

The SESC has proposed reviewing or revising existing laws or regulations on securities trading and related matters, and self-regulatory rules, when such rules and laws are found unfit to deal with issues found in actual transactions. The SESC has also pointed out problems inherent in the current legal framework for securities transactions and specific areas to be studied and reviewed from the viewpoint of ensuring fairness in trading.

During the period reviewed for this report, the inspections, etc. of securities companies resulted in discovery of no issues that required policy proposals.

## **6. Market Surveillance**

### **1) Outline**

#### **1. Outline of market surveillance**

The SESC conducts market surveillance on a broad range of securities transactions on a daily basis, including unfair securities deals, such as manipulation of stock prices and insider trading, as well as inspections of securities companies and investigations of criminal-offense cases.

Specifically, the SESC takes out stocks showing irregular movements, as the samples below show, based on the day-to-day surveillance of market movements and information obtained from various sources, and asks securities companies or SRO's that have engaged in the securities transactions in question to prepare detailed reports on the trading or submit relevant data.

Subject to market surveillance are the following:

- (1) stocks whose prices surged or plunged during a short period of time;
- (2) stocks about which important incidents that would significantly affect investors' investment judgment occurred, etc.

In addition, the SESC checks if securities companies involved in these dubious deals have committed acts that constitute violations of laws.

If the initial surveillance found problems in the securities transactions in questions, the cases will be reported to relevant SESC sections to be made clear.

#### **2. Legal basis**

To conduct market surveillance, the SESC is authorized to ask securities companies or SROs to submit reports and data on particular securities transactions if doing so is deemed necessary and appropriate from the viewpoint of maintaining fairness in trading and protecting investors' interests. Such authority delegated to the SESC and the scope of that authority are prescribed under the SEL, LFSF, FFTL and ordinances as with the SESC's authority on inspections.

#### **3. Cooperation with self-regulatory organizations**

Daily market surveillance as done by the SESC is also conducted by self-regulatory organizations such as stock exchanges and the Japan Securities Dealers Association. Their surveillance has the important function of checking if market participants are executing their business duties in an appropriate manner. The SESC keeps close cooperation with market-surveillance sections of self-regulatory organizations by exchanging necessary information on regular and extraordinary bases, and also by making mutual inquiries about data and facts on transactions.

## 2) Summary of surveillance results

In the 2004 SESC year, consisting of four teams, as shown below, with each given specific operational areas, they conducted surveillance in an efficient and flexible manner while maintaining the policy of taking prompt initial action for the early settlement of cases.

- a) Stock-price team  
surveillance of stock-price manipulation and formation of artificial markets
- b) Insider trading team  
surveillance of insider trading cases
- c) General affairs team  
surveillance of socially topical cases needing quick action
- d) Information team  
surveillance of suspected spreading of rumors on stock markets via the Internet, collection of market information, and information management

In the 2004 SESC year, broad-based surveillance was conducted with particular emphasis on the following concerns that had been expressed in the Committee Chairman's Policies (released on July 20, 2004):

- Products that are not easily understood by individual investors, such as variously-structured option trading products, are sold to individual investors in massive quantities in recent years. In the market where these new products and new modes of trading are emerging and where information technology is being employed increasingly widely, a watchful eye must be kept on unfair trading and illegal solicitation activities that are conducted by brokers.

- As financial trading becomes increasingly global and the application of information technology continues to expand, trading activities by such non-resident market operators as overseas investment funds in the Japanese market must be monitored to ensure that they do not violate Japanese laws and regulations.

The number of surveillance cases conducted by the SESC and Local Finance Bureaus are shown below:

Number of surveillance cases	SESC Year 2004	SESC Year 2003
Total	674	687
SESC	367	382
Local Finance Bureaus	307	305
(Breakdown of surveillance contents)		
Stock-price manipulation	153	154
Surges in stock prices	106	105
Pegging of stock prices at certain levels, etc.	47	49
Insider trading	506	500
Downward revision of corporate earnings	96	86
Upward revision of corporate earnings	68	56
New share issues, etc.	30	63
Others	312	295
Others	15	33
Spreading of rumors on markets	8	6
Others	7	27