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# Annual Report for FY2023\* Overview

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June 2024

Securities and Exchange Surveillance Commission

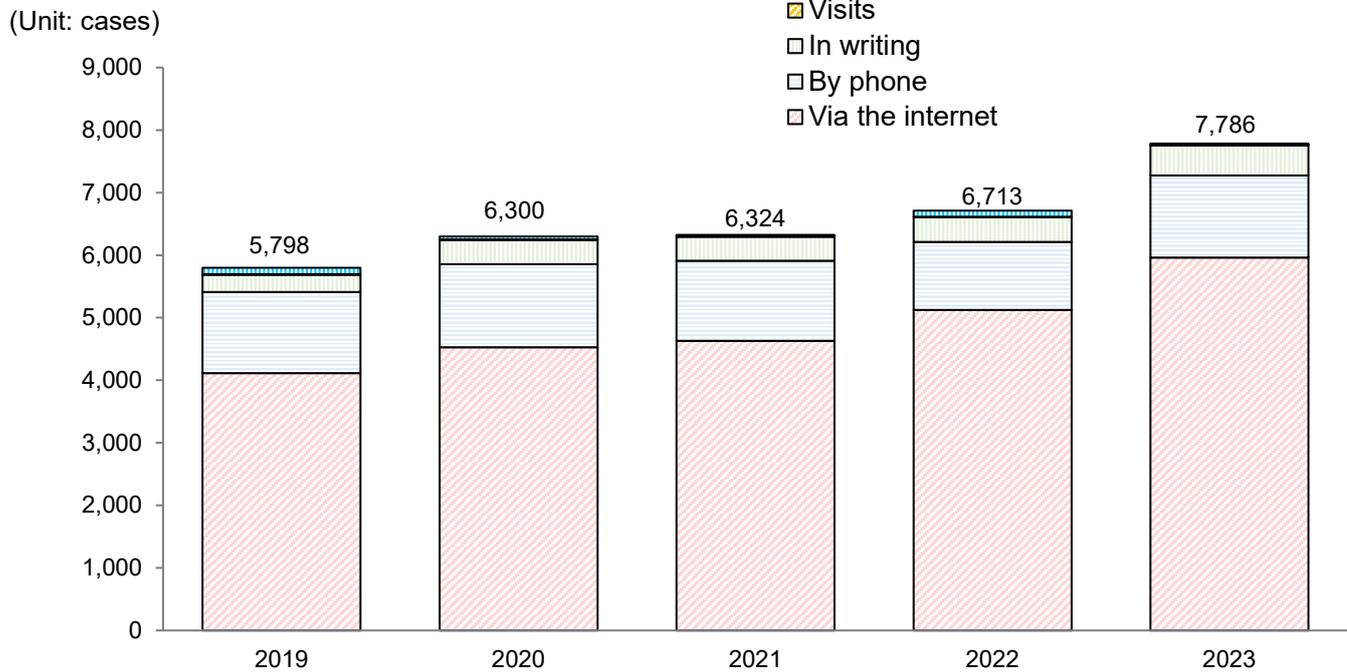


\*The period from April 1, 2023 to March 31, 2024

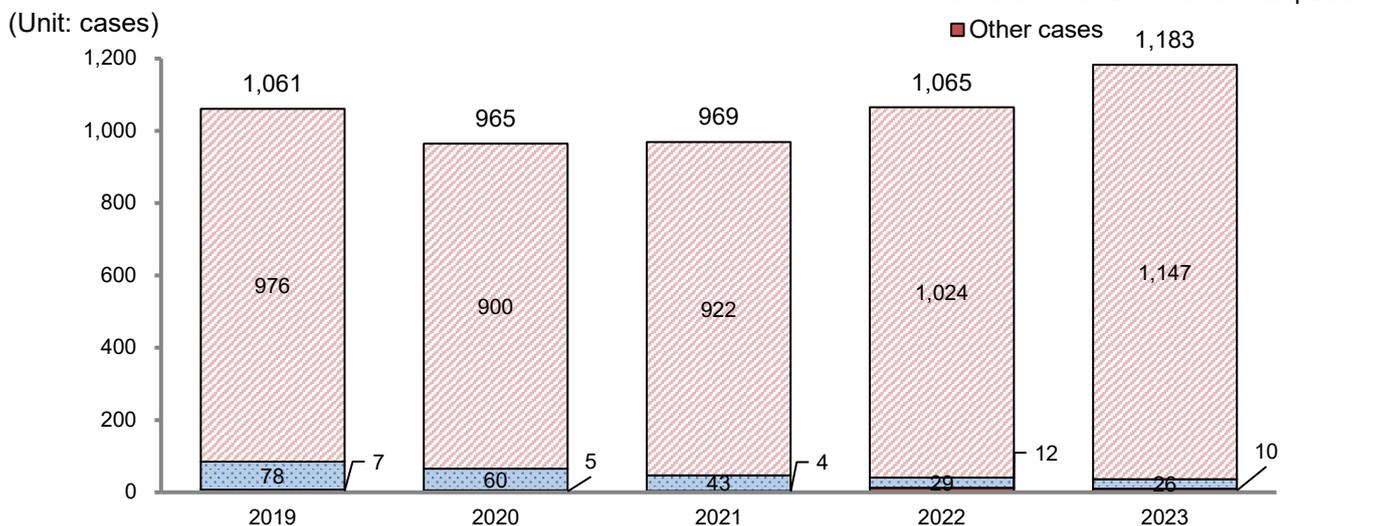
# 1 Outline of SESC's Activities in FY2023 (1)

- 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\*

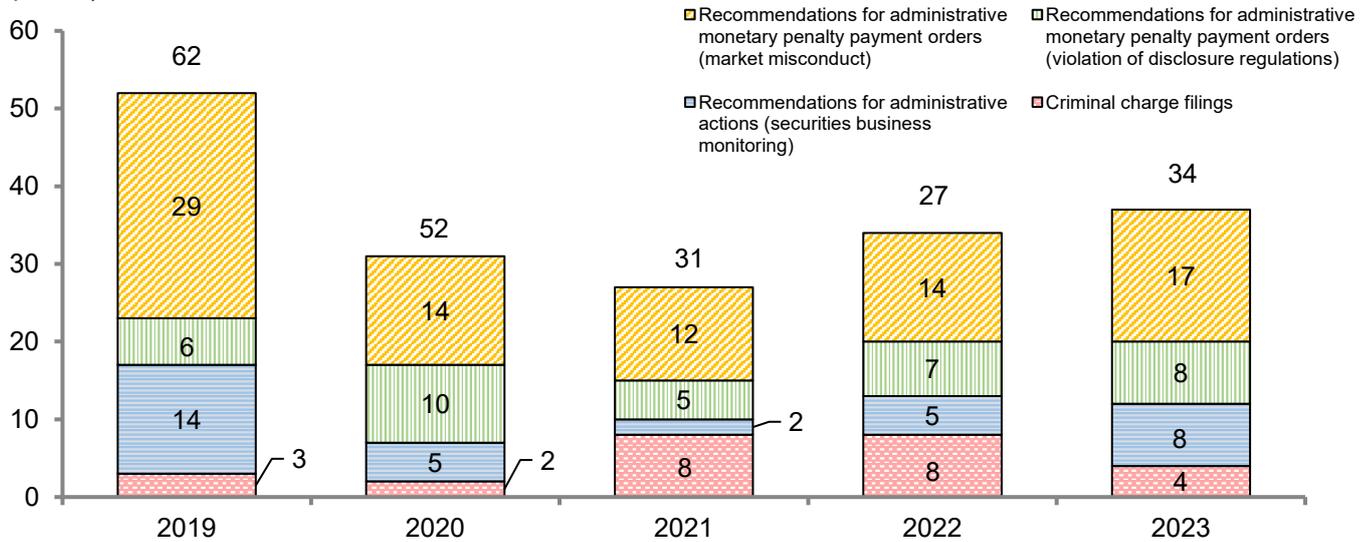


\* These numbers reflect the cases that the SESC examined as to whether the relevant transaction falls under a transaction suspected as market misconduct, with the trading data obtained from securities companies and financial instruments exchanges, etc., based on the information received via the Contact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

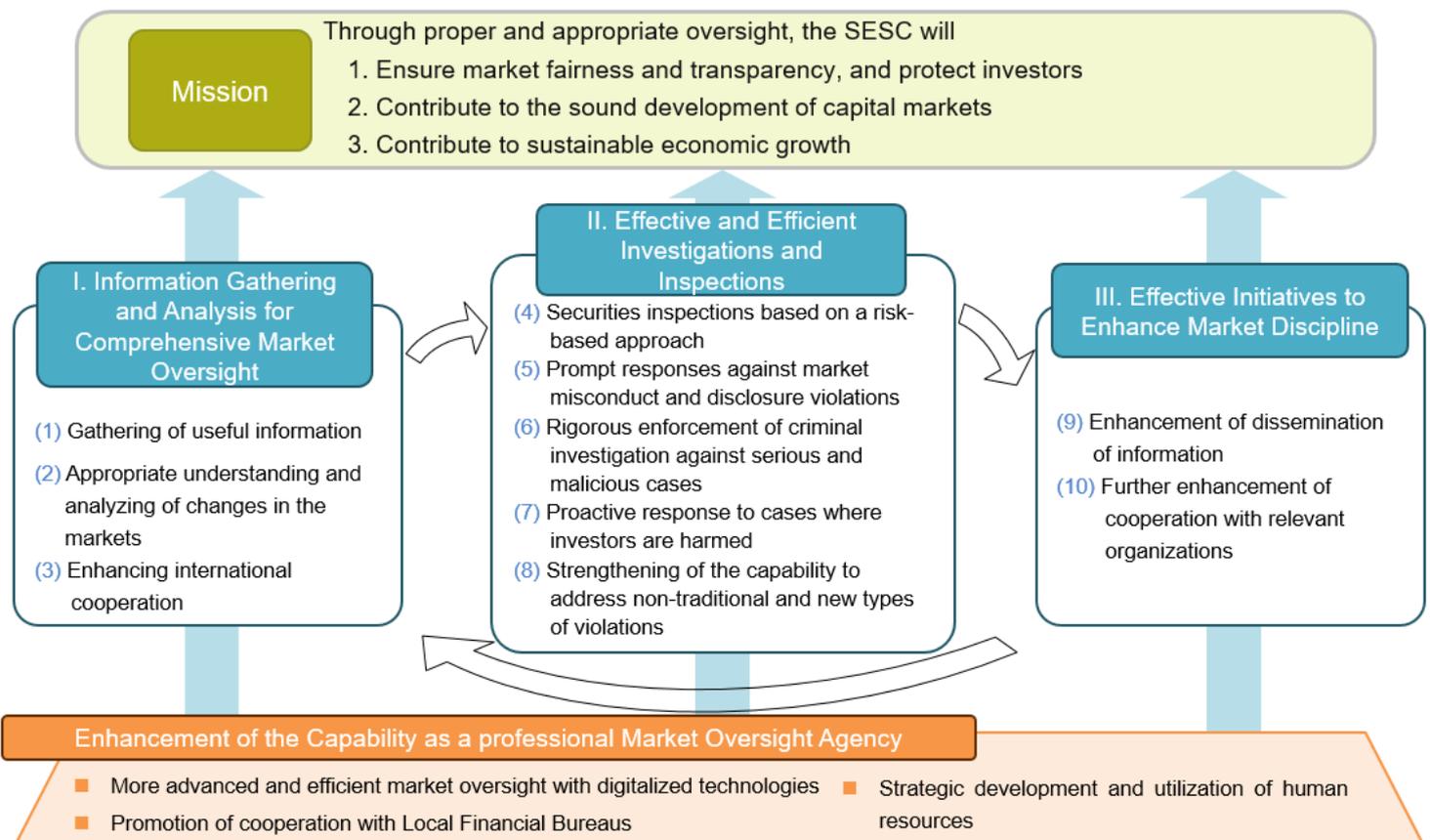
(Unit: pieces)



## 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

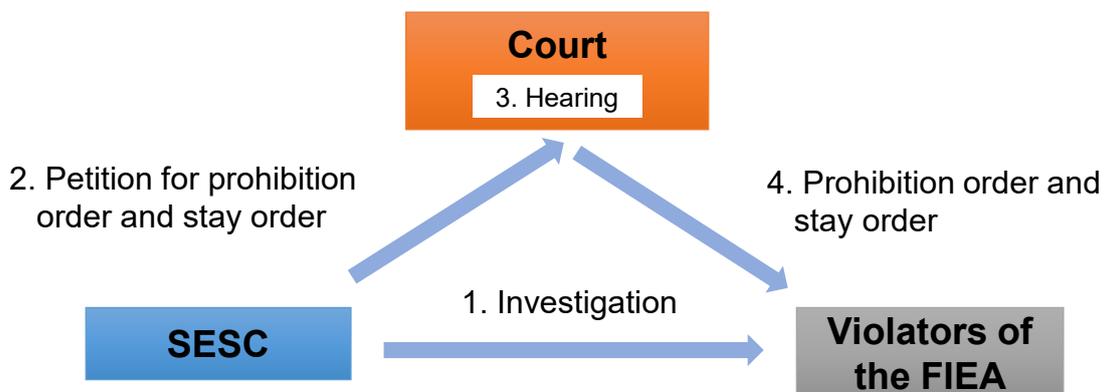
### Major cases for recommendation (securities inspections)

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"> <li>• 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.</li> <li>• 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.</li> </ul> <p>Chiba Bank and Musashino Bank [Problems in investor protection in financial instruments intermediary service]</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
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"> <li>• 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.</li> <li>• 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.</li> </ul>
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"> <li>• 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.</li> </ul>

## 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"> <li>• 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.</li> <li>• 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).</li> </ul>

## 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><b>【Insider trading】</b> 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"> <li>• The second administrative monetary penalty recommendation case in which the basket clause of a subsidiary was applied.</li> <li>• Those who violated insider trading regulations are employees of a listed company and subsidiaries of the listed companies.</li> </ul>
<p><b>【Providing information and Encouraging transactions】</b> 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"> <li>• The highest number of cases in which the same violator provided information to and encouraged transactions with multiple persons. (5 people)</li> <li>• The SESC also made recommendations on insider trading violations committed by three persons who received insider information.</li> </ul>
<p><b>【Market manipulation】</b> 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"> <li>• The second administrative monetary penalty recommendation case in which stabilizing the market was applied.</li> </ul>
<p><b>【fraudulent means】</b> 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"> <li>• First recommendation for administrative monetary penalty payment order against market misconduct with high-speed trading.</li> </ul>

## 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</p> <p>1,500,000 yen</p>	<p>【specified involvement act】</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>
<p>amana inc.</p> <p>Dec. 15, 2023</p> <p>38,000,000 yen</p>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• For a long time, certain customers were handled by a single person in charge, who had discretion to prepare and send invoices, etc.</li> <li>• Business processes, such as the approval of payments to external contractors by supervisors, had become ineffective.</li> <li>• 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.</li> </ul>

\* 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"> <li>• 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.</li> </ul>
Submission of a false annual securities related to Proroute Marumitsu Co., Ltd.	Oct. 31, 2023	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
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"> <li>• 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.</li> </ul>
Market manipulation related to the shares of NICHIRYOKU Co., Ltd.	Feb. 13, 2024	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

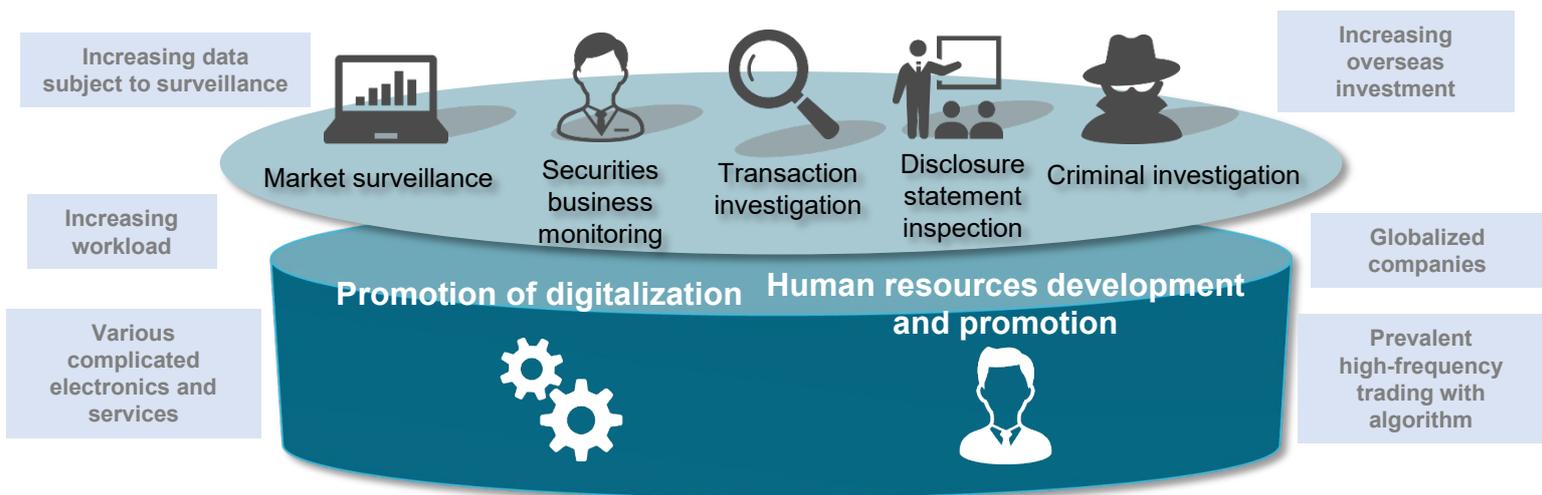
## Development of Infrastructure to Support Market Oversight (Utilization of Digital Technology and Human Resources)

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
<b>Total</b>	<b>48</b>	<b>51</b>	<b>47</b>

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

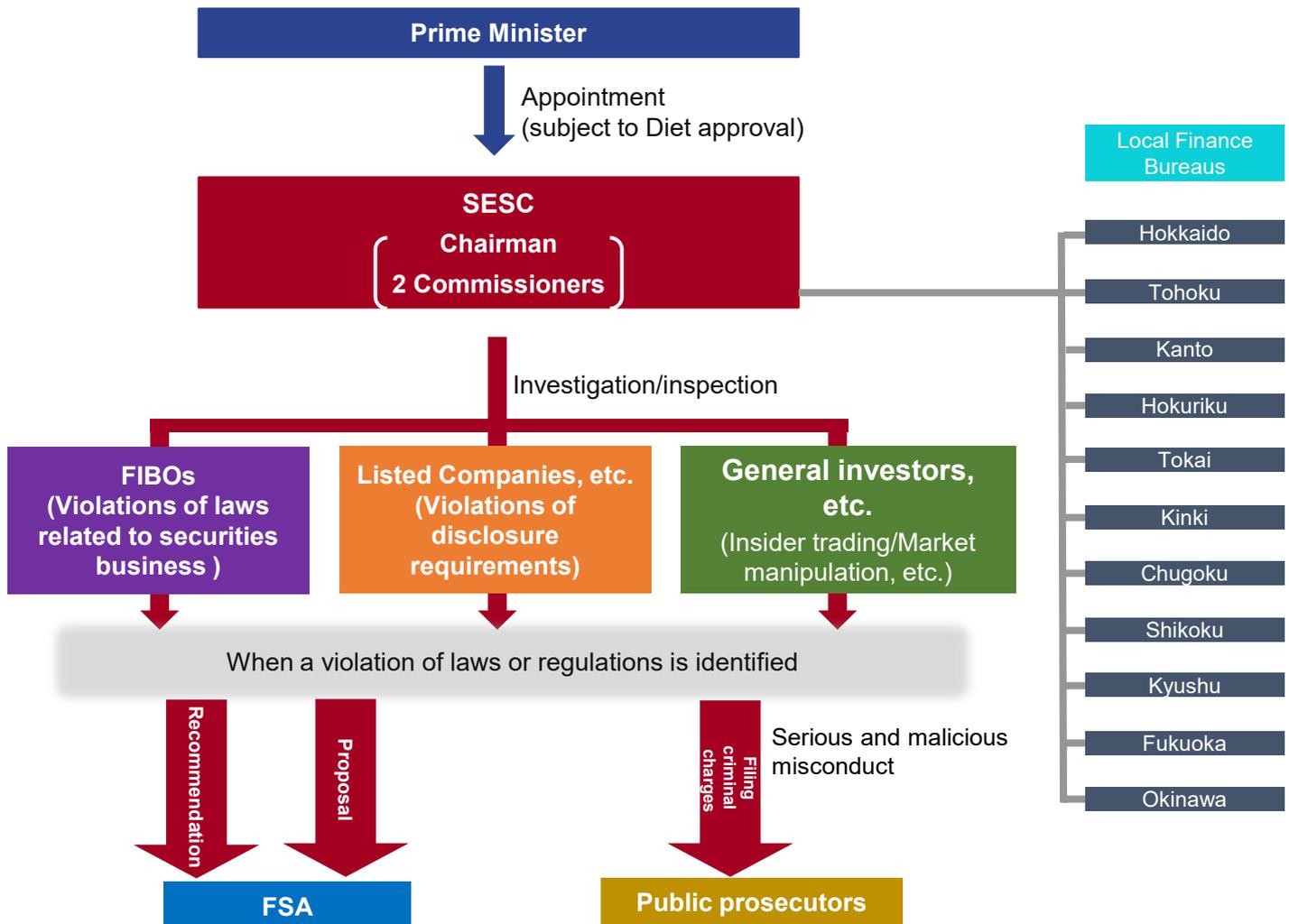
	FY2021	FY2022	FY2023
<b>Cases of receiving information from foreign authorities</b>	<b>64</b>	<b>76</b>	<b>66</b>
Requests to foreign authorities for the provision of information	22	20	16
Voluntary provision of information from foreign authorities	42	56	50
<b>Cases of providing information to foreign authorities</b>	<b>8</b>	<b>4</b>	<b>11</b>
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.