

### **The Project for Reviewing the Inspection Process**

The financial and capital markets in Japan face a dramatically transforming landscape. This involves changes both in market environment, with the arrival of more complex, diversified and globalized financial instruments and transactions, and also in market infrastructure, including the legislative reform in the Financial Instruments and Exchange Law (FIEL).

In order to respond to such changes, the Financial Services Agency (FSA) has launched a new initiative on “Better Regulation,” aimed at improving the quality of Japanese financial regulations in the interest of market participants - an initiative similarly observed in many other jurisdictions today. Furthermore, the scope of the SESC inspection has been expanded since the FIEL took effect.

Meanwhile, the SESC has been making efforts to improve the inspection process. For example, the SESC has already developed its “Inspection Manuals for Financial Instruments Firms,” published the results of the problems the SESC pointed out in the inspection quarterly, and conducted special inspection with a cross-cutting theme (a thematic review). However, in order to respond to the new trends described above, the SESC will launch its “Project for Reviewing the Inspection Process” to review the effectiveness of inspection and to consider whether problems, if any exist, in the process of the inspection could be addressed further to achieve more efficiency and more effectiveness in inspection.

#### **1. The objective of the project**

The objective of the project is to improve the inspection process in terms of efficiency and effectiveness.

#### **2. The project members**

A project team will be established in the inspection division, chaired by the Deputy Secretary-General, and attended by relevant directors and other members of the SESC.

#### **3. The time frame of the project**

The project team will hold meetings twice a month from September, and expects to reach preliminary conclusions by the end of this year. The results of the discussions could be reflected in its “Basic Guidelines for Securities Inspection” and “Inspection Manuals for Financial Instruments Firms” etc.

In addition, the project team may also have an opportunity to exchange views with outside bodies, including the Japan Securities Dealers Association (JSDA), in the course of the discussions as needed.