

# Supplements

# Basic Principle

## – On the Start of New Regime –

### 《Mission of Securities and Exchange Surveillance Commission (SESC)》

- To ensure fair trading in securities and financial future markets
- To maintain the confidence of investors in these markets

### 《Objective under the New Regime》

The most important objective of the SESC under the new regime is

to protect individual investors with all our force

, as former regime did.

### 《Main Targets》

Main targets of SESC in order to achieve the above objective include:

- (1) Sweep out criminal activities which hamper the fairness of markets  
Sweep out criminal activities, including market manipulations and insider trading, which deceive investors and hamper the fairness of markets. The SESC aims to, for instance, thoroughly detect the large-scale market manipulation by speculators.
- (2) Detect the violations of laws or regulations by market intermediaries  
Strictly detect the act of violating laws or regulations by market intermediaries including securities firms and their managements and employees who try to make profits at the expenses of investors.
- (3) Detect false statements on securities reports  
Exhaustively detect the issuers of securities reports with false information who try to raise funds in favor of themselves by deceiving investors.

## 《Priority Matters》

The SESC will put emphasis on the following activities:

**(1) Proper implementation of investigation for imposing new administrative civil penalty**

Administrative civil money penalty system will be introduced in April 2005 against unfair trading (e.g. insider trading) and the submission of financial statements containing false information, and the SESC will be granted the authority of conducting the investigation for imposing the penalty. The SESC will arrange our organizational and procedural structure for implementing this new authority properly.

**(2) Appropriate response to integrated inspection**

Further inspection authorities will be delegated from the Financial Services Agency to the SESC in July 2005. The SESC will prepare for exercising the newly integrated inspection authorities in an accurate way, and implement efficient and intensive inspection.

**(3) Response to recent developments in the markets**

New products that cannot be easily grasped by individual investors, such as complicated option trading, have recently been sold in a large quantity to individual investors. The SESC will implement surveillance and inspection timely to see whether there exist unfair trading and/or illegal solicitation by market intermediaries in such a new market environment where the new products and forms of trading mechanism have been emerged and Information Technology has been advanced.

The SESC will also respond appropriately once the inspection authority on foreign exchange margin transaction is granted.

**(4) Response to cross-border transactions**

As the globalization of financial transactions and the development of Information Technology are advanced, suspicious activities involving non-residents including foreign investment funds that may violate the laws or regulations have been found in the Japanese markets. The SESC will strengthen the detection of such activities and coordinate with foreign authorities in a closer manner than before.

**(5) Reinforcement of human resources**

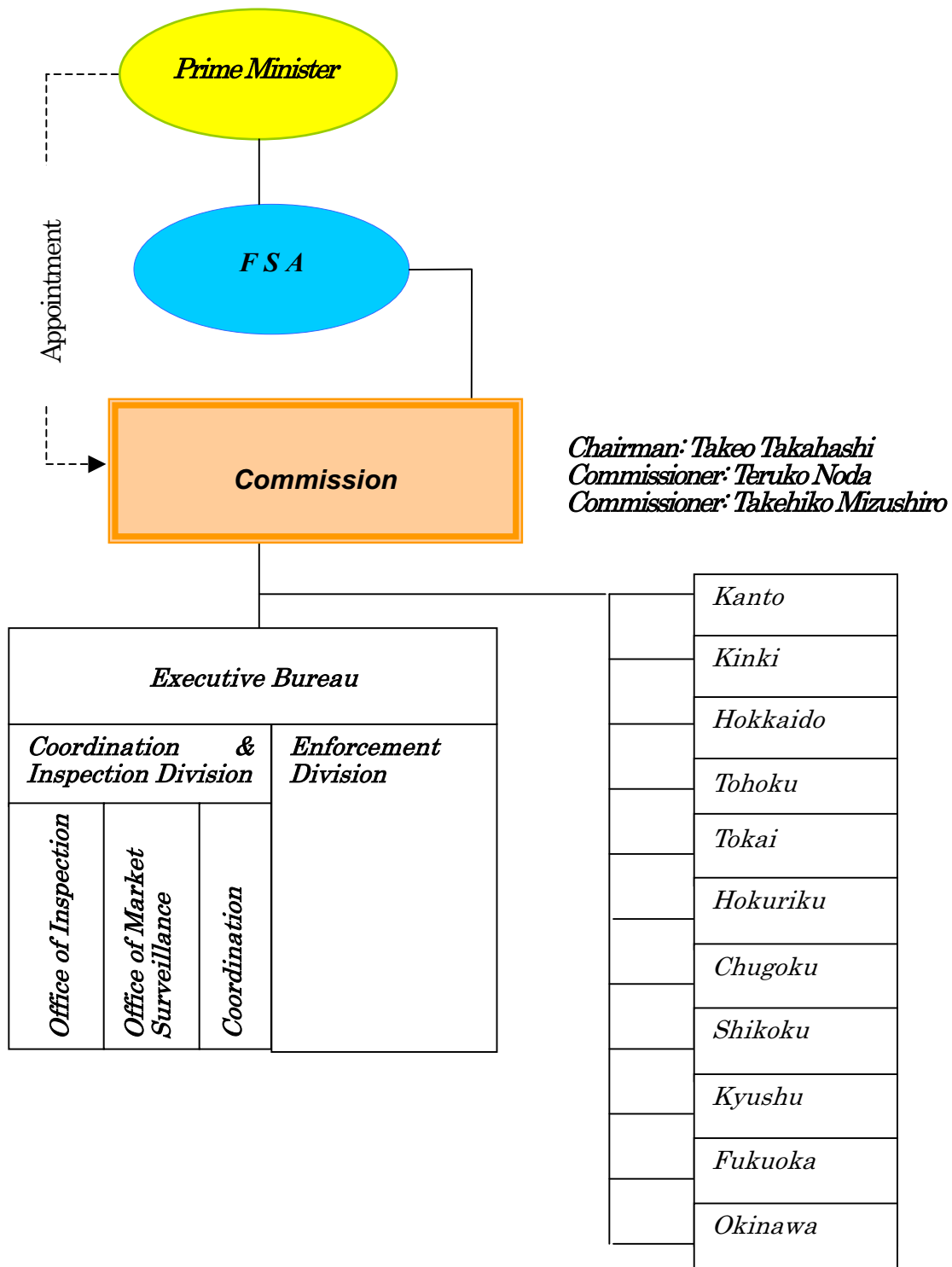
Further increase in human resources is needed in implementing the above targets, thus, the SESC continues trying to keep the necessary level of human resources in coordination with the authorities on the increase.

**(6) Promotion of the presence of SESC**

The SESC tries to increase its presence in the markets so that the existence of the SESC itself will serve as deterrence against unfair practices. The SESC also tries to further increase the credibility of the SESC, and consequently, of the securities markets, from investors. The SESC will thus make an effort to achieve higher performance in detecting criminal offences, as well as inform more people of the activities of the SESC through our website and seminars.

Table 1

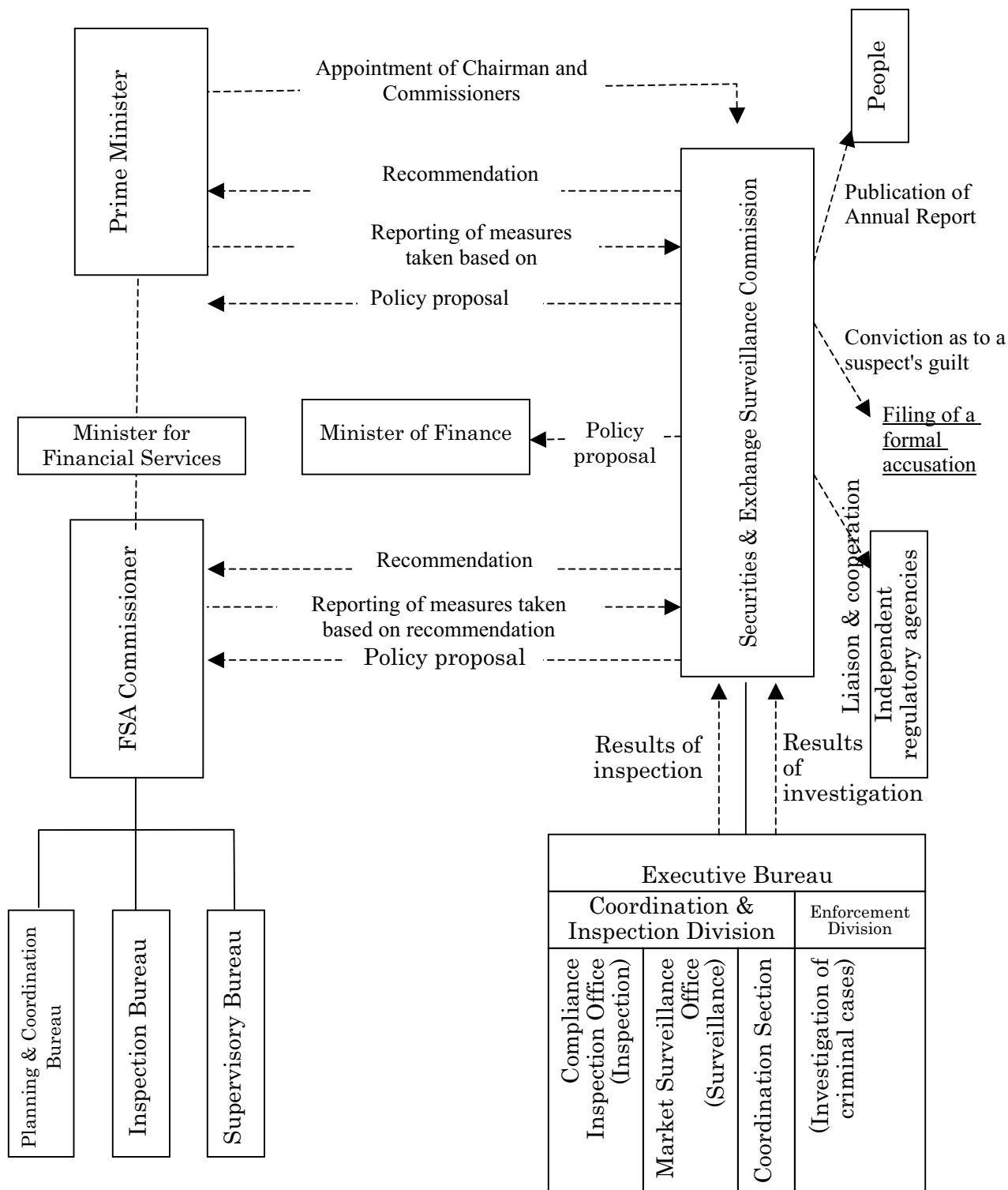
Organization of the SESC



Note: Local offices were established under the Local Finance Bureaus of the Ministry of Finance to carry out SESC surveillance activities. The directors general of Local Finance Bureaus conduct inspections and market surveillance under the authority delegated by the SESC and investigations of criminal offenses under the direct supervision of the SESC (see Table 3).

Table 2

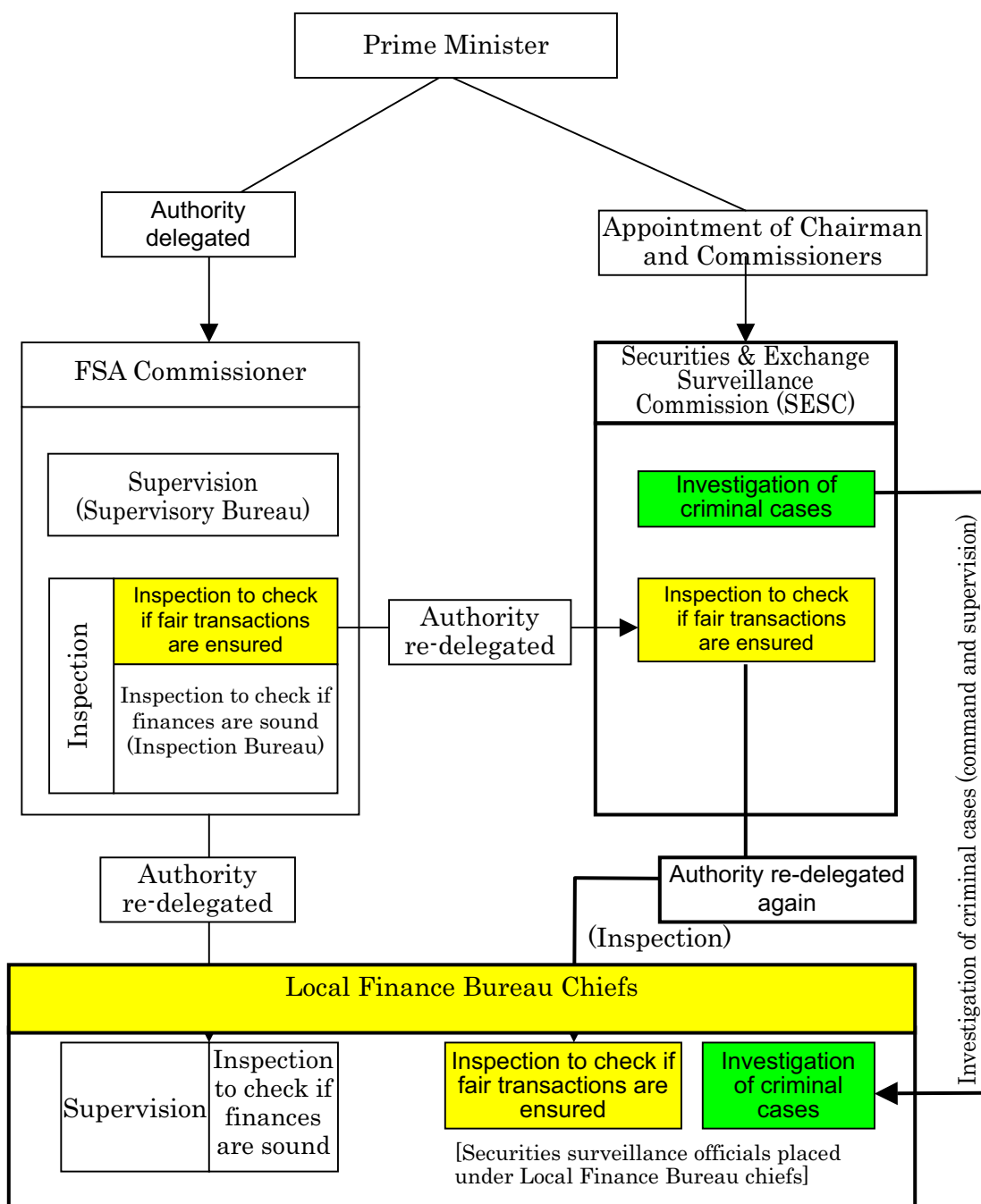
Conceptual Chart for Supervision of Securities Transactions



(Note) Recommendations can be filed with the Prime Minister or the FSA Commissioner. Policy proposals can be filed with the Prime Minister, the FSA Commissioner or the Minister of Finance (Articles 20 and 21 of the Establishment Law).

Table 3

**Conceptual Chart for Relationship among the Prime Minister, FSA Commissioner, SESC and Local Finance Bureau Chiefs**

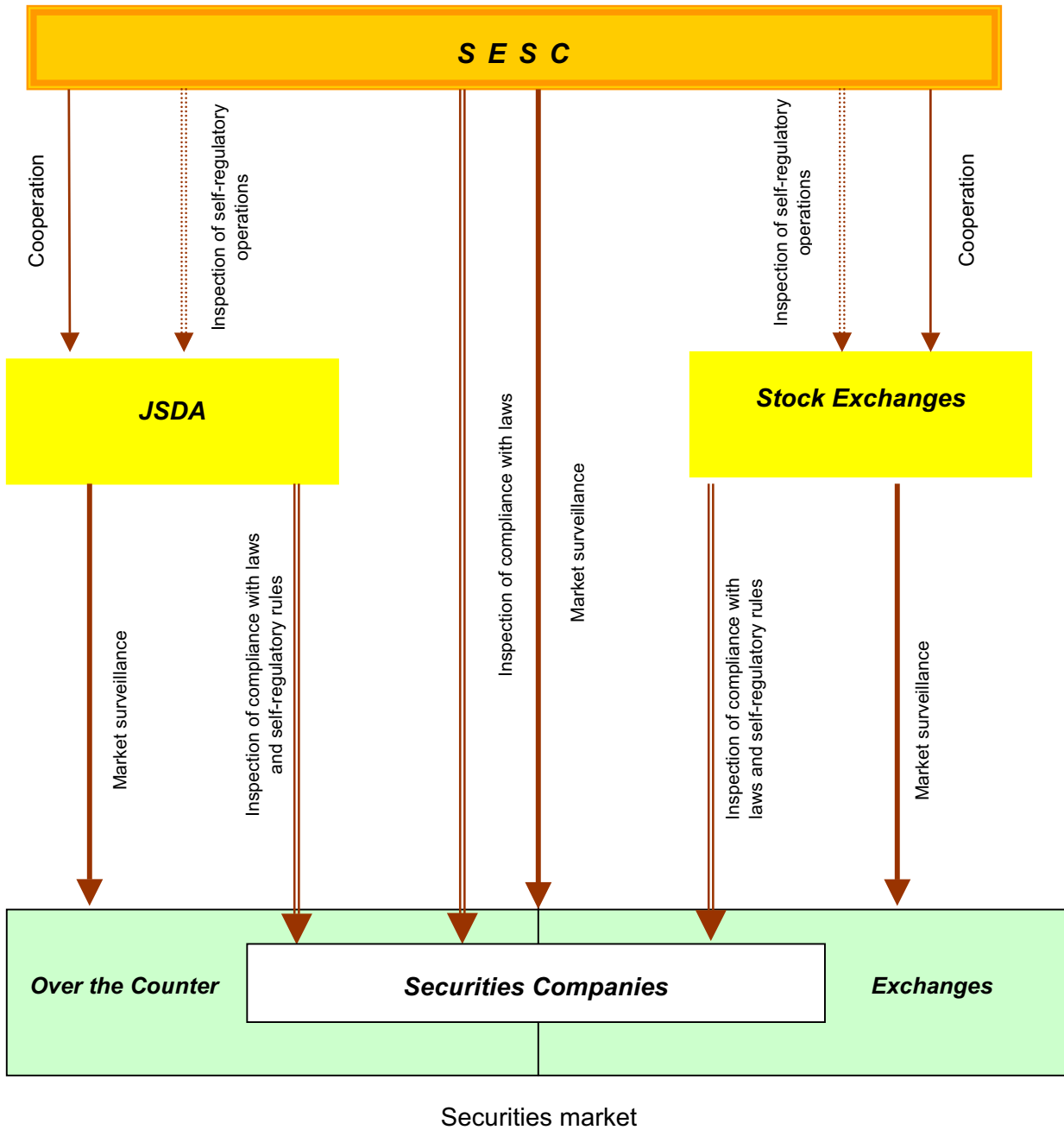


(Note) SESC officials have authority to investigate criminal cases.

- Authority to conduct noncompulsory investigation of criminal cases (Article 210 of the Securities and Exchange Law, Article 53 of the Foreign Securities Firms Law, Article 106 of the Financial Futures Trading Law, and Article 18 of the Personal Identification Verification Law)
- Authority to conduct compulsory investigation of criminal cases (Article 211 of the Securities and Exchange Law, Article 53 of the Foreign Securities Firms Law, Article 107 of the Financial Futures Trading Law, Article 18 of the Personal Identification Verification Law)

Table 4

### Relationship to Self-Regulatory Organizations



Note: The same system applies to financial futures.