

# Toward Enhanced Market Integrity

- SESC's Policy Statement for the 8th Term\* -

## 1. Mission

The Securities and Exchange Surveillance Commission (SESC) is committed to pursuing the following mission:

- To ensure the integrity of capital markets, and
- To protect investors

## 2. Policy Directions

The Japanese capital markets have been experiencing dynamic changes. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods through the use of IT, etc. Cross-border transactions are expanding. The SESC is determined to handle issues that need to be addressed in a timely manner by constantly keeping an eye on such market trends and collecting/analyzing information with even greater sensitivity.

### (1) Market oversight with prompt and strategic actions

- ▶ Strategic use of our regulatory tools (e.g. recommendations, criminal charges, court petitions and policy proposals), early handling of current issues in the market and cooperation with supervisory authorities and self-regulatory organizations (SROs) to effectively address issues according to their contents
- ▶ Timely acknowledgement and proactive responses to emerging issues by summing up and analyzing recent market trends as well as information obtained from external sources and through oversight activities

### (2) Enhanced surveillance in response to the globalization of markets

- ▶ Closer cooperation with overseas regulators to conduct market oversight activities on a global basis, in response to growing cross-border transactions and international activities by investment funds and other market participants as well as their increasing impact on Japanese markets and investors
- ▶ Effective inspections of globally active and large-scale securities firms with consideration of their international business, utilizing international supervisory frameworks such as information exchanges with overseas regulators
- ▶ Fostering personnel that can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel

### (3) Efforts for enhanced market integrity

- ▶ Contributing to the rule-making processes at the Financial Services Agency (FSA) and other relevant authorities by raising relevant regulatory issues identified through our market oversight activities
- ▶ Outreach to market participants, through cooperation with SROs and other channels, to encourage their self-discipline in the interests of market integrity. Closer communications with market participants and more effective dissemination of information in order to communicate the concerns of the SESC effectively

The SESC believes that our contributions toward fair, transparent and quality capital markets will help develop the Japanese capital markets and vitalize their international competitiveness through the implementation of comprehensive and effective market oversight activities based on the policy directions set out above.

\* SESC Chairman Kenichi Sado and Commissioners Masayuki Yoshida and Mari Sono were appointed and started their new 3-year term on December 13, 2013

### **3. Policy Priorities**

The SESC is determined to strategically mobilize its regulatory tools and resources with particular emphasis on the following in order to conduct effective and efficient market oversight.

#### **(1) Proactive market oversight through enhanced information-collecting ability**

- ▶ Timely detection of issues in the market through summary/analysis of information obtained through various channels and through examinations of individual transactions and research of market trends, to proactively carry out market surveillance
- ▶ A multifaceted surveillance of both primary and secondary markets, to unravel the overall picture of market abuse and carry out appropriate law enforcement
- ▶ Paying attention to transactions that have been recognized as problematic from a market fairness perspective, even though they have not always been our surveillance objects before, and considering how to address them
- ▶ Clarification of facts of cross-border market abuse and carrying out appropriate law enforcement against them, through investigation requests of overseas regulators with active use of exchange-of-information frameworks amongst securities regulators

#### **(2) Strict action against severe and malignant market misconduct and false disclosure statements**

- ▶ Taking strict action against severe and malignant market abuse such as insider dealing, market manipulation, spreading of rumors, fraudulent means and false disclosure statements, by exercising the right to investigate criminal cases. Cooperating with investigative authorities, overseas regulators and other related organizations to effectively clarify facts and seek liability, according to the contents of the matter

#### **(3) Timely and efficient inspections in response to disclosure violations**

- ▶ Implementation of timely and efficient disclosure inspections in order to ensure that the market participants are fairly and equally provided with accurate corporate information without delay
- ▶ Encouraging a listed company or any other issuer, if it has made false disclosure statements, to exercise its initiatives for autonomous and timely disclosure of accurate corporate information to the market as well as encouraging related parties to achieve such appropriate disclosure. Pointing out business management issues that were the cause of the false disclosure statements and other abuse, if necessary, and suggest improvement

#### **(4) Use of administrative monetary penalty system against market misconduct, etc.**

- ▶ Implementation of timely and efficient inspections and investigations, taking advantage of the administrative monetary penalty system, for insider dealing, market manipulation, spreading of rumors, fraudulent means, and other market misconduct, etc.
- ▶ Continuing to making necessary proposals on the regulatory system regarding market misconduct, based on investigation results

#### **(5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected**

- ▶ Conducting efficient and effective inspection through strengthening the capabilities to collect and analyze information, establishing a system to select firms and business areas to be inspected based on information and analysis results, as well as development and establishment of know-how and inspection methods corresponding to the characteristics of firms to be inspected, due to the expansion of scope of firms to be inspected
- ▶ Conducting inspections of globally active securities firms, verifying the appropriateness of internal controls and risk management systems and, from a forward-looking perspective, utilize information that the inspection and supervisory departments of the Financial Services Agency (FSA) collect through their monitoring activities

#### **(6) Responding to malicious businesses engaged in fraudulent operations**

- ▶ Conducting inspections of malicious Financial Instruments Business Operators and Persons making Notification for Business Specially Permitted for Qualified Institutional Investors that are engaged in fraudulent operations and cause damage to investors at an early stage in order to identify violations of the law and to prevent the expansion of damage, from the perspective of protecting investors. Collecting/analyzing information through various channels upon selecting the firms to be inspected and enhancing the system to promptly respond to problematic firms. Taking strict actions against highly malicious firms, in cooperation with the organizations concerned.
- ▶ Taking proactive actions against the selling of funds by unregistered entities, by enhancing cooperation with the FSA, the Local Finance Bureaus and investigative authorities, and actively utilizing the authority to seek petitions for court injunctions (Article 192 of the FIEA)

## **(7) Effective dissemination of information**

- ▶ Specific explanation to ensure accurate communication of the contents of the matter and issues in press announcements related to recommendations and other individual matters
- ▶ Effective outreach through enhancing the contents of announcements for cases of administrative monetary penalty and major findings in securities inspections from the perspective of preventing violations
- ▶ Reviewing the website of the SESC to make it easier for users and information providers to use, as well as focusing on outreach in English

## **(8) Enhanced cooperation with SROs**

- ▶ Implementing surveillance by sharing information and concerns with SROs, to enhance the overall market surveillance function. Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors