

5. Market Surveillance

1) Outline

1. Outline of market surveillance

The SESC conducts market surveillance on a broad range of securities transactions, including stocks showing irregular price movements and dubious deals, on a daily basis. If it detects transactions that might hurt the fairness of the market, the SESC will launch further investigation by analyzing the situation and gathering detailed information on the deal in question.

2. Legal basis

(1) **Authority to ask for submission of reports and transaction data from securities companies**

The SESC is authorized to ask securities companies to submit a report and data on particular securities transactions if it finds investigation of the transactions necessary and appropriate from the viewpoint of maintaining fairness in trading and protecting investors' interests. Such authority delegated to the SESC is prescribed under the SEL, the LFSF and the FFTL.

In addition, the SESC is authorized to ask securities companies to submit reports and data in order to check if they are taking adequate steps to verify customers' identities and maintaining data and other records on transactions with these customers. Such authority is delegated to the SESC under Article 7 of the Personal Identity Verification Law (Article 13, Paragraph 4 of the law).

(2) **Scope of market surveillance**

SESC market surveillance covers acts for which the SESC is delegated authority to seek submission of reports and data from securities companies. These acts are prescribed under government ordinances enforced on the basis of the SEL, LFSF and the FFTL (Article 38 of

the SEL Enforcement Order, Article 20 of the LFSF Enforcement Order and Article 9 of the FFTL Enforcement Order), and under the Personal Identity Verification Law. Specifically, the SESC conducts surveillance over such illegal acts as price manipulation, spreading of rumors, insider trading, and illegal practices and deals engaged in by securities companies and their employees, including executives.

3.Cooperation with self-regulatory organizations

Daily market surveillance as done by the SESC is also conducted by self-regulatory organizations such as stock exchanges and the Japan Securities Dealers Association. Their surveillance has the important function of checking if market participants are executing their business duties in an appropriate manner. The SESC keeps close cooperation with market-surveillance sections of self-regulatory organizations by exchanging necessary information on regular and extraordinary bases, and also by making mutual inquiries about data and facts on transactions that need investigation.

2) Summary of surveillance results

In the 2002 SESC year, the SESC's market surveillance division and information processing division were integrated into the Market Surveillance Office. The number of surveillance officers increased significantly from 16 at the end of fiscal year 2001 to 32 at the end of fiscal year 2002. The Market Surveillance Office consists of four teams, each given specific operational areas. The division of work is designed to strengthen the surveillance function of the office.

a)Stock team

surveillance of stock-price manipulation and formation of artificial markets

b)Insider trading team

surveillance of insider trading cases

c)General affairs team

surveillance of socially topical cases needing quick action

d)Information team

surveillance of suspected spreading of rumors on stock markets via the Internet,

collection of market information, and information management

In the year under review, the SESC had a larger number of Web pages operated by other organizations post a "link" to the SESC's Web site in an effort to garner more information from the general public. In addition, the SESC increased the efficiency of its clerical work by calling for securities companies to submit their reports or transaction data to the SESC via online media.

The number of market surveillance officers at local Finance Bureaus was raised to reinforce their surveillance function. Local Finance Bureaus stepped up information-sharing with the SESC's Market Surveillance Office in the reporting year.

As a result of these efforts, in the 2002 SESC year the number of market surveillance cases increased significantly from the preceding year at both the SESC and local Finance Bureaus.

Number of surveillance cases	SESC Year 2001	SESC Year 2002
Total	392	684
SESC	270	429
Local Finance Bureaus	122	255
(Breakdown of surveillance contents)		
Stock-price manipulation	112	147
Surges in stock prices	108	140
Pegging of stock prices at certain levels	4	7
Insider trading	249	495
Downward revision of corporate earnings	63	163
Upward revision of corporate earnings	29	64
New share issues	25	56
Others	132	212
Others	31	42
Spreading of rumors on markets	8	13
Others	23	29