

analyst or a contract between the securities company and the analyst, the member securities company must take steps to ensure that interest-conflicting relations between the analyst and the companies analyzed by the analyst in the report will be clearly stated in the report (Article 7, Paragraph (1)).

Another clause stipulates that when a member securities company uses a report prepared by an analyst not employed by the company based on a contract between the securities company and a firm employing the analyst or a contract between the securities company and the analyst, the member securities company must ensure that steps will be taken to make sure that the analyst will implement his or her business duty in a fair and appropriate manner in connection with the analyst's securities trading or ownership of securities (Article 15, Paragraph (2)).

5. Market Surveillance

1) Outline

1. Outline of market surveillance

The SESC conducts market surveillance on a broad range of securities transactions on a daily basis, including unfair securities deals, such as manipulation of stock prices and insider trading, as well as inspections of securities companies and investigations of criminal-offense cases.

Specifically, the SESC takes out stocks showing irregular movements, as the samples below show, based on the day-to-day surveillance of market movements and information obtained from various sources, and asks securities companies or SRO's that have engaged in the securities transactions in question to prepare detailed reports on the trading or submit relevant data.

Subject to market surveillance are the following:

- (1) stocks whose prices surged or plunged during a short-period of time;
- (2) stocks about which important incidents that would significantly affect investors' investment judgment occurred;
- (3) stocks that have drawn major attention in newspapers, magazines and Internet bulletin boards; and
- (4) stocks which were reported as involved in possible misconducts to the SESC by general public.

Based on the reports or data submitted, the SESC makes a careful and intensive analysis of dubious securities transactions that may involve price manipulation, insider trading and other violations of law in order to unearth what had actually happened. In addition, the SESC checks if securities companies involved in these dubious deals have committed acts that constitute violations of laws.

If the initial surveillance found problems in the securities transactions in questions, the cases will be reported to relevant SESC sections to be made clear.

2. Legal basis

To conduct market surveillance, the SESC is authorized to ask securities companies or SROs to submit reports and data on particular securities transactions if doing so is deemed necessary and appropriate from the viewpoint of maintaining fairness in trading and protecting investors' interests. Such authority delegated to the SESC and the scope of that authority are prescribed under the SEL, LFSF, FFTL and ordinances as with the SESC's authority on inspections.

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.

2) Summary of surveillance results

In the 2003 SESC year, the number of surveillance officers increased from 32 at the end of fiscal 2002 to 35 at the end of fiscal 2003. Consisting of four teams, as shown below, with each given specific operational areas, they conducted surveillance in an efficient and flexible manner while maintaining the policy of taking prompt initial action for the early settlement of cases.

- a) Stock-price 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

The number of surveillance cases conducted by the SESC and Local Finance Bureaus are shown below.

Number of surveillance cases	SESC Year 2003	SESC Year 2002
Total	687	684
SESC	382	429
Local Finance Bureaus	305	255
(Breakdown of surveillance contents)		
Stock-price manipulation	154	147
Surges in stock prices	105	140
Pegging of stock prices at certain levels, etc.	49	7
Insider trading	500	495
Downward revision of corporate earnings	86	163
Upward revision of corporate earnings	56	64
New share issues, etc.	63	56
Others	295	212
Others	33	42
Spreading of rumors on markets	6	13
Others	27	29