Outline of the Report of the First Subcommittee of the Financial System Council

December 24, 2003

Financial Services Agency, Japan



Outline of the FSC Report (1)

- December 2003
 - Report of the First Subcommittee of the Financial System Council ('FSC')
 - Reviewing developments after the 'Financial Big-Bang' and proposing necessary reforms with a view to reestablishing the financial system with market functions set as its core
 - Planning to submit a bill to the regular Diet session to revise the Securities and Exchange Law, in addition to a planned submission of a bill to complete establishment of the uniform securities settlement system including dematerialization of shares



Outline of the FSC Report (2)

- 1. Institutional Framework for Competition among Markets
 - Enhancing competition between exchanges and proprietary trading system (PTS)
 - Introduction of best execution obligation



Outline of the FSC Report (3)

2. Enhancement of Disclosure System

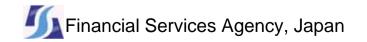
- (1) <u>Review of the prospectus</u>: providing valuable information for investment decision of investors, based on the nature of each financial products
 - Prospectus of investment trusts
 - The prospectus shall be edited in three parts:
 - 1. obligatory information,
 - 2. additional information available on request, and
 - 3. publicly disclosed information.
 - This is to make investors to obtain necessary information easily; this is not a reduction or simplification of the prospectus
 - Prospectus of all securities (including investment trusts)
 - Easing naming limitation, ensuring avoidance of misunderstanding by investors
 - Simplifying conditions for electronic delivery of the prospectus

Outline of the FSC Report (4)

2. Enhancement of Disclosure System

(2)<u>Deregulation of the tender offer system</u>: *developing* of rational framework in response to economic realities

 Adding further exemptions to the compulsory tender offer system



Outline of the FSC Report (5)

- 3. Strengthening Functions and Regime of Market Surveillance
 - (1)<u>Strengthening functions of market surveillance</u>: broadening tools of enforcement actions as effective countermeasures to various types of illegal activities to enhance confidence in securities markets
 - Introduction of administrative civil money penalty on breach of fair transaction rules and disclosure requirements
 - Enhanced use of injunctive orders against disclosure violation
 - Expansion of explicit civil liabilities caused by disclosure violation

Outline of the FSC Report (6)

- (2)<u>Review of market surveillance regime</u>: *ensuring effectiveness and efficiency of the whole market surveillance regime*
 - Administrative regime
 - Integrating functions relevant to securities markets surveillance activities, such as inspections of securities businesses, to the SESC
 - SROs
 - Ensuring independence of self-regulatory functions from other functions
 - Reviewing allocation of roles of inspections among the SESC and SROs



Outline of the FSC Report (7)

- 4. Investor Protection in Investment Services
- 5. Promotion of Investor Education
- 6. Broadening a Scope of Banks' Securities Business
 - Removal of ban on a securities intermediary service for banks with appropriate firewalls
 - Making clear that market-inducting businesses such as providing advises toward public offering or listing are permissible businesses for banks
 - Promoting more participation in individual investors and SMEs to markets

