



# Securities and Exchange Surveillance Commission



The Government of Japan  
Published in February 2024

# Securities and Exchange Surveillance Commission

---

## Contents

A Message from the Chairman	p.2
Chairman and Commissioners	p.3
I. Organization and Objectives	p.4
II. Strategy & Policy of the SESC 2023-2025	p.7
III. Activities of the Securities and Exchange Surveillance Commission	
—1 Market Surveillance	p.8
—2 Monitoring of Financial Instruments Business Operators	p.9
—3 Investigation of Market Misconduct	
(1) Investigation of Domestic Transactions	p.11
(2) Investigation of Cross-Border Transactions and Trades by Institutional Investors	p.12
—4 Inspection of Disclosure Statements	p.13
—5 Investigation of Criminal Cases	p.15
IV. Reference Cases and Statistics	p.16
V. SESC Website and Publications	p.30

# A Message from the Chairman

The Securities and Exchange Surveillance Commission (SESC) has worked to ensure the fairness and transparency of markets and to protect investors, and its 11th term was launched in December 2022.

The SESC has filed criminal charges in cases of serious and malicious market misconduct and has made recommendations for administrative monetary penalty payment orders and administrative actions for violations of laws and regulations. The SESC has also enhanced market oversight through its investigations and inspections to accomplish its mission.

In recent years, market movements have become faster and greater due to progress in digitalization and globalization, while market mechanisms and legal systems have accumulated changes. In December last year, Policy Plan for Promoting Japan as a Leading Asset Management Center was formulated, and in January of this year the new Nippon Individual Savings Account (NISA) program was launched. In addition, the market is undergoing changes, including price hikes around the world, heightened geopolitical risks, as well as a declining population, declining birthrate, and aging population.

In light of these changes in the environment surrounding markets, we believe it is important for the SESC to have adequate capability to be called a professional agency for market surveillance and to demonstrate its power in order to appropriately deal with atypical and new types of cases that could threaten market integrity.

Under the 11th term, the SESC will aim to achieve a virtuous cycle of "Information Gathering and Analysis for Comprehensive Market Oversight," "Effective and Efficient Investigations and Inspections," and "Effective Initiatives to Enhance Market Discipline" in order to contribute to the sound development of capital markets.

Based on its accumulated market oversight skills and experiences and its cooperation with relevant organizations in Japan and other countries, we strive to enhance communication within the SESC, develop capabilities to find out the truth, and engage in market oversight with a straight and broad vision. The SESC will continue to fulfill its mission and respond to the trust that you place in us. Your continuous understanding and cooperation would be greatly appreciated.



NAKAHARA Ryoichi  
Chairman

Securities and Exchange Surveillance Commission  
February 2024



# Chairman and Commissioners



**Commissioner  
KATO Sayuri**

KATO Sayuri was appointed as SESC Commissioner in December 2019 (reappointed in 2022). Previously, she served as Director of the Consumer Affairs Agency, Vice-Governor of Nagano Prefecture, and Executive Vice President of the National Consumer Affairs Center of Japan.

**Chairman  
NAKAHARA Ryoichi**

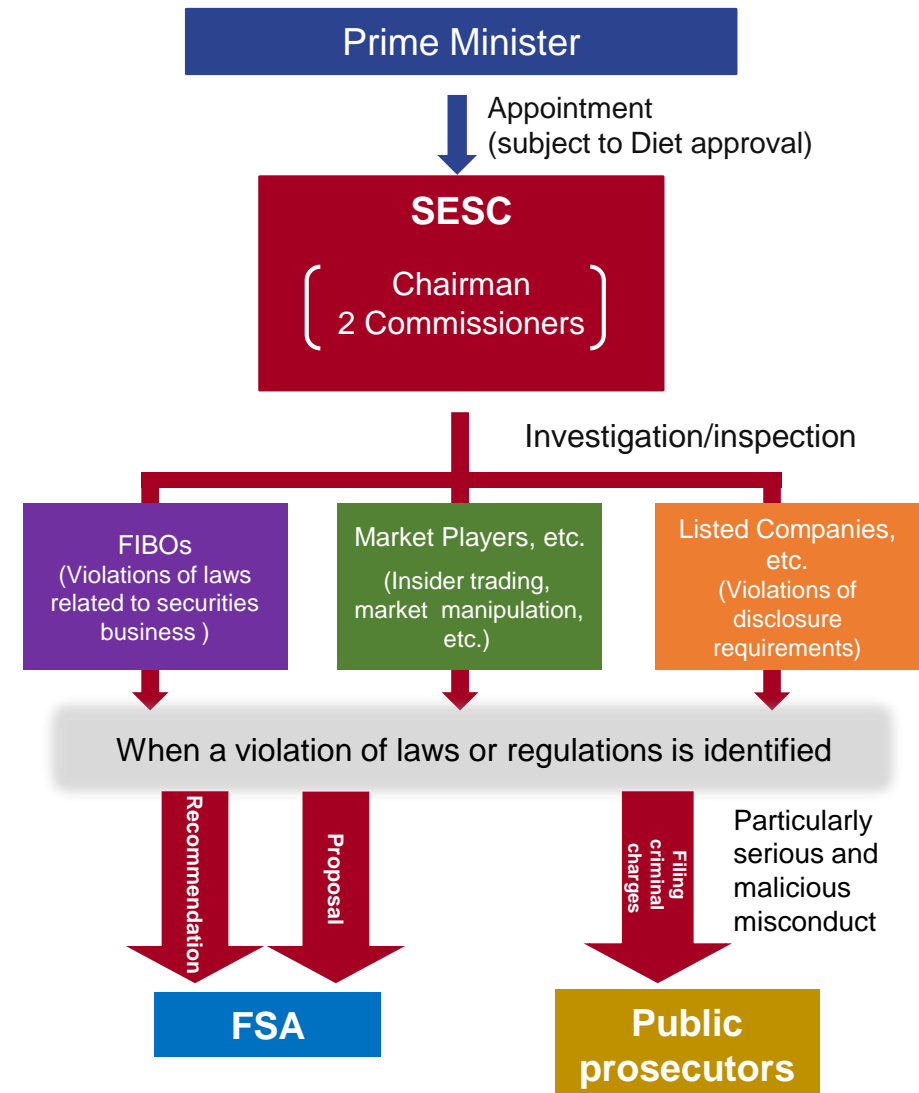
NAKAHARA Ryoichi was appointed as SESC Chairman in December 2022. Previously, he served as the Chief Public Prosecutor of the Hiroshima and Fukuoka High Public Prosecutors Offices.

**Commissioner  
HASHIMOTO Takashi**

HASHIMOTO Takashi was appointed as SESC Commissioner in December 2022. Previously, he served as a professor at Nihon University College of Commerce and at Aoyama Gakuin University Graduate School of Professional Accountancy.

# I. Organization and Objectives

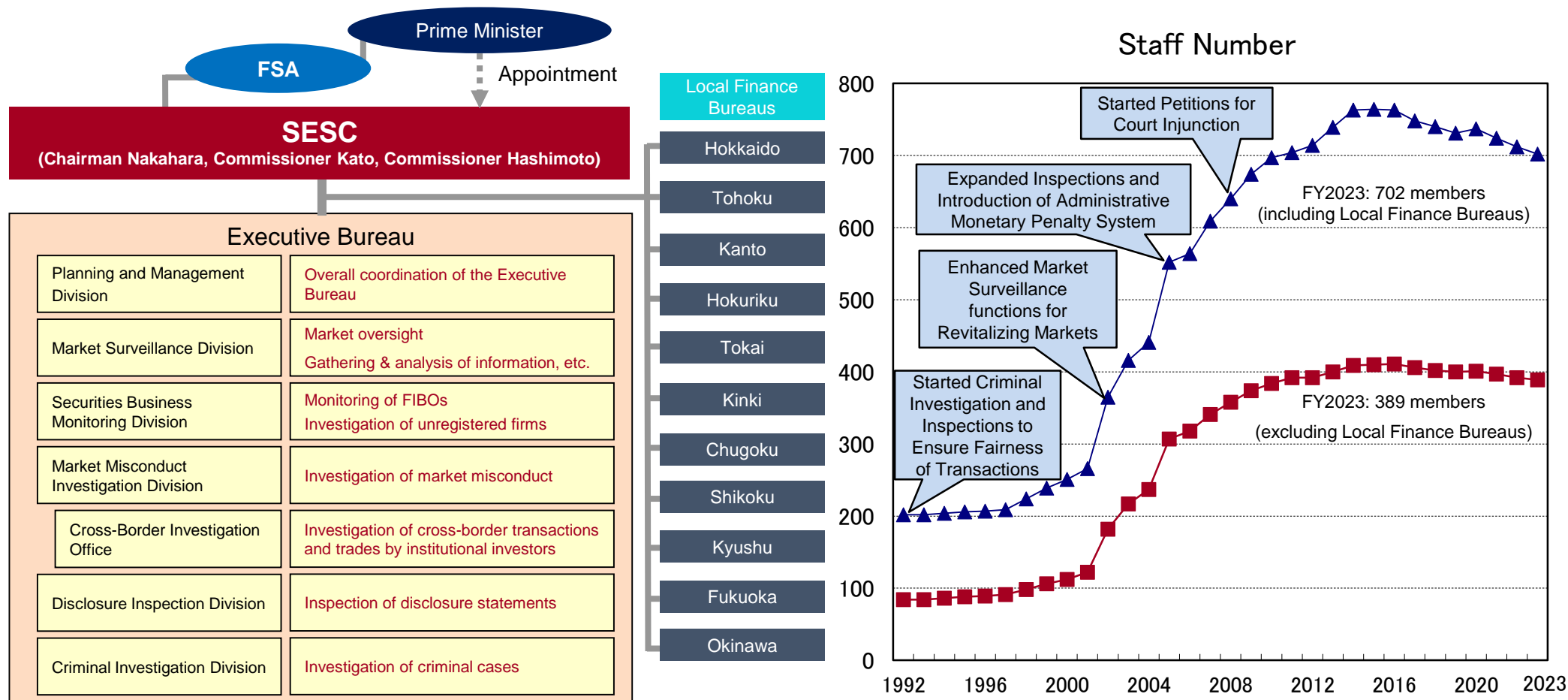
- ◆ The SESC is a collegiate organization within the Financial Services Agency (FSA), founded in 1992.
- ◆ A Chairman and two Commissioners are appointed by the Prime Minister and function as independent agents. (Term of office: 3 years)
- ◆ The SESC aims to ensure the fairness and transparency of markets and to protect investors.
  - Inspections of violations of laws and regulations related to securities business by Financial Instruments Business Operators (FIBOs)\*
  - Investigations of market misconduct, including insider trading and market manipulation
  - Inspections of violations in disclosure requirements by listed companies
  - Recommendations for administrative actions or administrative monetary penalty payment orders, policy proposal, or filing criminal charges based on the results of the above investigations or inspections



\* "FIBOs" stands for Financial Instruments Business Operators and includes any business operator subject to inspections, such as registered financial institutions, financial instruments intermediary service providers, and qualified institutional investors

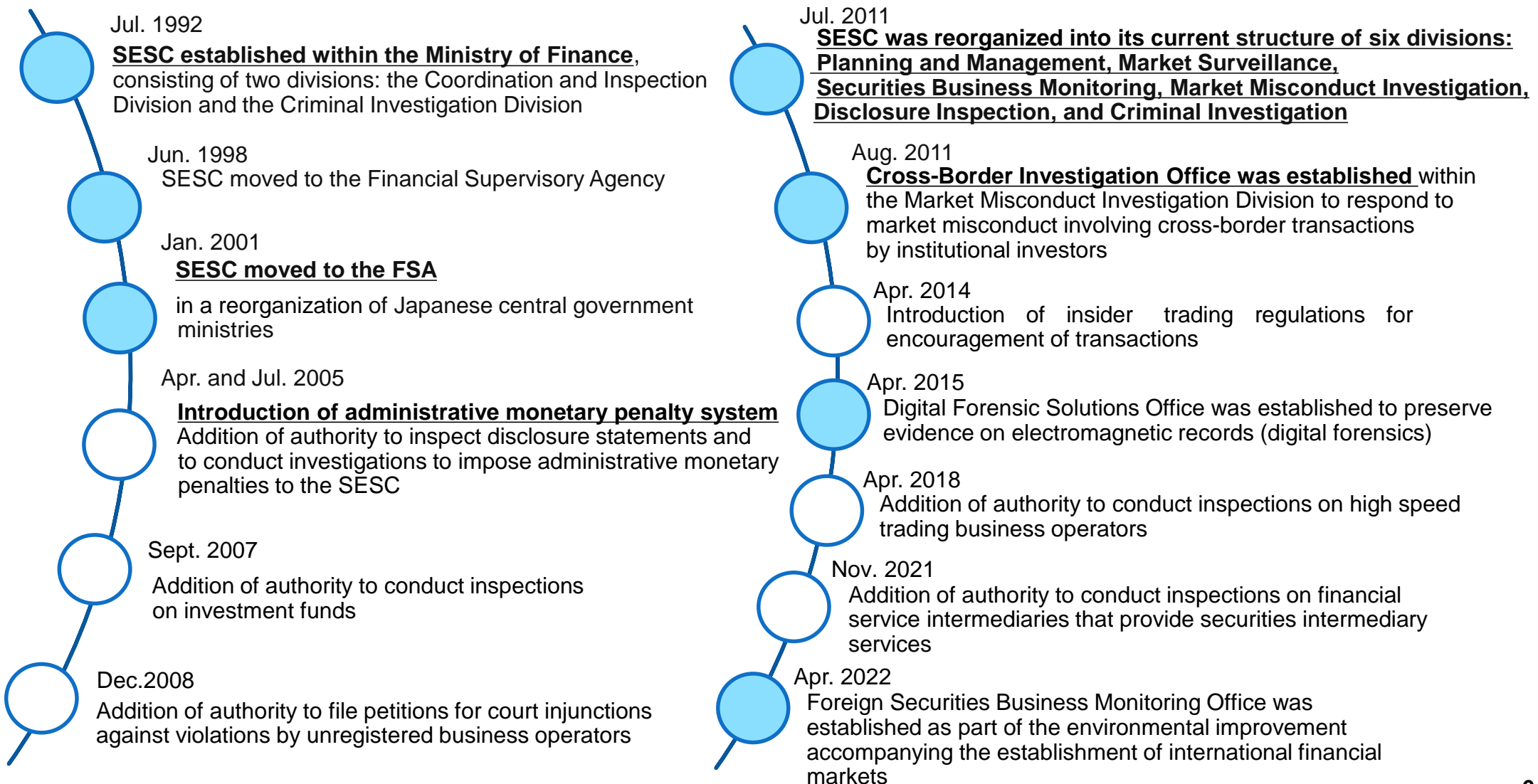
# (Ref.) Organizational Structure and Resources

- ◆ The Executive Bureau is composed of the following six divisions: Planning and Management Division, Market Surveillance Division, Securities Business Monitoring Division, Market Misconduct Investigation Division, Disclosure Inspection Division, and Criminal Investigation Division.
- ◆ In addition to the Executive Bureau in Tokyo, the SESC has staff members at the Local Finance Bureaus, which perform mainly inspections of FIBOs located in respective areas.
- ◆ There are 702 staff members in total (389 of which work for the Executive Bureau) as of March 31, 2024, the end of fiscal year 2023.



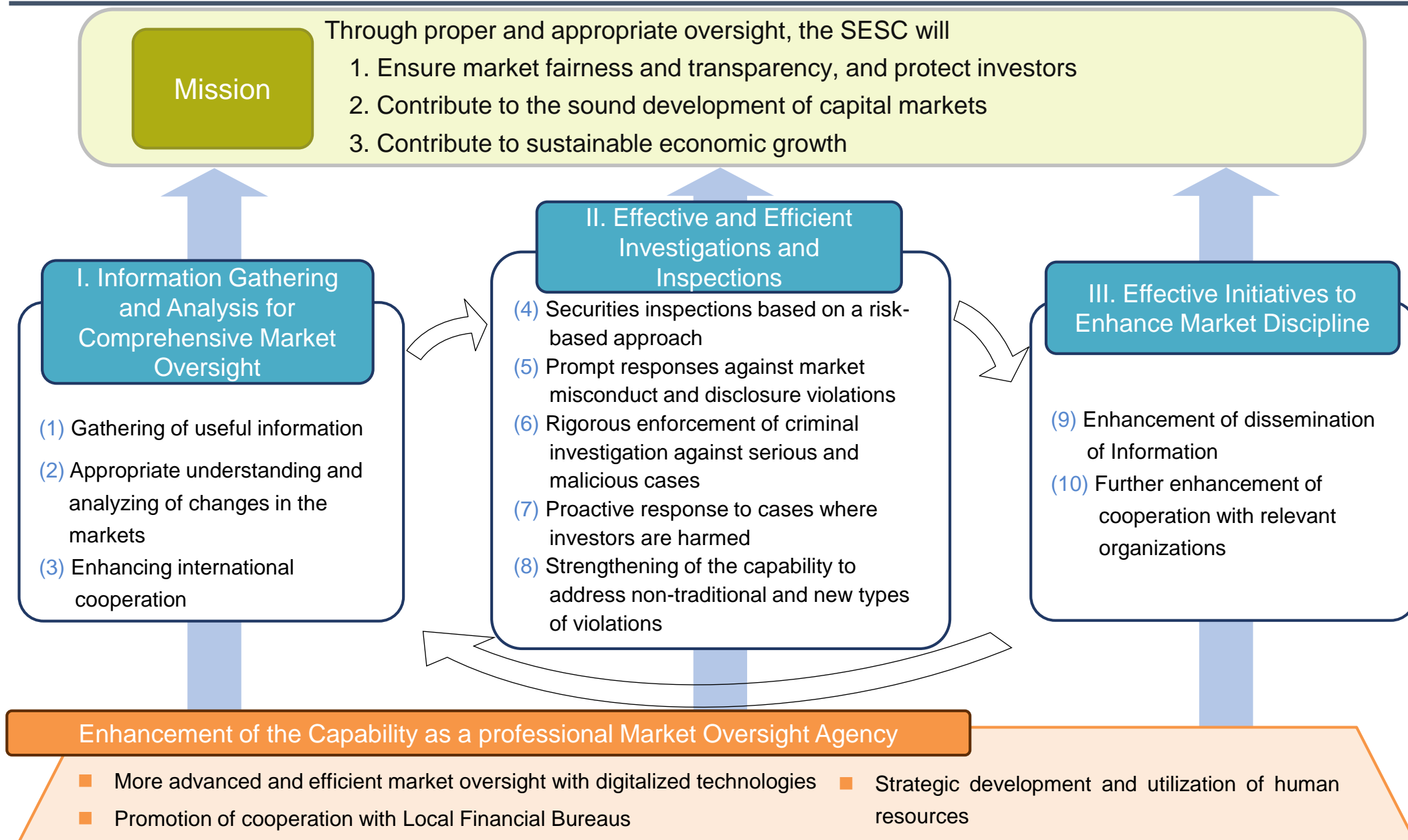
## (Ref.) History of the Securities and Exchange Surveillance Commission

Since its establishment in 1992, the SESC has expanded its administrative investigations beyond its investigation of criminal cases to strengthen its functions as a market surveillance organization



## II. Strategy & Policy of the SESC 2023-2025

- For Trusted, Fair and Transparent Markets  
in Response to the Changing Times -

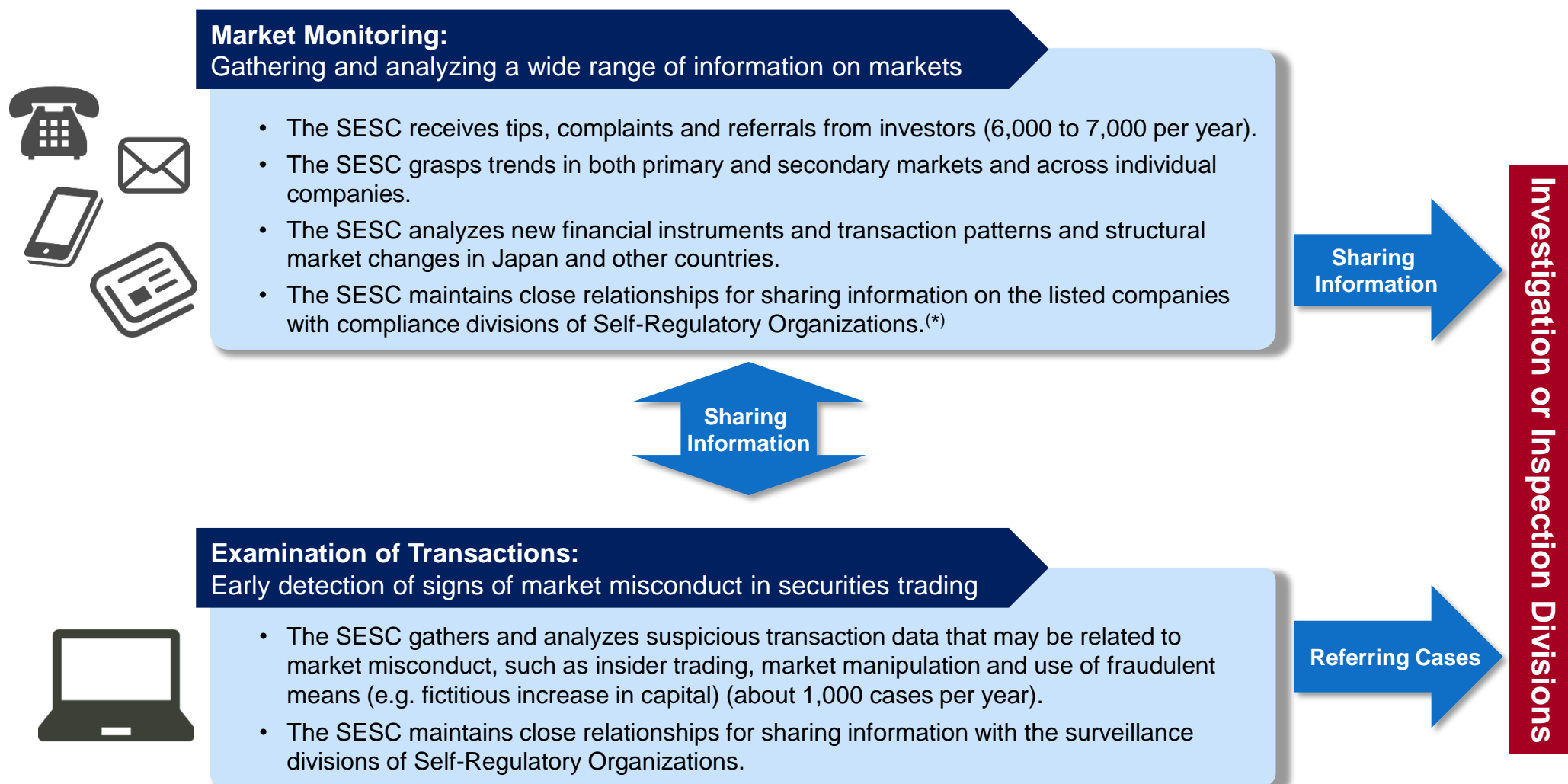




# III. Activities of the Securities and Exchange Surveillance Commission

## —1 Market Surveillance

**Entry Point:** The SESC gathers and analyzes a wide range of information and detects signs of market misconduct.



<sup>(\*)</sup> "Self-regulatory organizations" refers to financial instruments firms associations, financial instruments exchanges, and self-regulatory organizations

# III. Activities of the Securities and Exchange Surveillance Commission —2 Monitoring of Financial Instruments Business Operators

The SESC implements effective and efficient monitoring to ensure an environment in which investors can invest with confidence.

## Selection of FIBOs for Inspection Based on a Risk-based Approach

- To implement effective and efficient monitoring of FIBOs, the SESC conducts business models analysis and risk assessment focusing on the appropriateness of their risk management at all of about 8,400\* FIBOs and selects FIBOs for inspection on a risk basis.

\*Number at the end of November 2023

## Inspection

- The SESC reviews the appropriateness of business operations after in-depth analysis of their products, transaction strategies and explanations to customers.
- The SESC addresses identified problems not only through just identifying violations of laws and regulations but also through conducting additional analysis to identify their root-causes through a review of management policies and strategy, governance, and personnel and remuneration policies.

**When the SESC identifies a serious violation of laws or regulations**

## Recommendation for administrative actions, etc.

- The SESC recommends administrative actions, etc. to the Prime Minister and the Commissioner of the FSA.

## Prevention of recurrence of violations

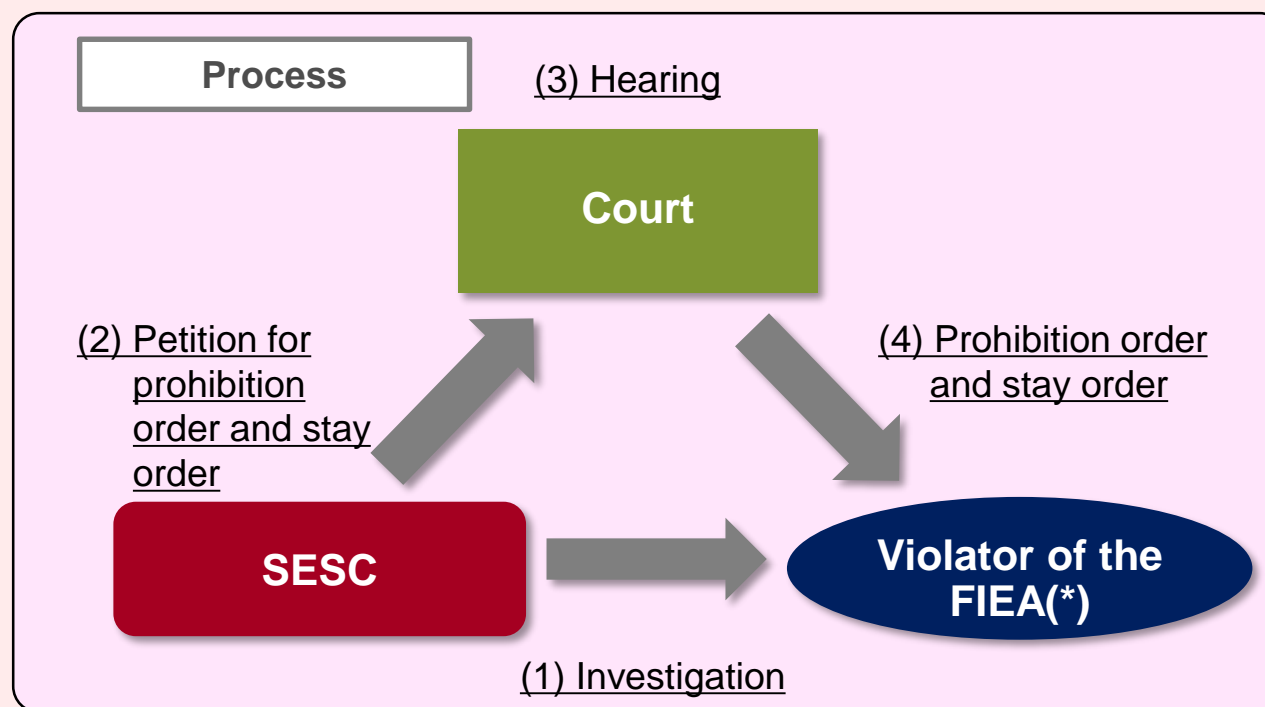
- The SESC published "Overview of Securities Business Monitoring and Case Studies" to be used for voluntary initiatives to enhance and strengthen the internal control frameworks of FIBOs.



## Actions against Unregistered Operators

### Petitions to the Court for Prohibition Orders and Stay Orders

- In cooperation with law enforcement authorities, the SESC conducts investigations to prevent the spread of damage to investors from fraud caused by unregistered firms.
- The SESC files petitions for the issuance of prohibition orders and stay orders by the court against acts in violation of the law based on the investigation result.
- Where necessary, the SESC may publicly disclose the name and other information of violators.



(\*) Financial Instruments and Exchange Act

# III. Activities of the Securities and Exchange Surveillance Commission

## —3 Investigation of Market Misconduct

### (1) Investigations of Domestic Transactions

The SESC conducts timely investigations of those who engage in market misconduct, including insider trading and market manipulation.

#### On-site inspections and interviews

- The SESC conducts on-site inspections and/or interviews with traders and/or listed companies to determine whether market misconduct, including insider trading, market manipulation, or use of fraudulent means has occurred.



**When the SESC identifies a violation of laws**

#### Recommendation for administrative monetary penalty payment orders

- The SESC will make a recommendation to the Prime Minister and the Commissioner of the FSA to issue an order to pay an administrative monetary penalty.
- A person who is in a position to know insider information at a listed company becomes subject to an administrative monetary penalty payment order if he/she provides the information or recommends transactions in shares of the company to others for the purpose of leading them to earn profits.



#### Prevention of recurrence of violations

- The SESC shares information with self-regulatory organizations after searching for root causes of market misconduct.
- The SESC publishes "Casebook of Administrative Monetary Penalties (Market Misconduct)," which compiles the characteristics of cases for recommendations, contributing to enhancing listed companies' insider trading management systems and securities companies' examination of market transactions.



# III. Activities of the Securities and Exchange Surveillance Commission

## —3 Investigation of Market Misconduct

### (2) Investigation of Cross-Border Transactions and Trades by Institutional Investors

The SESC also investigates cross-border transactions and transactions by professional investors.

#### Investigation of cross-border transactions

- The SESC conducts investigation of market misconduct accessed from overseas investors.
- The SESC requests foreign authorities to obtain information pursuant to the IOSCO MMoU.<sup>(\*)</sup>
- The SESC conducts investigation with reference to the information provided.

#### Investigation of trades by institutional investors

- The SESC conducts on-site inspections and interviews concerning trades in question by institutional investors.



**When the SESC identifies a violation of laws**

#### Recommendation of administrative monetary penalty payment orders

- The SESC will make a recommendation to the Prime Minister and the Commissioner of the FSA to issue an order to pay an administrative monetary penalty.

<sup>(\*)</sup> International Organization of Securities Commissions (IOSCO) established Multilateral Memorandum of Understanding (MMoU) concerning Consultation and Cooperation and the Exchange of Information in 2002. (129 authorities had signed as of December 2023.)

# III. Activities of the Securities and Exchange Surveillance Commission

## —4 Inspection of Disclosure Statements

The SESC ensures appropriate disclosure by inspecting disclosure statements of listed companies, etc.

### Gather and analyze information

- The SESC gathers and analyzes information through various channels, such as SESC's Contact Point for Providing Information.
- The SESC continuously monitors listed companies from a forward-looking perspective and various other perspectives.



### On-site Inspections of listed companies

The SESC inspects listed companies suspected of submitting disclosure documents with false statements (e.g. securities registration statements, annual securities reports and large-shareholding reports).



**When the SESC identifies a violation of disclosure requirements**

### Recommendation for administrative monetary penalty payment orders

- When a violation of disclosure regulation, such as a false statement with respect to a material issue contained in a disclosed document, is identified, the SESC will recommend the issuance of an administrative monetary penalty payment order to the listed company concerned.
- Even if such a recommendation is not made, the SESC urges the company to make voluntary improvements in its disclosed documents as necessary.



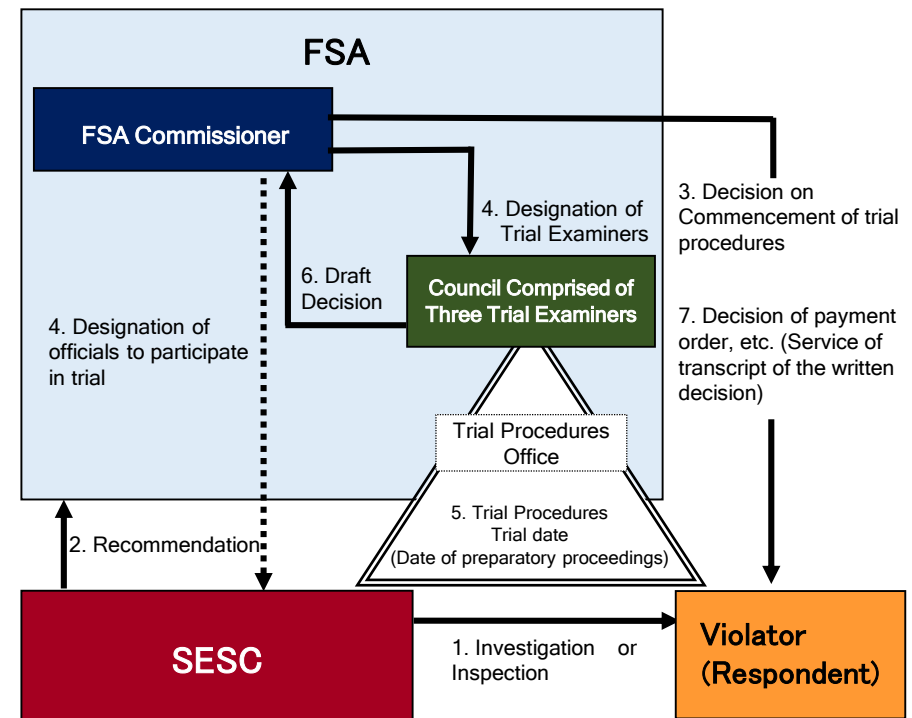
### Prevention of recurrence of violations

- The SESC discusses the root cause of the disclosure regulation violation with the listed company's management and outside directors.
- By sharing awareness of problems, the SESC urges the company to build an appropriate disclosure structure.
- The SESC publishes "Case book of Inspection of Disclosure Statements," which compiles details and backgrounds of cases for recommendations etc.

## (Ref.) Administrative Monetary Penalty System

- ◆ The administrative monetary penalty system was introduced as an administrative measure to impose a financial burden on persons who violate certain provisions of the FIEA.
- ◆ This measure is intended to achieve the administrative objective of preventing misconduct and ensuring effectiveness of the regulation.
- ◆ Subjects of the administrative monetary penalty include: false statements in securities registration statements and annual securities reports, spreading of rumors, use of fraudulent means, market manipulation, and insider trading.
- ◆ When the SESC identifies a violation as a result of an investigation of market misconduct or inspection of disclosure statements, the SESC will make a recommendation\* to the Prime Minister and the Commissioner of the FSA to issue an administrative monetary penalty payment order.

- Outline of Administrative Monetary Penalty System -



\*After receiving a recommendation from the SESC, the FSA commences an administrative trial procedure by trial examiners. Upon receiving a decision by the trial examiners, the Commissioner of the FSA decides whether to order payment of an administrative monetary penalty.

# III. Activities of the Securities and Exchange Surveillance Commission

## —5 Investigation of Criminal Cases

The SESC reveals facts of serious and malicious violations and demands criminal prosecution by filing charges.



### Investigations of serious and malicious violations

The SESC investigates cases of serious breach of applicable laws, such as insider trading, market manipulation and submission of false securities reports.

#### Non-compulsory Investigation

The SESC may question a suspect or witness of a criminal case and inspect articles that suspects or related parties possess.

#### Compulsory Investigation

The SESC may search a company and a residence of suspects or related parties and seize relevant documents under a search warrant issued by a judge.

\* Experts such as Certified Public Accountants and IT professionals (for digital forensics) participate in investigations.

### Filing of Criminal Charges

The SESC files criminal charges with public prosecutors offices against suspects based on the results of investigations.



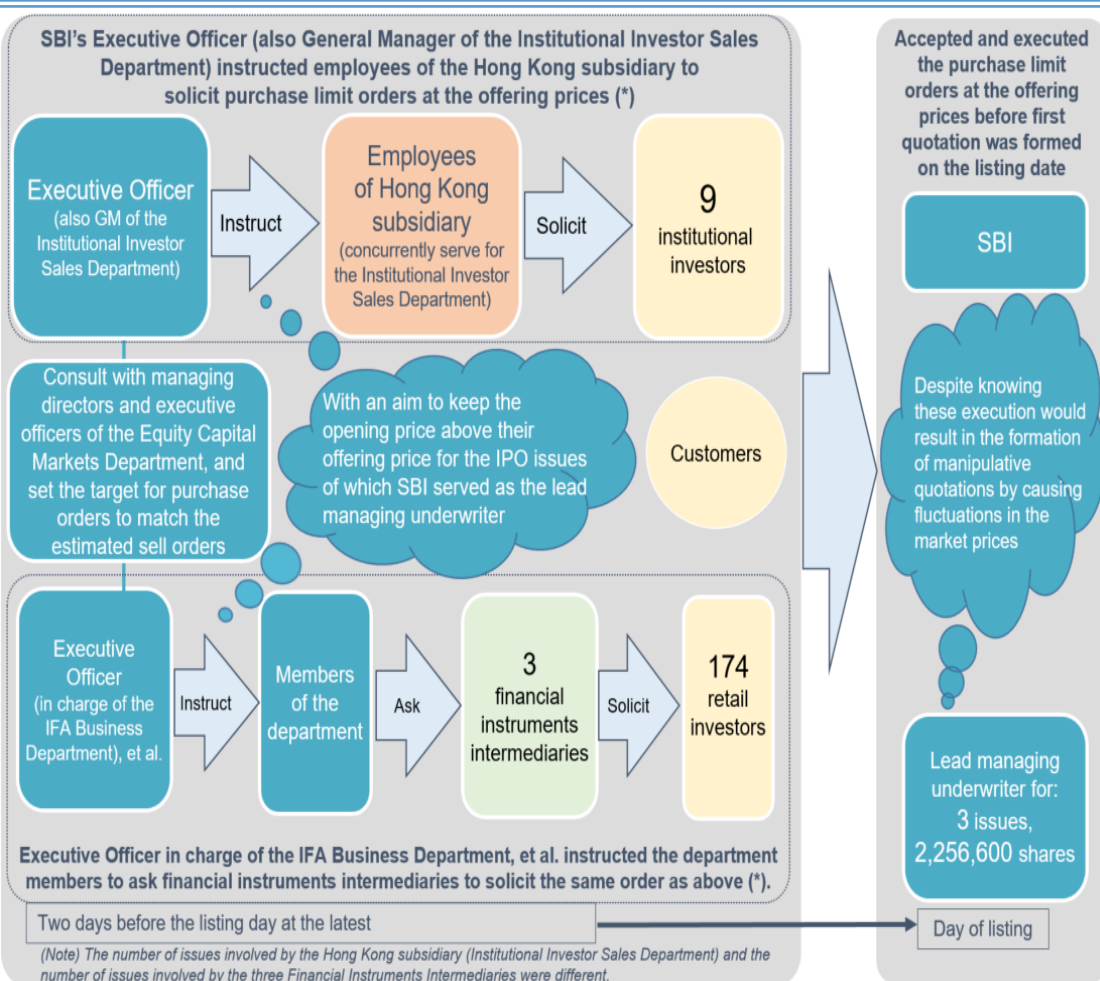
# IV. Reference Cases and Statistics

## 1. Recent Major Cases (1)

### Recommendation for Administrative Action (Inspection of FIBOs)

#### Administrative Disciplinary Action Recommended against SBI SECURITIES Co., Ltd.

Recommendation date:  
December 15, 2023



#### Overview

Between December 2020 and September 2021, the executive officers of SBI SECURITIES Co., Ltd. (Type I Financial Instruments Business Operator, hereinafter "SBI"), in order to keep the opening prices of the initial listed stocks of three companies for which SBI served as a lead managing underwriter above the IPO price, set a target number of purchase orders equivalent to the number of sell orders expected to be placed before the opening session on the listing date, and instructed SBI employees, etc. to solicit customers to purchase the three stocks at limit prices equal to the IPO prices. In response, SBI employees requested financial instruments intermediary service providers for which SBI was the entrusting financial instruments business operator to carry out the above instructions. The employees and the financial instruments intermediary service provider who received the above instructions, etc. solicited customers to purchase the stocks at limit prices equal to the IPO price.

As a result, SBI was entrusted with and executed purchase orders (a total of 2,256,600 shares for the three issues) from customers (nine institutional investors and 174 retail investors) at limit prices equal to their public offering prices before the opening session on the listing date of each issue, while knowing that such orders would result in the formation of manipulative quotations not reflecting actual market status by causing fluctuations, etc. in the market prices of the stocks.

# IV. Reference Cases and Statistics

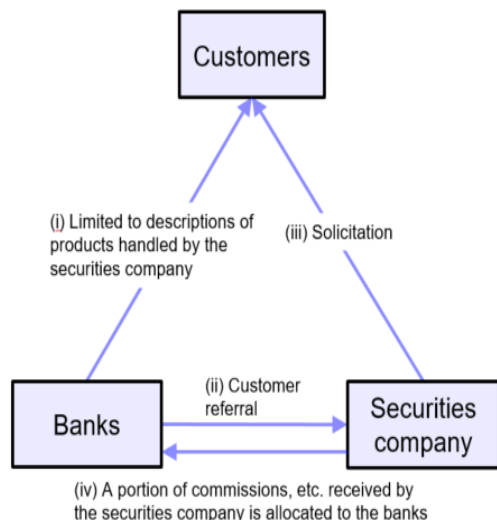
## 1. Recent Major Cases (2)

### Recommendation for Administrative Action (Inspection of FIBOs)

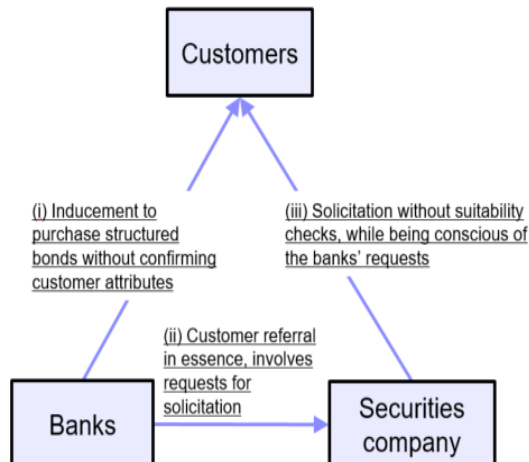
Administrative Disciplinary Action Recommended against (i) Chibagin Securities Co., Ltd. and, (ii) The Chiba Bank, Ltd. and The Musashino Bank, Ltd.

Recommendation date:  
June 9, 2023

[ Business scheme that was originally expected ]



[Inappropriate inducement and solicitation identified in the inspection]



#### Overview (i)

##### Chibagin Securities Co., Ltd. (Type I Financial Instruments Business Operator)

The Company solicited a large number of customers for complex structured bonds on a long-term and continuous basis without understanding customer attributes in a timely and appropriate manner, and did not provide explanations in a manner and to the extent necessary for such customers to understand them in light of customer attributes.

In response to a call for attention from a self-regulatory organization, the Company established a council to address complaints, in which the President also participated. However, the Company did not establish an internal control environment for compliance with the principle of suitability.

#### Overview (ii)

##### The Chiba Bank, Ltd., The Musashino Bank, Ltd. (registered financial institutions)

Both banks concluded a tie-up agreement with Chibagin Securities Co., Ltd. (hereinafter referred to as "Chibagin Securities") concerning the financial instruments intermediary service business and introduced customers to Chibagin Securities. Although both banks were to provide a brief description of products handled by Chibagin Securities, they went beyond the originally expected role and lured customers to purchase structured bonds by emphasizing the advantages, such as high interest rates, without confirming customer attributes. This also led to Chibagin Securities' above-mentioned business operations that violated the principle of suitability.

In addition, both banks' internal control environments for handling complaints were inadequate, as shown by their failure, despite being aware of the large number of complaints from referral customers filed with Chibagin Securities, to analyze the causes and plan improvement measures. Furthermore, their business operation environments for referral brokerage were inadequate due to insufficient governance by the management.

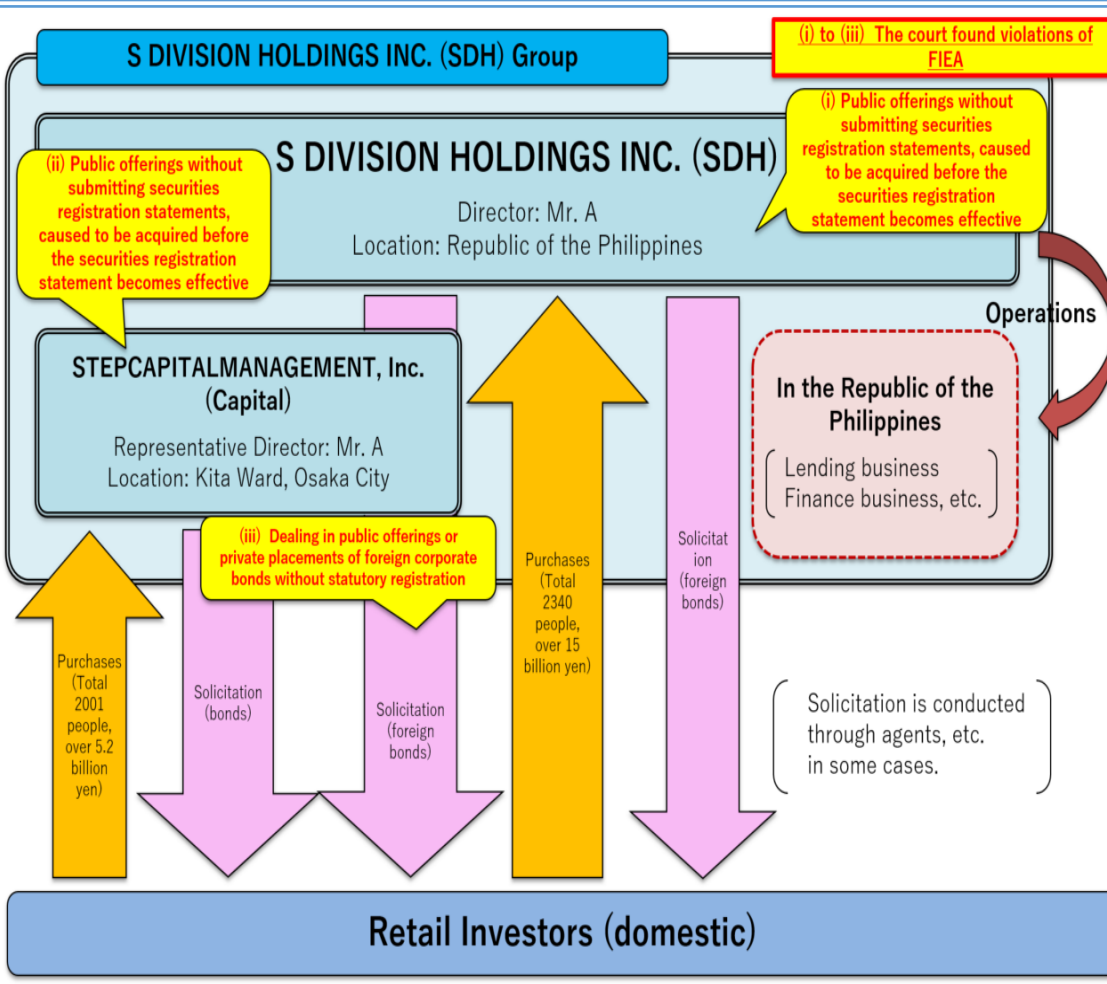
# IV. Reference Cases and Statistics

## 1. Recent Major Cases (3)

### Petition to the Court for Prohibition and Stay Orders

**Prohibition and Stay Order Issued against S DIVISION HOLDINGS INC. and STEPCAPITALMANAGEMENT, Inc., and their manager**

Petition filing date: June 28, 2023  
Court issuance date: November 2, 2023



### Overview

The SESC identified that (i) S DIVISION HOLDINGS INC. (hereinafter "SDH") and Mr. A, the Chairman of SDH, had conducted public offerings of its foreign corporate bonds, without statutory notification, and that (ii) STEPCAPITALMANAGEMENT, Inc. (hereinafter "CAPITAL") and Mr. A, the Representative Director of CAPITAL, had conducted public offering of foreign corporate bonds or corporate bonds without submitting securities registration statements, and dealt in public offerings or private placements of SDH's foreign corporate bonds, without statutory registration, etc. The SESC filed a petition with the Osaka District Court to issue an order against them to prohibit and stay the aforementioned activities in violation of the Financial Instruments and Exchange Act.

### Case Characteristics

- SDH and Mr. A had a total of at least 2340 retail investors purchase foreign corporate bonds worth more than 15 billion yen. In this case, corporate bonds worth at least 5.6 billion yen were publicly offered without submitting securities registration statements.
- CAPITAL and Mr. A had a total of at least 2001 retail investors purchase corporate bonds worth more than 5.2 billion yen. In this case, corporate bonds worth at least 460 million yen were publicly offered without submitting securities registration statements.
- CAPITAL and Mr. A repeatedly and continuously conducted solicitation of foreign corporate bonds issued by SDH to a large number of investors, face-to-face or through other means, claiming that they are less risky and more beneficial. As a result, they engaged in the handling of public offerings or private placements of foreign corporate bonds without obtaining the registration prescribed in the Financial Instruments and Exchange Act.

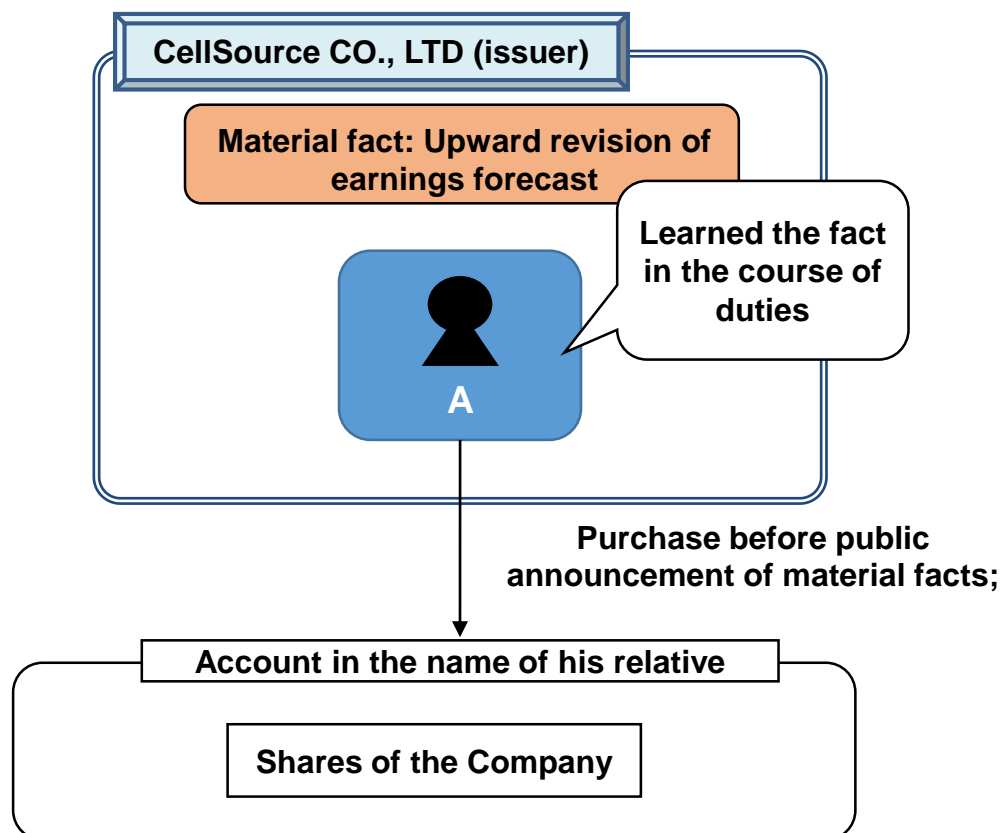
## IV. Reference Cases and Statistics

### 1. Recent Major Cases (4)

#### Recommendations for Administrative Penalty Payment Orders (Investigation of Domestic Transactions)

**Administrative Monetary Penalty Payment Order Recommended against an Employee of CellSource CO., LTD. for Insider Trading Related to Shares of the Company**

Recommendation date: June 30, 2023



#### Overview

Retail Investor A, who worked for the sales department of CellSource CO., LTD. (hereinafter, "the Company"), learned the fact that its earnings forecast (ordinary profit) needed to be revised upward when he attended a meeting.

Retail Investor A planned to purchase shares of the Company before the announcement because the share price would rise if the fact was made public. Then, Retail Investor A purchased the shares using an account in the name of his relative so that the regulatory authorities would not find the insider trading.

#### Case Characteristics

In the matter, an employee of a listed company, who should act with a strong sense of ethics, engaged in insider trading after learning material facts in the course of duties, using an account in the name of his relative for the purpose of preventing the regulatory authorities from finding insider trading.



## IV. Reference Cases and Statistics

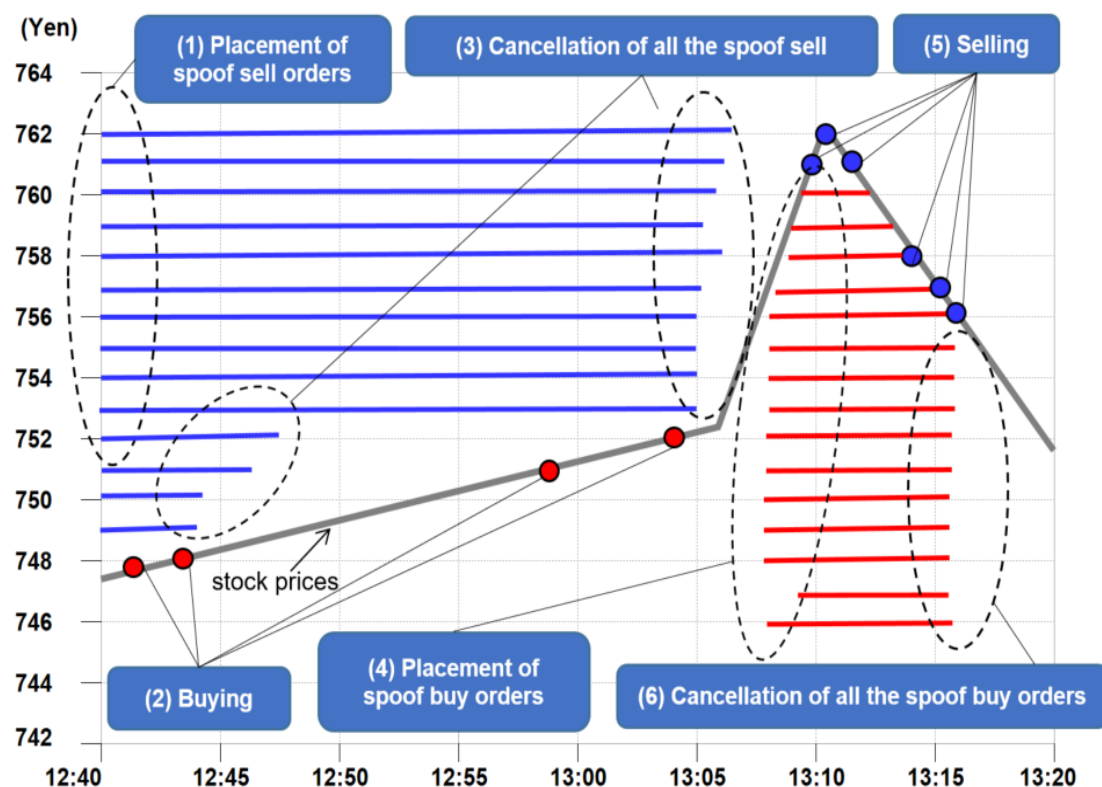
### 1. Recent Major Cases (5)

#### Recommendations for Administrative Penalty Payment Orders (Investigation of Domestic Transactions)

#### Administrative Monetary Penalty Payment Order Recommended against a Retail Investor for Market Manipulation Relating to Shares of FALTEC Co., Ltd. and Other Securities

Recommendation date:  
September 22, 2023

##### Example of Violation (FALTEC Co., Ltd.)



Note: The chart above is simplified from the fact findings.

##### Overview

Retail Investor A engaged in market manipulation, known as layering, of shares of FALTEC Co., Ltd. and GMB CORPORATION by placing a large number of buy/sell orders without the intent to be executed via the internet for the purpose of inducing others to trade, using five accounts under his name and one account under his relative's name.

##### [Points of the trade scheme]

1. Create an appearance that supply dominates on the order book
  - (1) Placement of spoof sell orders: layering passive sell orders at multiple prices away from the best offer
  - (2) Buying: establishing a long position
2. Create an appearance that demand dominates on the order book
  - (3) Cancellation of all the spoof sell orders
  - (4) Placement of spoof buy orders: layering passive buy orders at multiple prices away from the best bid
  - (5) Selling: unwinding the long position described in (2) above
3. Cancellation
  - (6) Cancellation of all the spoof buy orders

##### Case Characteristics

We appreciate the assistance of a self-regulatory organization, Japan Exchange Regulation.

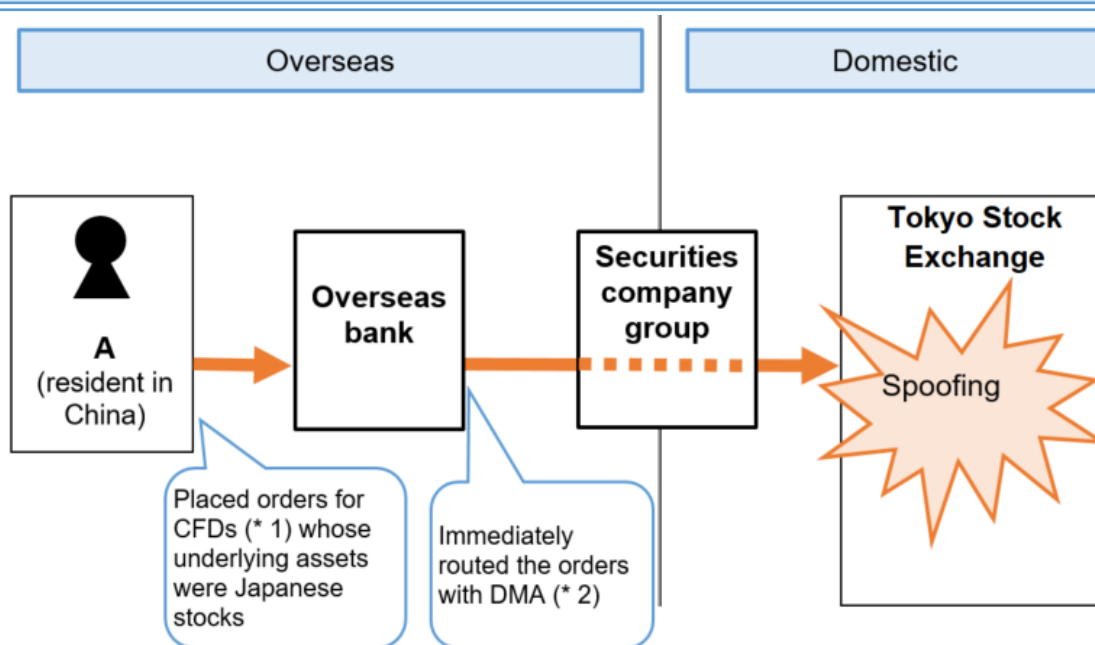
## IV. Reference Cases and Statistics

### 1. Recent Major Cases (6)

#### Recommendations for Administrative Monetary Penalty Payment Orders (Cross-border Transactions and Trades by Institutional Investors)

##### Administrative Monetary Penalty Payment Order Recommended against an Individual Residing Abroad for Market Manipulation in Shares of PACIFIC METALS CO., LTD. and Other Securities

Recommendation date:  
December 8, 2023



\*1 Contracts For Difference: A transaction where a margin is deposited and a profit/loss is settled by a difference in price between the start and the end of the transaction, whose underlying assets are securities, such as stocks. They are classified as OTC derivatives under the Financial Instruments and Exchange Act.

\*2 Direct Market Access: A form of direct order placement with an exchange, etc. via a securities company's system.

#### Overview

Investor A, residing in China, engaged in market manipulation known as spoofing via CFDs with an overseas bank, whose underlying assets were Japanese stocks of Pacific Metals Co., Ltd. and Noritsu Koki Co., Ltd. listed on the Tokyo Stock Exchange.

#### Case Characteristics

- In the CFDs scheme, the same buy/sell orders placed with the overseas bank by Investor A were immediately routed to the exchange, etc. Therefore, by trading the CFDs, Investor A was able to instruct the markets to place/cancel the orders in the same manner as trading cash stocks.
- We appreciate the assistance of foreign financial regulators: British Columbia, Canada; Cayman Islands; China; Denmark; Hong Kong; Hungary; Ontario, Canada; and the United Kingdom.
- We also appreciate the assistance of a self-regulatory organization, Japan Exchange Regulation.

# IV. Reference Cases and Statistics

## 1. Recent Major Cases (7)

### Recommendation for Administrative Monetary Penalty Payment Orders (The Disclosure Inspection)

- **Administrative Monetary Penalty Payment Order Recommended against DDS, Inc. for making false statements in its disclosure documents**
- **Administrative Monetary Penalty Payment Order Recommended against a person for a violation in regard to making false statements in DDS, Inc.'s disclosure documents.**

Recommendation date:  
December 9, 2022  
Recommendation date:  
August 4, 2023

#### [Summary of major violation]

#### Annual securities report

##### Part I [Company information]

##### Section 1. [Company outlines]

##### Section 2. [Business status]

- Business-related risks, etc.

##### Section 3. [Outline of facilities and equipment]

##### Section 4. [Information on reporting company]

##### Section 5. [Status of accounting]

- 
- 

#### Content that was not disclosed

- Despite the existence and details of a material event, etc.,\* they were not disclosed in the annual securities report, etc.

Cabinet Office Order on Disclosure of Corporate Affairs (excerpt)  
Form 2  
(31) Business-related risks, etc.  
b. If there is an event or circumstance that would raise material doubt about an assumption that the reporting company will stay in business in the future or any other event that would have a material impact on the reporting company's business management (hereinafter referred to as a "material event, etc." in b), state such fact and its specific details in an easy-to-understand manner.

\*A material event, etc. refers to an event or a situation that gives rise to any material doubt as to the assumption that the company will continue its business activities in the future.

\* Events or conditions that may cast significant doubt on the assumption that the Company will continue its business activities in the future

#### Overview

##### <False statements in annual securities reports, etc.>

- The Company had prepared consolidated financial statements that contained an excessive amount of sales and an undervalued amount of provision of allowance for doubtful debt and had failed to disclose the existence and the details of a material event, etc.
- The Company's major improper accounting treatment included the following:
  - An excessive amount of sales and an undervalued amount of provision of allowance for doubtful debt, as well as the failure to disclose the existence and details of a material event, etc. in accordance with improper accounting treatment (see the figure on the left).

##### <A violation in regard to making false statements in disclosure documents>

- In connection with the above case, the person had committed a violation by helping DDS, Inc. make false statements in its disclosure documents.

#### Case Characteristics, Background and Cause

##### <False statements in annual securities reports, etc.>

###### (Characteristics)

- This is the first case in which the SESC made a recommendation for an administrative monetary penalty payment order in response to non-financial information, such as the existence and details of a material event, etc. that were not disclosed in annual securities reports, etc.

###### (Background and Cause)

- The former chairman's business attitude, and the officers and employees acted in line with that attitude.
- Corporate governance and internal control did not function well.

##### <A violation in regard to making false statements in disclosure documents>

###### (Characteristics)

- This is the first case in which the SESC made a recommendation for an administrative monetary penalty payment order against a person for a violation by helping DDS, Inc. make false statements in its disclosure documents.

## IV. Reference Cases and Statistics

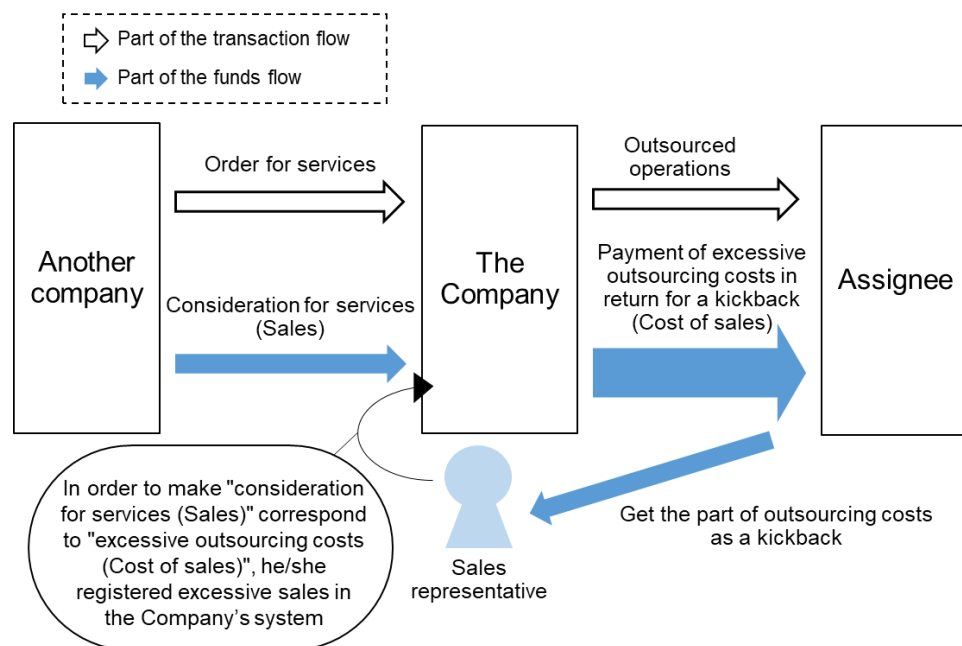
### 1. Recent Major Cases (8)

#### Recommendation for Administrative Monetary Penalty Payment Orders (The Disclosure Inspection)

**Administrative Monetary Penalty Payment Order Recommended against amana inc. for making false statements in its disclosure documents**

Recommendation date: November 1, 2022  
Recommendation date: December 15, 2023

#### [Summary of major violation]



#### Overview

- The Company had prepared consolidated financial statements that contained an excessive amount of sales by the Company and its subsidiaries. As a result, the Company had received a recommendation for an administrative monetary penalty payment order twice.
- The Company and its subsidiaries' major improper accounting was as follows:

<The SESC made a recommendation on November 1, 2022>

- The subsidiaries engaged in fictitious recording of sales for a project for which no order was actually received, mainly by preparing false evidence.

<The SESC made a recommendation on December 15, 2023 (see the figure on the left)>

- The Company's sales representative overstated the cost of sales by paying excessive outsourcing costs in return for a kickback from an assignee when the Company's sales representatives outsourced operations ordered by another company. The sales representative registered excessive sales in the Company's system to make "consideration for services (Sales)" correspond to "excessive outsourcing costs (Cost of sales)".

#### Case Characteristics, Background and Cause

##### (Characteristics)

- The Company was engaged in initiatives to prevent occurrences or recurrences of violations of disclosure regulations after the Company received the first recommendation for an administrative monetary penalty payment order, although they did not function well. As a result, the Company committed another violation and therefore received a second recommendation for an administrative monetary penalty payment order.

##### (Background and Cause)

- Internal control did not function well.
- Lack of compliance awareness.



## IV. Reference Cases and Statistics

### 1. Recent Major Cases (9)

#### Filing of Criminal Charges (Investigation of Criminal Cases)

##### **Filing Criminal Charges of Spreading of Rumors and Using Fraudulent Means in Relation to the Shares of Proroute Marumitsu Co., Ltd.**

Filing date: November 20, 2023

The suspects (including the representative of the company, that is the top shareholder), in conspiracy, had the officers and employees of Proroute Marumitsu Co., Ltd. announce the conclusion of a share exchange agreement containing false information for the purpose of increasing the share price (The SESC also filed criminal charges of committing submission of an annual securities report containing false disclosure statements of the company).

##### **Filing a Criminal Charge of Committing Transaction Recommendation of Shares of IR Japan Holdings, Ltd.**

Filing date: June 6, 2023

The suspect (former executive vice president and chief operating officer of the company) came to know in the course of duties the downward revision of the consolidated financial forecast of the company, and for the purpose of having the two persons avoid a loss by selling the shares in advance, recommended that they sell the shares prior to the announcement of the material facts.

##### **Filing a Criminal Charge of Committing Insider Trading of Shares of SOGO MEDICAL HOLDINGS CO., LTD. and SPACE VALUE HOLDINGS Co., Ltd.**

Filing date: March 3, 2023

The suspect, a former employee of a private equity fund operator, came to know in the course of duties the facts concerning tender offers for shares of listed companies and purchased the shares prior to the announcement of the facts.

##### **Filing a Criminal Charge of Committing Insider Trading of Shares of Aiming Inc. and Ateam Inc.**

Filing dates: December 6, 2022, etc.

The suspect came to know in the course of duties material facts that would have a significant impact on investors' investment decisions, such as the development of a new game that had been jointly promoted by a listed company and another company having progressed to a stage where the launch of the game could be expected and purchased shares of the company prior to the announcement of the material facts.

##### **Filing Criminal Charges for Market Manipulation against SMBC Nikko Securities Inc.**

Filing dates: March 23, 2022, etc.

In the "block offer" transaction handled by the corporate suspect (FIBO), the suspects conducted stock trading that constituted illegal stabilization operations in order to prevent the closing price on the day of the transaction, which serves as the basis for the trading price, from declining significantly compared to the closing price on the previous day (the SESC also recommended administrative disciplinary actions against the corporate suspect).

## IV. Reference Cases and Statistics

### 1. Recent Major Cases (10)

#### Policy Proposal

##### Solicitation of Offers to Acquire the Membership Rights of a Limited Liability Company

Policy proposal date:  
June 21, 2022

Recently, there have been numerous consultations and complaints from outside sources that limited liability companies with uncertain business conditions inappropriately solicit investments, through a large number of employees/hired persons who do not always understand their business, from a large number of investors by purporting to invest in the membership rights of such limited liability companies. Considering the situation, from the viewpoint of ensuring investor protection thoroughly, the SESC submitted a policy proposal to take appropriate measures, such as expanding the scope of the registration as a financial instruments business operator, with regard to solicitation of offers to acquire a limited liability company's membership rights by persons other than its executives (its employees/hired persons).

##### Reference

The FSA promulgated the Cabinet Office Order to Amend the Cabinet Office Order on Definitions under Article 2 of the Financial Instruments and Exchange Act to ensure appropriateness of the solicitation of offers to acquire limited liability company membership rights by their hired persons/employees (promulgated on September 12, 2022, came into effect on October 3, 2022).

##### Improvement of Procedures for Electronic Evidence Gathering and Analysis in Criminal Investigation

Policy proposal date:  
February 26, 2019

The number of crimes involving the use of computers has been increasing year by year. To properly respond to this situation, the SESC made a proposal that the FSA take appropriate measures, such as stipulating the necessary provisions regarding the seizure of electronic records to gather and analyze electronic evidence in the FIEA.

##### Reference

On March 15, 2019, the FSA submitted the "bill for responding to diversification in financial transactions associated with the advancement of information and communications technology" to the Diet including amendments of the FIEA that would improve procedures for gathering evidence from electronic records, such as the seizure of certain electronic records. It was enacted on May 31, 2019.

## IV. Reference Cases and Statistics

### 2. SESC Activities in Figures (1)

#### Number of Cases Examined<sup>(\*1)</sup>

Unit: Cases

Fiscal Year Category	2019	2020	2021	2022	2023 (*2)
<b>Total</b>	1,061	965	969	1,065	868
Market Manipulation	78	60	43	29	21
Insider Trading	976	900	922	1,024	839
Others (e.g., Use of Fraudulent Means)	7	5	4	12	8
<b>(Ref.) Breakdown by Entity</b>					
SESC	453	429	377	448	342
Local Finance Bureaus	608	536	592	617	526

(\*1) The number of cases where the SESC analyzed trading order data from securities companies and financial instrument exchanges and examined whether transactions amounted to market misconduct.

(\*2) The figures of fiscal 2023 are for the period from April 1, 2023 to December 31, 2023.

#### Number of Tips and Information Received

Unit: Cases

Fiscal Year Category	2019	2020	2021	2022	2023 (*2)
<b>Total</b>	5,798	6,300	6,324	6,713	5,771
<b>Breakdown by providing means</b>					
By Internet	4,114	4,529	4,630	5,127	4,400
By Telephone Call	1,295	1,328	1,279	1,087	1,008
By Letter	275	385	386	392	347
By Visitation	10	11	12	11	5
From Local Finance Bureaus and Others	104	47	17	96	11
<b>Breakdown by Topic</b>					
Individual Stock	4,095	4,703	4,927	5,061	4,347
Issuer	233	270	261	250	224
Conduct of Financial Instruments Business Operators	497	408	358	563	435
Others (opinions and inquiries)	973	919	778	839	765

## IV. Reference Cases and Statistics

### 2. SESC Activities in Figures (2)

#### Number of Recommendations and Filed Criminal Charges

Category \ Fiscal Year	1992 to 2018	2019	2020	2021	2022	2023 <sup>*1</sup>	Total
<b>Recommendations</b>	1,082	49	29	20	26	23	1,229
Recommendations to Take Administrative Actions Against Operators <sup>*2</sup>	570	14	5	2	5	8	604
Recommendations to Issue Orders to Pay Administrative Monetary Penalties <sup>*3</sup>	508	35	24	17	21	15	620
Disclosure Containing False Statements	111	6	10	5	7	6	145
Market Manipulation	80	5	6	6	6	2	105
Insider Trading	312	24	8	6	8	7	365
Use of Fraudulent Means	5	0	0	0	0	0	5
Recommendations for Order to Submit Revised Report, etc.	4	0	0	1	0	0	5
<b>Filed Criminal Charges</b>	200	3	2	8	8	3	224
Disclosure Containing False Statements	44	1	0	0	0	1	46
Spreading of Rumors, Use of Fraudulent Means	28	0	0	2	0	1	31
Market Manipulation	31	0	1	1	1	0	34
Insider Trading	86	1	1	5	7	1	101
Others	11	1	0	0	0	0	12
Announcements of Inspection Results of QII Business Operators	86	2	0	0	1	0	89
Petitions for Prohibition and Stay Order	22	3	1	1	2	1	30
Policy Proposals	26	0	0	0	1	0	27

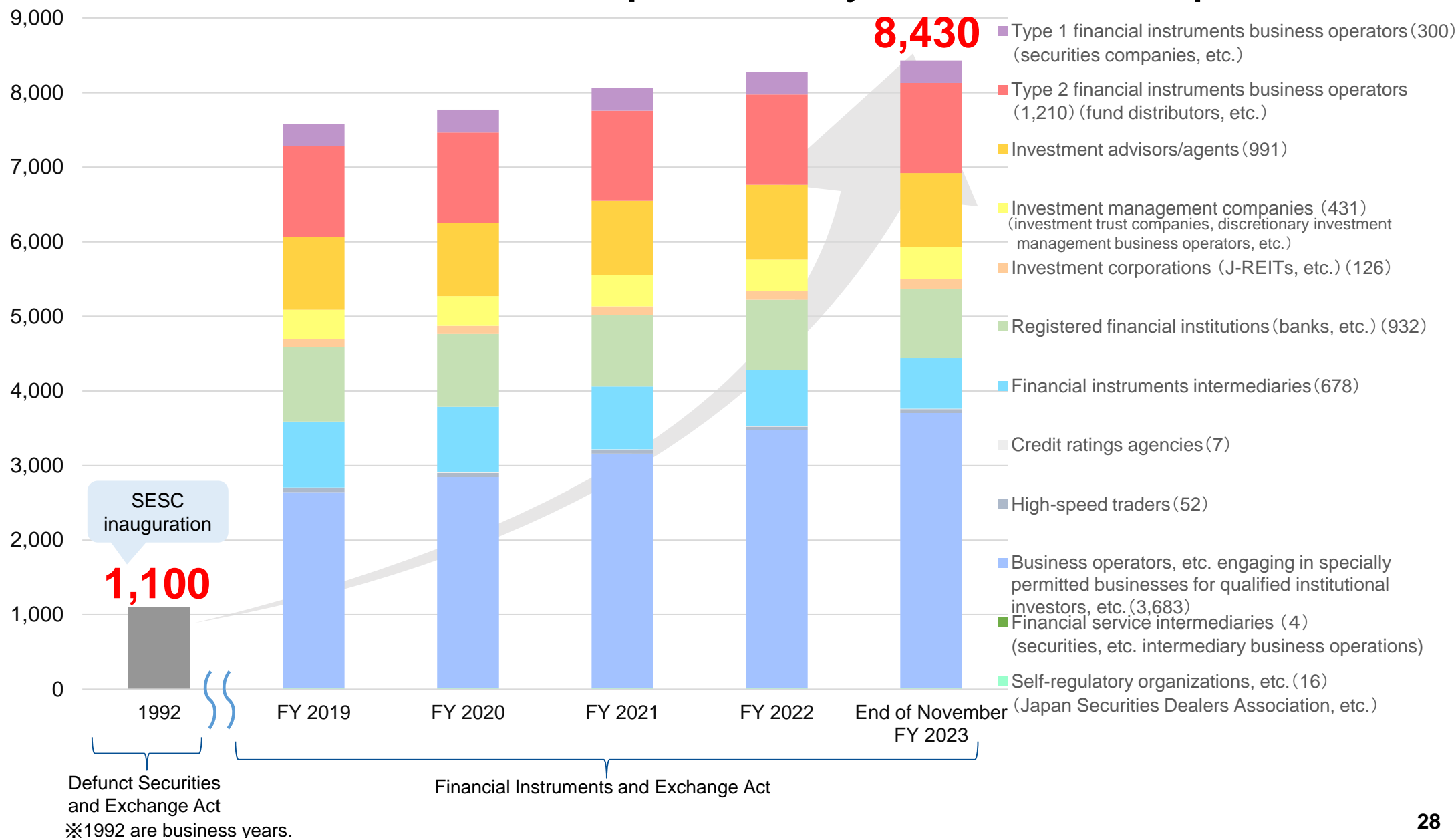
\*1: The figures of fiscal year 2023 are for the period from April 1, 2023 to December 31, 2023.

\*2: In line with the revision of the FIEA (enforced in Mar. 2016), the SESC began to make recommendations to take administrative actions against business operators, etc. engaging in specially permitted businesses for qualified institutional investors, etc. ("QII Business Operators") as well from FY2016.

\*3: "Market Manipulation," "Insider Trading" and "Use of Fraudulent Means" count persons subject to orders to pay administrative monetary penalties.

## IV. Reference Cases and Statistics

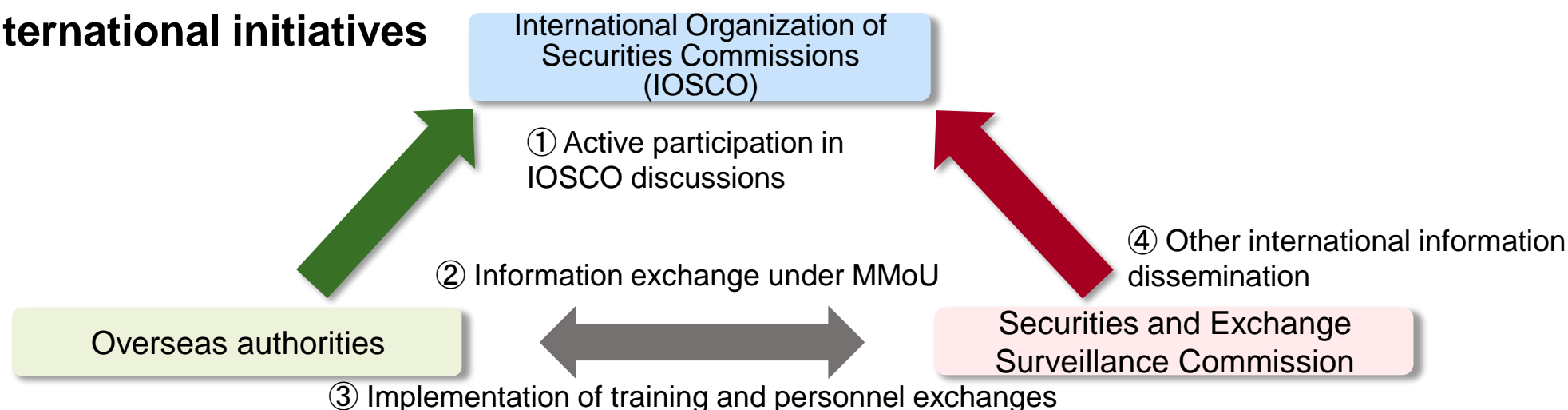
### 3. Trend of Number of Business Operators Subject to Securities Inspections





## IV. Reference Cases and Statistics

### 4. International initiatives



#### ① Active participation in IOSCO discussions

The IOSCO's Annual Meeting, where top officials from various countries' securities regulatory authorities, including the SESC meet, was held in Bangkok, Thailand, in June 2023 to discuss and exchange views on the current state of and issues facing securities regulation. The SESC has been a member of Committee 4 (Law Enforcement and Information Sharing), which is under the IOSCO Board. At a meeting held in November 2023, the member authorities shared and discussed measures taken in some jurisdictions to prevent online harm, as well as how they could effectively deter fraud.

#### ② Information exchange under MMoU

To date, the SESC has exchanged information with overseas authorities based on the Multilateral Memorandum of Understanding (MMoU). In FY 2022, the SESC received information on 76 cases from overseas authorities, and proactively conducted investigations on violations through cross-border transactions (see page 12). In addition, the SESC voluntarily provided information to overseas authorities based on the MMoU on matters found in the course of investigations, as necessary.

#### ③ Implementation of training and personnel exchanges

The SESC has continuously provided training on Japan's market surveillance and investigation of market misconduct to emerging economies' financial regulators as part of human resource development programs organized by external organizations. In 2023, the SESC gave a lecture at the Tokyo Roundtable of the Asian Securities Forum (ASF) hosted by the Japan Securities Dealers Association, and also supported a technical assistance project of the Japan International Cooperation Agency (JICA) for the Vietnamese equity market. In addition, the SESC has continuously sent staff members to certain overseas regulators to learn about and analyze the way in which they conduct monitoring, investigation and inspection, thereby contributing to enhancing cooperation with them, as well as to global market surveillance.

#### ④ Other international information dissemination

The SESC has also disseminated information on its activities to overseas authorities, investors, and financial institutions, thereby raising its profile in terms of how it serves to realize fairness, transparency, and investor protection in Japan's markets. In 2023, the SESC delivered speeches at the Nasdaq Surveillance Conference 2023, the International Bankers Association (IBA), and other conferences.

## V. SESC Website and Publications

On the SESC's website, you can find press releases, case studies by category and messages to the market participants and other stakeholders.

[URL] <https://www.fsa.go.jp/sesc/english/index.html>



### SESC X (formerly Twitter) account

X @SESC\_JAPAN



This X account is not intended to receive information from the public.

If you wish to provide information to the SESC, please use the contact details stated on the back cover of this document.

### Case Studies by Category

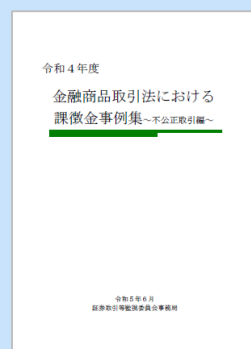
Casebooks introduce the SESC's recent recommendations for administrative monetary penalty payment orders, and illustrate issues identified through the SESC's securities monitoring.

- Casebook of Administrative Monetary Penalties (Market Misconduct) and Casebook of Inspection of Disclosure Statements :

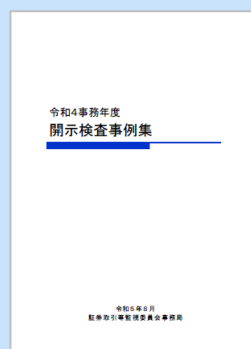
[URL] <https://www.fsa.go.jp/sesc/jirei/index.html> (Japanese Version Only)

- Securities Monitoring Overview and Case Studies:

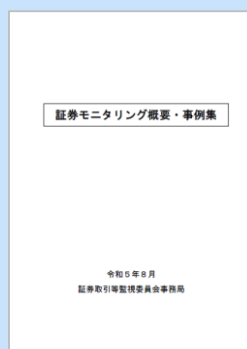
[URL] <https://www.fsa.go.jp/sesc/kensa/shitekijirei.html> (Japanese Version Only)



Casebook of Administrative Monetary Penalties (Market Misconduct)



Casebook of Inspection of Disclosure Statements



Securities Monitoring Overview and Case Studies

### Monitoring Priorities for Securities Businesses

Basic policy and monitoring priorities for financial instruments business operators

[URL] [https://www.fsa.go.jp/sesc/news/c\\_2023/2023/20230801-2/01-en.pdf](https://www.fsa.go.jp/sesc/news/c_2023/2023/20230801-2/01-en.pdf)

[https://www.fsa.go.jp/sesc/news/c\\_2023/2023/20230801-2/02-en.pdf](https://www.fsa.go.jp/sesc/news/c_2023/2023/20230801-2/02-en.pdf)



### Annual Report

Summary of the SESC's activities over the year (annual publication under Article 22 of the Act for Establishment of the Financial Services Agency)

[URL] <https://www.fsa.go.jp/sesc/english/reports/reports.html>



### SESC Latest Topics

Quick summary of latest cases of recommendations and criminal charges (updated about once a month)

[URL] <https://www.fsa.go.jp/sesc/english/topics/index.html>



# SESC's Contact Point for Providing Information

<https://www.fsa.go.jp/sesc/watch/>



<For information provision by phone or FAX>

SESC Providing Information 🔍 Search

**Direct line: Call 0570-00-3581** (or +81-(0)3-3581-9909 when using an IP phone, etc.)

**FAX** [only for the elderly and people with disabilities]: **+81-(0)3-3506-6699** (Clearly enter "To SESC's Contact Point of Providing Information")

- ◆ The SESC encourages the public to submit **any tips and information such as** "accounting fraud (recording of fictitious sales or fictitious profits, etc.)," "problems relating to investor protection (financial instruments with an extremely high yield, etc.)," "market misconduct (insider trading, market manipulation, etc.)."

Accounting  
fraud

Investment  
fraud

Inappropriate  
solicitation of  
financial  
instruments

Insider  
trading

Market  
manipulation

Spreading  
of rumors

- ◆ If you have information on the above, please provide such information to us via the Internet (SESC website), telephone, mail, etc.

\* Please note that the SESC cannot respond to questions or provide advice.

\* The SESC takes all possible security protection against leakage of the contents of the provided information, including your personally identifiable information, to the outside. (You can submit the information anonymously.)

<Providing information by post>

3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922 (Kasumigaseki Common Gate West Tower)

Market Surveillance Division, the Securities and Exchange Surveillance Commission

公正な市場を守るため、  
あなたの情報提供を  
待っています。

相場操縦  
インサイダー取引  
投資詐欺  
金融商品の不適切な勧誘  
ディスクロージャー違反

証券取引等の不正に関する情報提供は、こちらまでお願いします。

0570-00-3581 ☎ 03-3581-9909  
<https://www.fsa.go.jp/sesc/watch/>

SESC 証券取引等監視委員会  
Securities and Exchange Surveillance Commission