Securities and Exchange Surveillance Commission

"for investors, with investors"
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### History of the SESC

**1991:** Following a series of so-called securities and financial scandals in 1991, it was required that the securities administration should be transformed into an ex-post monitoring system based on non-discretionary actions and more transparent market rules, and that the function of surveillance of compliance with market rules should be separated from that of supervision of securities companies and other market intermediaries.

**Jul. 1992:** The Securities and Exchange Surveillance Commission (SESC) was established within the ambit of the Ministry of Finance for the purpose of ensuring fair transactions in both securities and financial futures markets and maintaining the confidence of investors in these markets.

**Jun. 1998:** The SESC was reallocated, while maintaining its organizational structure, to the Financial Supervisory Agency, which was established as an external organ of the Prime Minister’s Office.

**Jan. 2001:** As a result of the reorganization of Japan’s central ministries, the SESC was reallocated, again keeping its organizational structure unchanged, to the Financial Services Agency, which was established as an external organ of the Cabinet Office.

**Apr. 2005:** The administrative monetary penalties system was introduced, and the authority of investigation to impose administrative monetary penalties was delegated to the SESC.

**Jul. 2005:** The authority to inspect disclosure statements was delegated to the SESC, and the authority to inspect the financial soundness, etc. of securities companies and other market intermediaries and to inspect investment advisory companies, etc. was added.

**Jul. 2006:** The organizational structure was transformed into five divisions from the previous one with two divisions and three offices.

**Jul. 2006:** The authority to investigate *miegyoku* market manipulation and to impose administrative monetary penalties therefor was added, and the authority to investigate criminal cases was expanded.

**Sep. 2007:** The authority to inspect funds, etc. was added.

**Apr. 2008:** The authority to inspect disclosure statements relating to quarterly securities reports and internal control reports, etc. and to investigate quarterly securities reports to impose administrative monetary penalties was added.

**Dec. 2008:** The following authorities were added: (1) inspect disclosure statements in case issuers failed to submit or made false statements regarding tender offer notification or large-shareholding reports, etc.; (2) investigate market manipulation using faked transactions, wash sales, etc. to impose administrative monetary penalties; and (3) file petitions for court injunctions against any misconduct committed by unregistered entities.

**Apr. 2010:** The authority to inspect credit rating agencies, etc. was added.

**Apr. 2011:** The authority to inspect group companies, etc. following the introduction of consolidated regulation was added.

**Jul. 2011:** Former civil penalties investigation and disclosure documents inspection division divided into administrative monetary penalty division and disclosure statements inspection division.

**Nov. 2012:** The authority to inspect trade repositories was added.

**Sep. 2013:** The following authorities were added: (1) inspect the outside collaborators who are involved in the submission of documents containing false disclosure statements; (2) investigate unfair trading committed on the account of others by persons other than financial instruments business operators to impose administrative monetary penalties; and (3) order offenders to appear in an investigation to impose administrative monetary penalties.
The Securities and Exchange Surveillance Commission (SESC) is fulfilling its mission of ensuring the integrity of capital markets and protecting investors. In December 2013, the SESC entered its 8th term since its establishment in 1992.

With a series of amendments having been made to the Financial Instruments and Exchange Act (FIEA), innovations continuing to be made in financial products and trading methods using IT, and cross-border transactions with overseas companies increasing, Japanese financial markets are experiencing dynamic changes. The SESC will constantly monitor these market changes, gather and analyze information with improved sensitivity to subtle changes, and quickly react to challenges in the market.

Therefore, the SESC will strategically use the various measures available to it, such as recommendation, accusation, and petition for court injunction and policy proposals, and tackle the challenges. The SESC will closely cooperate with relevant authorities and organizations and self-regulatory organizations to effectively and efficiently deal with each problematic case.

Cross-border transactions and international activities by market participants, such as investment funds, have become the order of the day, and are having a greater influence on Japanese markets. Taking this situation into account, the SESC will further strengthen cooperation with overseas regulators to preclude any regulatory loopholes in market surveillance. In addition, the SESC will conduct inspections of financial instruments businesses operators efficiently and effectively corresponding to characteristics of firms to be inspected and also take strict actions against malicious firms conducting fraudulent operations and material and malicious market misconduct.

To enhance market integrity, the SESC recognizes it is important to reinforce its dissemination of information to the market. Therefore, the SESC try to explain its understanding of the issues in plain language when making announcements on individual cases, such as recommendations.

The SESC continuously commits itself to ensuring the integrity of the capital markets as the ”guardian of the market.”

March 2014

Kenichi SADO
Chairman
Securities and Exchange Surveillance Commission
The SESC is within the Financial Services Agency (FSA), which is based on Article 54 of the Act for Establishment of the Cabinet Office and Article 6 of the Act for Establishment of the Financial Services Agency. The SESC consists of a chairman and two commissioners. They are appointed by the prime minister with the consent of both Houses and may use their authority independently. To ensure their independence, basically, both the chairman and the commissioners may not be dismissed during their tenure of three years. In December 2013, Mr. Sado and Mr. Yoshida were reappointed and Ms. Sono began her tenure (Dec. 2013 to Dec. 2016, the eighth term of the SESC).

The Executive Bureau, under the control of the SESC is composed of the following six divisions: the Coordination Division, the Market Surveillance Division, the Inspection Division, the Administrative Monetary Penalty Division, the Disclosure Statements Inspection Division, and the Investigation Division. In addition, the SESC has staff members at the Local Finance Bureaus mainly in charge of inspections of financial instruments business operators located in their areas. In total, there are 739 staff members (of which 400 work for the head office) as of fiscal year 2013.

For the purpose of appropriate market surveillance, the SESC has been strengthening its framework of market surveillance by recruiting lawyers, certified public accountants, real-estate appraisers, etc.
The SESC conducts daily market surveillance, inspections of financial instruments firms, investigation of market misconduct, disclosure statements inspections and criminal investigations of securities fraud. In cases where misconduct that impairs the fairness of trading is found as a result of these activities, it may recommend administrative disciplinary actions or file criminal charges with the public prosecutors. (Refer to the following pages for details. See the SESC’s activities in figures [table of summary] on Page 13 for the number of recommendations, filing criminal charges, etc. that have been filed.)

Self-Regulatory Organizations (SROs), such as financial instruments business operators associations and financial instruments exchanges, also conduct inspections of financial instruments business operators and daily surveillance of financial transactions.

The increasing social demand for fairness and transparency of the markets requires the SESC and SROs to make collaborative efforts. These efforts include close information exchange concerning various issues and problems in market oversight, such as monitoring insider trading and other illegal trading, and listing control. The SESC also periodically exchanges opinions with SROs, and SRO staff participate in training held by the SESC.

On the other hand, the SESC conducts inspections of the SROs to check if they are properly carrying out their duties, such as inspections, and are properly imposing sanctions on their member companies or registered securities traders that violate self-regulations.

Also, in January 2009, the “Compliance WAN” began its operation in order to electronically transfer the transaction data used for the market oversight. The “Compliance WAN” is a system that uses a network connecting nationwide securities companies, securities exchanges, the Japan Securities Dealers Association (JSDA), the SESC and the Local Finance Bureaus.
### IV Functions

As the “Guardian of the Market” independent from the supervisory functions of the FSA, the SESC is playing the primary role in maintaining fair, equitable, transparent, and sound markets through exerting its authority of daily market surveillance, inspection of financial instruments business operators, investigation of market misconduct, disclosure statements inspection, and criminal investigation. The specific activities of the SESC are as follows.

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#### Inspection of securities companies

- **Nov. 2012-** New coverage of inspection (trade repositories)
- **Apr. 2011-** New coverage of inspection (group companies, etc. following the introduction of consolidated regulation)
- **Apr. 2010-** New coverage of inspection (credit rating agencies, etc.)
- **Sep. 2007-** New coverage of inspection (funds, etc.)
- **Jul. 2005-** Inspection for financial soundness

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#### Inspection of market misconduct

- **Sep. 2012-** Widening the scope of violations subject to administrative monetary penalties (involvement in the submission of documents containing false disclosure statements)
- **Dec. 2008-** Expanded scope of investigation and administrative monetary penalties (in market manipulation: fictitious buying and selling of stocks, exchange of stocks based on collusive arrangements and illegal stabilization operation trade)
- **Jul. 2006-** Expanded scope of investigation and administrative monetary penalties ("Misogyoku," sham order transactions)
- **Apr. 2005-** Insider trading
  - Market manipulation with actual trading
  - Spreading of rumors regarding stock markets, and fraudulent means

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#### Inspection of disclosure statements

- **Sep. 2013-** Widening the scope of violations subject to administrative monetary penalties
- **Dec. 2008-** Expanded scope of investigation and administrative monetary penalties (Note 4)
- **Apr. 2008-** Expanded scope of investigation and administrative monetary penalties (Quarterly securities reports, internal control reports, etc.)
- **Jul. 2005-** Securities registration statements
  - Annual securities reports
  - Semiannual securities reports
  - Extraordinary reports, etc.

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#### Investigation of infringements

Inspection of infringement cases
- Insider trading
- Market manipulation
- Spreading rumors
- Fraudulent means
- Submission of false securities reports, compensation for loss, etc.

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#### Investigation aimed at petitioning for injunction

Investigation for seeking petitions for court injunctions

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* Indicates the disclosure statements subject to administrative monetary penalties

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Note 1. The cases of Nov. 2012- are added to the scope of inspection and investigation following the enforcement (on April 1, 2003, etc.) of the Act for the 2004 Amendment of the Securities and Exchange Act.

Note 2. The cases of Apr. 2011- are added to the scope of disclosure statements inspection, securities registration statements and annual securities reports became subject to administrative monetary penalties on April 2005 and on December 2005, respectively.

Note 3. The cases of Apr. 2010- are added to the scope of inspection and investigation following the enforcement (on December 13, 2006) of the Act for the 2006 Amendment of the Financial Instruments and Exchange Act.

Note 4. The cases of Sep. 2007- are added to the scope of inspection and investigation following the enforcement (on April 1, 2005) of the Act for the 2009 Amendment of the Financial Instruments and Exchange Act.

Note 5. The cases of Apr. 2008- are added to the scope of inspection and investigation following the enforcement (on October 1, 2010) of the Act for the 2010 Amendment of the Financial Instruments and Exchange Act.

Note 6. The cases of Jul. 2005- are added to the scope of inspection and investigation following the enforcement (on November 1, 2012) of the Act for the 2013 Amendment of the Financial Instruments and Exchange Act.
Market Surveillance

(1) Information Gathering from the Public
The SESC receives a wide range of information from the public, including ordinary investors and other market participants as a part of its information gathering from financial and capital markets and promptly forwards it to the responsible division within the SESC (or to the relevant division within the FSA if the information relates to matters that come within the duties of the FSA).

(2) Establishment of the Pension Investment Hotline
From the perspective of strengthening its system for collecting and analyzing information on pension fund management, the SESC set up a dedicated channel (Pension Investment Hotline) in April 2012, and has since been working to collect information of high importance and usefulness from external sources.

(3) Market Analysis
The SESC collects a wide range of information, and analyzes backgrounds behind individual transactions or market developments, which proves useful in proactive market surveillance. In particular, compound cases of inappropriate finance with related market misconduct and false disclosure statements by listed companies (unfair financing cases) have occurred one after another. For this reason, the SESC has made efforts to collect and analyze information that covers both primary and secondary markets. In addition, from the viewpoint of comprehensive market surveillance on the overall financial and capital markets, the SESC is also working to analyze trends of new financial instruments and transaction methods.

(4) Market Oversight
The SESC extracts the following stocks based on its daily oversight of market trends and various information. (i) Stocks showing sharp rises or declines in price or other questionable movements, (ii) Stocks for which “material non-public information” have been published which may have a significant influence on investors’ investment decisions, (iii) Stocks that are the topics in newspapers, magazines or on Internet bulletin boards, and (iv) Stocks mentioned in information obtained from the general public. The SESC then examines transactions with suspected market manipulation, insider trading or fraudulent means, which impair market fairness. At the same time, the SESC examines whether the financial instruments business operators involved in these transactions have committed any questionable acts, such as violating regulations prohibiting them from doing certain acts.

If these examinations reveal any suspicious transactions, they are reported to the relevant divisions within the SESC for further investigation.

In fiscal year 2012, a total of 973 transactions were examined by the SESC (including by local finance bureaus). Of these, 84 were related to price formation, 875 to insider trading, and 14 to other matters (fraudulent means, etc.).

<table>
<thead>
<tr>
<th>The number of transactions examined</th>
<th>FY2012 (April 2012 – March 2013)</th>
<th>FY2011 (April 2011 – March 2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>973</td>
<td>913</td>
</tr>
<tr>
<td>SESC</td>
<td>400</td>
<td>396</td>
</tr>
<tr>
<td>Local Finance Bureaus</td>
<td>573</td>
<td>517</td>
</tr>
</tbody>
</table>

(Below, breakdown by examination item)

<table>
<thead>
<tr>
<th></th>
<th>FY2012</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price formation</td>
<td>84</td>
<td>73</td>
</tr>
<tr>
<td>Insider trading</td>
<td>875</td>
<td>819</td>
</tr>
<tr>
<td>Other matters (fraudulent means, etc.)</td>
<td>14</td>
<td>21</td>
</tr>
</tbody>
</table>
2 Inspections of Financial Instruments Businesses

The SESC conducts inspections of financial instruments business operators. Under laws such as the FIEA, inspections cover: (i) financial instruments business operators, such as securities companies, investment management companies, and investment advisory companies, (ii) financial institutions, such as banks engaged in sales of investment trusts, and (iii) credit rating agencies and self-regulatory organizations such as financial instruments exchanges. In addition, in order to prevent the expansion of damage to investors, the SESC conducts inspections of malicious firms and fund dealers and managers for professional investors (Persons making notification for business specially permitted for qualified institutional investors) who conduct fraudulent operations at an early stage by selecting firms to be inspected based on the information gathering and analysis through various channels.

A wide range of business operations are verified through inspections. For example, inspections on securities companies cover legal compliance (such as whether investment trust solicitations to customers are done appropriately, or whether transactions that hinder fair price formation have not been made) and the internal control systems behind such compliance, as well as financial soundness, and risk management systems to ensure financial soundness.

As a result of an inspection, the SESC urges the financial instruments business operator that has been found to have problems to make improvements, giving it the inspection completion notice. If serious legal violations are found, the SESC recommends the prime minister and the FSA commissioner to take administrative disciplinary action against the firm.

The SESC also believes that the role of inspections includes enhancing the awareness of financial instruments business operators as gatekeepers, whereby they are expected to contribute to ensuring the fairness and soundness of financial markets. For this purpose, the SESC verifies financial instruments business operators’ systems to detect and prevent customer misconduct, such as insider trading, market manipulation and impersonation transactions, and thereby encourages them to improve their systems. In addition, in order to contribute to improvements and enhancement of compliance in the financial industry, legal violations found through recent inspections have been published each quarter.

Furthermore, the SESC takes strict actions against the sale of funds by firms that are not registered as a financial instruments business operator by using its various measures, including filing petitions for court injunction and publicizing the names of such firms.

<Recent examples of recommendations>
- Mar. 2012 AIJ Investment Advisors Co., Ltd. (material violations of laws and regulations were found in terms of the public interest and the protection of investors in relation to discretionary investment business.)
- Apr. 2013 MRI INTERNATIONAL, INC. (using customers’ contributions to pay dividends and redemptions to other customers, etc.)
- Oct. 2013 Abraham Private Bank Ltd. (offering overseas funds without required registrations, etc.)

◆Procedures for the inspections of financial instrument business operators

1. Inspection implementation plan
2. On-site visit (Inspections on Documents and Records, Interviews, etc.)
3. Inspection report
4. Recommendation
5. Notification to the firm

If material violations of laws and regulations are found in the inspection, the SESC recommends the prime minister and the commissioner of the FSA to take administrative disciplinary action.
Investigation of Market Misconduct

Since April 2005, the SESC has been conducting investigations on market misconduct under Article 177 of the FIEA (former Securities and Exchange Act).

In the process of an investigation, the SESC conducts interviews with or on-site inspection on persons concerned with a case or witnesses against market misconduct i.e. possible violation of the spreading of rumors regarding stock markets, fraudulent means, market manipulation or insider trading.

In cases where violations are revealed, the SESC makes a recommendation based on the result of investigations to the prime minister and the commissioner of the FSA for the issuance of an order to pay administrative monetary penalties.

In addition, considering the current circumstances that market participants such as investment funds operate globally and people make cross-border transactions on a daily basis, which have a greater influence on Japanese markets and investors, the SESC also focuses on investigating possible fraudulent trading involving cross-border transactions.

Disclosure Statements Inspection

Since July 2005, the SESC has been conducting inspections of disclosure statements under Article 26 of the FIEA (former Securities and Exchange Act).

In the process of an inspection, the SESC may request submitters of disclosure statements to produce relevant reports and conduct an on-site inspection when it deems necessary and appropriate for the public interest and the protection of investors.

As a result of such inspections, when material misstatements are found in the disclosure statements, the SESC makes a recommendation to the prime minister and the FSA commissioner to issue an order to impose administrative monetary penalties on a submitter. In addition, the SESC recommends the prime minister and the FSA commissioner to issue an order to submit amended disclosure statements if the submitter does not agree to submit such statements. With regard to public offerings of securities without filing securities registration statements, where necessary, the SESC may file a petition for a court injunction under Article 192 of the FIEA, in addition to making a recommendation to issue an order of the administrative monetary penalties or filing criminal charges with a public prosecutor.

Administrative Monetary Penalty System

In April 2005, an administrative monetary penalties system was introduced as an administrative measure to impose monetary penalties on any person including any legal entity who violates the specific provisions of the FIEA. This measure is intended to achieve the administrative objective of preventing misconduct and ensuring the effectiveness of regulation.

The following acts are subject to the penalties: no submission of or false statements in securities registration statements (for public offering and secondary distribution), no submission of or false statements in annual securities reports (which should be submitted for each business year), no implementation of advertisement for commencement of TOB, no submission of large-shareholding reports, false statements of “specified securities information” pertaining to “securities for professional investors,” spreading of rumors regarding stock markets, fraudulent means, market manipulation or insider trading.

As a result of investigations of market misconduct or disclosure statements inspections, in cases where violations subject to administrative monetary penalties are admitted, the SESC makes a recommendation* to the prime minister and the commissioner of the FSA for the issuance of an order to pay administrative monetary penalties.

*After receiving the recommendation from the SESC, the commissioner of the FSA makes a decision on whether to order payment of administrative monetary penalties after the trial procedure by trial examiners.

<Formulation of "Basic Guidelines on Investigation of Market Misconduct" and "Basic Guidelines on Disclosure Statement Inspection”>

Eight years after the introduction of the administrative monetary penalty system, the practice of investigation of market misconduct and disclosure statement inspection has been established. Considering this situation, the SESC formulated and announced in August 2013 “Basic Guidelines on Investigation of Market Misconduct” and “Basic Guidelines on Disclosure Statement Inspection,” which set out the basic concept of investigation of market misconduct and disclosure statement inspection and their standard implementation procedures with the aim of enhancing the transparency of investigation and inspection procedures.
In order to enhance the transparency of the market surveillance administration and encourage market participants to be self-disciplined, the Casebook on the Administrative Monetary Penalties under the FIEA is published each year (the latest editions were published as follows: Cases of disclosure obligation violation in June 2013; and Cases of market misconduct in August 2013).

<Recent example cases of recommendation based on investigations of market misconduct or disclosure statements inspections>

In fiscal year 2012 (April 2012 to March 2013), the SESC recommended the issuance of orders to pay administrative monetary penalties in 19 cases of insider trading, 13 cases of market manipulation, and 9 cases of disclosure obligation violations, such as false statements in annual securities reports.

The main recommendation cases as of January 2014 were as follows.

<table>
<thead>
<tr>
<th>Date</th>
<th>Case Description</th>
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<tbody>
<tr>
<td>Apr. 2011</td>
<td>Cases of public offering of corporate bonds without filing securities registration statements by World Resource Communication Co., Ltd.*1</td>
</tr>
<tr>
<td>Apr. 2012</td>
<td>Case of false statements in annual securities reports, etc. of Olympus Corporation*2</td>
</tr>
<tr>
<td>Oct. 2012</td>
<td>Case of market manipulation related to the shares of ITmedia*3</td>
</tr>
<tr>
<td>Jan. 2013</td>
<td>Case of insider trading by a person who obtained information from a person related to Sankei Building Co., Ltd.*4</td>
</tr>
<tr>
<td>Jul. 2013</td>
<td>Case of market manipulation related to the shares of RISE*5</td>
</tr>
<tr>
<td>Nov. 2013</td>
<td>Case of a fraudulent scheme related to the shares of Wedge Holdings*6</td>
</tr>
</tbody>
</table>

Notes:
*1: The first case of a recommendation concerning the public offering of corporate bonds without filing securities registration statements.
*2: An internationally recognized case and the first case where both a penalty order and criminal charge were made.
*3: The case of a recommendation against market manipulation accomplished by matched cross trades involving three persons.
*4: The case of a recommendation against insider trading committed due to the leakage of material facts acquired in the course of duties by a person belonging to a third-party committee set up for a takeover bid by an issuer.
*5: The case of a recommendation made in cooperation with the Monetary Authority of Singapore against market manipulation committed by an offender located overseas.
*6: The first case of a recommendation made in cooperation with the Securities and Exchange Commission in Thailand against a fraudulent scheme.

<Publication of the Casebook on the Administrative Monetary Penalties under the FIEA>

In order to enhance the transparency of the market surveillance administration and encourage market participants to be self-disciplined, the Casebook on the Administrative Monetary Penalties under the FIEA is published each year (the latest editions were published as follows: Cases of disclosure obligation violation in June 2013; and Cases of market misconduct in August 2013).
Enforcement – Criminal Investigation and Filing Criminal Charges

In order for the financial and capital markets to work properly, it is important for the SESC to meet the expectations and gain the trust of investors. Thus, the investigators under the SESC constantly monitor the trades in the markets and may utilize their power to investigate cases with the non-compulsory and the compulsory process, especially for finding offences such as misleading financial statements, market manipulation and insider trading.

Regarding the investigation process, the non-compulsory actions, such as questioning suspects and inspecting their documents, and articles are defined in section 210 of the FIEA and the compulsory actions, such as visit and search of the premises and seizure of the objects with a warrant are defined in section 211 of the FIEA. Under these sections, investigators can perform these actions to find proof of violations, and when convinced there are offences, the SESC must file charges against the suspects with a public prosecutor (c.f. section 226 of the FIEA).

**<Major cases filed with public prosecutors (From July 2012 to Jan 2014)>**

- Jul. 2012  Fraudulent scheme offences committed by AIJ Investment Advisors Co., Ltd. to conclude a discretionary investment contract*1
- Jul. 2012  Insider trading offence in which a former executive official of a securities company was involved*2
- Dec. 2012  Fraudulent scheme offences committed by people related to SEI CREST Co., Ltd. who abused a scheme of contribution in kind*3
- Apr. 2013  Insider trading offence committed by an employee of eAccess Ltd. related to the shares of eAccess Ltd.*4
- Jul. 2013  Market manipulation offence related to the shares of Central General Development Co., Ltd.*5

**Notes:**

*1: The first case of an accusation of “fraudulent practices related to the conclusion of a contract” against a discretionary investment business operator, etc., who concluded a discretionary investment contract with numerous annuity funds by indicating false investment performance, etc. and caused huge losses to its clients
*2: The case of insider trading in which a former executive officer of a securities company leaked material facts before they were published to another suspected person and purchased the shares of MASPRO DENKOH CORP, etc.
*3: The case of an accusation of unfair financing by abusing a scheme of contribution in kind using real estate
*4: The case of an accusation of insider trading committed by an employee of eAccess Ltd., who worked as the secretary of the Representative Director & Chairman, by using material facts acquired in the course of their duties
*5: The case of an accusation of market manipulation committed by a criminal suspect who used his/her name or another person’s name

**◆The process of investigation (criminal cases)**

- Collection of information, related documents and materials of the suspects
- Non-compulsory actions (questioning the suspects, inspecting the objects)
- Compulsory actions (visiting and searching the premises, seizing objects with a warrant)
- Filing offences with prosecutor
- Prosecution
6 Policy Proposals

To ensure market integrity and protect investors, where necessary, the SESC can submit policy proposals to the prime minister, the commissioner of the FSA or the Minister of Finance, based on the results of the market surveillance, including inspections or investigations of criminal offences.

The SESC can submit policy proposals after the SESC comprehensively analyzes the results of inspections and investigations. When current laws/regulations or self-regulating rules on securities trading are found to be insufficient, the SESC can propose reviewing such laws/regulations or rules, presenting specific facts and problems in those regulations.

In fiscal year 2012, the SESC made a policy proposal to the effect that it needed to prepare a system to ensure the accuracy of the credit ratings announced by credit rating agencies. The proposal was reflected in the Cabinet Office Ordinance regarding financial instruments businesses, and contributed to the establishment of market rules based on the reality of the financial and capital markets.

7 Cooperation with Overseas Regulators

With the progress of globalization of financial and capital markets, and the rapid expansion of cross-border transactions, it is essential to strengthen international cooperation in the investigation of market misconduct.

The SESC uses Multilateral Memorandums of Understanding (MMOU) of International Organization of Securities Commissions (IOSCO) and bilateral Memorandums of Understanding (MOU) and obtains necessary information through overseas regulators in order to investigate market misconduct using cross-border transactions.

With respect to the inspection of foreign-owned financial institutions and Japanese financial institutions with overseas offices, the SESC shares information with overseas regulators. Moreover, the SESC participates in supervisory colleges which have been established for large and globally active financial institutions. The SESC is working on enhancing cooperation with overseas regulators.

8 Efforts for Outreach to Market Participants and Investors

Based on the FSA Establishment Law, the SESC has published an Annual Report and posted it on its website every year since its establishment in 1992.

As part of its delivery of information for enhanced market integrity, the SESC holds dialogues and lectures for market gatekeepers such as financial instruments business operators, self-regulatory organizations, certified public accountants and attorneys, as well as for executives and auditors of listed companies. The SESC also holds seminars for undergraduate and postgraduate students. Through its website and e-mail magazine, the SESC is also working to provide information on the status of its activities and its messages to the market on a timely basis.
## Activities in Figures

### Table of Summary

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<td>Recommendations</td>
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<td>Recommendations based on securities inspections</td>
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<td>Recommendations for order of administrative monetary penalty (unfair trading)</td>
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<td>9</td>
<td>9</td>
<td>21</td>
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<td>Recommendations for order of administrative monetary penalty (false statements in disclosure statements, etc.)</td>
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<td>19</td>
<td>11</td>
<td>9</td>
<td>8</td>
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<tr>
<td>Recommendations for order to submit revised report, etc.</td>
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<td>Announcement of Results, etc., of Inspections of QII Business Operators</td>
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<td>0</td>
<td>13</td>
<td>3</td>
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<td>Petition for a court injunction, etc., against unregistered business operator or solicitation without the filing of securities</td>
<td></td>
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<td>4</td>
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<td>187</td>
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<td>(62)</td>
<td>176</td>
<td>148</td>
<td>148</td>
<td>153</td>
<td>165</td>
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<td>Type I financial instrument businesses operators</td>
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<td></td>
<td>1,330</td>
<td>99</td>
<td>138</td>
<td>117</td>
<td>(20)</td>
<td>91</td>
<td>91</td>
<td>85</td>
<td>57</td>
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<td>(1)</td>
<td>22</td>
<td>6</td>
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<td>73</td>
<td>(41)</td>
<td>63</td>
<td>51</td>
<td>49</td>
<td>76</td>
<td>39</td>
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<td>Investment advisories/agencies</td>
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<td>25</td>
<td>(4)</td>
<td>24</td>
<td>28</td>
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<td>28</td>
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<td>Persons making notification for business specially permitted for qualified institutional investors</td>
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<td>1</td>
<td>9</td>
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<td>6</td>
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<td>0</td>
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<td>3</td>
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<td>Self-regulatory organizations</td>
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<td>6</td>
<td>1</td>
<td>5</td>
<td>(2)</td>
<td>5</td>
<td>1</td>
<td>0</td>
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<tr>
<td>Investment corporation</td>
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<td>10</td>
<td>7</td>
<td>(1)</td>
<td>9</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>3</td>
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<td>Other</td>
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<td>1</td>
<td>5</td>
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<tr>
<td>Market oversight</td>
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<td>5,374</td>
<td>1,039</td>
<td>1,098</td>
<td>1,031</td>
<td>(276)</td>
<td>749</td>
<td>691</td>
<td>913</td>
<td>973</td>
<td>765</td>
</tr>
</tbody>
</table>

### Notes
1. The total numbers of securities inspections refer to the number of cases that have been started.
2. In addition to the inspections of Type I financial instrument businesses operators (former domestic securities companies) above, Local Finance Bureaus and other organizations conduct inspections of individual branches of those Type I financial instrument businesses operators (former domestic securities companies) that are assigned to the SESC.
3. Up until business year 2006, “investment management firms” was “investment trust management businesses,” and “investment advisories/agencies” was “investment advisories.”
4. Up until business year 2008, there was a “business-year basis” of July to June the following year, and since fiscal year 2009, there has been an “accounting-year basis” of April to March the following year.
5. The numbers in parentheses ( ) in business year 2008 refer to the number of cases in the period (April-June 2009) which overlaps with fiscal year 2009 during the transition to the “accounting-year basis.”
6. The figures for fiscal year 2013 refer to the number of cases from April 1, 2013 to December 31, 2013.
### Information Reception Situation

**Unit:** Number of cases

<table>
<thead>
<tr>
<th>Category</th>
<th>Fiscal year</th>
<th>Business year</th>
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<tbody>
<tr>
<td>1. Amount of information received</td>
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<tr>
<td>• Internet</td>
<td>19</td>
<td>6,412 (1,752)</td>
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<tr>
<td></td>
<td>20</td>
<td>7,118</td>
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<tr>
<td></td>
<td>21</td>
<td>6,927</td>
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<td>4,901</td>
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<td>25</td>
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<tr>
<td>• Telephone calls</td>
<td>19</td>
<td>3,847 (974)</td>
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<tr>
<td></td>
<td>20</td>
<td>4,293</td>
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<tr>
<td></td>
<td>21</td>
<td>4,040</td>
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<tr>
<td></td>
<td>22</td>
<td>3,543</td>
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<td></td>
<td>23</td>
<td>3,881</td>
</tr>
<tr>
<td></td>
<td>24</td>
<td>3,250</td>
</tr>
<tr>
<td>• Letters</td>
<td>19</td>
<td>1,253 (406)</td>
</tr>
<tr>
<td></td>
<td>20</td>
<td>1,917</td>
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<td></td>
<td>21</td>
<td>2,219</td>
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<tr>
<td></td>
<td>22</td>
<td>2,033</td>
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<td>1,883</td>
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<tr>
<td></td>
<td>24</td>
<td>1,211</td>
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<tr>
<td>• Visitation</td>
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<td>381</td>
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<tr>
<td></td>
<td>20</td>
<td>384 (93)</td>
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<tr>
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<td>346</td>
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<tr>
<td></td>
<td>25</td>
<td>287</td>
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<td>• Information forwarded from the FSA and Local Finance Bureaus</td>
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<td>22</td>
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<td>25</td>
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<td>2. Content of the information</td>
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<tr>
<td>• Individual stock</td>
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<td>20</td>
<td>4,789 (1,224)</td>
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<td>21</td>
<td>3,889</td>
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<tr>
<td></td>
<td>25</td>
<td>2,995</td>
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<tr>
<td>• Issuer</td>
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<td>4,193</td>
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<td>3,847 (93)</td>
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<td>3,881</td>
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<tr>
<td></td>
<td>25</td>
<td>3,250</td>
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<tr>
<td>• Sales approach of financial instruments business operator, etc.</td>
<td>19</td>
<td>58</td>
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<tr>
<td></td>
<td>20</td>
<td>67 (15)</td>
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<td></td>
<td>25</td>
<td>49</td>
</tr>
<tr>
<td>• Other (opinion, inquiry, etc.)</td>
<td>19</td>
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<td></td>
<td>20</td>
<td>585 (240)</td>
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<td>1,045</td>
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</tr>
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</table>

(Note 1) Business-year basis (July to June the following year) until BY2008. “Accounting-year basis” (April to March the following year) since FY2009.

(Note 2) Numbers in parentheses ( ) in business year 2008 are in the period (April-June 2009) which overlaps with FY2009 for the transition to “Accounting-year basis.”

(Note 3) The figures for fiscal year 2013 refer to the number of cases from April 1, 2013, to December 31, 2013.

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**Be alert for malicious phone calls pretending to be from the FSA or the SESC!**

**Warnings about private equities, etc.**

In recent years, the SESC has received an increasing number of reports of people pretending to be from the FSA, the SESC, or an organization seemingly related to the FSA or the SESC, or of people claiming to be a staff member of the SESC (using actual names of divisions and personnel), who state that:

- He/she is doing research on damages from private equities and that the private equities owned by the call receiver are guaranteed to be listed and, thus, are safe. Around the same time, someone calling himself/herself an issuer of private equities shows up and suggests an additional purchase of the private equities, or;
- As the call receiver is a victim of private equities investment, the caller will negotiate with the company for buyback in exchange for fees or rewards.

Note: examples of names seemingly related to the SESC:

Please be very careful of suspicious calls such as the above. Staff of the FSA and the SESC never call to mention when private equities will be listed, or to negotiate their purchase. They will also never contact people individually to provide information on the credibility of a company. Nor will such operations be outsourced.

If you have received such a call, please contact the FSA Counseling Office for Financial Services Users or the SESC’s information collector and provide them with your information, and also report the incident to a police station near you.
Introduction of Chairman and Commissioners

Chairman Kenichi SADO


Commissioner Masayuki YOSHIDA

Masayuki YOSHIDA was appointed commissioner of the SESC in December 2010. Before being appointed to the Commission, he served as an advisor for Nagashima Ohno & Tsunematsu Law Firm.

Commissioner Mari SONO

Mari SONO was appointed commissioner of the SESC in December 2013. Before being appointed to the Commission, she served as a senior partner at Ernst & Young ShinNihon LLC.

Logo of Securities and Exchange Surveillance Commission

*Note: The two ellipses crossing each other symbolize the securities markets and financial futures markets, which are both subject to our surveillance; the cooperation between the SESC and other domestic authorities concerned; and, what’s more, our relationship with investors. The slogan “for investors, with investors” represents the principle position of the SESC, which was established to protect investors and respect the relationships with them.
Towards Enhanced Market Integrity

- SESC’s Policy Statement for the 8th Term*

The SESC has entered the 8th term since its establishment in 1992. The SESC announces its Policy Statement every three years. This latest statement was made public on January 21, 2014.
The Securities and Exchange Surveillance Commission (SESC) is committed to pursuing the following mission:

- **To ensure the integrity of capital markets, and**
- **To protect investors**

## 1. Mission

The Japanese capital markets have been experiencing dynamic changes. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods through the use of IT, etc. Cross-border transactions are expanding. The SESC is determined to handle issues that need to be addressed in a timely manner by constantly keeping an eye on such market trends and collecting/analyzing information with even greater sensitivity.

**1. Market oversight with prompt and strategic actions**
- Strategic use of our regulatory tools (e.g. recommendations, criminal charges, court petitions and policy proposals), early handling of current issues in the market and cooperation with supervisory authorities and self-regulatory organizations (SROs) to effectively address issues according to their contents
- Timely acknowledgement and proactive responses to emerging issues by summing up and analyzing recent market trends as well as information obtained from external sources and through oversight activities

**2. Enhanced surveillance in response to the globalization of markets**
- Closer cooperation with overseas regulators to conduct market oversight activities on a global basis, in response to growing cross-border transactions and international activities by investment funds and other market participants as well as their increasing impact on Japanese markets and investors
- Effective inspections of globally active and large-scale securities firms with consideration of their international business, utilizing international supervisory frameworks such as information exchanges with overseas regulators
- Fostering personnel that can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel

**3. Efforts for enhanced market integrity**
- Contributing to the rule-making processes at the Financial Services Agency (FSA) and other relevant authorities by raising relevant regulatory issues identified through our market oversight activities
- Outreach to market participants, through cooperation with SROs and other channels, to encourage their self-discipline in the interests of market integrity. Closer communications with market participants and more effective dissemination of information in order to communicate the concerns of the SESC effectively

The SESC believes that our contributions toward fair, transparent and quality capital markets will help develop the Japanese capital markets and vitalize their international competitiveness through the implementation of comprehensive and effective market oversight activities based on the policy directions set out above.

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*SESC Chairman Kenichi Sado and Commissioners Masayuki Yoshida and Mari Sono were appointed and started their new 3-year term on December 13, 2013*
3. Policy Priorities

The SESC is determined to strategically mobilize its regulatory tools and resources with particular emphasis on the following in order to conduct effective and efficient market oversight.

(1) Proactive market oversight through enhanced information-collecting ability
- Timely detection of issues in the market through summary/analysis of information obtained through various channels and through examinations of individual transactions and research of market trends, to proactively carry out market surveillance.
- A multifaceted surveillance of both primary and secondary markets, to unravel the overall picture of market abuse and carry out appropriate law enforcement.
- Paying attention to transactions that have been recognized as problematic from a market fairness perspective, even though they have not always been our surveillance objects before, and considering how to address them.
- Clarification of facts of cross-border market abuse and carrying out appropriate law enforcement against them, through investigation requests of overseas regulators with active use of exchange-of-information frameworks amongst securities regulators.

(2) Strict action against severe and malignant market misconduct and false disclosure statements
- Taking strict action against severe and malignant market abuse such as insider dealing, market manipulation, spreading of rumors, fraudulent means, and false disclosure statements, by exercising the right to investigate criminal cases. Cooperating with investigative authorities, overseas regulators and other related organizations to effectively clarify facts and seek liability, according to the contents of the matter.

(3) Timely and efficient inspections in response to disclosure violations
- Implementation of timely and efficient disclosure inspections in order to ensure that the market participants are fairly and equally provided with accurate corporate information without delay.
- Encouraging a listed company or any other issuer, if it has made false disclosure statements, to exercise its initiatives for autonomous and timely disclosure of accurate corporate information to the market as well as encouraging related parties to achieve such appropriate disclosure. Pointing out business management issues that were the cause of the false disclosure statements and other abuse, if necessary, and suggest improvement.

(4) Use of administrative monetary penalty system against market misconduct, etc.
- Implementation of timely and efficient inspections and investigations, taking advantage of the administrative monetary penalty system, for insider dealing, market manipulation, spreading of rumors, fraudulent means, and other market misconduct, etc.
- Continuing to making necessary proposals on the regulatory system regarding market misconduct, based on investigation results.

(5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected
- Conducting efficient and effective inspection through strengthening the capabilities to collect and analyze information, establishing a system to select firms and business areas to be inspected based on information and analysis results, as well as development and establishment of know-how and inspection methods corresponding to the characteristics of firms to be inspected, due to the expansion of scope of firms to be inspected.
- Conducting inspections of globally active securities firms, verifying the appropriateness of internal controls and risk management systems and, from a forward-looking perspective, utilize information that the inspection and supervisory departments of the Financial Services Agency (FSA) collect through their monitoring activities.

(6) Responding to malicious businesses engaged in fraudulent operations
- Conducting inspections of malicious Financial Instruments Business Operators and Persons making Notification for Business Specially Permitted for Qualified Institutional Investors that are engaged in fraudulent operations and cause damage to investors at an early stage in order to identify violations of the law and to prevent the expansion of damage, from the perspective of protecting investors. Collecting/analyzing information through various channels upon selecting the firms to be inspected and enhancing the system to promptly respond to problematic firms. Taking strict actions against highly malicious firms, in cooperation with the organizations concerned.
- Taking proactive actions against the selling of funds by unregistered entities, by enhancing cooperation with the FSA, the Local Finance Bureaus and investigative authorities, and actively utilizing the authority to seek petitions for court injunctions (Article 192 of the FIEA).

(7) Effective dissemination of information
- Specific explanation to ensure accurate communication of the contents of the matter and issues in press announcements related to recommendations and other individual matters.
- Effective outreach through enhancing the contents of announcements for cases of administrative monetary penalty and major findings in securities inspections from the perspective of preventing violations.
- Reviewing the website of the SESC to make it easier for users and information providers to use, as well as focusing on outreach in English.

(8) Enhanced cooperation with SROs
- Implementing surveillance by sharing information and concerns with SROs, to enhance the overall market surveillance function. Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors.
Information Gathering from the general public

The SESC accepts information from the general public on suspected market misconduct as part of its data and information collection activities. Examples include: information related to specific stocks, such as market manipulation, insider trading and the circulation of rumors; information related to issuing bodies, such as the inclusion of false statements in annual securities reports and suspicious financing; information related to misconduct by financial instruments business operators; and information related to subscriptions to suspicious financial instruments and suspicious funds. Information is accepted via phone, fax, mail and the Internet. The information provided is used effectively in a variety of inspections and investigations as well as daily market surveillance.

* Please note that the SESC does not accept individual requests for dispute resolution and investigations.

**SESC Information Gathering**
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
https://www.fsa.go.jp/sesc/english/watch

In April 2012, the SESC established the Pension Investment Hotline as a dedicated point of contact for people to provide information on pension investment, using their real names. The hotline is committed to collecting a broad range of information such as on suspicious investments by an investment management business operator. In cases where particularly detailed information is provided, support will be provided by specialists in pension fund management.

**SESC Pension Investment Hotline**
http://www.fsa.go.jp/sesc/support/pension.htm
Email: pension-hotline@fsa.go.jp

Another dedicated point of contact has also been established for people to report public-interest information under the Whistleblower Protection Act. Callers are also provided advice over the phone.

**SESC Whistle Blowing & Advice**
http://www.fsa.go.jp/sesc/koueki/koueki.htm
Email: koueki-tsuho.sesc@fsa.go.jp

**Contact address**
Address: 3–2–1 Kasumigaseki, Chiyoda-ku, Tokyo 100–8922, Japan
Telephone: +81-3-3581-7868
Facsimile: +81-3-5251-2136

**SESC Website:**
http://www.fsa.go.jp/sesc/english/

**E-mail Information Service (E-mail magazine):**

※ This brochure was published in March 2014