

Supplements

Basic Principle

– On the Start of New Regime (July 2004) –

《Mission of Securities and Exchange Surveillance Commission (SESC)》

- To ensure fair trading in securities and financial future markets
- To maintain the confidence of investors in these markets

《Objective under the New Regime》

The most important objective of the SESC under the new regime is

to protect individual investors with all our force

, as former regime did.

《Main Targets》

Main targets of SESC in order to achieve the above objective include:

- (1) Sweep out criminal activities which hamper the fairness of markets
Sweep out criminal activities, including market manipulations and insider trading, which deceive investors and hamper the fairness of markets. The SESC aims to, for instance, thoroughly detect the large-scale market manipulation by speculators.
- (2) Detect the violations of laws or regulations by market intermediaries
Strictly detect the act of violating laws or regulations by market intermediaries including securities firms and their managements and employees who try to make profits at the expenses of investors.
- (3) Detect false statements on securities reports
Exhaustively detect the issuers of securities reports with false information who try to raise funds in favor of themselves by deceiving investors.

《Priority Matters》

The SESC will put emphasis on the following activities:

(1) Proper implementation of investigation for imposing new administrative civil penalty

Administrative civil money penalty system will be introduced in April 2005 against unfair trading (e.g. insider trading) and the submission of financial statements containing false information, and the SESC will be granted the authority of conducting the investigation for imposing the penalty. The SESC will arrange our organizational and procedural structure for implementing this new authority properly.

(2) Appropriate response to integrated inspection

Further inspection authorities will be delegated from the Financial Services Agency to the SESC in July 2005. The SESC will prepare for exercising the newly integrated inspection authorities in an accurate way, and implement efficient and intensive inspection.

(3) Response to recent developments in the markets

New products that cannot be easily grasped by individual investors, such as complicated option trading, have recently been sold in a large quantity to individual investors. The SESC will implement surveillance and inspection timely to see whether there exist unfair trading and/or illegal solicitation by market intermediaries in such a new market environment where the new products and forms of trading mechanism have been emerged and Information Technology has been advanced.

The SESC will also respond appropriately once the inspection authority on foreign exchange margin transaction is granted.

(4) Response to cross-border transactions

As the globalization of financial transactions and the development of Information Technology are advanced, suspicious activities involving non-residents including foreign investment funds that may violate the laws or regulations have been found in the Japanese markets. The SESC will strengthen the detection of such activities and coordinate with foreign authorities in a closer manner than before.

(5) Reinforcement of human resources

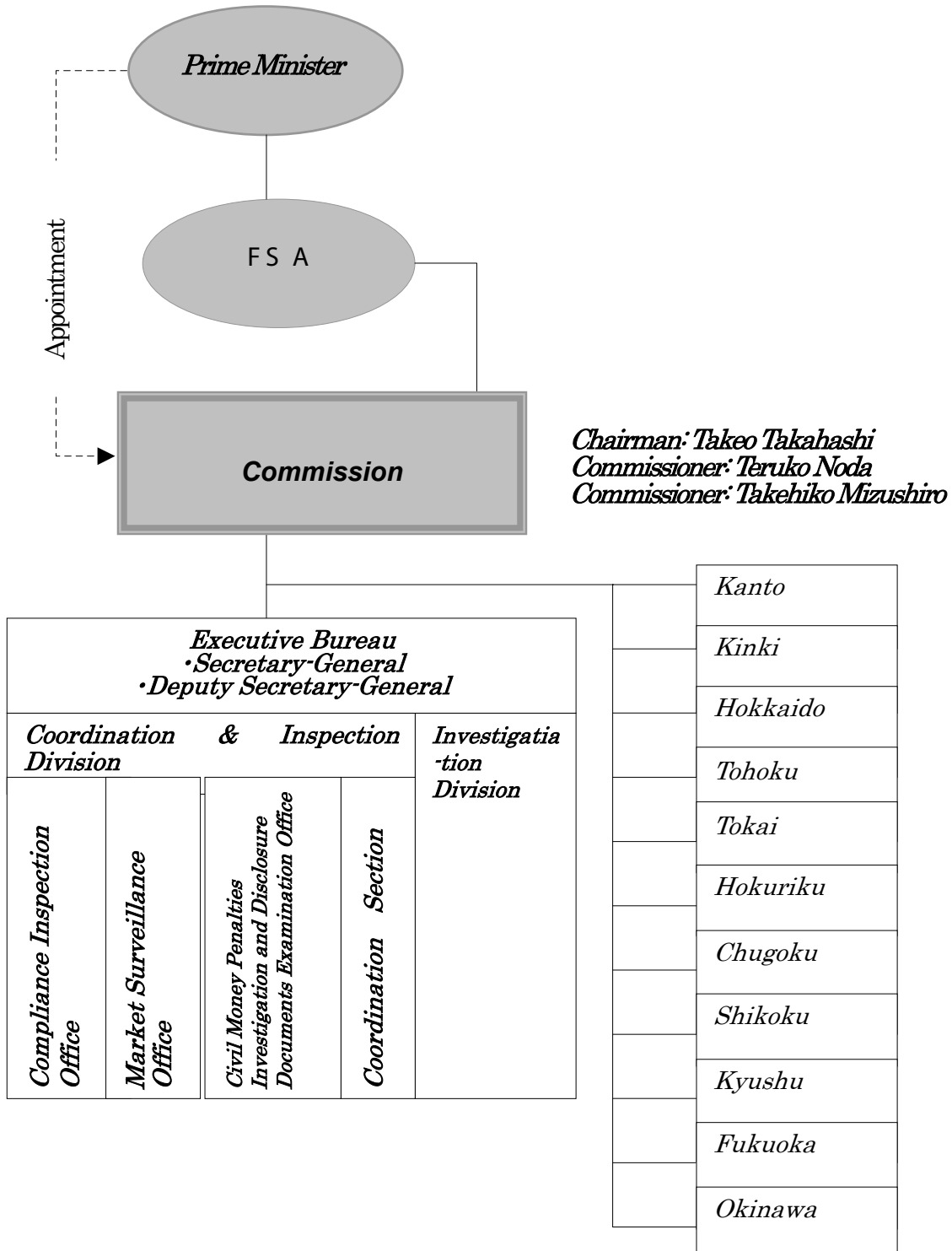
Further increase in human resources is needed in implementing the above targets, thus, the SESC continues trying to keep the necessary level of human resources in coordination with the authorities on the increase.

(6) Promotion of the presence of SESC

The SESC tries to increase its presence in the markets so that the existence of the SESC itself will serve as deterrence against unfair practices. The SESC also tries to further increase the credibility of the SESC, and consequently, of the securities markets, from investors. The SESC will thus make an effort to achieve higher performance in detecting criminal offences, as well as inform more people of the activities of the SESC through our website and seminars.

Table 1

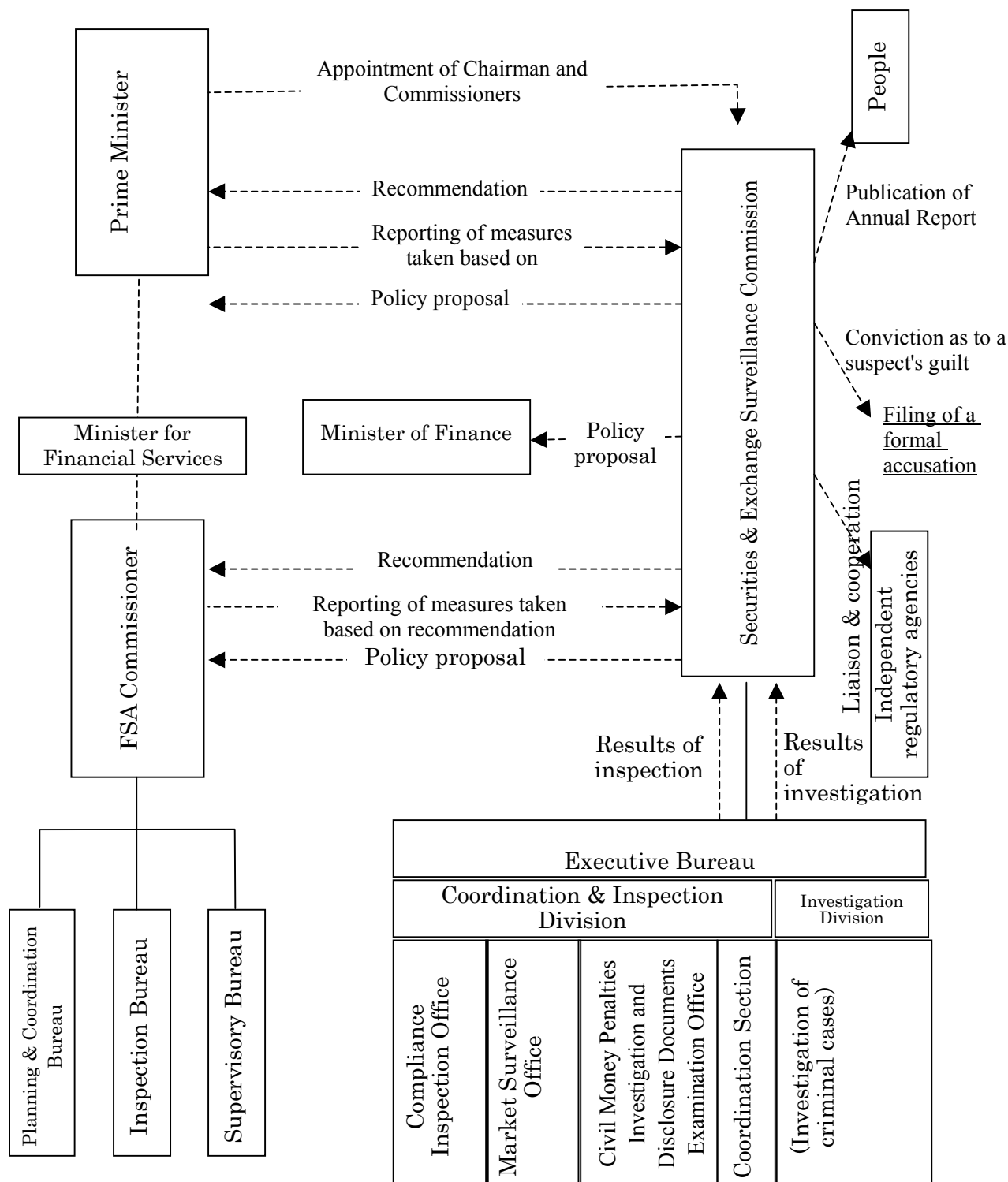
Organization of the SESC



Note: Local offices were established under the Local Finance Bureaus of the Ministry of Finance to carry out SESC surveillance activities. The directors general of Local Finance Bureaus conduct inspections and market surveillance under the authority delegated by the SESC and investigations of criminal offenses under the direct supervision of the SESC (see Table 3).

Table 2

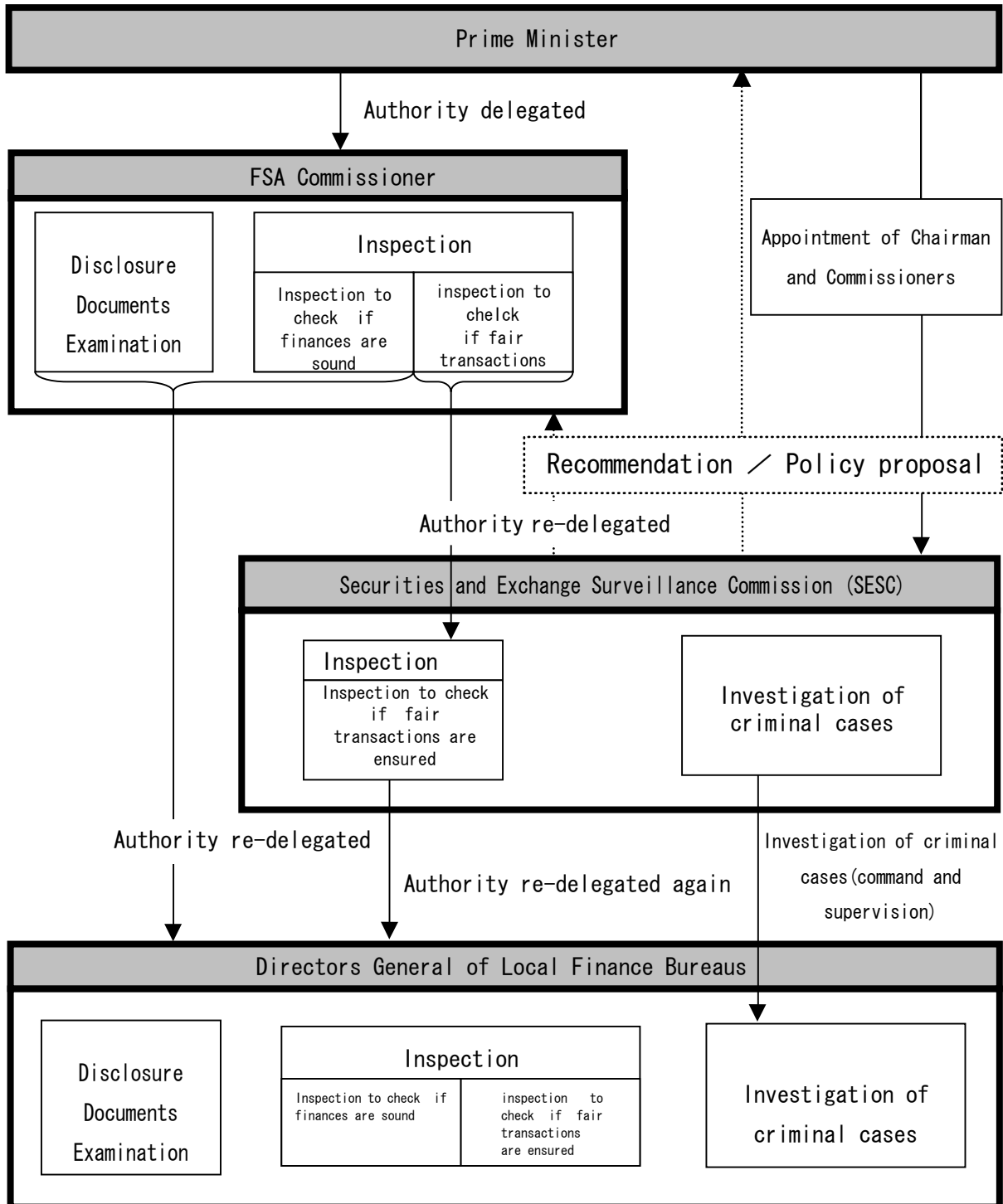
Conceptual Chart for Supervision of Securities Transactions



Note: Recommendations can be filed with the Prime Minister or the FSA Commissioner. Policy proposals can be filed with the Prime Minister, the FSA Commissioner or the Minister of Finance (Articles 20 and 21 of the Establishment Law).

Table3-1

Conceptual Chart of Relationship among the Prime Minister, FSA Commissioner, SESC, and Directors General of Local Finance Bureaus
 (~March 31,2005)



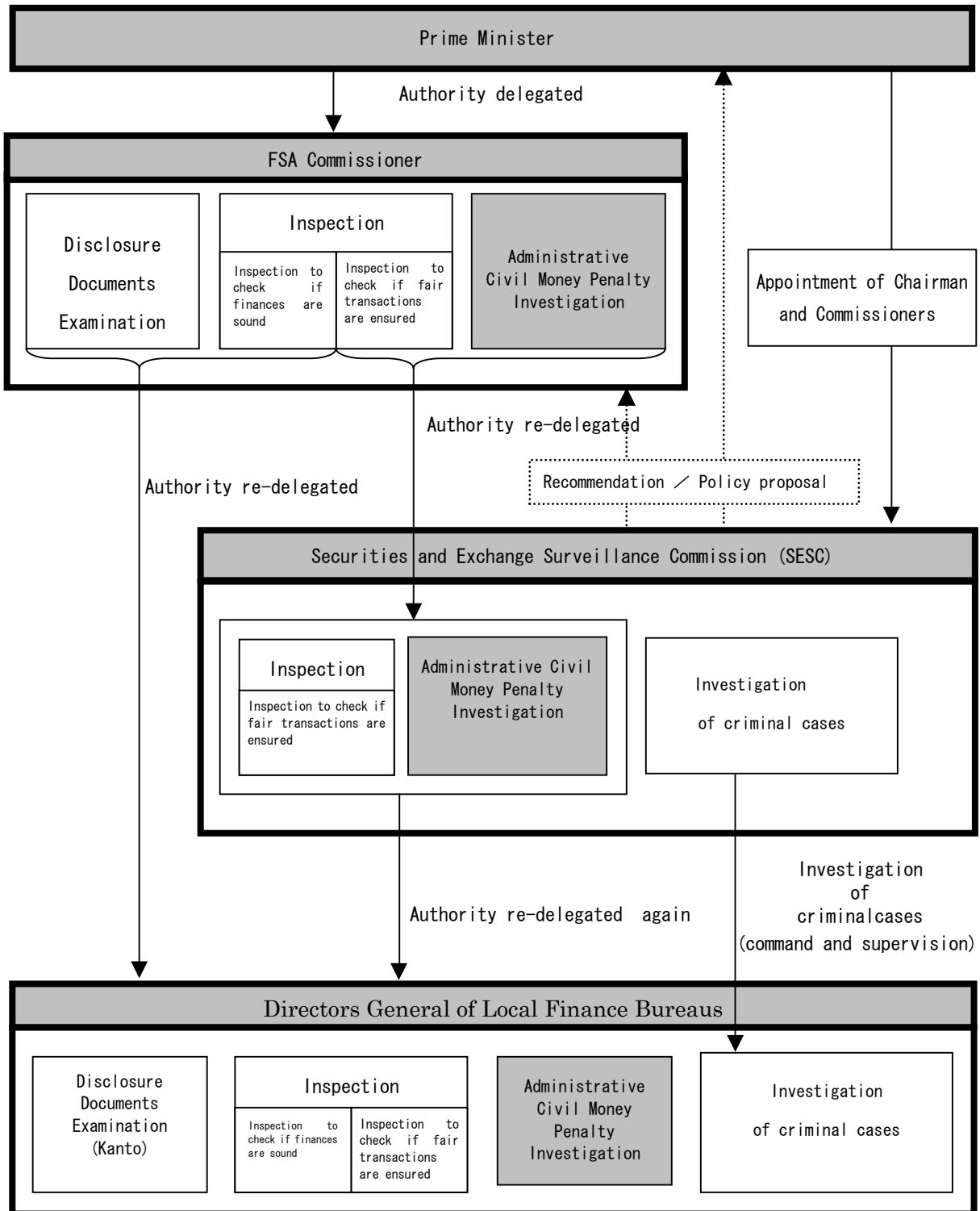
(Note 1) SESC officials have the authority to investigate criminal cases.

- Authority to conduct noncompulsory investigation of criminal cases (Article 210 of the Securities and Exchange Law, Article 53 of the Foreign Securities Firms Law, Article 106 of the Financial Futures Trading Law, and Article 18 of the Personal Identification Verification Law)
- Authority to conduct compulsory investigation of criminal cases
- (Article 211 of the Securities and Exchange Law, Article 53 of the Foreign Securities Firms Law, Article 107 of the Financial Futures Trading Law, Article 18 of the Personal Identification Verification Law)

(Note 2) FSA Commissioner shall exercise part of delegated his powers. SESC shall exercise all powers delegated.

Table3-2

(April 1, 2005~June 30, 2005)

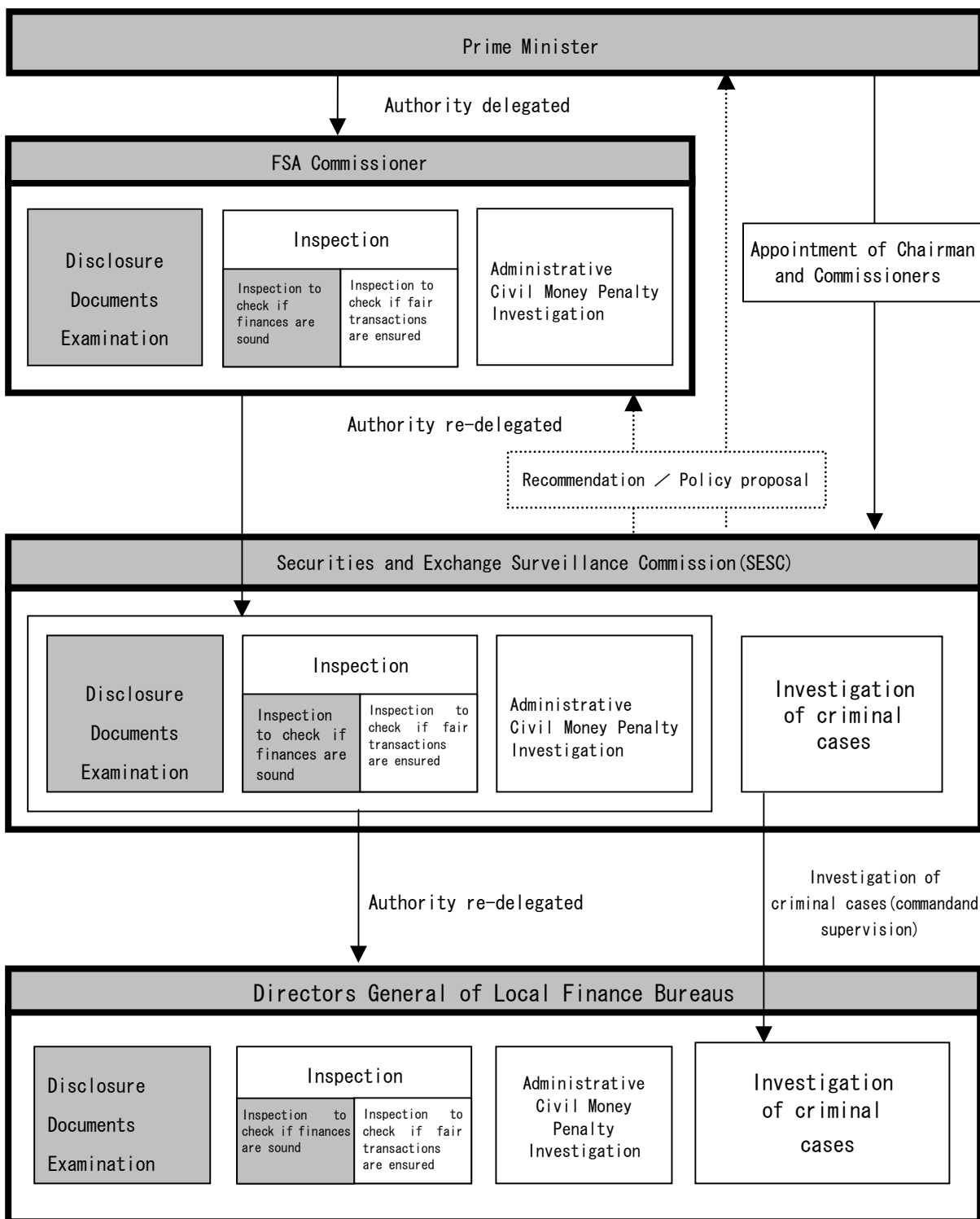


(Note1) SESC officials have the authority to investigate criminal cases.

- Authority to conduct noncompulsory investigation of criminal cases (Article 210 of the Securities and Exchange Law, Article 53 of the Foreign Securities Firms Law, Article 106 of the Financial Futures Trading Law, and Article 18 of the Personal Identification Verification Law)
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(Note2) FSA Commissioner shall exercise part of delegated his powers. SESC shall exercise all powers delegated.

Table3-3
(July 1, 2005~)



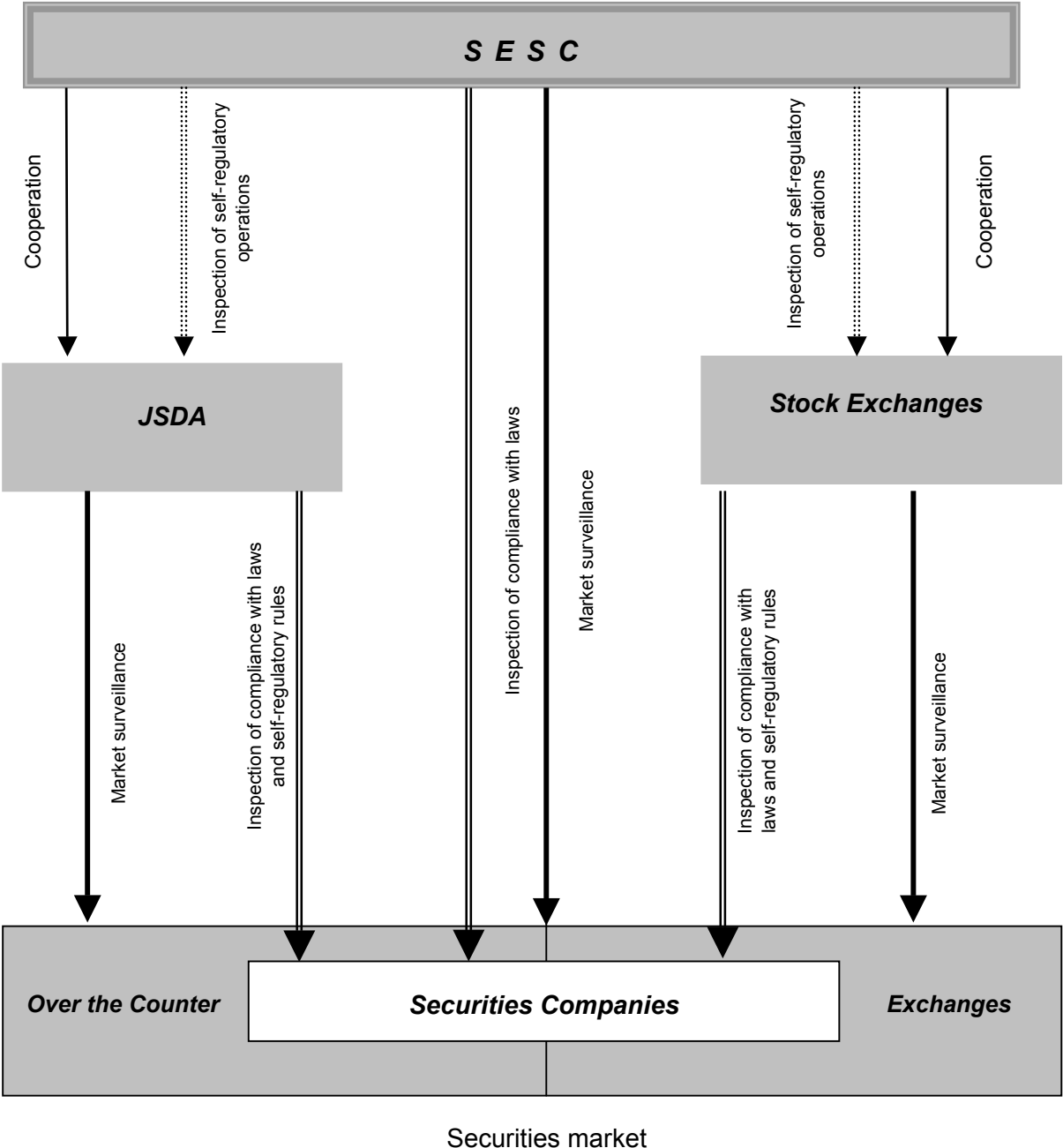
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Table 4

Relationship to Self-Regulatory Organizations



Note: The same system applies to financial futures.

**Outline of Main Cases for which Recommendations
were Issued in the 2004 SESC Year**

Summary of Major Cases of Recommendations in the 2004 SESC Year

Date of Recommendation Month/Day/Year (Category)	Description of Violations of Laws or Regulations That Led to Recommendations	Description of Administrative Disciplinary Measures, etc.
September 14, 2004 (Inspection)	<p>◎ The Act of Making Misleading Statements with Respect to Material Facts in Connection with the Handling of Private Placement of Securities</p> <p>In connection with private placement of structured notes (which are notes issued with various conditions attached to meet the investment objectives of individual clients) in the course of their business operations, two vice presidents of the Second Sales Dept. at the Marunouchi Branch of Citibank, N.A. made statements that are bound to mislead investors with respect to certain material facts by distributing to multiple clients certain solicitation materials that do not properly describe the product features of the notes.</p> <p>○The Act of Handling Private Placement as a Condition for Granting Credit</p> <p>The Marunouchi Branch of Citibank, N.A. in its private banking operations, handled private placement as a condition for granting credit by soliciting specific clients to apply for the purchase of structured notes while concurrently offering to lend money to the clients for the purchase of the notes. By having the clients acquire the notes as a condition for the loan, the bank handled private placement as a condition for granting credit.</p>	<p>Disciplinary Measures Taken Against the Company Business Improvement Order</p> <ul style="list-style-type: none"> • To expand and strengthen the internal control system • To establish and implement recurrence prevention measures, and clearly define responsibilities • To expand and strengthen the compliance system • To fundamentally reexamine and construct the system to ensure proper investment solicitation (including an expansion and strengthening of a system to review advertisement, etc.) <p>• To submit improvement plans concerning the foregoing and promptly implement them.</p> <p>To provide a quarterly report on the progress and implementation of the plan and the status of improvement.</p> <p>Disciplinary Measures Taken Against Officers and Employees (Registered Securities Traders)</p> <ul style="list-style-type: none"> • Two vice presidents of the Second Sales Dept., at the Marunouchi Branch A three-week suspension from work

○ Supporting Facts for the Recommendations concerning Citibank, N.A. Tokyo
Branch

1. The Act of Making Misleading Statements with Respect to Material Facts in Connection with the Handling of Private Placement of Securities

The Marunouchi Branch of the said registered financial institution handles private placement of structured bonds, which are issued with various conditions attached to meet the investment objectives of individual clients. In connection with the handling of such private placement, the following situations were found, which constitute an act of making misleading statements with respect to material facts:

(Case 1)

During the course of solicitation for structured notes between June 4, 2003 and August 28 of the same year, Vice President A of the Second Sales Dept. at the branch made misleading statements to two clients by furnishing solicitation literature and led the clients to believe, incorrectly, that the structured notes could be sold at any time at an approximate set price before they reach maturity, even though the bonds actually had low liquidity and were difficult to sell at a set price before their maturity.

(Case 2)

During the course of solicitation for structured notes on July 4, 2003, Vice President B of the Second Sales Dept. at the branch made misleading statements to one client by furnishing solicitation literature and led the client to believe, incorrectly, that he was assured of the full value of the principal and interest payments when in fact there was a risk of the principal becoming impaired and interest payments being halted, due to foreign exchange rate fluctuations.

2. The Act of Handling Private Placement as a Condition for Granting Credit

- At the Marunouchi Branch of the said registered financial institution, the following case was found, which was an act of handling private placement as a condition for granting credit:

In April 2003, a salesman in the First Sales Department at the branch solicited a client who had wanted for a loan for an overseas investment applicable to acquire structured notes while at the same time proposing to increase the loan amount to cover the cost of acquiring the said structured notes. By so doing, he had the client acquire the structured notes as a condition for the loan.

Date of Recommendation Month/Day/Year (Category)	Violation of Laws or Regulations that Led to Recommendation	Description of Administrative Disciplinary Measures, etc.
October 8, 2004 (Inspection) (Kanto)	<p>③ The Act of carrying out a series of securities transactions to form an artificial market that does not reflect the true market trends.</p> <p>Between March 2003 and September of the same year and in the course of business operations, a senior dealer of the Second Dealing Team of Jujiya Securities Co., Ltd. carried out a series of buying and selling transactions in connection with shares of multiple listed stocks with the intention of moving the prices of the stocks in his favor. He did this by driving up the prices of the stocks by buying shares of the stocks, using either market or limit orders, followed by orders to buy at the best bid or a price below the best bid.</p>	<p>Disciplinary Measures Taken Against the Company</p> <p>Business Suspension Order</p> <ul style="list-style-type: none"> • A 15-day suspension of stock dealings. <p>Business Improvement Order</p> <ul style="list-style-type: none"> • To expand and strengthen the internal control system, and clearly define responsibilities. • To establish "recurrence prevention measures," such as an expansion and strengthening of the trading control system, and ensure that officers and employees are thoroughly informed of the measures. • To ensure that all employees are fully aware of the importance of compliance with laws and regulations by such means as seminars. • To provide a written report on the status of actions taken to the foregoing, and furnish a quarterly written report of their implementation status <p>Disciplinary Measures Taken Against Officers and Employees (Registered Securities Traders)</p> <ul style="list-style-type: none"> • A nine-week suspension from work

○ Supporting Facts for the Recommendations concerning Jujiya Securities Co., Ltd.

Jujiya Securities Co., Ltd. employed roughly the following trading techniques to carry out a series of buying and selling transactions in an attempt to create an artificial market that did not reflect the true market trends so as to gain profits by driving up the prices of four stocks and selling the positions that the company built for its own accounts at prices that were advantageous to the company:

- (1) The company bid up the price of the stocks by placing limit buy orders at high prices that exceeded the market or the most recent quoted prices.
- (2) After driving up the price by the method described in (1) above, the company placed sizable buy orders at or below the most favorable bid price at that point in time.
- (3) When buy orders began to be placed by other market participants at prices above the most favorable bid price, the company sold its acquired positions in sequence.
- (4) Once the positions it had acquired were completely sold, the company canceled all its yet-to-be executed buy orders referred to in (2) above.

Date of Recommendation Month/Day/Year	Violation of Laws or Regulations that Led to Recommendation	Description of Administrative Disciplinary Measures, etc.
December 22, 2004 (Inspection) (Kanto)	<p>© The act of making false statements in connection with securities trading or other types of transactions.</p> <p>Between January 1989 and August 2004, the president and another individual of Niigata Securities Co., Ltd. made a false statement to a number of clients regarding trading of discount bank debentures in the course of their business operations. They informed the clients that they intended to have the clients acquire such debentures when in fact they had no such intentions. Furthermore, they made a misrepresentation when they furnished trade reports and securities receipts containing false information when in fact there was no acquisition made.</p>	<p>Disciplinary Measures Taken Against the Company</p> <p>Business Suspension Order</p> <ul style="list-style-type: none"> • One-month suspension of entire securities operations at all offices. <p>Business Improvement Order</p> <ul style="list-style-type: none"> • To act properly in dealing with customers so as to protect investors. • To clearly define responsibilities and establish a responsible governance system. • To strengthen the checking function by the board of directors and the board of auditors and the internal control system, and establish "recurrence prevention measures" so as to eliminate violations of laws and regulations through such means as the construction of a proper audit system that includes external audits. • To ensure that all officers and employees are thoroughly aware of compliance with laws and regulations by providing training even during the period of business suspension at all offices. • To provide a written report of the actions taken with respect to the above, and furnish a quarterly written report of their implementation status. <p>Disciplinary Measures Taken Against Officers and Employees (Registered Securities Traders)</p> <ul style="list-style-type: none"> • Nullification of securities traders' registration

○ Supporting Facts for Recommendations concerning Niigata Securities Co., Ltd.

