

## **Measures for Ensuring Proper Operations of Stock Markets**

*The Japanese stock markets have recently been in uncertain conditions due mainly to strained uncertain international environment such as the situation surrounding Iraq. Under these situations, the Financial Services Agency of Japan (“FSA”) has decided to take following measures to ensure proper operations of stock markets.*

### **1. Rigorous Market Surveillance**

- Stock exchanges and the Japan Securities Dealers Association (“JSDA”) will conduct rigorous market surveillance over such unfair transactions as market manipulations and spreading of rumors.
- The Securities and Exchange Surveillance Commission (“SESC”) will rigorously pursue activities in violation of the Securities and Exchanges Law (“SEL”), in closer cooperation with stock exchanges and the JSDA.

### **2. Ensuring Proper Price Formation**

- The FSA will request the JSDA, stock exchanges and the Investment Trusts Association to establish rules on “close-price guaranteed transactions” in order to ensure fair transactions in stock markets.

#### **(Background)**

- “Close-price guaranteed transactions” are off-market transactions conducted after closing based on a contract between a customer and a securities company to execute a sell or purchase of a security at the closing

price of that security. With regard to hedging transactions related to close-price guaranteed transactions, for example, when a securities company is to purchase a security from an institutional investor at the closing price of that security, the securities company could gain a profit from the difference of the closing price and the average selling price by the securities company before closing.

- The SESC issued a recommendation to the FSA on March 7 to take administrative disciplinary actions against a certain securities company on the charge of a series of transactions for the sale or purchase of securities related to “close-price guaranteed transactions” to create an artificial market without any reflection of actual state of the market, which were in violation of the SEL.
- “Close-price guaranteed transactions” may create an incentive for securities companies to engage in market manipulative acts.

### **3. Stricter Risk Management of Dealings by Securities Companies**

- The FSA will immediately start intensive surveillance of dealing practices of securities companies, and will consider to introduce a strict risk management rule which will require securities companies to take appropriate measures such as proper daily limit on dealing positions.

#### **(Background)**

- In the course of deregulation, there are many securities companies which put much weight on securities dealing. Therefore, rapid fluctuations of stock prices could have larger impacts on their financial soundness. Stricter risk management by securities companies is necessary for the protection of investors.

### **4. Relaxation of Regulations on Purchases of Own Stocks**

- Regulations on purchases of own stocks will be relaxed through the amendment of the Ordinance of the Cabinet Office for three months as temporary measures. The concrete measures will be as follows:
  - relaxation of the limit of volume of purchases of own stocks from current 25% of average daily volume for the preceding 4 weeks to 100%;
  - abolishing the current restriction on time of purchases of own stocks which prohibits purchases during 30 minutes immediate before closing.
  
- During this 3 months period, market surveillance against purchases of own shares will be in particular rigorously conducted as mentioned above.

**(Background)**

- Regarding purchases of own stocks, in view of preventing market manipulative acts in advance, regulations are stipulated in the Ordinance of the Cabinet Office pursuant to the SEL.
  
- In light of the recent conditions of the stock markets, and considering also the measures taken by the U.S. SEC in September 2001, the above measures will be taken for the time being (3 months) until market conditions pertaining to strained international environment improve.

**5. Ensuring Proper Management of Funds (Management of Stock Lending ) by Institutional Investors**

- The FSA will request financial institutions which are entrusted with the management of funds from institutional investors to manage their entrusted funds with fully informed consents from institutional investors to risks and returns of fund management.
  
- The FSA will request institutional investors to formulate self-binding rules on proper exercises of voting rights and stock lendings because it is part of fiduciary duties of institutional investors to maximize shareholder values through proper exercises of voting rights. Similar approach is expected to pension funds.

### **(Background)**

- Stock lending by institutional investors are increasing. While institutional investors can earn incomes from stock lending, they are exposed to risks of decline of values of their stockholdings through short-selling, and restricted in exercising their voting rights during periods of stock lending.

## **6. Request for Due Consideration for Stock Markets on Selling Shares**

- The FSA will request financial institutions, when they sell their stockholdings, to take due consideration to impacts on stock markets, including uses of the stock-buying schemes by the Banks' Shareholdings Purchase Corporation and the Bank of Japan.
- Similar approach is expected to sale of stocks by pension funds.