

Towards Enhanced Market Integrity

SESC's Policy Statement for the 7th Term*

1. Mission

The Securities and Exchange Surveillance Commission (SESC) is committed to pursuing the following mission:

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

2. Policy Directions

The Japanese capital markets have been experiencing dynamic changes. Global efforts to rebuild the international regulatory frameworks are ongoing based upon lessons learned from the global financial crisis. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods. In response to this rapidly changing market environment, and to continue to be “feared by wrongdoers and trusted by ordinary investors”, the SESC is determined to pursue our mission through the following three policy directions.

(1) Market oversight with prompt and strategic actions

- ▶ Strategic use of our regulatory tools (e.g. market surveillance, inspection of securities firms and other regulated entities, administrative monetary penalty investigation, disclosure statements inspection and investigation into a criminal case) to make our actions more prompt and effective
- ▶ Timely and prompt response to changes in market environments, trends of violations, and international regulatory developments. Forward-looking and prompt response to emerging risks
- ▶ Enhanced cooperation with self-regulatory organizations (SROs) to increase the effectiveness of the multilayered market oversight activities

(2) Outreach activities 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 SROs and other channels, to encourage their self-discipline for market integrity
- ▶ Closer communications with market participants, and more effective dissemination of information

(3) 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 in today's highly-globalized markets
- ▶ More effective inspections of globally active and large-scale securities firms, utilizing the international supervisory frameworks
- ▶ Further developments of human resources and organizational structures at the SESC

The SESC believes that our efforts towards fair, transparent and quality capital markets should contribute to vitalizing the Japanese capital markets and their international competitiveness by implementing comprehensive and effective market oversight activities based on the policy directions set out above.

* SESC Chairman Kenichi Sado and Commissioners Shinya Fukuda and Masayuki Yoshida were appointed and started their new 3-year term on December 13, 2010

3. Policy Priorities

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

(1) Comprehensive and proactive market surveillance

- ▶ Comprehensive and enhanced surveillance on both primary and secondary markets as well as on cross-border transactions in order to preclude any regulatory loopholes in market surveillance
- ▶ Extensive surveillance on suspicious transactions which, at first sight, do not appear to contravene rules and regulations
- ▶ Proactive market surveillance through collection of a wide range of information with analysis of backgrounds behind individual cases or market developments
- ▶ Taking appropriate actions against cross-border market abuse, through exchange-of-information frameworks amongst securities regulators, including investigation requests and enforcement action based upon information provided by overseas regulators

(2) Strict actions to market misconduct and false disclosure statements

- ▶ Taking strict actions against market abuse such as insider dealing, market manipulation, fraudulent means including abuse of financing in primary market, and false disclosure statements
- ▶ Contribution to the regulatory system related to market misconduct based upon surveillance results

(3) Timely and efficient inspections and investigations in response to disclosure violations

- ▶ Implementation of timely and efficient disclosure inspections and investigations 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 the accurate financial information to the market as well as encouraging the related parties to achieve such appropriate disclosure
- ▶ Taking appropriate actions against public offering of securities such as stocks and corporate bonds without filing securities registration statements, with enhancing cooperation with the FSA and the Local Finance Bureaus and, if necessary, seeking petitions for court injunctions (Article 192 of the FIEA)

(4) Enhanced use of administrative monetary penalty system

- ▶ Implementation of timely and efficient inspections and investigations, taking advantage of administrative monetary penalty system, for fraudulent trading, false disclosure statements and other violations
- ▶ Exercising initiatives in order to prevent market participants from committing violations by taking various measures such as proactive provision of information regarding case precedents of administrative monetary penalties

(5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected

- ▶ Implementation of efficient and effective inspections through developments of knowledge and inspection techniques corresponding to the characteristics of firms to be inspected
- ▶ Implementation of inspections of globally active securities firms, verifying the appropriateness of their internal control and risk management systems from a forward-looking perspective, in response to the introduction of consolidated financial regulations
- ▶ Taking appropriate actions against malicious financial firms such as fund dealers and investment advisors, verifying their operations and compliance from the perspective of investor protection
- ▶ Taking appropriate actions against unregistered entities selling unlisted stocks or other securities, in close cooperation with the FSA, the Local Finance Bureaus and investigative authorities through petitions for court injunctions (Article 192 of the FIEA)

(6) Enhanced cooperation with SROs

- ▶ Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors