

Main Issues regarding Securities Companies' Market Intermediation Functions, etc.

(1) Improve Reliability of Operations as Market Intermediary

Prevent Recurrence of Erroneous Buy/Sell Orders

Large erroneous order placed by securities company last December

[Japan Securities Dealers Association (JSDA)]
 ○ Established self-imposed regulations on order management framework (April 18)

» Developed framework for checking received orders
 » Established and systemized restrictions on orders exceeding a certain amount through:

- Banning of order placement (hard limit)
- Approval by administrator (soft limit)

» Appointed administrator, etc. in charge of approval of lifting ban

○ Examining possibility of standardizing trading unit, etc.

[Stock Exchanges]

○ Support system such as selection of abnormal orders

Zero margin for stock related to a company raided last January

Collateral Margin for Margin Trading

[JSDA]

○ Established self-imposed regulations (April 18)

» Explain to customers in advance and make it widely known

» Notify customers upon change in margin

(2) Demonstrate Securities Companies' Functions to Check Issuers

Enhance Screening of Underwriting, etc.

Cases in which there are problems in financial position, etc. of recently-listed company

[JSDA]

○ Look into reviewing items and content of screening of insurance underwriting in self-imposed regulations

- (a) Corporate governance status
- (b) Growth potential of company
- (c) Appropriateness of purpose of funds
- (d) Develop framework for timely disclosure, etc.

Increase in equity financing through dilution, etc. which undermines shareholders' interests

○ Look into clarifying matters to be considered upon underwriting, purchasing, etc. of so-called CB (including MSCB)

○ Look into formulating specific standards for framework of screening of insurance underwriting

- (a) Ensure independence of screening of insurance underwriting
- (b) Develop an in-house manual for screening of insurance underwriting
- (c) Develop a framework to check appropriateness of screening of insurance underwriting by internal audit division, etc.

Disparity between securities companies in screening ability

(3) Demonstrate Securities Companies' Functions to Check Investors

Price Manipulation

[JSDA]

○ Enforced self-imposed regulations on trading management framework (June 1)

» Trading items that should at least be screened

- Select the following customers as subjects of trading screening with respect to specific shares:

- 1) Customers deeply involved in trading;
- 2) Customers whose trades are concentrated in a certain timeframe;
- 3) Customers who placed calls and made orders at the same time and price; and
- 4) Customers who cancelled an order exceeding a certain amount, etc.

» If it might lead to unfair trading, the customer will be warned and acceptance of orders will be suspended.

[JSDA & Stock Exchanges]

○ Look into building WAN, etc. to promptly and smoothly exchange information between market participants including FSA

Endless unfair trading by investors

Difficult to get accurate information on insiders who can obtain insider information

Insider Trading

[JSDA, Stock Exchanges, Listed Companies, etc.]

○ Review the insider registration system currently implemented by securities companies and look into measures to improve its effectiveness

(4) Maintain Self-discipline by Securities Companies as Market Players

[JSDA]

○ Look into code of ethics that would serve as a standard for securities companies, officers and employees

○ Look into self-imposed regulations which require securities companies to do the following to prevent problems arising from conflict of interest

(a) Formulate internal policies and rules

- Identify transactions with increased legal risks, substantial rumor risks, etc.

- Split and separate internal organizations

- Build a preliminary screening system independent of the sales division

- Enhance explanations and disclosure to customers and investors

(b) Build an internal control system based on (a).

Increase in cases involving problems such as (potential) conflict of interest