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## Financial Services Agency Newsletter

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## Meeting of Directors-General of Local Finance Bureaus – Speeches by State Minister Ibayashi and Parliamentary Vice-Minister Kanda –

At the fourth meeting of Directors-General of Local Finance Bureaus\* in the current business year on April 23, 2024, State Minister Ibayashi and Parliamentary Vice-Minister Kanda delivered speeches.

### Outline of the speech by State Minister Ibayashi

With regard to support for affected business operators of the 2024 Noto Peninsula Earthquake, the Regional Economy Vitalization Corporation and the Organization for Small & Medium Enterprises and Regional Innovation, together with Ishikawa Prefecture and regional financial institutions, decided to establish Reconstruction of Noto peninsula earthquake affected business Investment Limited Partnership, a fund for reconstruction of Noto Peninsula totaling 10 billion yen in order to deal with the double-debt problem faced by the business operators in future reconstruction. On April 2, the opening ceremony of a consultation center for reconstructing industries in the Noto region, which provides consulting concerning funding, was held. In the future, it is important for the center to respond carefully and closely to consultations from the business operators. While we ask Local financial institutions operating in the disaster-stricken areas to provide thorough and meticulous support for the steady reconstruction of the livelihoods of the business operators through the use of this fund, the Local Finance Bureau should also listen to voices in the disaster-stricken areas and cooperate with local financial institutions to respond to them accordingly.

With regard to comprehensive measures for revitalization support, the start of repayment of so-called zero-zero loans reached its final peak in April. However, from now on, it is necessary to take measures such as providing support for business improvement and business revitalization in accordance with the actual situation of business operators, looking one step ahead, rather than just

providing cash flow support. In March, the Ministry of Economy, Trade and Industry, the Financial Services Agency and the Ministry of Finance extended the government's extended the government's coronavirus funding support to the end of June and formulated and announced the Holistic Support Measures for Business Turnaround of Corporate Borrowers, including measures for strengthening support for business improvement and business revitalization by public and private financial institutions. The Financial Services Agency has revised its supervisory guidelines to include measures for strengthening support for business improvement and business revitalization by private financial institutions looking one step ahead, and for promoting support for business operators to formulate business reconstruction plans. Local finance bureaus should encourage local financial institutions to support business operators as soon as possible based on the measures.



Photo: State Minister Ibayashi delivering a speech

\* The FSA delegates part of its authority over the inspection and supervision of regional private financial institutions, etc. to the 11 Local Finance Bureaus (including the Okinawa General Bureau of the Cabinet Office) based on laws and regulations. In order to ensure sufficient cooperation between the FSA and the Local Finance Bureaus, Directors-General of Local Finance Bureaus and FSA officials meet once every three months to discuss a variety of issues.

## Outline of the speech by Parliamentary Vice-Minister Kanda

With an increasing interest in financial and economic education, such as the launch of the new NISA, the importance of financial and economic education for improving financial literacy is drawing renewed attention. At the interactive dialogue on April 16, the Prime Minister, Mr. Kishida has instructed us to accelerate preparations for the full-scale operation of the Japan Financial Literacy and Education Corporation (J-FLEC), which is scheduled for August this year. The Financial Services Agency will steadily advance necessary preparations in line with the Prime Minister's instructions and in coordination with relevant organizations. In order to provide education opportunities nationwide without regional disparities, it is important for local finance bureaus to take the lead in strengthening cooperation with various stakeholders, such as local governments, educational institutions and economic organizations, and to work to create learning spaces in local and regional areas.

We hope that local finance bureaus will work together with J-FLEC to strengthen the promotion of financial and economic education, while further deepening the network and trust relationships established in each region, and identifying needs and building momentum for financial and economic education.

With regard to sustainable finance, it is particularly important to promote support for regional companies that are positioned in the supply chain for decarbonization initiatives in the region. The Financial Services Agency, in cooperation with relevant ministries and agencies, will actively provide regional financial institutions with information on specific measures for customer support, including how to cooperate with local governments and to utilize subsidized projects, and work to promote support. We are also working to promote impact investment (impact finance), which aims to achieve both social or environmental impact and financial return. In November last year, we launched the Impact Consortium involving a wide range of stakeholders, including local companies, regional financial institutions and local governments. We are working to expand the initiatives and network of stakeholders. In March of this year, we formulated and published the Basic Guidelines to foster and promote a common understanding of

the concept of impact investment. I would like to ask local finance bureaus to support initiatives that take advantage of the unique characteristics of each region by sharing and developing good practices.



Photo: Parliamentary Vice-Minister Kanda delivering a speech

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At the Meeting of Directors-General of Local Finance Bureaus, the speeches by the State Minister and the Parliamentary Vice-Minister came before Directors-General of Local Finance Bureaus and senior FSA officials exchanged opinions on current challenges in financial administration and FSA initiatives. The participants shared the awareness concerning those challenges and confirmed that the FSA and Local Finance Bureaus will continue joint efforts for addressing them.

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Photo: Meeting of Directors-General of Local Finance Bureaus

# International Forum of Independent Audit Regulators (IFIAR)

Holding of Plenary Meeting in Osaka



The 24th Plenary Meeting of IFIAR, an international organization of audit regulators, was held at Hotel New Otani Osaka from April 16 to 18 under the auspices of the Financial Services Agency (FSA) and the Certified Public Accountants and Auditing Oversight Board (CPAAOB). The IFIAR Plenary Meeting, an annual general meeting for IFIAR members and stakeholders, was attended by a total of more than 170 people, including audit regulators of 48 jurisdictions, the global CEOs of each of the Global Public Policy Committee (GPPC) networks and other stakeholders. The meeting covered topics which have become increasingly important in the audit industry in recent years, including audit firm governance, sustainability assurance, and the use of technology by audits.

The meeting opened with remarks by Mr. Matsui, the Chairperson of the CPAAOB, and Mr. Nagaoka, IFIAR Chair, the Deputy Commissioner for International Affairs at FSA and the Secretary General of CPAAOB. Afterwards, a keynote address and a panel discussion (moderated by IFIAR Chair, Mr. Nagaoka) were held exploring audit firm governance as an important issue at present. This topic was further explored in a breakout session, with panelists from four IFIAR members sharing the situation in each jurisdiction and deepening discussions.



Photo: Opening speech by Mr. Matsui, the Chairperson of CPAAOB



Photo: Keynote address and panel

In the breakout sessions, sustainability assurance and the use of technology in audits were also discussed. With regard to sustainability assurance, in light of progress of sustainability reporting, various stakeholders such as regulators, assurance providers and investors took the stage and discussed issues related to the provision of such information from diverse perspectives (Mr. Sonoda, the Director of the Office of Japanese Delegation for IFIAR, participated from FSA). As for the use of technology in audits, several IFIAR members took the stage and exchanged views on responses and future prospects in each jurisdiction from the perspective of the regulators.

In addition, in the sessions with the CEOs of the GPPC networks, the CEOs presented a wide range of topics, including their initiatives and recognition of issues in each network. In the sessions with the standard-setting entities (the International Auditing and Assurance Standards Board (IAASB) and the

International Ethics Standards Board for Accountants (IESBA)), the IAASB Chair and IESBA Chair explained the current status and prospects of their activities. Furthermore, a panel of representatives of the external Advisory Group to an IFIAR's Working Group exchanged opinions on some topics including stakeholders' perspectives on audit committees' supervision of corporate reporting and audit.

On April 17, an official dinner was held, and Mr. Aoki, the Commissioner of CPAAOB, gave a speech. Participants deepened their friendship and enjoyed Japanese hospitality.



Photo: Breakout session on sustainability assurance



Photo: Address by Mr. Aoki, the Commissioner of CPAAOB, at dinner

Since various stakeholders gathered in Osaka from overseas for this Plenary Meeting, an event organized by Nikkei Inc. (Global Accounting and Auditing Forum, "The Value of Audit and Assurance") and a meeting of the Global Accounting Alliance (GAA), a forum for the world's leading professional accountancy bodies whose members practice in major capital markets, were held there. People disseminated information and exchanged their opinions meaningfully.

### **Impressions of personnel in charge: Office of Japanese Delegation for IFIAR**

FSA and CPAAOB hosted the IFIAR Plenary Meeting this time, for which we had made concerted preparations. Our members also created the Plenary's logo featuring Osaka Castle and cherry blossoms at the top of this article (on page 3). This Plenary Meeting was designed to allow in-depth discussions on the most important topics currently faced by audit regulators in a variety of sessions, such as keynote address, breakout sessions, and dialogues with CEOs of GPPC networks, and it was an important opportunity to continue initiatives at IFIAR and other regulators.

We were particularly impressed by the highly interactive communication between speakers on the podium and the audience during each session. The management of the meeting went smoothly, and we received many comments of satisfaction from the participants.

In addition, the venue, Osaka, and the Japanese hospitality culture were also major factors in this success. This was the first time that an IFIAR-related conference was held in Osaka, and the participants had active discussions in the spring atmosphere of Osaka, slightly different from Tokyo. The participants also enjoyed the Japanese hospitality culture at various places, including Hotel New Otani Osaka, the streets in Osaka and tourist destinations that were a little further way, during their stay.

Furthermore, as mentioned in the main text, the event of Nikkei Inc. and the GAA meeting were held in Osaka in conjunction with the IFIAR Plenary Meeting, which provided an opportunity for not only the participants of the Plenary but also other stakeholders at home and abroad to interact.

This success was thanks to the help of all the people who supported and added color to the participants' stay. We would like to continue to actively contribute to the activities of IFIAR while passing on the lessons learned to the subsequent team members, with our gratitude to all of these people.

# Introduction of Recommendation for Payment Order for Surcharge

## - The first recommendation against market misconduct with high-speed trading -

On March 26, 2024, the Securities and Exchange Surveillance Commission (“SESC”) made the following recommendation for a payment order for a surcharge to the Prime Minister and the Commissioner of the Financial Services Agency. This section introduces the summary of this recommendation case.

Please refer to [the SESC website](#) for information

on the publication of this recommendation case.  
<Reference URL>

<https://www.fsa.go.jp/sesc/english/news/reco/20240326-2.html>

## Recommendation for Payment Order for Surcharge against Quadeye Trading LLC for Fraudulent means with High-Speed Trading

### Summary of the case

The juristic person subject to the payment order for a surcharge in this case was Quadeye Trading LLC (“Quadeye”), a U.S. corporation registered with the Kanto Local Finance Bureau in Japan to engage in high-speed trading. Quadeye managed the assets of DAX Partners, L.P. (“DAX”), a limited partnership in the British Cayman Islands, under a discretionary investment management agreement with Dax.

In this case, Quadeye attempted to mark the close in its favor with high-speed trading. In trading in six stocks, it placed on-close orders\* on the side where the number of shares ordered was smaller, a substantial portion of which would be cancelled just before the market close, thereby creating an appearance in which an imbalance in the number of shares with on-close orders was mitigated on the order book, causing others to misleadingly believe that the on-close orders were intended to be executed and to make investment decisions based on this assumption. Then, it cancelled the substantial portion of the on-close orders one microsecond (1/1 million second) before the close, thereby affecting the closing price in its favor.

### Example of trading behavior

Here is an example of trading behavior in this case.

#### (1) Before order placement by Quadeye

Before placing orders, Quadeye started searching for stocks that were in a situation where the closing price was expected to rise or fall because the number of shares with on-close orders was biased toward the buy side or the sell side.

Please refer to the illustration at the right side of the “Example of Trading Behavior” in the outline shown on page 8. Before order placement by Quadeye, the supply and demand balance expected at the close was skewed toward the buy side. Therefore, the stock was in a situation where the closing price was expected to rise.

#### (2) Two hours to tens of seconds before the close

Two hours to tens of seconds before the close, Quadeye placed on-close orders on the side where the number of shares ordered was smaller, thereby creating an appearance in which an imbalance between the buy side and the sell side in the number of shares with on-close orders was mitigated on the order book.

In the illustration at the right side of the outline, you can see that placing on-close sell orders created an appearance in which an imbalance between the buy side and the sell side was mitigated on the supply and demand balance expected at the close.

\*The term “on-close order” means a type of order which will be executed only at the morning or afternoon close.

(3) Just before the close (one microsecond before)

Within one microsecond before the close, two acts were done as follows:

First, Quadeye placed IOC orders on the opposite side of its on-close orders. In the illustration, IOC buy orders were immediately executed to establish a long position.

The term “IOC order” means a type of order, part or all of which will be immediately executed at a specified price or better, or be cancelled if not executed.

Second, Quadeye cancelled or changed part of the on-close sell orders placed in (2) above to subsequently match the amount of shares executed by IOC buy orders.

The supply and demand balance expected at the close in the illustration at the right side of the outline also shows that part of on-close sell orders were cancelled, which created an imbalance towards more buy side again.

(4) At the close

At the close, the remaining on-close sell orders were executed at the closing price in Quadeye's favor. It got profits from the spread between the closing price and the executed price of IOC orders within one microsecond before the close.

The SESC finds that Quadeye engaged in high-speed trading with a program described above in six occasions.

### Characteristics of the case

- (1) This marks the first recommendation for a surcharge against market misconduct by high-speed trading.

High-speed trading is characterized by the use of the method to reduce latency to transmit information on purchase or sale orders, such as automatically making decisions on trading in shares, etc., along with a program, and

placing orders by the use of colocation services, which allow market participants to set up their servers at a location close to the trading system of the securities exchange.

In this case, in trading in all the six occasions, IOC orders were submitted to establish a position at the very last one microsecond, i.e., 1/1 million second before the close. Then, part of on-close orders that had been placed were cancelled to reduce the amount in excess of the position established by IOC orders. It can be thought that such order placement and cancellation would be possible by high-speed trading only.

- (2) To find facts, the SESC appreciates the assistance of overseas financial regulators: the Cayman Islands, the United Kingdom and the United States. The SESC also appreciates the referral from the Japan Exchange Regulation.

In addition, the investigative unit of the SESC finds facts concerning high-speed trading by Quadeye in collaboration with the Market Surveillance Division, which is in charge of analyzing trade data in market oversight.

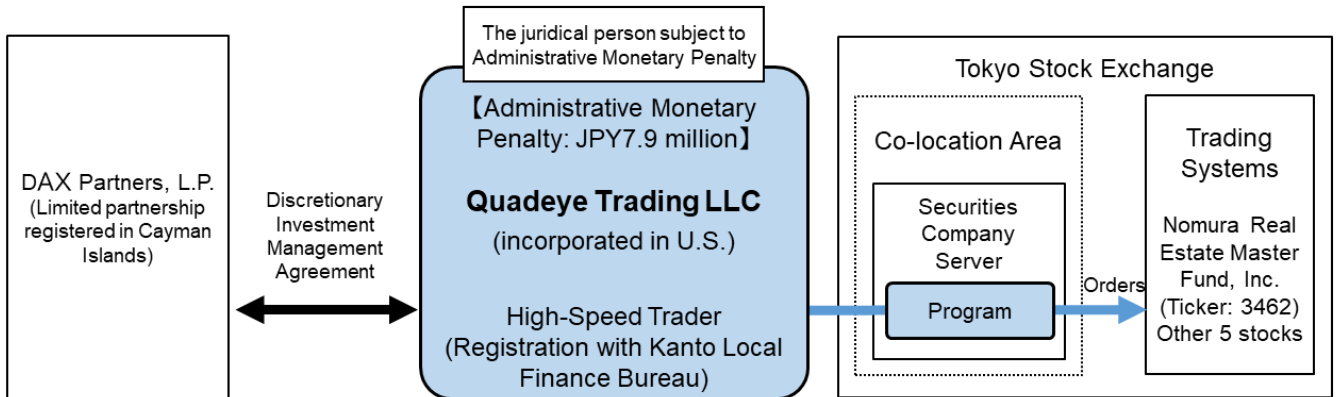
### Message from the SESC

In Strategy & Policy (the 11th term: 2023-2025), the SESC has stated that it will work to strengthen its ability to respond to atypical and new types of cases.

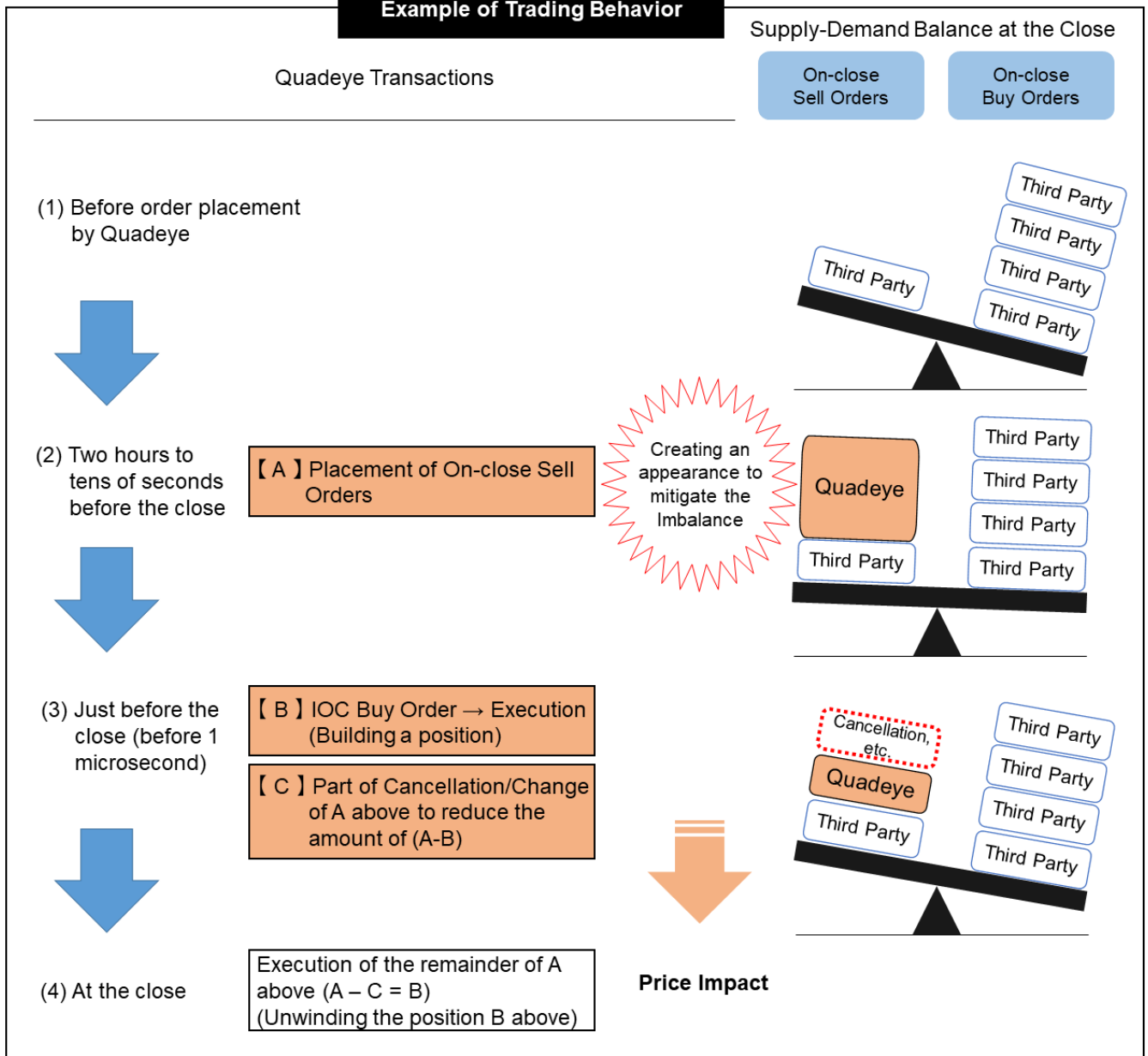
By making a recommendation for the violation in this case, we believe that we have demonstrated to the public the fact that the SESC is also monitoring atypical and new types of cases, i.e., market misconduct with high-speed trading, and is ensuring market fairness through close cooperation with overseas financial regulators and self-regulatory organizations.



### Summary of Misconduct



### Example of Trading Behavior



※ If sell orders dominated the supply/demand balance described in (1) above, the direction of buy/sell would be reversed.

## JFSA's Major Activities in April (April 1 to April 30, 2024)

- [Overview of Revision Proposals for the Financial Instruments and Exchange Act and Act on Investment Trusts and Investment Corporations \(April 25\)](#)
- [The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code: Twenty-Ninth Meeting \(April 18\)](#)
- [Osaka Plenary Meeting of the International Forum of Independent Audit Regulators \(IFIAR\) \(April 16-18\)](#)
- [Twentieth Meeting of the "Council for Cooperation on Financial Stability" \(April 11\)](#)
- [The FSA publishes the status of loans held by all banks as of the end of September 2023, based on the Financial Reconstruction Act \(April 3\)](#)
- [Revision of "Frequently Asked Questions Regarding "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism"" \(April 2\)](#)
- [Appointment of the Director of the Financial Research Center \(April 1\)](#)

The week from May 14 to 20 every year is **Problem Gambling Awareness Week** to deepen awareness and understanding of gambling and other addiction issues. [Here](https://www.fsa.go.jp/policy/kashikin/gambling/20240514.html) is a special page that summarizes the outline of gambling and other addictions, consultation services, and initiatives of industry organizations.



JFSA's official English X (formerly Twitter) account  
[https://x.com/JFSA\\_en](https://x.com/JFSA_en)



We are promoting  
information dissemination  
using X (formerly Twitter)!

### Editorial Postscript

It's a beautiful season for fresh greenery, and new buds are starting to appear in Blue Spruce I have grown with care for several years. This year, I tried a little twist to bend houseplants at home. Even though I have planned to do it, if I miss the timing, it'll be too late. I can't go against nature, but I feel like I've taken on a new challenge.

This month's issue introduces the events held in the new fiscal year. I would be happy if you could feel the progress of flexible financial administration by meeting the relevant parties in person at the right time and responding to social changes.

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Edited and issued by the Public Relations Office, FSA