

Along with the increasing internationalization of securities transactions, cross-border misconduct regarding fairness in markets around the world has been occurring. As a result, regulatory and enforcement cooperation at the global level has become increasingly important to ensure the fairness of markets.

In SESC year 1995, taking this situation into consideration, as outlined below the SESC participated actively, for example, in the exchange of opinions with securities regulatory authorities overseas regarding enforcement concerns. In the future, the SESC will continue to stress activities to promote international cooperation.

1. International Organization of Securities Commissions (IOSCO)

IOSCO is an international forum that promotes international harmony in securities regulations and cooperation among securities regulatory authorities. As of July 1996, the membership of IOSCO totaled 120 institutions from 73 countries, provinces and regions around the world.

In October 1993, the SESC, as the regulatory organization in charge of legal enforcement to ensure the fairness of securities transactions in Japan, joined IOSCO. Since then, the SESC has participated in the

annual conferences every year. In July 1995, the SESC participated in the IOSCO's 20th annual conference, held in Paris.

Furthermore, the SESC is a member of a special committee at IOSCO that studies and proposes practical solutions for major regulation-related issues facing the global securities market. Through this committee, the SESC participates in deliberations concerning issues of enforcement and information exchange.

2. Asia-Pacific Directors of Enforcement Conference

The necessity to reinforce links among securities regulatory authorities in the Asia-Pacific region, which includes such important securities markets as Tokyo, Singapore and Hong Kong, is growing. In the context of enforcement, the furthering of mutual understanding among countries is also gaining significance.

In this environment, as the first step in promoting cooperation the Asia-Pacific Directors of Enforcement Conference was set up, with representation from 12 countries in the region. Conferences were held in Australia in October 1995 and South Korea in May 1996. The SESC, as a participant in these conferences, endeavored to promote mutual understanding by explaining the status of surveillance structures in Japan.

I. Receiving Information from the General Public

1. Information receiving system

Visits by and telephone calls and letters from the general public are useful sources of information for inspections, market surveillance activities and investigations of criminal offenses. Therefore, since its establishment the SESC has actively sought information from the general public. The SESC is also establishing a system for receiving such information.

2. Status of information receipt

In SESC year 1995, the SESC received 368 items of information from investors: 202 telephone calls, 134 letters and 32 visits.

Information is diverse and includes that related to sales practices of securities companies and specific issues, as well as opinions directed toward the SESC and government offices in general. Information can generally be classified as follows:

Concerning specific issues:	176 items
Concerning the sales practices of securities companies:	122 items
Opinions and inquiries about the SESC and government offices in general:	70 items

Information received is used in conducting inspections, market surveillance activities and investigations of criminal offenses. Such information includes that which provides the SESC with suggestions of items to be looked for in inspections of securities companies and effective information for inspections of transactions of specific issues.

Concerning information on problems between securities companies and investors, when concrete resolutions are requested the SESC on occasion takes

measures such as introducing matters to the Office of Security Complaint Consultation of the JSDA, where a system of claim management has been established.

II. Staff Training

Since its establishment in July 1992, the SESC has striven to foster the expertise and improve the quality of its staff through seminars and on-the-job training. Concerning staff education, the SESC holds intensive

seminars immediately following personnel changes as well as seminars designed especially for managers. The SESC also sends staff to seminars of the SEC in the United States to learn surveillance skills and systems overseas.

In addition, for the purpose of implementing thorough inspections and surveillance the SESC is striving to reinforce and upgrade its organization. In SESC year 1995, the addition of one Special Investigator for Securities and Exchange was approved.

1. Background of Establishment

Following a series of securities and financial scandals in the summer of 1991, various arguments took place regarding systems of surveillance, especially for securities companies and the securities market.

Given this situation, the prime minister consulted with his Provisional Council for the Promotion of Administrative Reform about measures for the surveillance and appropriate functioning of the securities market. The council drafted the "Report of Basic Countermeasures for Unfair Securities and Financial Transactions" in September 1991, which referred to the necessity of establishing an independent commission as the organization responsible for surveillance according to Article 8 of the National Administration Organization Law. Proposals were also made concerning securities administration, based on the overall policy of "achieving a free, fair, transparent and sound securities market."

Considering from the viewpoint of the report and through opinions from various sectors, the Ministry of Finance examined methods of inspection and how a surveillance system should work in securities transactions. As a result, the Ministry of Finance introduced a bill entitled "Amendment to the SEL to Ensure Fair Securities Transactions" in February 1992. This

amendment emphasized the foundation of a surveillance commission.

Following its submission to the 123rd regular Diet session, the bill passed both houses on May 29, 1992. Along with this bill's taking effect, the SESC was created on July 20, 1992.

2. Organization

The SESC was founded based on Ministry of Finance Establishment Law to survey securities transactions.

(1) Chairperson and commissioners

The SESC comprises a chairperson and two commissioners, and topics of proceedings are resolved by majority votes among these three members.

The chairperson and commissioners have equal power and can exercise their authority independently.

The chairperson and commissioners are appointed by the Minister of Finance with the consent of both houses of the Diet.

The terms of the chairperson and commissioners are three years, and they can run for reelection. In addition, they cannot be dismissed against their will except if certain judicial reasons exist.

Accordingly, in the first term (July 20, 1992, to July 19, 1995), Toshihiro Mizuhara served as chairman,

and Hidetaka Mihara and Masamichi Narita served as commissioners. In the second term, from July 20, 1995, Toshihiro Mizuhara is serving as chairman, and Masamichi Narita (second term of office) and Ginko Sato are serving as commissioners.

Meetings of the SESC are held twice a week, in principle.

(2) Executive Bureau

The Executive Bureau comprises two divisions, the Coordination & Inspection Division and the Investigation Division, which are headed by the secretary-general and deputy secretary-general of the Executive Bureau. The number of personnel in the bureau, following the approval in the SESC year 1994 budget of the addition of one Inspector for Securities and Exchange and one Investigator for Securities and Exchange, is 88. In addition, authorization was given for the establishment of two new posts in SESC year 1995: Special Officer for Investigation (one person) and Special Liaison Officer for Investigation (one person).

① The Coordination & Inspection Division comprises three sections: the Inspection, Market Surveillance and Coordination sections.

a. The Inspection Section is in charge of inspecting

securities companies and financial institutions.

b. The Market Surveillance Section is responsible for watching over and analyzing market transactions.

c. The Coordination Section handles the general affairs of the SESC, including the creation of recommendations and proposals.

② The Investigation Division is authorized to probe into suspected cases of criminal offenses.

(3) Regional organization

Regional operations of the SESC are entrusted to the directors-general of regional finance bureaus. The directors-general conduct inspections and market surveillance mandated by the SESC. These officials also conduct investigations of criminal offenses under the direction and supervision of the SESC.

In this situation, 118 staff are allocated to regional offices, including directors responsible for surveillance of securities and exchange.

Note: The SESC delegates its authorities of inspection and materials collection to the directors-general of regional finance bureaus, except in the case of securities companies and financial institutions licensed to provide securities services supervised by the Ministry of Finance. (However,

if necessary the SESC can exercise its authority to inspect or collect materials from any institution under its authority.)

3. Outline of SESC Functions

(1) Surveillance activities

The activities of the SESC comprise inspections, market surveillance and investigations of criminal offenses.

① Inspections

To ensure fairness in both securities and financial futures trading, the SESC can inspect securities companies, financial institutions and SROs, such as stock exchanges and the JSDA.

② Market surveillance

Together with stock exchanges and the JSDA, which also supervises the OTC market, the SESC watches over and analyzes daily securities transactions. In the event of a drastic rise or drop in a stock's price, for instance, the SESC will analyze the cause and check for any improper activities.

③ Investigations of criminal offenses

The SESC can investigate suspected criminal offenses, including insider trading, market manipulation, loss compensation or guarantees, and violations of

disclosure regulations. In an investigation, the SESC may obtain legal warrants to search the target premises and seize evidence.

(2) Recommendations and proposals

① Recommendations

Based on the results of inspections and criminal investigations, when the SESC has evidence that a company is conducting improper activities, it can recommend the Minister of Finance to take disciplinary actions against the company. The Minister of Finance is obligated to respect this recommendation and, on request, to report back to the SESC on any disciplinary measures taken.

② Proposals

Based on the results of inspections and investigations of criminal offenses, the SESC can propose policies to the Minister of Finance if the SESC finds them necessary to ensure fair trading in securities and financial futures.

(3) Accusations

Based on the results of inspections and investigations of criminal offenses, if the SESC believes that a crime has been committed, it will make accusations about the suspect to the Public Prosecutor's Office.

(4) Opinions and other matters concerning inspections of financial institutions conducted by the Minister of Finance

From the standpoint of a neutral third party, the SESC handles the following matters:

① Opinions for annual policies and other basic points in conducting inspections of the Ministry of Finance

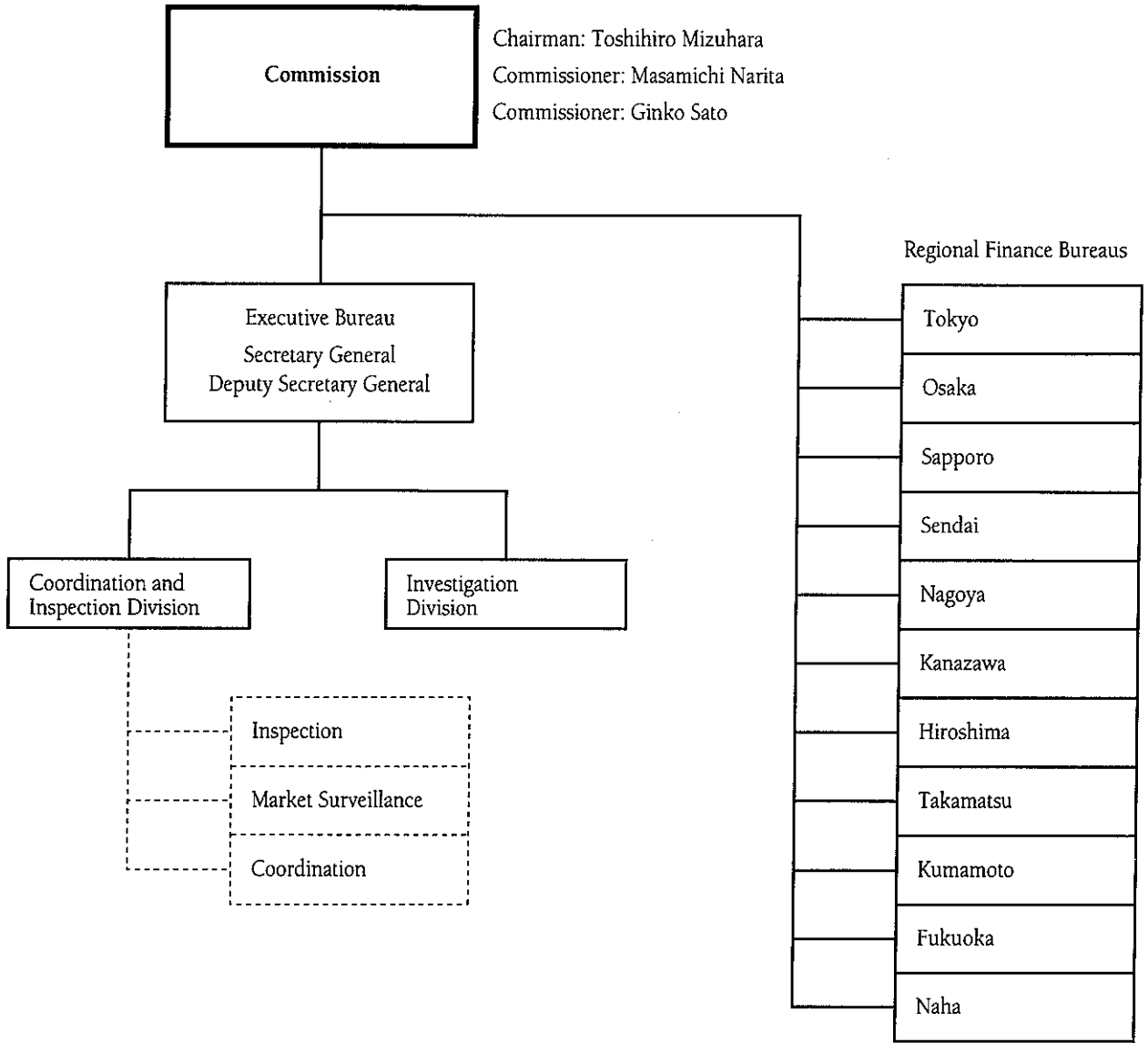
② Receiving quarterly reports concerning the conduct of inspections

③ Proposals concerning the operation of inspections and other policies

(5) Reports of activities

The SESC publicizes its activities in an annual report.

Diagram 1 SESC Organization Chart



Relationship between the Minister of Finance and the SESC

Diagram 2

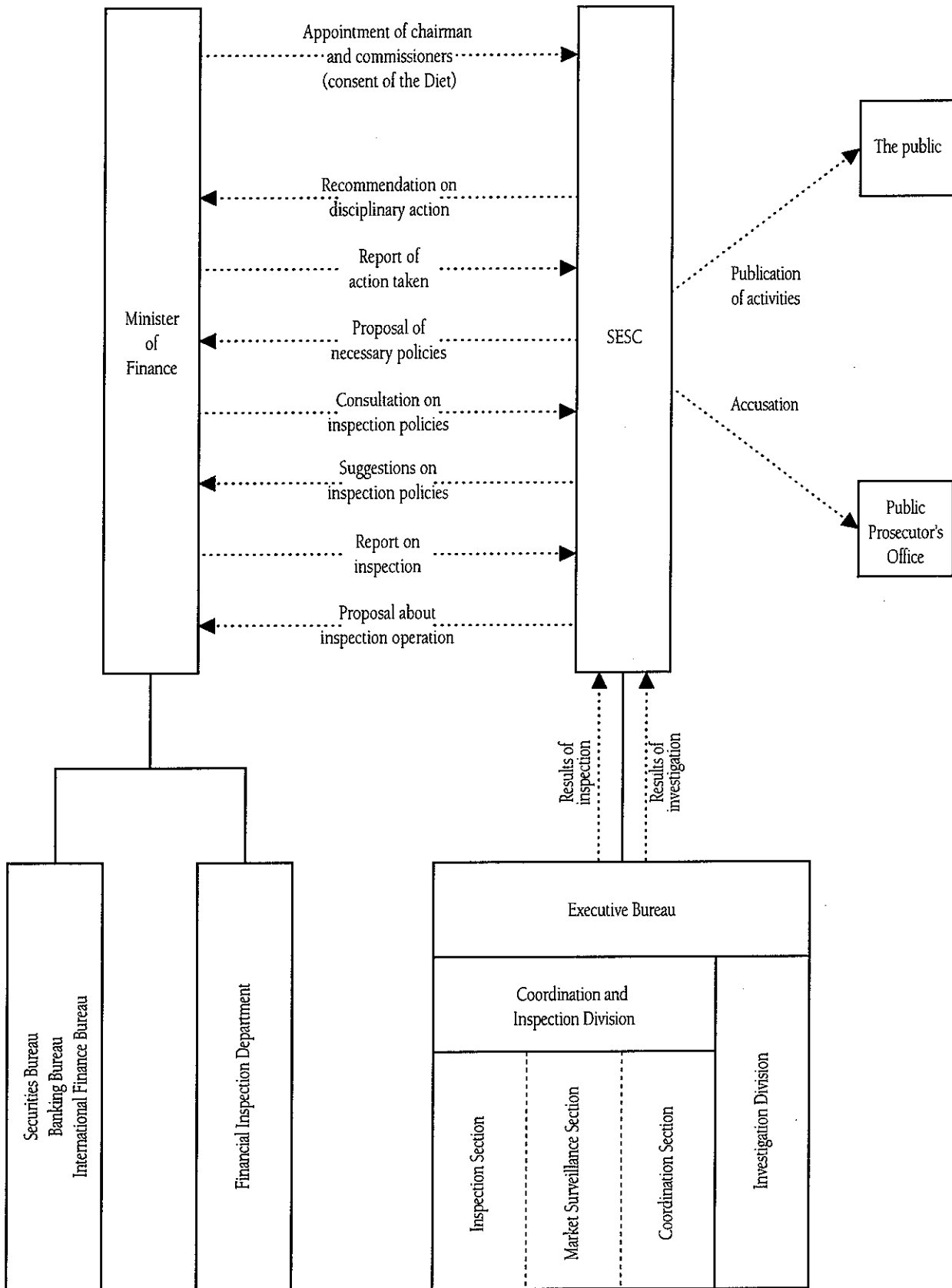
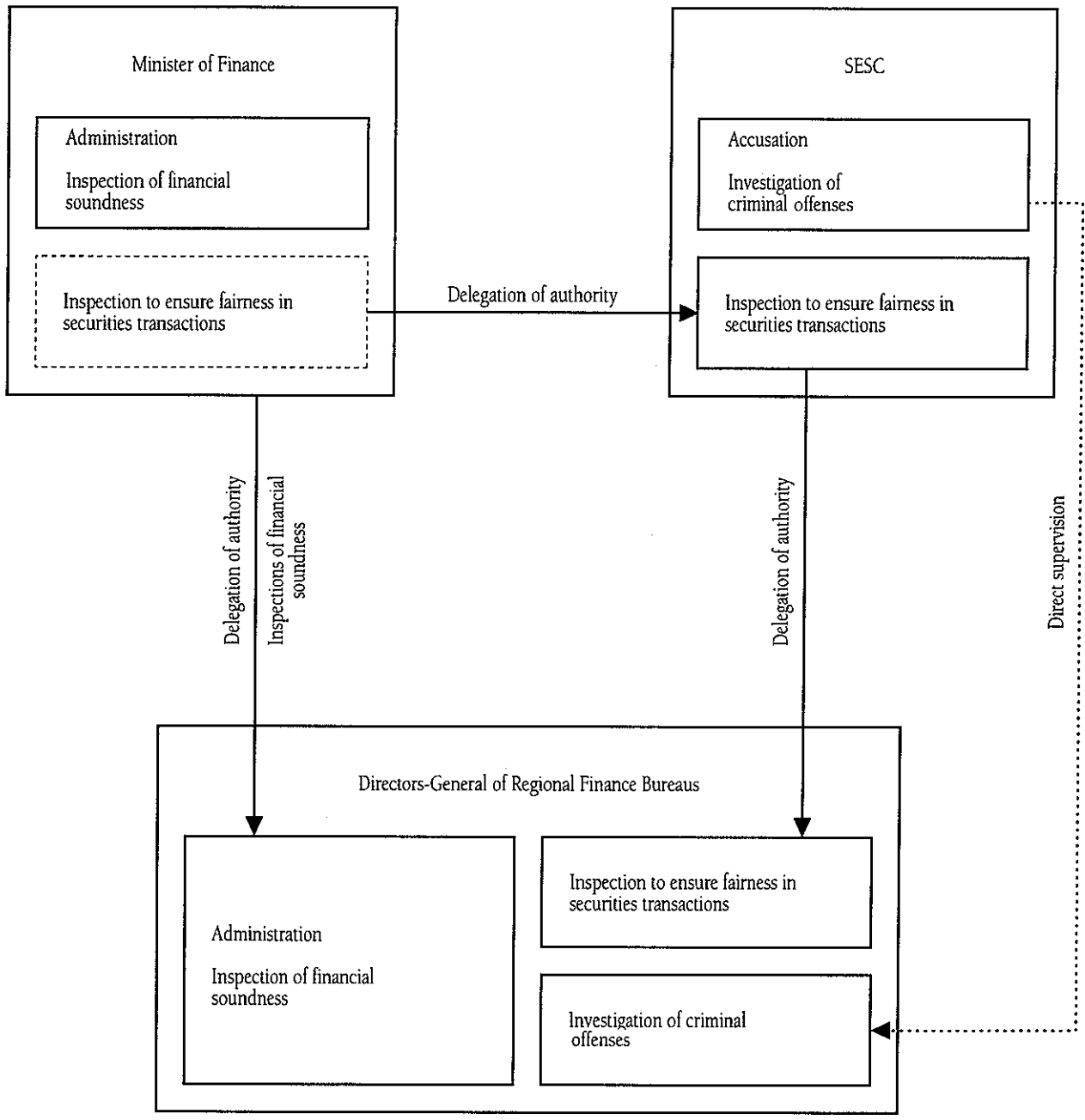
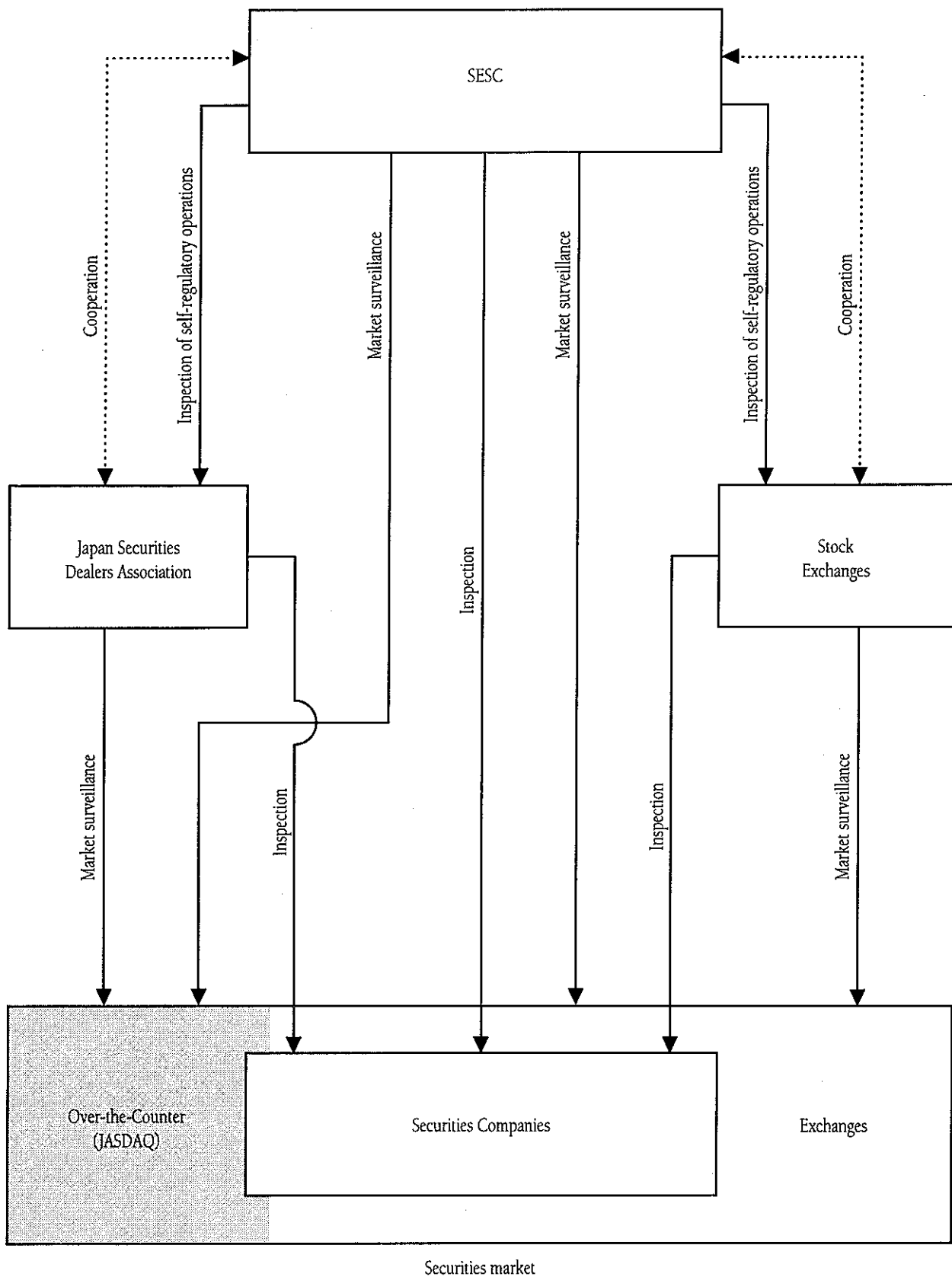
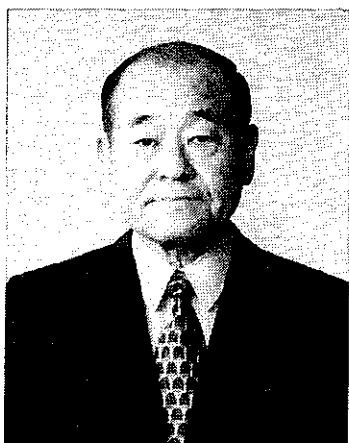


Diagram 3 Surveillance Framework



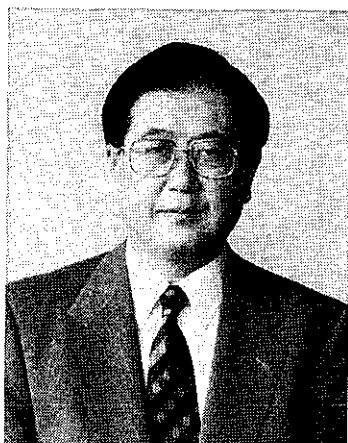


Chairman and Commissioner Profiles



Chairman **Toshihiro Mizuhara**

- 1953 Graduated from Chuo University, Faculty of Law
Legal trainee
- 1955 Public prosecutor, Tokyo District Public Prosecutor's Office
- 1979 Deputy director-general, Criminal Affairs Bureau, Ministry of Justice
- 1987 Chief prosecutor, Yokohama District Public Prosecutor's Office
- 1991 Superintending prosecutor, Nagoya High Public Prosecutor's Office
- 1992 Chairman, SESC



Commissioner **Masamichi Narita**

- 1956 Graduated from University of Tokyo, Department of American Studies
NHK (Japanese Broadcasting Corporation)
- 1970 Correspondent, London Office
- 1973 Editor for economic affairs, News Department
- 1979 Director, Economic Division, News Department
- 1987 Chief commentator
- 1992 Commissioner, SESC



Commissioner **Ginko Sato**

- 1958 Graduated from University of Tokyo, Department of International
Relations
Ministry of Labor
- 1979 Director, Women Workers' Division, Women's and Young Workers'
Bureau
- 1984 Director, International Labor Affairs Division, Minister's Secretariat
- 1985 Councilor of Minister's Secretariat
- 1986 Director-General, Women's Bureau
- 1990 Assistant Minister of Labor
- 1991 Ambassador to Kenya, Ministry of Foreign Affairs
- 1995 Commissioner, SESC