

Chapter 7: Self-Regulatory Organizations

Section 1. Relationship between the Securities and Exchange Surveillance Commission and Self-Regulatory Organizations

SROs (the JSDA, stock exchanges, the Financial Futures Association (FFA), the Tokyo International Financial Futures Exchange (TIFFE)) make self-regulatory rules and conduct surveillance activities of their members concerning whether member companies operate appropriately in accordance with laws, regulations, and self-regulatory rules, in order to ensure the fairness and transparency of the markets. When conducting surveillance, SROs operate in close cooperation with the SESC (see Diagram 4 on page 58).

The SESC is also in a position to make inspections to judge whether SROs are conducting surveillance in the appropriate manner and whether SROs are taking proper actions against members who violate laws, regulations, and self-regulatory rules. Having market intermediaries as members, SROs establish frameworks for acceptable conduct and demand that their members comply with regulations, and are thus in a position to enhance investors' confidence in markets and intermediaries. Through their efforts, SROs bring greater benefits to market intermediaries in the long run. Along with the progress of the Financial System Reform, the role of SROs backed by the law is becoming increasingly important, and they are expected to intensify their efforts.

The SESC maintains close interactive relationships with SROs and holds hearings with them on such matters as their surveillance.

The following are the activities of SROs from April 1999 to March 2000.

Section 2. Activities of the Japan Securities Dealers Association

1. Inspection of members

The JSDA inspected its regular members with emphases placed on ① compliance with laws and regulations, from the standpoint of ensuring fair transactions by members, ② compliance with

"suitability," from the standpoint of further promoting proper investment solicitation by members, ③ stricter internal control systems, from the standpoint of further promoting improved and stronger international control systems of members, and ④ segregation of customers' assets from their own assets.

Note: Members

"Members" are classified into two types according to their rights and duties as follows:

- ① *Regular members: domestic and foreign securities companies*
- ② *Special members: registered financial institutions*

The JSDA inspected its special members with emphases placed on ① compliance with rules and regulations concerning the securities business, ② compliance with "suitability" in the retail business, and ③ internal control systems.

The inspection of special members is primarily conducted by six associations organized by special members, such as the Japanese Bankers Association under the delegation of operation by the JSDA. These associations implement inspection, working with personnel designated by the JSDA.

2. Surveillance of securities market

The JSDA's OTC Stock Surveillance Division, which is responsible for market surveillance, collects market information related to registered OTC stocks and monitors the stock prices and trading volume of certain stocks, as well as the involvement of members in transactions of those stocks. The Division conducts investigations into certain stocks when it observes irregularities in transactions in the stocks. In addition, when the Securities Business Division reports violations of laws or the occurrence of incidents related to OTC-registered companies and having a considerable influence on investors' judgments, the surveillance division also conducts investigations, and when

deemed necessary, further detailed surveillance.

The surveillance division maintains close relationships with relevant divisions in conducting market surveillance, and if necessary, requests an audit by the Audit Division.

When inappropriate securities transactions are uncovered through surveillance, the JSDA takes appropriate measures in accordance with its Article of Association against the members involved to prevent such transactions from recurring. In addition, when inappropriate securities transactions are suspected, but cannot be proven, the JSDA cautions the members involved.

Section 3. Activities of stock exchanges

1. Inspections of members and special participants

Inspections of stock exchange members and special participants are conducted on their compliance with laws and rules laid down by stock exchanges. The members and special participants are mainly inspected with regard to: ① loss compensation/provision of profits, ② discretionary trading account transaction contracts, ③ submission of false reports, etc., ④ counter-bucketing and bucketing, ⑤ short selling, ⑥ off-floor trading, ⑦ margin deposits, and ⑧ applications for correcting errors.

Note: Special participants

"Special participants" are financial institutions other than members that are certified to participate directly in the transactions of listed financial futures.

2. Market surveillance

Taking the TSE as an example, the Department of Market Surveillance and Compliance conducts investigations and surveys of stocks selected by examining collected market information, stocks notified by the Stock Market Department and Bond Market Department as abnormal in their trading,

Securities and Exchange Surveillance Commission Organization Chart

and stocks about which the Office of Listings Supervision reported the occurrence of information that could influence investment decisions. Thus, the Department of Market Surveillance and Compliance conducts market surveillance in close cooperation with these departments.

When inappropriate transactions are uncovered through market surveillance, stock exchanges impose sanctions or take other actions against the members or special participants involved in order to prevent recurrence.

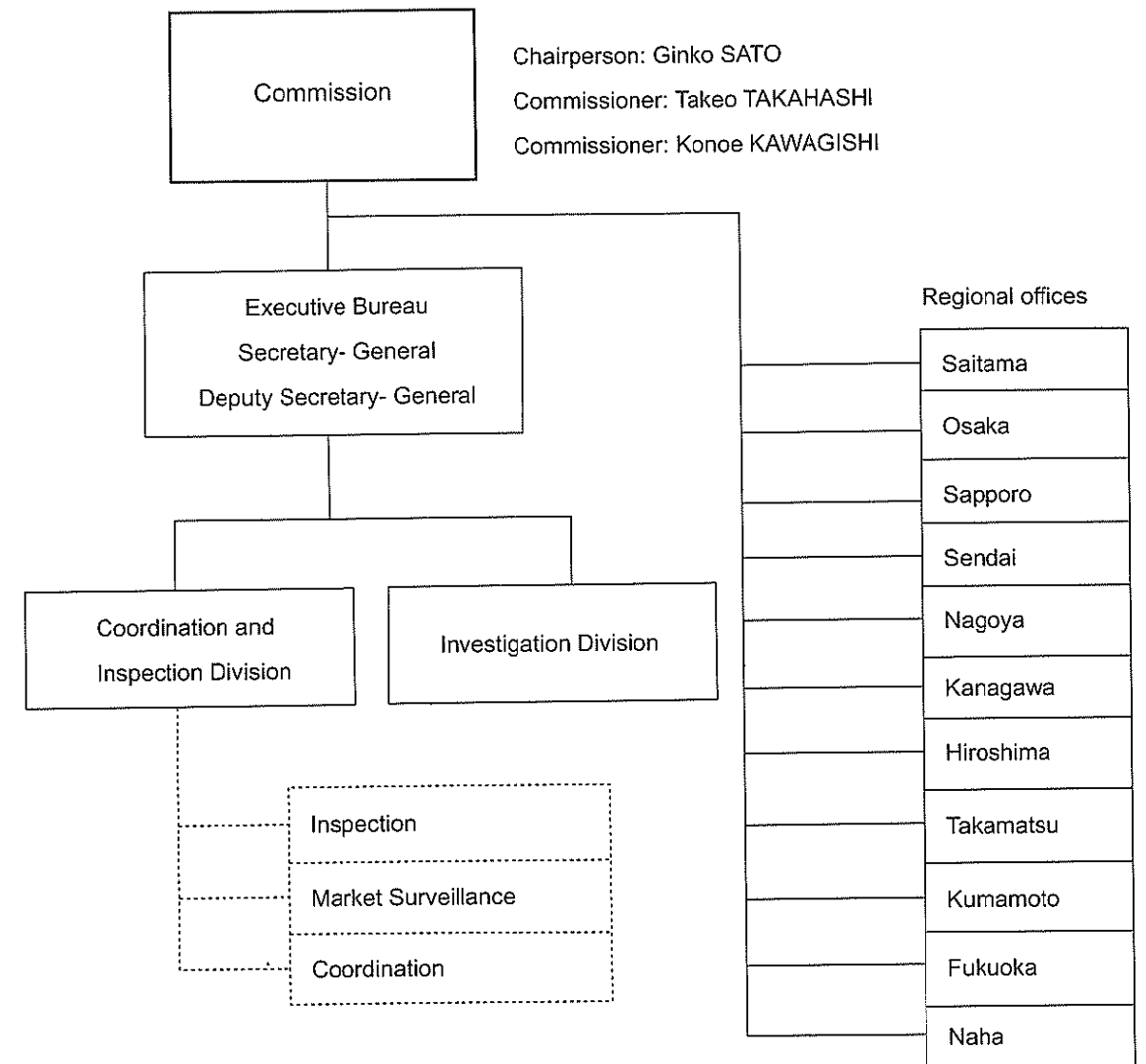
In addition, when securities transactions are suspected of being inappropriate, but cannot be proven, stock exchanges caution the members involved to be prudent in transactions in the future in order to prevent unfair transactions from occurring.

Section 4. Activities of Financial Futures Association of Japan

The FFA inspected the activities of its members with respect to the management of financial futures transaction orders, the management of customers' margin deposits, and compliance with rules regulating financial futures transactions.

Section 5. Activities of the Tokyo International Financial Futures Exchange

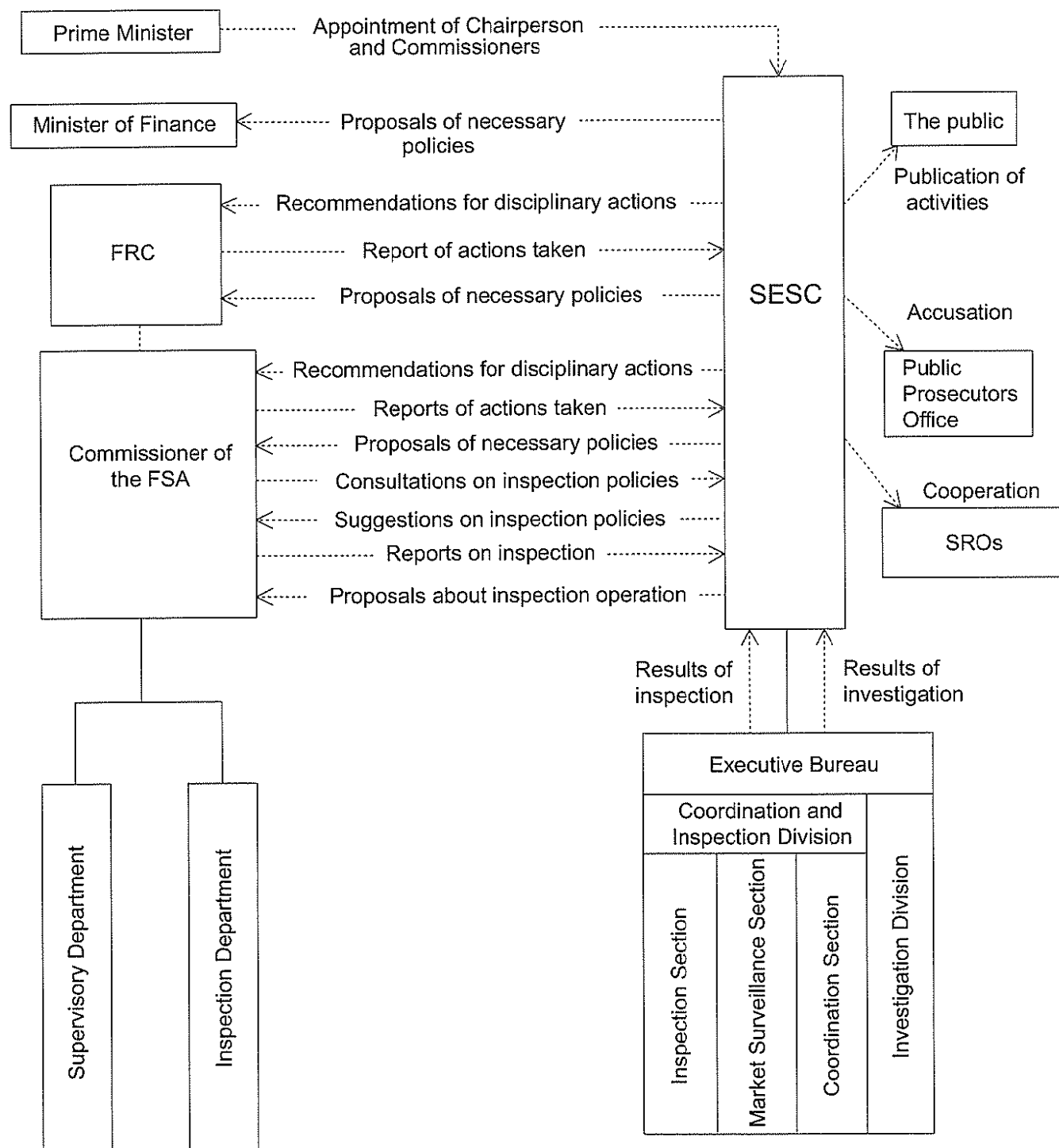
The TIFFE inspected the activities of its members with regard to compliance with rules related to prohibited acts concerning financial futures transactions, the management of international control systems, and the management of acceptance of financial futures transaction orders.



Note: "Regional offices" were established under the Regional Finance Bureaus of the Ministry of Finance to carry out the SESC's surveillance activities. The Directors-General of Regional Finance Bureaus conduct inspections and market surveillance under the authority delegated by the SESC and investigations of criminal offenses under the direction and supervision of the SESC (see Diagram 3).

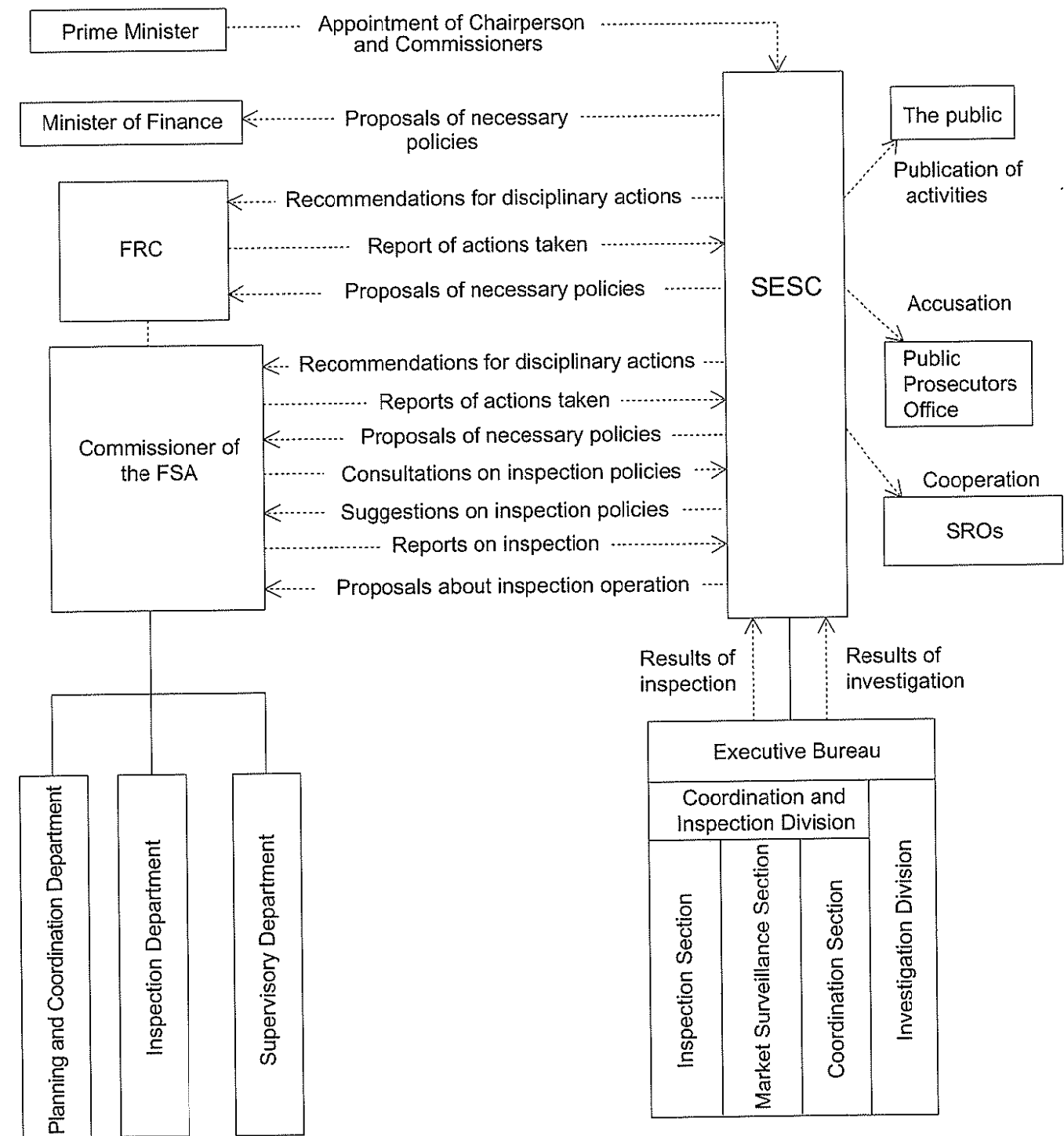
Surveillance Framework

(during the year under review)



Surveillance Framework

(July 1, 2000 to January 5, 2001)



Surveillance Framework

(after January 6, 2001)

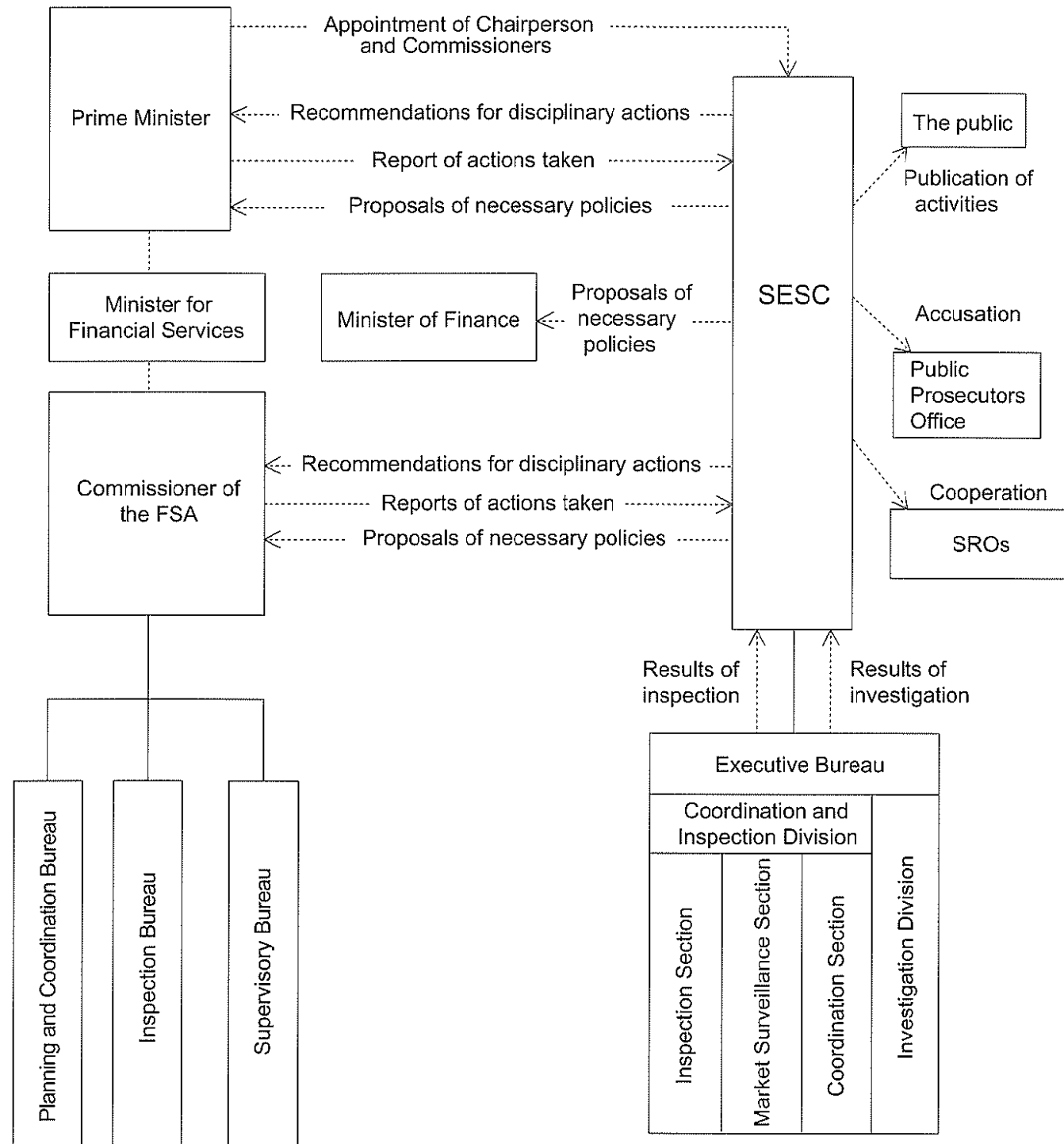
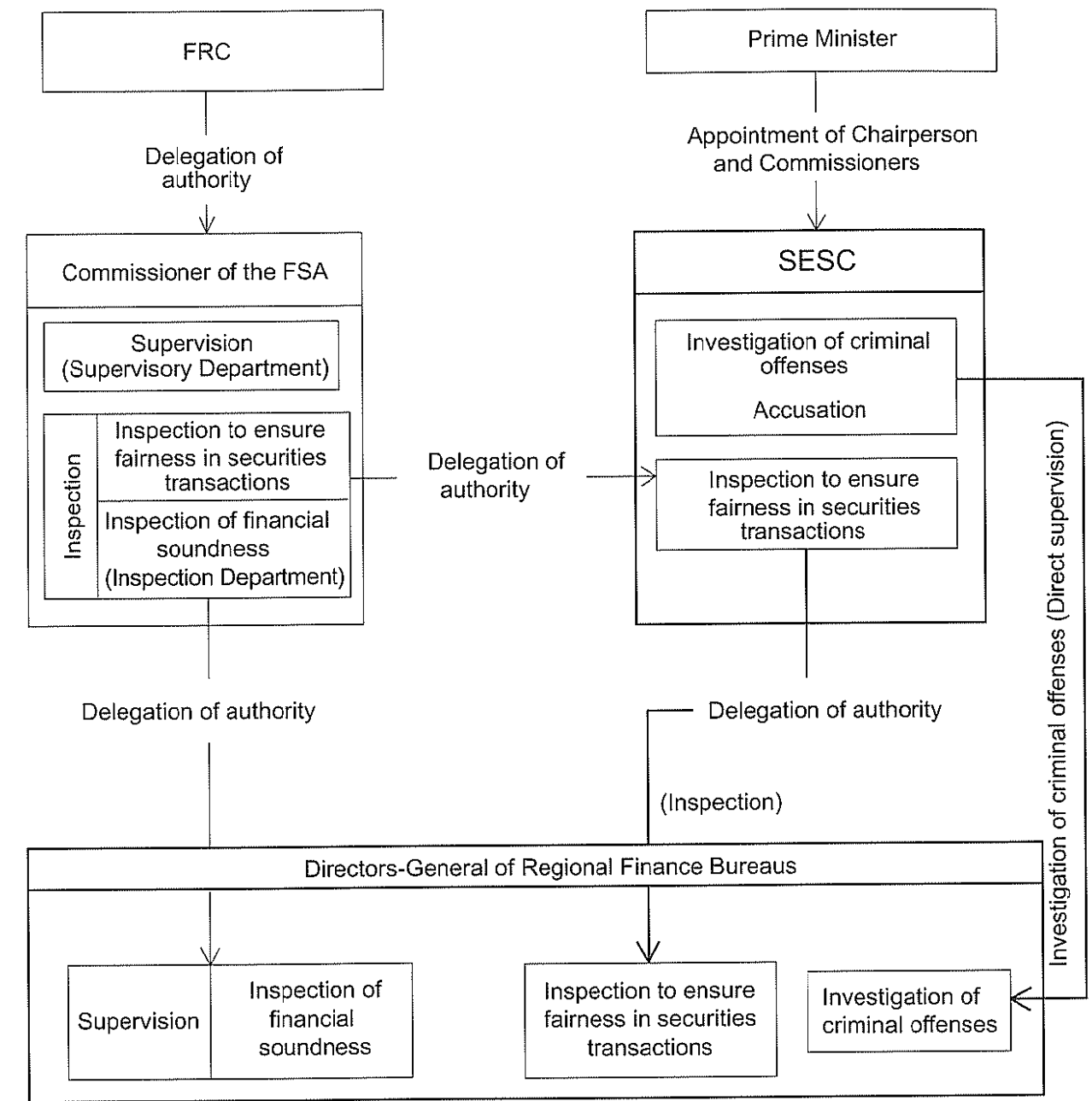


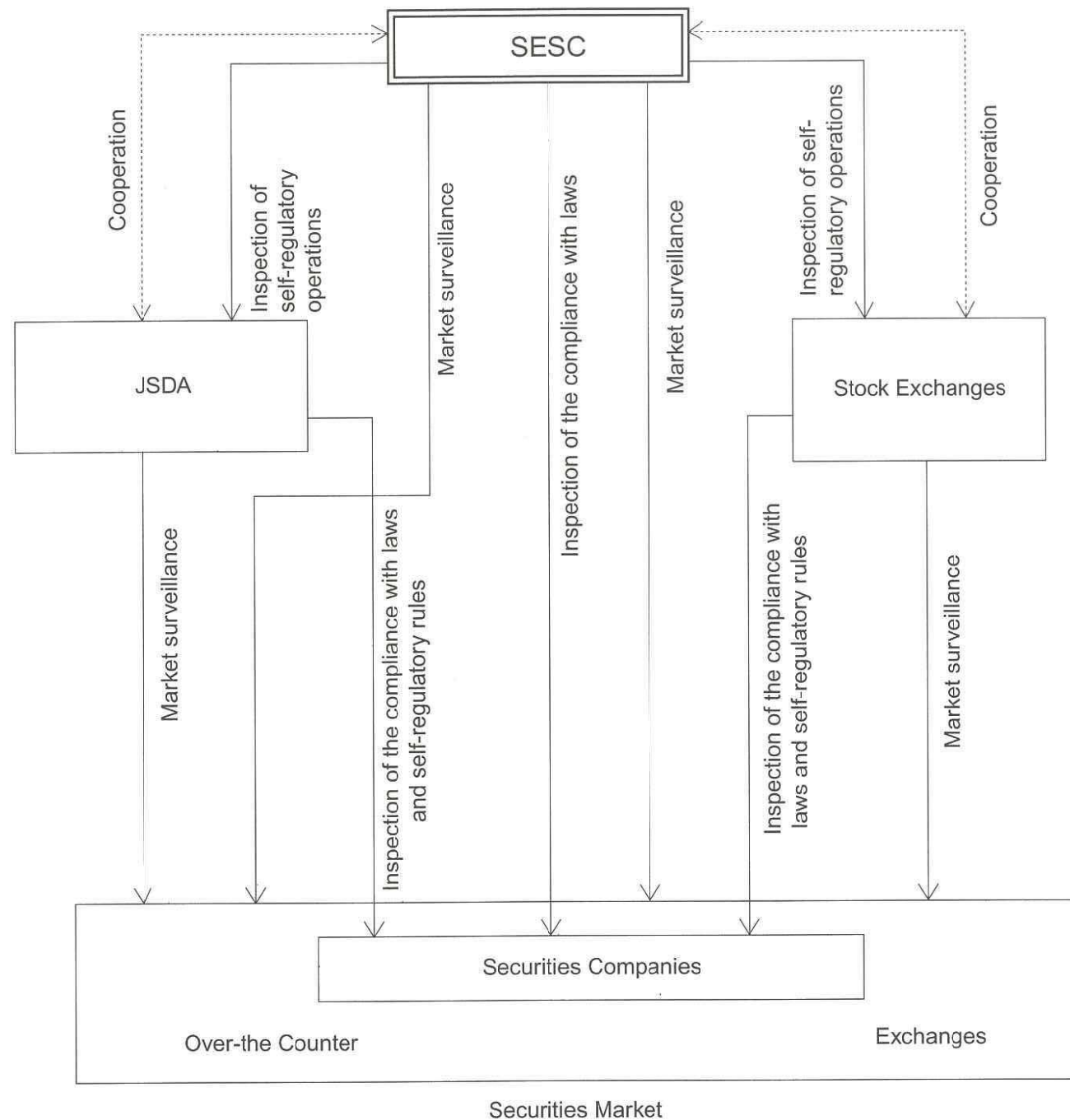
Diagram 3
Relationship among the Prime Minister, the Financial Reconstruction Commission, the Commissioner of the Financial Supervisory Agency, and the Securities and Exchange Surveillance Commission



Note: Investigation of criminal offenses is carried out by the SESC staff under their peculiar authority.

- Authority of non-compulsory investigation (Article 210 of the SEL, Article 53 of the LFSF, and Article 106 of the FFTL)
- Authority of compulsory investigation (Article 211 of the SEL, Article 53 of LFSF, and Article 107 of the FFTL)

Diagram 4
**Relationship between the Securities and Exchange Surveillance
 Commission and Self-Regulatory Organizations**



Note: The same system applies to financial futures.

Chairperson and Commissioners Profiles

**Chairperson
 Ginko SATO**



- 1998 Chairperson, SESC
- 1995 Commissioner, SESC
- 1991 Ambassador to Kenya, Ministry of Foreign Affairs
- 1990 Assistant Minister of Labor
- 1986 Director-General, Women's Bureau
- 1985 Councilor of Minister's Secretariat
- 1984 Director, International Labor Affairs Division, Minister's Secretariat
- 1979 Director, Women Workers' Division, Women's and Young Workers' Bureau
- 1958 Graduated from University of Tokyo, Department of International Relations; Ministry of Labor

**Commissioner
 Takeo TAKAHASHI**



- 1998 Commissioner, SESC
- 1997 Superintending Public Prosecutor, Fukuoka High Public Prosecutors Office
- 1995 Chief Prosecutor, Tokyo District Public Prosecutors Office
- 1994 Chief Prosecutor, Yokohama District Public Prosecutors Office
- 1993 Deputy Superintending Prosecutor, Tokyo High Public Prosecutors Office
- 1991 Deputy Superintending Prosecutor, Tokyo District Public Prosecutors Office
- 1990 Chief Prosecutor, Yamagata District Public Prosecutors Office
- 1989 Public Prosecutor, the Supreme Public Prosecutors Office
- 1963 Public Prosecutor, Yokohama District Public Prosecutors Office
- 1959 Graduated from Waseda University, Law Department

**Commissioner
 Konoe KAWAGISHI**



- 1998 Commissioner, SESC
- 1992 Deputy Chief of Editorial Board, the Yomiuri Shimbun (YS, Japanese newspaper company)
- 1988 Editorial Writer, YS
- 1984 Deputy Editor of Economic News Department, YS
- 1981 Correspondent, Washington D.C. Bureau, YS
- 1974 Correspondent, General European Bureau, YS
- 1961 Graduated from Hitotsubashi University, Economics Department; YS

List of Abbreviations

FFA	Financial Futures Association of Japan
FFTL	Financial Futures Trading Law
FRC	Financial Reconstruction Commission
FRCEL	Financial Reconstruction Commission Establishment Law
FSA	Financial Supervisory Agency Financial Services Agency
IOSCO	International Organization of Securities Commissions
IPS	Internet Patrol System
JSDA	Japan Securities Dealers Association
LFSF	Law on Foreign Securities Firms
MOU	Memorandum of Understanding
OSE	Osaka Securities Exchange
SCAN-System	Securities Comprehensive Analyzing System
SEL	Securities and Exchange Law
SRO	Self-Regulatory Organization
TSE	Tokyo Stock Exchange