

April 28, 2008

To: Representatives of Securities Companies

From: Masao Nishihara, Director-General, Supervisory Bureau, Financial Services Agency

Regarding the Thorough Exercise of Internal Control, etc. to Prevent Insider Trading

It is extremely regrettable that a securities company employee has recently been arrested on suspicion of engaging in insider trading. Securities companies (Type I financial instruments business operators engaging in securities-related businesses) play the role of mediator when investors and securities issuers participate in the market, and this role has a public nature. In light of this, securities companies must establish proper internal control and a more rigorous system for ensuring compliance with laws and regulations than other participants in the financial and capital markets. Their officers and employees must also recognize the public nature of their roles and engage in business with an enhanced sense of the need for compliance with laws and regulations and with a high level of professional ethics and self-discipline. In order to ensure this, it is essential to establish an effective internal control environment as financial transactions and individual companies' business operations become increasingly diverse.

From this viewpoint, we ask securities companies to take prompt action with regard to the following matters, under the leadership of their top management, thereby enhancing public confidence in the fairness and transparency of Japan's financial and capital markets.

1. Identification of officers and employees in securities companies who are in a position to obtain corporate information and grasp the status of their securities trading.
2. Review of securities companies' information management systems and implementation of necessary improvement measures.
3. Review of securities companies' internal rules on securities trading by officers and employees, verification of the effectiveness thereof and implementation of necessary improvement measures.
4. Provision of training and education to securities companies' officers and employees for the purpose of ensuring thorough compliance with laws and regulations.
5. Deliberations on other measures necessary for the prevention of incidents similar to the recent case of insider trading.