Basic Inspection Policy and Inspection Program for Business Year 2010 (summary)
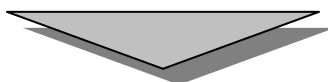
I. Basic Inspection Policy

The regulatory environment has changed considerably, as exemplified by the:

*Expansion of the scope of, and increase in the number of business operators

*Occurrence of global financial crisis

*Spread of the use of IT systems in financial instruments transactions

SESC shall adapt to the environmental changes by implementing **efficient and effective inspection** through the formulation of **a risk-based inspection program**, the introduction of **prior notice inspection**, **the enhancement of cooperation with supervisory authorities** and **the examination of risk control systems**, etc.

SESC shall continue to focus on violations of laws etc, as well as on the internal control system.

Implementation Policy of Inspection

(1) Toward efficient and effective inspection

  1) Inspection focused on risks

  2) Implementation of effective inspection

  Introduction of prior notice inspection, examination of the appropriateness of internal control systems, etc. and enhancement of interactive dialogue

  3) Enhancement of cooperation with relevant regulatory agencies

  Enhancement of cooperation with inspection and supervisory departments of FSA (as well as those of overseas regulators), self-regulatory organizations and investigative authorities, etc.

  4) Formulation and revision of inspection manuals

(2) Areas of inspection focus

  1) On exercise of the gatekeeper functions

  Market intermediary functions including the management of customers and trade examination, management of undisclosed corporate information, and prevention of practices that may hinder fair price formation

  2) On the internal control systems, etc.

  Examination of the appropriateness of the internal control and risk management systems and the status of the development of the IT operational risk management systems

  3) On investor protection

  Examination of the status of solicitation for investment, the appropriateness of asset management firms' business operations, the status of compliance with laws and regulations by investment fund firms, investment advisory firms and agencies

  4) Others

  Examination of appropriate exercise of the functions of self-regulatory organizations, newly inspected business operators (credit rating agencies), and new financial products

2. Basic Inspection Program

1. Basic Concept

(1) Principles

1) Firms which underwrite, trade and solicit for financial instruments with a high level of liquidity, such as listed securities, and firms that manage assets on commission from investors for their interests

> In principle, the SESC will examine the status of the management of business operations and the soundness of the financial position on an ongoing basis.

2) Firms other than those specified above (e.g., firms which handle financial instruments with a low level of liquidity or which only conduct investment advisory business)

> The SESC will judge inspection priority based on the analysis of information collected from supervisory authorities and other sources in light of the extremely large number of firms subject to inspection.

(2) Cooperation with inspectors of the Local Finance Bureaus

*The SESC will work with inspectors of the Local Finance Bureaus to conduct efficient and effective inspection through active use of joint inspection and the exchange of inspectors.

*The SESC will provide support for the inspectors of the Local Finance Bureaus through sharing inspection techniques and information, and handling inspection results, and will integrally conduct inspection activity.
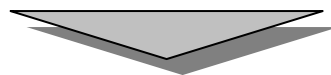
2. Basic Inspection Program

Type I Financial Instruments Businesses firms (including Registered Financial Institutions) and Asset Management firms	150 firms (including 110 firms to be inspected by the Local Finance Bureaus)
Investment advisory firms/agencies, Type II Financial Instruments Businesses operators, financial instruments intermediaries, etc.	To be inspected on an on-going basis
Self-regulatory organizations	To be inspected as necessary