



Development of the SESC's Enforcement

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Agenda

1. Increased risks of market misconducts
2. Current Focus of SESC



1. *Increased risks of market misconducts*

Global financial crisis and increased risks of market misconducts (1)

1. Market misconducts under financial turmoil

- **Spreading rumors**
- **Price manipulation**
- **Insider tradings; in particular, TOB related**

Global financial crisis and increased risks of market misconducts (2)

2. Misconducts under downturn of real economy

- **Deferring losses and false disclosures by listed companies**
- **Price manipulation**
- **Abuse of financing in primary markets**
- **Securities fraud; ponzi schemes**

Solvency issues of securities firms

- **Low volume of transactions**
- **Decline of broking fees**
- **Losses in securitization business and principal financing**
- **Losses in proprietary trading**

Abuse of primary markets

Suspicious or questionable, but not illegal, financing in primary markets, including

- **New shares allocated to SPVs in OFCs**
- **Private placement of shares and CBs**
- **MSCB**

Links to misconducts in secondary markets

Abuse of listed companies; *Corporate vehicles for funding*

- **Listed at new markets; Mothers, JASDAQ..**
- **Non-performing business and losses**
- **Difficult to get financing from banks**
- **Allocation of new shares to third parties, including suspicious SPVs or funds overseas**
- **Management changes; links to underground economies**
- **Corporate vehicles solely for funding from markets**

Issues for abuse of financing in primary markets

- **Dilution; losses to existing shareholders**
- **Transfer of management or ownership**
- **Absence of effective corporate governance**
- **Unlawful conducts**
- **Market misconducts; price manipulation, spreading false rumors, insider dealings, false disclosures...**

Increasing abuse of financing in primary markets

- **Global financial turmoil and tightened credit conditions**
- **Drop of stock prices and risks of delisting**
- **Increased suspicious financing around 2Q, 3Q, and 4Q FY2008**
- **In addition to new companies listed at new markets, established companies at TSE 1 and 2 section involved**
- **Financial institutions enhancing capital base**



2. Current Focus of SESC

1. Enhanced oversight of market misconducts

- Abuse of financing in primary markets
- Insider tradings
- False disclosures

2. Enhanced oversight of new/non-regulated products and markets

- CDS and OTC derivatives
- DMA
- Dark pools
- HFT...

3. On-site Examinations

Diversified and more risk based approach

- investment banks and large securities firms; focus on solvency and relevant risks (credit risk, liquidity risks, market risks...)
- small brokers and collective investment schemes; focus on compliance
- credit rating companies; establishing examination approach

4. Enhanced cooperation with SROs

Leverage SRO function for market integrity

- **coordination of on-site examinations**
- **information sharing**
- **training and staff exchange**

5. Enhanced cooperation with overseas regulators

- oversight of market misconducts; hedge funds ...
- oversight of global firms; investment banks, securities firms, supervisory colleges
- new products and markets; CDS, DMA, Dark pools
- staff secondment and training

6. Enhanced outreach to market participants

Outreach to wider and expanded scope of market participants; regulated firms, CPAs, law firms, listed companies, groups of investors...

- dialogues and meetings
- press releases and articles
- media relations
- Website
- investors education



Thank You

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<http://www.fsa.go.jp/sesc/index.htm>