

(Provisional translation)

## **Summary of Annual Supervisory Policies for Financial Instruments Business Operators, etc. for Program Year 2008**

### **1. Improving Security and Convenience for Investors**

- The FSA will check whether appropriate systems have been developed to protect investors as intended by the Financial Instruments and Exchange Act. It will check whether an overly conservative approach is being taken at the expense of investor convenience.
- The FSA will take a strict stance on applicants who seek to be registered by illicit means and other such cases. The FSA will collaborate with law enforcement authorities, etc. and take a strict stance on unregistered financial instruments business operators.
- The FSA will rigorously enforce segregated custody and management of investors' assets. (In particular, the FSA will deal with foreign exchange margin trading business operators.)

### **2. Building a Reliable Market Infrastructure**

- The FSA will check financial instruments business operators' preparedness for the dematerialization of stock certificates. It will also check their preparedness to serve as custodians of stock certificates in practice.
- The FSA will check whether financial instruments business operators have built internal control systems that befit their public role as market boosters, etc. It will closely monitor their activities aimed at eradicating anti-social forces and their reporting status of suspicious transactions.
- The FSA expects self-regulatory organizations to fulfill their functions. It will also conduct studies on how to realize loophole-free self-regulation. The FSA will make cross-sectoral efforts to bolster complaints resolution and mediation functions, and exert efforts for the broad utilization of the Certified Investor Protection Organization system.

### **3. Diversified, Sophisticated and Multinational Operations, Building Appropriate Internal Control Systems, etc.**

- The FSA will work to properly implement and facilitate the revamp of firewall regulations.
- The FSA will check whether aggressive business operators have built superior internal control systems that can immediately adapt to changes (while, on the other hand, giving due consideration when administering the Financial Instruments and Exchange Act, so that their innovative ideas would not be hampered).
- The FSA will check the financial soundness of financial instruments business operators, etc.

(pay attention to market trends including commodities and real estate markets). The FSA will properly implement the early warning system introduced in April 2008. Furthermore, it will check the status of risk management (including group-wide risk management) adapted to changes in the nature of businesses and the diversification of operations, as well as liquidity risk management.

- The FSA will exert efforts to improve the traceability of risks of underlying assets of securities products.
- The FSA will gather information on examples of eco-friendly funds. The FSA will make as much fact-finding efforts as possible with respect to collective investment schemes (funds).

#### **4. Materializing “Better Regulation”**

- The FSA will utilize “The Principles in the Financial Services Industry” in interpreting and implementing the rules as they were originally intended.
- The FSA will gather and analyze information on market trends and risks, and promptly reflect such information in its supervision; furthermore, it will encourage to cooperate more closely among supervisory divisions and the Securities and Exchange Surveillance Commission (SESC), and collaborate with foreign supervisors.
- The FSA will share the same recognition about rectifying problems with financial instruments business operators, etc. through two-way dialogues.
- The FSA will improve the transparency and predictability by engaging in dialogues with financial instruments business operators, etc. and distributing information to them.