside experts

(Unit: Persons)

	As of April 2022	As of April 2023	As of April 2024
Attorneys	9	10	9
Certified public accountant	19	18	16
Real estate appraisers	1	2	2
Information processing engineers	6	7	6
Personnel with practical financial experience	13	14	14
Total	48	51	47

The SESC is promoting the following initiatives:

- disseminating information through various channels
 - communicate the implications and key takeaways of the cases on which the SESC made recommendations via its website, public speeches and articles, etc.
 - call attention through the casebooks and columns (in the annual report) for preventing recurrence and occurrence of misconduct.
 - In addition to lectures on the importance and methods of market surveillance at the Nasdaq Surveillance Conference 2023, lectures and exchanges of opinions on securities companies' monitoring policies were held at the International Bankers Association.
- close cooperation with self-regulatory organizations
 - work regularly with self-regulatory organizations in market surveillance activities, etc. and exchange opinions periodically to share awareness of issues on a timely basis
- close cooperation with foreign authorities
 - In addition to participating in discussions at the International Organization of Securities Commissions (IOSCO) on issues in the securities market, such as illegal solicitation using SNS, etc., swift law enforcement was implemented against violations through cross-border transactions through the exchange of information based on the IOSCO MMoU*.
 - enhance networks and share awareness with foreign authorities through training programs for staff of foreign authorities.

* Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information formulated by the IOSCO

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*This account is not the contact point for information. If you wish to provide information to the SESC, please use the contact details stated on page 78 of the Appendix.

Changes in the numbers of information exchange cases under MMoU

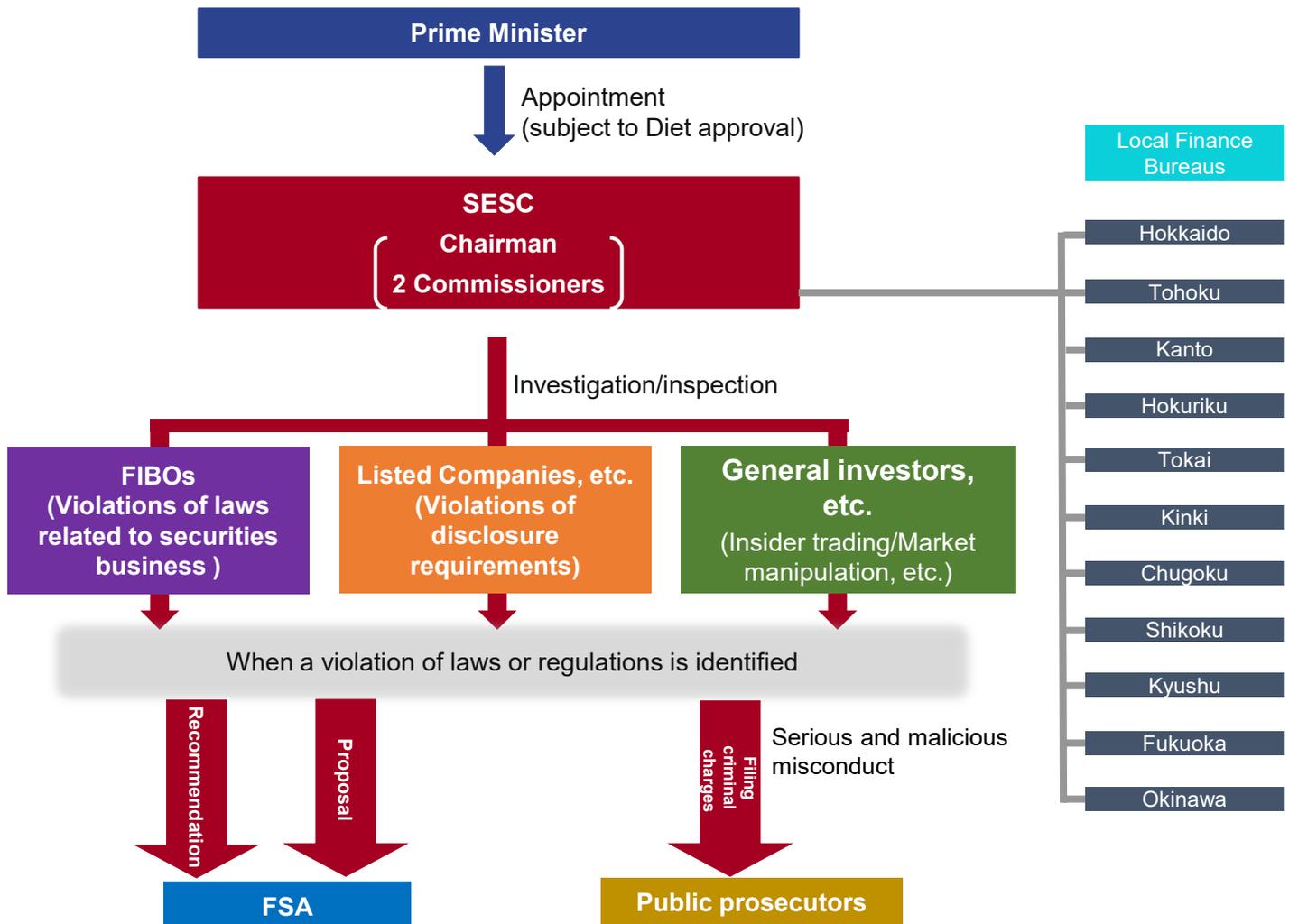
	FY2021	FY2022	FY2023
Cases of receiving information from foreign authorities	64	76	66
Requests to foreign authorities for the provision of information	22	20	16
Voluntary provision of information from foreign authorities	42	56	50
Cases of providing information to foreign authorities	8	4	11
Requests from foreign authorities for the provision of information	6	1	5
Voluntary provision of information to foreign authorities	2	3	6

(*1) Excluding the number of cases of information provision pertaining to inquiries for eligibility screening by the authorities (regarding persons who assume important positions in financial institutions or local corporations that file applications for approval, etc.)

(*2) The numbers of cases may change in the future as a result of alteration of tabulation methods or screening of the details of exchanged information.

Reference Overview of the SESC

Organization



Chairman and Commissioners



**Commissioner
KATO Sayuri**

KATO Sayuri was appointed as SESC Commissioner in December 2019 (reappointed in 2022). Previously, she served as Director of the Consumer Affairs Agency, Vice-Governor of Nagano Prefecture, and Executive Vice President of the National Consumer Affairs Center of Japan.

**Chairman
NAKAHARA Ryoichi**

NAKAHARA Ryoichi was appointed as SESC Chairman in December 2022. Previously, he served as the Chief Public Prosecutor of the Hiroshima and Fukuoka High Public Prosecutors Offices.

**Commissioner
HASHIMOTO Takashi**

HASHIMOTO Takashi was appointed as SESC Commissioner in December 2022. Previously, he served as a professor at Nihon University College of Commerce and at Aoyama Gakuin University Graduate School of Professional Accountancy.

Annual Report 2023/2024

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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 market fairness and transparency, and protect investors through proper and appropriate market oversight, and to contribute to the sound development of capital markets and to sustainable economic growth. The SESC's 11th term (December 2022 to December 2025) was inaugurated in December 2022.

Since its foundation, the SESC's authority to monitor markets has been enhanced and strengthened, including by the introduction of the administrative monetary penalty payment system in 2005 and the expansion of its authority to conduct securities inspections in 2007. Its organization has also been expanded, with the number of divisions increased from two at the time of foundation to six. While going through these changes, the SESC has proactively utilized its market oversight authority and has endeavored to ensure the fairness and transparency of the markets and protect investors.

Key Achievements

In FY2023, in cooperation with self-regulatory organizations and foreign authorities, the SESC conducted multi-faceted analyses of new trends and problems in the markets by broadly collecting information concerning various markets inside and outside Japan and surveying and analyzing risks of market misconduct and problems regarding information disclosure.

Additionally, by selecting securities business monitoring targets through a risk-based approach, the SESC verified the degree to which customer-oriented business conduct had been entrenched in securities companies' business operations, and ascertained the reality of market misconduct and disclosure regulations violations through prompt implementation of investigations and inspections. For serious and malicious violations, the SESC exercised its authority to conduct criminal investigations and took strict actions. Through these efforts, the SESC made recommendations for administrative disciplinary actions to securities companies that made illegal purchases, etc. In addition, the SESC recommended administrative disciplinary actions against securities companies and others for conducting business operations that contravene the principle of suitability. In addition, the SESC made its first recommendation for an administrative monetary penalty in an atypical and new type of case involving fraudulent trading (fraudulent means) using high-speed trading. Additionally, from the perspective of preventing the recurrence and occurrence of misconduct, the SESC actively promoted external communications by such means as publishing annual casebooks compiling cases subjected to administrative monetary penalties.

Future Challenges

In recent years, capital markets have been rapidly and dramatically changing due to the increasing digitalization and internationalization, and market mechanisms and legal systems are also changing. In addition, in December 2023, the Group formulated the Plan to Become an Asset Management Nation, and in January 2024, the Group launched the new NISA system. In addition, the Group is

currently facing changes in the business environment, including global price increases, heightened geopolitical risks, a declining population, a declining birthrate, and an aging population. Accordingly, in order to continue working for trusted, fair and transparent markets, the SESC considers it important to develop an ability to properly respond to those changes and unprecedented incidents, in other words, to develop an ability worthy of being called a "professional market oversight agency," and to exercise such ability.

With this view in mind, the SESC will continue utilizing its functions in a timely and appropriate manner, which include broad market monitoring, prompt exercise of administrative functions to conduct investigations and inspections for administrative monetary penalties as well as securities inspections, and strict enforcement against serious and malicious cases. The SESC's Strategy & Policy 2023-2025 for its 11th term, which was formulated in January 2023, shows its commitment to making efforts for achieving a virtuous cycle of market oversight of "I. Information Gathering and Analysis for Comprehensive Market Oversight," "II. Effective and Efficient Investigations and Inspections," and "III. Effective Initiatives to Enhance Market Discipline," thereby contributing to curbing illegal and inappropriate market conduct. As the basis for achieving this, it is also stated that the SESC will endeavor to "further enhance its ability as a professional market oversight agency" through promoting digitalization and fostering human resources.

Based on skills and experience regarding market oversight accumulated so far and its past efforts for cooperating with related organizations inside and outside Japan and further adding originality and ingenuity, the SESC will further develop its ability to discover the nature of incidents, and will perform its duties in market oversight with open minds and from a broad perspective to earn people's trust.

This annual report outlines the SESC's activities in FY2023 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 people as possible and contribute to deepening their understanding of the SESC's activities and awareness of issues and to establishing trusted, fair and transparent markets.

June 2024

NAKAHARA Ryoichi

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 to the court for a prohibition order and stay order against acts in violation 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	<p>Filing of criminal charges: False statements in securities report related to Nissan Motor Co., Ltd.</p> <p>Recommendation for administrative monetary penalty: Manipulation of market for long-term government bond futures by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.</p>
2019		<p>Recommendation for administrative monetary penalty: False statements in securities report related to Nissan Motor Co., Ltd.</p>
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	<p>Filing of criminal charges: Transaction encouragement related to Don Quijote Holdings Co. shares</p>
2021	Additionally mandated to exercise authority to conduct inspections on financial service intermediaries that provide securities intermediary services.	<p>Filing of criminal charges: Market manipulation by SMBC Nikko Securities Inc.</p>
2022	Foreign Securities Business Monitoring Office set up	<p>Recommendation for administrative disciplinary action: SMBC Nikko Securities Inc. (market manipulation, etc.)</p> <p>Filing of criminal charges: Insider trading of the shares of SOGO MEDICAL HOLDINGS CO., LTD. and the shares of SPACE VALUE HOLDINGS Co., Ltd.</p>
2023		<p>Recommendation for administrative disciplinary action: Chiba Bank Securities Co., Ltd. and other two banks. (Suitability principle)</p> <p>Recommendation for administrative disciplinary action: SBI Securities Co., Ltd. (Artificial market formation.)</p> <p>Filing of criminal charges: Submission of a false annual securities report related to Proroute Marumitsu Co., Ltd., and the spreading of rumors and use of fraudulent means related to the shares of the company;</p>

Abbreviations

APFS	Act on Provision of Financial Services and the Development of the Accessible Environment Thereto
APTCP	Act on Prevention of Transfer of Criminal Proceeds (Act No. 22 of 2007)
AML	Anti-Money Laundering
APRC	IOSCO Asia Pacific Regional Committee
BY	Business Year (from July 1 to June 30)
CFT	Countering the Financing of Terrorism
EMMoU	Enhanced Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
FIBOs	Financial Instruments Business Operators (Type I financial instrument business operators stand for securities companies, etc.) (Type II financial instrument business operators stand for fund sales companies, etc.)
FIEA	Financial Instruments and Exchange Act (Act No. 25 of 1948)
FIEs	Financial Instruments Exchanges
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
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
SESC	Securities and Exchange Surveillance Commission
SROs	Self-Regulatory Organizations

Key Topics in FY 2023 (1)

Breach of the suitability principle

Pursuant to the provisions of Article 40, Item 1 of the FIEA, FIBOs are required to establish a system to ensure appropriate solicitation for investment in accordance with customer attributes, such as the customer's knowledge, experience, property status, and investment purpose (suitability principle).

In recent years, the SESC and Local Finance Bureaus have been conducting inspections to verify whether an internal control framework has been established with a focus on appropriate investment solicitation based on the principle of suitability.

In fiscal 2023, the SESC made two recommendations for administrative disciplinary actions based on the findings that business operations contravened the principle of suitability. Brief descriptions of the recommendations are provided below.

- Solicitation of structured bonds with complex merchantability to customers with little investment experience referred by an affiliated bank.

In this case, an affiliated banks, without confirming the customer attributes of customers with little investment experience, lured the customers into structured bond transactions by emphasizing the advantages of high interest rates and other factors, and then introduced the customers to a securities company's.

The securities company, without appropriately understanding the customers' investment policies or investment experience, solicited a large number of customers for complex structured bonds over a long period of time. In addition, the reference indicator for structured bonds fluctuated for at least three customers.

It was found that the securities company did not explain the reasons for the possibility of losses arising from the sale of the securities to customers in a manner and to the extent necessary for such customers to understand.

This securities company and its affiliated bank received numerous complaints from customers who had purchased structured bonds. In addition, despite receiving multiple warnings from SROs, their efforts to respond to complaints were inadequate.

At the affiliated bank, managers did not sufficiently exercise governance and the establishment of business operation systems was insufficient. For example, employees were not sufficiently aware of the possibility of customer inducement events occurring in order to achieve earnings targets. In addition, despite being aware of the large number of

complaints from referred customers, the managers left the matter to the department in charge and overlooked the fact that the measures taken were insufficient.

The securities company had a weak understanding of the suitability principle.

It sold structured bonds as a tool to increase commission income, rather than soliciting investments for the true benefit of customers. It also had insufficient systems in place to comply with the suitability principle.

As a result, it was unable to prevent inappropriate solicitation sales that contravene the suitability principle.

- Solicitation of foreign stock transactions to customers who did not have at least a sufficient cognitive ability to conduct foreign stock transactions.

In this case, a securities company sales representative concluded a financial instruments transaction contract without providing an explanation in a manner and to the extent necessary for the customer to understand the contract, despite the recognition that the customer did not have a sufficient cognitive decision-making ability to conduct foreign stock transactions due to the customer's condition, such as having difficulty engaging in conversation or not remembering a conversation from several minutes ago.

This securities company had a corporate culture that placed extreme priority on sales, making it difficult to raise compliance issues. In addition, the president had taken the initiative in reducing the number of employees in the compliance department in order to break away from a loss-making structure. As a result, internal monitoring and internal audits had become a mere facade, and the compliance environment was inadequate.

In addition, the securities company's business management system was also in an inappropriate state. For example, the management team put off establishing and maintaining a legal compliance and internal control system while promoting excessive sales, and it overlooked the weak internal control system.

As described above, the SESC made a recommendation for administrative disciplinary action due to a violation of the suitability rule not only because sales representatives did not conduct appropriate solicitation sales in accordance with customer attributes but also because the business operation system of the securities company, as a financial instruments business operator, was inadequate.

Going forward, the SESC will continue to respond rigorously to actions that are questionable in terms of investor protection, while contributing to the realization of a market in which a wide range of investors can invest with confidence.

Key Topics in FY 2023 (2)

Strengthening our capabilities in response to atypical and new types of cases

- First recommendation for administrative monetary penalty payment order against market misconduct with high-speed trading -

The SESC has stated in its "Medium-Term Activity Policy (11th Term: 2023 to 2025)" that it will work to strengthen its capabilities in response to atypical and new types of cases.

In FY 2023, the SESC made its first recommendation for an administrative monetary penalty payment order against an atypical and new type case of market misconduct (fraudulent means) using HST.*¹

The person subject to the administrative monetary penalty payment order in this case was Quadeye Trading LLC ("Quadeye"), a U.S.-based corporation registered with the Director-General of the Kanto Local Finance Bureau for conducting HST. Quadeye managed the assets of DAX Partners L.P., a limited partnership incorporated in the Cayman Islands, under a discretionary investment management agreement between them.

In this case, Quadeye attempted to trade six stocks in its favor with HST. By placing on-close orders*² on the less side of existing on-close orders on the order book with the intent to cancel a substantial part of the orders just before the market close, Quadeye created an appearance to mitigate the imbalance of supply/demand on the order book. While Quadeye misled others to believe that all the existing on-close orders were expected to be executed, it canceled a substantial part of the orders one microsecond (one-millionth of a second) before the market close, which affected the closing price in its favor.

The characteristics of HST are said that a decision to trade securities is automatically made with a program and/or that a structure is employed to reduce latency to transmit information to place orders, using a co-location service that allows market participants to install their servers in a location close to the exchange's trading systems.

In this case, at trading all the six stocks, each position was established with IOC orders*³

one microsecond, i.e., one-millionth of a second just before the market close. At the same time, existing on-close orders exceeding the position were canceled. Such order placement/cancellation could be done only by HST.

This case was investigated with assistance of foreign authorities of the Cayman Islands, the United Kingdom and the United States, and referral from JPX-R.

In addition, Market Surveillance Division in the SESC analyzes trade data on a day-to-day basis. In this case, the investigative unit examined the HST by Quadeye in collaboration with the Division.

By recommending the administrative monetary penalty payment order against the misconduct, we believe we demonstrate to the public that the SESC is also monitoring atypical and new types of cases of market misconduct by HST, and that market fairness is being maintained by close cooperation with foreign authorities and a self-regulatory organization.

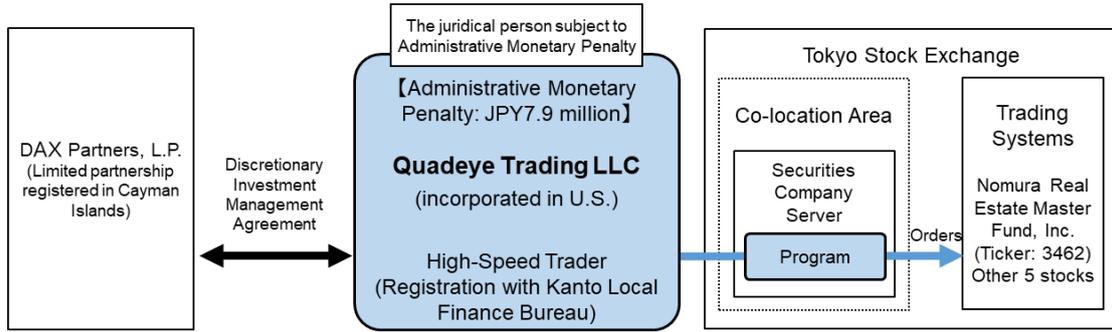
The SESC will continue to accurately investigate atypical and new types of cases, and it will continue to take strict actions in cases where misconduct is found.

*¹ In this case, the decision on the administrative monetary penalty payment order was made on June 17, 2024.

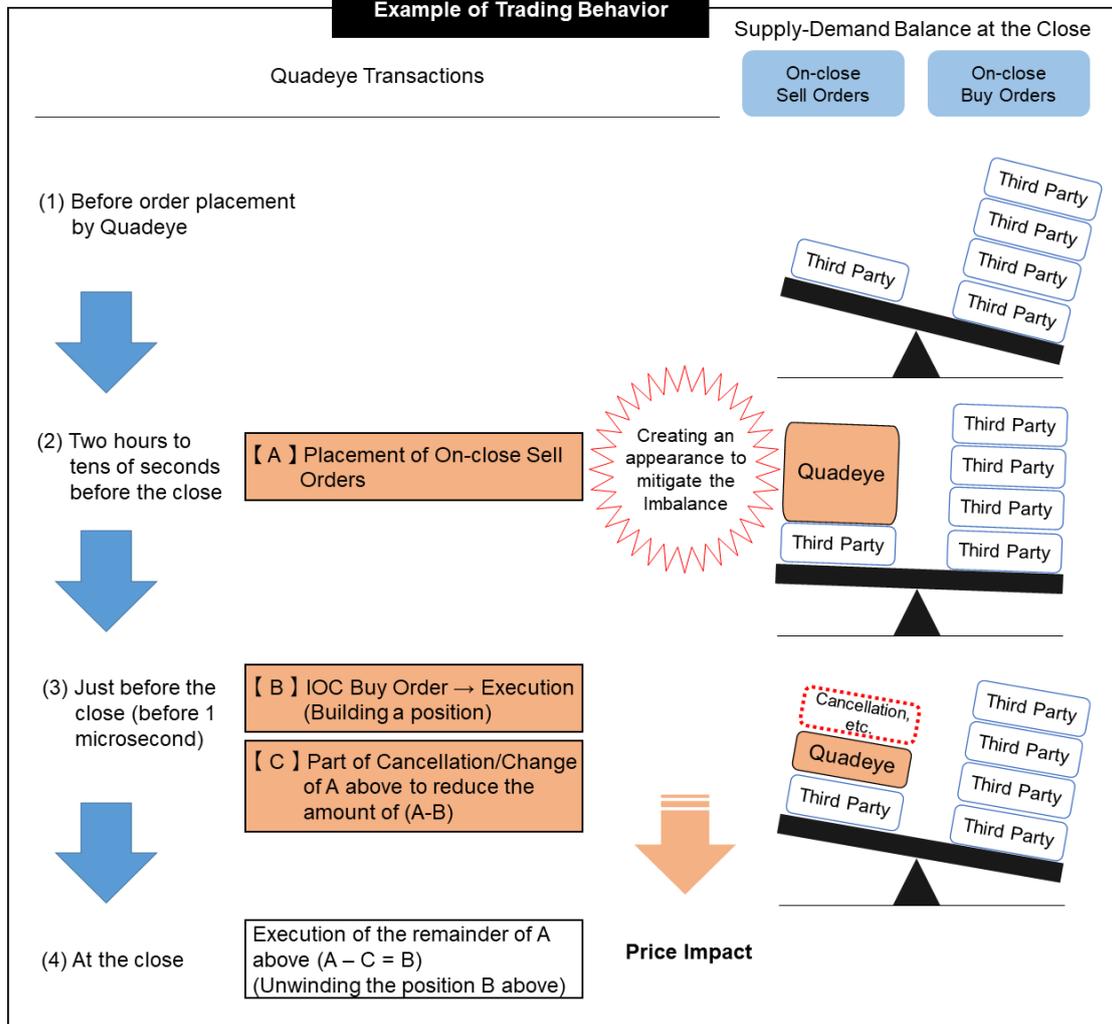
*² On-close order is a type of order that will be only executed at the close of each morning and afternoon session.

*³ IOC order is a type of order whose part or whole of the order will be immediately executed at a designated or more favorable price, or will be immediately canceled if not executed.

Summary of Misconduct



Example of Trading Behavior



※ If sell orders dominated the supply/demand balance described in (1) above, the direction of buy/sell would be reversed.

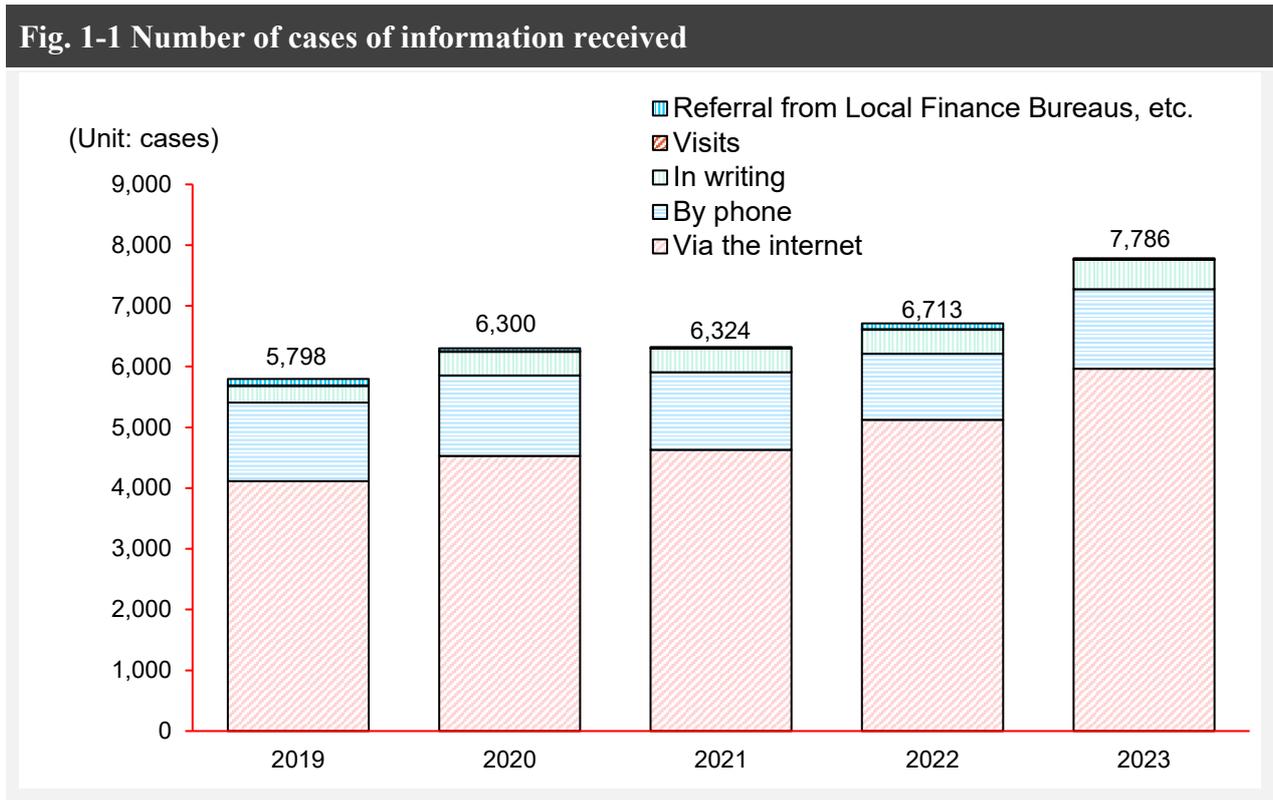
1 EXAMINATION OF TRANSACTIONS AND GATHERING / ANALYSIS OF WIDE-RANGING INFORMATION

1. Purpose of Market Surveillance

To realize comprehensive market oversight by the SESC, market surveillance aims at detecting the beginning of any possible market misconduct through broadly gathering and analyzing information covering the entirety of the primary and secondary markets, in light of environmental changes in situations surrounding the markets and progress in a review of the systems. The SESC positions market surveillance as an entrance for information.

To this end, the SESC has established the Contact Point for Information Reporting to receive a wide range of information from general investors and other market players, and also cooperates with self-regulatory organizations (SROs) to gather a variety of market-related information. Based on these pieces of information, the SESC analyzes changes in market environments and market trends, examines transactions suspected of falling under market misconduct, and reports to the relevant divisions in the SESC if any suspicious transactions are identified.

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



2. Status of Transaction Examinations

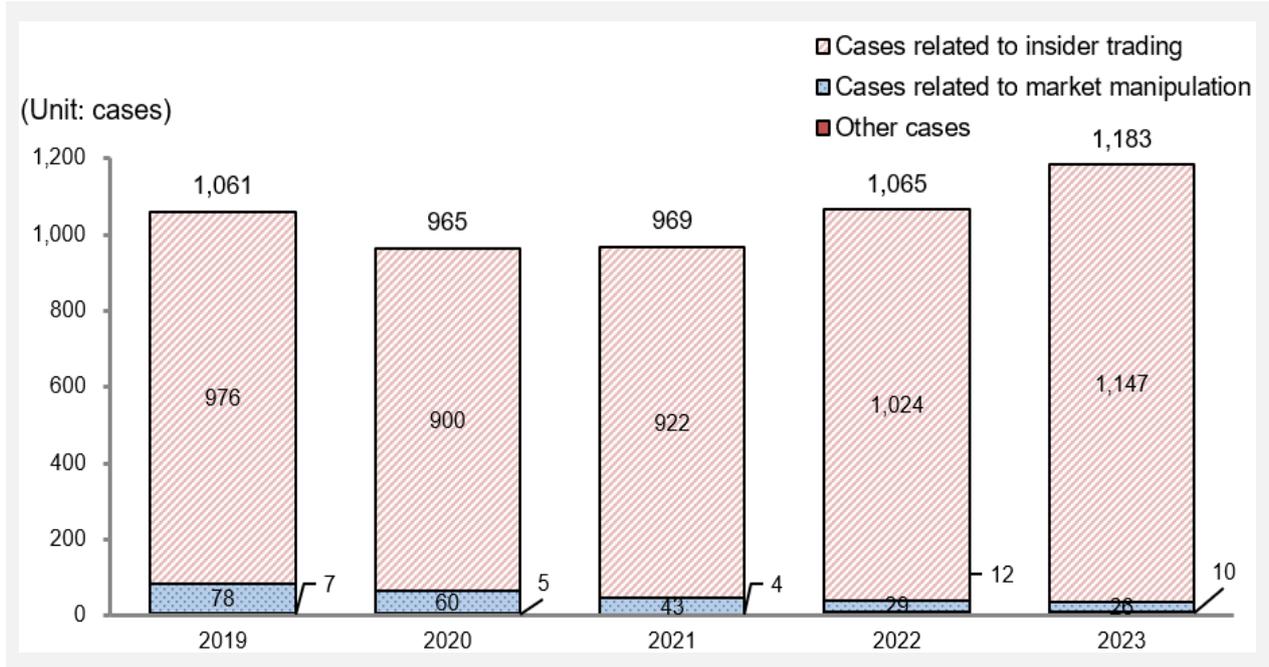
The number of cases that the SESC examined to detect suspicious market misconduct reached 1,183 in FY2023.

The breakdown by examination type of surveillance is 1,147 possible insider trading cases, 26 possible market manipulation cases, and 10 others, including the use of fraudulent means and the spreading of rumors.

With regard to transactions by HST operators, The SESC received a large amount of order data from JPX-R, which is capable of reproducing the actual trading conditions of trading boards, and worked to understand the actual status of trading. In addition, the SESC conducted examinations of transactions suspected of market misconduct in cooperation with SROs.

Based on this examination, in FY2023, the SESC made its first recommendation for an administrative monetary penalty payment order against market misconduct with HST.

Fig. 1-2 Number of examined cases for market misconduct*



3. Overview of Market Monitoring

In order to achieve comprehensive oversight, the SESC gathers and analyzes a wide range of market-related information at the Office of Market Monitoring in the Market Surveillance Division.

(1) Information reception and whistleblowing

(i) Efforts to gather information

In FY2023, the SESC received 7,786 information reports from the public.

The SESC uses information from general investors and other sources to identify any possible market misconduct in its investigations and inspections. The SESC believes it is important to gather useful information from as many people as possible.

In FY2023, with the aim of increasing visibility of its Contact Point for Information Reporting and obtaining more useful information, the SESC posted listing advertisements in internet search websites to have the advertisement of the Contact Point for Information Reporting displayed on the screen when internet users conduct search with certain keywords, thereby broadly asking for the provision of information.

The SESC also provides preparatory consultation to whistleblowers through a dedicated Contact Point for Whistleblowing and examines information before formally accepting it. In FY 2023, the SESC received 115 cases of whistleblowing, out of which 10 were accepted.

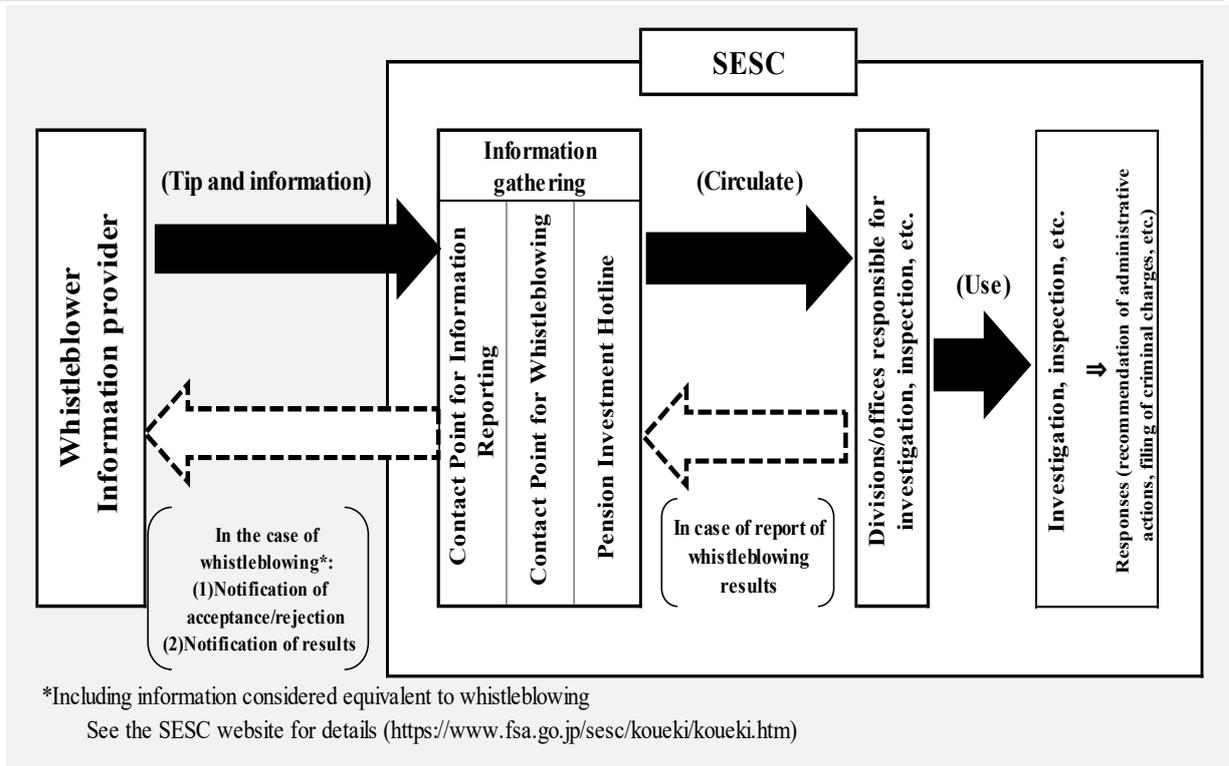
(ii) Receipt and use of information

As illustrated by Fig. 1-3, information/tips provided to the SESC are forwarded to the divisions in charge of investigations and inspections within SESC after confirming the content of the information, and these divisions effectively utilize the information.¹

Even an information report that does not meet the requirements of whistleblowing is accepted as information provision to the Contact Point for Information Reporting and circulated to and used effectively by relevant SESC divisions responsible for investigation and inspection.

¹ The contact point for receiving information is divided by the content of information into three categories (Contact Point for Information Reporting, Contact Point for Whistleblowing, and Pension Investment Hotline).

Fig. 1-3 Flow of information



(2) Market trend analysis

In addressing cases of “fraudulent finance,”² the SESC has utilized information gathered from market participants, such as investors and securities companies. The SESC has also enhanced its market monitoring by gathering and analyzing information that covers both the primary and secondary markets in close cooperation with Local Financial Bureaus and Financial Instruments Exchanges (FIEs). As there are emerging cases of attempts to conduct market misconduct by using complex finance schemes and overseas funds, the SESC will keep paying close attention to these activities.

² “Fraudulent finance” refers to a series of fraudulent trading practices comprised of inappropriate acts in the primary or secondary securities market, including listed companies’ fund procurement through disguised additional equity issuance and in-kind contribution using overestimated real estate, as well as illegal external transfers of procured funds.

4. Future Challenges

(1) Further efforts to gather useful information

Information is the key for the SESC's market oversight. The SESC needs to gather a broad range of useful information on the markets as a whole through the Contact Point for Information Reporting and SROs, etc., and to integrate, analyze and accumulate useful information and knowledge obtained in the process of market oversight and utilize in a multifaceted, dual-track manner by sharing the information with the Financial Services Agency and Local Finance Bureaus, etc. as necessary.

Therefore, the SESC will continue to promote public campaigns for the Contact Point for Information Reporting and consider measures to pave the way for citizens to provide information more easily and conveniently for the purpose of obtaining further useful information broadly from general investors, etc. Also, if information providers can be expected to have more useful materials, the SESC will encourage them to provide additional materials, thus promoting proactive information gathering.

(2) More efficient and sophisticated monitoring through promotion of digitalization

In recent years, dramatic progress in digitalization has led to the diffusion of HST using algorithms, exerting great influence on market participants as a whole. To respond to such changes in the market environment appropriately and conduct seamless market oversight, the digitalization of market monitoring must be promoted through the development of a system to gather and search massive data more efficiently and effectively to quickly confirm and analyze relevant data.

The SESC will further promote digitalization and increase the sophistication of analysis systems to achieve more efficient and sophisticated transaction examinations.

2 MONITORING OF FINANCIAL INSTRUMENTS BUSINESS OPERATORS, ETC.³ (RECOMMENDATIONS FOR ADMINISTRATIVE DISCIPLINARY ACTIONS)

1. Purpose of Monitoring Securities Businesses

The SESC accurately recognizes the operational and financial status of FIBOs. If any problem regarding the adequacy of FIBO business operations is found, the SESC, where necessary, recommends the Prime Minister and the FSA Commissioner to take appropriate measures, such as administrative disciplinary action, 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 fulfill their function as gatekeeper so that FIBOs play their role as market intermediaries appropriately and maintain a market environment in which investors are able to invest comfortably.

2. Achievements of Monitoring

FIBOs subject to the SESC's monitoring is a total of approximately 8,500, with different sizes, operations and lines of business. Some of these FIBOs have not had adequate understanding of legal and regulatory compliance and investor protection or systems needed to be in place. Consequently, it is important to monitor FIBOs efficiently and effectively in accordance with their respective characteristics based on the Basic Principles of Securities Business Monitoring and the annually published Monitoring Priorities for Securities Businesses so as to identify their risks at an early time. (See Figs. 2-1 and 2-2).

Since July 2016, in its monitoring of all FIBOs, the SESC has conducted risk assessment, focused on an analysis of business models and the appropriateness of risk management that supports the models, in collaboration with the relevant divisions of the FSA.

In FY2023, the SESC selected FIBOs for inspection based on the results of the risk assessment and closely looked at their conduct of business through inspection. In conducting inspection, the SESC scrutinized the FIBOs' products and trading schemes. When problems were detected, the SESC

³ FIBOs, etc. refer to notifiers of specially-permitted business for qualified institutional investors, financial instruments intermediary service providers, and credit rating agencies, in addition to FIBOs and registered financial institutions, that are subject to inspections under laws and regulations regarding SROs.

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 inspection.

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

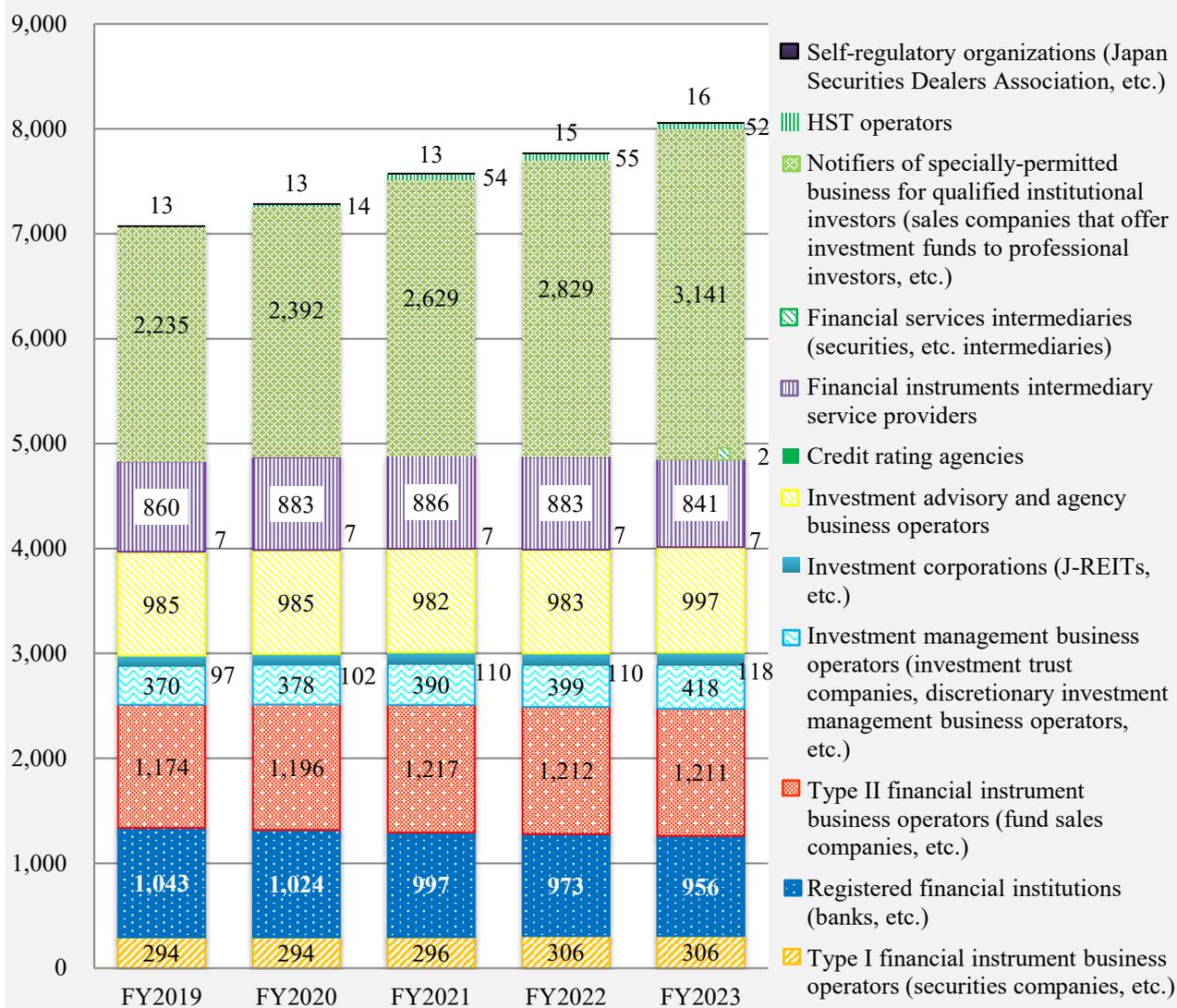


Fig.2-2: Summary of Monitoring Priorities for Securities Businesses (BY 2023)⁴

Environment surrounding FIBOs

1. Environment surrounding FIBOs

- Demand for customer-oriented business conduct, progress in digitalization, heightened risk of cyberattack damage, etc.

2. Changes to regulatory frameworks for FIBOs

- (1) Actions taken to ensure customer-oriented business conduct, (2) Response to progress in digitalization, (3) Development of rules concerning ESG investment trusts, (4) Clarification of Trustee Responsibilities of Investment Management Business Operators, etc.

3. Findings through the securities business monitoring over the past business year

- Type I FIBOs: Breach of the principle of suitability, inadequate management of outsources of intermediary services, deficiencies in the market surveillance system, breach of banking and securities firewall regulations
- Investment management business operators: Movement of expanding investment in alternative assets by pension funds, etc., breach of duty of care as a prudent manager, such as insufficient due diligence, breach of duty of loyalty, such as inadequate conflicts of interest management
- Advisory services / Type II Financial Instruments Business: False notification, etc.
- Unregistered business operators: Financial instruments business operations without statutory registration (Intermediation for conclusion of discretionary investment contracts or solicitation for investment in financial instruments categorized as shares in foreign collective investment schemes)

Industry-wide monitoring priorities

1. Developing internal control environments with a focus on appropriate investment solicitation based on the principle of suitability, and appropriate sales operations based on customer-oriented business conduct (In particular, sales of financial products with complex risk structures, such as structured bonds)
2. Changes in business models based on progress in digitalization, etc. and establishment of internal control environments to cope with these changes
3. Adequacy of cybersecurity measures (including measures against unauthorized computer access in Internet transactions) and measures taken to manage system risk (including system development and operation management as well as management of outsourcing contractors) in line with progress in digitalization
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 internal audits or self-regulatory organization examinations

In addition to the above, the SESC will also take specific actions, such as the "Asset Income Doubling Plan" and fundamental reforms of the asset management industry, in light of the environment surrounding FIBOs, and will examine other matters in a timely manner in response to changes in the environment.

⁴ BY 2023 refers to the period from July 1, 2023, to June 30, 2024.

Monitoring priorities by FIBOs' size and business type

Type I FIBOs	Major securities business groups	<ul style="list-style-type: none"> • Development of control environments for governance and risk management that support global business operations • Efforts to build sustainable business models • Development of an internal control environment, including development of an environment for detection and prevention of unfair trading, etc. • If necessary, the SESC will swiftly inspect relevant sales offices to examine their actual sales practices. • Development of a customer information management system based on the promotion of bank-securities collaboration business [3 mega banking groups]
	Foreign securities firms	<ul style="list-style-type: none"> • Development of internal control environments in response to the overseas outsourcing of back-office operations and control environments for system risk management • Development of control environments for managing sales of financial instruments to Japanese financial institutions and other investors
	Online securities firms	<ul style="list-style-type: none"> • Development of control environments for system risk management, including cybersecurity measures • Management of outsourcees based on business models, such as expansion of face-to-face sales utilizing financial instruments intermediary service providers, and development of internal control environments, including an effective trade management environment suited to a rapid increase in the number of new accounts opened and trading volume amid moves to remove commission fees
	Semi-major/ regional securities firms	<ul style="list-style-type: none"> • Compliance with the principle of suitability with respect to inappropriate solicitation activities, etc. from the viewpoint of investor protection. • Effectiveness of internal control environments at securities firms whose major shareholders or business management systems have changed, from the viewpoint of their business models or governance.
	Foreign currency margin transactions business operators	<ul style="list-style-type: none"> • Development of control environments for system risk management, including cybersecurity measures • Development of adequate internal control environments for relevant advertising and sales/solicitation regulations.
Investment management business operators	<ul style="list-style-type: none"> • Actual investment practices, development of control environments for managing investment (including those outsourced) and conflicts of interest, etc. 	
Investment advisors/agencies	<ul style="list-style-type: none"> • Misleading advertisement, solicitation through false explanation, etc. 	
Type II FIBOs, QII business operators, independent financial advisors, and others	<ul style="list-style-type: none"> • Funds claiming high returns and existence of investment projects, the disclosure of information about loan borrowers and the screening of those funds, etc. [Type II FIBOs, business operators, etc., engaging in specially permitted businesses for qualified institutional investors (QII business operators)] • Appropriateness of their investment solicitation and sufficiency of management by their entrusting FIBOs [Independent financial advisors] • Businesses monitoring in light of their business characteristics [registered financial institutions, etc.] 	
Unregistered business operators	<ul style="list-style-type: none"> • Exercising investigative authority proactively to file a petition with the court for a prohibition and stay order against their illegal conduct • Enhancing information dissemination, including the public disclosure of their and their representatives' names and illegal conduct, etc. • Coordinating proactively with relevant JFSA divisions, Local Finance Bureaus, investigative authorities and the Consumer Affairs Agency. 	

*The SESC will also verify FIBOs' response to the changes in regulatory frameworks.

Approach to monitoring securities businesses

- With regard to business operators subject to securities monitoring, the SESC will identify and assess the risks of FIBOs, etc., in collaboration with the relevant bureaus of the FSA, select business operators subject to inspection on a risk basis, and continue to actively conduct inspections, focusing on the following cases. In addition, the SESC will conduct inspections in a flexible manner by narrowing down the matters to be verified as necessary.
 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 business operations are not fully comprehended from information analysis based on monitoring (including where there is a long period between examinations);
 4. There is a possible serious problem concerning investor protection (e.g., inadequate segregation of customer assets)
- In its inspections, the SESC will endeavor to conduct verification and point out problems in a practically meaningful manner, going further than just pointing out problems and taking actions such as making recommendation for administrative disciplinary actions, and analyzing the whole picture of the problems to identify their root causes, to help develop effective measures to prevent recurrence. Furthermore, if the SESC identifies the need to improve business operations before any potential issues materialize, it will describe such items as “Items to be noted” in the notification of completion of inspection, to share the awareness with the inspected FIBOs to encourage actions such as building effective internal control environments.

Cooperation with relevant organizations and dissemination of inspection results

- The SESC and Local Finance Bureaus will work closely from the planning stage of monitoring and inspection and conduct joint inspection as needed.
- With regard to security tokens, the SESC will conduct information analysis, etc. in collaboration with relevant bureaus of the FSA.
- The SESC will continue close collaboration with SROs, share information with them in a timely manner, and thereby conduct its securities businesses monitoring effectively and efficiently.
- The SESC will share its inspection results also with inspected FIBOs’ audit-related staff and outside directors, and thereby encourage those FIBOs to voluntarily improve practices.

(1) Type I financial instruments business operators

As for Type I FIBOs (securities companies, etc.), the SESC in FY2023 verified the status of the development of internal control environments focusing on appropriate investment solicitation based on the principle of suitability, as well as the sufficiency of cybersecurity measures and the status of system risk management (including management of outsources) amid progress in digitalization.

Furthermore, the SESC proactively conducted inspection of, for example, companies that were plagued with concerns about specific cases of legal violations and business administration arrangements and 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.

As a result, out of 27 Type I FIBOs inspected in FY2023, the SESC notified 12 of them of their problems found in the inspections and recommended administrative disciplinary actions against four companies found to have committed serious violations of laws and regulations, including cases in which business operations were found to be in violation of the principle of suitability.

< Major cases where a recommendation was made >

Company name	Overview
Chibagin SECURITIES Co., Ltd. (Date of recommendation: Jun. 9, 2023)	<p>The Company solicited a large number of customers for complex structured bonds on a long-term and continuous basis without understanding their customer attributes, such as their investment policies and investment experience, in a timely and appropriate manner. In addition, the Company did not provide at least three customers with explanations in a manner and to the extent necessary for them to understand the solicitation in light of their customer attributes.</p> <p>The Company sold structured bonds as a tool to increase commission income and did not sufficiently develop a system to comply with the suitability principle. As a result, the Company could not prevent inappropriate solicitation sales that conflicted with suitability.</p>
SBI SECURITIES Co., Ltd.	From December 2020 to September 2021, the Company's Executive Officers, etc. instructed their subordinates to change the initial prices of three newly listed stocks for which the Company was the lead

<p>(Date of recommendation: Dec. 12, 2023)</p>	<p>manager above the public offering price. In order to do so, the Company requested employees of a Hong Kong subsidiary (concurrently serving as Institutional Investor Sales Department of the Company) and Financial Instruments Intermediary Service Providers (three companies) to do so. Nine institutional investors and 174 customers of the intermediary services providers who were requested to buy the newly listed stocks at a limit price of the public offering price were accepted and executed by the Company before donations were made on the day of listing.</p>
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(2) Investment management business operators

The SESC verified investment management business operators' investment status, and their development of control environments for investment management (including those outsourced) and conflict-of-interest management in order to fulfill their duties of loyalty to customers and of the due care of a prudent manager.

Out of the four investment management business operators for which inspection was completed in FY2023, the SESC notified two business operators of their problems found through inspection.

(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 inspection of business operators considered to carry high risks, based on the analysis of information provided by investors.

As a result, out of the five companies inspected in fiscal 2023 (2023), the SESC notified the four companies found to have problems.

(4) Investment advisors/agencies

The SESC conducted monitoring of 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 inspection of investment advisors/agencies considered to carry high risks.

Out of the 13 investment advisors/agencies for which inspection was completed in FY2023, the SESC notified six of their problems found through inspection, and made a recommendation for

administrative disciplinary actions against one company that was found to have committed a serious violation of law, such as making an advertisement containing a representation that significantly contradicts the facts.

< Case where a recommendation was made >

Company name	Overview
Stock Japan Co., Ltd. (Date of recommendation: Dec.5, 2023)	<p>The Company placed an advertisement on its website that included a fictitious episode in which a person who had entered into an investment advisory contract with the Company made a profit of more than 6 million yen in stocks based on the advice of the Company. In addition, the Company made a representation that was significantly contradictory to facts with respect to the expected profit, and included false statements in the statutory books and records to make it appear as if it were true.</p> <p>In addition, with respect to at least 10 of the recommendations, the Company provided information as if the date on which the highest price was reached after the buy recommendation was the date on which the Company made a sell recommendation to customers and the highest price of the stock were the stock prices at which the Company made a sell recommendation. In addition, when soliciting customers to enter into investment advisory contracts, the Company provided information such as "true investment advisory fees" as "discounted prices" on its solicitation website in order to give customers a sense of undervaluation.</p>

(5) Petitions to the court for a prohibition order and stay order against acts in violation of the FIEA

To prevent the spread of 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 a prohibition order and stay order against their illegal acts 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.

< Cases where a petition was filed >

Respondent (Court with which the petition was filed)	Overview
S DIVISION HOLDINGS INC., STEPCAPITALMANAGEMENT, Inc. and their manager ⁵ Date of petition filing: Jun. 28, 2023 Date of injunction Order: Nov. 1, 2023 (Osaka District Court)	S DIVISION HOLDINGS INC. (SDH), a Philippine corporation, and one of its officers (I) conducted a public offering of its own bonds (foreign bonds) without notification, while STEPCAPITALMANAGEMENT Co., Ltd. (Capital Co., Ltd.), a group company of SDH, and one of its officers (the same person as SDH's officer) also conducted (II) a public offering of its own bonds without notification and (III) a public offering of SDH's bonds without registration. SDH has made at least 2340 retail investors purchase over 15 billion yen of its own corporate bonds (foreign bonds) (the unreported portion is at least approximately 5.6 billion yen), while Capital has made at least 2001 retail investors purchase over 5.2 billion yen of its own corporate bonds (foreign bonds) (the unreported portion is at least approximately 460 million yen).

(6) Items to be noted

In conducting inspection, 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 the control environments of business operation although problems have yet to materialize, the SESC has described the situation as items to be noted in the notifications of completion of inspection to share awareness with the inspected FIBOs and urged them to build effective internal control environments.

< Concrete example >

⁵ See "4 INSPECTION ON VIOLATIONS OF DISCLOSURE REGULATIONS (RECOMMENDATIONS FOR ADMINISTRATIVE MONETARY PENALTY PAYMENT ORDERS)."

- Appropriate records, such as customer service records, from the viewpoint of preventing abuse of a superior position

In addition to appropriate management of customer relationships, the Company shall record and store the status of customer contact and the content of customer interactions (hereinafter referred to as the "Customer Interaction Record, etc.") in an information system in order to manage business traces from the viewpoint of preventing abuse of a superior position.

The CPAAOB examined record keeping concerning interview records, etc. during the CPAAOB's inspection. The CPAAOB found some deficiencies in some cases, such as the inability to confirm the interview records, etc., or the lack of sufficient records of the contents of the interview records, etc.

"Although a problem has not immediately become apparent at this point in time, the Company needs to take measures on an ongoing basis to ensure that customer service records are appropriately recorded and stored when interacting with customers as part of sales activities, and that the internal control division conducts follow-up examinations efficiently."

3. Future Challenges

(1) Strengthening monitoring of securities businesses

The number of business operators subject to the SESC's securities business monitoring has increased to approximately 8,500 in total, their sizes and business details are diverse. Furthermore, there are business operators that still do not have adequate systems in place for compliance with fundamental laws and regulations or for investor protection. Therefore, it is necessary to conduct securities business monitoring of such FIBOs effectively and efficiently.

Accordingly, the SESC will continue selection of securities business monitoring targets through a risk-based approach, and will conduct monitoring flexibly and proactively, by conducting inspections that narrowing down items to be verified as necessary, thereby further strengthening monitoring of securities businesses in order to detect challenges and problems of FIBOs at an early stage.

(2) Enhancing feedback

In conducting inspection, the SESC will not only point out problems and take actions, such as making recommendations for administrative disciplinary actions, but also analyze the whole picture of the problems and identify their root causes to provide feedback that helps FIBOs develop effective measures to prevent problems.

Furthermore, the SESC will provide feedback on the results of inspection 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.



Beware of persons who solicit investment products without registration

Message to investors (1)

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

Persons who conduct the following acts without statutory registration are violating the FIEA.

- Soliciting or arranging customers to sign contracts for investment in a project by explaining that dividends would be paid to investors from earnings from the project.
- 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, such as by offering to tell them of stock names expected to see price hikes
- Offering or intermediating FX trading by foreign business operators to/with Japanese resident customers
- Foreign business operators' activities, such as conducting asset management entrusted by Japanese resident customers (*management of customer assets from an overseas business base is prohibited) or managing partnership-type funds in which multiple Japanese resident customers invest, etc.

⇒ Persons who conduct these acts on a regular basis are required to be properly registered with the national government under the FIEA.

Investors, before making an investment, should sufficiently consider from various viewpoints for example, by checking the FSA's website in advance whether or not a solicitor is registered. It is legally prohibited to use any trade name, etc. similar to those of a registered FIBO.

2. Unregistered FIBOs causing damage to investors

Fraudulent cases leading to damage to investors and their troubles with unregistered FIBOs occur frequently.

*Unregistered FIBOs are beyond authorities' supervision or administrative disciplinary actions under the FIEA.

- An investor transferred money into a bank account under an individual's name and conducted FX trading with a foreign business operator registered with a foreign authority, as recommended by an acquaintance through social media. Although the investor was informed that the trading was making profits, when the investor tried to withdraw the money, the business operator refused, insisting on the need to pay tax for withdrawal. Eventually, the investor lost contact with the business operator and the acquaintance.
- An investor made an investment as recommended by an advertisement on a social media site by a business operator purporting to be a well-known celebrity. Although the investor was informed that the investment was making profits, when the investor tried to withdraw the money, the business operator refused, saying, "You need to make an additional payment to prove that the transaction was legitimate to pass a money laundering screening process." Eventually, the investor lost contact with the business operator.

- An investor paid a lot to a friend to purchase a USB flash drive which, according to the friend, contains know-how to always achieve profitable transactions. Then the investor traded with an overseas non-registered money dealer recommended by the friend, but suffered a large loss.
- An investor started binary option transactions with a foreign business operator, as stimulated by blogs and SNS posts that claimed successful investment experiences. Although the investor was informed that the transactions were making profits, when the investor tried to withdraw the money, the foreign business operator refused.

There are many fraudulent business operators who conduct little business but solicit investment by vowing to guarantee principal repayment and profit, causing damage to many investors.

They may repay the principal or pay dividends to some investors depending on investment from other investors in order to pretend to be doing business. Even if they pay dividends one or two times, investors should be aware that they may be taking advantage of such payments in order to simply appear to be doing business.

3 INVESTIGATION INTO MARKET MISCONDUCT (RECOMMENDATIONS FOR ADMINISTRATIVE MONETARY PENALTY PAYMENT ORDERS)

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.

Keeping in mind timely market oversight is required in response to changes in market environment, the SESC conducts prompt and efficient investigation with the possibility of issuing recommendations for administrative monetary penalty payment orders, in order to deter misconduct, ensure the fairness and transparency of markets, and protect investors.

2. Overview of Cases in FY2023

The SESC promptly and efficiently investigates suspected market misconduct cases through the active use of the administrative monetary penalty system. In FY2023, there were 17 cases of market misconduct (13 cases of insider trading and three cases of market manipulation, one case of fraudulent means) for which the SESC made recommendations for administrative monetary penalty payment orders.

(1) Insider trading

In FY2023, there were 13 cases of insider trading for which the SESC made recommendations for administrative monetary penalty payment orders. Of these, there was one cross-border incident. (See Fig. 3-1)

- (i) 12 violators who engaged in insider trading

By attribute, four persons (33.3%) were corporate insiders, and eight persons (66.7%) were primary information recipients who received material facts, etc. from the corporate insiders. The four corporate insiders consist of two employees of listed companies (including the employee of a listed company mentioned in (ii) below) and two employees who negotiated for the conclusion of contracts with one of the listed companies' subsidiaries. The eight primary recipients comprise one relative and five friends/colleagues of the company insiders, and two other people related to them (See Fig 3-2).

(ii) Two violators who provided information and recommended transactions

An officer of a listed company was found to have violated regulations by providing information to three acquaintances and encouraging two acquaintances to purchase shares for the purpose of gaining profits. Although the officer of the listed company was in a position to appropriately manage material facts, etc. and take the initiative in preventing insider trading, it was found that the officer provided information to persons who had no need to know of the information in the course of their duties and invited insider trading.

In addition, one employee of a listed company mentioned in (i) above was found to have committed a violation of regulations by providing information to a relative for the purpose of having his/her gain profits by purchasing the shares.

Fig. 3-1: Changes in the numbers of insider trading cases for which recommendations for administrative monetary penalty payment orders were made

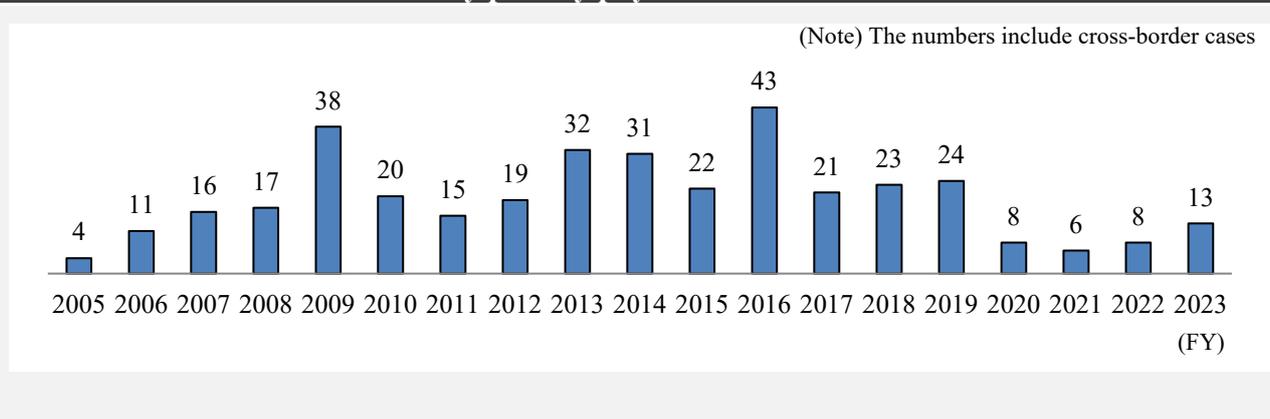
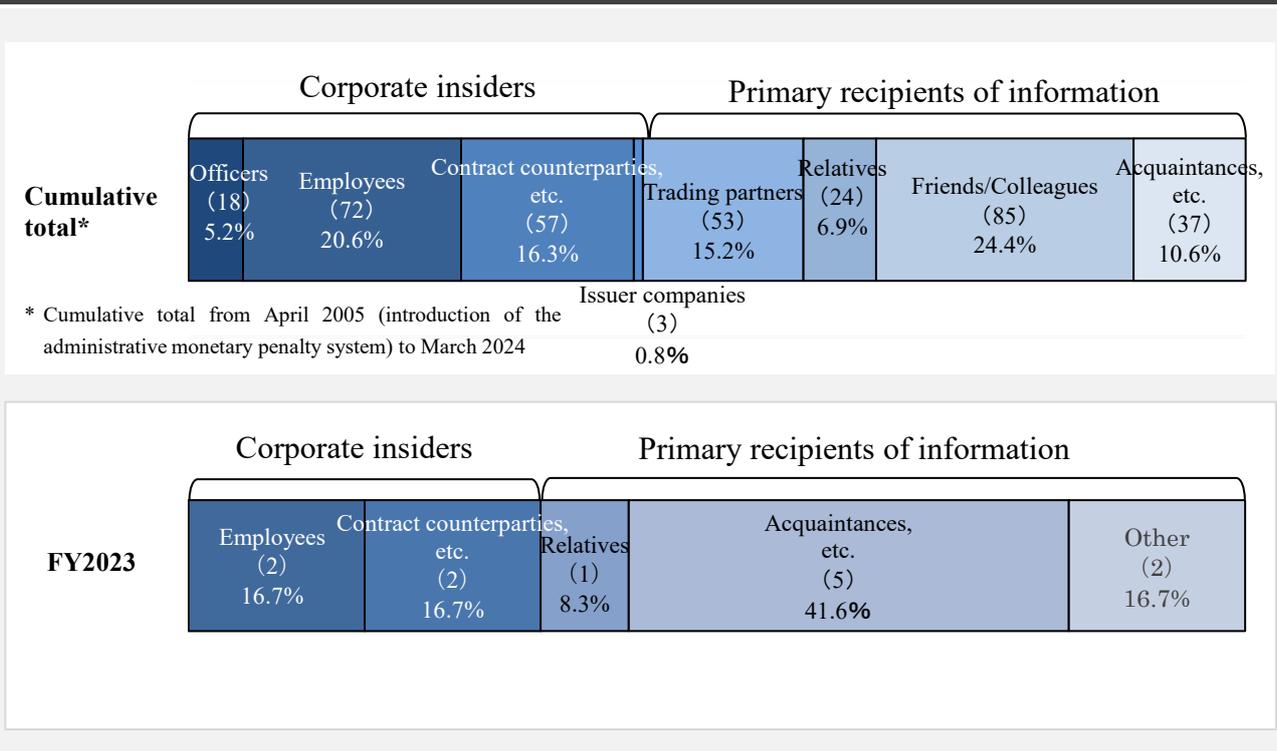
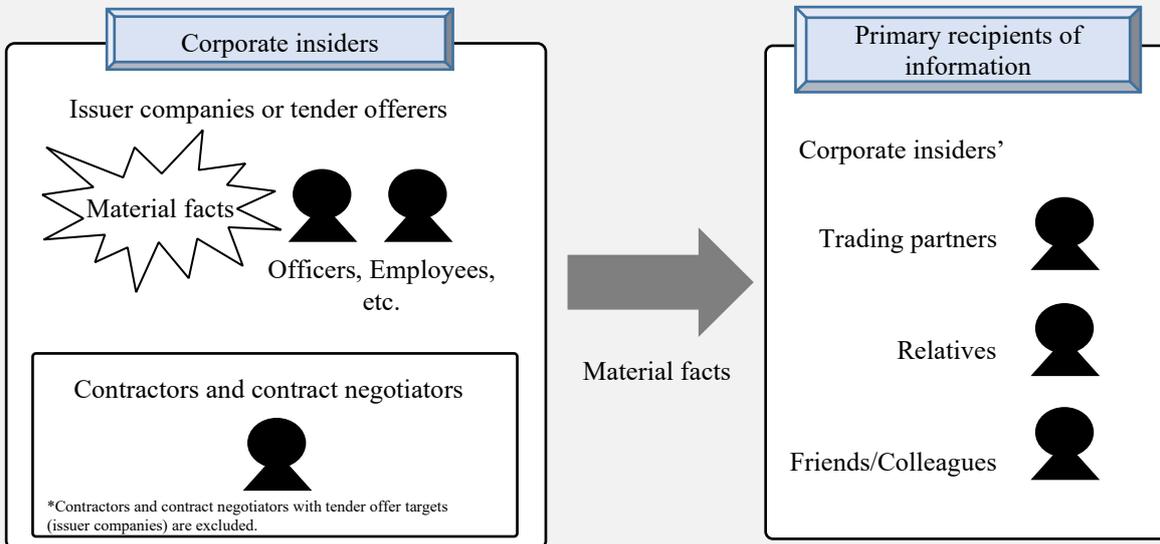


Fig. 3-2: Attributes of violators of insider trading regulations



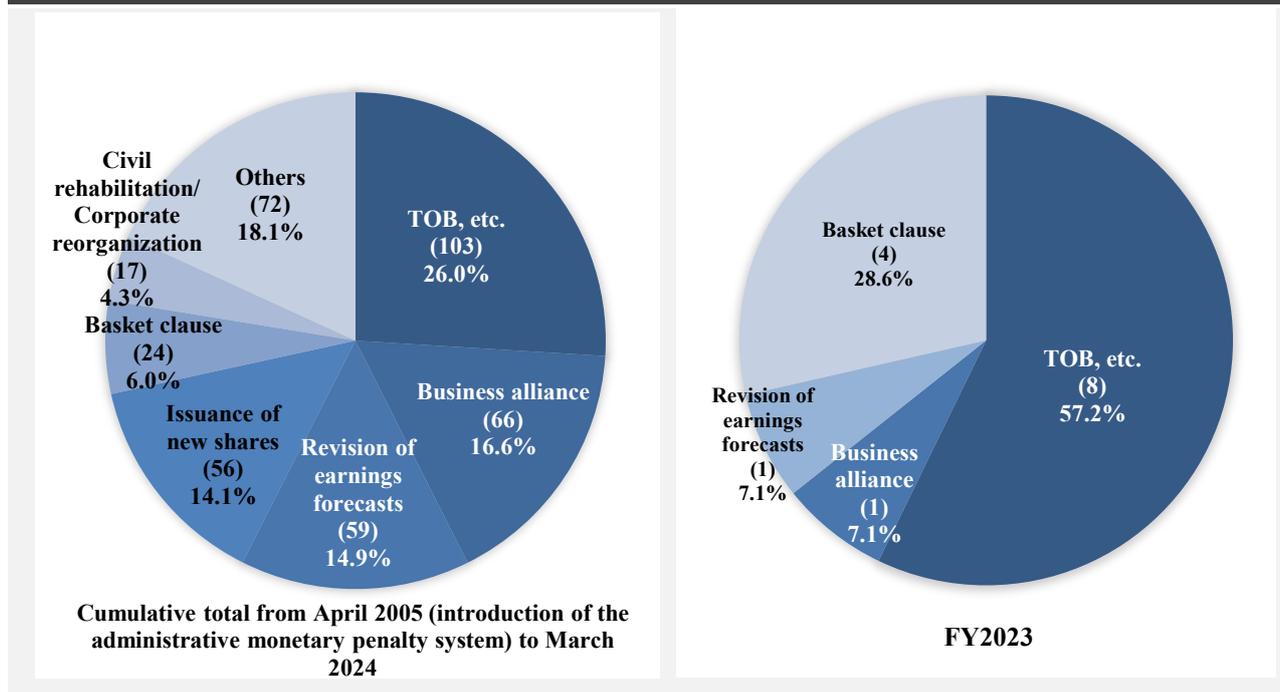
(Reference) Attributes of violators



In FY2023, the SESC made a total of 13 recommendations concerning 14 material facts. The 10 material facts included eight related to tender offers (57.2%), There were four basket trades (28.6%), one business alliance (7.1%) and one related to the revision of earnings forecasts (7.1%). The shares for tender offers remained high (See Fig. 3-3).

In general, when negotiating tender offers or other deals with various outside parties, the time from the decision-making on material facts to their publication is apt to be prolonged. Corporate insiders therefore need to keep confidentiality more carefully.

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



Through its insider trading investigation, the SESC found that although listed companies had established internal rules for preventing insider trading, some of them failed to have the rules fully understood within the company or otherwise failed to prescribe internal rules to prevent insiders from encouraging the purchase and sale of their securities to others.

< Major case of insider trading >

Case	Date of recommendation Amount of administrative monetary penalty	Overview and key points
<p>【Insider trading】</p> <p>Three employees of a client company of a subsidiary of the Japan Steel Works, Ltd. learned of a material fact in the course of their duties and sold shares through a margin transaction before a public announcement.</p>	<p>Oct. 27 2023</p> <p>(A)1,850,000 yen</p> <p>(B)720,000 yen</p> <p>(C)2,410,000 yen</p>	<ul style="list-style-type: none"> ▪ The second administrative monetary penalty recommendation case in which the basket clause of a subsidiary was applied. ▪ Those who violated insider trading regulations are employees of a listed company and subsidiaries of the listed companies.

<p>【 Providing information and Encouraging transactions】</p> <p>An officer of CONTEC CO., LTD. became aware of the fact of a tender offer, etc. in relation to his/her duties and provided information to three acquaintances with the aim of gaining profits by having them purchase shares before the announcement. In addition, the officer recommended two acquaintances to purchase shares.</p>	<p>Feb. 16 2024</p> <p>4,770,000 yen</p>	<ul style="list-style-type: none"> • The highest number of cases in which the same violator provided information to and encouraged transactions with multiple persons (5 people) • The SESC also made recommendations on insider trading violations committed by three persons who received insider information.
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(2) Market manipulation

In FY2023, the SESC made recommendations for administrative monetary penalty payment orders for three cases of market manipulation, including one cross-border case.

In FY2023, in order to stabilize stock prices at target levels, the SESC uncovered the use of trading methods such as wash trade, pulling back stock prices, and marking the close.

< Major case of market manipulation >

Case	Date of recommendation Amount of administrative monetary penalty	Overview and key points
<p>An individual investor, for the purpose of stabilizing the stock price of OHMORI Co., Ltd., engaged in wash trade while placing buy orders layered at lower prices.</p>	<p>Mar. 22, 2024</p> <p>2,280,000 yen</p>	<ul style="list-style-type: none"> • The second administrative monetary penalty recommendation case in which stabilizing the market was applied.

(3) Fraudulent means

In FY 2023, the SESC made one recommendation for administrative monetary penalty payment orders related to fraudulent means.

In this case, Quadeye Trading LLC (hereinafter referred to as "Quadeye"), a U.S.-based corporation registered as a high-speed trader, attempted to buy and sell securities in its favor with fraudulent means. This is the first case in which the SESC has recommended an administrative monetary penalty for market misconduct using HST.

This topic is also introduced in "Key Topics in FY 2023."

<Cross-border cases>

Case	Date of recommendation Amount of administrative monetary penalty	Overview and key points
Quadeye affected closing prices by cancelling on-close orders one microsecond (one millionth of a second) before the market close in six stock trades with its HSTr.	Mar. 26, 2023 7,900,000 yen	▪ First recommendation for administrative monetary penalty payment order against market misconduct with HST.

3. Future Challenges

(1) Appropriate application of laws and regulations

In cases of insider trading, there were cases in which transactions were carried out by persons who had been informed of material facts, etc. or had received trade recommendations from company insiders, such as officers of listed companies. When providing information on material facts to another person or encouraging another person to engage in trading for the purpose of having other persons gain profits, such act of the information provider falls under violation of the regulations on the provision of insider information or violation of the regulations on transaction encouragement even if the information provider him/herself does not engage in trading. The SESC will appropriately apply

laws and regulations to information provision and transaction encouragement by such insiders of listed companies.

In addition, in cases of market manipulation, transactions using multiple securities accounts in one's own name or securities accounts in another person's name were permitted. The SESC cooperates with JPX-R, etc., securities companies and other market stakeholders to persistently monitor markets. Even if wrongdoers use accounts under borrowed names in an attempt to avoid detection by authorities, the SESC will analyze transaction data, etc. in detail to identify persons who conducted problematic transactions at an early stage, and appropriately apply laws and regulations.

(2) Scrutiny into cross-border transactions

With respect to market misconduct involving cross-border transactions, the SESC will find facts through extensive collaboration and information exchange with foreign authorities in an effective and efficient manner under the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU) formulated by the International Organization of Securities Commissions (IOSCO).

(3) Enhancing dissemination of information

As a means of enhancing market discipline, the SESC appropriately distributes information⁶ after making recommendations by website posting, press briefings and “Message to the Markets.”⁷ The SESC also gives lectures, contributes articles on a variety of topics and publishes “Casebook of Administrative Monetary Penalties.” The SESC will continuously endeavor to 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 violation of the FIEA can occur not only in relation to their insider trading, but also in relation to their provision of information on unpublished material facts to others and their encouragement of others to make transactions based on such material facts. These efforts are intended to forestall market misconduct.

(4) Improvement of digital forensic technology

⁶ For example, the FSA and the SESC have published "FAQ Regarding Insider Trading Regulation" to allow ordinary people to make fair investment in stocks and other products without worries.

⁷ In April 2019, the SESC email newsletter was revamped and renamed “Message to the Markets”
<https://www.fsa.go.jp/sesc/message/index.html>

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 forensics technology.

Do you know about regulations on transaction encouragement?

—Even if you don't provide insider information, encouraging others to make a transaction may constitute a violation—

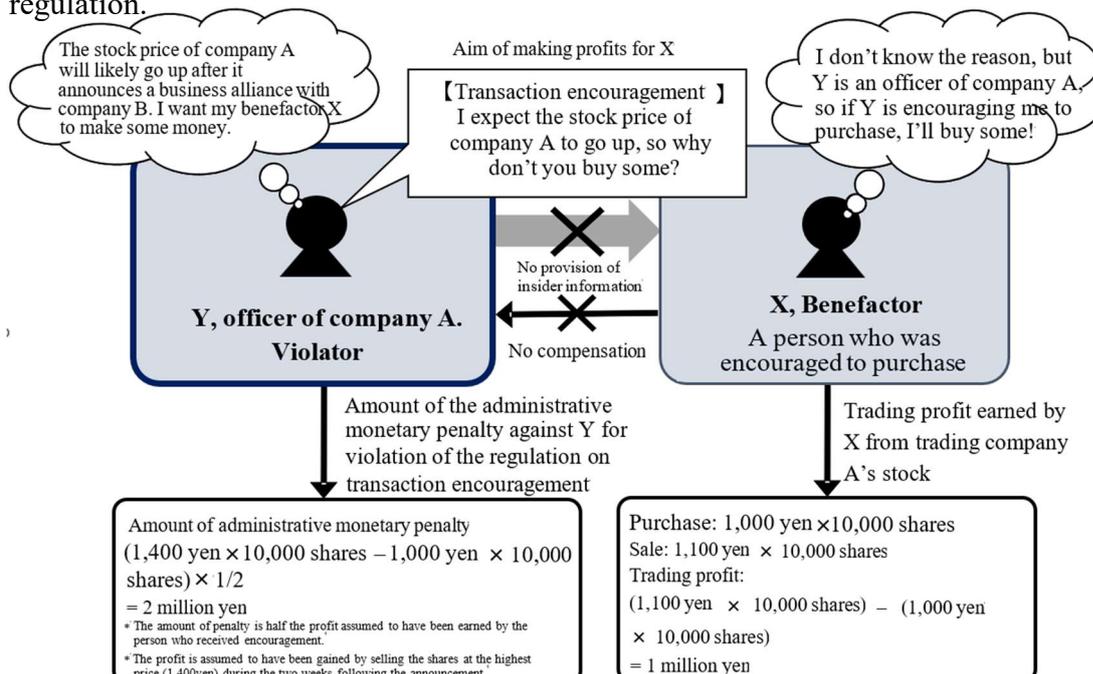
Message to company insiders and person affiliated with Tender Offer

Since the regulations on the provision of insider information and on transaction encouragement were introduced in April 2014, the SESC has made recommendations for a total of 31 cases of the violation of the relevant regulations. In FY2023, the SESC made recommendations on two cases of non-compliance with the Regulation on Communication of Information (including one case of non-compliance with the Regulation on Transaction Encouragement).

If you were a company insider or person affiliated with Tender Offer, encouraging other persons to make a transaction for the purpose of gaining profits or avoiding losses may constitute a breach of the regulation on transaction encouragement even if you did not provide the persons with insider information (material facts and facts of Tender Offer).

Most listed companies have rules to prevent insider trading and prohibit unnecessary provision of insider information. However, the SESC recognizes that some companies do not have rules that prescribe the regulation on transaction encouragement.

The SESC therefore encourages listed companies to prevent violations on transaction encouragement by taking steps such as stipulating relevant provisions in their internal rules and increasing company-wide awareness regarding the fact that the act of making transaction encouragement without providing insider information is also subject to the insider trading regulation.



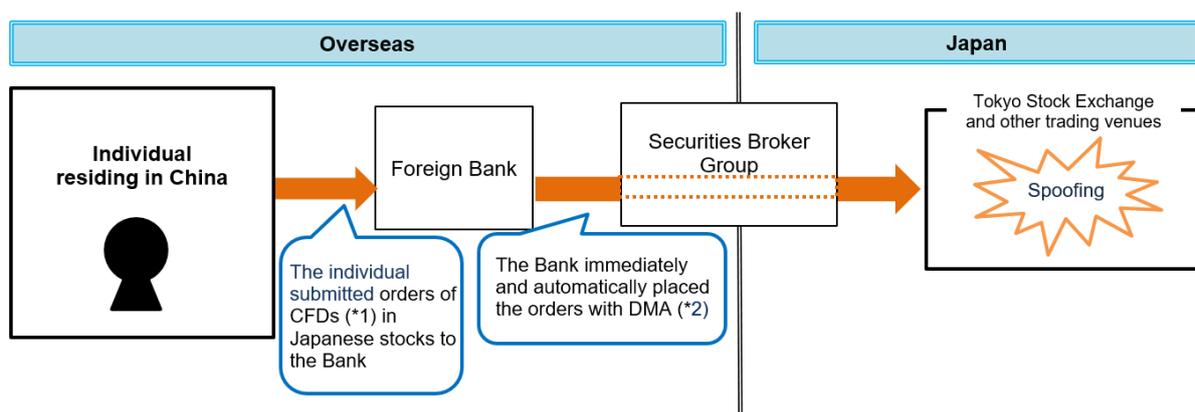
Watching transactions from overseas

—All-time record in collaboration with foreign authorities—

Message to market participants

The SESC's "Medium-Term Action Policy (11th Term: 2023 - 2025)" states that it will "promote information sharing through international frameworks, such as the IOSCO, and strengthen global market surveillance."

In FY2023, the SESC recommended an administrative monetary penalty payment order against market manipulation known as spoofing in shares of Pacific Metals Co., Ltd. and Noritsu Koki Co., Ltd. through CFDs (*1) in securities with a foreign bank. (See the figure below.)



* 1 Contracts For Difference: CFDs are transactions whereby a margin is deposited and a settlement is made based on the price difference between at the beginning and end of the transaction in underlying assets such as stocks. CFDs are classified as OTC derivatives under the FIEA.

* 2 Direct Market Access: DMA is an arrangement whereby customers' orders are directly routed to an exchange, etc. via a securities broker's system.

In this case, the SESC used IOSCO's MMoU to conduct an investigation with the assistance of all-time record, eight foreign authorities (British Columbia, Canada; Cayman Islands; People's Republic of China; Denmark; Hong Kong; Hungary; Ontario, Canada; and the United Kingdom).

The SESC monitors overseas over-the-counter derivatives transactions that may impact domestic markets. In close cooperation with foreign authorities, the SESC works to ensure the fairness of the market.

4 INSPECTION ON VIOLATIONS OF DISCLOSURE REGULATIONS (RECOMMENDATIONS FOR ADMINISTRATIVE MONETARY PENALTY PAYMENT ORDERS)

1. Purpose of Disclosure Statements Inspection

The FIEA's disclosure regulations are aimed at protecting investors by providing them with material 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 FY2023

In FY2023, 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 FY2023, the SESC conducted 36 cases of disclosure statements inspection, including those continued from FY2022, and completed 10 cases. In eight of the completed cases, the SESC found material misstatements and other violations in disclosure statements, such as securities reports, and made recommendations for administrative monetary penalty payment orders. Of these, one was the first case in which a recommendation for an administrative monetary penalty payment order was made for specified involvement act.⁸ Additionally, for one case in which

⁸ An act which facilitates the submission, etc. of fake disclosure documents, etc. or an act which incites the former act

a wrongdoer was found to have violated the FIEA by conducting public offering without submitting a securities registration statement, the SESC filed a petition with the court for the issuance of a prohibition order, etc.

In addition, for the inspection cases where disclosure documents needed to be amended, the SESC encouraged the submitters of these documents to voluntarily file amended reports

In cases where violations of disclosure regulations were identified through inspection, the SESC discussed with the management of the listed companies the background and causes of such violations, regardless of whether the violations resulted in recommendations for administrative monetary penalty payment orders. By sharing awareness of the issues 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 active in developing and operating such internal systems, the SESC cooperated with relevant organizations (FIEs, audit firms and others) in preventing recurrences of similar violations of disclosure regulations.

(1) Cases where a recommendation for administrative monetary penalty payment order was made

< Major cases where a recommendation was made >

Person/Company subject to payment order Amount of administrative monetary penalty	Overview	Background and cause of inappropriate accounting practices
TABIKOBO Co. Ltd. Jun. 6, 2023 12,000,000 yen	<ul style="list-style-type: none"> The Company conducted inappropriate accounting treatment by stating an excessive amount of sales and cost of sales according to flow of funds transactions. 	<ul style="list-style-type: none"> Although the former CFO had received consultations regarding doubts about the flow of funds transactions, he did not take a cautious approach, failing to confirm or consult with the accounting auditor in advance. The former presidents' awareness of fraud risks was weak.

4 INSPECTION ON VIOLATIONS OF DISCLOSURE REGULATIONS (RECOMMENDATIONS FOR ADMINISTRATIVE MONETARY PENALTY PAYMENT ORDERS)

<p>A person Aug. 4, 2023 1,500,000 yen</p>	<ul style="list-style-type: none"> ▪ When a company submitting disclosure documents made a foreign corporation a subsidiary, the person subject to the administrative monetary penalty payment order conducted an act (specified involvement act) that should have facilitated the submission of false disclosure documents by the company submitting disclosure documents by overestimating the share value, which is the premise for the subscription price of the shares of the said corporation. 	<ul style="list-style-type: none"> ▪ Because of the close personal relationship between the person subject to the administrative monetary penalty payment order (the person) and the director of the company submitting the disclosure documents, the person wanted to respond to the request of the company that was in need. ▪ Because there are no strict rules for share valuation operations, as required by accounting audits, it was thought that inappropriate share valuations would be difficult to uncover and would not later become an issue.
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<p>amana inc. Dec. 15, 2023 38,000,000 yen</p>	<p>▪The Company conducted inappropriate accounting treatment by stating an excessive amount of sales and cost of sales due to the misappropriation of company assets by employees of the Company.</p>	<p>▪For a long time, certain customers were handled by a single person in charge, who had discretion to prepare and send invoices, etc.</p> <p>▪Business processes, such as the approval of payments to external contractors by supervisors, had become ineffective.</p> <p>▪In the accounting department, due to the weakness of the organization and personnel structure, the checking function was insufficient, as shown by the failure to conduct a deep investigation of individual cases.</p> <p>▪Due to a lack of resources at the Internal Audit Office, etc., the frequency of internal audits was limited, and follow-up audits were not sufficiently conducted.</p> <p>▪Management's explanations to employees about management's responses to past fraud cases and business flow due to enhanced internal controls were inadequate, leading to a decline in individual compliance awareness.</p>
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(2) Petitions to the court for the issuance of prohibition orders, etc. against public offering of securities without statutory notification

In order to prevent the spread of damage to investors caused by persons who conduct public offering of securities without statutory notification, the SESC has responded harshly by properly exercising its investigation authority to file petitions with the court for the issuance of prohibition orders, etc. against violations, in cooperation with the FSA, Local Finance Bureaus, etc. and investigative authorities, and by publishing the names of persons who conduct public offering without statutory notification, the names of their representatives, and the details of the violations, etc. as needed.

< Case where a petition was filed >

Respondent (Court with which the petition was filed)	Overview
<p>S DIVISION HOLDINGS INC., STEPCAPITALMANAGEMENT, Inc. and their manager</p> <p>Date of petition filing: Jun. 28, 2023 Date of injunction order: Nov. 1, 2023 (Osaka District Court)</p>	<ul style="list-style-type: none"> ▪ When issuing foreign corporate bonds of S DIVISION HOLDINGS INC. (hereinafter referred to as "SDH") or corporate bonds of STEPCAPITALMANAGEMENT, Inc. (hereinafter referred to as "Capital") (bonds with the same redemption period and interest rate) to domestic retail investors, the companies and the manager conducted the public offering of securities (foreign corporate bonds of SDH or corporate bonds of Capital) without submitting a security registration statement (violation of Article 4 Paragraph (1) of the FIEA). ▪ Having the issuer acquire the securities prior to the effective date of the notification (violation of Article 15, Paragraph (1) of the FIEA).

3. Future Challenges

(1) Enhancement of information gathering and analysis

The SESC will gather and analyze useful information about listed companies with a focus on the risk of violations of disclosure regulations due to the increasing complexity of transactions, the globalization of companies, and the diversification and transformation of business models. In addition, the SESC will conduct flexible and multifaceted disclosure documents inspections in order to promptly detect and correct violations of disclosure regulations.

(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, to encourage them to develop and operate systems for adequate information disclosure to prevent the occurrence or recurrence of such violations. If listed companies are not active in developing

and operating such information disclosure systems, the SESC will share information on such listed companies with FIEs and relevant audit firms as necessary.

(ii) Enhancing dissemination of information

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.). By annually publishing a case book presenting actual cases of violations identified through inspections, the SESC also promotes listed companies' internal discussions towards appropriate information disclosure and dialogue between listed companies and their certified public accountants/audit firms. Through active communications with stakeholders, the SESC will continue its efforts to prevent the occurrence or recurrence of violations of disclosure regulations.

(3) Strengthening of the capability to address non-traditional and new types of violations

In consideration of changes in the environment surrounding the markets, the SESC will also take proactive actions against non-traditional and new types of violations that may threaten market fairness (For example, non-submission or significant delay in submission of statements of large-volume holdings that is suspected to be intentional, and specified involvement act), while continuously addressing types of violations seen in the past cases of making recommendations for administrative actions.



The importance of non-financial information has been increasing

Message to listed companies

Both financial information and non-financial information in annual securities reports are important information that enables investors to make appropriate investment decisions, and it is also important information for helping companies to raise the quality of management and continuously increase corporate value by promoting constructive dialogue with investors. In particular, non-financial information has been increasing in importance as a basis for dialogue between companies and investors, complementing financial information. Efforts have been made to enhance the disclosure of non-financial information.

- What kind of information is non-financial information?

Non-financial information generally refers to, among information provided in statutory disclosure documents (annual securities reports, etc.), information other than financial information provided in "documents concerning financial calculation" prescribed in Article 193 - 2 of the FIEA. Specific examples include the following items.

Items to be included in non-financial information in annual securities reports

- I. Company outlines 【Company's employees】
- II. Business status 【Business management policy, business management environment, problems to be dealt with, etc., Disclosure of Sustainability-related Financial Information】
- III. Outline of facilities and equipment 【Outline of capital investment, etc.】
- IV. Information on reporting company 【Status of corporate governance, etc.】

Under these circumstances, in order to encourage the further enhancement of disclosure of non-financial information, the revised Cabinet Office Order on Disclosure of Corporate Affairs, which includes a new column for sustainability information, came into effect in January 2023 (applicable to annual securities reports, etc. for fiscal years ending on or after March 31, 2023).

- We are also keeping an eye on violations of non-financial disclosure regulations!

As such, non-financial information is extremely important for capital markets, and it is not permissible to make false statements.*

To ensure that accurate information is provided to investors, the SESC will gather and analyze information, including non-financial information, with a focus on the risk of violations of disclosure regulations, and conduct disclosure inspections.

* However, the "Guidelines for Disclosure of Corporate Affairs" were revised in January 2023 to clarify that if specific explanations are provided within the scope that is generally considered reasonable with respect to the future information stated in annual securities reports, etc., even if the actual results differ from the future information stated in annual securities reports, etc., the companies are not immediately liable for false statements, etc.

Do you properly submit statements of large-volume holdings and statements of changes?

Message to investors (2)

Under the large-volume holdings reporting system prescribed in the FIEA, corporations and individuals must submit a statement of large-volume holdings when their holding ratio of listed companies' share certificates, etc. exceeds 5%, and must submit a statement of changes when their holding ratio changes by 1% or more. This section provides (1) Overview of the large-volume holdings reporting system and (2) Outline recent amendments to the FIEA.

(1) Overview of the large-volume holdings reporting system

- Who assumes the obligation to submit those statements?

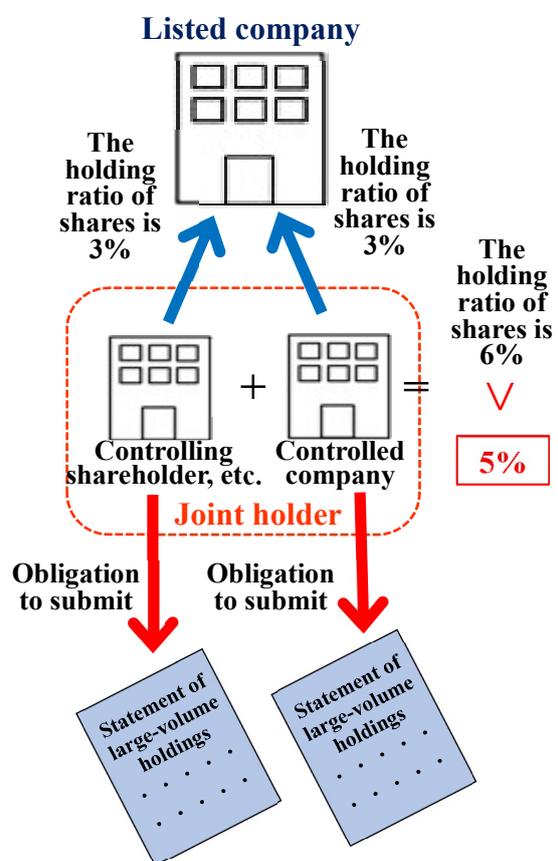
A holder (irrespective of a corporation or an individual) whose holding ratio of share certificates, etc. issued by a listed company has exceeded 5% must submit a statement of large-volume holdings, in principle within five business days from such date. Thereafter, the holder whose holding ratio has changed by 1% or more must submit a statement of changes, in principle within five business days from such date.

- Who falls under a "holder"?

Holders of share certificates, etc. include not only those who hold the share certificates, but those who hold them in the name of another person (or under a fictitious name). Therefore, a person who substantially holds transaction accounts or share certificates, etc. in another person's name or fictitious name, or a person who holds share certificates, etc. in the name of the previous holder without transferring the name, also falls under a holder of share certificates, etc.

- The holding ratio of share certificates, etc. should be calculated by including shares certificates, etc. held jointly with joint holder(s)!

The holding ratio of share certificates, etc. must be calculated by the sum of the number of share certificates, etc. that are held by the holder and the joint holder(s). A joint holder is a person who has agreed to jointly acquire or transfer the share certificates, etc., or to jointly exercise voting rights or other rights as the issuer's shareholders with other holders. Even if such agreement has not been made, joint holders include a company that holds the majority of voting rights in a company (a "controlling shareholder, etc.") and that company (a "controlled company") (= the parent company and a subsidiary), and companies that have the same controlling shareholder, etc. (= fellow subsidiaries)(These are so-called "deemed joint holders.")



(2) Outline of recent amendments to the FIEA

Regarding the report by the Working Group on the Tender Offer Rule and Large Shareholding Reporting Rule of the Financial System Council published on December 25, 2023, as an issue concerning the large shareholding reporting system, investors are required to have dialogues with companies, and the effectiveness of dialogues can be improved by actively utilizing joint engagement.* However, it is pointed out the scope of "joint holders" is unclear under laws and regulations, which hinders joint engagement. In light of such indications, the FIEA was amended (enacted on May 15, 2024 (2024)) regarding the large shareholding reporting system in order to promote constructive dialogues between companies and investors and thereby promote the enhancement of corporate value over the medium to long term.

* Multiple investors cooperate to hold dialogues on specific themes with individual investee companies.

(Outline of amendments to the FIEA)

✓ Clarification of the scope of "joint holders" subject to aggregation of holding ratio

Non-continuous agreements between institutional investors that are not related to corporate control, etc. are clearly excluded from the application, and it has been clarified that as long as multiple investors do not make an agreement that has a material impact on management,* they do not fall under the category of "joint holders."

* This assumes the case where the parties jointly make proposals that are not directly related to corporate control, such as changes to dividend policy or capital policy.

In addition, in order to appropriately respond to cases that may threaten the fairness of the market, such as cases in which multiple investors secretly failed to submit reports, the FSA plans to develop a regulation in which a company is deemed to be a "joint holders" when there are certain external facts, such as interlocking directorates and funding relationships.

5 INVESTIGATION OF CRIMINAL CASES (FILING OF CRIMINAL CHARGES)

1. Purpose of Criminal Investigation

It is important to respond strictly to serious and malicious market misconduct in order to secure fairness and transparency in markets and build market participants' confidence in the markets in order to maintain financial and capital markets in which investors and other participants are able to participate with a sense of security. In order to uncover the core of the case of malicious market misconduct that would damage the integrity of financial markets and to protect investors, the authority to investigate criminal cases involving market misconduct was given as a unique power of the SESC staff¹¹ upon the SESC's establishment in 1992. At present, some of the acts prescribed in the Financial Services Act for regulating financial services intermediaries and the APTCP for regulating cross-border money laundering are additionally subjected to the SESC staff's criminal investigation.¹²

2. Overview of Filing of Criminal Charge Cases in FY2023

Under circumstances where financial activities are becoming increasingly globalized, complex and sophisticated, the SESC has been flexibly investigating criminal cases in both primary and secondary markets. In FY2023, the SESC filed criminal charges in four cases (including one insider trading case, one case of submitting a false annual securities report, one case of spreading rumors and using fraudulent means, and one market manipulation case). These included a case of transaction recommendation by a former executive vice president and chief operating officer of an issuing company (a charge was filed on June 6, 2023), and a case of spreading rumors and use of fraudulent means by a representative of the largest shareholder corporation, etc. (a charge were filed on November 20, 2023).

Case	Date of criminal charge filing	Filed with
Transaction recommendation related to the shares of IR Japan Holdings, Ltd.	Jun. 6, 2023	Public prosecutor of the Tokyo District Public Prosecutors Office

¹¹ Article 210, FIEA

¹² Article 161, APFS ; Article 32, APTCP

Submission of a false annual securities report related to Proroute Marumitsu Co., Ltd.	Oct. 31, 2023	Public prosecutor of the Tokyo District Public Prosecutors Office
Spreading of rumors and use of fraudulent means related to the shares of Proroute Marumitsu Co., Ltd.	Nov. 20, 2023,	Public prosecutor of the Tokyo District Public Prosecutors Office
Market manipulation related to the shares of NICHIRYOKU Co., Ltd.	Feb. 13, 2024	Public prosecutor of the Osaka District Public Prosecutors Office

3. Filing of Criminal Charge cases in FY2023

(1) Transaction recommendation related to the shares of IR Japan Holdings, Ltd.

On June 6, 2023, the SESC filed a criminal charge against one suspect with the Tokyo District Public Prosecutors Office for violation of the FIEA (transaction recommendation).

(Case overview)

In this case, the suspect, who was an executive vice president and chief operating officer of IR Japan Holdings, Ltd. came to know the fact of the downward revision of consolidated earnings forecasts for the company in the course of duty around late March 2021. With the aim of having two individuals avoid losses by having them sell the shares of the company in advance, the suspect recommended the two individuals to sell the shares of the company prior to the announcement of the fact. The two individuals sold their shares prior to the announcement of the fact.

The SESC filed a criminal charge in this case because it deemed it to be malicious in light of various factors, including the position of the suspect and the impact it had on the fairness of the markets.

(2) Submission of a false annual securities report related to Proroute Marumitsu Co., Ltd.

On October 31, 2023, the SESC filed criminal charges against one suspect company and five suspects with the Tokyo District Public Prosecutors Office for violation of the FIEA (submission of a false annual securities report).

(Case overview)

In this case, on June 17, 2021, five suspects (a representative director of the largest shareholder corporation, etc.) in conspiracy submitted an annual securities report of the suspect company, Proroute Marumitsu Co., Ltd. that contained a false consolidated income statement showing that the

suspect company was in the black by booking fictitious sales, despite the fact that the suspect company had an operating loss, etc. for the fiscal year from March 21, 2020, to March 20, 2021. The SESC filed criminal charges in this case because it deemed it to be malicious in light of various factors, including the position of the suspects and the impact it had on the fairness of the market.

(3) Spreading rumors and using fraudulent means related to the shares of Proroute Marumitsu Co., Ltd.

On November 20, 2023, the SESC filed criminal charges against three suspects with the Tokyo District Public Prosecutors Office for violation of the FIEA (spreading rumors and using fraudulent means).

(Case overview)

In this case, the three suspects (a representative director of the largest shareholder corporation, etc.) conspired to have officers and employees of Proroute Marumitsu Co., Ltd. make a public announcement concerning the conclusion of a share exchange agreement that included false information on December 18, 2019, with the aim of increasing the share price of Proroute Marumitsu Co., Ltd. The SESC filed criminal charges in this case because it deemed it to be malicious in light of various factors, including the position of the suspects and the impact it had on fairness of the market.

(4) Market manipulation related to shares of NICHIRYOKU Co., Ltd.

On February 13, 2024, the SESC filed a criminal charge against one suspect with the Tokyo District Public Prosecutors Office for violation of the FIEA (market manipulation).

(Case overview)

In this case, the suspect committed market manipulation by attempting to set a high price for shares of NICHIRYOKU Co., Ltd. and committed criminal acts over the course of three trading days from October 26 to October 28, 2020, 15 trading days from November 16 to December 7 of the same year, and seven trading days from December 22 to December 30 of the same year, thereby fraudulently increasing the share price.

The SESC filed a criminal charge in this case because it deemed it to be malicious in light of various factors, including the fact that, in the criminal act in question, the suspect not only used a large number of accounts under different names, but also engaged in numerous wash trades to sharply increase trading volume and used techniques such as placing a series of high limit orders and purchasing the shares at high prices, which had a significant impact on share prices in the market that should have been formed by the supply-demand balance, and that this had an impact on market fairness.

4. Future Challenges

The SESC exercises its authority for criminal investigation and filing criminal charges in cooperation with criminal prosecutors and other relevant authorities to appropriately take rigorous actions against serious and malicious market misconduct. In this respect, it is important for the SESC not only to take actions against frequently occurring misconduct that can be easily categorized into typical types of violations, such as insider trading and market manipulation, but also to keep an eye on various sorts of market misconduct, including atypical and new types of cases.

It is also essential for the SESC to flexibly respond to changes in the environment surrounding financial transactions. For example, the recent advancement of digitalization has made it easier for anyone to use advanced communication devices and the arrival of SNS and other types of communication tools was not anticipated when regulations on insider trading and other market misconduct were originally introduced. In addition, increasing market globalization is heightening the need for international cooperation in market oversight. To adapt to such changes in the environment, the SESC will continue efforts to enhance fairness and transparency in the markets by developing human resources with expertise in criminal investigations, while upgrading various tools used in criminal investigations and further strengthening cooperation with relevant institutions, including foreign authorities.

6 DEVELOPMENT OF INFRASTRUCTURE THAT SUPPORTS MARKET OVERSIGHT (UTILIZATION OF DIGITAL TECHNOLOGY AND HUMAN RESOURCES)

1. Adapting to Information and Communications Technology Progress

Rapid and dramatic advances in information and communications technology are causing significant changes in the environment surrounding markets and in the way people work. Based on these market environment and working style changes, financial technological trends at home and abroad, and digitalization trends for regulatory and law enforcement authorities, the SESC has been working to increase the sophistication of market oversight and enhance its efficiency through the use of digital technology and to further improve digital forensics technology.

In FY2023, the SESC made preparations for the procurement of a new market surveillance system, the design and development of which will start in FY 2024. Specifically, the SESC clarified the requirements for the new system, including those for improving security and processing capacity. In addition, the SESC introduced online account and deposit statement inquiry services provided by private operators. In addition, in order to quickly and efficiently investigate a large amount of electronic data using digital forensics, specifications were studied for updating the system used for digital forensics.

2. Future Challenges for Further Promoting Digitalization

(1) Study on further promotion of digitalization for market oversight

In order to respond to changes in the environment surrounding markets, the SESC will review and improve the infrastructure necessary for market surveillance operations, thereby enhancing the sophistication and efficiency of these operations. Specific considerations will be advanced toward further promotion of digitalization in market surveillance operations. For example, we will enhance functions for efficiently and effectively analyzing huge volumes of order and transaction data, and develop tools to detect signs of market misconduct from various data on social media and the Internet.

(2) Promoting information sharing with market participants and foreign authorities

The SESC is required to closely share information on the use of technologies and data in the field of market oversight with SROs, financial institutions and other market participants, and foreign authorities, and to continuously review existing infrastructure.

For instance, in addition to opinion exchange with SROs, financial institutions, and IT businesses, the SESC will proactively participate in international conferences sponsored by the IOSCO and other entities to share information with foreign authorities on digitalization responses to enhance cooperation.

(3) Further improving digital forensics technology and sophisticating systems

As digital technology advances, smartphones, tablet computers and other electronics subject to digital forensics, various services provided by cloud business operators, and cybersecurity measures for protecting these services have become diverse and complicated, while data for acquisition and analysis have rapidly increased. The environment surrounding digital forensics has thus been changing significantly.

In order to respond to such environmental changes, the SESC has been making efforts to enhance information systems for digital forensics necessary for acquiring, analyzing, and recovering data. The SESC will continue to implement digital forensics tools required for strengthening its digital forensics capabilities and further improving the skills of its staff.

3. Utilization of Human Resources

(1) Human resources development

To develop human resources with expertise and a broad perspective on market oversight, the SESC conducts various training programs on surveillance techniques, such as investigation and inspection, for its staff. In order to respond to changes in the environment surrounding securities markets, the SESC also focuses on training programs aimed at acquiring IT-related knowledge and strengthening its ability to respond to international events.

For example, in FY2023, the SESC invited experts from IT businesses to study sessions with the aim of acquiring knowledge on the latest digital technologies and IT. In addition, the SESC reviewed the teaching materials and curriculum of on-the-job training to equip a large number of employees with practical digital forensic skills in order to promote the development of human resources engaged in digital forensics work.

In addition, the SESC positively participated in seminars, etc. organized by the IOSCO or foreign authorities with the aim of ascertaining monitoring, investigation and inspection techniques of foreign authorities and enhancing its capability to handle international cases (the improvement of skills to analyze and investigate market misconduct using cross-border transactions).

(2) Recruitment of personnel with expertise

In order to realize professional market surveillance, the SESC has strengthened its investigation and inspection systems by appointing attorneys, certified public accountants, real estate appraisers, information technology experts, and other personnel with a high degree of expert knowledge.

These employees are engaged in monitoring the securities business of FIBOs, investigations and inspections of market misconduct and violations of disclosure regulations, and criminal investigations targeting serious and malicious violations. In addition, people with expert knowledge are engaged in digital forensics services.

Fig. 6-1: Activities of outside experts

(Unit: Persons)

	As of April 2022	As of April 2023	As of April 2024
Attorneys	9	10	9
Certified public accountant	19	18	16
Real estate appraisers	1	2	2
Information processing engineers	6	7	6
Personnel with practical financial experience	13	14	14
Total	48	51	47

7 EFFORTS TO ENHANCE MARKET DISCIPLINE

1. Enhancing Dissemination of Information

(1) Dissemination of information through various channels

When having made recommendations or having filed criminal charges as a result of its inspection or investigation, the SESC broadly disseminates the significance and details of the cases through briefings for media organizations including newspapers and TV. Additionally, the SESC actively responds to requests for interviews from media organizations from the perspective of encouraging them to disseminate information based on proper analyses of individual cases.

Furthermore, the SESC annually formulates and publishes casebooks¹⁵ that compile individual cases involving recommendations, etc., outlining the implications and drawings of the cases, issues identified by the SESC, and matters to note for market participants. It also actively provides lectures to market participants (42 times in FY2023) and contributes commentaries to relevant journals (17 times in FY2022) with the aim of preventing occurrence and recurrence of violations and misconduct and thereby enhancing market discipline.

The SESC posts up-to-date information on its activities, such as summaries of cases involving recommendations, etc., and details of given lectures and published commentaries on its website, while also utilizing X (formerly Twitter).

The SESC has also been disseminating information internationally on its activities that contribute to the fairness, transparency, and investor protection of Japan's markets. In fiscal 2023, the SESC gave a lecture on the importance and techniques of market surveillance at the Nasdaq Surveillance Conference 2023. The SESC also gave a lecture and exchanged opinions on securities companies' monitoring policies at the International Bankers Association.

The SESC will continue to actively disseminate information to investors and market participants in Japan and overseas so that their understanding of the SESC's efforts will lead to strengthened market discipline and the prevention of market misconduct.

(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

¹⁵ The SESC is calling attention of market participants by fully utilizing "Casebook of administrative monetary penalties under the FIEA—Market Misconduct," "Casebook of Inspection of Disclosure Statements," and "Overview and Casebook of Monitoring of Securities Businesses, as well as "SESC Column" in its Annual Reports.

oversight. Given that cases of market misconduct can take place throughout Japan due to the widening 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 FY2023, however, the SESC held no such meetings, senior officials of the SESC's secretariat visited Local Finance Bureaus to hold town meetings with officials engaged in daily market surveillance. Through these activities, the SESC made efforts to increase awareness of market surveillance issues and its presence in the market, and to strengthen cooperation with Local Finance Bureaus that are responsible for market surveillance.

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

2. 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 makes policy proposals 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 they are considered necessary as a result of its inspection or investigation.

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

Specifically, when the SESC recognizes room for improvement in current laws and regulations or SROs' rules considering actual 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 and regulations as well as SROs' rules should be enforced, and requests the revision of existing laws and regulations or SROs' rules.

Recently, the SESC made a policy proposal regarding solicitation of offers to acquire the membership rights of a limited liability company (June 21, 2022). Since its launch in 1992, 27 proposals have been made by the end of FY2023.

The SESC will continue to make active use of policy proposals for measures deemed necessary based on the results of investigations and inspections under the FIEA.

3. Cooperation with Relevant Organizations

(1) Cooperation with SROs

SROs, such as Financial Instruments Firms Associations, FIEs, and SRO, are engaged in their own daily market monitoring activities, such as the examination of market surveillance, 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 oversight. Specifically, the SESC seeks further cooperation towards enhancing market discipline and market oversight functions, and regularly holds meetings to exchange views on various issues in markets to share issues of mutual interest. In FY2023, the SESC held such meetings 14 times and had active discussions on challenges and issues regarding market oversight.

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 (public prosecutors, police, etc.)

In cases where the SESC identifies unregistered FIBOs selling fraudulent financial instruments or finds activities that may be associated with anti-social forces in investigations into cases of market misconduct, etc., 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 the public prosecutors with whom the SESC files criminal charges, 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 knowhow related to the collection and analysis of evidence.

To reinforce the functioning of market discipline in financial markets through voluntary efforts by market participants, the SESC proactively dialogues and shares awareness with market participants

by offering lectures at and exchanging views with the Japan Audit and Supervisory Board Members Association and other organizations.

8 CONTRIBUTING TO GLOBAL MARKET OVERSIGHT

1. International Market Oversight Cooperation Initiatives

As the internationalization and sophistication of financial transactions have made progress in recent years, international cooperation in addressing market misconduct has grown even more important. Given such market environment, the SESC, in its 11th medium-term activity policy titled "Strategy & Policy 2023-2025" that was formulated in January 2023, calls for strengthening international cooperation as one of the measures for "Information Gathering and Analysis for Comprehensive Market Oversight," thus demonstrating its plans to step up cooperation with foreign authorities.

The SESC has so far exchanged information with overseas authorities based on the MMoU and taken proactive law enforcement actions against violations through cross-border transactions.

The SESC has been enhancing intelligence-gathering capabilities through the promotion of information exchange based on the IOSCO MMoU and trying to build confidence with foreign authorities through its proactive participation in IOSCO activities and personal exchange with foreign authorities. Based on confidence built with foreign authorities, the SESC has also promoted the sharing of the latest trends, knowledge and experiences regarding market oversight and cooperation in investigation, inspection and law enforcement. For market oversight in Japan, furthermore, the SESC has tried to utilize useful intelligence gained through exchange with foreign authorities on their law enforcement actions and legal systems.

Regarding challenges for market oversight involving cross-border transactions, the SESC proactively raises issues and shares information at IOSCO and other multilateral meetings. In this way, the SESC is seeking to enhance cooperation with foreign authorities through contributions to global market oversight.

Fig. 8-1: Changes in the numbers of information exchange cases under MMoU

	FY2021	FY2022	FY2023
Cases of receiving information from foreign authorities	64	76	66
Requests to foreign authorities for the provision of	22	20	16
Voluntary provision of information from foreign authorities	42	56	50
Cases of providing information to foreign authorities	8	4	11
Requests to foreign authorities for the provision of information	6	1	5
Voluntary provision of information from foreign authorities	2	3	6

(*1) Excluding the number of cases of information provision pertaining to inquiries for eligibility screening by the authorities (regarding persons who assume important positions in financial institutions or local corporations that file applications for approval, etc.)

(*2) The numbers of cases may change in the future as a result of alteration of tabulation methods or screening of the details of exchanged information.

2. Activities at the IOSCO

The IOSCO is an international organization that aims to internationally harmonize securities regulations and promote cooperation between securities regulators. It is comprised of 238 member organizations from various countries and regions, including 131 ordinary, 34 associate, and 73 affiliate members (all figures as of the end of April 2024). The SESC joined the IOSCO as an associate member in October 1993.¹⁶

The IOSCO holds its Annual Meeting, where top officials from various countries' securities regulatory authorities discuss and exchange views on the current state and issues of securities regulations. Every year, SESC Commissioners and senior officials participate in the meeting. The 2023 Annual Meeting which took place in June of the year was attended by the SESC commissioner. In addition to the Annual Meeting, the IOSCO holds meetings of the Asia-Pacific Regional Committee (APRC) to discuss region-wide securities-related issues, including market oversight. In February 2024, the SESC participated in a working-level conference for law enforcement officials from the APRC member authorities. At this meeting, the SESC exchanged information on methods to investigate market misconduct related to crypto-assets, as well as on the use of SNS and other media to facilitate illegal solicitation by unregistered businesses. Through these IOSCO meetings, the SESC endeavors to enhance cooperation with foreign authorities.

Within the IOSCO, key regulatory issues for international markets are discussed and practical solutions to them are proposed at the IOSCO Board, which consists of regulators from various countries and regions. Under the board, there are eight Policy Committees discussing specific policy issues. The SESC has been a member of Committee 4 to discuss law enforcement and information sharing. The SESC participated in Committee 4 meetings in June and November 2023 and March 2024. Participants in these meetings shared individual countries' responses to illegal investment solicitation being conducted online and discussed how to effectively deter In damage to investors. In addition, the SESC took part in an IOSCO conference on the utilization of digital tools for law enforcement activities, which was held in September 2023.

The SESC has also been a member of the IOSCO Screening Group, which screens applications submitted by regulators to become signatories to the MMoU and the Enhanced MMoU (EMMoU). The Group's meetings are held in combination with Committee 4 meetings. As a result of screening in FY2023, the Securities and Exchange Commission of Thailand signed the EMMoU.

¹⁶ The FSA upon its establishment took over the position of an ordinary member from the Ministry of Finance.

3. Cooperation with Foreign Authorities

(1) Providing training to personnel of foreign authorities

The SESC continuously provides training on Japan's market oversight and investigation of market misconduct to emerging economies' financial regulators as part of human resource development programs organized by the FSA and External organizations, etc. In FY 2023, SESC Secretariat staff gave a lecture at the Tokyo Roundtable of the Asian Securities Forum (ASF) hosted by the Japan Securities Dealers Association (JSDA) on the SESC's investigation methods for market misconduct. Support was also provided for the Japan International Cooperation Agency's (JICA's) Capacity Building Project for Improving the Fairness and Transparency of the Stock Market in Vietnam to develop human resources and build capacity in the Vietnamese securities authorities through three webinars, one face-to-face training session, and one online consultation on government orders and circulars.

(2) Other personnel exchanges

In FY2023 as in the previous year, the IOSCO and foreign authorities held various technical workshops and awareness-raising events in a virtual format. The SESC participated in a programme offered by IOSCO and the Autorite des marches financiers.

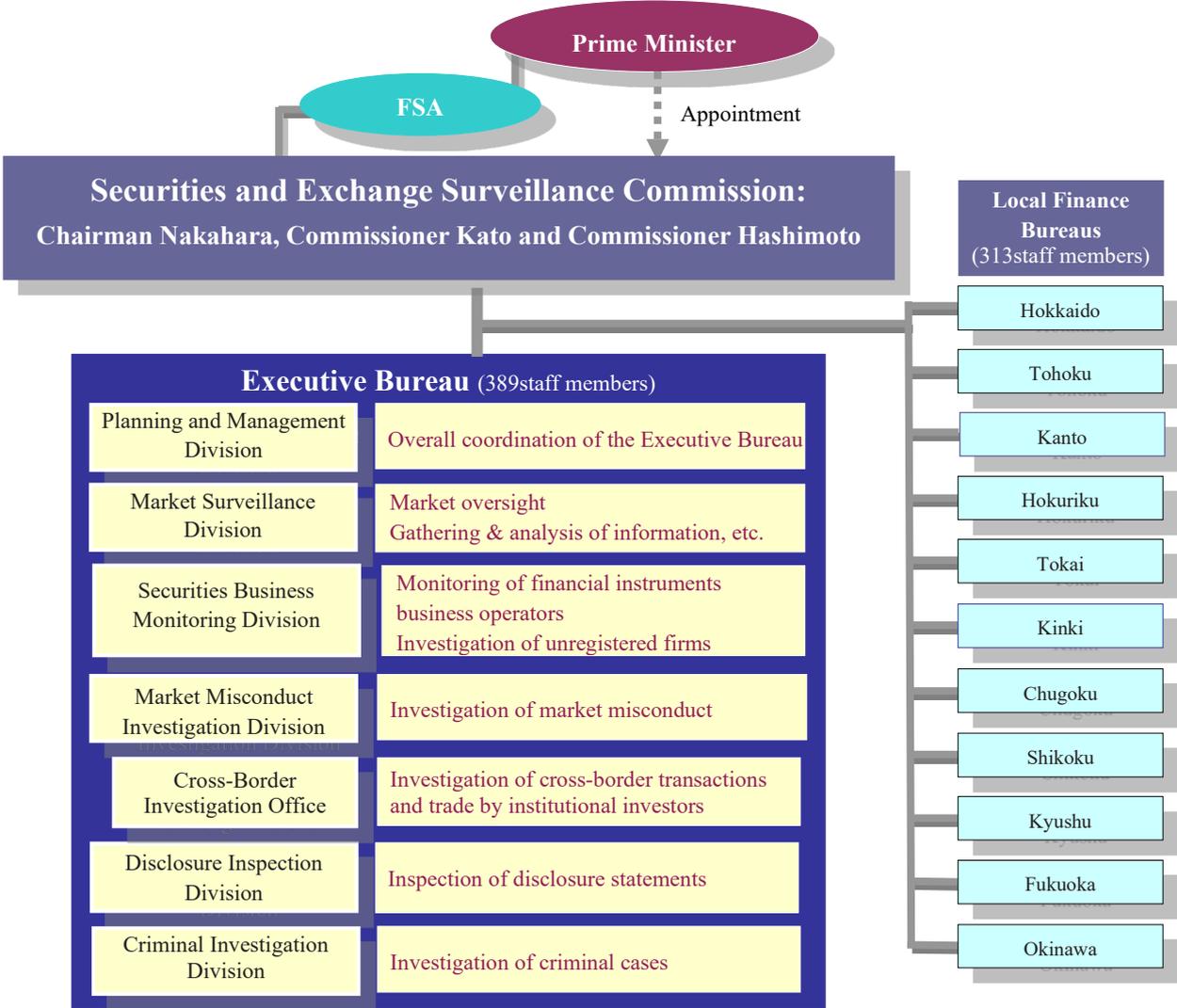
The SESC has sent staff members as secondees to the U.S. Securities and Exchange Commission, the U.S. Commodity Futures Trading Commission, the U.K. Financial Conduct Authority, the Hong Kong Securities and Futures Commission, the Thailand Securities and Exchange Commission, the Malaysia Securities Commission, and the Monetary Authority of Singapore. The secondment aims to have them learn about and analyze foreign authorities' methodologies in oversight, investigation and inspection, and introduce Japanese methods and knowledge to foreign authorities. Due to the prolonged spread of COVID-19 in FY 2023, no staff were dispatched to overseas authorities. From FY 2024, however, staff are scheduled to be dispatched (to resume) to the Monetary Authority of Singapore.

In the future, the SESC will further enhance cooperation with foreign authorities and contribute to global market oversight through information and personnel exchanges with foreign authorities.

Appendices

Chart 1

Organization Chart

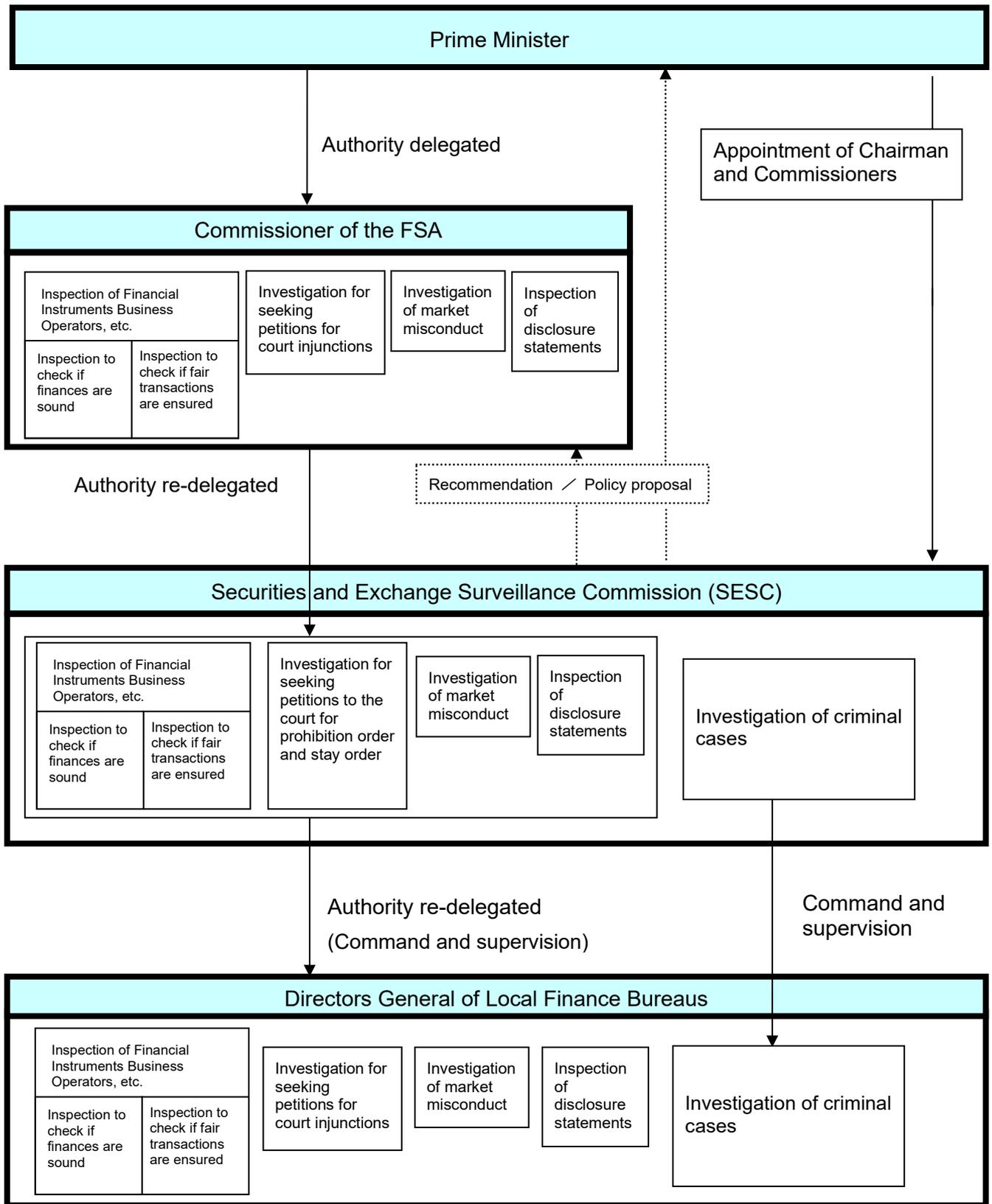


Note1: Staff members of Executive Bureau are quota as at the end of FY2023.

Note2: In July 2006, the SESC was transformed from two divisions (the Coordination and Inspection Division and the Criminal Investigation Division) and three offices (the Compliance Inspection Office, the Market Surveillance Office, and the Office of Penalties Investigation and Disclosure Documents Examination under the Coordination and Inspection Division) into five divisions (the Planning and Management Division, the Market Surveillance Division, the Securities Business Monitoring Division, the Civil Penalties Investigation and Disclosure Documents Inspection Division, and the Criminal Investigation Division). Furthermore, in July 2011, the Civil Penalties Investigation and Disclosure Documents Inspection Division was divided into two divisions (the Market Misconduct Investigation Division, and the Disclosure Inspection Division), meaning that the SESC was transformed into six divisions. In August 2011, Cross-Border Investigation Office was established within the Market Misconduct Investigation Division, to investigate transactions, etc. conducted by persons in foreign countries.

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))

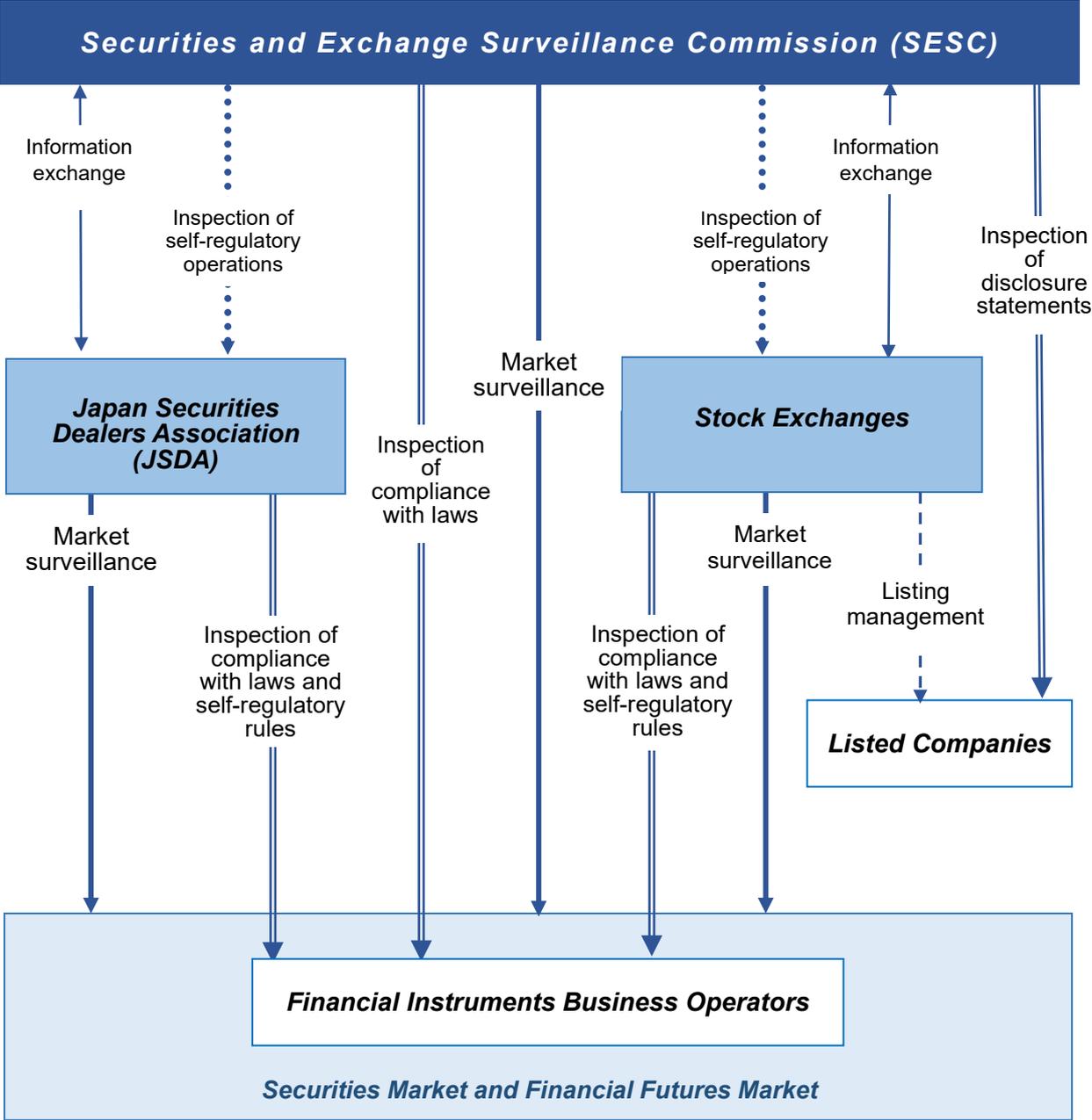
(Note 2) For an investigation of a criminal offence, the SESC directs and supervises the Director General of a Local Finance Bureau or the Director of its branch office. The SESC may, deeming it necessary for investigating a criminal offence, direct and supervise firsthand an official of a Local Finance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

Fiscal year		1992 to 2018	2019	2020	2021	2022	2023	Total
Criminal charges		200	3	2	8	8	4	225
Recommendations		1,082	49	29	20	26	33	1,239
Recommendations based on securities inspections		570	14	5	2	5	8	604
Recommendations for administrative monetary penalty payment orders (market misconduct)		397	29	14	12	14	17	483
Recommendations for administrative monetary penalty payment orders (false statements in disclosure statements, etc.)		111	6	10	5	7	8	147
Recommendations for order to submit correction report, etc.		4	0	0	1	0	0	5
Announcement of results of inspection of persons making notification for business specially permitted for qualified institutional investors		86	2	0	0	1	0	89
Petition to the court for prohibition order and stay order, etc., against unregistered business operator or solicitation without the filing of securities registration statements		22	3	1	1	2	1	30
Proposals		26	0	0	0	1	0	27
Securities inspections	Financial instrument businesses operators	3,133	64	41	37	42	56	3,373
	Type I financial instrument businesses operators	2,265	44	34	28	23	34	2,428
	Type II financial instrument businesses operators	294	4	1	1	3	6	309
	Investment management firms Investment advisories/agencies	574	16	6	8	16	16	636
	Registered financial institutions	349	2	0	2	6	6	365
	Persons making notification for business specially permitted for qualified institutional investors	138	0	2	0	3	1	144
	Financial instruments intermediaries	74	2	2	2	4	1	85
	Credit rating agencies	9	1	1	0	0	0	11
	Self-regulatory organizations	32	2	0	2	0	0	36
	Investment corporations	50	1	0	2	2	1	56
	Other	15	1	1	1	2	0	20
	Total	3,800	73	47	46	59	65	4,090
Transaction examinations		18,109	1,061	965	969	1,065	1,183	23,352

Notes

- Total number of securities inspections refers to the number of cases that have been started.
- 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 1, 2023

Securities and Exchange Surveillance Commission

Monitoring Priorities for Securities Businesses (July 2023 - June 2024)

Based on the recent environment surrounding financial instruments business operators (FIBOs), and the commitment of the Securities and Exchange Surveillance Commission (SESC), as stated in its Strategy & Policy 2023-2025 published on January 27, 2023, to continuing securities inspections based on a risk-based approach and making a proactive response to cases where investors are harmed, the SESC has compiled the priorities for its securities business monitoring¹ for Business Year 2023.²

1. Environment surrounding FIBOs, etc.

(1) Environment surrounding FIBOs

The "Basic Policy on Economic and Fiscal Management and Reform 2023," formulated in June 2023, states that the government will implement the "Doubling Asset-based Income Plan" through such means as fundamentally expanding and perpetuating the NISA (Nippon Individual Savings Account) program, establishing a public organization for financial and economic education, and promoting customer-oriented business conduct, and will formulate a policy plan on fundamental reform of the asset management business, etc. within this year. In order to facilitate households' stable asset building, it is important to achieve a virtuous cycle of funds wherein the fruits of the growth of the Japanese economy and companies are distributed to households. For that purpose, FIBOs are continuously required to properly ensure customer-oriented business conduct at each stage of the composition, sale, management, etc. of financial instruments and fulfill their expected roles sufficiently.

As the business environment significantly changes along with progress in digitalization and other factors, FIBOs are developing sustainable business models through such means as partnering with other securities and financial companies and providing services that meet the changing market environment and customer needs.

As warnings have been repeatedly issued to financial institutions to call for enhanced cybersecurity measures under the initiative of top management amid

¹ "Securities business monitoring" in this document covers both inspection and monitoring. "Inspection" means activities based on Article 56-2 of the Financial Instruments and Exchange Act, while "monitoring" refers to activities other than inspection.

² Business Year 2023 is from July 2023 to June 2024

the increasing risk of cyberattacks, FIBOs are continuously required to strengthen their system risk management, including cybersecurity.

International interest has remained high in Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) measures. As Japan follows up on the results of the FATF 4th Mutual Evaluation and looks ahead to the 5th Mutual Evaluation, FIBOs are continuously required to take AML/CFT measures.

(2) Changes to regulatory frameworks for FIBOs

Since the previous business year, regulatory frameworks, etc. for FIBOs have been under review as follows. In light of such moves, FIBOs are required to ensure customer-oriented business conduct and strengthen investor protection.

(i) Measures for ensuring customer-oriented business conduct

Based on discussions held by the "Customer-Oriented Business Conduct Task Force" of the Working Group on Capital Market Regulations under the Financial System Council, there are moves toward developing a regulatory framework for ensuring customer-oriented business conduct that takes into consideration the best interests of customers, etc. and enhancing the provision of information to customers. A Self-regulatory Organization (SRO) revised its guidelines to ensure appropriate solicitation and sale of complex structured bonds, etc. to customers, and it disseminated the ideal form of disclosure of development costs (theoretical price) and disclosure and analysis of risks and returns.

(ii) Response to the progress in digitalization, etc.

Based on discussions held by the Working Group on Capital Market Regulations under the Financial System Council, there are moves toward developing a regulatory framework, such as prohibiting type II FIBOs that provide social lending, etc. from publicly offering funds that do not guarantee the delivery of investment reports, and applying sale and solicitation regulations under the Financial Instruments and Exchange Act to token rights based on specified joint real estate venture contracts. Also, as the development of an environment for trading platforms for unlisted securities and security tokens is in progress, a PTS operator is working toward launching a PTS for security tokens.

(iii) Development of provisions concerning ESG investment trusts

As the issue of "greenwashing" has been pointed out globally in recent years, the Comprehensive Guidelines for Supervision of Financial Instruments

Business Operators, etc. were partially amended to specify in detail matters to be verified regarding ESG information disclosure for publicly offered investment trusts.

(iv) Clarification of trustee responsibilities of investment management business operators

Based on discussions held by the Working Group on Capital Market Regulations under the Financial System Council, for the purpose of clarifying trustee responsibilities of investment management business operators with regard to investment trusts that are virtually managed by external managers, such as in the form of fund of funds, an SRO revised its rules to specify matters to be observed and noted when investing in investment trust securities or outsourcing investment instructions.

(3) Findings through the securities business monitoring over the past business year

Through its securities business monitoring over the past business year, the SESC found that some FIBOs were transforming their business models or internal control environments in response to the changes in their business environment.

(i) Type I FIBOs, registered financial institutions, independent financial advisors

With regard to customer-oriented business conduct, in the context of sales of financial instruments through bank-securities collaboration, the SESC found that a regional bank-affiliated securities company failed to develop a sufficient internal control environment to follow the principle of suitability, and engaged in inappropriate solicitation and sale that conflicted with the principle of suitability. The SESC also found that the regional bank as a registered financial institution failed to develop an appropriate internal control environment for providing financial instruments intermediary services and engaged in problematic conduct in terms of investor protection, which eventually led to the above-mentioned issue at the regional bank-affiliated securities company. In addition, the SESC found that a financial instruments intermediary service provider as an outsourcee of an FIBO sold financial instruments with inappropriate solicitation and that the FIBO failed to sufficiently manage the financial instruments intermediary service provider.

The SESC found that a large securities company engaged in market manipulation in relation to block trades, had deficient trade screening, and conducted business in collaboration with banks inappropriately.

(ii) Investment management business operators

The SESC found that an investment management business operator who uses outsourcing failed to properly manage and administer its investment assets, such as establishing fund-of-funds type investment trusts without sufficient due diligence in accordance with product characteristics.

The SESC also found that some asset management companies who operate REITs, infrastructure funds, or other investment corporations violated the duty of diligence, such as by conducting inappropriate property surveys or property earnings management, and that they had deficient conflict-of-interest control systems, including an inability to verify the appropriateness of transactions with interested parties.

(iii) Investment advisors/agencies

The SESC found that an investment advisor/agency violated laws and regulations, such as posting false information on an e-mail magazine available free of charge to subscribers to solicit an investment advisory contract.

(iv) Type II FIBOs

The SESC found that a Type II FIBO set up webpages for publicly offered funds that invest in money lending businesses, but posted false information regarding collateral and borrowers' financial conditions and solicited page viewers to obtain equity in those funds.

(v) Unregistered business operators

The SESC found that some unregistered business operators conducted over-the-counter derivatives transactions or made public offering or private placement of foreign bonds without registration as FIBOs.

2. Industry-wide monitoring priorities

Considering the environment surrounding FIBOs, and the Japan Financial Services Agency's (JFSA's) policies, such as "*The JFSA Strategic Priorities*," the SESC will examine the following industry-wide themes in cooperation with relevant JFSA divisions:

- (i) Internal control environments with a focus on appropriate investment solicitation based on the principle of suitability, and appropriate sales operations based on customer-oriented business conduct

For instance, with regard to the sale of complex or highly-risky products, not limited to structured bonds, the SESC will examine whether FIBOs develop and appropriately implement internal rules concerning customer targeting and

explanation, whether they appropriately monitor compliance with such internal rules, and whether their actual sales operations are consistent with their policies on the principle of customer-oriented business conduct.

- (ii) Business model changes along with progress in digitalization, etc., and the development of internal control environments in response to such changes

For instance, the SESC will examine the impacts of FIBO's business model changes, such as the expansion of non-face-to-face sales and the provision of new products and services, on their business management, and will verify that they have appropriate internal control environments in response to these changes.

On the other hand, as for those FIBOs whose business models remain dependent on traditional face-to-face sales, the SESC will examine the sustainability of such business models and the financial and other business impacts of the changing market conditions and customer needs.

- (iii) Sufficiency of cybersecurity measures (including countermeasures against unauthorized access in online trading), and system risk management (including management of system development and operation and management of trustees) in response to progress in digitalization
- (iv) Firm establishment of internal control environments for AML/CFT
- (v) Implementation of measures to improve or prevent the recurrence of matters pointed out in internal audits or SRO examinations

In addition to the above, the SESC will flexibly examine other themes in accordance with concrete efforts being made in light of the environment surrounding FIBOs, such as the implementation of the "Doubling Asset-based Income Plan" and fundamental reform of the asset management business, etc., as well as in response to changes in the relevant environment.

3. Monitoring priorities by FIBOs' size and business type

Considering each FIBO's size and business type, as well as the environment surrounding them, the SESC will focus on the following items, regarding which FIBO's could violate relevant laws and regulations or harm investor protection, such as with inadequate segregation of customer assets.

- (1) Major securities business groups³

Considering the business environments surrounding each major securities

³ Major securities business groups: Japanese securities companies with global operations

business group, the SESC will continue to verify that they have appropriate control environments for governance and risk management that support global business operations, and that they are working to build sustainable business models.

Given that deficiencies have been found in their business operation, including trade screening, the SESC will verify that they have appropriate internal control environments, including those for detecting and preventing market misconduct.

If necessary, the SESC will swiftly inspect relevant sales offices to examine actual sales practices there.

As for the three mega banking groups' securities companies, in addition to the above, the SESC will coordinate with relevant JFSA divisions in verifying that they have appropriate control environments for managing customer information in line with their promotion of bank-securities business relationships.

(2) Foreign securities firms

The SESC will verify that the foreign securities firms have appropriate internal control environments in response to the overseas outsourcing of back-office operations as part of their group strategies, and that they have appropriate control environments for system risk management. The SESC will also verify that they have appropriate control environments for managing sales of financial instruments to Japanese financial institutions and other investors.

(3) Online securities firms

Given the recent increasing risk of cyberattacks, the SESC will verify that online securities firms have appropriate control environments for system risk management, including cybersecurity measures.

The SESC will verify that they have appropriate management of outsourcing contractors, in line with their business model of using financial instruments intermediary service providers to expand face-to-face sales activities. The SESC will also verify that, as some online securities firms move to eliminate trade commissions, they have appropriate internal control environments, including effective trade management that can deal with rapid increases in newly opened accounts and transaction volume.

(4) Semi-major/regional securities firms (including regional bank-affiliated securities companies)

The SESC found that, amid the severe business environment, such as the

outflow of customers' assets through aging and inheritance, the impact of intensifying fee competition and digitalization, some semi-major/regional securities firms were engaging in inappropriate investment solicitation and other problematic practices in terms of investor protection. Therefore, the SESC will examine whether they are following the principle of suitability.

The SESC will also verify the effectiveness of internal control environments at those securities firms whose major shareholders or business management systems have changed, from the viewpoint of their business models or governance.

(5) Foreign currency margin transactions business operators

Given the recent increasing risk of cyberattacks, the SESC will verify that the foreign currency margin transaction business operators have appropriate control environments for system risk management, including cybersecurity measures.

The SESC will also verify that they comply with relevant advertising regulations and have appropriate internal control environments for sales and solicitation.

(6) Investment management business operators

The SESC will verify the investment management business operators' actual investment practices and control environments for managing investment (including those outsourced) and conflicts-of-interest.

(7) Investment advisors/agencies

The SESC will verify that investment advisors/agencies are free from problematic practices in terms of investor protection, such as misleading advertisement and solicitation through false explanation.

(8) Type II FIBOs, and business operators, etc. engaging in specially permitted businesses for qualified institutional investors

The SESC will focus on funds claiming high returns and the existence of investment projects, including through analysis of information from investors.

(9) Financial instruments intermediary service providers and other securities businesses subject to monitoring

Considering that some online securities firms are expanding face-to-face sales activities in cooperation with independent financial advisors, the SESC will verify that their investment solicitation is conducted appropriately and managed

sufficiently by their entrusting FIBOs.

As for other securities businesses, including registered financial institutions, credit rating agencies, securities finance companies, and SROs, the SESC will conduct its monitoring in light of their business characteristics.

(10) Unregistered business operators

To prevent the expansion of damage to investors caused by unregistered business operators, the SESC will proactively exercise its investigative authority to file a petition with the court for a prohibition and stay order against their illegal conduct. The SESC will also enhance information dissemination, including the public disclosure of their and their representatives' names and illegal conduct, as well as the issuance of alerts and messages to investors regarding transactions with unregistered business operators. In addition, the SESC will proactively coordinate with relevant JFSA divisions, Local Finance Bureaus (LFBs), investigative authorities and the Consumer Affairs Agency.

In addition to the above, the SESC will examine FIBOs' response to the changes in regulatory frameworks cited in 1. (2).

4. Approach to the securities business monitoring

(1) Inspection

Securities businesses subject to the SESC monitoring currently total approximately 8,200. They widely differ in size, services, and products, and some have yet to introduce adequate basic control environments for compliance and investor protection. Therefore, it is important for the SESC, with its limited human resources and based on "*The Basic Principles of Securities Business Monitoring*," to conduct effective, efficient monitoring of securities businesses according to their risk characteristics and promptly identify risks.

The SESC will continue to collaborate with relevant JFSA divisions to identify and assess risks at FIBOs for risk-based inspection, and will continue to be proactive in ascertaining their actual situation through inspections mainly for the following cases. Also, the SESC will conduct inspections in a flexible manner, including by narrowing down items for verification as necessary.

- (i) an FIBO has breached a relevant law and/or regulation or has concerning business operations, which necessitates prompt in-depth verification;

- (ii) an FIBO offers a financial instrument with an unclear risk profile, which necessitates examination of its solicitation activities;
- (iii) an FIBO's actual business operations cannot be fully comprehended through monitoring-based information analyses alone (including where it has been long since the last time the FIBO was inspected); or
- (iv) an FIBO poses a possible serious problem in terms of investor protection (e.g., inadequate segregation of customer assets).

In its inspections, the SESC will endeavor to conduct verification and point out problems in a practically meaningful manner, and it will conduct in-depth verification by using digital forensics according to each FIBO's characteristics and issues.

Rather than merely pointing out problems and taking such actions as making a recommendation for administrative disciplinary actions, the SESC will analyze the whole picture of the problems to identify their root causes, to help develop effective measures to prevent recurrence. Furthermore, if the SESC identifies the need to improve business operations before any potential issues materialize, it will describe such items as "Items to be noted" in the notification of completion of inspection, to share the awareness with the inspected FIBOs to encourage actions such as building effective internal control environments.

(2) Cooperation with relevant organizations

To make maximum use of their respective functions, the SESC and LFBs will work closely from the planning stage of monitoring and inspection, including information sharing and exchange of opinions, and conduct joint inspection as needed.

The SESC, relevant JFSA divisions, and LFBs will collaborate to share information and conduct simultaneous inspections regarding the inspection of financial service intermediary businesses as well as cryptocurrency exchange service providers trading in over-the-counter cryptocurrency derivatives.

With regard to security tokens, the SESC will analyze information, including how they are issued and distributed, in collaboration with relevant JFSA divisions.

The SESC will continue close collaboration with SROs, share detected matters and awareness in a timely manner, and thereby conduct its securities business monitoring effectively and efficiently, to ensure market fairness and transparency, and investor protection.

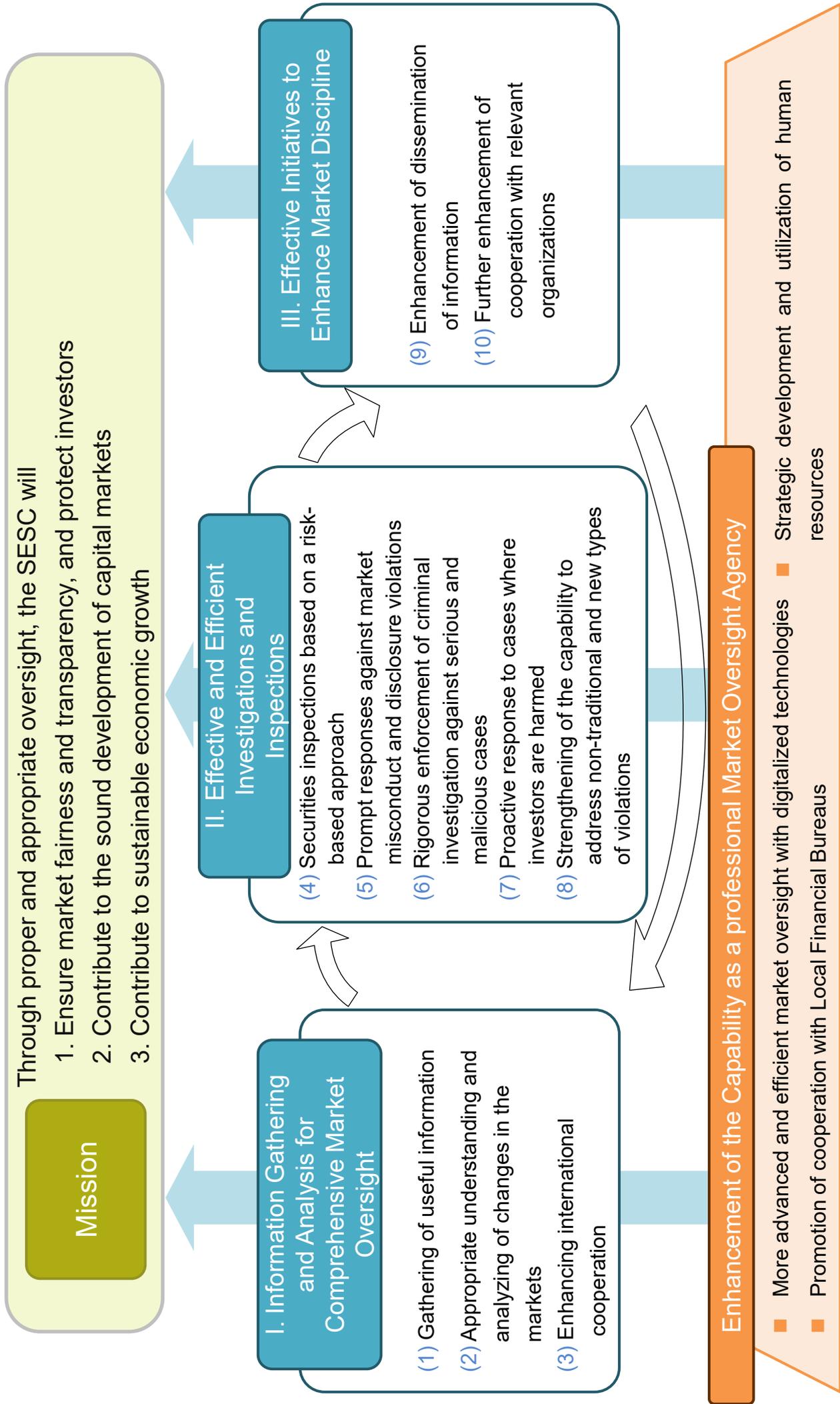
5. Dissemination of inspection results and other initiatives

The SESC will encourage voluntary improvement efforts by inspected FIBOs, including, as necessary, by providing feedback on problems and root causes found, and by sharing inspection results also with their audit-related staff members and outside directors at review meetings.

The SESC will also endeavor to provide information about its perspectives in a specific and straightforward manner, including through the *“Overview of Securities Business Monitoring and Case Studies.”*

Strategy & Policy of the SESC 2023-2025

- For Trusted, Fair and Transparent Markets in Response to the Changing Times -



Strategy & Policy 2023-2025

- For Trusted, Fair and Transparent Markets in Response to the Changing Times -

January 27, 2023

Securities and Exchange Surveillance Commission

Mission

Through proper and appropriate market oversight,¹ the SESC will

1. Ensure market fairness and transparency, and protect investors
2. Contribute to the sound development of capital markets
3. Contribute to sustainable economic growth

The SESC, which was established in 1992 with the aim of ensuring fairness in transactions and maintaining investors' trust in the markets, has entered its 30th year and inaugurated its 11th term.²

For these years, the SESC's authority of market oversight has been enhanced and strengthened through several system reforms. New financial instruments and new forms of transactions have emerged and oversight targets have expanded and become increasingly complicated, sophisticated and globalized. In addition, environmental changes surrounding the markets have emerged, such as the spread of COVID-19, heightening geopolitical risks, and recent circumstances concerning economic security. New environmental changes may occur even during the SESC's 11th term.

Amid such significant environmental changes, the SESC will continue to fulfill its mission by utilizing its functions properly on a timely basis. The SESC's functions include broad market monitoring, prompt exercise of administrative functions to conduct investigations and inspections for administrative monetary penalties as well as securities inspections, and strict enforcement against serious and malicious cases.

More specifically, as explained below, the SESC will make efforts for achieving a virtuous cycle of "I. Information Gathering and Analysis for Comprehensive Market Oversight," "II. Effective and Efficient Investigations and Inspections," and "III. Effective

¹ Oversight refers to the entirety of the SESC's activities, including market monitoring, examination of transactions, securities inspection, investigation of market misconduct, inspection of disclosure statements for administrative monetary penalties, criminal investigation, etc.

² The term of office for the chairman and members of the SESC is stipulated as three years (Article 13, paragraph (1) of the Act for Establishment of the Financial Services Agency), and this period of three years is called "a term."



Initiatives to Enhance Market Discipline." The SESC will further enhance its ability as a professional market oversight agency to make it the basis for achieving a virtuous cycle of market oversight.

Concrete Measures

I. Information Gathering and Analysis for Comprehensive Market Oversight

(1) Gathering of useful information

- Information is the key to the SESC's market oversight activities. The SESC will collect and utilize a wide range of useful information about the entire market through various information sources, such as the SESC's contact point for providing information and self-regulatory organizations.
- The SESC will integrate, analyze and accumulate useful information obtained in the process of market oversight. If necessary, the SESC will share information with the Financial Services Agency, Local Finance Bureaus, etc. The SESC will utilize the information in a multifaceted and multi-linear manner in its general market oversight activities.

(2) Appropriate understanding and analyzing of changes in the markets

- The SESC will keep an eye on a wide range of market transactions in equity/fixed-income markets, cash/derivative markets, and primary/secondary markets. The SESC will ascertain and analyze changes in domestic and overseas market environments on a timely basis, leading to preventive measures and early detection.
- In light of changes in the environment surrounding the markets and listed companies, as well as the progress in reviews of systemic issues, the SESC will take necessary actions in order to conduct seamless market oversight by appropriately addressing the emergence of new financial instruments and new forms of transactions and those beyond the reach of its oversight, and furthermore, by making responses to listed companies' initiatives for improving their information disclosure.

(3) Enhancing international cooperation

- The SESC will promote information sharing through international frameworks, such as the International Organization of Securities Commissions (IOSCO) to enhance global market oversight, and will exchange information on law enforcement cases and awareness of issues concerning market oversight through active cooperation with foreign authorities to utilize the results in its market oversight activities.

II. Effective and Efficient Investigations and Inspections

(4) Securities inspections based on a risk-based approach

- In collaboration with supervisory departments and Local Financial Bureaus, etc., the SESC will select financial instruments business operators for inspection based on risk assessment and endeavor to conduct verification and point out problems in a practical and meaningful manner. When any problem is found, the SESC will analyze the whole picture of the case, identify its root causes, and encourage voluntary improvement efforts to contribute to its prevention.

(5) Prompt responses against market misconduct and disclosure violations

- The SESC will conduct prompt investigations and inspections so that it can swiftly make recommendations for an administrative monetary penalty payment order. The SESC will reveal the actual state of market misconduct and disclosure violations, and after ascertaining the whole picture of each case and searching for root causes, the SESC will have in-depth discussions with the related parties to prevent the occurrence and recurrence of violations.
- Regarding cross-border cases of legal violations and disclosure violations by global companies, the SESC will conduct investigations and inspections based on the characteristics of individual cases in collaboration with foreign authorities.

(6) Rigorous enforcement of criminal investigation against serious and malicious cases

- Against serious and malicious violations, the SESC will take rigorous enforcement actions by exercising its powers of criminal investigation. In such instances, the SESC will cooperate with criminal investigators, prosecutors and foreign authorities in order to effectively reveal the facts, including who is to blame.

(7) Proactive response to cases where investors are harmed

- From the perspective of protecting diverse investors through ensuring customer-oriented business conduct, the SESC will proactively take action against cases where investors are harmed, by such activities as conducting securities inspections against financial instruments business operators' inappropriate selling and promotion of financial instruments or filing petitions with the courts to issue prohibition and stay orders against unregistered business operators with offices in and outside Japan and entities that conduct the public offering of securities without notification, etc.

(8) Strengthening of the capability to address non-traditional and new types of violations

- The SESC will also take proactive actions against non-traditional and new types of violations that may threaten market fairness (such as legally-evasive large volume holding and purchase and new-type of usage of fraudulent means) in light of changes in the environment surrounding the markets, while continuously addressing types of violations seen in the past cases of making recommendations for administrative actions or filing criminal charges.

III. Effective Initiatives to Enhance Market Discipline

(9) Enhancement of dissemination of Information

- In order to prevent investors from being harmed by market misconduct, the SESC will enhance dissemination of information, such as investor alerts.
- The SESC will highlight the significance, focus and details of cases in the press release of specific cases at the time of issuing recommendations, as well as in the casebooks it publishes. Through such efforts, the SESC will prevent market misconduct: including unintended ones, and further gather information through various information sources, such as the SESC's contact point of providing information and self-regulatory organizations.

(10) Further enhancement of cooperation with relevant organizations

- When 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.
- In order to ensure that self-regulatory organizations, which have common objectives with the SESC, fulfill their further proactive roles, the SESC will share its intelligence and awareness with them in a timely manner and reinforce the effectiveness of market oversight.

Enhancement of the Capability as a professional Market Oversight Agency

○ More advanced and efficient market oversight with digitalized technologies

- In order to achieve advanced and efficient market oversight, the SESC will promote further digitalization and enhancement of data processing capacity of its market oversight systems, development of digital forensics technology, and sophistication of its information systems.

○ Strategic development and utilization of human resources

- The source of power of the SESC's activities is its human resources. The SESC will develop its working environment so that all staff members can work actively and perform at their potential.
- The SESC will work to equip its human resources with specialized skills and broad perspectives on market oversight so that the SESC can duly fulfill its mission.
- By aggregating the enhanced capabilities of its human resources and knowledge of diverse experts specialized in law, accounting, IT, real estate, and financial engineering, etc., the SESC will respond to changes in the markets, which are becoming increasingly complicated and sophisticated, in cooperation with relevant organizations.

○ Promotion of cooperation with Local Financial Bureaus

- In order to ensure fairness and transparency in the markets and properly protect investors, cooperation with Local Financial Bureaus, which play roles in market oversight in respective areas, is indispensable. The SESC will further promote information sharing in diverse fields, such as securities inspections and ensure communications with Local Financial Bureaus to achieve integrated business operation.

SESC's Contact Point for Providing Information

<https://www.fsa.go.jp/sesc/watch/>

< For information provision by phone or FAX >

SESC Providing Information Search



Direct line: Call 0570-00-3581 (or +81-(0)3-3581-9909 when using an IP phone, etc.)

FAX [only for the elderly and people with disabilities]: +81-(0)3-3506-6699 (Clearly enter "To SESC's Contact Point of Providing Information.")

- ◆ The SESC encourages the public to submit any tips and information such as "accounting fraud (recording of fictitious sales or fictitious profits, etc.)," "problems relating to investor protection (financial instruments with an extremely high yield, etc.)," "market misconduct (insider trading, market manipulation, etc.)."



"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.