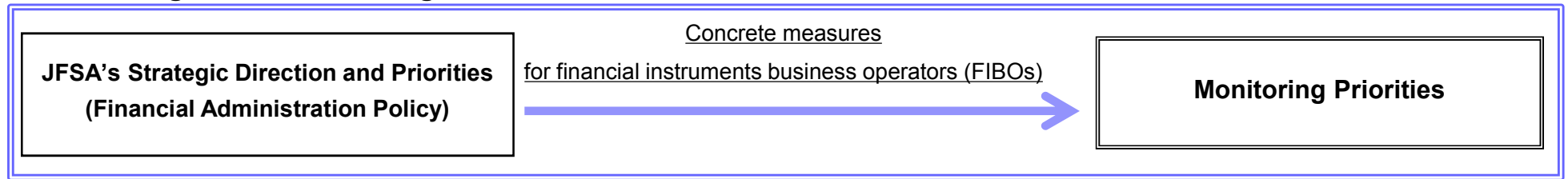


Monitoring Priorities for Securities Businesses (July 2016-June 2017)

《Positioning of the Monitoring Priorities》



《Monitoring Priorities for Securities Businesses》

[Role of monitoring]

- To ensure the fairness and transparency of the markets and protect investors, encouraging FIBOs to properly perform their function as market intermediaries as well as gatekeepers, with appropriate controls in place to ensure that they operate in compliance with relevant laws, regulations and market rules



Ensure investors' confidence in the markets

[Principle Approach]

(Conventional approach)

- Focus on reviewing an entity's legal/regulatory compliance, and so on, through on-site monitoring

<Market and Regulatory Changes>



- ✓ Total of 8,000 entities subject to monitoring
- ✓ More varied, complex products/transactions
- ✓ Changing customer base as population ages

(Forward looking and preventive approach)

- Seamless integration of on-site and off-site monitoring for all FIBOs
- Business model analysis and risk assessment that focuses on the effectiveness of its governance and appropriateness of its risk management
- More risk-based approach: identify FIBOs for on-site monitoring based on off-site risk assessment

*Note: The monitoring business year now runs from July-June, rather than previous April-March.

《Monitoring strategies for various FIBOs business models》

- **Large securities business groups :**
 - Business model, including any changes and its sustainability (including any overseas operations)
 - Effectiveness of governance and appropriateness of risk management system, in light of the firm's business model
 - Potential issues and operational risks of the entire group

The SESC assesses these items from a forward-looking perspective.
 - **Securities companies, other than large securities business groups:**
 - Changes in customer base and profit structures
 - Appropriateness of business operations in light of the firm's scale and business model
 - Risk assessment of the products handled by local securities companies
 - **Foreign currency margin transactions (FX transactions) business operators:**
 - Measures to protect investors and risk management system as a precaution against occurrences of events that can significantly affect the foreign exchange market
 - **Investment management business operators (IMBOs):**
 - Status of governance of IMBOs
 - Status of governance of the funds managed by IMBOs

The SESC will develop benchmarks for effective monitoring.
 - **Investment advisors/agencies :**
 - Advertisements that are misleading to customers
 - Solicitations by deceptive means.
 - **Type II financial instruments business operators (Type II FIBOs):**
 - Substance of invested business
 - Appropriateness of the management of invested money
 - **Qualified institutional investors business operators:**
 - Substance of invested business
 - Appropriateness of the management of invested money
 - In particular, the SESC has been focusing on reviewing the business operations after the amended Financial Instruments and Exchange Act (FIEA) enforced on March 1, 2016.
 - **Unregistered business operators:** Where appropriate, the SESC utilizes its investigative authority (Article 187 of the FIEA) to seek injunction against unregistered securities businesses.
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- **Industry-wide and Thematic monitoring priorities:**
 - Customer-first business practices("Fiduciary Duty")
 - Cyber security
 - Trade surveillance of DMA trading and high frequency algorithmic trading

《On-site monitoring》

- Conduct in-depth analyses of relevant products and transaction strategies, and then review the appropriateness of FIBOs' business operations.
- In addition to identifying violations, also identify root causes of the problems through review of the firm's management policies and strategy, its governance, and its personnel and remuneration policies, and encourage FIBOs to take effective measures to prevent recurrence.

《Cooperation with relevant organizations》

- Consider the best balance between securities monitoring by the SESC and audit/examination by self-regulatory organizations.

《Publication of significant cases》

- Provide information on problematic cases, including by publishing case examples, in an easy-to-understand manner.