Annual Report 2010/2011

Securities and Exchange Surveillance Commission

JAPANESE GOVERNMENT

Annual Report 2010/2011

〈Contents〉

Supplements

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1. SESC Policy Statement

The Securities and Exchange Surveillance Commission (SESC) formulates a policy statement as a midterm strategy for a three-year term, when starting its new framework for each term.

In FY2010, the SESC committed itself to conduct market surveillance based on the policy statement for the 6th term for nine months from April to December. After that, in the wake of launch of the 7th term on December 13, 2010, the SESC formulated and announced its policy statement for the 7th term on January 18, 2011.

Accordingly, in this chapter, the outline of the policy statement for the 6th term for the first nine months of FY2010 is explained, and then the chapter touches on the reasons for formulating the new policy statement for the 7th term, and its basic concept and contents.

1) Outline of the SESC Policy Statement for the 6th Term

In the SESC policy statement for the 6th term publicized in September 2007, two pillars of "Policy Directions" were advocated so that the SESC could achieve its mission, responding to environmental changes such as the appearance of more complex, diverse, and globalized financial products and trading methods, as well as institutional reforms including the implementation of the Financial Instruments and Exchange Act (FIEA) based on those changes.

The first pillar was "Market oversight with prompt and strategic actions". To be more specific, strategically using the SESC's regulatory tools such as market surveillance, inspections of securities firms and other regulated entities, administrative monetary penalty investigation, disclosure statements inspection and investigation into criminal cases, the SESC had strived to conduct more timely and effective market surveillance. At the same time, the SESC had aimed for timely and prompt responses to changes in market environments, as well as forward-looking and prompt responses to emerging risks. Furthermore, the SESC had made efforts to increase the effectiveness of multilayered market oversight activities, by enhancing cooperation with self-regulatory organizations (SROs) and overseas securities regulators, etc.

The second pillar was "Outreach activities for enhanced market integrity". Besides the individual cases, the SESC had strived to contribute to the rule-making processes at the Financial Service Agency (FSA) and other relevant authorities, by means of policy proposals, etc. for the purpose of reflecting regulatory issues identified through market oversight activities such as inspections and investigations when the improvement in the entire markets and industries was deemed necessary. In addition to outreach to such relevant authorities, the SESC had proactively encouraged each market participant to enhance self-discipline for market integrity through securities exchanges and other SROs, and also worked on closer communication with market participants and more effective dissemination of information in order to facilitate efforts of each market participant.

The SESC's policy statement for the 6th term especially focused on the following five points as "Policy Priorities" based on the two pillars mentioned above, with an eye to conducting effective and efficient market oversight.

The first policy priority was "Comprehensive and timely market oversight". The SESC had addressed comprehensive and enhanced surveillance of both primary and secondary markets, extensive surveillance of suspicious transactions which, at first sight, did not appear to contravene rules and regulations, and proactive market surveillance through analysis of backgrounds behind individual cases or market developments.

The second policy priority was "Enhanced use of administrative monetary penalty system". The SESC had strived to implement timely and efficient inspections, taking advantage of features of the administrative monetary penalty system in which it was possible to take more timely actions than filing complaints into a public prosecutor based on criminal investigations, and appropriately respond to amendments of laws and regulations such as an expanded scope of cases subject to administrative monetary penalty.

The third policy priority was "Implementation of FIEA". Taking into account the expanded scope of firms to be inspected by the SESC in accordance with the revised FIEA, the SESC fully revised the inspection manual in order to establish inspection methods and expertise focusing on internal control systems, and had conducted disclosure document inspections responding appropriately to the introduction of quarterly reporting system, etc.

The fourth policy priority was "Enhanced cooperation with SROs". Participants in financial and capital markets have diversified, including institutional investors, an increasing base of individual investors, and overseas market participants in addition to domestic participants. In consideration of such features of financial and capital markets, it had been more efficient and effective to enhance the entire market surveillance functions through further enhanced cooperation with SROs in areas including oversight of member firms and rule-making, in addition to activities only by the SESC. The SESC also decided to enhance the cooperation with SROs, etc. in provision of information to market participants.

The fifth policy priority was "Enhanced cooperation with overseas regulators". Amid increasingly active cross-border transactions, the SESC had strived to enhance information exchange with overseas regulators, and oversight of international electronic transactions, in proactive cooperation with overseas regulators in order to preclude any loopholes in market oversight.

2) Development of the SESC Policy Statement for the 7th Term

1. Background and Basic Concept of Development of the Policy Statement

In response to the global financial crisis which occurred during the 6th term, international regulatory frameworks were reorganized. The environment surrounding Japanese markets has dynamically changed, for example, the successive amendments of the FIEA and the

advance in innovation of financial products and transactions. Continuously pursuing the mission of “To ensure integrity of capital markets” and “To protect investors”, the SESC has conducted market surveillance to be “feared by wrongdoers and trusted by ordinary investors” . In order to achieve the mission, it is necessary to appropriately respond to those changes in the market environment.

Considering the changes in the market environment, the SESC policy statement for the 7th term includes three pillars of policy directions, newly adding “Response to the globalization of markets” to two previous pillars which were raised in the policy statement for the 6th term (“Market oversight with prompt and strategic action” and “Outreach activities for enhanced market integrity”), while adhering to the basic direction of the policy statement for the 6th term.

The basic concept of the first pillar, “Market oversight with prompt and strategic action”, is the same as in the policy statement for the 6th term. The SESC will continuously conduct timely and effective market oversight with strategic combination of each regulatory tool of the SESC by maximizing use of features of those tools with timely and proactive responses to trends in markets. It has been newly stated that it has become necessary to take actions according to recent new trends, for example diversifying violations including non-registered sales and offerings, and international trends in inspection and supervision.

The basic concept of the second pillar, “Outreach activities for enhanced market integrity” has also remained unchanged from the policy statement for the 6th term. In order to “ensure integrity of capital markets” as the SESC’s mission, activities of various organizations playing important roles to ensure market fairness are extremely important as well as activities of the FSA and SRO’s under the FIEA. In the 6th term, the SESC conducted various activities concerning issues identified in inspections and investigations, for example raising problems to and exchanging opinions with SROs and relevant organizations. Also, in the 7th term, it is necessary to enhance market integrity by proactively communicating the SESC’s awareness of problems to the FSA, SROs, and relevant organizations.

The third pillar, “Response to the globalization of markets”, was not included in “policy directions”, but was raised in policy priorities as “Enhanced cooperation with overseas regulators” in the policy statement for the 6th term. The SESC has enhanced cooperation with overseas regulators, for example by exchanging information through the framework of Multilateral MOU (see 8.4) for further details). As a result, the SESC had steady performance such as detecting market misconduct using cross-border transactions in the 6th term. However, in recent years, information related to large scale capital increase through public offering has been reported worldwide, and cross-border transactions and global activities of market participants have become everyday affairs. Therefore, the SESC intends to conduct further global-scale market oversight in cooperation with overseas regulators. Furthermore, with regard to large-sized securities companies, etc. engaged in global business activities, the SESC will conduct inspections proactively, using the international framework of inspection and supervision on the basis of the experiences of the global financial crisis. In order to respond to the globalization of markets, human resource development and the improvement in systems will be worked on further. The SESC has raised “Response to the globalization of markets” as a new pillar, expressing its critical and positive intention to address needs of the present age.

The SESC's policy statement for the 7th term is aiming to conduct effective and efficient market surveillance, focusing especially on the following six points, as policy priorities based on the three pillars mentioned above.

The first policy priority is "Comprehensive and proactive market surveillance", same as in the policy statement for the 6th term. In addition to surveillance of both primary and secondary markets with the basic stance to preclude any regulatory loopholes in market surveillance, which were stated in the policy statement for the 6th term, it has been clearly stated that the SESC will enhance oversight on cross-border transactions in accordance with "Response to the globalization of markets", a new pillar of "Policy Directions" in the 7th term. The SESC also considers it important to continue to pay attention to suspicious transactions which, at first sight, do not appear to contravene rules and regulations, and to enhance market surveillance by continuing to collect a wide range of information.

The second policy priority is "Strict actions to market misconduct and false disclosure statements". The SESC will continue to take strict actions against violations such as insider dealing, market manipulation, fraudulent means including abuse of financing in the primary market, and false disclosure statements, by filing criminal complaints over the more malicious cases among them, in order to further enhance market discipline. Furthermore, the SESC will commit itself to contribute to improvements in market rules, by proactively communicating institutional issues identified in the process of such market surveillance activities to the FSA and SROs.

The third policy priority is "Timely and efficient inspections and investigations in response to disclosure violations". Disclosure document inspections and investigations, which were regarded as a part of "Implementation of FIEA", one of policy priorities in the policy statement for the 6th term, have been raised as an independent policy priority. This is to clearly show the SESC's stance to respond to disclosure violations in a timely and efficient manner, in consideration of the significance of appropriate disclosure by listed companies, etc. Taking into account the significance of roles of a third party committee which is be set up if a company makes false disclosure statements, the SESC will encourage those companies to exercise their initiatives for autonomous and timely disclosure of accurate financial information to the market, and encourage related parties to achieve such appropriate disclosure. Public offering of securities without filing securities registration statements has been a recent problem, and it is considered necessary to take appropriate actions including making a petition for court emergency injunctions under Article 192 of the FIEA, as well as making recommendations for issuance of orders to pay administrative monetary penalties and filing complaints into the prosecutor.

The fourth policy priority was "Enhanced use of administrative monetary penalty system". This continues to be raised as an independent policy priority since the 6th term. Considering records in relation to cases subject to administrative monetary penalties, the importance of administrative monetary penalties investigations would further increase as a method to deal, in a timely and efficient manner, with cases which are not recognized to be significant and malicious. Furthermore the SESC will enhance preventive measures through proactive provision of information concerning past cases subject to administrative monetary penalties.

The fifth policy priority is “Efficient and effective inspections corresponding to the characteristics of firms to be inspected”. Firms to be inspected have been greatly increasing in number and diversifying. Under such circumstances, while strict actions are needed against fraudulent business operators, it is also necessary to address globally active major securities companies and foreign securities companies proactively, using the international framework of inspections and supervision, in terms of “Response to the globalization of markets”. As with disclosure document inspections, inspections of securities companies and other entities were regarded as a part of “Implementation of FIEA” which was one of “Policy Priorities” in the policy statement for the 6th term. However, amid such great environmental changes in inspections of securities companies and other entities, this policy priority has been raised independently in the 7th term.

To be more specific, the SESC will implement efficient and effective inspections which correspond more to the characteristics of firms to be inspected, taking into account the changes in the regulatory environment surrounding the SESC’s inspections. Especially with regard to globally active securities companies and foreign securities companies, the SESC will implement inspections which focuses on the verification of their internal control, risk management systems and response to newly introduced regulation on consolidated capital requirement. As an effort for investor protection, the SESC has announced a policy to conduct inspections of malicious fund business operators, and to use a petition for court emergency injunctions under Article 192 of the FIEA against non-registered entities selling unlisted stocks.

The sixth policy priority is “Enhanced cooperation with SROs” which continues to be raised as a policy priority since the 6th term. In addition to the existing cooperation with SROs, the SESC will enhance and improve provision of information to investors to prevent them from being involved in market misconduct and fraud regarded to unlisted shares in response to the recent increasing number of cases related to insider trading by primary recipients of information and fraudulent investment solicitations.

2. Details of the SESC Policy Statement

Details of the SESC policy statement for the 7th term, which was developed and announced on the basis of the background and basic concepts mentioned above, are as stated in the next page.

January 18, 2011

Securities and Exchange Surveillance Commission

Towards Enhanced Market Integrity

- SESC's Policy Statement for the 7th Term* -

1. Mission

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

○ To ensure integrity of capital markets, and

○ To protect investors

2. Policy Directions

The Japanese capital markets have been experiencing dynamic changes. Global efforts to rebuild the international regulatory frameworks are ongoing based upon lessons learned from the global financial crisis. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods. In response to this rapidly changing market environment, and to continue to be "feared by wrongdoers and trusted by ordinary investors", the SESC is determined to pursue our mission through the following three policy directions.

(1) Market oversight with prompt and strategic actions

- Strategic use of our regulatory tools (e.g. market surveillance, inspection of securities firms and other regulated entities, administrative monetary penalty investigation, disclosure statements inspection and investigation into a criminal case) to make our actions more prompt and effective
- Timely and prompt response to changes in market environments, trends of violations, and international regulatory developments. Forward-looking and prompt response to emerging risks
- Enhanced cooperation with self-regulatory organizations (SROs) to increase the effectiveness of the multilayered market oversight activities

(2) Outreach activities 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 SROs and other channels, to encourage their self-discipline for market integrity
- Closer communications with market participants, and more effective dissemination of information

(3) 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 in today's highly-globalized markets
- More effective inspections of globally active and large-scale securities firms, utilizing the international supervisory frameworks
- Further developments of human resources and organizational structures at the SESC

The SESC believes that our efforts towards fair, transparent and quality capital markets should contribute to vitalizing the Japanese capital markets and their international competitiveness by implementing comprehensive and effective market oversight activities based on the policy directions set out above.

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* *SESC Chairman Kenichi Sado and Commissioners Shinya Fukuda and Masayuki Yoshida were appointed and started their new 3-year term on December 13, 2010*

3. Policy Priorities

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

(1) Comprehensive and proactive market surveillance

- Comprehensive and enhanced surveillance on both primary and secondary markets as well as on cross-border transactions in order to preclude any regulatory loopholes in market surveillance
- Extensive surveillance on suspicious transactions which, at first sight, do not appear to contravene rules and regulations
- Proactive market surveillance through collection of a wide range of information with analysis of backgrounds behind individual cases or market developments
- Taking appropriate actions against cross-border market abuse, through exchange-of-information frameworks amongst securities regulators, including investigation requests and enforcement action based upon information provided by overseas regulators

(2) Strict actions to market misconduct and false disclosure statements

- Taking strict actions against market abuse such as insider dealing, market manipulation, fraudulent means including abuse of financing in primary market, and false disclosure statements
- Contribution to the regulatory system related to market misconduct based upon surveillance results

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

- Implementation of timely and efficient disclosure inspections and investigations 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 the accurate financial information to the market as well as encouraging the related parties to achieve such appropriate disclosure
- Taking appropriate actions against public offering of securities such as stocks and corporate bonds without filing securities registration statements, with enhancing cooperation with the FSA and the Local Finance Bureaus and, if necessary, seeking petitions for court injunctions (Article 192 of the FIEA)

(4) Enhanced use of administrative monetary penalty system

- Implementation of timely and efficient inspections and investigations, taking advantage of administrative monetary penalty system, for fraudulent trading, false disclosure statements and other violations
- Exercising initiatives in order to prevent market participants from committing violations by taking various measures such as proactive provision of information regarding case precedents of administrative monetary penalties

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

- Implementation of efficient and effective inspections through developments of knowledge and inspection techniques corresponding to the characteristics of firms to be inspected
- Implementation of inspections of globally active securities firms, verifying the appropriateness of their internal control and risk management systems from a forward-looking perspective, in response to the introduction of consolidated financial regulations
- Taking appropriate actions against malicious financial firms such as fund dealers and investment advisors, verifying their operations and compliance from the perspective of investor protection
- Taking appropriate actions against unregistered entities selling unlisted stocks or other securities, in close cooperation with the FSA, the Local Finance Bureaus and investigative authorities through petitions for court injunctions (Article 192 of the FIEA)

(6) Enhanced cooperation with SROs

- Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors

2. Market Surveillance

1) Outline

1. Purpose of Market Surveillance

Market surveillance operation plays a role as the entrance for information at the Securities and Exchange Surveillance Commission (SESC). Specifically, the SESC receives a wide range of information from the public such as ordinary investors on a daily basis, while cooperatively working with self-regulatory organizations(SROs) and financial instruments business operators to gather a variety of information related to financial and capital markets. Based on the information, the SESC analyzes backgrounds behind individual transactions and market trends, examines transactions for possible market misconduct, and reports to the SESC's relevant divisions if any suspicious transactions are revealed. The SESC also exchanges information with overseas securities regulators through the Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information (Multilateral MOU, etc.) as necessary.

2. Activities Conducted in FY2010

Financial and capital markets have been facing challenges such as the rapid growth of electronic trading and high-speed transactions, the growing cross-border transaction and international activities by investment funds and other market participants, and the occurrence of abuse of financing cases in primary market, etc. In facing those challenges, with a view to achieve comprehensive and timely market surveillance, the SESC has, in FY 2010, continued its efforts to enhance its various activities, such as receiving information from the public, conducting surveillance covering both primary and secondary markets, catching up with newly innovated financial instruments, conducting examinations on suspicious transactions (such as market manipulation, insider trading, and fraudulent means, etc.), and cooperating with overseas securities regulators on cross-border transactions.

2) Reception of Information from the Public

1. Outline

The SESC receives a wide range of information from the public, including ordinary investors and other market participants as a part of its information gathering from financial and capital markets.

Such information is highly useful because it reflects candid opinions of investors in the markets, so that it may lead the SESC to launch its off-site market surveillance examination, inspections of financial instruments business operators, administrative monetary penalty investigations, inspections of disclosure documents, or investigations of criminal cases.

Therefore, the SESC receives information in a variety of means, such as telephone, letter, visitation, and the internet, to hear from as many people as possible. To attract more information, the SESC has proactively called for information through various means such as government bulletins and public seminars, etc.

For cases when information is provided on a dispute between a financial instruments

business operator and an investor, and when the information provider seeks individual settlement of the dispute, while it might be effectively utilized in inspections or others activities by the SESC, the SESC basically refers the providers to the “Financial Instruments Mediation Assistance Center” which provides a service on consulting for complaint/dispute resolution for customers of financial instruments trading, etc. In addition, the SESC also refers to appropriate consultation services for people who have complaints on commodity futures trading or other products that do not fall under the jurisdiction of the SESC.

2. Reception of Information

In FY2010, the SESC received 6,927 reports of information from the public, which is among the largest quantities, next to FY2005 (7,526) and FY2009 (7,118). The breakdown of the means used by the public in providing information were 4,040 via the internet, 2,219 by telephone, 393 in writing, 45 visits, and 230 referrals from the local finance bureaus, showing that those via the internet accounted for approximately 60% of the total. There was a remarkable increase in the number of reports by telephone in the last three years, which is about three times more than that of 766 reports in FY2007.

In terms of the contents, there were reports on individual stocks (3,640) such as price manipulation, insider trading, or spreading of rumors, on issuers (597) such as suspicious financing or false statements with annual securities reports, etc., on financial instruments business operators for their sales practices or other issues (1,142), and on others (1,548) such as opinions, etc.

Among the reports related to individual stocks, suspicions of market manipulation (2,468) is the largest, followed by suspicions of spreading of rumors/use of fraudulent means (608) and insider trading (463).

The reports on issuers were on false statements with annual securities reports, etc. (141), on suspicious financing (64), and on timely disclosure (62), etc.

Diverse information was also provided on financial instruments business operators for their sales practices or other issues, such as troubles in trading systems (219), inappropriate solicitations in light of the customer’s knowledge (79), etc. (Please refer to the attached figure for details)

<Contact Address>
Information Reception Desk
Securities and Exchange Surveillance Commission
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo, 100-8922
Telephone: (81) 3-3581-9909
Facsimile: (81) 3-5251-2136
Internet: https://www/fsa.go.jp/sesc/watch

3) Market Trend Analysis

1. Outline

The SESC has broadly analyzed backgrounds behind individual transactions and market trends based on gathered information on financial and capital markets’ trends, for conducting

timely market surveillance.

Recently, the SESC has focused on trends in primary market, because, at the cases of listed companies' financings, there have been seen improper financings or financings which might entail various market misconducts. The SESC has also enhanced its trend analysis in new financial instruments and transaction techniques.

2. Market Surveillance targeting Primary and Secondary Markets

In primary market, there have been found improper cases in third-party allotments or other types of financing, where the allottees' identities were unclear, where the involvement of anti-social forces were concerned, or where the existing shareholders' rights were heavily diluted. Among such inappropriate financings in primary market, compounded cases have been emerged (abuse of financing cases) which entail market misconducts in secondary markets such as price manipulation, insider trading, spreading rumors and fraudulent means, or false statements in annual securities reports, etc.

To detect such abuse of financing cases, the SESC is collecting and analyzing information which covers both the primary and secondary markets, while cooperating with relevant sections in securities exchanges, such as listing management/review divisions or trading review divisions. Specifically, it collects and analyzes disclosed information, provided by stock exchanges on listed companies, and by the public in monitoring abuse of financing cases.

Focused areas of activities in FY2010 are as follows:

(1) Survey on recent trends in third-party allotment and other types of financing

The SESC conducted a survey on trends in third-party allotment or other types of financing. Through the survey, the SESC has found that, after August 2009, due to revisions of the securities listing regulations by each exchange and those of the cabinet office ordinance on disclosure of corporate information, etc. (incl. its guideline), the number of issuances through third-party allotment has been decreased, and, in particular, there were hardly any cases of capital increase whose dilution ratio is over 300%, which meets criteria for delisting. On the other hand, there was a tendency that the number of abuse of financing cases with investment in kind increased in FY2010. Unlike the case of investment in money, the value of properties for such investment in kind needs to be appraised in an appropriate manner. Therefore, the SESC exchanged opinions with concerned parties to share understandings on this area. For example, the Ministry of Land, Infrastructure, Transport and Tourism sent an official notice to the Japanese Association of Real Estate Appraisal (JAREA) with advice "On proper appraisal of real estate for investment in kind under the Companies Act" in August 2010. After that, the JAREA alerted members of the Association to conduct proper appraisal of real estate.

The SESC has continued to observe trends concerning such financings from the viewpoint of preventing abuse of financing cases, etc.

(2) Survey on establishment of third party committee to investigate misconduct in companies, etc. and its reporting

While it is important for the SESC to strictly monitor possible abuse of financing cases, annual securities reports, etc. containing false statements, or insider trading by parties involved with the company etc., companies' voluntary efforts are also critical for preventing the recurrence. In recent years, in order to investigate misconducts if any revealed,

companies have set up a third party committee, which is especially important to be functioning appropriately.

Under such circumstances, in July 2010, the Japan Federation of Bar Associations publicized “Guideline for a third party committee to investigate misconduct in companies, etc.” The guideline summarized best practices related to a third party committee investigating general misconduct, which is not limited to the above-mentioned abuse of financing cases, etc. The SESC has made efforts to share common awareness of problems with the Japan Federation of Bar Associations, etc. prior to formulation of the guideline.

“On Listing Administration – explanation on examination against false statements” published in August 2010 by the Tokyo Stock Exchange (TSE) indicated that the guideline to be referred by listed companies when establishing the third-party committee concerning false statements.

As a part of its market surveillance related to misconduct which harms market fairness, the SESC continues to observe market activities such as whether a third-party committee of listed companies, which was established in accordance with the guidelines, revealed the real problem and appropriately explained it to investors.

3. Comprehensive and Timely Market Surveillance including a catch-up to New Financial Instruments, etc.

The SESC works on timely collection and analysis of data, focusing its attention on what kinds of risks are involved in the new financial instruments and transaction techniques that are increasing in market size and importance in recent years, from various viewpoints, i.e. ensuring market fairness, investor protection, or soundness and appropriate internal control in financial instruments business operators, etc., whereby aiming at achieving comprehensive market surveillance on overall financial and capital markets.

<Examples of analyzed cases in FY2010>

(1) Survey on Proprietary Trading Systems (PTS)

With regard to PTS (an off-exchange electronic system operated by securities companies, which provides collective and systematic trading with a large number of persons simultaneously), the Japan Securities Clearing Corporation proposed revised rules etc. to include contracts through PTS as items subject to its clearing in October 2009 (effective in or after July 2010). Since it had been pointed out that the number of PTS users among institutional investors would expand under the revised rules etc., which would reduce settlement risks of PTS transactions, the SESC conducted a survey on features of each PTS of financial instruments business operators engaged in PTS operations, as well as their internal controls systems against market misconduct.

(2) Survey on so-called High Frequency Trading (HFT) and colocation, etc.

With regard to HFT and colocation/proximity services (a service provided by exchanges etc. for faster trading-execution through setting market participants’ ordering devices at data center etc. of exchanges) used for HFT, regarding the facts that there were acceleration of trading-speed upon the introduction of arrowhead in the TSE in January 2010, as well as extraordinarily rapid decline and recovery of stock prices in U.S. stock markets in May 2010 (the “Flash Crash”), the SESC surveyed the use of colocation by market participants and traders who conduct HFT, their trading strategies, etc., and the internal control systems of

financial instruments business operators, etc.

The results of the surveys of (1) and (2) shown above are shared within the SESC as well as with the relevant departments at the local financial bureaus engaged in market surveillance. The information is also provided to the concerned departments of the Financial Services Agency (FSA) and SROs etc., in an effort to share awareness of problems and issues in market surveillance.

4. Survey on Business related to Tender Offers and Risks of Insider Trading, and Recommendations on Countermeasures

The number of accused cases of insider trading involving takeover bids (TOBs) has been expanding amid the growing number of TOBs concerning corporate reorganization, reflecting the economic environment in recent years.

Regarding that prevention of insider trading is an important issue, the SESC established a project team whose goals are: 1) understand affairs related to TOBs; 2) identify risks of insider trading involved in TOBs transactions; and 3) consider the countermeasures. The SESC interviewed a wide range of relevant parties, e.g. tender offerors and targeted parties as central players of TOBs and others, such as securities companies involved in the entire scheme, professionals including lawyers, and certified public accountants who provide expert advice, financial institutions, printing companies, etc. In this way, the SESC surveyed each party's insider information management system, and found the way information spreads inside and among concerned parties. Based on these surveys, the SESC formulated future actions related to the below-mentioned matters from the viewpoint of identifying risks of information leakage in each concerned party and preventing insider trading before it occurs: 1) enhance the role of financial advisors of securities companies to call attention to information management; 2) limit the range of distributing information and its contents; 3) enhance information management systems in each concerned party; 4) encourage signing of confidentiality agreements; and 5) enhance contents of reports which the exchanges require listed companies to submit in the process of trading reviews. Then, the SESC has made recommendations to relevant parties in TOBs, sharing awareness of problems through opinion exchange, seminars, lectures, and contribution to professional journals.

In accordance with those activities, the Japan Securities Dealers Association (JSDA) alerted members of the Association to thoroughly prevent insider trading related to TOBs. Furthermore, each exchange took measures with regard to the report on a pre-publication process of material facts to be submitted by listed companies for trading review. For example, the framework was enhanced to enable the exchange on which a targeted party is listed to require tender offerors to submit the report, even if the tender offeror and the targeted party of TOBs are not listed on the same exchange.

4) Market Surveillance Examination

1. Outline

In market surveillance examination, which is conducted in off-site to detect suspicious transactions the SESC first extracts the following kinds of stocks based on its routine surveillance of market trends and on information obtained from various sources. The SESC then requests financial instruments business operators to provide detailed reports or submit

materials related to the securities transactions.

(1) Stocks showing sharp rises or declines in price or other suspicious movements

(2) Stocks for which “material facts” were published which might have a significant influence on investors’ investment decisions

(3) Stocks that are topical in newspapers, magazines or on internet bulletin boards

(4) Stocks mentioned in information obtained from the general public

Next, based on these reports and materials, the SESC examines transactions with suspected market manipulation, insider trading or fraudulent means, that impair the market fairness. At the same time, the SESC examines whether the financial instruments business operators involved in these transactions have committed any misconducts such as violating regulatory rules of conducts.

If these examinations reveal any suspicious transactions, they are reported to the SESC’s relevant divisions for further investigation, etc.

2. Legal Basis

In market surveillance, when the SESC finds it necessary and appropriate for ensuring fairness of financial instruments trading and protecting investors, it requests financial instruments business operators and other related persons to submit reports and materials on securities transactions. The authority delegated to the SESC is stipulated in the Financial Instruments and Exchange Act (FIEA).

3. Results of Market Surveillance Examination

(1) Results

The number of market surveillance examinations conducted by the SESC and the local finance bureaus in FY 2010 are as follows.

Number of examinations		FY 2010	(Reference) FY 2009
Total		691	749
	SESC	224	319
	Local finance bureaus	467	430
(Breakdown of examination items)			
Price formation		54	94
Insider trading		613	649
Other aspects		24	6

The SESC and the local finance bureaus conduct day-to-day surveillance of trading in the markets based on overall market movements, and, as part of the surveillance, examine particular transactions as necessary. Along with collecting information related to market surveillance, at the stage of market surveillance examination, the SESC carefully analyzes actual individual market transactions that are suspected violating market fairness, regardless of the size of the transactions.

In addition, as a result of collection and analysis of information related to financing trends in the primary market, the SESC also examines suspected abuse of financing cases with fraudulent means, etc.

(2) Typical Cases Examined

The typical cases examined during FY 2010 were as follows.

(i) Examples of reasons for conducting examination related to price formation:

(a) The price and trading volume of Company A rose sharply without any particular reason for the rise in the price.

(b) A financial instruments business operator reported to the SESC that the operator found and called attention to suspicious “Misegyoku”, a type of market manipulation, which is a trading order with intention of misleading others and canceling it immediately after the order, by a specific client who offered the orders on the shares of Company B.

(c) With specific information on “Misegyoku” concerning the shares of Company C reported by an ordinary investor, the SESC confirmed orders placed with a securities exchange, and found that limits of buy and sell orders placed by many securities companies had been synchronously changed.

(d) The SESC received a report on the fact that a specific person was conducting market manipulation concerning the shares of Company D.

(ii) Examples of reasons for conducting examination related to insider trading of shares:

(a) After the announcement of Company E a takeover bid (TOB) for the shares of Company F, the share price of Company F rose significantly, and as such examinations were conducted into the transactions of Company F stock prior to the TOB. Moreover, a securities company informed the SESC of suspicious transactions using borrowed name accounts. Examination was carried out based on such information.

(b) When Company G announced a downward revision of its results forecast, its share price fell sharply. Then, transactions prior to the announcement were examined.

(c) When Company H announced a share issuance by third-party allotment, its share price fell sharply. Then, transactions prior to the announcement were examined.

(d) When the SESC received an information that “someone gained large profit through insider trading” in the shares of Company I, the SESC began to examine if there was insider trading involving a concerned contractor.

(iii) Examples of reasons for conducting surveillance related to other aspects:

(a) The financial position of Company J did not improve even after repeated financings, and there was information about unusually large sum of cash withdrawals. As such, an examination was carried out to check for fraudulent means, etc.

(b) With regard to Company K’s announcement of financing with real estate contributed in kind, appropriateness of appraisal value of the real estate contributed for the financing was found to be doubtful. As such, an examination was carried out to check for fraudulent means.

(3) Cooperation with overseas securities regulators

As seen in Japanese stock markets where trading value of brokerage trading by foreign investors accounted for over 60% of overall brokerage trading in 2010, the volume of cross-border transactions has been expanding in financial and capital markets. Under such

circumstances, cooperation with overseas securities regulators has become essential. Therefore, the SESC has been making efforts to preclude any loopholes in market surveillance by collecting information on cross-border transactions, if necessary, from financial instruments business operators and overseas securities regulators, even at the stage of market surveillance examination (See 8.4) for further details.

4. Close Cooperation with Self-Regulatory Organizations(SROs)

Day-to-day market surveillance activities are also conducted by SROs such as Financial Instruments Exchanges and Financial Instruments Firms Associations. Their surveillance activities have a function of checking whether the market participants etc. are carrying out their business operations in an appropriate manner. Through the market surveillance activities such as market surveillance examinations, the SESC cooperates closely with these SROs.

(1) Use of "Compliance WAN"

The "Compliance WAN" system uses a dedicated line connected to the network nationwide securities companies with national securities exchanges, the JSDA, the SESC and with the local finance bureaus, and electronically transfers the transaction data. As a result of deliberations centered on the JSDA and securities exchanges, construction and operation of these networks has progressed. Before the use of "Compliance WAN", transaction data was submitted by floppy disks, email and various other means; but by unifying these means into a single method utilizing a highly secure dedicated network, the Compliance WAN has the following advantages:

(i) A reduction of risk of the leakage of personal information and the loss of storage media in the transfer of transaction data;

(ii) A reduction in the amount of time needed to request submissions and in the process to receive transaction data, leading to more efficient market surveillance activities; and

(iii) For securities companies, a possible reduction in costs for the submission of transaction data.

The new "Compliance WAN" system began its operation on January 26, 2009. The SESC and the local finance bureaus, as well as the TSE and its general trading participants started using the system on this date. Other securities exchanges, the JSDA and other securities companies that are not general trading participants on the TSE began to use the system from April 2009. On June 1, 2009, the individual messaging function in the Compliance WAN came online, which enabled data-exchange other than transaction details to be received from securities companies, and data can now also be exchanged among the SESC/the local finance bureaus, and securities exchanges and the JSDA.

(2) Activities for Preventing Insider Trading

The SESC participates with securities exchanges in the "Working Group to Study Internal Controls for Preventing Insider Trading" held by the JSDA. Its study focuses on the JSDA, for development and reinforcement of internal controls to prevent market misconduct such as insider trading. Based on the "Sorting out Issues concerning Internal Controls for Preventing Insider Trading" summarized by this working group in May 2008, the JSDA has addressed the following so far.

(i) The JSDA enacted the "Rules on Trading concerning Specific Securities of Listed

Companies by Employees of Association Members" (enacted October 14, 2008, effective March 1, 2009) and developed a control system for transactions by executives/employees of association members.

(ii) The JSDA partially revised the "Rules on Development of Trading Control Systems for Preventing Market Misconduct" (revised October 14, 2008, effective April 1, 2009).

(iii) The TSE partially revised the "Rules on Development of Trading Control Systems for Preventing Market Misconduct by Transaction Participants" (revised December 25, 2008, effective April 1, 2009).

With regards to the above mentioned (ii), the members of the JSDA requested that any awareness of possible insider trading be reported to the SESC and the JSDA, and such reports (Trading Examination Results Reports) have been sent to the SESC since April 2009. The SESC is utilizing this report to examine suspicious transactions for insider trading.

Furthermore, the JSDA is operating the Japan-Insider Registration & Identification Support System (J-IRISS), a system to register and manage information on executive officers etc. of listed companies in order to prevent insider trading, and is making efforts for expanding the number of participating listed companies. The SESC has also supported the activities of the JSDA, for example, by explaining their significance through various public relations activities, as a part of efforts to prevent insider trading.

5. Actions after the Great East Japan Earthquake

With regard to responses to the Great East Japan Earthquake, the statement excerpted below was made by the Minister of State for Financial Services Shozaburo Jimi on March 13, 2011.

"In order to ensure that economic activities proceed smoothly, the financial and securities markets will operate as usual on and after 14th March.

On this occasion, the FSA will rigidly monitor the markets to prevent any unfair transactions that take advantage of the disaster. Namely, the FSA, in close cooperation with the Securities and Exchange Surveillance Commission, stock exchanges and other related parties, will monitor thoroughly any misconduct such as market manipulation, and respond firmly to misconduct. This includes the strict implementation of the ban on naked short selling."

http://www.fsa.go.jp/en/announce/state/20110313.html

To date, the SESC has conducted thorough surveillance of market manipulation and other misconduct, in cooperation with the FSA and financial instruments exchanges, including strict execution of regulations on short-selling stocks without borrowing the stocks or ensuring that the stocks can be borrowed (ban on naked short selling) etc. At the same time, the SESC has verified trading management systems, including financial instruments business operators' management systems related to short-selling regulations. In accordance with the statement shown above, from March 14, the SESC started a close cooperation with the relevant trading review divisions of all financial instruments exchanges "Hotline for surveillance of market misconduct", to timely exchange information. If any violation that would impair fairness of trading is revealed by the monitoring through close cooperation among the FSA, the SESC and financial instruments exchanges, the SESC would take actions strictly to the violation.

5) Future Challenges

The market surveillance operations collect and analyze a broad range of information on the overall financial and capital markets, and also examines transactions if necessary, thereby functioning as the entrance of information for the SESC. The success of the ensuing inspections of securities companies, administrative monetary penalty investigations, criminal case investigations and so forth depends on the outcomes of market surveillance. Therefore, not only will it be necessary to respond timely to market changes, but there is also a need to aim for effective and efficient market surveillance by prompt and appropriate responses against emerging risks.

From this perspective and also in view of the current market conditions, the SESC needs to reinforce especially the following activities.

(1) On large-complex cases including cross-border ones, enhance actions for those cases, thereby proactively cooperates with foreign securities regulators through the Multilateral Memorandum of Understanding concerning Consultation and Cooperation and the Exchange of Information (Multilateral MOU, etc.). Also, reinforce surveillance functions by actively gathering information on cross-border transactions and regulatory system in foreign jurisdictions.

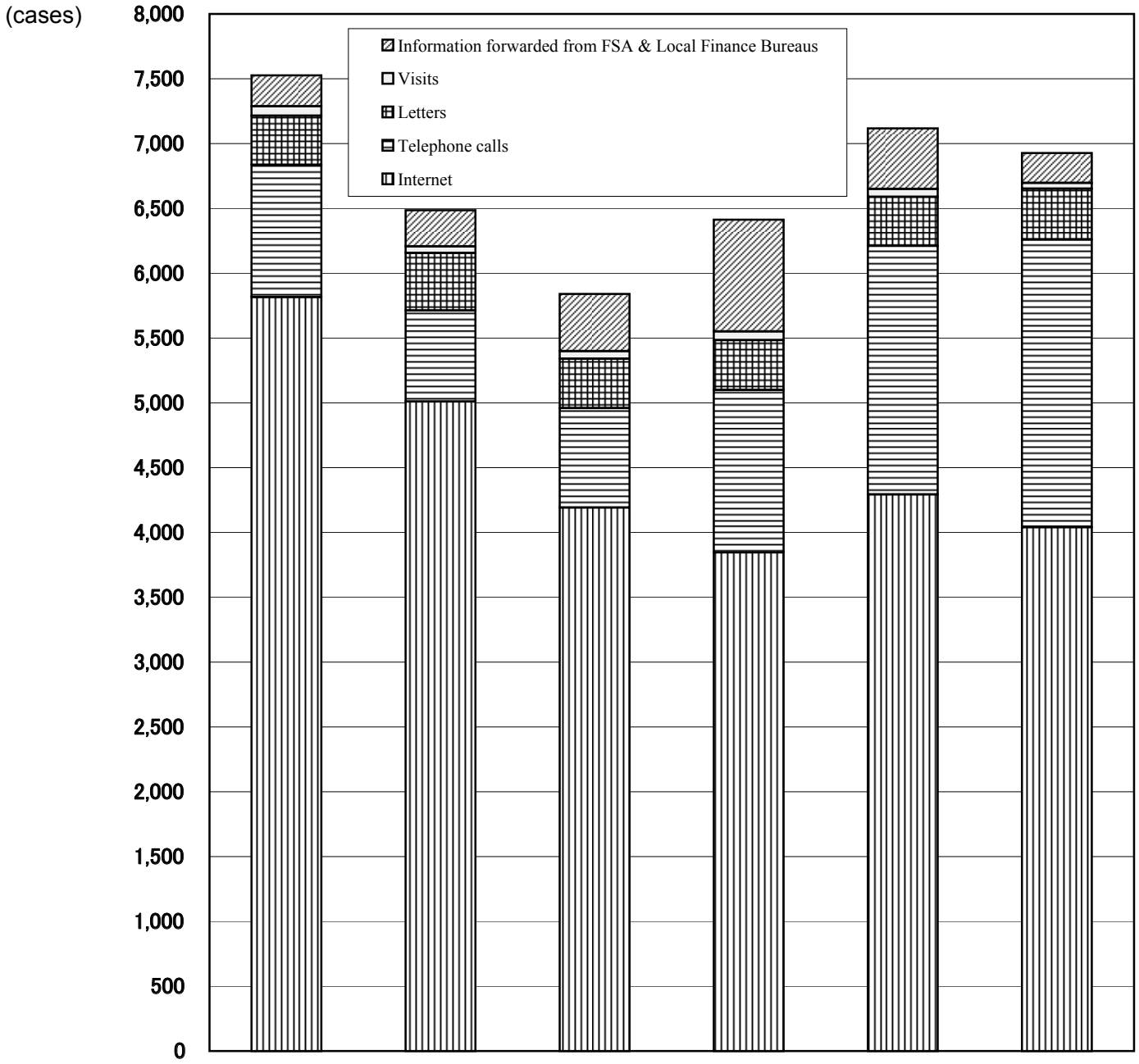
(2) On emergence of market misconduct through the Internet by individuals, proactively share awareness of problems and cooperate with SROs and especially with financial instruments business operators providing Internet trading services.

(3) On inappropriate financing in primary market and the entailed various market misconducts, further strengthen cooperation with financial instruments exchanges and other related institutions by sharing information especially on new movements related to financing in the primary and the related actions in the secondary markets.

(4) On the new financial instruments and transaction techniques that are increasing in their market size and importance, gather and analyze timely information and keep an eye on changes in transaction patterns and market structure, in accordance with the faster transaction techniques with the “arrowhead” stock trading system in the TSE and HFT, etc.

Information Received

(Attached figure)



(# of cases)

Category \ Business year	2005	2006	2007	2008	2009	2010
Internet	5,815	5,011	4,193	3,847 (974)	4,293	4,040
Telephone calls	1,022	702	766	1,253 (406)	1,917	2,219
Letters	377	443	381	384 (93)	380	393
Visits	73	50	58	67 (15)	60	45
Information forwarded from FSA & Local Finance Bureaus	239	279	443	861 (264)	468	230
Total	7,526	6,485	5,841	6,412 (1,752)	7,118	6,927

Note 1: Until BY2008, "business year basis" July-June. Starting FY2009, "fiscal year basis" April-March

Note 2: ( ) in BY2008 are the cases in the period overlapping with FY2009 (April-June 2009), due to change to "fiscal year basis"

Received Information, Classified by Content

1. Old classifications

(Unit: cases)

Classification \ Year	2005	2006	2007	2008
[Individual stocks, etc.]				
A. Profit guarantee and loss compensation	10	4	5	3 (1)
B. Insider trading	527	471	558	510 (108)
C-1. Annual securities reports, etc. containing false statements	290	217	189	239 (64)
C-2. Unreported offering	69	15	27	44 (24)
D. Market manipulation	2,705	2,678	2,126	1,975 (539)
E-1. Spreading rumors	1,614	1,124	995	814 (185)
E-2. Other	175	512	712	1,204 (303)
(Subtotal)	5,390	5,021	4,612	4,789 (1,224)
[Sales practices of financial instruments business operators]				
F. Solicitation with decisive predictions	28	14	10	16 (2)
G. Conclusion of discretionary account contracts	27	16	8	9 (3)
H. Excessive solicitation to a large number of nonspecific customers	2	2	3	4 (1)
I. Inappropriate solicitations in light of the customer's knowledge	18	8	7	32 (14)
J. Unauthorized transactions	97	40	41	47 (15)
K. Other	1,124	997	778	930 (253)
K-1. Bucketing	-	-	-	- (-)
K-2. Irregularities in legal account books	7	9	6	0 (0)
K-3. Trading in executive's or employee's own account	5	7	15	5 (1)
K-4. Other legal violations	100	130	245	160 (31)
K-5. Violation of self-regulatory rules	66	334	75	28 (4)
K-6. Other item concerning sales stance	946	517	437	737 (217)
(Subtotal)	1,296	1,077	847	1,038 (288)
[Other]				
L. Opinion on SESC, etc.	65	52	35	29 (8)
M. Opinion on securities administration or policy	135	38	36	120 (46)
N. Other	640	297	311	436 (186)
(Subtotal)	840	387	382	585 (240)
Total	7,526	6,485	5,841	6,412 (1,752)

2. New classifications

(Unit: cases)

Classification \ Year	2009	2010
A. Individual stocks		
a. Transaction constraints		
1. Spreading rumors or use of fraudulent means	627	608
2. Market manipulation	2,753	2,468
3. Insider trading	385	463
0. Other	50	58
b. Disclosure		
1. False statement in large holdings report	11	5
2. Not submitting large holdings reports	54	34
0. Other	9	4
(Subtotal)	3,889	3,640
B. Issuers		
a. Legal disclosure		
1. Unreported offering	45	29
2. Financing	143	64
3. Annual securities reports, etc. containing false statements	152	141
4. Not submitting annual securities reports, etc.	109	25
5. Internal controls report	2	5
6. Takeover bid without prior notice	14	3
0. Other	65	38
b. Association or securities exchange rules		
1. Timely disclosure	53	62
0. Other	2	3
c. Other		
1. Governance, etc.	27	17
0. Other	223	210
(Subtotal)	835	597
C. Financial instruments business operators		
a. Prohibited acts, etc.		
1. Solicitation with decisive predictions	20	16
2. Unauthorized transactions	57	17
3. Profit guarantee and loss compensation	4	3
0. Other legal violation	153	101
b. Business administration		
1. Inappropriate solicitations in light of the customer's knowledge	122	79
2. System related	141	219
0. Other item concerning sales practices	752	626
c. Accounting		
1. Irregularities in legal account books	20	22
2. Financial health, risk management	25	21
d. Association or securities exchange rule		
1. Violation of self-regulatory rules	12	3
e. Other		
0. Other	43	35
(Subtotal)	1,349	1,142
D. Other		
a. Opinion, request, etc.		
1. Opinion on SESC, etc.	34	77
2. Opinion on securities administration or policy	107	97
b. Other		
1. Unregistered business operators	208	258
2. Unlisted stock	471	732
3. Funds	29	70
0. Other	196	314
(Subtotal)	1,045	1,548
Total	7,118	6,927

(Note 1) Up to BY 2008 "Accounting period basis" was from July to June next year. From FY 2009, "Fiscal year basis" is from April to March next year.
(Note 2) Number of cases in the overlapping period of FY 2009 (April 2009 - June 2009) that were shifted to the "Fiscal Year basis" are shown in ( ) in FY 2008 .
(Note 3) Dual trading and bucketing prohibition regulations were eliminated in April 1, 2005.

3. Inspections of Securities Companies and Other Entities

1) Outline

1. Purpose of Inspections of Securities Companies and Other Entities

The Securities and Exchange Surveillance Commission (SESC) conducts on-site inspections of financial instruments business operators and other entities based on the authority delegated by the Prime Minister and the Commissioner of the Financial Services Agency (FSA) under the Financial Instruments and Exchange Act (FIEA) and other relevant laws, to check, among other things, their compliance with rules and regulations for ensuring fairness in financial instruments transactions and their financial soundness.

2. Authority of Inspections of Securities Companies and Other Entities

(1) Since its inception in 1992, the SESC has conducted inspections to ensure fairness in financial transactions. Furthermore, in July 2005 when the revised Securities and Exchange Act (SEA, the predecessor of FIEA) etc. came into force to reinforce market surveillance functions, the authority to inspect financial soundness of securities companies, financial futures dealers and others, and the authority to inspect investment trust companies and others, formerly conducted by the Inspection Bureau of the FSA were delegated to the SESC. At the same time, under the revised Financial Futures Trading Act (FFTA), companies dealing with foreign exchange margin trading (FX) were classified as financial futures dealers subject to the SESC inspection.

Since the FIEA came fully into effect in September 2007, regulated entities subject to the SESC inspection have been expanded to those engaged in sales or solicitation of equity units of collective investment schemes ("funds") and those engaged in the management of these funds that primarily invest in securities or financial derivatives transactions. Furthermore, the SESC has been authorized to inspect those who provide services commissioned by financial instruments business operators, Financial Instruments Firms Associations and Financial Instruments Exchanges and others. Moreover, with the passage of the Act for the Amendment of the FIEA in June 2009, in April 2010, authority to inspect credit rating agencies and designated grievance machinery etc. was granted to the SESC. In addition, since April 2011, regulations and oversight on consolidation of Type I financial instruments business operators of a certain size or greater were introduced. Like this, the scope of inspections by the SESC has been expanded in recent years.

As for contents of inspections of securities companies and other entities, Article 51 of the FIEA was newly established when the FIEA came fully into effect in 2007. The Article had enabled the FSA to order a financial instruments business operator to improve its way of business conducts, when deemed necessary and appropriate for the public interest or for the protection of investors. Consequently, the SESC has conducted inspections focusing on internal controls, in addition to individual violations of laws and regulations.

(2) Based on the results of these inspections, the SESC may recommend to the Prime Minster and the Commissioner of the FSA that administrative disciplinary actions should be taken for ensuring the fairness of transaction, protecting investors and securing other public interests.

In response to such recommendation, etc., if appropriate, the Prime Minster, the Commissioner of the FSA, the Director-General of the Local Finance Bureau or any other competent authorities may take administrative action, etc. against the inspected entity, such as an order for rescission of registration, an order for suspension of business, or an order to take business improvements, upon formal hearing with the entity.

In addition, when the SESC recommendation is made against a sales representative of a financial instruments business operator, a registered financial institution, or a financial instruments intermediary service provider, relevant Financial Instruments Firms Association to which the registration affairs of the relevant sales representative are delegated from the Prime Minister, if appropriate, may take disciplinary action, either rescinding such sales representative's registration or suspending such sales representative's licenses, if appropriate, upon hearings from the association member to which such sales representative belongs.

3. Activities Conducted in FY2010

In recent years, there have been large changes in the environment surrounding the SESC inspections, for example, (1) Large expansion and increase of the number of business operators subject to the inspections, (2) Based on the experience of the global financial crisis, there is greater need to prevent management difficulties of major financial institutions, (3) Wider use of IT systems in financial transactions (internet transactions, algorithmic trading, etc.).

Therefore, in FY 2010, from the viewpoint of performing efficient and effective inspections, the SESC has been trying to make more risk-based inspection plans, introduce inspections with prior notice, strengthen coordination with monitoring operated by supervisory departments, and enhance prior analysis of the firms to be inspected. Especially, with respect to the financial instruments business operators etc. which hold an important position in the market, the SESC has been working to improve the verification of risk management systems including financial soundness of such operators, in cooperation with the FSA and overseas authorities.

Recently, damages caused by sales of unlisted stocks and funds by non-registered business operators have been spreading, becoming a social problem. Under such circumstances, in the Consumer Basic Plan decided by the Cabinet in March 2010, use of filing of a petition for emergency court injunction against a person who has conducted or will conduct an act violating the FIEA (Article 192 of the FIEA) and investigation thereof (Article 187 of the FIEA) have been listed as concrete measures. Accordingly, from the viewpoint of protection of investors, the SESC has taken actions against non-registered business operators, using such authority in cooperation with the relevant authorities. (See 8) in this chapter)

While working on these activities, from the viewpoint of ensuring transparency of inspections, the SESC partially revised "the Inspection Manual for Financial Instruments Business Operators" after passing through public comments from February to March in 2010, and published it in April 2011. (See 3) in this chapter)

2) Basic Inspection Policy and Basic Inspection Plan

From 2009 onwards, an "inspection year" corresponds to a fiscal year, from April 1 and ending on March 31 of the next year.

In order to conduct securities inspections systematically, the SESC and the Directors-General

of the Local Finance Bureaus develop a Basic Inspection Policy and a Basic Inspection Plan every inspection year.

The Basic Inspection Policy stipulates the priority items to be inspected and other fundamental direction of inspection for the relevant inspection year. The Basic Inspection Plan specifies the scope of inspections, such as the types and the number of entities to be inspected in that inspection year among entities subject to inspections.

The Basic Inspection Policy and the Basic Inspection Plan for FY2010 were published on April 6, 2010.

April 6, 2010
Securities and Exchange Surveillance Commission

Basic Inspection Policy and Inspection Program for Business Year 2010

I. Basic Inspection Policy

1. Basic Concept

The mission of the Securities and Exchange Surveillance Commission (SESC) is to ensure the fairness and transparency of the Japanese markets and to protect investors. Inspection is an important means to achieve this mission by examining the status of the business operations and assets of financial instruments firms, who act as market intermediaries.

In recent years, the regulatory environment surrounding the SESC's inspection has changed considerably.

As a result of a series of regulatory reforms, including the effectuation of the Financial Instruments and Exchange Act, the scope of business operators subject to the SESC's inspection has been expanded to include those engaging in the solicitation for and management of interests of collective investment schemes (investment funds) and credit rating agencies, leading to a sharp increase in the number of business operators subject to inspection to around 8,000 firms.

In order for the SESC to achieve its mission under these circumstances, it is essential to conduct efficient and effective inspection. From this perspective, it is necessary to collect and examine a variety of information concerning the business operators subject to the SESC's inspection while taking account of the size and risk profile of each business type and business operator, and of the market conditions at the time, and to prioritize business operators to be inspected based on the status of risks. It is also necessary to sharpen the focus of inspection and adapt the inspection techniques and the way of notifying the inspected business operators of the inspection results to a sharp-focus approach.

The current global financial crisis has reminded the regulatory authorities around the

world of the importance of ensuring the soundness of the financial position of globally active financial instruments firms. In light of this, when inspecting financial instruments firms that occupy an important position in the market, it is also necessary to place emphasis on the examination of the soundness of their financial position and the appropriateness of their risk management systems from the viewpoint of preventing them from falling into a management crisis.

The advance of IT systems in recent years has enabled investors to have access to computer systems that process a large volume of diverse orders at high speed, through the internet and other means and to sell and buy various financial instruments. As a result, the participation of individual investors in financial instruments transactions has increased remarkably, and the execution of massive and complex transactions by institutional investors is also spreading. Thus, these situations make it more important than ever to ensure the reliability of IT systems, which constitute the infrastructure of financial transactions. Therefore, when conducting inspection, the SESC needs to focus on the examination of the IT operational risk management system as well.

As described above, while the SESC's inspection needs to be adapted to changes in the surrounding situation, including institutional reforms implemented in recent years, it is also necessary to continue efforts to enhance both the investigation as to whether there are any violations of laws and regulations and the examination of the internal control system in relation to specific problems so as to ensure the fairness of transactions, which is a basic objective of the inspection. Financial instruments firms are supposed to conduct business operations in accordance with laws and regulations as well as market rules so as to ensure an environment in which investors can make investment with a sense of security. The SESC will maintain a strict stance toward activities which violate laws and regulations and undermine the reliability regarding the fairness and transparency of the Japanese markets when conducting inspections, and will continue to sound an alarm necessary for the market.

2. Implementation Policy of Inspection

(1) Efforts toward efficient and effective inspection

1) Inspection focused on risks

When prioritizing business operators to be inspected, the SESC will analyze

information collected from a wide range of sources, including supervisory authorities, and will take account of their positions in the market and their inherent problems in a comprehensive manner. In addition, in cases where cross-sectional issues related to the financial and capital markets have been identified, the SESC will conduct special inspection with a cross-cutting theme (a thematic review) as necessary.

When inspecting specific financial firms, the SESC will identify the inspection items of priority in advance and focus on them.

2) Implementation of effective inspection

A. Introduction of prior notice inspection

While the SESC will maintain the principle of not giving prior notice to the financial instruments firms to be subjected to on-site inspection, it will introduce prior notice inspection on a case-by-case basis by taking account of the nature of the business of the targeted firm, the priority items of inspection and the efficiency of inspection in a comprehensive manner.

B. Examination of the appropriateness of the internal control system

When any deficiencies in business operators' business operations have been identified, the SESC will examine their internal control systems and risk management systems (hereinafter referred to as the "internal control systems, etc.") regardless of whether there has been any violation of laws and regulations, so as to identify problems that may be inherent in the systems. In examining the appropriateness of the internal control systems, etc., the SESC will pay attention to whether the systems have been developed with institutional involvement, such as the involvement of the management team.

In particular, regarding financial instruments firms for which the development of the internal control systems, etc. are especially important because of their position in the market and the nature of their business, the SESC's inspection will focus on the appropriateness of the systems.

C. Enhancement of interactive dialogue

In inspection, the SESC will strive to share the recognition of deficiencies in business operations with inspected financial instruments firms through dialogue with them. In particular, through an exchange of opinions with the management team, which is responsible for the development of the internal

control systems, etc., the SESC will check how the management team recognizes the deficiencies and will encourage them to make voluntary improvement efforts.

3) Enhancement of cooperation with relevant regulatory agencies

- The SESC will cooperate with supervisory authorities to promote the sharing of information and concerns through an exchange of information useful for inspection obtained through off-site supervisory activity and information useful for off-site supervision obtained through on-site inspection. In particular, regarding the inspection and supervision of financial instruments firms, which occupy an important position in the market, the SESC will seek close cooperation with the supervisory authorities in on-site and off-site monitoring.
- Regarding cooperation with the Inspection Bureau of the FSA, the SESC will share awareness of the issues involved. In addition, the SESC will enhance coordination, in the light of the smooth implementation for inspections toward the business operators which belong to the same financial conglomerate, through the implementation of simultaneous inspection on business operators that constitute a financial conglomerate and through the exchange of opinions, if necessary.
- Regarding cooperation with Self-Regulatory Organizations (SROs), the SESC will strengthen coordination between its inspection and on-site/off-site reviews conducted by the SROs on their member firms so as to improve the monitoring function regarding the financial instruments firms as a whole. From this perspective, the SESC will promote the sharing of problem awareness with the SROs through the exchange of information and cooperation in the training of inspectors.
- Regarding cooperation with overseas securities regulators, the SESC will strengthen cooperation regarding the inspections for foreign financial instruments firms or Japanese financial instruments firms which have overseas offices or business-sites, with them, through an exchange of necessary information. In addition, the SESC will enhance cooperation with the relevant overseas regulators through more active involvement in the “Supervisory College,” which was set

up for each of the major international financial institutions.

- In the inspections of the financial instruments business operators that manage and sell collective investment schemes (investment funds) many cases of fraudulent practices being employed or unregistered firms being involved in, were found. In order to deal with these issues, the SESC will promote cooperation with the supervisory authorities and investigative authorities.

4) Formulation and revision of the inspection manuals

The SESC partially revised the "Inspection Manual of Financial Instruments Business Operators" in March this year in accordance with regulatory reforms, including the establishment of the loss-cut rule, the obligation for compliance therewith, and the unification of segregated management methods into money trusts with regard to foreign exchange margin trading (FX trading), as well as the introduction of the obligation to conduct segregated management of over-the-counter trading of securities derivatives. The SESC will inspect firms engaging in the FX trading business in light of the viewpoints based on the revision.

Furthermore, as the SESC was given the authority to inspect credit rating agencies in April this year, it formulated and published the "Inspection Manual for Credit Rating Agencies" this March. The SESC will formulate and revise various manuals in accordance with future regulatory reforms so as to improve the transparency and predictability of its inspection.

(2) Areas of inspection focus

1) Exercise of the gatekeeper functions

A. Examination of market intermediary functions of financial instruments firms

To develop and maintain fair, transparent and high-quality financial and capital markets, it is extremely important for financial instruments firms to fully exercise the function of preventing persons and entities that intend to abuse and misuse the market from participating in the market, through the management of customers, trade examination, underwriting examination (due-diligence) and other activities. The SESC will examine whether financial instruments firms are properly exercising this function.

As part of this examination, the SESC will check how inspected financial

instruments business operators are developing their information gathering systems to prevent anti-social forces from making transactions. Regarding the reporting of suspicious transactions, the SESC will examine whether the operators make efforts to establish the checking systems, including the development of internal rules. In addition, the SESC will examine whether the identity verification measure is properly implemented when a new account is opened or when the applicant for a new account is suspected of using a stolen identity.

Furthermore, to encourage the adequate functioning and sound development of capital markets, the SESC will examine whether underwriting operations, including due diligence, information management, trade management and distribution, are appropriately executed from the viewpoint of protecting investors. As for financial instruments firms that arrange, underwrite and sell securitized instruments, such as CDOs and high-risk derivative products, the SESC's inspection will focus on their underwriting examination, risk management and sales management systems.

B. Examination of the management of undisclosed corporate information (Prevention of unfair insider trading)

In order to prevent unfair insider trading, the SESC will examine whether financial instruments firms are properly managing undisclosed corporate information. To be more specific, the SESC will examine whether the firms have developed an effective management system with regard to the registration of undisclosed corporate information, the restriction on stock trading by officers and employees, the firewall related to information access, and the trading examination.

C. Examination of conduct that may hinder fair price formation

Fair price formation is the essential element of the fairness and transparency of the market and serves as the basis of investors' trust in the market. During its inspection, the SESC will not only check whether practices that may hinder fair price formation are being employed but will also examine the trade management systems of financial instruments firms so as to prevent such practices. At the same time, the SESC will examine management systems regarding short selling (including the management of delivery failures) on an as-needed basis.

In particular, regarding financial instruments firms operating online trading or providing electronic facilities for DMA (direct market access), the SESC will examine whether they have established effective trade management systems that take account of the extraordinary nature of the electronic transactions: that customer orders are directly and instantly fed into the market.

2) Examination of the internal control systems, etc.

A. Examination of the internal control systems, etc.

While making it a principle to conduct examination to detect illegal practices, the SESC will also focus on the examination of the appropriateness of the internal control system and the risk management system, including the soundness of the financial position, in light of the size and nature of the inspected financial instruments firms. In particular, regarding financial instruments firms that have an important position in the market, the SESC will examine the appropriateness of the internal control systems, etc. from the forward-looking perspective so as to prevent the exposure of risks related to their business operations and financial position.

B. Examination of the appropriateness of the system for the management of IT system risk

In recent years, financial instruments firms have become increasingly dependent on IT systems in their management of business operations, while many individual investors have come to participate in Internet-based securities transactions and FX trading. Thus, IT systems have become an important infrastructure of financial transactions.

Under these circumstances, it is very important to secure the stability of IT systems from the viewpoint of protecting investors and ensuring public trust in the market and in financial instruments firms. In its inspection, the SESC will examine the appropriateness and effectiveness of the IT operational risk management system, including the handling of IT system problems and the management of outsourcing service providers, and check whether the management team is involved in the development of the IT operation risk management system, in order to prevent exposure to risks.

3) Examination from the viewpoint of the protection of investors

A. Examination of the status of solicitation for investment

To protect investors and secure fair sales attitudes, the SESC will examine whether financial instruments firms are soliciting customers for investment in an appropriate manner and are taking appropriate care in dealing with them. Regarding the status of solicitation for investment, the SESC will conduct examination from the viewpoint of the suitability rule in particular, by checking whether financial instruments firms are appropriately soliciting for investment in light of customers' knowledge, experience and asset status as well as their purpose of investment, and whether they are fulfilling their duty of accountability to customers in a manner suited to the customers' attributes. As for products whose structures are complex, such as derivatives, the SESC will examine whether necessary and adequate explanations regarding important risks that may affect investment decisions concerning such products are provided to customers. In addition, it will examine whether advertisements which are widely exposed to investors, include misleading indications regarding investment effects, market factors and the status of order execution. The SESC will also examine the status of the development of systems to process complaints, which is important for the protection of investors.

B. Examination of the appropriateness of asset management business

While asset management firms are commissioned by investors to manage assets for the interests thereof, it is very difficult for investors to directly check the asset management status of the firms. Therefore, the SESC will examine asset management firms' compliance with the relevant laws and regulations, including the fiduciary duty and duty of care, as well as the effectiveness of their systems for managing conflict of interest and the due diligence function.

C. Examination of the compliance with laws and regulations in relation to the management and sales of collective investment schemes (investment funds)

In light of the fact that the inspection of financial instruments firms which engage in the management and sales of collective investment schemes (investment fund) (hereinafter referred to as "investment fund firms") has uncovered many cases of serious violations of laws and regulations, such as

the misappropriation of investment funds, the use of false and misleading indications, and the failure to implement segregated management, as well as inappropriate business practices that undermine the protection of investors, the SESC will continue to examine the appropriateness of investment fund firms' management of business operations and whether there is any violation of laws and regulations. Moreover, if as a result of inspection of investment fund firms, an unregistered firm is found to be engaging in a business that requires registration, the SESC will take appropriate actions in cooperation with supervisory authorities and investigative authorities.

D. Examination of compliance with laws and regulations by investment advisory firms and agencies

Regarding investment advisory firms and agencies, the SESC will continue to focus on the examination of their compliance with laws and regulations in light of the fact that as a result of inspection, many such firms were found to have violated laws and regulations due to a lack of awareness about legal compliance among officers and employees and an inadequate internal control system, for example by trading securities without registration, using markedly untruthful advertisements and making false statements in business reports. From the viewpoint of preventing serious violations of laws and regulations, the SESC will also examine systems for screening advertisements and processing complaints so as to ensure conscientious and fair handling of complaints.

4) Others

A. Examination of the appropriate exercise of the function of SROs

As for SROs, the SESC will examine whether self-regulatory operations are adequately effective, whether their functions are appropriately exercised, and whether they have systems necessary for adequately exercising their functions. Specifically, the SESC will conduct verification with regard to the establishment of their self-regulatory rules for their members and their regulatory enforcement, such as on-site and off-site reviews, penalties, and listing examination and management. In the verification of listing examination and management, the SESC will focus on SROs' measures to prevent anti-social forces from intervening in the markets, including the collection of information on the involvement of anti-social forces in the

issuing and listed companies. Furthermore, in light of the significance of financial instruments exchanges as part of the market infrastructure, the SESC will focus on the examination of the status of the development of systems for ensuring smooth and appropriate management of the financial instruments markets, such as IT operational risk management system.

B. Examination of firms that have been newly included in the scope of firms subject to inspection and new financial instruments

Regarding credit rating agencies, which are to be subject to inspection starting in April this year, the SESC will examine the appropriateness of their business management systems in accordance with the Inspection Manual for Credit Rating Agencies.

Regarding financial instruments firms that handle new types of financial instruments, the SESC will strive to grasp the actual state of their business operations and examine the status of the development of a management system related to the treatment of such products.

II. Basic Inspection Program

1. Basic Concept

(1) The SESC will formulate an inspection program based on the following concepts in principle while taking account of the nature, etc, of financial instruments firms' businesses. It should be noted that extraordinary actions may be taken in response to a change in the market environment or factors related to a specific firm, for example.

1) Regarding firms which underwrite, trade and solicit for financial instruments with a high level of liquidity, such as listed securities, and firms that manage assets on commission from investors for the interests thereof, the SESC will in principle examine the status of their management of business operations and the soundness of their financial position on an ongoing basis in light of the importance of their role in the market.

2) Regarding firms other than those specified in 1) above (e.g., firms which handle financial instruments with a low level of liquidity or which only conduct investment advisory business), the SESC will judge inspection priority based on

the analysis of information collected from supervisory authorities and other sources in light of the extremely large number of firms subject to inspection.

(2) The SESC will work with inspectors of the Local Finance Bureaus to conduct efficient and effective inspection through active use of joint inspection and the exchange of inspectors. The SESC will also provide support for the inspectors of the Local Finance Bureaus through sharing inspection techniques and information, and will cooperate with them in the handling of the inspection results, and will integrally conduct inspection activity.

2. Basic Inspection Program

Type I Financial Instruments Businesses firms (including Registered Financial Institutions) and Asset Management firms	150 firms (including 110 firms to be inspected by the Local Finance Bureaus)
Investment advisory firms/agencies, Type II Financial Instruments Businesses operators, financial instruments intermediaries, etc.	To be inspected on an on-going basis
Self-regulatory organizations	To be inspected as necessary

(Note l) The above-mentioned figures are subject to change due to the revision of the inspection program during this business year and the implementation of special inspections.

3) Revision of Inspection Manual for Financial Instruments Business Operators

1. Circumstance of the Revision

Based on the circumstances mentioned below, the SESC made a draft revision of the Inspection Manual for Financial Instruments Business Operators (hereinafter referred to as the "Inspection Manual"). The final version of the Inspection Manual was publicized on April 1, 2011 after the public comment period from February 2 to March 4, 2011.

(1) The Act for Partial Revision of the FIEA was passed on May 12, 2010, and effective from April 1, 2011, and regulations on consolidation were introduced for securities companies of a certain size or greater. Accordingly, it became necessary to improve the Inspection Manual related to verification of risk management systems of major securities companies;

(2) Self-regulatory rules related to sale and solicitation of over-the-counter derivatives transactions for individuals were improved;

(3) In response to the policy proposal submitted by the SESC in October 2010, the regulations on sales of funds were reinforced based on the enforcement of the Cabinet Office Ordinance on partial Revision of the Financial Instruments Business, etc. (FIB) Cabinet Office Ordinance (passed on December 27, 2010, hereinafter referred to as the "Revised FIB Cabinet Office Ordinance"); and

(4) It became necessary to review items regarding inspections on the "IT risk management system."

The revised Inspection Manuals has been used for inspections which are conducted on or after April 4, 2011.

2. Key Points of the Revision

(1) With the introduction of the regulations on consolidation of securities companies since April 1, 2011, the SESC made necessary revisions to the Inspection Manual (verification of capital requirement ratio on a consolidated basis, etc.), and specified items to be confirmed for verification of risk management systems of domestic and overseas major securities companies' groups.

(2) With regard to verification of sales and solicitation systems related to over-the-counter derivatives transactions for individuals, the SESC newly formulated items to be confirmed, reflecting the revisions of self-regulatory rules of the Japan Securities Dealers Association, which became effective from April 1, 2011.

(3) With regard to sales of "business type funds", in accordance with Revised FIB Cabinet Office Ordinance, description of custodians, actual implementation status of segregated management, and the ways to confirm said implementation status, were newly required to be contained in the document provided before execution of contract. The SESC made revisions in response to these additions.

(4) The SESC made revisions for matters which needed the review of "IT risk management systems" (addition of items to be confirmed concerning the verification of information security management system, etc.).

4) Record of Inspections

In FY2010, the SESC commenced inspections of 91 Type I financial instruments business operators, 28 registered financial institutions, 21 investment management business operators, 36 investment advisory and agency business operators, six Type II financial instruments business operators, one financial instruments broker, two specially permitted business operators for qualified institutional investors, and one self-regulatory organization (SRO).

5) Intensive Inspections

1. Funds Distributors

Since FY2009, the SESC and securities surveillance divisions at Local Finance Bureaus have intensively conducted inspections of compliance with laws and regulations by business operators who sell equity interests of collective investment schemes (funds). On October 19, 2010, the SESC required anew that funds sales business operators enhance and improve their legal compliance systems, summarizing and publishing problematic cases found in inspections conducted by the end of September 2010. The SESC also called for investors' full attention to those problems when deciding on investment in funds. Furthermore, based on results of the inspections, the SESC submitted to the Commissioner of the FSA a policy proposal that it is necessary to reinforce information on segregated management which must be contained in written statements to be issued before execution of relevant contract on sales of "business type funds", which invest in business other than making investment in securities or derivatives transaction (See 7.2) for details of the policy proposals).

2. Investment Advisory and Agency Business Operators

From March 2009, the SESC and securities surveillance divisions at Local Finance Bureaus have intensively conducted inspections focusing on compliance with laws and regulations by investment advisory and agency business operators. On February 8, 2011, the SESC required, anew and strongly, that investment advisory and agency business operators make efforts for legal compliance, summarizing and publishing problematic points found in inspections conducted by the end of January 2011. The SESC also called for investors' full attention to those problematic points when deciding to execute a contract on investment advisory with an investment advisory or agency business operator. Furthermore, based on results of the inspections, the SESC submitted to the Commissioner of the FSA a policy proposal that, similar to the registration of other financial instruments business operators, it is necessary to add the requirement for personnel composition to causes for refusing registration of investment advisory and agency business operators (See 7.2) for details of the policy proposals).

6) Summary of Inspection Results

1. Inspections of Type I Financial Instruments Business Operators

In FY 2010, inspections for 128 Type I financial instruments business operators (including registered financial institutions; the same shall apply hereinafter in this chapter) were completed, and problematic points were found in 61 of them. Of these, eight business operators had

problematic points related to market misconduct, 19 had problematic points related to investor protection, 13 had problematic points related to financial soundness or accounting, and 43 had problematic points related to other business operations.

2. Inspections of Type II Financial Instruments Business Operators

In FY 2010, inspections for 18 Type II financial instruments business operators, and problematic points were found in 12 business operators (including business operators which mainly do business other than Type II financial instruments business and in which problematic points were found related to Type II financial instruments business) were completed. Of these, six business operators had problematic points related to investor protection, three had problematic points related to financial soundness or accounting, and six had problematic points related to other business operations.

3. Inspections of Investment Management Business Operators

In FY 2010, inspections were completed for 25 investment management business operators, and problematic points were found in five business operators (including the business operators mainly engaged in business other than investment management business, in which problematic points related to investment management business were found). Of these, one business operator had problematic points related to market misconduct, one had problematic points related to financial soundness or accounting, and three had problematic points related to other business operations.

4. Inspections of Investment Advisory and Agency Business Operators

In FY 2010, inspections for 35 investment advisory and agency business operators, and problematic points were found in 25 business operators (including the business operators mainly engaged in business other than investment advisory and agency business, in which problematic points related to investment advisory and agency business were found) were completed. Of these, 18 business operators had problematic points related to investor protection, one had problematic points related to financial soundness or accounting, and 15 had problematic points related to other business operations.

5. Inspections of those who have filed the Notification of Specially Permitted Businesses for Qualified Institutional Investors, etc.

In FY 2010, inspections for two notifying persons of Specially Permitted Businesses for Qualified Institutional Investors, etc. were completed, and problematic points related to protection of investors were found in one firm.

6. Inspections of Financial Instruments Brokers

In FY 2010, inspections were completed for one financial instruments broker, and no problematic points were found in this broker. (However, a problem related to financial instruments brokerage business was found in a business operator mainly engaged in business other than financial instruments brokerage business.)

7. Inspections of Self-Regulatory Organizations

In FY 2010, inspections for one SRO were completed.

7) Recommendations Based on the Results of Inspections

1. Recommendations Based on the Results of Inspections of Type I Financial Instruments Business Operators

(1) **Conduct such as buying shares, aiming to fluctuate market prices of the listed shares** (Application of Article 117(1)(xix) of the FIB Cabinet Office Ordinance based on Article 38(vi) of the FIEA)

Two dealers of Securities Dept. in the Securities Headquarters at **San-ei Securities Corporation** (hereinafter referred to as "Company" in this section), aiming to fluctuate prices of multiple listed stocks to make trading advantageous to the Company, by inducing orders of the listed stocks from other market participants, in the course of their business, placed limited price buy orders without any intention to execute them, during at least, the period from April to December 2009.

• Date of recommendation
July 13, 2010

• Target of recommendation
The Company and two sales representatives

• Details of the administrative disciplinary actions
Order for business improvement
(i) Fundamentally review the transaction surveillance systems to ensure fairness in trading, and take preventive actions against recurrence, to eliminate violations of laws and regulations.
(ii) Take actions to make all officers and employees aware of thorough legal compliance, by providing training, etc.
(iii) Clarify who is responsible.

• Details of the disciplinary action against the sales representatives
Suspension of license for 13 weeks, and eight weeks respectively

(2) **Insufficient systems to prevent incidents related to financial instruments, etc.** (Application of Article 51 of the FIEA)

During the on-site inspection of **Tokai Tokyo Securities Co., Ltd.** (hereinafter referred to as "Company" in this section), an inquiry concerning the Company from a customer brought the suspicion that one sales staff (hereinafter referred to as "salesperson A" in this section) of the Company had continued to compensate losses and guarantee yield for specific customers for over 10 years, and subsequently sold other customers' assets without permission and illegally withdrew cash, in order to provide the funds for such compensation, etc.

While the Company has presently conducted an internal investigation on the overall picture of this case, the recent inspection found the following facts in its verification of the Company's system to prevent incidents related financial instruments business:

(i) Functions to check misconduct and abnormalities in customers' assets had lost in substance.

(a) During the period from August 2007 to May 2010, salesperson A sold assets without permission of 16 customers of which he/she was in charge, and withdrew total of about 630 million yen on several hundred occasions using automated teller machines (hereinafter referred to as “ATM” in this section) installed at banks, etc. The limit of withdrawal using ATMs per day was 999,000 yen, which was repeatedly withdrawn every day. Thus customers’ assets were greatly decreased in a short time. However, a person responsible for internal controls, etc. did not perceive this situation.

Salesperson A also put a total of about 100 million yen in a bank account of a customer whom he/she had been in charge of, and guaranteed yield on about 1,000 occasions, during the period from October 2007 to May 2010. The limit of deposit from ATMs each time was 100,000 yen, which was repeatedly deposited many times a day, for example 35 times a day amounting to 3,500,000 yen. However, while the person responsible for internal controls, etc. perceived this situation, he/she did not conduct any investigations.

(b) With regard to customers whom salesperson A was in charge of, problems were frequently pointed out, for example churning for a short period, large losses in transactions, and a customer in a remote location, by internal inspections and the attention system to detect customers whose transactions should have been observed. Especially in the verification conducted when accounts were detected by the attention system, the person responsible for internal controls frequently pointed out problems of salesperson A’s sales activities, such as: i) while salesperson A received many orders through visits to specific customers for whom there were very few call records, some slightly unnatural deposits and withdrawals were found; ii) having worked for the branch office for a long period, salesperson A has long-time relationships with customers whom he/she was in charge of. However, particular investigations were not conducted.

(ii) Insufficient development of preventive actions against recurrence of incidents related to financial instruments business

(a) Among incidents related financial instruments business serious enough for employee dismissal, which were found in the Company during the period subject to the recent inspection from November 3, 2007 to May 14, 2010, certain preventive actions against recurrence of cases including trading without permission had been taken.

However, there were some malicious violations of laws and regulations such as loss compensation which have not been revealed for a long time. While being aware of this case, the Company did not investigate the detailed causes, nor inspect and enhance its internal check function.

(b) The Company had a work category in which an employee kept working for the sales office which adopted him/her, or was transferred only within a limited area.

In this system, employees belonging to this category often continue to work for the same sales office for a long period, having long-term relationships with customers. Moreover, from the viewpoint of prevention of incidents related to financial instruments business, there were limited opportunities to verify details of sales by such employees. Also, during the period subject to the recent inspection,

incidents related to financial instruments business caused by staff belonging to said category were found. Salesperson A also worked for the same sales office for a long period, belonging to this category.

The company had not taken countermeasures against risks of misconduct related to employees' long-term career in the same sales office, for example by intensively monitoring employees who belonged to said category, or who had worked for the same sales office for a long period.

• Date of recommendation
September 10, 2010

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
Order for business improvement
(i) Provide an appropriate explanation to customers affected by this misconduct case. Take the best care of customers.
(ii) Based on matters pointed out by the SESC, conduct an attempt to trace back to its origin, and identify all problematic points. Then, improve and enhance the business management system and internal control systems, from the following viewpoints:
(a) In order to prevent the same kind of misconduct cases, top management shall take the initiative to verify the business management system and the internal control systems, and develop fundamental preventive measures against recurrence, including checking abnormal fluctuations in customers' assets, enhancing a day-to-day mutual check function in sales offices, and reviewing the personnel management system.
(b) In order to ensure the effectiveness of appropriate business management, develop necessary systems, and provide training, etc. to officers and employees.
(c) Clarify who is responsible.

(3) **Conduct such as trading of securities and other transactions such as aiming solely to pursue speculative profits by an employee of a financial instruments business operator** (Application of Article 117(1)(xii) of the FIB Cabinet Office Ordinance, based on Article 38(vi) of the FIEA)

An employee of **Aizawa Securities Co., Ltd.** traded securities and did other transactions on his/her own account on several occasions, aiming solely to pursue speculative profits using accounts under the name of the employee and acquaintances which were opened at another financial instruments firm, during the period from October 2005 to August 2010.

Furthermore, the employee suggested two acquaintances to conduct discretionary asset management through securities option transactions, and concluded the contract thereof with them. During the period from October 2009 to August 2010, the employee conducted securities option transactions with said acquaintances' assets in the accounts under the names of said acquaintances which were opened at the other financial instruments firm.

• Date of recommendation
November 30, 2010

• Target of recommendation
One sales representative

• Details of the disciplinary action against the sales representative
Suspension of the license for two years

(4) **Conduct having persons other than registered sales representative perform duties of registered sales representative** (Violation of Article 64(2) of the FIEA)

During the period from at the latest in February 2008, until May 21, 2010, **Tokiwa Investments Inc.** (hereinafter referred to as "Company" in this section) placed a recruiting advertisement in an online recruiting web site for foreigners, and recruited many persons who applied as trainees related to foreign exchange margin transactions (hereinafter referred to as "FX Transactions" in this section). Without registering the trainees as sales representatives, the Company was not allowed to have them perform duties of sales representatives, such as solicitation for subscription to FX Transactions.

However, in the recent inspection, it was found that during the above-mentioned period, the Company had at least 10 trainees solicit at least 18 prospective customers for subscription to FX Transactions.

• Date of recommendation
December 10, 2010

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Order for suspension of business
One month suspension of all financial instruments business
(ii) Order for business improvement
(a) Investigate the causes of recurrence of sales of financial instruments by non-registered sales representatives, and develop effective measures to prevent recurrence.
(b) In order to secure the appropriateness of self-governing managing operations, fundamentally review the business management system and the internal control system, and strive to make such systems function adequately.
(c) Establish a compliance system as a company operating a business in Japan, and provide necessary training programs to raise awareness of legal compliance in officers and employees.
(d) Clarify who is responsible.

(5) **Non-registered investment management business** (Violation of Article 29 of the FIEA)

Master Securities Inc. (hereinafter referred to as "Company" in this section) had privately offered investment units of three investment limited liability partnerships

(hereinafter referred to as the “Three Funds” in this section) and dealt in private placement of investment units of five investment limited liability partnerships (hereinafter referred to as the “Five Funds” in this section), since February 2010 (the private placement and the dealing in the private placement are collectively hereinafter referred to as the “Self-offering” in this section and section 2(8)). The Company argued that they managed the Three Funds (hereinafter referred to as the “Self-Investment” in this section) as specially permitted business for qualified institutional investors, etc. (hereinafter referred to as the “Specially Permitted Businesses” in this section).

As the Three Funds’ investment units were privately placed by the Company from February to June 2010, and the target of investment were shares issued by a single company, these were newly issued rights of the same kind which were issued within six months. In addition, although the number of investors other than qualified institutional investors should have been 49 or less for the Three Funds as a whole, there were actually 142 investors. This meant that the Self-Investment of the Three Funds by the Company had been conducted without meeting the requirement for Specially Permitted Businesses.

After recognizing that the situation described above could not meet the requirements of Specially Permitted Businesses, in June 2010, for two of the Three Funds, the general partners were changed from the Company to other operators of Specially Permitted Businesses. However, as a matter of fact, the Company continued to manage the Three Funds as one body.

Furthermore, with regard to the Five Funds of which the Company dealt in private placement of investment units from March to June 2010, general partners were persons outside the Company, but actually, the Company managed the Five Funds together with the Three Funds as a whole.

• Date of recommendation
February 4, 2011

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Order for suspension of business
Six months suspension of all financial instruments business
(ii) Order for business improvement
(a) Cease the non-registered investment management business, and appropriately respond to investors in the Five Funds and Three Funds which were the cause of the administrative disciplinary actions.
(b) Explain to all customers about the details of the administrative disciplinary actions.
(c) With regard to funds other than the funds which were the cause of the administrative disciplinary actions, verify whether there are similar problems, and respond appropriately.
(d) Clarify who is responsible, and appropriately build the business management system and the internal control system, considering the operations management as a financial instruments business operator in the future.

(e) In order to establish the legal compliance system, obtain sufficient knowledge concerning the purposes of registration systems under the FIEA and regulations on conduct control, for example, by conducting extensive and intensive training.

(Note) The administrative disciplinary actions described above include disciplinary action related to “Private placement in a situation without ensuring segregated management” in 2(8) under the recommendation which is issued together with the recommendation as above.

(6) **Conduct having customers acquire securities without necessary notification through offering, and conduct providing misleading display** (Violation of Article 15(1) of the FIEA. Application of Article 117(1)(ii) of the FIB Cabinet Office Ordinance, based on Article 38(vi) of the FIEA)

Bansei Yamamaru Securities Co., Ltd., (hereinafter referred to as “Company” in this section) during the period from February 2008 to July 2010, solicited for subscription (hereinafter referred to as the “solicitation for purchase” in this section) of corporate bonds (hereinafter referred to as the “Corporate Bonds” in this section) newly issued by company A (hereinafter referred to as the “Company A” in this section) and 12 limited liability companies (hereinafter referred to as the “Limited Liability Companies” in this section), and many customers acquire them.

The company solicited less than 50 customers for purchase each time the Corporate Bonds were issued. However, with regard to the Corporate Bonds, there were only slight differences in the redemption period and date of issue for each issuance. In addition, a total of 23 series of Corporate Bonds were found to have the same interest rates, issue prices, and other terms and conditions, and purposes of funds. Many customers which exceeded 50 were solicited for purchase of the bonds during adjoining subscription periods for each series of bonds. In light of details of the Corporate Bonds and the actual process of solicitation for purchase thereof, it could be considered that the redemption periods for individual issuance were slightly different in order to avoid falling into the category of a public offering. Therefore, the solicitation for purchase was found to fall into the category of one offering for each of the 23 groups of corporate bonds mentioned above.

In the product explanatory booklet which was shown to customers at the time of solicitation for purchase of Corporate Bonds of the Company A, the following advantageous aspects of Company A’s management plan were stated: (i) Company A took over a division with a solid foundation from company B which was facing a critical situation due to the failure of business strategies (hereinafter referred to as “Company B” in this section); and (ii) Company A did not have capital ties with Company B. Meanwhile, the explanatory booklet did not contain statements about the fact that Company B was the debtor of a large loan issued by Company A, or information about Company A underwritten a part of the concurrent debts related to other large debts of Company B. However, salespersons of the Company provided the above-mentioned product explanatory booklet to customers, and solicited for purchase without explaining about the facts related to the loans and underwritten debts which were not described in the booklet.

• Date of recommendation
February 22, 2011

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Order for suspension of business
One month suspension of all financial instruments business
(ii) Order for business improvement
(a) Accurately explain about the product to the customers who were shown misleading indications, and respond appropriately to them, confirming their intents.
(b) Explain to all customers the details of these administrative disciplinary actions.
(c) Verify whether there are similar problems in securities other than those which were the cause of the administrative disciplinary actions, and take appropriate actions.
(d) Clarify who is responsible, and appropriately build a business management system and an internal control system, considering the operations management as a financial instruments business operator in the future.
(e) In order to establish the legal compliance system, obtain sufficient knowledge concerning various regulations under the FIEA, for example by providing extensive and intensive training.

2. Recommendations Based on the Results of Inspections of Type II Financial Instruments Business Operators

(1) **Name-lending to a non-registered business operator** (Violation of Article 36-3 of the FIEA)

Private Wealth Management Japan Co., Ltd. (hereinafter referred to as "Company" in this section) entrusted solicitation for purchase of investment units based on an anonymous partnership agreement (funds) with company A, which had a representative who was an acquaintance of the Company's president, while knowing that company A was not a registered financial instruments business operator. During the period from December 2008 to October 2009, the Company had sales personnel of company A perform said duties under the name of the Company.

• Date of recommendation
April 9, 2010

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Order for suspension of business
Four month suspension of all financial instruments business

(ii) Order for business improvement

(a) Quickly comprehend the status of customers and management (including segregated management) of assets invested by the customers, and explain about the management of said assets to the customers, after discussing with management personnel of the anonymous partnership. Then, take appropriate measures in line with the customers' wishes.

(b) Adequately explain to the customers about details of these administrative disciplinary actions.

(c) Immediately correct the situation in which the Company had a non-registered business operator solicit for the funds, lending the Company's name to the business operator. Investigate the causes, and develop fundamental preventive measures against the recurrence, including review of business agreements and enhancement of sales and solicitation systems.

(d) Clarify the responsibility for this case, and build an appropriate internal control system.

(e) Take necessary actions to allow all officers and employees to gain awareness of thorough legal compliance, for example by providing training programs concerning the FIEA and other relevant laws and regulations.

(2) **False indication related to solicitation for purchase of investment units of funds**
(Application of Article 51 of the FIEA. Application of Article 117(1)(ii) of the FIB Cabinet Office Ordinance, based on Article 38(vi) of the FIEA)

Initia Star Securities Co., Ltd. (hereinafter referred to as "Company" in this section) solicited for the purchase of investment units under four anonymous partnerships, investing in a hotel business (hereinafter referred to as the "Funds" in this section), from March to November 2009.

With respect to the Funds, accommodation facilities were purchased by contributions from partners, to operate the hotel business, and profits from the hotel business were distributed to partners. In the recent inspection, the following facts related to solicitation for purchase of the Funds were found:

(i) In the Funds, Company X was entrusted with operations such as purchase and management of accommodation facilities. Company X paid most of the contributions as an advance payment to Company Y, which was a subcontractor for purchase of the accommodation facilities, etc.

However, Company Y diverted the advance payment to operating funds for repayment of its own loans, on the day that the advance payment was maid or the following day. There were cases found in which Company Y had not purchased any accommodation facilities for over three months after receipt of the advance payment, or had not settled the advance payment for over three months after the purchase of the accommodation facilities.

In this case, the president of the Company, who was the previous president of Company Y, discussed with Company X when the first fund of the Funds was sold, and decided that Company Y would receive the advance payment, which was explained to the Company's president at that time (the present president of the Company Y. Hereinafter referred to as the "Previous President" in this section). The Company's

president and the Previous President were aware of the situation that the advance payment had remained with Company Y for a substantial amount of time and was diverted to operating funds.

However, the Company's president and the Previous President continued solicitation for purchase without informing the Company's other officers and employees of these facts.

(ii) Although the Company solicited for purchase of investment units of the Funds under such conditions, statements related to Company Y were not contained in the document provided to investors before execution of contract or in the anonymous partnership agreement, etc., and there was no explanation to investors by sales staff.

The company issued to investors a document provided before execution of contract, etc., which did not contain statements related to Company Y, and solicited for purchase of the Funds without explaining about Company Y to investors, even after the Previous President came to know that assets of the Funds would be paid to Company Y in advance, and after the Company's present president replaced the position of the Previous President, although there was the possibility that assets of the Funds would incur losses directly due to changes of operations and financial situation of Company Y.

• Date of recommendation

April 9, 2010

• Target of recommendation

The Company

• Details of the administrative disciplinary actions

(i) Order for suspension of business

Two month suspension of all financial instruments business

(ii) Order for business improvement

(a) With regard to the anonymous investment partnership which caused these administrative disciplinary actions, take measures to have assets of the Funds managed in an appropriate manner, discussing with the operator of the partnership.

(b) Provide an appropriate explanation about these administrative disciplinary actions to customers. Especially explain correctly about the products to the customers who purchased investment units of the collective investment scheme based on the anonymous investment partnership in which the false indication was made, confirm their needs, and respond to them appropriately.

(c) With regard to financial instruments other than those which were cause of these administrative disciplinary actions, verify whether there are similar problems, and take actions taking into account (a) and (b) above.

(d) Clarify the responsibility for this case, and build appropriately a business management system and an internal control system including fair relationships with business partners.

(e) Conduct investigations on the cause of the violation of laws and regulations which triggered these administrative disciplinary actions, and develop and implement preventive actions against recurrence.

(f) Take actions to raise officers' and employees' awareness regarding legal compliance, for example, by providing training.

(3) **Non-registered business operations related to fund management** (Violation of Article 29 of the FIEA)

Topgain Inc. (hereinafter referred to as "Company" in this section) privately offered investment units of five anonymous partnership investment agreements (hereinafter referred to as the "Funds" in this section) as an operator, and had managed the Funds by investing in securities, as specially permitted business for qualified institutional investors, etc. (hereinafter referred to as the "Specially Permitted Business" in this section and section (4) and (5)).

Among them, three Funds only invested in the investment units of a collective investment scheme (hereinafter referred to as the "Hayashi Fund" in this section and section (4) and (5)) managed by HAYASHI FUND MANAGEMENT Co., Ltd., the Company's parent company (hereinafter referred to as the "HAYASHI" in this section and section (4) and (5)). Accordingly, as these three Funds were considered to be invested in a single target business, the investors of the three Funds as a whole, should consist one or more qualified institutional investor, and up to 49 investors other than qualified institutional investors, which is a requirement for Specially Permitted Business. However, as the actual number of investors other than qualified institutional investors exceeded 49, the management of the three Funds by the Company as Specially Permitted Business was conducted without fulfilling the requirement for a Specially Permitted Business.

• Date of recommendation
April 16, 2010

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Order for suspension of business
Six months suspension of all financial instruments business
(ii) Order for business improvement
(a) Quickly comprehend the situation of customers and the management conditions of assets invested by the customers, and then formulate and surely implement actions to return the assets to the customers, discussing with the operator of the anonymous partnerships.
(b) Provide customers with sufficient explanations about the details of these administrative disciplinary actions and about (a).
(c) In consideration of fairness among the customers, take all possible actions to protect the customers.
(d) Have in place the personnel system necessary for providing explanations and returning contributions to customers.

(Note) The details of the administrative disciplinary actions shown above include actions concerning (4) "Investment in funds managed by a non-registered business

operator" and (5) "Conduct providing false statements related to conclusion of a contract on and solicitation for financial instruments trading."

(4) **Investment in funds managed by a non-registered business operator, etc.** (Application of Article 51 of the FIEA)

Topgain Inc., (hereinafter referred to as "Company" in this section) commissioned by HAYASHI, dealt in private placement of investment units of a fund managed by HAYASHI, and privately offered investment units of five funds managed by the Company. Among those funds, four funds (hereinafter referred to as the "four funds" in this section and section (5)) had been managed in a manner to acquire investment units of the HAYASHI FUND.

However, the four funds were anonymous partnership agreements with anonymous partners who are not qualified institutional investors, and HAYASHI privately offered the HAYASHI FUND to the Company who was the operator of the four funds. According to Article 63(1)(i)(b) of the FIEA, this private placement does not fall under the category of a Specially Permitted Businesses. In addition, as HAYASHI had not been registered as a Type II financial instruments business operator, it was found that HAYASHI had conducted Type II financial instruments business without registration.

• Target of recommendation
The Company

(Note) For the date of recommendation and the details of the administrative disciplinary actions with respect to the Company, see (3) "Non-registered business operations related to fund management".

(5) **Conduct providing false statements related to conclusion of a contract on and solicitation for conclusion thereof**(Application of Article 38(i) of the FIEA)

Topgain Inc. (hereinafter referred to as "Company" in this section) privately offered the investment units of the four funds, and dealt in investment units of funds managed by HAYASHI.

The Company solicited for purchase of investment units of these funds with an investment report, etc. of HAYASHI FUND, which stated "The fund is managed as a fund of funds, and earning stable returns." However, those statements were extremely different from the actual situation; for example, the funds actually were managed mainly in a manner investing in loans.

Although the Company had many opportunities to request HAYASHI to provide information on details of management of the HAYASHI FUND, the Company failed to do so, and overlooked the false statements. Therefore, it was found that the Company had serious faults.

In this way, using materials for investment solicitation such as management reports, etc. when soliciting for purchase of these funds, the Company provided false announcements about the management method of funds and their performance, which would have important impacts on investment decisions by investors.

• Target of recommendation
The Company

(Note) For the date of recommendation and the details of the administrative disciplinary actions, see (3) Non-registered business operations related to fund management.

(6) **Inappropriate business management** (Violation of Article 40-3 of the FIEA. Application of Article 51 of the FIEA)

Epsom Aiba-kai Co., Ltd. (hereinafter referred to as "Aiba-kai" in this section) acquired racehorses, solicited investors to invest in the racehorses, and contributed the racehorses in kind to **Japan Horseman Club Co., Ltd.** (hereinafter referred to as "JH", and those two companies are referred to as the "Both Companies" in this section). JH and Aiba-kai had together managed the anonymous partnership agreement (hereinafter referred to as the "Fund" in this section) as follows. JH had the racehorses run in horse races under the name of JH to win the prize money, and allocated the prize money to Aiba-kai. Aiba-kai allocated the money to each investor (hereinafter referred to as a "Club Member" in this section) according to the Club Member's number of contribution units.

(i) Private placement without ensuring segregated management

Both Companies had not established internal rules, in the articles of incorporation, etc., to ensure segregated management of contributions.

Aiba-kai privately offered investment units of the fund, while segregated management of Aiba-kai's own assets and the fund assets was not ensured, for example, Aiba-kai's income such as entry fee and contributions for maintenance which are the fund assets were mixed in the same account.

(ii) Business management different from statements contained in the document provided before execution of contract

(a) Insufficient management of prize money

Subject to the order of the president and representative director of JH who was concurrently serving as a director of Aiba-kai (hereinafter referred to as "JH President" in this section), a director of JH who was concurrently serving as a general manager of Aiba-kai (hereinafter referred to as the "JH Director" in this section) withdrew money from JH's receiving account for the prize money. Then the money was applied, directly or via a private account of the JH President, to repayment of borrowings of Both Companies from financial institution, payment to racing stables and horse farms, etc. which should have been paid by contributions for maintenance, and repayment of borrowings of Both Companies from the JH President.

Even if the amount of above-mentioned withdrawal was a part of dividends to be received by Aiba-kai that was one of Club Members, the timing of each withdrawal was irrelevant to the timing of payment of dividends, and there was no evidence that the dividend for Aiba-kai was calculated each time of these withdrawal. That is, there were no specific grounds for the timing of withdrawals and the amount of money withdrawn to regard such withdrawal of the prize money, etc., had made with specific reasons.

In addition, with regard to borrowings from the JH President, as there were no loan agreements, etc. with the JH President, amounts and interests rates of borrowings, and amounts and times of repayment were not clear. Accordingly, the withdrawals by the JH Director from JH's receiving account for the prize money were not regarded as withdrawals based on specific reasons.

As stipulated in the document provided before execution of contract (hereinafter referred to as the “Document Provided” in this section), the prize money, etc. should have been appropriately managed by a financial institution until the time of allocation. Aiba-kai should use the money to repay its own debts. Therefore, it cannot be considered that JH had managed the prize money, etc. as stipulated in the Document Provided, and it was found that management of the prize money, etc. was insufficient after receiving dividends as a Club Member.

(b) Use of contributions for maintenance for the purpose other than the original intent, and delinquency of money on deposit to racing stables, etc.

Aiba-kai had received “contributions for maintenance” from Club Members as costs required for rearing and managing racehorses. However, the contributions for maintenance from Club Members had been used for paying dividends to customers, repayment of debts, and operating costs of Both Companies.

In this way, while the contributions for maintenance had been used for the purposes other than the original purpose, Aiba-kai failed to pay the costs related to the Fund to racing stables, etc. as of February 10, 2010. Accordingly, it was found that this situation could have adverse effect on maintenance and management of racehorses as fund assets, by contractors including racing stables, and might impair investors’ interests.

(c) Receipt of contributions for maintenance different from explanation in the Documents Provided

Aiba-kai had explained that Club Members are obligated to bear maintenance and management cost for invested racehorses at age of 23 months and older, in the form of contributions for maintenance, regardless of the timing of becoming a Club Member.

However, it was found that Aiba-kai had received the maintenance and management cost for many racehorses younger than 23 months, which was different from the explanation in the Document Provided.

(d) Transfer of racehorses without compensation

When deciding it would be difficult for specific racehorses to win the prize money in races held by the Japan Racing Association, at the end of the Fund, JH, without appropriate valuation had uniformly transferred those racehorses without charge, to the JH Director who had a license of a racehorse owner in local horse races. As the transferred racehorses were fund assets, they should have been sold at fair prices based on fair valuation, and the proceeds from the sale should have been allocated to Club Members of the Fund. However, it was found that JH uniformly transferred all of those horses for free without reviewing their values.

(iii) Lack of legal compliance system

In the inspection by the Kanto Local Finance Bureau, of which the base date was October 13, 2009, Both Companies should submit to the inspection immediately. However, Both Companies did not do so and neglected their obligation to submit to the inspection, for example, by refusing inspectors to enter into office rooms, and repeatedly protesting against the inspection without notice.

Although Both Companies argued that those acts were caused because they followed instructions from tax accountant advisors, Both Companies still neglected the obligation to submit to the inspection immediately, and failed to make efforts to know and to comply

with appropriate laws and regulations to be complied with. Therefore, Both Companies fundamentally lacked a legal compliance system as a financial instruments business operator.

• Date of recommendation
May 21, 2010

• Target of recommendation
Both Companies

• Details of the administrative disciplinary actions
(i) Order for suspension of business
One month suspension of all financial instruments business
(ii) Order for business improvement
(a) Conduct an investigation on the causes of the violations of laws and regulations, etc., and clarify who is responsible.
(b) Develop and surely implement appropriate preventive measures against recurrence, and improvement measures including enhancement of a system to ensure segregated management.
(c) Accurately provide explanations about the process of receiving the administrative disciplinary actions and the actual conditions to investors and customers, and sincerely respond to them.
(d) Take necessary actions for raising awareness of thorough legal compliance, including providing educational programs concerning the FIEA and other relevant laws and regulations in officers and employees.

(7) **Situation where a violation of laws and regulations had continued and had been overlooked for a long period, and a significantly insufficient internal control system including a system to respond to complaints** (Application of Article 117(1)(ii) of the FIB Cabinet Office Ordinance based on Article 38(vi) of the FIEA. Application of Article 51 of the FIEA)

Takagi Securities Co., Ltd., (hereinafter referred to as "Company" in this section) in May 2003, decided to introduce a real-estate investment fund exclusively for the Company (hereinafter referred to as the "Fund" in this section), and in and after June 2003, proactively sold the Fund. As a result, during the sales period until November 2007, the Fund was sold to a total of 20,541 customers for the amount of 52,700 million yen by 187 sales staff. (In and after December 2004 in which the Fund was defined as "deemed securities," the Fund was sold to a total of 12,879 customers for the amount of 32,800 million yen by 152 sales staff.)

In the recent inspection, the verification of the solicitation related to the Fund revealed that misleading indication concerning safety of the Fund had continued for a long period, and that the Company's significantly insufficient internal control systems caused such situation. The details are as follows:

(Note) The investment of the Fund was leveraged by loans from financial institutions in addition to contributions from customers. At the time of redemption, as repayment of the loans was given priority over the redemption, in the case where the selling price of

underlying real estate decreased, the investment of the Fund had a potential risk for a greater loss of principal than the rate of fall in the price of real estate due to the leverage effects (hereinafter referred to as “Leverage Risk” in this section).

(i) The situation where misleading indications related to critical matters had continued for a long period

According to the interview with 20 sales persons who sold the Fund since December 2004 (after being defined as “deemed securities”), 17 persons of them, and according to the investigation in written form, other 14 sales persons, were found not to understand Leverage Risk. Accordingly, it was found that the Leverage Risk, a critical matter which would affect investment decision, had not been explained to customers, at the time of offering of the Fund by these 31 sales persons; the remaining three persons had understood the Leverage Risk since the beginning of sales, but one of them had not explained the Leverage Risk to customers.

As stated above, of 34 sales persons who were checked through interview, etc. (they sold the Fund to 1,866 customers in total), 32 persons conducted inappropriate solicitation (they sold the Fund to 1,754 customers in total). The inappropriate solicitation for the Fund by those 32 sales persons made customers misunderstand that the loss ratio of contributions was around the same level as the ratio of decline in real estate sales prices. Thus misleading indications were found.

(ii) Details of statements contained in product explanatory materials, etc. used for soliciting customers

When explaining about the Funds to customers, the Company’s sales persons mainly used a product brochure and issued a prospectus to customers.

With regard to the Leverage Risk, the preferential repayment of the loans and a limit in ratio of contributions to borrowings (hereinafter referred to as the “Borrowing Limit Ratio” in this section) should have been explained. However, the product brochure did not contain statements related to those matters. Although the prospectus contained them, the expression was too difficult to make customers understand without explanation by the sales persons. Thus there was a situation in which it was difficult for customers to understand the Leverage Risk.

(iii) Dysfunctional internal check system related to product planning, including investigations and analysis at the time of introducing the Fund

As the Company left all practical operations, such as reviewing merchantability and preparing materials for sales promotion at the time of introduction of the Fund, to only one general manager of the sales planning department, the internal check system had become dysfunctional.

(iv) Insufficient internal training system, etc.

(a) Insufficient training of sales staffs for selling the Fund

In seminars for sales staffs held by the Company at the time of starting sales of the Fund, and training for sales staffs after starting sales, explanations about advantages of the Fund were mainly emphasized, for example, improving the rate of yield by boosting investment efficiency with introduction of loans. However, explanation about Leverage Risk was not provided.

(b) Insufficient dissemination of information inside the Company

It was found that as the Company did not thoroughly inform sales staff that the Borrowing Limit Ratio was increased from 300% to 400% in April 2006, many sales

staff did not explain to customers about that increase.

In the product brochure for the last issue of the Fund (offered in November 2007), items related to Leverage Risk were newly added. Although the Company's sales planning department instructed both of the headquarters managers in the Tokyo metropolitan area and the Kinki area to make chiefs of departments and branch offices inform their sales staff about this change, those chiefs did not explain about the intent of the change, and instead only informed them of the items changed. Furthermore, it was found that the chiefs did not instruct sales staffs to explain about the details of that change to customers.

(v) Insufficient internal control systems

(a) Insufficient systems of sales management by chiefs of departments and branch offices, etc.

According to the interview with 23 chiefs of departments and branch offices, etc. concerning the Company's verification of actual condition of investment solicitation by sales staff, it was found that the verification process was merely a formality, such as just checking whether there was missing information in confirmation notes concerning explanation about important items which are collected from customers, specific details of solicitation by sales staff were not verified.

(b) Insufficient response to customers concerning redemption with a loss of principal

In the recent inspection, how sales staff handled customers regarding redemption with a loss of principal was verified through interviews, etc. As a result, it was found that there were some sales persons who did not provide any explanation about the Leverage Risk. As of October 19, 2009, adequate explanation about the Leverage Risk had not been provided to customers.

(c) Insufficient investigations of complaints, etc.

After the occurrence of redemption with a loss of principal, the Company's audit department had not provided any detailed instructions to staff of the department responding to complaints from customers, for example, making a response taking into account attributes of customers. It also had not issued instructions to the staffs to ask customers who complained and the sales staffs in charge about the situation of solicitation in order to understand the actual condition of solicitation. Accordingly, the Company's system to deal with customers' complaints had been insufficient. Despite many complaints received, the Company had not understood the actual condition of inappropriate solicitation related to the Fund.

(vi) Insufficient business management system

The Company's top management left all practical operations related to sales of the Fund entirely to the staffs in charge, and did not perceive that inappropriate solicitation was continuously conducted for a long period, and that the internal control systems was insufficient, and did not provide any instruction and exercise management to correct those insufficiencies.

While knowing the fact that the Fund had drawn a volume of complaints, the Company's top management had not provided concrete instructions on investigations on the realities.

Taking into account features of the Fund, it should have been necessary to adequately deliberate about the risk when selling the Fund to individual customers, but the Company's top management ignored the weak system which only one chief of the

sales planning department was responsible for all. Consequently, adequate statements on the Leverage Risk were not contained in product brochure, etc., which led inappropriate solicitation conducted to customers.

In this way, the Company's top management overlooked the above-mentioned inappropriate situation until October 19, 2009, without providing instruction to take organizational actions related to sales of the Fund.

• Date of recommendation
June 17, 2010

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Order for suspension of business
Fourteen days suspension of all financial instruments business
(ii) Order for business improvement
(a) Establish a system to provide explanations to allow customers to adequately understand merchantability and risks of financial instruments at the time of solicitation, for example, with the following efforts:
i. Improve the sales materials used for explanations to customers
ii. Thoroughly inform sales staff about merchantability, etc. by providing seminars, etc.
iii. Build a function of internal checks at the time of introducing new products
(b) Consolidate the system to deal with complaints from customers, in order to have appropriate investigations and analysis of causes of the complaints, according to the revision of the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.
(c) Improve and enhance the business management system and the internal control systems, from the viewpoint of investors protection, and raise awareness of thorough legal compliance in officers and employees.
(d) Clarify who is responsible.

(8) **Private placement of funds without ensuring segregated management** (Violation of Article 40-3of the FIEA)

As stated in 1(5) above, **Master Securities Inc.** (hereinafter referred to as "Company" in this section) substantially conducted investment management and administration of eight funds. However, those fund assets were managed mixed in four bank accounts. Furthermore, the management status for each fund was not written in the books of those funds as of July 12, 2010, thus the management status for each fund could not be immediately discriminated.

Consequently, it was found that the Company had conducted a Self-offering, etc. of each fund without ensuring segregated management of the assets of each fund.

• Target of recommendation
The Company

(Note) For the date of recommendation and details of the administrative disciplinary actions, see 1(5) “Non-registered investment management business” shown above.

3. Recommendations Based on the Results of Inspections of Investment Management Business Operators, etc.

Inappropriate management in a discretionary investment contract (Application of Article 51 of the FIEA)

While recognizing that the fund to be invested in became no value during the investment period, **Priore Asset Management Co., Ltd.** (hereinafter referred to as “Company” in this section) repeatedly placed orders for cross-trading at higher prices than book values of the fund which had been included in investment targets, according to a discretionary investment contract between the Company and customers. The Company earned trading profits as management based on the discretionary investment contract, during the period from December 2007 to March 2009.

• Date of recommendation
February 15, 2011

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
Order for business improvement
(i) Identify and analyze causes of occurrence of the problematic points in this case, and develop and conduct detailed measures to prevent recurrence.
(ii) Consolidate the business management system, operations management system, and legal compliance system, to conduct financial instruments business appropriately.
(iii) Clarify who is responsible.

4. Recommendations Based on the Results of Inspections of Investment Advisory and Agency Business Operators

(1) **Name-lending to a non-registered business operator** (Violation of Article 36-3 of the FIEA)

J-Stock Partners (hereinafter referred to as “Company” in this section) had a director of company A, which was not been registered as a financial instruments business operator, conduct investment advisory business under the name of J-Stock Partner since June 2009.

• Date of recommendation
June 29, 2010

• Target of recommendation

The Company

• Details of the administrative disciplinary actions

(i) Order for suspension of business

One month suspension of all financial instruments business

(ii) Order for business improvement

(a) Take all possible measures to protect investors, for example, appropriately responding to customers who were solicited under the name-lending.

(b) Clarify who is responsible.

(c) Immediately correct the situation in which the Company had a non-registered business operator conduct investment advisory business, lending the Company's own name, and take appropriate actions to prevent recurrence.

(d) Consolidate the business management system, operations management system, and legal compliance system, to appropriately conduct financial instruments business (investment advisory business).

(2) **Dealing in offering of foreign investment securities** (Violation of Article 29 of the FIEA)

Mayer Asset Management Ltd. (hereinafter referred to as "Company" in this section) dealt in offering of securities related to five funds to investors who were interested in foreign funds, and nine investors acquired the securities, during the period from October 2007 to December 2009.

• Date of recommendation

July 28, 2010

• Target of recommendation

The Company

• Details of the administrative disciplinary actions

(i) Order for suspension of business

Three months suspension of all financial instruments business

(ii) Order for business improvement

(a) Quickly comprehend and report the situation of handling of all funds in which the Company was involved (attributes of customers, fund names, investment amounts, and present fair values).

(b) Take all possible actions to protect investors, for example, explaining about this case and responding to customers in an appropriate manner.

(c) Cease non-registered financial instruments business immediately, and take appropriate actions to prevent recurrence.

(d) Consolidate the business management system, operations management system, and legal compliance system, to appropriately conduct financial instruments business (investment advisory business).

(e) Clarify who is responsible.

(3) **Serious violations of laws and regulations which damaged public interest and investor protection in private placements and management of equities under collective investment scheme** (Violation of Article 29 of the FIEA. Application of Article 51 of the FIEA)

Traffic Corporation (hereinafter referred to as "Company" in this section) filed a notification of specially permitted businesses for qualified institutional investors, etc. (hereinafter referred to as the "Specially Permitted Business" in this section) in July 2009. As a Specially Permitted Business, the Company privately offered equities (hereinafter referred to as the "Self-offering" in this section) of six anonymous partnership investment contracts (hereinafter referred to as the "Funds" in this section) of which the operator is the Company itself, and invested the Funds' assets in derivatives transactions or securities (hereinafter referred to as the "Self-Investment").

(i) Conducting Self-offering and Self-Investment of the anonymous partnership contracts without necessary registration

Of the above-mentioned six Funds, the Company had solicited for purchase of equities of three Funds, and invested Fund's asset mainly in derivatives transactions, without contributions from qualified institutional investors since the foundation of the Funds.

Accordingly, it was found that the Company had conducted Self-offering and Self-Investment, without fulfilling requirements for a Specially Permitted Business.

(ii) Consigning management to a non-registered business operator

While being aware that salesperson A and others were persons who had not registered for investment management business, Traffic Corporation entrusted them with management of the assets of two Funds which are different from three Funds stated above, and had them invest the assets in derivatives transactions, during the period from December 2009 to February 2010.

• Date of recommendation

September 7, 2010

• Target of recommendation

The Company

• Details of the administrative disciplinary actions

(i) Order for suspension of business

One month suspension of all financial instruments business

(ii) Order for business improvement

(a) Quickly comprehend and report the situation of handling of all funds in which the Company was involved (attributes of customers, fund names, investment amounts, current fair values, existence of asset management contracts, and the details of the contract if they exist).

(b) Take all possible actions to protect investors, for example, explaining about this case and responding to customers in an appropriate manner.

(c) Cease non-registered financial instruments business immediately, and take appropriate actions to prevent recurrence.

(d) Consolidate the business management system, operations management

system, and legal compliance system, to appropriately conduct financial instruments business.

(e) Clarify who is responsible.

(4) **Seriously inappropriate operations, such as having employees engage in sales of non-registered investment funds** (Application of Article 51 of the FIEA. Violation of Article 47(2) of the FIEA)

(i) Conduct such as having employees engage in sales of investment funds, without registration

While being aware that an operator of the limited liability partnership A (hereinafter referred to as "Partnership A" in this section) was selling unlisted shares and soliciting for purchase of equities of collective investment schemes without registration as financial instruments business operator (hereinafter referred to as the "Unregistered Sales" in this section), **Life Care Bank** (hereinafter referred to as "Company" in this section) had its employees engage in Unregistered Sales of Partnership A from around May 2008.

The Company paid for the costs related to office equipment used for business of Partnership A from around April 2008, and paid for rent related to an office used for business of Partnership A since October 2008, under the name of the Company.

(ii) Business report containing false statements

During the period from May 2008 when the Company registered for investment advisory and agency business, until April 12, 2010, the Company had never conducted investment advisory business. However, the Company submitted to the Director-General of the Kanto Local Finance Bureau the business report for fiscal year ended March 2009. The report contained false statements saying that it had a good record with investment advisory business.

• Date of recommendation

September 22, 2010

• Target of recommendation

The Company

• Details of the administrative disciplinary actions

(i) Cancellation of registration

(ii) Order for business improvement

(a) Report details of operations conducted by the Company.

(b) With regard to the limited liability partnership managing investment funds without registration, include in the report stated in (a) the situation of transactions between the Company's former representative and the Company (contents and amounts of transactions), as well as the situation of solicitation for purchase of the investment funds supported by the Company's employees (attributes of customers, names of funds, investment amounts, and cash flows).

(5) **Serious violations of laws and regulations which damaged public interest and investor protection in private placements and management of equities in collective investment scheme** (Violation of Article 29 and Article 36(3) of the FIEA)

Social Innovation Co., Ltd. (hereinafter referred to as "Company" in this section) filed a notification of specially permitted businesses for qualified institutional investors (hereinafter referred to as the "Specially Permitted Business" in this section) with the Director-General of the Kanto Local Finance Bureau in March 2008. The Company, as an operator of the Specially Permitted Business, privately offered equities (hereinafter referred to as the "Self-offering" in this section) of nine anonymous partnership contracts (hereinafter referred to as the "Funds" in this section) to invest mainly in securities issued in foreign countries, and managed the asset of the Funds (hereinafter referred to as the "Self-Investment" in this section).

(i) Conducting Self-offering and Self-Investment of equities of the Funds, etc. without necessary registration

The company conducted the Self-offering and the Self-Investment of equities of the Funds without contributions from qualified institutional investors since the foundation of the all nine Funds.

Accordingly, it was found that the Self-offering and the Self-Investment conducted by the Company does not fall into the category of a Specially Permitted Business stipulated in Article 63(1)(i) and (ii) of the FIEA, but falls into the category of Type II financial instrument business and investment management business which requires registration.

Although all nine Funds to be mainly invested in securities, the Company actually managed just a small part of the Fund assets in a manner investing in securities. Most of the Fund assets were consumed as the Company's working capital and diverted to loans to the Company's representative director, etc.

Furthermore, with respect to four Funds of nine Funds, although the four Funds had never invested in securities, dividends were paid every month.

(ii) Lending a name to a non-registered business operator

The company had an affiliated company which was engaged in sales agency business conduct private placements of equities of the Funds from June to October 2009, and had a former employee, etc. of the Company conduct private placements of equities of the Funds from July to August 2010, under the name of the Company.

• Date of recommendation
September 22, 2010

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Cancellation of registration
(ii) Order for business improvement
(a) Quickly comprehend and report the situation of handling of all Funds in which the Company was involved (attributes of customers, names of the Funds, investment amounts, current fair values, existence of consignment offering contracts, and the contracts' details if exist) .

(b) Take all possible actions to protect investors, for example, explaining about this case and responding to customers in an appropriate manner.
(c) Develop and surely implement actions to return contributions to customers (including preparation of the Company's balance sheet recognizing obligations of repayment to customers).
(d) Have in place a necessary personnel system for explanation to customers and refunds of contributions.

(6) **Failure to issue a statutory document, etc.** (Violation of Article 37(3)(i), Article 37(4)(i), Article 47, and Article 47-2 of the FIEA)

In the verification of business management of **Invest Master Co., Ltd.**, (hereinafter referred to as "Company" in this section) the following facts were found:

(i) During the period from January 29, 2009 when the Company registered as investment advisory and agency business operator, until April 14, 2010, the Company had not issued a document to be issued before execution of a contract for financial instruments transaction to all 88 customers who concluded investment advisory contracts (hereinafter referred to as the "Advisory Customers" in this section).
(ii) The Company did not prepare the document to be issued at the time of execution of a contract for financial instruments transaction, and did not provide it to the Advisory Customers.
(iii) The Company did not prepare and preserve a document containing details of investment advice.
(iv) While knowing that the contents of the document were different from actual situation, the Company submitted to the Director-General of the Tokai Local Finance Bureau the business report for the first business year, containing false figures by tampering with the number of contracts (changing 41 to be 150) and compensation for investment advisory (changing 12,142,000 yen to be 16,000,000 yen).

• Date of recommendation
December 10, 2010

• Target of recommendation
The Company

• Details of the administrative disciplinary actions
(i) Cancellation of registration
(ii) Order for business improvement
(Provide sufficient explanations about these administrative disciplinary actions to customers, and take appropriate actions in response to customers' requests.)

(Note) The above-mentioned administrative disciplinary actions include disciplinary action related to (7) "Advertisement with indication that is significantly contradictory to facts" subject to the recommendation together with this violation of laws and regulations.

(7) **Advertisements with indication that is significantly contradictory to the actual situation** (Violation of Article 37-2 of the FIEA)

Invest Master Co., Ltd., (hereinafter referred to as "Company" in this section) during the period from around June 2009 until April 14, 2010, had placed an advertisement on the website to solicit for conclusion of investment advisory contracts. In the verification of the website, it was found that the following indications were stated in the advertisement related to financial instruments business conducted by the Company:

(i) Introduction of achievements of customers of the Company's investment advisory business

In an attempt to give credence to advantages of the advice provided under the investment advisory agreement, a head shot of a customer "Mr. A" and an image of his trading history were indicated, together with the comments "Achieved the target amount of 100,000 yen!" as if "Mr. A" had actually made transactions and achieved excellent results.

However, the customer "Mr. A" did not exist, and this image of his trading history was fictitious.

(ii) Registration as financial instruments business operator

The Company posted indications in its website saying "it can be said I am No.1 in this area thanks to three skills. We were highly appreciated for our performance evaluated by the Tokai Local Financial Bureau No.1 and received a difficult certification." and "the first internet certified school by the Tokai Local Financial Bureau", which seemed as if the Tokai Local Financial Bureau had certified the Company as an investment advisory business operator, appreciating the Company's previous performance.

(iii) Indication with video

Although, in FX trading, there is possibility that a loss will be incurred, exceeding the amount of deposit which a customer prepared, the Company explained as shown below, in order to reduce customer's sense of resistance to risks:

While knowing that the explanation was different from the actual situation, the Company indicated that "you will not lose the amount more than your deposit." following the language "What do you think about the situation that a lot of people have a mistaken idea about FX?" In this way, the Company explained that "there is seldom any possibility to lose money exceeding your deposit."

• Target of recommendation

The Company

(Note) For the date of recommendation and the details of the administrative disciplinary actions, see (6) "Failure to issue a statutory document, etc."

8) Petitions for Court Injunctions against Non-registered Business Operators

With regard to non-registered business operators that involved in fraudulent businesses, the FSA and the SESC have taken actions such as provision of information to police agencies, etc., issuance of warning letters to unregistered business operators, and announcement of names of such business operators, followed by actions of investigating authorities, because of the difficulty

to apply the FSA/SESC's usual administrative actions such as supervision and inspection against them, unlike business operators that have registered under the FIEA.

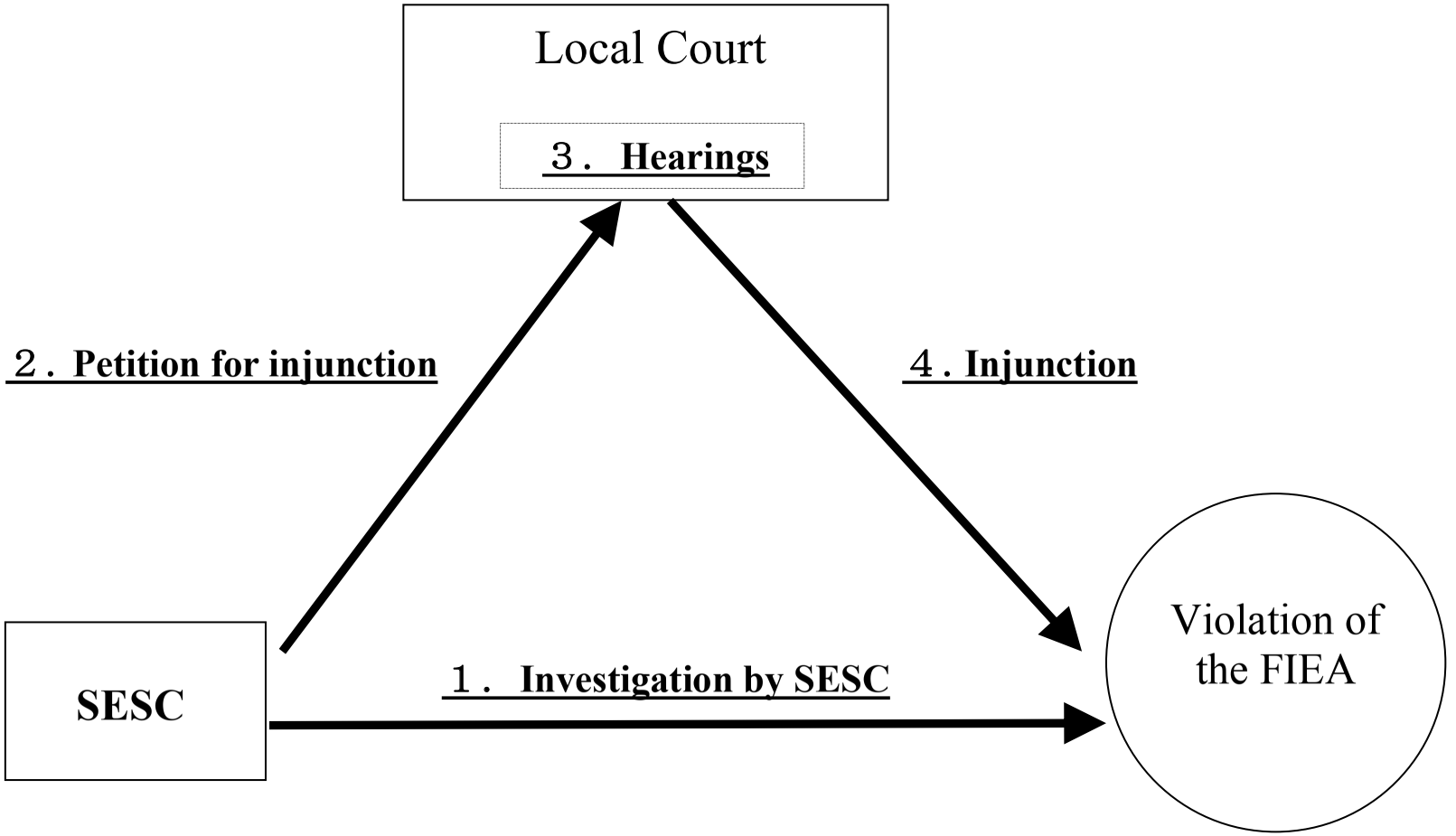
However, as damages to investors in recent years due to illegal sales of unlisted stocks is expanding and fund equities by non-registered business operators have been recognized as a social problem, the FSA and SESC have been expected to make use of petitions to the court for an injunctions against unregistered business operators under Article 192 of the FIEA (hereinafter referred to as "Article 192 Petition" in this section) and investigations therefor under Article 187 of the FIEA (hereinafter referred to as "Article 187 Investigation" in this section).

Upon the filing of a petition from the SESC, when a court finds that there is an urgent necessity and that it is appropriate and necessary for the public interest and investor protection, the court may enjoin a person who has conducted or will conduct an act in violation of the FIEA, from the acts stated above. (See the figure below.)

Articles similar to Article 192 and 187 of the FIEA have existed from the time when the Securities and Exchange Act was enacted in 1948, referring to U.S. securities legislation, but they have not been utilized for a substantial amount of time. An amendment of the FIEA in 2008, however, delegated the authority for the Article 192 Petition and the Article 187 Investigation to the SESC, which is routinely monitoring illegal financial activities through market surveillance and inspections. In addition, an amendment of the FIEA in 2010 introduced severe fines of up to 300 million yen against corporations that violate a court injunction, in order to ensure the effectiveness of the injunction. From the viewpoint of prompt and flexible responses, the SESC has also become able to delegate the authority for the Article 192 Petition and the Article 187 Investigation to the Director-General of a Local Finance Bureau, etc.

In response to these developments, the SESC vigorously collected and analyzed information on unregistered business operators, and conducted Article 187 Investigations, in cooperation with supervisory departments of the FSA and the Local Finance Bureaus, and investigating authorities, etc.

Petition for a court against violation of the FIEA



<Article 192 of the FIEA>
When a court finds that there is an urgent necessity and that it is necessary and appropriate for the public interest and protection of investors, it may give an order to a person who has conducted or will conduct any act in violation of this Act or orders issued under this Act for prohibition or suspension of such act, subject to filing of a petition by the Prime Minister or by the Prime Minister and Minister of Finance.

● **Daikei Co. Ltd.**

On November 17, 2010, the SESC made an Article 192 Petition for the first time ever since the introduction of the relevant provisions, against **Daikei Co., Ltd.** (hereinafter referred to as “Daikei” in this chapter) and its officers, which solicited for unlisted stocks, etc. as a business without necessary registration.

Daikei, a consulting firm located in Chuo-ku Tokyo, solicited for unlisted stocks, etc. without registering itself as a financial instruments business operator, since its foundation in July 2003.

Upon receiving several complaints about Daikei from investors, the Kanto Local Finance Bureau issued a warning letter in March 2010 about unregistered business. In April 2010, Daikei answered to the Kanto Local Finance Bureau that it would cease the unregistered business.

However, upon receiving information on Daikei continuing to solicit for unlisted stocks, etc. even after answering the warning letter, the SESC conducted an Article 187 Investigation. As a result, it was found that Daikei, during the period from February to June 2010, solicited for subscription of shares and stock acquisition rights newly issued by **Seibutsu Kagaku Kenkyujo Co., Ltd.** (hereinafter referred to as “Seibutsu Kagaku” in this chapter. See 5.3)) as non-registered business. It was also found that, consequently, about 100 investors acquired shares of Seibutsu Kagaku, and that Daikei solicited investors for subscription of Seibutsu Kagaku’s shares scheduled to be issued at the end of November 2010.

Those acts conducted by Daikei violated Article 29 of the FIEA, stipulating that “Any Financial Instruments Business shall be conducted only by persons registered by the Prime Minister”. It was also recognized that there is a high possibility that Daikei and its two officers would repeat the violations in the future.

Therefore, on November 17, 2010, the SESC made an Article 192 Petition for injunctions against the violations of the FIEA by Daikei and its two officers (conducting unregistered businesses including trading of shares, mediation or agency of trading, or offering or dealing in private placement) with Tokyo District Court.

In response to this petition, after hearings, the Tokyo District Court issued an injunction against Daikei and its two officers on November 26, 2010, exactly as the SESC had asked.

In order to protect the public interest and investors, the SESC intends to continue to take strict actions against violations of the FIEA such as unregistered sales, in cooperation with relevant organizations including the FSA, Local Finance Bureaus, the Consumer Affairs Agency, investigating authorities, etc.

Investors are encouraged to be careful not to engage in any transactions with non-registered business operators, since solicitation by such operators constitute violations of laws and regulations, and have caused various troubles.

9) Future Challenges

In order to respond to the changing environment surrounding securities inspections and to ensure investor protections, the SESC intends to work on the following policies incorporated in its FY 2011 basic inspection policy.

(1) In response to significant environmental changes, such as the expansion and increase of business operators subject to securities inspections with repeated revision of the regulations, experience of the global financial crisis, penetration of IT systems into financial instruments trading, damages caused by unregistered business operators, etc. being recognized as a social problem, and impacts of the Great East Japan Earthquake, from the viewpoint of executing efficient and effective inspections, the SESC will implement the following activities:

(i) Risk-based inspections (Development of inspection plans on a risk basis, focusing on issues to be verified in the course of inspections of individual firms)

(ii) Implementation of effective inspections (Inspection with prior notice, verification of the appropriateness of internal control systems and risk management systems, enhancement of interactive dialogue)

(iii) Enhancement of cooperation with relevant departments/organizations (Departments in charge of supervision, inspection, and disclosure, SROs, overseas securities regulators, investigating authorities, etc.)

(iv) Revisions of the inspection manual to respond to revisions of regulations, etc., and publishing revised manual

(2) As a priority issue of inspections, the SESC will focus on inspections of the following items:

(i) Verification of the exercise of gatekeeper functions (Market intermediary functions (customer management, surveillance of transactions, underwriting examination, etc.), management of undisclosed corporate information, conduct that may hinder fair price formation)

(ii) Verification of internal control systems (From the viewpoint of financial soundness on a consolidated basis, the SESC verifies internal control systems and risk management systems of securities company groups that engage in large-scale and complex businesses as a group)

(iii) Verification from the viewpoint of investor protection (Solicitation for investment (status of explanations provided regarding investment trusts and OTC derivative transactions), appropriateness of business of investment management business operators, status of legal compliance by fund business operators (including Specially Permitted Businesses for Qualified Institutional Investors), compliance with laws and regulations by investment advisories/ agencies, responses to unregistered firms (petitions for emergency court injunctions and investigations thereof))

(iv) Others (Functions of SROs, business management of credit rating agencies, responses to inappropriate transactions and legal violations taking advantage of disasters)

April 8, 2011
Securities and Exchange Surveillance Commission

Basic Securities Inspection Policy and Program for 2011[1] (Summary)

I. Basic Securities Inspection Policy

The regulatory environment has been changing dramatically:

*Expansion of the scope of, and increase in the number of, financial firms subject to inspection
*Innovations in financial instruments and transaction
*Cross-border transactions and international activities of market participants have become common
*Experience of global financial crisis (bankruptcy of a global and large-scale investment bank)
*Spread of the use of IT systems in financial instruments transactions
*Damage by non-registered firms has become a social problem
*Impacts of the Great East Japan Earthquake

⇒ SESC shall adapt to the changes by implementing **efficient and effective inspection** through **risk-based inspection programs**, **inspection with prior notice**, **the enhancement of cooperation with the supervisory department's off-site monitoring** and **the examination of risk control systems**, and employing **applications for emergency court injunctions against violations of the Financial Instruments and Exchange Act**.

⇒ Also, to ensure fairness and transparency of capital markets and protect investors, the SESC shall continue to focus on **the examination of violations of laws and regulations**, as well as on **the verification of internal control systems behind individual problems**.

Inspection Implementation Policy

(1) Towards efficient and effective inspection

1) **Risk-based inspection**
2) **Implementation of effective inspection**
   Inspection with prior notice, verification of the appropriateness of internal control systems and enhancement of interactive dialogue
3) **Enhancement of cooperation with relevant departments/organizations**
   Supervisory, inspection, and disclosure oversight departments of FSA and Local Finance Bureaus, SROs, overseas regulators, and investigative authorities
4) **Revision of the inspection manual**

(2) Focuses of inspection

1) Verification of the exercise of gatekeeper functions
Market intermediary functions, including customer management, surveillance of transactions and underwriting examination, management of undisclosed corporate information, and conduct that may hinder fair price formation

2) Examination of internal control systems
Examination of the appropriateness of internal control and risk management systems and management of IT system risk

3) Examination from the viewpoint of investor protection
Examination of solicitation for investment, the appropriateness of asset management business, compliance with laws and regulations by fund business operators and investment advisories/agencies, and response to non-registered firms

4) Others
Functions of SROs, business management of credit rating agencies, and response to inappropriate transactions and legal violations taking advantage of disasters

[1] Corresponds to government's fiscal year 2011 (from April 1, 2011, to March 31, 2012).

2. Basic Securities Inspection Program

1. Basic Concept

(1) Principles

The SESC shall formulate an inspection program based on the following principles, while there can be some exceptions in response to a change in market environment, impacts of disasters, factors related to specific firms.

1) Firms that underwrite, trade or solicit liquid financial instruments, such as listed securities, and firms that manage assets on commission from investors for their interests

⇒ In principle, the SESC shall examine their business operations and financial soundness on an ongoing basis.

Credit rating agencies that assign credit ratings that greatly affect investment decisions of investors

⇒ In principle, the SESC shall examine their business operations on an ongoing basis.

2) Firms other than those specified in 1) above (e.g., firms that deal with illiquid financial instruments or firms that only conduct investment advisory business)

⇒ The SESC shall judge inspection priority based on information from supervisory departments in light of the huge number of firms subject to inspection.

3) Serious violations of the Financial Instruments and Exchange Act by non-registered firms

⇒ The SESC shall appropriately execute investigations for applications for emergency court injunctions, based on information from supervisory departments.

(2) Cooperation with securities and exchange surveillance departments of Local Finance Bureaus

*The SESC shall work with securities and exchange surveillance departments of the Local Finance Bureaus to conduct efficient and effective inspection through active use of joint inspections and the exchange of inspectors.

*The SESC shall support the securities and exchange surveillance departments through sharing inspection techniques and information, and thereby shall conduct inspections in an integrated manner.

2. Basic Securities Inspection Program

Type I Financial Instruments Businesses Operators (including Registered Financial Institutions), Asset Management Firms, and Credit Rating Agencies	To be inspected on an on-going basis (Note)
Type II Financial Instruments Businesses Operators, Investment Advisories/Agencies, Specially Permitted Business Notifying Firms for Qualified Institutional Investors, and Financial Instruments Intermediaries	To be inspected on an on-going basis
SROs	To be inspected as necessary
Non-registered firms	To be inspected on an on-going basis

(Note) The number of firms to be inspected is shown in normal years, but due to the impacts of the Great East Japan Earthquake, it is difficult to show it at the current moment.

4. Administrative Monetary Penalties Investigation

1) Outline

1. Purpose of the Administrative Monetary Penalty System

The administrative monetary penalty system provides the administrative acts of imposing administrative monetary penalties on violators, in order to achieve the administrative objectives of curbing violations so as to ensure the effectiveness of regulations.

In addition to conventional criminal penalties, the administrative monetary penalty system was introduced in April 2005 through amendment of the Securities and Exchange Act (SEA) in 2004, in order to punish violations of specific regulations under the Financial Instruments and Exchange Act (FIEA), by market misconduct such as including insider trading, market manipulation, spreading of rumors on stock markets or fraudulent means, as well as disclosure documents containing false statements.

In response to environmental changes surrounding markets, the Securities and Exchange Surveillance Commission (SESC) performs fast and efficient investigations utilizing features of the administrative monetary penalty system, in order to achieve highly flexible and strategic market surveillance, and thereby works to ensure market fairness and transparency, and protect investors.

If violations are found as a result of performing monetary penalty investigations, the SESC makes a recommendation to the Prime Minister and the Commissioner of the Financial Services Agency (FSA) for the issuance of an order to pay an administrative monetary penalty (Article 20 of the Act for Establishment of the FSA) (hereinafter referred to as “Recommendation”). In the event a Recommendation is made seeking the issuance of an order to pay an administrative monetary penalty, the Commissioner of the FSA (delegated by the Prime Minister) determines the commencement of trial procedures. Then, trial examiners conduct the trial procedures and prepare a draft decision on the case. Based on this draft decision, the Commissioner of the FSA (delegated by the Prime Minister) takes the decision on whether to issue an order to pay an administrative monetary penalty.

(Note) This chapter covers the monetary penalty investigations of market misconduct.

2. Authority of Administrative Monetary Penalty Investigations

The authority to conduct administrative monetary penalty investigations in relation to market misconduct has been prescribed in Article 177 of the FIEA under which the SESC has been authorized:

(1) to question persons concerned with a case or witnesses, or to have any of these persons submit their opinions or reports; and

(2) to enter any business office of the persons concerned with a case and other necessary sites, to inspect the books and documents and other items.

3. Violations Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties (related to market misconduct)

According to the Act for the Amendment of the Securities and Exchange Act (Act 65 of the 2006 law) and the Act for the Amendment of the Financial Instruments and Exchange Act (Act 65 of the 2008 law), the coverage of market misconduct subject to administrative monetary

penalties has been expanded and the amount thereof has been raised, since the introduction of the Administrative Monetary Penalty System.

Currently the violations subject to administrative monetary penalties and the amounts of those penalties are as follows:

(1) Spreading of rumors and fraudulent means (Article 173 of the FIEA)

Penalty: Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on his/her own account at the end of the violation (i.e. spreading of rumors or fraudulent means), and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(2) Fictitious or collusive sales and purchase (Article 174 of the FIEA)

Penalty: Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on his/her own account at the end of the violation (i.e. fictitious or collusive sales and purchase), and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(3) Market manipulation (Article 174-2 of the FIEA, Article 174 of the former FIEA)

Penalty: Aggregate of (i) the profit or loss locked in on his/her own account during the period of the violation (i.e. market manipulation through actual transactions), and (ii) the difference between the value of sales, etc. (purchase, etc.) related to short (long) position on his/her own account at the end of the violation, and the value obtained by appraising said position with the lowest (highest) price during the one month after the violation

(4) Illegal stabilizing transactions (Article 174-3 of the FIEA)

Penalty: Aggregate of (i) the profit or loss related to the violation (i.e. illegal stabilizing transactions), and (ii) with regard to a position on his/her own account at the start of the violation, the amount obtained by multiplying d (the difference between the average price during the one month after the violation, and the average price during the period of the violation) by v (the volume of said position)

(5) Insider trading (Article 175 of the FIEA)

Penalty: Difference between the value of sales, etc. (purchases, etc.) related to the violation (insider trading) (limited to those made during the six months prior to the publication of material facts), and the product of the lowest (highest) price during the two weeks after the publication of material facts and the volume of the said sales, etc. (purchases, etc.)

4. Activities Conducted in FY2010

In FY2010, there were 26 cases on market misconduct (on the basis of number of violators) recommended to the prosecutor, amounting to 63,940,000 yen.

2) Recommendation on Market Misconduct

1. Situation of Recommendations

(1) In FY 2010, there were Recommendations on 26 market misconduct cases. 20 of these cases involved insider trading, with 6 cases of market manipulation. The minimum amount of penalty applied to a violator was 100,000 yen, and the largest was 18,640,000 yen. As a result, since April 2005 where the administrative monetary penalty system has been introduced, the total number of Recommendations on insider trading reaches 106 cases (by 100 individuals and by 6 corporations) in the amount of 241,470,000 yen while the number of Recommendations on market manipulation cases totally comes to 12 (all individuals) in the amount of 34,970,000 yen.

Insider trading cases recommended to the prosecutor in FY2010 include a case in which a certified public accountant belonging to BOD Toyo & Co. committed insider trading, taking advantage of information of which he/she became aware in the course of performing duties (see 2 (xii) shown below). Among market manipulation cases recommended to the prosecutor, there was a case on market manipulation of the shares of Hokuetsu Kishu Paper Co., Ltd., with the intention to abuse features of algorithm trading (see 2 (xv) shown below).

(2) As for insider trading cases recommended to the prosecutor, in terms of the attributes of the violators, the percentage of cases on insider trading by primary recipients of information has continued to increase since the previous year. Especially, the number of cases has increased where a person who obtained inside information as a party to a contract, etc. becomes a transmitter of information. The party to a contract, etc. includes: (i) a person who was entrusted with arranging to collect investors by an issuer of the shares subject to misconduct, (ii) an agent for a person who negotiated conclusion of a contract on underwriting of total amount related to allocation of new shares to a third party; (iii) a person who negotiated conclusion of a contract on capital/business alliance; and (iv) a person who was entrusted with calculation of the stock exchange ratio related to making a company a wholly owned subsidiary. It is necessary for not only officers and employees of a relevant company, but also persons who may have access to corporate material facts, to be sure not to leak relevant information to others, and not to make others be a violator. Types of material facts range from issuance of new shares, etc., acquisition of own shares, share exchange, business alliance, business bankruptcy, and revisions of business results forecast, to tender offers, etc.

Insider Trading

Changes in Number of Recommendation Cases by Attribute of Violator

		FY2009	FY2010
Corporate insider		13	8
	Officer, etc. of issuer	11	3
	Party to a contract	2	5
Tender offeror or other concerned party		4	0
	Officer, etc. of tender offeror	1	0
	Tender offeror and party to a contract	3	0
Primary recipient of information		21	12
	Corporate material fact	12	10
	Tender offer	9	2
No. of cases recommended to prosecutor, by FY		38	20

Changes in Number of Recommendation Cases by Type of Material Fact

	FY2009	FY2010
Issuance of stock, etc.	4	6
Acquisition of own shares	0	1
Share exchange	2	2
Business alliance or dissolution thereof	0	3
Civil rehabilitation or corporate reorganization	8	2
Information on financial result	2	1
Basket clause	4	3
Other material facts	5	1
Tender offer	13	2
No. of cases recommended to prosecutor, by FY	38	20

Changes in Number of Cases Recommended to Prosecutor, by Attribute of Transmitter of Information

			FY2009	FY2010
Transmission of corporate material facts			12	10
	Officer, etc. of issuer		9	3
	Party to a contract		3	7
Transmission of information on tender offer			9	2
	Officer, etc. of tender offeror		2	1
	Tender offeror or party to a contract		7	1
		Officer, etc. of targeted party of tender offer included in the above	3	1

(*1) “FY” is April to March the following year.

(*2) No. of cases recommended to prosecutor is recorded on basis of violators.

(*3) As for No. of cases recommended to prosecutor, by type of material fact, when a violator committed insider trading, being aware of multiple material facts, the case is recorded redundantly in relevant types of material facts. Therefore, the aggregate of the numbers of cases in each box may not be consistent with the figure in No. of cases recommended to the prosecutor, by FY.

2. Outline of Recommendations Issued

With respect to the Recommendation cases in FY2010, the following is an outline of the Recommendation cases on market misconduct made for the issuance of orders to pay administrative monetary penalties on market misconduct.

(Note) The “former Financial Instruments and Exchange Act” hereinafter in this Chapter means the Financial Instruments and Exchange Act before the amendment under the Act 65 of the 2008 Law.

(i) Recommendation on insider trading by a person receiving information from a substantial manager of TOKYOKOKI SEIZOSHO Ltd.

TOKYOKOKI SEIZOSHO Ltd. decided to issue shares. The violator received this information from a person who was working for the company as its substantial manager and came to know the fact in the course of his/her duties. The violator purchased 175,000 shares of TOKYOKOKI SEIZOSHO Ltd. on his/her own account, in the amount of 15,517,000 yen during the period from August 20 to 29, 2008, prior to this fact being publicized on September 1, 2008.

[Date of Recommendation] April 27, 2010

[Amount of administrative monetary penalty] 3,030,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: April 27, 2010
Date of order to pay penalty: May 21, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(ii) Recommendation on market manipulation related to the shares of ValueCommerce Co., Ltd.

1. Violator (1)

(a) In an attempt to lower the price of ValueCommerce Co., Ltd. shares and for the purpose of inducing sales and purchases of the shares, during the three trading days from October 2 to 6, 2008, the violator (1) purchased a total of 1,313 shares of ValueCommerce Co., Ltd. while selling a total 1,316 shares and entrusting sale of a total of 721 shares, in the following way: matching buy orders and sell orders by placing them at around the same time at lower prices than the latest price contracted; placing sell orders without any intention to make them executed; and placing large sell orders without limit to make them executed at lower prices. As a result, he/she lowered the share price from 12,040 yen to 9,120 yen. In this way, violator (1) conducted, on his/her own account, a series of sales and purchases of shares of ValueCommerce Co., Ltd. and entrustment therefor that would cause fluctuations in prices of said shares.

(b) In an attempt to raise the price of ValueCommerce Co., Ltd. shares and for the purpose of inducing sales and purchases of the shares, during the eleven trading days from October 7 to 22, 2008, violator (1) purchased a total of 4,019 shares of ValueCommerce Co., Ltd. while selling a total 3,853 shares and entrusting purchase of a total 2,576 shares, in the following way: matching buy orders and sell orders by placing them at around the same time at higher prices than the latest price contracted; placing buy orders without any intention to make them executed; and placing large buy orders without limit to make them executed at higher prices. As a result, he/she inflated the share price from 8,300 yen to 12,700 yen. In this way, the violator (1) conducted, on his/her own account, a series of sales and purchases of shares of ValueCommerce Co., Ltd. and entrustment therefor that would cause fluctuations in prices of said shares.

2. Violator (2)

In an attempt to lower the price of ValueCommerce Co., Ltd. shares and for the purpose of inducing sales and purchase of the shares, during the three trading days from October 3 to 7, 2008, violator (2) purchased a total of 66 shares of ValueCommerce Co., Ltd. while selling a total 97 shares, in the following way: matching buy orders and sell orders by placing them at around the same time at lower prices than the latest price contracted; and successively placing sell orders without limit to make them executed at lower prices. As a result, he/she lowered the share price from 11,000 yen to 8,270 yen. In this way, violator (2) conducted, on his/her own account, a series of sales and purchases of shares of ValueCommerce Co., Ltd. that would cause fluctuations in prices of said shares.

[Date of Recommendation] May 18, 2010

[Amount of administrative monetary penalty]
Violator (1): 950,000 yen
Violator (2): 260,000 yen

[Process following Recommendation] (Same date for violators (1) and (2))
Date of decision on commencement of trial procedures: May 18, 2010
Date of order to pay penalty: June 4, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(iii) Recommendation on insider trading by a person receiving information from an employee of Yamazaki Baking Co., Ltd.

Nichiryo Baking Co., Ltd. (hereinafter referred to as “Nichiryo Baking”) decided to form a business alliance with Yamazaki Baking Co., Ltd. (hereinafter referred to as “Yamazaki Baking”). The violator received information on this from an employee of Yamazaki Baking that was a party which negotiated to conclude a contract on business and capital alliance with Nichiryo Baking. The fact became known by an officer of Yamazaki Baking in the course of negotiation for conclusion of that contract, and by the employee of Yamazaki Baking in the course of performing duties. Then, the violator purchased 8,000 shares of Nichiryo Baking in the amount of 720,000 yen on his/her own account on July 30, 2009, prior to this fact being publicized on July 31, 2009.

In this case, a person dispatched from Yamazaki Baking to another company transmitted information to the violator. Even a person who was on loan to another company falls in the category of a corporate insider as “employee or other worker” of the company from which the person was dispatched (Article 166(1)(i) of the FIEA) when said person became aware of information related to that company in the course of performing duties of that company. Accordingly, said person and a person who received the infromation from said person shall not commit insider trading based on the information.

[Date of Recommendation] June 4, 2010

[Amount of administrative monetary penalty] 250,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: June 4, 2010
Date of order to pay penalty: June 25, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(iv) Recommendation on insider trading by a person receiving information from an employee of a party which negotiated to conclude a contract with Bit-isle Inc.

The violator received information on the fact that Bit-isle Inc. (hereinafter referred to as "Bit-isle") decided to form a business alliance with Information Services International-Dentsu, Ltd. (hereinafter referred to as "Information Services International-Dentsu") from an employee of Information Services International-Dentsu, that was a party which negotiated to conclude an agreement on the business partnership talk with Bit-isle, and that employee became aware of the fact in the course of negotiations for conclusion of that contract. On May 11, 2009, prior to this fact being publicized on June 3, 2009, the violator purchased a total of 8 shares of Bit-isle in the amount of 464,000 yen, on his/her own account.

[Date of Recommendation] June 25, 2010

[Amount of administrative monetary penalty] 190,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: June 25, 2010
Date of order to pay penalty: July 9, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(v) Recommendation on insider trading by an employee of KYOEI SANGYO Co., Ltd.

1. Violator (1), who was an employee of KYOEI SANGYO Co., Ltd., became aware of, in the course of performing duties, the fact that the company has decided to file a petition for commencement of rehabilitation proceedings according to the Civil Rehabilitation Act (hereinafter referred to as "the material fact"), and then sold a total of 14,000 shares of KYOEI SANGYO Co., Ltd. on his/her own account in the amount of 1,008,000 yen on July 16, 2008, prior to the fact being publicized on July 18, 2008.
2. Violator (2), who was an employee of KYOEI SANGYO Co., Ltd., became aware of the material fact in the course of performing duties, and then sold a total of 10,000 shares of KYOEI SANGYO Co., Ltd. in the amount of 794,000 yen on his/her own account, on July 15, 2008, prior to the fact being publicized on July 18, 2008.

[Date of Recommendation] June 25, 2010

[Amount of administrative monetary penalty]
Violator (1): 540,000 yen
Violator (2): 460,000 yen

[Process following Recommendation] (Same date for violators (1) and (2))
Date of decision on the commencement of trial procedures: June 25, 2010
Date of order to pay penalty: July 23, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(vi) Recommendation on insider trading by a person receiving information from a party to a contract with SOWA JISHO Co., Ltd.

The violator received information on the fact that SOWA JISHO Co., Ltd. decided to issue shares and stock acquisition rights from a person whom SOWA JISHO Co., Ltd. entrusted with arranging investors in SOWA JISHO Co., Ltd., and who became aware of the fact in the course of performing that contract. Then, the violator purchased 150 shares of SOWA JISHO Co., Ltd. on his/her own account in the amount of 156,195 yen on June 30, 2009, prior to this fact being publicized around 21:25 on the same day.

[Date of Recommendation] July 6, 2010

[Amount of administrative monetary penalty] 400,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: July 6, 2010
Date of order to pay penalty: July 29, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(vii) Recommendation on insider trading by an officer of Inter Action Corporation

The violator, who was an officer of Inter Action Corporation (hereinafter referred to as "Inter Action"), became aware of, in the course of performing duties, the fact that the company would revise downward the projection of consolidated business results for the accounting period ended May 2009, and then sold a total of 240 shares of Inter Action on his/her own account in the amount of 9,122,850 yen during the period from May 27 to July 6, 2009, prior to this fact being publicized on July 10, 2009.

[Date of Recommendation] July 9, 2010

[Amount of administrative monetary penalty] 3,450,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: July 9, 2010
1st trial date (trial conclusion): November 11, 2010
Date of order to pay penalty: January 26, 2011

Since a written reply denying the facts on violation was submitted by the Respondent, the following points were disputed:
(i) Whether was the Respondent a director of Inter Action as of May 25, 2009.

(ii) With regard to sales, etc. of a corporate group to which Inter Action belongs during the accounting period from June 1, 2008 to May 31, 2009, whether the Respondent learned, on May 25, 2009, the fact that there was a difference between the estimated sales, etc. newly calculated by the company, and the most recent estimated sales, etc. publicized on January 9, 2009.

Through trial procedures, the Commissioner of the FSA judged: (1) it can be confirmed that the Respondent was a director of Inter Action as of May 25, 2009; and (2) it can be confirmed that the Respondent learned, on May 25, 2009, the fact that, with regard to sales, etc. of a corporate group to which Inter Action belongs for the accounting period ended May 31, there was a difference between the estimated sales, etc. newly calculated by the company, and the most recent estimated sales, etc. As a result, the order to pay an administrative monetary penalty was decided.

(viii) Recommendation on insider trading by a party to a contract, etc. with JO Group Holdings Co Ltd.

1. With regard to a capital increase through allocation of new shares to a third party (payment amount of 300 million yen) (hereinafter referred to as the “capital increase”) with issuance of unsecured convertible bonds with stock acquisition rights (hereinafter referred to as “CBs”) announced on January 23, 2009 by JO Group Holdings Co Ltd. (hereinafter referred to as “JOG”), violator (1), as a substantial investor therein, negotiated conclusion of a contract with JOG on underwriting the total amount related to the CBs. Being aware of the fact that an organ which was responsible for making decisions on the execution of the operations of JOG decided to solicit a party to underwrite the CBs for allocation to third parties (material fact (1)) in the course of negotiation for conclusion of the contract, violator (1) purchased a total of 14,000 shares of JOG in the amount of 790,000 yen on his/her own account, during the period from October 21, 2008 to around 12:45 on January 23, 2009, and sold a total of 3,000 shares of JOG in the amount of 249,000 yen on his/her own account on January 22, 2009, prior to the fact being announced around 18:00 on January 23, 2009.

2. Violator (2), who, as a substantial investor in the capital increase, negotiated conclusion of a contract with JOG on underwriting the total amount related to the CBs., became aware of material fact (1) in the course of negotiation for conclusion of the contract, and then purchased a total of 70,000 shares of JOG in the amount of 4,097,600 yen on his/her own account on January 20, 2009, prior to the fact being announced around 18:00 on January 23, 2009.

3. Violator (3), who, as a substantial investor in the capital increase, concluded the contract with JOG on underwriting the total amount related to the CBs, became aware of the below-mentioned material fact related to management, operations, and assets of JOG, which would have significant impacts on investment decisions by investors (material fact (2)), in the course of performing the contract. Material fact (2) is that it became extremely difficult for JOG to ensure funds necessary to enhance its financial foundation in order to resolve a critical question related to premise of a going concern which had been pointed out by an accounting auditor, as the probability that the CBs would be invalid became higher without the payment of 300 million yen for the CBs by the due

date. Then, violator (3) sold a total of 216,500 shares of JOG in the amount of 7,586,600 yen on his/her own account during the period from around 14:57 to 15:07 on February 20, 2009, prior to the fact being announced around 22:56 on February 20, 2009.

4. Violator (4), who, as a substantial investor in the capital increase, concluded the contract with JOG on underwriting the total amount related to the CBs, became aware of material fact (2) in the course of performing the contract, and then sold a total of 30,400 shares of JOG in the amount of 1,124,800 yen on his/her own account on February 19, 2009, prior to the fact being announced around 22:56 on February 20, 2009.

5. Violator (5):

(a) received information on material fact (1) from an agent of a substantial investor, who negotiated conclusion of the contract with JOG on underwriting the total amount related to the CBs, and became aware of the fact in the course of that negotiation. Then, violator (5) purchased a total of 160,000 shares of JOG in the amount of 9,684,700 yen on his/her own account during the period from 13:10 to 14:52 on January 23, 2009, prior to the fact being announced around 18:00 on January 23, 2009.

(b) received information on material fact (2) from an agent of a substantial investor, who negotiated conclusion of the contract on underwriting the total amount related to the CB with JOG, and became aware of the fact in the course of that negotiation. Then, violator (5) sold a total of 160,000 shares of JOG in the amount of 6,551,900 yen on his/her own account during the period from 12:47 to 14:56 on February 20, 2009, prior to the fact being announced around 22:56 on February 20, 2009.

[Date of Recommendation] August 27, 2010

[Amount of administrative monetary penalty]

Violator (1): 460,000 yen
Violator (2): 2,340,000 yen
Violator (3): 5,200,000 yen
Violator (4): 790,000 yen
Violator (5): 9,820,000 yen

[Process following Recommendation]

(Same dates for violators (1), (2), (3) and (4))
Date of decision on the commencement of trial procedures: August 27, 2010
Date of order to pay penalties: September 22, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(Violator (5))
Date of decision on the commencement of trial procedures: August 27, 2010
In the process of trial procedures as of May 31, 2011

(ix) Recommendation on market manipulation related to the shares of Koike Sanso Kogyo Co., Ltd.

In an attempt to raise the price of Koike Sanso Kogyo Co., Ltd. shares and for the purpose of inducing sales and purchases of the shares, in the manner of placing large buy orders at higher prices than the latest price contracted or without limit to make them executed at higher prices, and of raising the share price by matching buy orders and sell orders at around the same time at higher prices than the latest price contracted, during the period of 33 trading days from December 18, 2008 to February 10, 2009, the violator purchased a total of 403,000 Koike Sanso Kogyo Co., Ltd. shares while selling a total of 386,000 shares of the company. In this way, the violator conducted a series of sales and purchases of the shares that would cause fluctuations in prices of said shares on his/her own account.

[Date of Recommendation] September 7, 2010

[Amount of administrative monetary penalty] 540,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: September 7, 2010
Date of order to pay penalty: October 4, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(x) Recommendation on insider trading by a person receiving information from a party to a contract with MARUKO Co., Ltd.

MARUKO Co., Ltd. (hereinafter referred to as “MARUKO”) decided to form a business alliance with ITOCHU Corporation. The violator received information on this fact from an officer of a company which concluded a basic contract on provision of services with MARUKO, and who became aware of the fact in the course of performing that contract. Then the violator purchased a total of 93,000 shares of MARUKO in the amount of 10,500,900 yen on his/her own account during the period from around 9:00 to 15:00 on April 20, 2009, prior to this fact being announced around 15:30 on April 20, 2009.

[Date of Recommendation] September 28, 2010

[Amount of administrative monetary penalty] 7,540,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: September 28, 2010
Date of order to pay penalty: October 19, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xi) Recommendation on insider trading by a person receiving information from an officer of Alphax Food System Co., Ltd.

Alphax Food System Co., Ltd. (hereinafter referred to as "Alphax Food") decided to acquire its own shares. The violator received information on this fact from an officer of Alphax Food who became aware of the fact in the course of performing duties. The violator then purchased a total of 84 shares of Alphax Food in the amount of 5,887,600 yen on account of a relative of the violator during the period from around 14:36 on July 22 to 15:02 on August 24, 2009, prior to this fact being announced around 16:30 on August 24, 2009.

In this case, the violator who received information on the material fact, i.e., "decision on acquisition of own shares," from an officer of Alphax Food purchased shares of Alphax Food in the name of the violator's relative, on the relative's account, prior to said material fact being announced.

Cases of transactions using a borrowed name have been seen conventionally, in which shares are purchased and sold with a borrowed securities account in the name of another person. However, this case is not a usual case of transactions using a borrowed name, as the violator purchased and sold shares not using his/her own funds to earn own profits, but using the relative's funds and securities account on behalf of the relative's interest.

Under the Financial Instruments and Exchange Act, sales and purchase on the violator's own account is a requirement for imposing administrative monetary penalty. However, according to the amendment of the FIEA in 2008, as with this case, sales and purchase for the sake of close relatives, etc. is subject to administrative monetary penalty, regarded as sales and purchase on the violator's own account.

[Date of Recommendation] October 22, 2010

[Amount of administrative monetary penalty] 730,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: October 22, 2010
Date of order to pay penalty: November 16, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xii) Recommendation on insider trading by a certified public accountant belonging to BOD Toyo & Co.

Certified public accountant X belonging to BOD Toyo & Co. was the violator. Koshin Co., Ltd. decided to make a tender offer for shares of RIO CHAIN HOLDINGS Co., Ltd. (hereinafter referred to as "RIO CHAIN HD"). Person Y who was engaged in operations related to establishment of Koshin Co., Ltd. (hereinafter referred to as "Koshin") learned of this in the course of performing duties. After that, certified public accountant Z belonging to BOD Toyo & Co. (not the accountant who was the violator) learned of this fact from Person Y. Certified public accountant X became aware of this fact in the

course of performing duties, and then purchased a total of 12,100 shares of RIO CHAIN HD in the amount of 4,589,700 yen on his/her own account, during the period from July 6 to 9, 2009, prior to the fact being announced on July 28, 2009.

This is the third case of a recommended order to pay administrative monetary penalty for insider trading by a certified public accountant (The second case of recommendation for insider trading by a certified public accountant using information which he/she came to know in the course of performing duties).

[Date of Recommendation] November 16, 2010

[Amount of administrative monetary penalty] 1,180,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: November 16, 2010
Date of order to pay penalty: December 16, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xiii) Recommendation on insider trading by people receiving information from a person engaged in assistant work to calculate a stock exchange ratio related to SBI Futures Co., Ltd.

1. SBI Futures Co., Ltd. (hereinafter referred to as "SBI Futures") decided to exchange shares with SBI Holdings, Inc. (hereinafter referred to as the "material fact"). Violator (1) received information on this fact from an employee who worked for a company which negotiated conclusion of the contract with SBI Futures on consignment of business activities related to calculation of a stock exchange ratio. The employee became aware of the material fact in the course of negotiation for conclusion of said contract. Then, violator (1) purchased a total of 18 shares of SBI Futures in the amount of 449,300 yen on his/her own account during the period from April 20 to 24, 2009, prior to the material fact being announced on April 27, 2009.

2. Violator (2) received information on the material fact from an employee who worked for a company which negotiated conclusion of the contract with SBI Futures on consignment of business activities related to calculation of a stock exchange ratio. The employee became aware of the material fact in the course of negotiation for conclusion of said contract. Then, violator (2) purchased a total of 6 shares of SBI Futures in the amount of 148,020 yen on his/her own account during the period from April 21 to 24, 2009, prior to the material fact being announced on April 27, 2009.

[Date of Recommendation] November 26, 2010

[Amount of administrative monetary penalty]
Violator (1): 310,000 yen
Violator (2): 100,000 yen

[Process following Recommendation]
(Same date for violators (1) and (2))
Date of decision on the commencement of trial procedures: November 26, 2010
Date of order to pay penalty: December 27, 2010

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xiv) Recommendation on market manipulation related to shares of inspec Inc.

In an attempt to raise the price of inspec Inc. shares and for the purpose of inducing sales and purchases of the shares, in the manner of placing large buy orders at higher prices than the latest price contracted or without limit to make them executed at higher prices, and of raising the share price by matching buy orders and sell orders placed at around the same time at higher prices than the latest price contracted, during the period of 5 trading days from July 23 to 29, 2009, the violator purchased a total of 161 shares of said company while selling a total of 137 shares, as a result of which he/she inflated the share price from 28,000 yen to 36,800 yen. In this way, the violator, on his/her own account, conducted a series of sales and purchase of said shares that would cause fluctuations in prices of said shares.

[Date of Recommendation] December 21, 2010

[Amount of administrative monetary penalty] 18,640,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: December 21, 2010
In the process of trial procedures as of May 31, 2011

(xv) Recommendation on market manipulation related to shares of Hokuetsu Kishu Paper Co., Ltd.

(Market manipulation with the intention to abuse features of algorithm trading)

For the purpose of inducing sales and purchase of the shares of Hokuetsu Kishu Paper Co., Ltd., in the manner of making the sell board look more active by placing sell orders without any intention to make them executed in order to induce sell orders, and of making the buy board look more active by placing buy orders without any intention to make them executed in order to induce buy orders, the violator:

1. placed sell orders for a total of 1,026,000 shares, and buy orders for a total of 1,167,500 shares, and made sales and purchase of a total of 510,000 shares executed at prices advantageous to the violator, during the period from 12:35 to 13:54 on June 14, 2010, and
2. placed sell orders for a total of 1,176,500 shares, and buy orders for a total of 1,497,000 shares, and made sales and purchases of a total of 540,000 shares executed at prices advantageous to the violator, during the period from 9:29 to 12:21 on June 15, 2010.

In this way, the violator, on his/her own account, conducted a series of sales and purchases of said shares that would cause fluctuations in prices of said shares.

In this case, the violator had the intention to abuse features of "algorithm trading," in which a computer system automatically determines timing and volume of sell and buy orders for shares according to share prices and trading volume at the time. Taking advantage of algorithm trading which promptly reacts to large orders placed without any intention to make them executed, the violator, with the intention to drive share prices to the price at which the violator desired to buy or sell the shares, repeatedly made buy and sell orders executed at short intervals, and earned margin of several yen each time.

[Date of Recommendation] January 25, 2011

[Amount of administrative monetary penalty] 570,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: January 25, 2011
Date of order to pay penalty: February 16, 2011

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xvi) Recommendation on market manipulation related to the shares of Senior Communication Co., Ltd.

In an attempt to raise the price of Senior Communication Co., Ltd. shares and for the purpose of inducing sales and purchases of the shares, the violator conducted, on his/her own account, a series of sales and purchases of the shares and entrustment therefor that would cause fluctuations in prices of the shares, during the period of 5 trading days from August 7 to 13, 2009, in the following way: (i) consecutively placing buy orders without limit or at higher prices than the latest price contracted, to make them execute at higher prices; (ii) raising the share price by matching buy orders and sell orders placed without limit or at higher prices than the latest price contracted at around the same time; (iii) raising the closing price by placing buy orders without limit; and (iv) placing buy orders without any intention to make them execute. The violator purchased a total of 174 shares of Senior Communication Co., Ltd. while selling a total of 190 shares, and conducted entrustment for purchase of a total of 150 shares, as a result of which he/she inflated the share price from 15,010 yen to 19,480 yen.

[Date of Recommendation] February 4, 2011

[Amount of administrative monetary penalty] 300,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: February 4, 2011
Date of order to pay penalty: March 3, 2011

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xvii) Recommendation on insider trading by a person receiving information from an employee of FamilyMart Co., Ltd.

FamilyMart Co., Ltd. (hereinafter referred to as "FamilyMart") decided to acquire shares of am/pm Japan Co., Ltd. to make the company a subsidiary. The violator received information on this fact from an employee of FamilyMart, who became aware of the fact in the course of performing duties. Then, the violator purchased 10,000 FamilyMart shares in the amount of 24,830,000 yen on his/her own account, on November 11, 2009, prior to the fact being publicized on November 13, 2009.

[Date of Recommendation] February 15, 2011

[Amount of administrative monetary penalty] 3,470,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: February 15, 2011
Date of order to pay penalty: March 16, 2011

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xviii) Recommendation on insider trading by a person receiving information from an officer of NJK Corporation

NTT DATA Corporation (hereinafter referred to as "NTT DATA") decided to make a tender offer for shares of NJK Corporation (hereinafter referred to as "NJK"). The violator received information on this fact from officer A of NJK, who came to know the fact in the course of his/her duties, after officer B of NJK came to know the fact in the course of negotiation for conclusion of a contract on capital and business alliance between NJK and NTT DATA. Then, the violator purchased a total of 5,000 NJK shares in the amount of 1,063,000 yen on his/her own account, during the period from December 9 to 15, 2009, prior to the fact being publicized on December 22, 2009.

[Date of Recommendation] February 18, 2011

[Amount of administrative monetary penalty] 850,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: February 18, 2011
Date of order to pay penalty: March 16, 2011

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

(xix) Recommendation on insider trading by an underwriter of shares related to a capital increase through allocation to a third party implemented by Shiomi Holdings Corporation

The violator was in charge of negotiation for conclusion of a contract with Shiomi Holdings Corporation (hereinafter referred to as "Shiomi HD"), related to underwriting of

new shares allocated to a third party, as a party to be an underwriter of shares related to a capital increase by issuance of new shares allocated to a third party, which was announced on September 15, 2009 by Shiomi HD. Shiomi HD decided to solicit an underwriter for the shares to be issued; the violator became aware of this fact in the course of performing duties, and then purchased a total of 30,000 Shiomi HD shares in the amount of 570,000 yen on his/her own account on September 2, 2009, and sold a total of 80,000 Shiomi HD shares in the amount of 2,630,000 yen on his/her own account on September 9 and 10, 2009, prior to the fact being announced on September 15, 2009.

[Date of Recommendation] March 29, 2011

[Amount of administrative monetary penalty] 1,570,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: March 29, 2011
Date of order to pay penalty: April 27, 2011

Since a written reply admitting these facts was submitted by the violator, no trial was conducted.

3) Future Challenges

With regard to violations related to market misconduct such as insider trading, while there are criminal penalties and the administrative monetary penalty system as enforcement measures to ensure the effectiveness of regulations, it is necessary to restrain the application of criminal penalties which would have significant impacts on violators. The administrative monetary penalty system is expected to ensure the effectiveness of regulations by taking actions according to the level and the state of violations which are not so critical as being subject to criminal penalties, and can deal with each case more quickly than for criminal penalties. Using such features of the administrative monetary penalty system, the SESC will make efforts for achieving timely and strategic market oversight, by conducting speedy and efficient investigations and addressing the issues shown below:

(1) Appropriately respond to changes in trends of market misconduct cases, such as an increase in the number of cases on insider trading by a primary recipient of information and market manipulation using online trading, the SESC will strive to make investigations more speedy and efficient by improving investigation methods, boosting investigation ability through training, etc., and fostering personnel.

(2) In order to prevent market misconduct, the SESC will encourage the enhancement of market discipline, for example, by proactively transmitting information on the past recommendation cases, etc. through various channels, and promoting voluntary enhancement of discipline by market participants and establishment of internal control system by listed companies.

5. Disclosure Statements Inspection

1) Outline

1. Purpose of Disclosure Statements Inspection

The disclosure system under the Financial Instruments and Exchange Act (FIEA) provides accurate, fair and timely disclosure of the business contents and financial details, etc. of issuers of securities, by obligating issuers of securities to submit various disclosure documents including a securities registration statement, and making the documents available for public inspection in order to provide materials to enable sufficient investment decisions by investors in the primary and secondary markets for securities, and aims to protect the investors thereby.

To ensure effectiveness of the disclosure system described above, the FIEA prescribes that, when the Prime Minister finds it necessary and appropriate, he/she may order a person who has filed a securities registration statement or a shelf registration statement, or a tender offeror or a person who has filed a large shareholding report, etc. to submit reports or materials, or may arrange inspection of their books, documents and other articles (hereinafter referred to as the "disclosure statements inspection") (regarding the specific authority, see 2 below).

Disclosure statements inspections have been carried out to contribute to ensuring of fairness and transparency of markets and investor protection, which is the Securities and Exchange Surveillance Commission (SESC)'s mission, by means of (i) ensuring accurate company information provided to the markets quickly and fairly and (ii) suppressing breaches in the disclosure regulations.

If, as a result of disclosure statements inspection, disclosure documents are found to contain false statements, etc. on important matters, the SESC makes a recommendation for issuance of an order to pay administrative monetary penalty. In cases where an amendment report, etc. for such disclosure documents has not been submitted, the SESC makes a recommendation for issuance of an order to submit an amendment report, etc.

Like this, when deemed necessary, the SESC makes a recommendation for the issuance of an order for administrative actions and other measures to the Prime Minister and the Commissioner of the Financial Service Agency (FSA).

Even in cases where disclosure documents are not found to contain false statements, etc. on important matters but it is recognized that it is necessary to make amendments to annual securities reports, etc., the disclosing company would be urged to do so voluntarily, from the viewpoint to requiring appropriate disclosure.

In July, 2011, the SESC made the organization to conduct disclosure statements inspections independent, as the "Disclosure Statements Inspection Division" created from the previous "Civil Penalties Investigation and Disclosure Statements Inspection Division," to further enhance the disclosure statements inspection system.

2. Authority of Disclosure Statements Inspection

In the financial and capital markets in Japan, annual securities reports and other disclosure documents are submitted from approximately 4,300 disclosing companies, including

approximately 3,600 listed companies. Specific authority for disclosure inspections of disclosure documents are as follows:

(1) The authority over requiring reporting from, and inspection with respect to, a person who has filed a securities registration statement, a person who has filed a shelf registration statement, a person who has filed an annual securities report, a person who has filed an internal control report, a person who has filed a quarterly securities report, a person who has filed a semiannual securities report, a person who has filed an extraordinary report, a person who has filed a share buyback report, a person who has filed a status report of parent company etc., a person who is found to have had an obligation to file any of these documents, an underwriter of securities, or any other related party or witness (Article 26 of the FIEA (including cases where it is applied mutatis mutandis pursuant to Article 27 of the FIEA))

(2) The authority over requiring reporting from, and inspection with respect to, a tender offeror, or a person who is found to have had an obligation to have made a purchase or other type of acceptance of share certificates, etc. by tender offer, a person specially interested in either of these persons, or any other related party or witness(Article 27-22(1) of the FIEA (including cases where it is applied mutatis mutandis pursuant to Article 27-22-2(2) of the FIEA))

(3) The authority over requiring reporting from, and inspection with respect to a person who has filed a Position Statement, a person who is found to have had an obligation to file a subject company's position statement, or any related party or witness (Article 27-22(2) of the FIEA)

(4) The authority over requiring reporting from, and inspection with respect to a person who has filed a Report of Possession of Large Volume, a person who is found to have had an obligation to file a large shareholding report, a joint holder of either of these large shareholdings, or any other related party or witness (Article 27-30(1) of the FIEA)

(5) The authority over requiring reporting from the company that is an issuer of the shares, etc. related to a large shareholding report, or a witness (Article 27-30(2) of the FIEA)

(6) The authority over requiring reporting from, and inspection with respect to, an issuer who provided or publicized specified information, an issuer who is found to have had an obligation to provide or publicize specified information, an underwriter of securities related to specified information, or any other related party or witness (Article 27-35 of the FIEA)

(7) The authority over requiring reporting from a certified public accountant or audit firm that has conducted an audit certification (Article 193-2(6) of the FIEA)

(Note 1) The SESC has not been delegated authority for the following, excluding the authority for inspections on cases related to an administrative monetary penalty:

- The authority over requiring reporting from, and inspection with respect to, a person who has filed a securities registration statement, etc. before the effective date of the statement, etc. (Article 38-2(1)(i) and (ii) of the FIEA Enforcement Order)
- The authority over requiring reporting from, and inspection with respect to, a tender offeror, etc. or a person who has filed a subject company's position statement, etc. during the tender offer period (Article 38-2(1)(iii) of the FIEA Enforcement Order)

(Note 2) The Commissioner of the FSA may also exercise the abovementioned authority to order the submission of a report and authority to inspect in cases where it is found urgently needed for the sake of ensuring public interest or protecting investors (provisory clause in Article 38-2(1) of the FIEA Enforcement Order); and this authority and the authority described in Note 1 above have

been delegated by the Commissioner of the FSA to the directors-general of the local finance bureaus, etc.

3. Violations Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties (Disclosure Related)

If, as a result of disclosure statements inspections, disclosure documents are found to contain false statements, etc. on important matters, the SESC makes a recommendation for the issuance of an order to pay an administrative monetary penalty to the Prime Minister and the Commissioner of the FSA (Article 20 of the Act for Establishment of the FSA). In the event that a recommendation is made seeking the issuance of an order to pay an administrative monetary penalty, the Commissioner of the FSA (delegated by the Prime Minister) determines the commencement of trial procedures. Then, trial examiners conduct the trial procedures and prepare a draft decision on the case. Based on this draft decision, the Commissioner of the FSA (delegated by the Prime Minister) makes a decision whether the issuance of the order to pay the administrative monetary penalty or not.

Since the introduction of the administrative monetary penalty system, the SESC has expanded the scope of violations subject to administrative monetary penalties, and increased the amounts of those penalties, in accordance with the Act for the Partial Amendment of the Securities and Exchange Act (Act 65 of the 2006 law) and the Act for the Partial Amendment of the FIEA (Act 65 of 2008 law).

Currently, the violations subject to administrative monetary penalties and the amounts of those penalties are as follows:

(1) Act of having securities acquired or selling securities, through a public offering or secondary distribution etc., without submitting a securities registration statement, etc. (offering disclosure for public offering or secondary distribution, etc.) (Article 172 of the FIEA)
Penalty: 2.25% of the total offering amount (4.5% in the case of shares)

(2) Act of having securities acquired or selling securities, through a public offering or secondary distribution etc., using a securities registration statement, etc. (offering disclosure for public offering or secondary distribution, etc.) containing false statements (Article 172-2 of the FIEA, Article 172 of the former FIEA)
Penalty: 2.25% of the total offering amount (4.5% in the case of shares)

(3) Act of not submitting an annual securities report, etc. (continuous disclosure documents for each business year) (Article 172-3 of the FIEA)
Penalty: Amount equivalent to the audit fee for the previous business year (or 4 million yen in the case that an audit was not conducted for the previous business year) (half of these amounts in the case of a quarterly or semiannual securities report)

(4) Act of submitting an annual securities report, etc. (continuous disclosure documents for each business year) containing false statements (Article 172-4 of the FIEA, 172-2 of the former FIEA)
Penalty: 6 million yen or 6/100,000 of the total market value of the issuer, whichever is greater (half of that amount in the case of a quarterly securities report, semiannual securities report or extraordinary report, etc.)

(5) Act of purchasing or accepting share certificates, etc. without issuing a public notice for

commencing tender offer (Article 172-5 of the FIEA)

Penalty: 25% of the total purchase amount

(6) Act of issuing a public notice for commencing tender offer containing false statements, or submitting a tender offer notification, etc. containing false statements (Article 172-6 of the FIEA)

Penalty: 25% of the total market value of purchased share certificates, etc.

(7) Act of not submitting a large shareholding report or change report (Article 172-7 of the FIEA)

Penalty: 1/100,000 of the total market value of the issuer of the share certificates, etc.

(8) Act of submitting a large shareholding report or change report, etc. containing false statements (Article 172-8 of the FIEA)

Penalty: 1/100,000 of the total market value of the issuer of the share certificates, etc.

(9) Act of conducting specified solicitation, etc. without provision or publication of specified information on securities (Article 172-9 of the FIEA)

Penalty: 2.25% of the total offering amount (4.5% in the case of shares)

(10) Act of providing or publicizing specified information on securities, etc. containing false information (Article 172-10 of the FIEA)

Penalty: (a) In cases where the information on specified securities, etc. was announced:
2.25% of the total offering amount (4.5% in the case of shares)

(b) In cases where the information on specified securities, etc. has not been announced:
The amount calculated by multiplying the amount in (a) by:
(The number of persons provided with the information on specified securities, etc.) / (The number of persons to whom the specified solicitation, etc. was made)

(11) Act of providing or announcing issuer's information, etc. containing false statements (Article 172-11 of the FIEA)

Penalty: (a) In cases where the information on the issuer, etc. was announced:
6 million yen or 6/100,000 of the total market value of the issuer, whichever is greater

(b) In cases where the information on the issuer, etc. has not been announced:
The amount calculated by multiplying the amount in (a) by:
(The number of persons provided with the information on the issuer, etc.) / (The number of persons to whom the information on the issuer, etc. should have been provided)

4. Activities Conducted in FY2010

In FY2010, the SESC completed disclosure statements inspections of 33 disclosing companies.

Based on the results of disclosure statements inspections, there were 19 cases (on a violator basis) subject to the recommendations for issuance of orders to pay administrative monetary penalties, totaling 1,879,819,994 yen, in relation to violations of disclosure requirements such as disclosure documents containing false statements, etc. on important matters.

Even in cases where, as a result of disclosure statements inspection, disclosure documents are not found to contain false statements, etc. on important matters, but it is recognized that it is

necessary to make amendments to annual securities reports, etc., the disclosing company would be urged to do so voluntarily.

* If disclosure documents was found to contain false statements, etc. on important matters and an amendment report, etc. for such disclosure documents has not been submitted, a recommendation for an order shall be given to submit an amendment report, etc. as well as a recommendation as described above (only two cases have been seen since 2005).
A recommendation to order submission of an amendment report, etc. is not given if the company voluntarily has made such amendment.

Total number of inspections completed		33
(of these inspections)	Recommended issuance of an order to pay an administrative monetary penalty	16 (19)
	Did not recommend issuance of an order to pay an administrative monetary penalty, but urged voluntary amendment	3

(Note) The number in parentheses for "Recommended issuance of an order to pay an administrative monetary penalty" is the number of cases on a violator basis.

2) Recommendations for Issuance of Orders to Pay Administrative Monetary Penalties Based on Disclosure Statements Inspection Results

1. Situation of Recommendations

The recommendations made in FY2010 in relation to violations of disclosure requirements include those related to a securities registration statement, etc. containing false statements, a prospectus containing false statements, failure to submit an annual securities reports, etc. and an annual securities report, etc. containing false statements. Of these, the recommendation related to ZECS Co., Ltd. was the first time a recommendation was made in a case of failure to submit an annual securities report, etc. (See 2 (vii) below.)

There was a wide range of types of false statements in disclosure documents: recording fictitious sales, recording sales ahead of schedule, understating costs, failure to record impairment loss, understating provision of allowance for doubtful accounts, recording fictitious software, understating loss based on overstated good will, overstating investment securities, etc.

The largest amount of administrative monetary penalty in relation to the recommendation concerning violations of disclosure requirements in FY2010 was 839,130,000 yen (annual securities statement, etc. containing false statements related to JVC KENWOOD Holdings Inc.).

2. Outline of Recommendations Issued

In FY2010, an outline of the cases subject to the recommendations for issuance of orders to pay administrative monetary penalties is as follows:

* The FIEA before amendment by Act 65 of the 2008 law is hereinafter referred to as the "former FIEA" in this chapter.

(i) Recommendation in relation to the false statements in an annual securities report, etc. of Link One Co., Ltd.

1. Link One Co., Ltd. submitted to the Director-General of the Kanto Local Finance Bureau its annual securities report, etc. "containing false statements on important matters" as stipulated in Article 172-2(1) and (2) of the former FIEA, as described in the table below.

No.	Annual securities report, etc.		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	January 31, 2006	Semiannual report for interim consolidated accounting period of the 5th business year (Semiannual report for interim period ended October 2005)	Interim consolidated accounting period from May 1, 2005 to October 31, 2005	Interim consolidated income statement	Consolidated ordinary loss was found to be 372 million yen, but positive 30 million yen was stated as income. Consolidated interim net loss was found to be 533 million yen, but positive 4 million yen was stated as income.	Overstating net sales, etc.
				Interim consolidated balance sheet	"Total shareholders' equity" corresponding to consolidated net assets was found to be 700 million yen, but was stated as 1,238 million yen.	
2	July 31, 2006	Annual securities report for consolidated accounting period of the 5th business year (Annual securities report for fiscal year ended April 2006)	Consolidated accounting period from May 1, 2005 to April 30, 2006	Consolidated income statement	Consolidated ordinary loss was found to be 314 million yen, but positive 251 million yen was stated as income. Consolidated net loss was found to be 592 million yen, but positive 73 million yen was stated as income.	Overstating net sales, etc.
				Consolidated balance sheet	"Total shareholders' equity" corresponding to consolidated net assets was found to be 641 million yen, but was stated as 1,307 million yen	
3	January 31, 2007	Semiannual report for interim consolidated accounting period of the 6th business year (Semiannual report for interim period ended October 2006)	Interim consolidated accounting period from May 1, 2006 to October 31, 2006	Interim consolidated balance sheet	Consolidated net assets were found to be negative 115 million yen, but were stated as positive 50 million yen	Overstating net sales, etc.

Note: Rounded down to the nearest million yen.

2. Link One Co., Ltd. submitted on March 23, 2007 to the Director-General of the Kanto

Local Finance Bureau its securities registration statement incorporating the annual securities report for the fiscal year ended April 2006, and the semiannual securities report for the interim period ended October 2006, and had others acquire its 11,600 shares in the amount of 1,508,000,000 yen through an offering based on said securities registration statement on April 9, 2007.

The above violations by the company correspond to the act of having others acquire securities through offering based on offering disclosure documents "containing false statements on important matters," as stipulated in Article 172(1)(i) of the former FIEA.

[Date of Recommendation] April 13, 2010

[Amount of administrative monetary penalty] 34,660,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: April 13, 2010
Date of order to pay penalty: May 11, 2010

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(ii) Recommendation in relation to false statements in a semiannual securities report of Remixpoint,Inc.

Remixpoint,Inc. submitted to the Director-General of the Kanto Local Finance Bureau a semiannual securities report "containing false statements on important matters," as stipulated in Article 172-2 (2) of the former FIEA, as described in the table below.

Submission date	Document	False Statement			
		Accounting period	Document related to financial calculation	Content (note)	Type
December 27, 2007	Semiannual report for interim accounting period of the 5th business year (Semiannual report for interim period ended September 2007)	Interim accounting period from April 1, 2007 to September 30, 2007	Interim income statement	Interim net loss were found to be 237 million yen, but stated as 138 million yen.	Understating reserve for bad debt

Note: Rounded down to the nearest million yen.

[Date of Recommendation] June 18, 2010

[Amount of administrative monetary penalty] 1,500,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: June 18, 2010
Date of order to pay penalty: July 9, 2010

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(iii) Recommendation in relation to false statements in annual securities report, etc. of Victor Company of Japan, Limited

1. Victor Company of Japan, Limited submitted to the Director-General of the Kanto Local Finance Bureau annual securities reports, etc. "containing false statements on important matters," as stipulated in Article 172-2 (1) and (2) of the former FIEA , as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	June 27, 2007	Annual securities report for consolidated accounting period of the 118th business year (Annual securities report for fiscal year ended March 2007)	Consolidated accounting period from April 1, 2006 to March 31, 2007	Consolidated income statement	Consolidated net loss was found to be 12,531 million yen, but stated as 7,891 million yen.	• Failure to record impairment loss • Understating expenses • Understating allowance, etc.
2	December 26, 2008	Semiannual report for interim consolidated accounting period of the 120th business year (Semiannual report for interim period ended September 2008)	Interim consolidated accounting period from April 1, 2008 to September 30, 2008	Interim consolidated income statement	Consolidated interim net loss was found to be 12,155 million yen, but stated as 8,095 million yen.	• Understating expenses • Understating allowance, etc.
3	June 24, 2009	Annual securities report for consolidated accounting period of the 120th business year (Annual securities report for fiscal year ended March 2009)	Consolidated accounting period from April 1, 2008 to March 31, 2009	Consolidated income statement	Consolidated ordinary loss was found to be 16,520 million yen, but stated as 10,307 million yen. Consolidated net loss was found to be 33,336 million yen, but stated as 24,350 million yen.	• Failure to record impairment loss • Understating expenses • Understating allowance, etc.

Note: Rounded down to the nearest million yen.

2. Victor Company of Japan, Limited submitted on July 24, 2007 to the Director-General of the Kanto Local Finance Bureau its securities registration statement with annual securities report for fiscal year ended March 2007 as a reference document, and had others acquire its 107,693,000 shares in the amount of 35,000,225,000 yen, through an offering based on said securities registration statement on August 10, 2007.

The above violations by company correspond to the act of having others acquire securities through offering based on offering disclosure documents "containing false statements on important matters," as stipulated in Article 172(1)(i) of the former FIEA.

[Date of Recommendation] June 21, 2010

[Amount of administrative monetary penalty] 707,600,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: June 21, 2010
Date of order to pay penalty: July 14, 2010

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(iv) Recommendation in relation to false statements in an annual securities report, etc. of JVC KENWOOD Holdings,Inc.

1. JVC KENWOOD Holdings Inc. submitted to the Director-General of the Kanto Local Finance Bureau an annual securities report "containing false statements on important matters," as stipulated in Article 172-2 (1) and (2) of the former FIEA ,as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	February 12, 2009	Quarterly report for 3rd quarter consolidated accounting period of the 1st business year (Quarterly report for 3rd quarter ended December 2008)	3rd quarter consolidated cumulative period from April 1, 2008 to December 31, 2008	Quarterly Consolidated income statement	Consolidated quarterly net loss was found to be 11,065 million yen, but stated as 3,337 million yen.	• Overstating income by recording and amortizing negative goodwill, and failure to record loss with positive goodwill being lump amortized and not recorded • Understating expenses, etc.
2	June 24, 2009	Annual securities report for consolidated accounting period of the 1st business year (Annual securities report for fiscal year ended March 2009)	Consolidated accounting period from April 1, 2008 to March 31, 2009	Quarterly Consolidated income statement	Consolidated net loss was found to be 30,734 million yen, but stated as 18,795 million yen.	• Overstating income by recording and amortizing negative goodwill, and failure to record loss with goodwill being lump amortized and not recorded • Failure to record impairment loss • Understating expenses, etc.

Note: Rounded down to the nearest million yen.

2. JVC KENWOOD Holdings, Inc. submitted to the Director-General of the Kanto Local Finance Bureau its securities registration statement "containing false statements on important matters" as stipulated in Article 172-2(1)(i) of the FIEA, and had others acquire its 320 stock acquisition rights in the amount of 18,580,884,000 yen (including the amount to be paid at exercise of the stock acquisition rights) through offering based on said securities registration statement on July 28, 2009, as described in the table below.

Submission date	Document	False Statement			
		Accounting period	Document related to financial calculation	Content (note)	Type
July 10, 2009	Securities registration statement	Consolidated accounting period from April 1, 2008 to March 31, 2009	Consolidated income statement	Consolidated net loss was found to be 30,734 million yen, but stated as 18,795 million yen	• Overstating income by recording and amortizing negative goodwill, and failure to record loss with goodwill being lump amortized and not recorded • Failure to record impairment loss • Understating expenses, etc.

Note: Rounded down to the nearest million yen.

[Date of Recommendation] June 21, 2010

[Amount of administrative monetary penalty] 839,130,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: June 21, 2010
1st trial date (trial conclusion): October 27, 2010
Date of order to pay penalty: December 9, 2010

With respect to this case, on July 5, 2010, the respondent submitted a written reply to deny and challenge the amount of administrative monetary penalty to pay, while admitting facts of the violation. Points of dispute in this case are as follows:

(i) In cases where stock acquisition rights are extinguished without being exercised and the entire amount of funds raised by the issuer is delivered to persons who acquired them, shall the administrative monetary penalty stipulated in Article 172-2(1)(i) of the FIEA be imposed?

(ii) What is “the amount to be paid at exercise of stock acquisition rights” stipulated in Article 172-2(1) (i) of the FIEA?

After the trial procedures, the Commissioner of the FSA decided to order to pay the administrative monetary penalty as follows:

With regard to the point of dispute (i), the amount of administrative monetary penalty is determined in the wake of having others acquire securities through offering based on the offering disclosure documents “containing false statements on important matters.” After that, even if stock acquisition rights are extinguished without being exercised and the entire amount of funds raised by the issuer is delivered to persons who acquired the stock acquisition rights, the fact remains that said regulation is applied, and the penalty stipulated in said regulation shall be imposed.

With regard to (ii), “the amount to be paid at exercise of stock acquisition rights” shall be regarded as the amount obtained with calculation based on the exercise price of the stock acquisition rights at the time of having others acquire securities through offering based on the offering disclosure documents containing false statements on important matters.

* In relation to the decision on this case, the company filed an action for cancellation with the Tokyo District Court on December 24, 2010.

(v) Recommendation in relation to false statements in annual securities reports, etc. of Senior Communication Co., Ltd., and false statements in the prospectus concerning secondary distribution of the company's shares held by the company's officers

1. Senior Communication Co., Ltd. submitted to the Director-General of the Kanto Local Finance Bureau annual securities reports, etc. "containing false statements on important matters" by recording sales ahead of schedule and recording fictitious sales etc., as stipulated in Article 172-2 (1) and (2) of the former FIEA and Article 172-4 (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	June 30, 2006	Annual securities report for consolidated accounting period of the 6th business year (Annual securities report for fiscal year ended March 2006)	Consolidated accounting period from April 1, 2005 to March 31, 2006	Consolidated income statement	Consolidated ordinary loss was found to be 127 million yen, but positive 217 million yen was stated as income. Consolidated net loss was found to be 316 million yen, but positive 85 million yen was stated as income.	• Recording sales ahead of schedule • Recording fictitious sales. etc.
				Consolidated balance sheet	"Total shareholders' equity" corresponding to consolidated net assets was found to be 568 million yen, but stated as 1,349 million yen.	
2	December 28, 2006	Semiannual report for interim consolidated accounting period of the 7th business year (Semiannual report for interim period ended September 2006)	Interim consolidated accounting period from April 1, 2006 to September 30, 2006	Interim consolidated income statement	Consolidated ordinary loss was found to be 128 million yen, but positive 176 million yen was stated as income. Consolidated interim net loss was found to be 255 million yen, but positive 89 million yen was stated as income.	• Recording sales ahead of schedule • Recording fictitious sales. etc.
				Interim consolidated balance sheet	Consolidated net assets were found to be 369 million yen, but stated as 1,495 million yen.	

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
3	June 29, 2007	Annual securities report for consolidated accounting period of the 7th business year (Annual securities report for fiscal year ended March 2007)	Consolidated accounting period from April 1, 2006 to March 31, 2007	Consolidated income statement	Consolidated ordinary loss was found to be 228 million yen, but positive 307 million yen was stated as income. Consolidated net loss was found to be 287 million yen, but positive 343 million yen was stated as income.	• Recording sales ahead of schedule • Recording fictitious sales, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,801 million yen, but stated as 3,252 million yen.	
4	December 27, 2007	Semiannual report for interim consolidated accounting period of the 8th business year (Semiannual report for interim period ended September 2007)	Interim consolidated accounting period from April 1, 2007 to September 30, 2007	Interim consolidated income statement	Consolidated ordinary loss was found to be 102 million yen, but positive 82 million yen was stated as income. Consolidated interim net loss was found to be 236 million yen, but stated as 9 million yen.	• Recording sales ahead of schedule • Recording fictitious sales, etc.
				Interim consolidated balance sheet	Consolidated net assets were found to be 1,667 million yen, but stated as 3,321 million yen.	
5	June 30, 2008	Annual securities report for consolidated accounting period of the 8th business year (Annual securities report for fiscal year ended March 2008)	Consolidated accounting period from April 1, 2007 to March 31, 2008	Consolidated income statement	Consolidated ordinary loss was found to be 263 million yen, but positive 231 million yen was stated as income. Consolidated net loss was found to be 496 million yen, but positive 16 million yen was stated as income.	• Recording sales ahead of schedule • Recording fictitious sales, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,402 million yen, but stated as 3,344 million yen.	
6	August 14, 2008	Quarterly report for 1st quarter consolidated accounting period of the 9th business year (Quarterly report for 1st quarter ended June 2008)	1st quarter consolidated cumulative period from April 1, 2008 to June 30, 2008	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 96 million yen, but positive 18 million yen was stated as income.	• Recording sales ahead of schedule • Recording fictitious sales, etc.
			1st quarter consolidated accounting period from April 1, 2008 to June 30, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,225 million yen, but stated as 3,299 million yen.	

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
7	November 14, 2008	Quarterly report for 2nd quarter consolidated accounting period of the 9th business year (Quarterly report for 2nd quarter ended September 2008)	2nd quarter consolidated cumulative period from April 1, 2008 to September 30, 2008	Quarterly consolidated income statement	Consolidated ordinary loss was found to be 258 million yen, but stated as 54 million yen. Consolidated quarterly net loss was found to be 348 million yen, but stated as 91 million yen.	• Recording sales ahead of schedule • Recording fictitious sales, etc.
			2nd quarter consolidated accounting period from July 1, 2008 to September 30, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 892 million yen, but stated as 3,139 million yen.	
8	February 13, 2009	Quarterly report for 3rd quarter consolidated accounting period of the 9th business year (Quarterly report for 3rd quarter ended December 2008)	3rd quarter consolidated cumulative period from April 1, 2008 to December 31, 2008	Quarterly consolidated income statement	Consolidated ordinary loss was found to be 385 million yen, but stated as 163 million yen. Consolidated quarterly net loss was found to be 599 million yen, but stated as 306 million yen.	• Recording sales ahead of schedule • Recording fictitious sales, etc.
			3rd quarter consolidated accounting period from October 1, 2008 to December 31, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 600 million yen, but stated as 2,861 million yen.	
9	June 30, 2009	Annual securities report for consolidated accounting period of the 9th business year (Annual securities report for fiscal year ended March 2009)	Consolidated accounting period from April 1, 2008 to March 31, 2009	Consolidated income statement	Consolidated ordinary loss was found to be 721 million yen, but stated as 405 million yen. Consolidated net loss was found to be 936 million yen, but stated as 616 million yen.	• Recording sales ahead of schedule • Recording fictitious sales, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 324 million yen, but stated as 2,570 million yen.	
10	August 14, 2009	Quarterly report for 1st quarter accounting period of the 10th business year (Quarterly report for 1st quarter ended June 2009)	1st quarter accounting period from April 1, 2009 to June 30, 2009	Quarterly balance sheet	Net assets were found to be 283 million yen, but stated as 2,385 million yen.	Recording fictitious software, etc.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
11	November 13, 2009	Quarterly report for 2nd quarter accounting period of the 10th business year (Quarterly report for 2nd quarter ended September 2009)	2nd quarter accounting period from July 1, 2009 to September 30, 2009	Quarterly balance sheet	Net assets were found to be 175 million yen, but stated as 2,232 million yen.	Recording fictitious software, etc.
12	February 12, 2010	Quarterly report for 3rd quarter accounting period of the 10th business year (Quarterly report for 3rd quarter ended December 2009)	3rd quarter accounting period from October 1, 2009 to December 31, 2009	Quarterly balance sheet	Net assets were found to be 127 million yen, but stated as 2,115 million yen.	Recording fictitious software, etc.

Note: Rounded down to the nearest million yen.

2. Senior Communication Co., Ltd. submitted to the Director-General of the Kanto Local Finance Bureau the following documents:
   (a) Its securities registration statement including the consolidated financial statements for the fiscal year ended March 2006 (see 1. of the table shown above) containing false statements on important matters. The company had others acquire 5,000 shares in the amount of 1,479,250,000 yen, through offering based on said securities registration statement on November 1, 2006.
   (b) Its securities registration statement including the consolidated financial statements for the fiscal year ended March 2006 (see 1. of the table shown above) containing false statements on important matters. The company had others acquire 521 shares in the amount of 145,556,980 yen through offering based on said securities registration statement on November 28, 2006.

The above violations taken by the company correspond to the act of having others acquire securities through offering based on offering disclosure documents "containing false statements on important matters," as stipulated in Article 172(1)(i) of the former FIEA.

3. Violators (1), (2) and (3) used the prospectus including the consolidate financial statements (see 1. of the table shown above) for the fiscal year ended March 2006 containing false statements on important matters, and were involved in the preparation of the prospectus while knowing the prospectus contains the false statements. On November 2, 2006, through secondary distribution based on the prospectus;
   (a) Violator (1) sold 380 Senior Communication Co., Ltd. shares held by violator (1) in the amount of 112,423,000 yen;
   (b) Violator (2) sold 380 Senior Communication Co., Ltd. shares held by violator (2) in the

amount of 112,423,000 yen, and

(c) Violator (3) sold 240 Senior Communication Co., Ltd. shares held by violator (3) in the amount of 71,004,000 yen.

Each of the above violations by violators (1), (2), and (3) corresponds to the act that any of the Officers, etc., of an issuer which has used the prospectus containing a misstatement on important matters, who participated in preparation of said prospectus with knowledge of the fact that the prospectus contained a misstatement, and has sold securities owned by said officer, etc., through secondary distribution pertaining to said prospectus.

[Date of Recommendation] September 17, 2010

[Amount of administrative monetary penalty]

Senior Communication Co., Ltd.: 50,490,000 yen
Violator (1): 2,240,000 yen
Violator (2): 2,240,000 yen
Violator (3): 1,420,000 yen

[Process following Recommendation]

(Same dates for Senior Communication Co., Ltd., violator (1),violator (2) and violator (3))

Date of decision on the commencement of trial procedures: September 17, 2010
Date of order to pay penalty: October 14, 2010

Since a written reply admitting these facts was submitted by the violators ordered to pay the penalty, no trial was conducted.

(vi) Recommendation in relation to false statements in annual securities reports, etc. of Universal Solution Systems Inc.

1. Universal Solution Systems Inc. submitted to the Director-General of the Kanto Local Finance Bureau its annual securities reports, etc. “containing false statements on important matters” by recording sales ahead of schedule and overstating investment securities, etc., as stipulated in Article 172-2(1) and (2) of the former FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	June 29, 2006	Annual securities report for accounting period of the 10th business year (Annual securities report for fiscal year ended March 2006)	Accounting period from April 1, 2005 to March 31, 2006	Income statement	Ordinary income was found to be 106 million yen, but stated as 227 million yen. Net loss was found to be 4 million yen, but positive 117 million yen was stated as income. (Note 2)	Recording sales ahead of schedule
2	June 26, 2008	Annual securities report for accounting period of the 12th business year (Annual securities report for fiscal year ended March 2008)	Accounting period from April 1, 2007 to March 31, 2008	Income statement	Net loss was found to be 742 million yen, but stated as 622 million yen.	• Understating valuation loss on unlisted shares • Overstating investment securities, etc.
				Balance sheet	Net assets were found to be 527 million yen, but stated as 663 million yen.	
3	November 14, 2008	Quarterly report for 2nd quarter accounting period of the 13th business year (Quarterly report for 2nd quarter ended September 2008)	2nd quarter accounting period from July 1, 2008 to September 30, 2008	Quarterly balance sheet	Net assets were found to be 490 million yen, but stated as 631 million yen.	Overstating investment securities, etc.

Note 1: Rounded down to the nearest million yen.

Note 2: Universal Solution Systems Inc. amended ordinary income and net loss respectively to 6 million yen and 104 million yen in the amendment report submitted on June 16, 2010.

2. Universal Solution Systems Inc. submitted on March 17, 2009 to the Director-General of the Kanto Local Finance Bureau its securities registration statement incorporating the annual securities report for the fiscal year ended March 2008 containing false statements on important matters, and had others acquire its 85,490 shares in the amount of 370,000,720 yen on April 2, 2009, through an offering based on said securities registration statement.

The above violations by the company correspond to the act of having others acquire securities through offering based on offering disclosure documents “containing false statements on important matters,” as stipulated in Article 172-2(1)(i) of the former FIEA.

[Date of Recommendation] October 8, 2010

[Amount of administrative monetary penalty] 24,150,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: October 8, 2010
Date of order to pay penalty: November 2, 2010

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(vii) Recommendation in relation to no submission of annual securities report, etc. of ZECS Co., Ltd.

ZECS Co., Ltd. had not submitted to the Director-General of the Kanto Local Finance Bureau the following documents:

1. The quarterly securities report for the third quarter consolidated accounting period of the 14th business year (the quarterly report for the third quarter ended February 2010) within 45 days after the end of said quarterly consolidated accounting period, or by April 14, 2010, violating Article 24-4-7 (1) of the FIEA.
2. The annual securities report for the full consolidated accounting period of the 14th business year (the annual securities report for the business year ended May 2010) within three months after the end of said business year, or by August 31, 2010, violating Article 24 (1) of the FIEA.

In the process of the inspection, the SESC recognized, by September 2007 at the latest, the existence of debt guarantee and similar acts made by the company (Outstanding balance of principal obligation was 10,983 million yen as of May 31, 2010. Hereinafter referred to as "Debt Guarantee, etc."), as well as the deterioration in financial position of the principal obligor involved in the Debt Guarantee, etc. Accordingly, the company should have prepared the consolidated financial statements for the consolidated accounting period of the 14th business year (from June 1, 2009 to May 31, 2010) reflecting booking of reserve for loss on the Debt Guarantee, etc. and submitted to the Director-General of the Kanto Local Finance Bureau the annual securities report for the consolidated accounting period of the 14th business year, including said consolidated financial statements within three months after the end of the business year, as stipulated in Article 24 (1) of the FIEA.

Even after that, as the financial position of the principal obligor continued to worsen, the obligor received a demand to perform on the Debt Guarantee, etc. However, the company has not yet appointed an accounting auditor, nor prepared the above-mentioned quarterly securities report and annual securities report, saying the reason is its tight cash flow. In this way, the company has not disclosed the company's such financial conditions to its shareholders and other market players for a long time.

[Date of Recommendation] November 19, 2010

[Amount of administrative monetary penalty] 39,999,999 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: November 19, 2010
Date of order to pay penalty: December 21, 2010

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(viii) Recommendation in relation to false statements in an annual securities report, etc. of DDS, Inc.

1. DDS Inc. submitted to the Director-General of the Tokai Local Finance Bureau its annual securities report, etc. "containing false statements on important matters" by recording fictitious inventory assets, as stipulated in Article 172-2(1) of the former FIEA and Article 172-4(2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	March 31, 2009	Annual securities report for consolidated accounting period of the 14th business year (Annual securities report for fiscal year ended December 2008)	Consolidated accounting period from January 1, 2008 to December 31, 2008	Consolidated income statement	Consolidated net loss was found to be 1,889 million yen, but stated as 1,828 million yen.	Recording fictitious inventory assets, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 175 million yen, but stated as 237 million yen.	
2	May 15, 2009	Quarterly report for 1st quarter consolidated accounting period of the 15th business year (Quarterly report for 1st quarter ended March 2009)	1st quarter consolidated accounting period from January 1, 2009 to March 31, 2009	Consolidated balance sheet	Consolidated net assets were found to be negative 275 million yen, but stated as negative 215 million yen.	Recording fictitious inventory assets, etc.

Note: Rounded down to the nearest million yen.

2. DDS, Inc. submitted to the Director-General of the Kanto Local Finance Bureau:

(a) its securities registration statement (common stocks) incorporating the annual securities report for the fiscal year ended December 2008 (see 1. of the table shown above) and the quarterly securities report for the 1st quarter for the fiscal year ended March 2009 (see 2. of the table shown above) containing false statements on important matters on June 10, 2009, and had others acquire its 40,676 shares in the amount of 406,760,000 yen, through offering on July 24, 2009 based on said securities registration statement.

(b) its securities registration statement (stock acquisition rights) incorporating the annual securities report for the fiscal year ended December 2008 (see 1. of the table shown above) and the quarterly securities report for the 1 quarter for the fiscal year ended March 2009 (see 2. of the table shown above) containing false statements on important matters on June 10, 2009, and had others acquire its 2,000 units of stock acquisition rights in the amount of 200 million yen (including the amount to be paid at the exercise

of the stock acquisition rights) through offering on July 24, 2009 based on said securities registration statement.

The above violations by the company correspond to the act of having others acquire securities through offering based on offering disclosure documents "containing false statements on important matters," as stipulated in Article 172-2(1)(i) of the former FIEA.

[Date of Recommendation] November 19, 2010

[Amount of administrative monetary penalty] 33,300,000 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: November 19, 2010

In the process of trial procedures: (as of May 31, 2011)

(ix) Recommendation in relation to false statements in an annual securities report, etc. of LAWSON ENTERMEDIA, INC.

LAWSON ENTERMEDIA, INC. submitted to the Director-General of the Kanto Local Finance Bureau an annual securities report, etc. "containing false statements on important matters" by understating allowance for bad debt, as stipulated in Article 172-2 (1) of the former FIEA and Article 172-4 (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	May 21, 2009	Annual securities report for accounting period of the 17th business year (Annual securities report for fiscal year ended February 2009)	Accounting period from March 1, 2008 to February 28, 2009	Income statement	Net loss was found to be 1,444 million yen, but positive 550 million yen was stated as income.	Understating allowance for bad debt
				Balance sheet	Net assets were found to be 4,420 million yen, but stated as 6,432 million yen.	
2	July 10, 2009	Quarterly report for 1st quarter accounting period of the 18th business year (Quarterly report for 1st quarter ended May 2009)	1st quarter accounting period from March 1, 2009 to May 31, 2009	Quarterly balance sheet	Net assets were found to be 5,051 million yen, but stated as 7,220 million yen.	Understating allowance for bad debt
3	October 14, 2009	Quarterly report for 2nd quarter accounting period of the 18th business year (Quarterly report for 2nd quarter ended August 2009)	2nd quarter accounting period from June 1, 2009 to August 31, 2009	Quarterly balance sheet	Net assets were found to be 5,158 million yen, but stated as 7,344 million yen.	Understating allowance for bad debt

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
4	January 14, 2010	Quarterly report for 3rd quarter accounting period of the 18th business year (Quarterly report for 3rd quarter ended November 2009)	3rd quarter cumulative period from March 1, 2009 to November 30, 2009	Quarterly income statement	Quarterly net loss was found to be 3,112 million yen, but positive 1,143 million yen was stated as income.	Understating allowance for bad debt
			3rd quarter accounting period from September 1, 2009 to November 30, 2009	Quarterly balance sheet	Net assets were found to be 1,074 million yen, but stated as 7,326 million yen.	

Note: Rounded down to the nearest million yen.

[Date of Recommendation] November 24, 2010

[Amount of administrative monetary penalty] 8 million yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: November 24, 2010
Date of order to pay penalty: December 27, 2010

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(x) Recommendation in relation to false statements in annual securities reports, etc. of Mebix, Inc.

Mebix, Inc. submitted to the Director-General of the Kanto Local Finance Bureau its annual securities reports, etc. "containing false statements on important matters" by recording sales ahead of schedule, etc., as stipulated in Article 172-2 (1) and (2) of the former FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	January 30, 2006	Semiannual report for interim consolidated accounting period of the 5th business year (Semiannual report for interim period ended October 2005)	Interim consolidated accounting period from May 1, 2005 to October 31, 2005	Interim consolidated income statement	Consolidated interim net loss was 54 million, but positive 94 million yen was stated as income.	Recording sales ahead of schedule, etc.
				Interim consolidated balance sheet	"Total shareholders' equity" corresponding to consolidated net assets was found to be 298 million yen, but stated as 447 million yen.	

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
2	July 28, 2006	Annual securities report for consolidated accounting period of the 5th business year (Annual securities report for fiscal year ended April 2006)	Consolidated accounting period from May 1, 2005 to April 30, 2006	Consolidated income statement	Consolidated net loss was 65 million yen, but positive 224 million yen was stated as income.	Recording sales ahead of schedule, etc.
3	January 30, 2007	Semiannual report for interim consolidated accounting period of the 6th business year (Semiannual report for interim period ended October 2006)	Interim consolidated accounting period from May 1, 2006 to October 31, 2006	Interim consolidated income statement	Consolidated interim net loss was 49 million yen, but positive 109 million yen was stated as income.	Recording sales ahead of schedule, etc.
				Interim consolidated balance sheet	Consolidated net assets were found to be 1,663 million yen, but stated as 2,112 million yen.	
4	July 30, 2007	Annual securities report for consolidated accounting period of the 6th business year (Annual securities report for fiscal year ended April 2007)	Consolidated accounting period from May 1, 2006 to April 30, 2007	Consolidated income statement	Consolidated net loss was 96 million yen, but positive 222 million yen was stated as income.	Recording sales ahead of schedule, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,624 million yen, but stated as 2,233 million yen.	
5	January 30, 2008	Semiannual report for interim consolidated accounting period of the 7th business year (Semiannual report for interim period ended October 2007)	Interim consolidated accounting period from May 1, 2007 to October 31, 2007	Interim consolidated income statement	Consolidated interim net loss was 298 million yen, but positive 111 million yen was stated as income.	Recording sales ahead of schedule, etc.
				Interim consolidated balance sheet	Consolidated net assets were found to be 1,335 million yen, but stated as 2,354 million yen.	
6	July 30, 2008	Annual securities report for consolidated accounting period of the 7th business year (Annual securities report for fiscal year ended April 2008)	Consolidated accounting period from May 1, 2007 to April 30, 2008	Consolidated balance sheet	Consolidated net assets were found to be 1,770 million yen, but stated as 2,340 million yen.	Recording sales ahead of schedule, etc.
7	September 12, 2008	Quarterly report for 1st quarter consolidated accounting period of the 8th business year (Quarterly report for 1st quarter ended July 2008)	1st quarter consolidated cumulative period from May 1, 2008 to July 31, 2008	Quarterly consolidated income statement	Consolidated quarterly net loss was 149 million yen, but positive 18 million yen was stated as income.	Recording sales ahead of schedule, etc.
			1st quarter consolidated accounting period from May 1, 2008 to July 31, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,565 million yen, but stated as 2,303 million yen.	

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
8	December 12, 2008	Quarterly report for 2nd quarter consolidated accounting period of the 8th business year (Quarterly report for 2nd quarter ended October 2008)	2nd quarter consolidated cumulative period from May 1, 2008 to October 31, 2008	Quarterly consolidated income statement	Consolidated quarterly net loss was 322 million yen, but positive 10 million yen was stated as income.	Recording sales ahead of schedule, etc.
			2nd quarter consolidated accounting period from August 1, 2008 to October 31, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,392 million yen, but stated as 2,295 million yen.	
9	March 13, 2009	Quarterly report for 3rd quarter consolidated accounting period of the 8th business year (Quarterly report for 3rd quarter ended January 2009)	3rd quarter consolidated cumulative period from May 1, 2008 to January 31, 2009	Quarterly consolidated income statement	Consolidated quarterly net loss was 347 million yen, but stated as 44 million yen.	Recording sales ahead of schedule, etc.
			3rd quarter consolidated accounting period from November 1, 2008 to January 31, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 1,365 million yen, but stated as 2,239 million yen.	
10	July 30, 2009	Annual securities report for consolidated accounting period of the 8th business year (Annual securities report for fiscal year ended April 2009)	Consolidated accounting period from May 1, 2008 to April 30, 2009	Consolidated income statement	Consolidated net loss was 564 million yen, but stated as 232 million yen.	Recording sales ahead of schedule, etc.
				Consolidated balance sheet	Consolidated net assets were found to be 1,166 million yen, but stated as 2,069 million yen.	

Note: Rounded down to the nearest million yen.

[Date of Recommendation] December 10, 2010

[Amount of administrative monetary penalty] 10,999,999 yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: December 10, 2010
Date of order to pay penalty: January 19, 2011

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(xi) Recommendation in relation to false statements in an annual securities report, etc. of M3, Inc.

M3, Inc. submitted to the Director-General of the Kanto Local Finance Bureau its annual securities report, etc. “containing false statements on important matters” by understating loss based on overstated goodwill, as stipulated in Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	August 7, 2009	Quarterly report for 1st quarter consolidated accounting period of the 10th business year (Quarterly report for 1st quarter ended June 2009)	1st quarter consolidated cumulative period from April 1, 2009 to June 30, 2009	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 249 million yen, but positive 614 million yen was stated as income.	Understating loss based on overstated good will
2	November 12, 2009	Quarterly report for 2nd quarter consolidated accounting period of the 10th business year (Quarterly report for 2nd quarter ended September 2009)	2nd quarter consolidated cumulative period from April 1, 2009 to September 30, 2009	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 113 million yen, but stated as 1,187 million yen.	Understating loss based on overstated good will, etc.
3	February 10, 2010	Quarterly report for 3rd quarter consolidated accounting period of the 10th business year (Quarterly report for 3rd quarter ended December 2009)	3rd quarter consolidated cumulative period from April 1, 2008 to December 31, 2009	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 945 million yen, but stated as 1,905 million yen.	Understating loss based on overstated good will, etc.
4	June 22, 2010	Annual securities report for consolidated accounting period of the 10th business year (Annual securities report for fiscal year ended March 2010)	Consolidated accounting period from April 1, 2009 to March 31, 2010	Consolidated income statement	Consolidated net income was found to be 1,938 million yen, but stated as 2,956 million yen.	Understating loss based on overstated good will
5	April 30, 2010	Amendment report for Quarterly report for 1st quarter consolidated accounting period of the 10th business year (Amendment report for Quarterly report for 1st quarter ended June 2009)	1st quarter consolidated cumulative period from April 1, 2009 to June 30, 2009	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 249 million yen, but originally stated consolidated quarterly net income at 614 million yen was not amended.	Understating loss based on overstated good will

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
6	April 30, 2010	Amendment report for Quarterly report for 2nd quarter consolidated accounting period of the 10th business year (Amendment report for Quarterly report for 2nd quarter ended September 2009)	2nd quarter consolidated cumulative period from April 1, 2009 to September 30, 2009	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 113 million yen, but stated as 1,125 million yen.	Understating loss based on overstated good will
7	April 30, 2010	Amendment report for Quarterly report for 3rd quarter consolidated accounting period of the 10th business year (Amendment report for Quarterly report for 3rd quarter ended December 2009)	3rd quarter consolidated cumulative period from April 1, 2008 to December 31, 2009	Quarterly consolidated income statement	Consolidated quarterly net income was found to be 945 million yen, but stated as 1,959 million yen.	Understating loss based on overstated good will

Note: Rounded down to the nearest million yen.

[Date of Recommendation] December 10, 2010

[Amount of administrative monetary penalty] 12 million yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: December 10, 2010

Date of order to pay penalty: January 19, 2011

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(xii) Recommendation in relation to false statements in annual securities reports, etc. of Acrodea, Inc.

1. Acrodea, Inc. submitted to the Director-General of the Kanto Local Finance Bureau its annual securities reports, etc. “containing false statements on important matters” by recording fictitious sales and recording fictitious software, etc., as stipulated in Article 172-2 (1) and (2) of the former FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	June 27, 2008	Annual securities report for consolidated accounting period of the 4th business year (Annual securities report for fiscal year ended March 2008)	Consolidated accounting period from April 1, 2007 to March 31, 2008	Consolidated income statement	Consolidated ordinary income was found to be 267 million yen, but stated as 571 million yen. Consolidated net loss was found to be 170 million yen, but positive 278 million yen was stated as income.	Recording fictitious sales, etc.
2	November 14, 2008	Quarterly report for 2nd quarter consolidated accounting period of the 5th business year (Quarterly report for 2nd quarter ended September 2008)	2nd quarter consolidated cumulative period from April 1, 2008 to September 30, 2008	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 322 million yen, but stated as 156 million yen.	Recording fictitious sales, etc.
3	February 13, 2009	Quarterly report for 3rd quarter consolidated accounting period of the 5th business year (Quarterly report for 3rd quarter ended December 2008)	3rd quarter consolidated cumulative period from April 1, 2008 to December 31, 2008	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 817 million yen, but stated as 471 million yen.	• Recording fictitious sales • Recording fictitious software, etc.
			3rd quarter consolidated accounting period from October 1, 2008 to December 31, 2008	Quarterly consolidated balance sheet	Consolidated net assets were found to be 3,163 million yen, but stated as 3,958 million yen.	
4	May 15, 2009	Quarterly report for 4th quarter consolidated accounting period of the 5th business year (Quarterly report for 4th quarter ended March 2009)	4th quarter consolidated cumulative period from April 1, 2008 to March 31, 2009	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 1,347 million yen, but stated as 1,015 million yen.	• Recording fictitious sales • Recording fictitious software, etc.
			4th quarter consolidated accounting period from January 1, 2009 to March 31, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 2,598 million yen, but stated as 3,380 million yen.	
5	August 14, 2009	Quarterly report for 5th quarter consolidated accounting period of the 5th business year (Quarterly report for 5th quarter ended June 2009)	5th quarter consolidated cumulative period from April 1, 2008 to June 30, 2009	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 1,510 million yen, but stated as 1,222 million yen.	• Recording fictitious sales • Recording fictitious software, etc.
			5th quarter consolidated accounting period from April 1, 2009 to June 30, 2009	Quarterly consolidated balance sheet	Consolidated net assets were found to be 2,440 million yen, but stated as 3,177 million yen.	

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
6	November 27, 2009	Annual securities report for consolidated accounting period of the 5th business year (Annual securities report for fiscal year ended August 2009)	Consolidated accounting period from April 1, 2008 to August 31, 2009	Consolidated income statement	Consolidated net loss was found to be 1,644 million yen, but stated as 1,389 million yen.	• Recording fictitious sales
				Consolidated balance sheet	Consolidated net assets were found to be 2,772 million yen, but stated as 3,476 million yen.	• Recording fictitious software, etc.

Note: Rounded down to the nearest million yen.

2. On June 19, 2009, Acrodea, Inc. submitted to the Director-General of the Kanto Local Finance Bureau its securities registration statement including the following documents as reference materials: (i) annual securities report for the fiscal year ended March 2008 (see 1. of the table above); (ii) quarterly securities report for the second quarter ended September 2008 (see 2. of the table above); (iii) quarterly securities report for the third quarter ended December 2008 (see 3. of the table above), and (iv) quarterly securities report for the fourth quarter ended March 2009 (see 4. of table above). On July 6, 2009, the company had others acquire its 1,600 units of stock acquisition rights in the amount of 1,575,680,000 yen (including the amount to be paid at the exercise of the stock acquisition rights) through offering based on said securities registration statement.

The above violations by the company correspond to the act of having others acquire securities through offering based on offering disclosure documents “containing false statements on important matters,” as stipulated in Article 172-2(1)(i) of the former FIEA.

[Date of Recommendation] December 10, 2010

[Amount of administrative monetary penalty] 78,149,996 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: December 10, 2010
Date of order to pay penalty: January 19, 2011

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(xiii) Recommendation in relation to false statements in annual securities reports, etc. of DesignExchange Co., Ltd.

1. DesignExchange Co., Ltd. submitted to the Director-General of the Kanto Local Finance Bureau its annual securities reports, etc. “containing false statements on important matters” by understating impairment loss and failure to record provision for loss on guarantees, as stipulated in Article 172-2 (1) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	March 30, 2009	Annual securities report for consolidated accounting period of the 16th business year (Annual securities report for fiscal year ended December 2008)	Consolidated accounting period from January 1, 2008 to December 31, 2008	Consolidated income statement	Consolidated net loss was found to be 1,418 million yen, but stated as 1,302 million yen.	Failure to record provision for loss on guarantees, etc.
2	March 31, 2010	Annual securities report for consolidated accounting period of the 17th business year (Annual securities report for fiscal year ended December 2009)	Consolidated accounting period from January 1, 2009 to December 31, 2009	Consolidated income statement	Consolidated net loss was found to be 2,692 million yen, but stated as 1,545 million yen. (Note 2)	• Understating impairment loss • Overstating copyright, etc.
				Consolidated balance sheet	Consolidated net assets were found to be negative 435 million yen, but positive 827 million yen was stated. (Note 2)	
3	May 14, 2010	Quarterly report for 1st quarter consolidated accounting period of the 18th business year (Quarterly report for 1st quarter ended March 2010)	1st quarter consolidated accounting period from January 1, 2010 to March 31, 2010	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 513 million yen, but positive 748 million yen was stated. (Note 3)	Overstating copyright, etc.

Note 1: Rounded down to the nearest million yen.

Note 2: DesignExchange Co., Ltd. amended consolidated net loss and consolidated net assets respectively to 3,052 million yen and negative 666 million yen, in the amendment report submitted on September 15, 2010.

Note 3: DesignExchange Co., Ltd. amended consolidated net assets to negative 744 million yen, in the amendment report submitted on September 15, 2010.

2. DesignExchange Co., Ltd. submitted to the Director-General of the Kanto Local Finance Bureau:

(a) its securities registration statement (common stocks) on March 18, 2009, and an amendment report on March 30, 2009 of the above securities registration statement incorporating the annual securities report for the fiscal year ended December 2008 (see 1. of the table shown above) containing false statements on important matters, and had others acquire its 260,000 shares in the amount of 70,200,000 yen through offering on April 6, 2009 based on said amendment report.

(b) its securities registration statement (stocks acquisition rights) on March 18, 2009, and an amendment report on March 30, 2009 of the above securities registration statement incorporating the annual securities report for the fiscal year ended December 2008 (see 1. of the table shown above) containing false statements on important matters, and had others acquire its 20,000 units of stock acquisition rights in the amount of 62 million yen

(including the amount to be paid at the exercise of the stock acquisition rights) through offering on April 6, 2009 based on said amendment report.

The above violations taken by the company correspond to the act of having others acquire securities through offering based on offering disclosure documents "containing false statements on important matters," as stipulated in Article 172-2(1)(i) of the former FIEA.

[Date of Recommendation] January 12, 2011

[Amount of administrative monetary penalty] 17,940,000 yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: January 12, 2011
Date of order to pay penalty: February 4, 2011

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(xiv) Recommendation in relation to false statements in annual securities reports, etc. of Mercian Corporation

Mercian Corporation submitted to the Director-General of the Kanto Local Finance Bureau its annual securities reports, etc. "containing false statements on important matters" by recording fictitious sales, etc., as stipulated in Article 172-2 (1) of the former FIEA and Article 172-4 (1) and (2) of the FIEA, as described in the table below.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
1	March 26, 2008	Annual securities report for consolidated accounting period of the 91st business year (Annual securities report for fiscal year ended December 2007)	Consolidated accounting period from January 1, 2007 to December 31, 2007	Consolidated income statement	Consolidated net loss was found to be 1,598 million yen, but positive 483 million yen was stated as income.	Recording fictitious sales, etc.
2	March 25, 2009	Annual securities report for consolidated accounting period of the 92nd business year (Annual securities report for fiscal year ended December 2008)	Consolidated accounting period from January 1, 2008 to December 31, 2008	Consolidated income statement	Consolidated net loss was found to be 1,871 million yen, but positive 162 million yen was stated as income.	Recording fictitious sales, etc.

No.	Disclosure Document		False Statement			
	Submission date	Document	Accounting period	Document related to financial calculation	Content (note)	Type
3	November 10, 2009	Quarterly report for 3rd quarter consolidated accounting period of the 93rd business year (Quarterly report for 3rd quarter ended September 2009)	3rd quarter consolidated cumulative period from January 1, 2009 to September 30, 2009	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 2,295 million yen, but was stated as 126 million yen.	Recording fictitious sales, etc.
4	March 25, 2010	Annual securities report for consolidated accounting period of the 93rd business year (Annual securities report for fiscal year ended December 2009)	Consolidated accounting period from January 1, 2009 to December 31, 2009	Consolidated income statement	Consolidated net loss was found to be 2,117 million yen, but positive 28 million yen was stated as income.	Recording fictitious sales, etc.

Note: Rounded down to the nearest million yen.

[Date of Recommendation] February 1, 2011

[Amount of administrative monetary penalty] 10 million yen

[Process following Recommendation]

Date of decision on the commencement of trial procedures: February 1, 2011
Date of order to pay penalty: February 22, 2011

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(xv) Recommendation in relation to false statements in an annual securities report of Rinko Corporation

Rinko Corporation submitted to the Director-General of the Kanto Local Finance Bureau its annual securities report "containing false statements on important matters" by understating reserve for bad debt, etc., as stipulated in Article 172-4 (1) of the FIEA, as described in the table below.

Annual securities report, etc.		False Statement			
Submission date	Document	Submission date	Document	Submission date	Document
June 28, 2010	Annual securities report for consolidated accounting period of the 149th business year (Annual securities report for fiscal year ended March 2010	Consolidated accounting period from April 1, 2009 to March 31, 2010	Consolidated income statement	Consolidated net loss was found to be 982 million yen, but was stated as 517 million yen. (Note 2)	Understating reserve for bad debt, etc.

Note 1: Rounded down to the nearest million yen.

Note 2: Rinko Corporation amended its consolidated net loss to 1,013 million yen, in the amendment report submitted on September 13, 2010.

[Date of Recommendation] February 18, 2011

[Amount of administrative monetary penalty] 3 million yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: February 18, 2011
Date of order to pay penalty: March 23, 2011

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

(xvi) Recommendation in relation to false statements in an annual securities report of Tokyo Nissan Computer System Co., Ltd.

Tokyo Nissan Computer System Co., Ltd. submitted to the Director-General of the Kanto Local Finance Bureau its annual securities report "containing false statements on important matters" by understating loss on disposal related to software in progress, etc., as stipulated in Article 172-2 (1) of the former FIEA, as described in the table below.

Annual securities report, etc.		False Statement			
Submission date	Document	Submission date	Document	Submission date	Document
June 23, 2008	Annual securities report for consolidated accounting period of the 20th business year (Annual securities report for fiscal year ended March 2008)	Consolidated accounting period from April 1, 2007 to March 31, 2008	Consolidated income statement	Consolidated net loss was found to be 711 million yen, but was stated as 580 million yen.	Loss on disposal related to software in progress, etc.

Note: Rounded down to the nearest million yen.

[Date of Recommendation] March 8, 2011

[Amount of administrative monetary penalty] 3 million yen

[Process following Recommendation]
Date of decision on the commencement of trial procedures: March 8, 2011
Date of order to pay penalty: April 7, 2011

Since a written reply admitting these facts was submitted by the violator ordered to pay the penalty, no trial was conducted.

3. Other

With regard to the case of false statements in the prospectus related to secondary distribution of shares of BIC CAMERA INC. owned by the company's officer, on which the SESC made a

recommendation on June 26, 2009, the respondent submitted a written reply denying facts of the violation on July 13, 2009, and challenged the following points of dispute:

(i) Can it be found that false statements are contained in the prospectus including the annual securities report for the consolidated accounting period of the 27th business year of BIC CAMERA, and the semiannual securities report for the interim consolidated accounting period of the 28th business year as reference documents?

(ii) Can it be found that the respondent was aware of the false statements in the prospectus when involved in preparation of the prospectus?

(iii) Can it be found that the respondent was involved with preparation of the prospectus containing false statements?

On June 25, 2010, the Commissioner of the FSA, after trial procedures, decided that facts of the violation could not be found. The reasons for the decision are as follows: With regard to (ii) above, it could not be found that the respondent was aware of the false statements in the prospectus when involved in preparation of the prospectus. Even if there were false statements in the prospectus and the respondent had been involved in preparation of the prospectus, it could not be found that the respondent was aware of the false statements in the prospectus when involved in preparation of the prospectus; therefore, it is not necessary to consider other points of dispute. Accordingly, facts subject to Article 178 (1) (ii) of the FIEA could not be found.

3) Petition for Court Injunctions against Public Offering without Filing Securities Registration Statements

In Article 192 petition and Article 187 investigation, upon the filing of a petition from the SESC, the court may give an order to entities which has conducted or will conduct an act in violation of the FIEA for prohibition or suspension of such act, when finding that there is an urgent necessity and that it is appropriate and necessary for the public interest and investor protection. (See 3.8))

● Seibutsu Kagaku Kenkyujo Co., Ltd.

On November 26, 2010, the SESC filed a petition for court injunctions against the act in violation of the FIEA (public offering without filing securities registration statements, etc.) conducted by Seibutsu Kagaku Kenkyujo Co., Ltd. (hereinafter referred to as “Seibutsu Kagaku” in this chapter) based on Article 192 of the FIEA.

In an Article 187 investigation (see 3.8) of Daikei Co., Ltd. conducted by the SESC, the following facts were founded in relation to Seibutsu Kagaku (Chuo City, Yamanashi Prefecture):

- During the period from around February to June, 2010, the company issued its shares and stock acquisition rights on 7 occasions, and solicited for purchase of shares, etc. in cooperation with Daikei, which is an unregistered business operator. As a result, the company had about 100 investors acquire the shares in the amount of about 100 million yen and stock acquisition rights in the amount of about 220 million yen, to be paid at exercise of the rights.
- The company solicited investors for purchase of shares scheduled to be issued at the end of November 2010.

Seibutsu Kagaku has not submitted securities registration statements for any issues. However, the solicitations for purchase of the shares, etc. related to 6 of 7 issues, and the shares

scheduled to be issued at the end of November 2010 fall into the category of offering of securities, and are also subject to Article 4 (1) stipulating that a public offering of securities "may not be made unless the issuer thereof has made a notification of public offering … of the securities to the Prime Minister". Consequently, the public offering should not have been made unless a securities registration statement had been submitted.

It was recognized that those acts by Seibutsu Kagaku were in violation of Article 4(1) of the FIEA, etc., and that there was a high possibility that the company would repeat said violation in the future.

Therefore, on November 26, 2010, the SESC made an Article 192 petition for injunction with the Kofu District Court against the act in violation of the FIEA (public offering without filing securities registration statements, etc.) conducted by Seibutsu Kagaku.

With regard to the unregistered offering by Seibutsu Kagaku, on the same date, the Kanto Local Finance Bureau issued and publicized a warning letter. As it was found that Seibutsu Kagaku had offered securities, etc. without registration according to hearings which had made by the Kanto Local Finance Bureau and information regarding the Article 192 petition against Daikei made by the SESC, this warning letter was issued to prohibit those acts.

Meanwhile, the SESC made an Article 192 petition for injunctions against said violations, from the viewpoint of public interest and investor protection, expecting that violations which would continue to be made in the future, as it was recognized that the company had offered securities, etc. without registration, and that there was a possibility that the company would do so in the future.

In response to the petition, the Kofu District Court, after hearings, issued an injunction on December 15, 2010 against the unregistered offering by the company, exactly as the SESC had asked.

In order to protect public interest and investors, the SESC intends to continue to take strict actions against acts in violation of the FIEA such as unregistered offerings, in close cooperation with relevant organizations including the FSA, Local Finance Bureaus, the Consumer Agency, investigative authorities, etc.

As unregistered offerings of shares, bonds, and other securities in violation of the FIEA have caused various troubles, we would like investors to be careful not to purchase such securities.

4) Future Challenges

In performing disclosure statements inspections, taking into account that there are very many diverse parties obligated to disclose documents, and that the environment surrounding securities markets is changing, the SESC will make efforts to conduct more diverse and advanced disclosure statements inspections, from the following perspectives:

(1) In order to implement quick and efficient disclosure statements inspections and investigations with an eye to ensuring the market participants are fairly and equally provided with accurate corporate information without delay, the SESC will strive to collect and analyze a variety of information inside and outside the markets, and efficiently find leads on concealed false statements, etc. Furthermore, the SESC will work to develop techniques to collect and

analyze disclosed information, in order to accurately perform disclosure statements inspections under the International Financial Reporting Standards (IFRS) which started to be applied on a voluntary basis.

(2) 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 the accurate financial information to the market as well as encouraging the related parties to achieve such appropriate disclosure.

(3) The SESC will promote cooperation with financial instrument exchanges and the Japanese Institute of Certified Public Accountants, as well as administrative departments of the FSA, by sharing the SESC's identified challenges and related information on window-dressing cases, etc.

(4) Taking appropriate actions against public offering of securities such as stocks and corporate bonds without filing securities registration statements, with enhancing cooperation with the FSA and the Local Finance Bureaus and, if necessary, seeking petitions for court injunctions. (Article 192 of the FIEA)

6. Investigations and Formal Complaints in Criminal Cases

1) Outline

1. Purpose of Criminal Investigations

For the purpose of maintaining financial and capital markets in which investors and other market participants are able to participate with a sense of security, it is important to ensure the fairness and transparency of these markets, and to nurture feelings of trust among all market participants. One way of doing this is by strictly punishing any offenders of market rules. With an aim of clarifying the truth behind any malicious acts that impair the fairness of these financial instruments and transactions, the authority of investigating criminal cases was vested in the SESC in conjunction with its inception in 1992.

The investigation of criminal cases is prescribed in the Financial Instruments and Exchange Act (FIEA) as an authority inherent to the Securities and Exchange Surveillance Commission (SESC) officials. The targeted scope of this authority is not limited to just financial instruments business operators. The SESC can also exercise this authority over investors and all other persons involved in financial instruments transactions and so forth. Furthermore, the SESC has also been given the authority to investigate criminal cases under the Act on Prevention of Transfer of Criminal Proceeds (APTCP), in which the FIEA is applied mutatis mutandis in this regard.

Financial instruments and transactions are becoming more and more complex, diversified and globalized. Therefore, in order to investigate criminal cases comprehensively and flexibly, the SESC conducts investigations of criminal cases focused on both primary and secondary markets.

2. Authority and Scope of Criminal Investigations

More specifically, the SESC has two types of authority related to the investigation of criminal cases. The SESC is authorized to conduct administrative level (non-compulsory) investigations, including questioning a suspect in, or witness to, a violation of the law or regulations (hereinafter referred to as a “suspect, etc.”), inspecting articles possessed or left behind by a suspect, etc., and provisionally holding articles provided voluntarily or left behind by a suspected offender, etc. (Article 210 of the FIEA). The SESC is also authorized to carry out compulsory investigations, namely official inspections, searches and seizures conducted based on a warrant issued by a judge of the court (Article 211 of the FIEA, etc.).

The scope of criminal cases is specified by a government ordinance as a category of acts impairing fair securities trading (Article 45 of the FIEA Enforcement Order). Most typical criminal cases include the submission of a false annual securities report by an issuing company, insider trading by a corporate insider, and the spreading of rumors, fraudulent means and market manipulation by any persons.

Under the APTCP, in cases where a financial instruments business operator confirms the identity of individuals, an act by a customer to conceal his or her name or address is also subject to investigation as a criminal case.

At the conclusion of a criminal case investigation, the SESC official reports the results of the investigation to the SESC (Article 223 of the FIEA, Article 28 of the APTCP). In the event, the investigation leads the committee members to have a strong belief that the case constitutes a

violation, the SESC shall file a formal complaint to a public prosecutor, and if there are any items that have been retained or seized in the SESC's investigation, they shall be sent together with a list of retained/seized articles to a public prosecutor (Article 226 of the FIEA, Article 28 of the APTCP).

2) Investigations of Criminal Cases and Filing of Formal Complaints

1. Filing of Formal Complaints

In FY2010, based on the results of criminal case investigations, the SESC filed formal complaints with the following district public prosecutors offices for a total of 8 cases (15 individuals), which consisted of 4 cases (5 individuals) of suspected insider trading, 1 case (1 individual) of suspected market manipulation, 1 case (3 individuals) of suspected fraudulent means, and 1 case (4 individuals) of suspected submission of false financial statements etc.

Name of case	Formal complaint date	Office at which formal complaints filed
Insider trading case by an employee of AOZORA Bank Ltd. (1)(2)	(1) May 11, 2010 (2) June 15, 2010	Tokyo District Public Prosecutor's Office
The case on submission of false financial statements of FOI Inc.	October 6, 2010	Saitama District Public Prosecutor's Office
Fraudulent scheme case concerning IPO of FOI Inc.	October 26, 2010	
Market manipulation case using "MISEGYOKU", sham order transactions by an OITA resident of day trader.	October 28, 2010	Oita District Public Prosecutor's Office
Insider trading case on shares of the SEIYU Ltd.	December 7, 2010	Tokyo District Public Prosecutor's Office
The case on illegal solicitation of bonds issued by MARUBI Inc.	February 9, 2011	Fukuoka District Public Prosecutor's Office
Insider trading case on the stocks of OX Holdings Inc.	March 22, 2011	Tachikawa District Public Prosecutor's Office

2. Outline of Formal Complaints

(1) Formal Complaints against Market misconduct

(i) Insider trading case by an employee of AOZORA Bank Ltd. (1)

The suspect, who was an employee engaged in loan examination at AOZORA Bank Ltd., has been accused of insider trading for making profits by trading shares of GDH K.K., D&M Holdings Inc. and Best Denki Inc. before the announcement of price sensitive information.

On December 6 or 7, 2006, the suspect received a material information that the board of GDH K.K. had decided to solicit a party to underwrite shares to be issued by GDH K.K. in order to facilitate the loan contract between GDH K.K. and AOZORA Bank Ltd.. During

the period from December 11, 2006 to January 19, 2007, prior to the information being announced, the suspect purchased a total of 135 shares of GDH K.K. equivalent to JPY 11,605,100.

On May 28 or June 2, 2008, the suspect received material information from his colleague, who was an employee in the loan examination department at the same bank, which the board of BCJ-2K.K. had decided to make a tender offer for shares of D&M Holdings Inc.. During the period from June 3 to 20, 2008, prior to the information being announced, the suspect purchased a total of 38,000 shares of D&M Holdings Inc. equivalent to equivalent to JPY 17,010,000 under the name of his acquaintance.

On August 11 or 14, 2008, the suspect received material information that the board of AS Holdings Inc. had decided to make a tender offer for shares of AKINDO SUSHIRO Inc.. During the period from August 20 to September 18, 2008, prior to the information being announced, the suspect purchased a total of 5,200 shares of AKINDO SUSHIRO Inc. equivalent to JPY 10,218,900 under the name of his acquaintance.

On March 26, 2009, the suspect received information on which the revised forecasts of net profit of BEST DENKI Inc. and its group for the business year of 2008/2009 would be the material information affecting the decisions of investors, which is required to be disclosed by the Cabinet Office Ordinance. During the period from March 26 to April 10, 2009, prior to this material information being announced, the suspect sold a total of 12,500 shares of BEST DENKI Inc. equivalent to JPY 3,505,500 under the name of his acquaintance.

(ii) Insider trading case by an employee of AOZORA Bank Ltd. (Second case)

The suspect of the above-mentioned case has been also accused of insider trading for making profits by trading share of RISA PARTNERS, Inc. before the announcement of price sensitive information.

Around March 6, 2009, the suspect received material information that RISA PARTNERS, Inc. would be able to finance a total of about 10 billion for new investment from a syndicate consists of 10 banks including Sumitomo Mitsui Banking Corporation. During the period from March 18 to 26, prior to the announcement of the information, the suspect purchased a total of 82 shares of RISA PARTNERS Inc. equivalent to JPY 2,222,740 under the name of his acquaintance.

(iii) Fraudulent scheme case concerning IPO of the FOI Inc.

The suspects, the FOI Inc., a semiconductor manufacturer, the CEO of the company, and the CFO of the company, have been accused of violating Article 158 of the FIEA in connection with the following fact;

The CEO and CFO conspired and overstated the business performance of the FOI corporation, at the time of listing the company's shares on the TSE Mothers market on November 20, 2009, in spite the actual sales amount of the company's group in 2008/2009 was JPY 319,565,084, and the actual sales amount of that for the first quarter and the second quarter in 2009/2010 were JPY 736,930 and JPY 4,653,095 respectively.

On October 16, 2009, the suspects showed the press at the TSE a document titled "Notification of decision of the board of directors with regard to issuance and offering of shares," as well as a document titled "Business forecast for the second quarter of 2009/2010 and for yearly," which contained false statements about the forecast of sales

for the second quarter of the fiscal year ended March 2010 is JPY 4,893 million.

On October 29, 2009, the suspects delivered prospectuses to securities companies which are to underwrite shares of the FOI. The prospectus contained false information regarding the business performance of the group like sales amount in 2008/2009 increased 124.8% year-on-year basis to JPY 11,855 million; the increase in sales amount was attributed to a growth in sales of insulating etching equipment and ashing-devices in Taiwan and China; sales amount would be JPY 2,430,736,000 in the first quarter of 2009/2010.

On November 11, 2009, at the premise of FOI Inc., the suspects announced the false declaration of the financial statements. During the period from November 12 to 17, 2009, the suspects deliver the prospectuses based on the false statements to investors to invite subscription for new shares of the FOI Inc.

(iv) Market manipulation case using "MISEGYOKU", sham order transactions by an OITA resident of day trader

The suspect has been accused of violating Article 159(1) of the FIEA in connection with the following facts;

On October 25, 2006, the suspect intentionally places fake-buy orders for the stock of Techno Mathematical Inc., which was listed on TSE Mothers, to make other investors misunderstood the position of the stock was active and to raise the stock price artificially. As a result of these orders, the price went up from JPY 1,130,000 to JPY 1,200,000 and the suspect gained the unfair profit through selling the arranged stock at higher price.

On the same day, the suspect intentionally places fake-buy orders for the stock of ADWAYS Inc., which was listed on TSE Mothers, to make other investors misunderstood the position of the stock was active and to raise market price of the stock artificially, and cancelled the orders. As a result of these orders, the price went up from JPY 277 thousand to JPY 290 thousand and the suspect gained the unfair profit through selling the arranged stock at higher price.

On February 9, 2010, the suspect intentionally places fake-buy orders for the stock of AUBEX Inc., which was listed on the 2nd section of TSE Mothers, to make other investors misunderstood the position of the stock was active and to raise market price of the stock artificially, and cancelled the orders. As a result of these orders, the price went up from JPY84 to JPY102 and the suspect gained the unfair profit through selling the arranged stock at higher price.

(v) Insider trading case on the shares of the SEIYU Ltd.

The suspects, TOKYO Fashion Institute and its CEO, have been accused of insider trading for making profits by trading the shares of the SEIYU Ltd. before the announcement of material information.

On October 1st and October 4th 2007, the suspect received the information from his wife, who was a board member of SEIYU Ltd., of the fact that the Wyoming Holding GMBH, which had a basic contract of capital tie-up with SEIYU Ltd., had decided to make a tender offer for SEIYU Ltd.. Prior to the announcement of this information, during the period from October 2 to 19, 2007, the suspect, TOKYO Fashion institute, has purchased a total of 199,000 shares at JPY 17,347,000 and gained the unfair profit through selling these shares, and on October 16 and 17, the suspect, the CEO of TOKYO Fashion

Institute, has purchased a total of 69,000 shares at JPY 6,024,000 and gained the unfair profit through selling these shares.

(vi) Insider trading case on the shares of OX Holdings Inc.

The suspect, who has been entrusted with a mediation of trading security for OX Capital Inc., a financing and trading of securities company, and a subsidiary of OX Holdings Inc., has been accused of insider trading for making profits by trading the shares of OX Holdings Inc. before the announcement of material information.

Around July 28, 2006, the suspect, in the course of performing the contract, came to know the information that OX Holdings Inc. confirmed a valuation loss of its securities amounted to about JPY 580 million in total, which should be disclosed in its financial statements for 2005/2006. Prior to the information being announced, on August 10 and 15, 2006, the suspect planned to sell the shares of OX Holdings in a margin transaction and to buy back them at lower price after the announcement of information and had done a total of 1,538 shares of OX Holdings equivalent to JPY32,323,670 under the name of the suspect.

(2) Formal Complaints regarding disclosure violations

(i) The case on submission of false financial statements of FOI Inc.

The suspects, the FOI Inc., semiconductor manufacturer, listed on the TSE Mothers markets, the CEO of the company, the CFO of the company, and the director of the Sales department of the company, have been accused of violating Article 197(1) of the FIEA in connection with following facts.

Even though the actual sales amount was JPY 319,560,000, three of the suspects conspired, and submitted suspicious consolidated financial statements in 2008/2009, which contains the exaggerated amount for sales JPY 11,855,960,000 to the Director of the Kanto Regional Finance Bureau.

(ii) The case on illegal solicitation of bonds issued by MARUBI Co., Ltd.

The suspects, MARUBI Inc., an agent company for maintaining the buildings, for selling and purchasing the real estate and for trading securities, and the Chairperson of the company, have been accused of violating the Article 197(2) of FIEA in connection with the following fact;

Even though notification has been required for offering the bond, the suspects offered the bond of the company to investors without notifying the authority, and subscribed it for about 15,000 people. In this matter, around the end of July, 2006, the suspects distributed the application forms and the guidance which informed the investors of the conditions, as of the price, the interest rate, the term, and the deadline of the application, in the name of employee who had not been involved.

3) Future Challenges

The SESC targets to file complaints on various types of case more quickly than ever.

(1) Efforts for complex and malicious composite cases covering both primary and secondary

markets, such as fraudulent financing (unfair financing)

As stated in the 7th term booklet on target (published on January 18, 2011), the SESC continues to improve its functions for market surveillance, and strongly addressing exposure of complex and malicious cases including unfair financing or fraudulent means.

In Japan, we are still facing harsh economic conditions and there's some problem of lacking transparency in finance for companies, especially for newly established which has difficulty in financing. In such environment, the SESC prioritizes to monitor of unfair financing, and will severely apply Article158 of the FIEA, which regulates the fraudulent means, to such unfair financing or fraudulent means. Even for the cases in which antisocial group act as secret maneuvers, the SESC intends to tackle such cases in cooperation with the police authorities, as needed.

(2) Monitoring a wide variety of crimes

In addition to tackling above mentioned cases involving unfair finance, the SESC tackles typical types of crime such as insider trading, market manipulation, and submission of false financial statements like window-dressing. For exercising a strict control over these types of crime, the SESC continues to strive for more effective and efficient market surveillance which is expected to be precautionary measure.

(i) Countermeasure for insider trading

As for insider trading cases, the number of the cases, in which the persons who are required to have professional ethics involved as informants or insider traders, is increasing. Because of the recent harsh market environment, enhancement of capital through public offering or allotment of new shares to a third party by listed companies became popular as well as the method to be unlisted through management buyout (MBO), etc. In such situation, it is obvious that there are risks of insider trading being done. Thus, the SESC will continue on monitoring the overall market and each transaction which is suspected to be insider trading, for example, the transaction made in a timely manner prior to a material fact being announced, and analyzing the primary factor of the insider trading. The SESC will also strive for setting up preventive measures and communicate with self-regulatory offices to prevent insider trading and to find the evidence of insider trading promptly.

(ii) Countermeasure for market manipulation

Because of the launch of "arrowhead," a new high-frequent stock trading system in the Tokyo Stock Exchange, in January 2010, the SESC needs to update the investigation skills to match such high-frequent transactions. Thus, the SESC focuses on developing such skills so that the SESC can monitor the stock exchange market constantly.

(iii) Countermeasure for window-dressing

In the window-dressing case done by FOI Corporation, the SESC implemented criminal investigation just after finding a suspicious action which the company conducted for window-dressing operations in listing, and the SESC believes this prompt reaction was effective to ensure the fairness of the market. In addition to tackling window-dressing case, the SESC also tries to investigate the derived type of window-dressing like fraudulent finance which is caused by the company in financial problems.

(3) Enhancing cooperation with foreign regulators

Along with globalization, there increases the overseas transactions of shares listed in Japanese market. Under such circumstances, foreigners and foreign organizations, or domestic investors and domestic companies which have overseas account may be involved in market misconduct such as insider trading, window dressing and unfair financing. In order to investigate these cross-border market misconducts, it is indispensable for the SESC to cooperate with overseas surveillance authorities. Thus, the SESC commits itself to cooperate with overseas authorities much more actively, and shall use its endeavors for closing loophole for market misconduct using overseas transactions. Especially, as in the SESC's 2011 policy statements, the SESC is now "enhancing cooperation with overseas regulators" and will make the most of international information exchange networks, such as the International Organization of Securities Commissions (IOSCO) Multilateral MOU.

(4) Responding the spread of crimes in local area

As seen in market manipulation case done by an Oita resident of a day trader, the SESC found the spread of online trading facilitates the local investors to be involved in crimes on securities transactions, and also found there's some risk of insider trading or other for such people who is close to local emerging companies.

In this environment, the SESC focuses on conducting to have close cooperation with the other investigation agencies and the local finance bureaus for efficient investigation.

(5) Strengthen digital forensic operations

For exercising investigations efficiently and effectively, it is important to use information technology especially for tracing the proof of crimes. The SESC focuses on collecting the evidence through implementing the seizure of computers, mobile phones and other devices in order to restore and analyze the data saved on those devices. Therefore, in FY2010, the SESC had prepared the equipment for preservation, restoration and analysis of electric data. And, in FY2011, the SESC strengthened its digital forensic operations by updating the appropriate software and other equipment to implement efficient analysis for a large amount of information such as accounting data.

(6) Development of human resources

In exercising criminal case investigations, the SESC focuses on developing human resources in skills of questioning of suspects or witnesses, and of reviewing and verifying seized articles. Thus, the SESC continues to provide its officials with sufficient training programs as well as recruit experienced lawyers and accountants who have professional skills.

7. Policy Proposals

1) Outline

1. Purpose and Authority of Policy Proposals

To establish a fair, highly transparent and sound market, and to maintain investor confidence in that market, the rules of the market should respond to changes in the environment surrounding it. Therefore, with regard to measures considered necessary to ensure fairness in trading or to secure investor protection and other public interests, the Securities and Exchange Surveillance Commission (SESC) can submit policy proposals to the Prime Minister, the Commissioner of the Financial Services Agency (FSA), or the Minister of Finance pursuant to Article 21 of the Act for Establishment of the FSA, where necessary based on the results of inspections, investigations or other relevant activities, in order to have the rules maintained appropriately to reflect the actual conditions of the market.

Policy proposals are submitted after the SESC has comprehensively analyzed the important issues identified in the results of its inspections and investigations. These proposals clarify the SESC's views on laws, regulations and self-regulatory rules, and it is intended that they will be reflected in the policies of the administration and of self-regulatory organizations. The policy proposals submitted by the SESC serve as an important consideration in the policy response of regulatory authorities.

In terms of the substance of specific policy proposals, when existing laws, regulations and self-regulatory rules are found to be insufficient in light of the realities of the securities market, the SESC draws attention to that fact. It then presents issues to be considered regarding the state of laws, regulations and self-regulatory rules from a perspective of ensuring market integrity and securing investor protection and other public interests, and calls on them to be reviewed.

2. Policy Proposals Submitted in FY2010

In FY2010, the SESC submitted to the Commissioner of the FSA two policy proposals, "regulations on sales related to segregated management in business type funds" and "causes for refusing registration of investment advisory and agency business operator" based on the results of securities inspections. From its inception in 1992 through the fiscal year (FY) 2010, the SESC submitted 21 policy proposals.

2) Specific Policy Proposals and Measures Taken Based on Policy Proposals

1. Specific Policy Proposals

Specific contents of policy proposals submitted in FY2010 are as follows:

(1) Regulations on sales related to segregated management in business type funds

In intensive inspections of business operators who sell investment equity (hereinafter referred to as a "sales business operator") of collective investment schemes (hereinafter referred to as "funds"), with regard to funds in which invested or contributed money (hereinafter referred to as "contributions") is invested into business other than investment

chiefly in securities or derivatives transactions (hereinafter referred to as “business type funds”):

Many cases were found where the sales business operator sells and solicits investment equity of the funds, despite inappropriate segregated management by a management business operator of funds, for example:

(i) mixing contributions and the property that belong to the management business operator of funds in the same account; and

(ii) diverting contributions to operating capital, etc. of the management business operator.

Among them are cases where investors suffered damages from diverting contributions.

Under such conditions, sufficient information on specific details of segregated management by the management business operator of funds is not provided to investors as significant materials for investment decisions.

Accordingly, in consideration of such circumstances, with an eye to more thorough protection of investors related to business type funds, it is necessary to enhance information on segregated management which shall be contained in written statements to be issued before conclusion of a contract on sales of business type funds, from the viewpoint of thorough segregated management of contributions and providing investors with significant materials for investment decisions.

(2) Causes for refusing registration of investment advisory and agency business operator

In intensive inspections of investment advisory and agency business operators, many violations of laws and regulations, and inappropriate cases were found, for example:

(i) unregistered operations conducted by investment advisory and agency business operators;

(ii) lending names to unregistered business operators;

(iii) inappropriate information provision to customers (advertisement containing materially false statements, etc., failure to issue written statements before conclusion of a contract, etc.) ;

(ix) inappropriate preparation and management of fundamental books and records (failure to prepare and store statutory books, submission of business reports containing false statements, etc.)

In terms of causes of those cases, it was found in almost all cases that operations were conducted by putting priority on only its own operating profits due to officials and employees critically lacking legal knowledge and awareness of compliance with laws and regulations, etc.

In consideration of such circumstances, with an eye to more thorough protection of investors related to investment advisory and agency business operators, it is necessary, as with registration of other business categories, to add a requirement for personnel composition to the causes for refusing registration of an investment advisory and agency business operator. This is to refuse the registration when officers and employees who are capable enough to properly perform duties are not arranged, for example, if lacking basic legal knowledge and awareness of compliance with laws and regulations related to investment advisory and agency business.

In the “Initiatives to eliminate gangs from corporate activities” reported to the ministerial meeting on criminal control on December 14, 2010 by a working team related to comprehensive policy for regulation of gangs, each ministry has strived to enhance measures

for eliminating gangs etc. from business organizations. Also with regard to investment advisory and agency business operators, it can be considered that adding the requirement for personnel composition to the causes for refusing registration would enhance those initiatives.

2. Actions Taken Based on Policy Proposals

In FY2010, actions taken based on the two policy proposals described above are as follows:

(1) Actions taken based on the policy proposal for regulations on sales related to segregated management in business type funds

Revising the "Cabinet Office Ordinance on Financial Instruments Business, etc.," the FSA added the matters shown below to information which must be contained in written statements to be issued before conclusion of a contract on sales of investment equity related to business type funds (enforced on April 1, 2011).

(i) Specific financial institute, name of branch office, account number, etc. with which contributions for each fund are deposited

(ii) Implementation status of segregated management and how to confirm it

(2) Actions taken based on the policy proposal for causes for refusing registration of investment advisory and agency business operator

In order to enable refusal of application for registration of investment advisory and agency business operators when officers and employees who are capable enough to properly perform duties are not arranged, the FSA submitted to the Diet the "Draft partial revision of the Financial Instruments and Exchange Act (FIEA), etc. to strengthen the foundation of capital markets and financial business" including amendment of the FIEA to add the requirement for personnel composition to the causes for refusing registration of investment advisory and agency business (to be enforced within 1 year after issuance of the amended act). The Act was issued on May 25, 2011.

3. Other Initiatives

Some initiatives are deemed necessary to ensure market fairness and investor protection, but do not reach the stage of policy proposals. For such initiatives, the SESC communicates its awareness of issues through exchanges opinions with administrative departments of the FSA and self-regulatory organizations, and urges necessary policy responses. The SESC contributed to the revisions of systems and the amendment of rules in self-regulatory organizations.

3) Future Challenges

As for the above-mentioned two policy proposals submitted in FY2010, the former was reflected in the "Cabinet Office Ordinance on Financial Instruments Business, etc.," and the latter in the FIEA. This is indicative of the significant contribution that the SESC has made to the development of market rules based on the reality of the securities markets.

Based on the results of inspections and investigations, etc. pursuant to the FIEA and other laws, with regard to measures believed necessary, the SESC submitted policy proposals with the aim of having them reflected in the measures implemented by the administration and self-regulatory

organizations. Furthermore, with regard to matters that do not require a revision of laws or regulations, and with regard to matters that are not directly linked to policy proposals, the SESC strengthened its function of providing information, such as actively communicating its awareness of issues to the FSA, self-regulatory organizations and so forth, aiming to share its awareness of issues. The SESC intends to continue to proactively work on it.

8. Efforts to Enhance Surveillance Activities and Functions

1) Reinforcement and Strengthening of the Market Surveillance System

1. Reinforcement of Organization

(1) Reinforcement of Organization

In addition to enhancing and strengthening the market surveillance function of the Securities and Exchange Surveillance Commission (SESC), as seen in the delegation of authority to conduct administrative monetary penalty investigations and the expansion of its authority to conduct inspections, the SESC has reinforced its organizational structure by expanding its organization from the previous two-division system, comprised of the Coordination and Inspection Division and the Investigation Division, to the current five-division system.

In fiscal 2011, amid the severe conditions for overall quotas of national public service personnel, as a result of requesting an increase in personnel as one of the main pillars of improving the system of administrative monetary penalties and disclosure documents inspection, and the system of investigation of unregistered business operators, an increase of 16 officers was approved. This brings the total SESC staff quota as at the end of FY 2011 to 392.

Furthermore, with an eye to enhancement of measures against fraudulent disclosure and market misconduct, the Civil Penalties Investigation and Disclosure Documents Inspection Division is scheduled to be separated into the “Disclosure Statements Inspection Division” and “Administrative Monetary Penalty Division.” Consequently, the SESC’s surveillance activities would be reinforced with the increase in the number of divisions from present five to six.

As for securities transactions surveillance officers (divisions) at the local finance bureaus, an increase of 6 officers was approved, mainly for improving the system of investigation of unregistered business operators, bringing the quota as at the end of FY 2011 to 312. Combined with the staff quotas of the SESC, the total number stands at 704.

(2) Appointment of Private-Sector Experts

From the perspective of ensuring accurate market surveillance and boosting professional expertise among its officers, during FY 2010, the SESC reinforced its investigation and inspection systems by employing a total of 18 private-sector experts with specialized knowledge and experience in the securities business, including lawyers and certified public accountants. The appointment of private-sector experts started in 2000, and as of the end of March 2011, 111 such professionals were employed at the SESC.

2. Improvement of Capacity for Collecting and Analyzing Information

(1) Utilization of the Securities Comprehensive Analyzing System (SCAN-System)

Due to the need to ascertain all the facts relating to securities transactions by analyzing complicated and massive amounts of data, the SESC has been developing a system supporting its operations called the “Securities Comprehensive Analyzing System

(SCAN-System)" since 1993 in order to enhance operational efficiency. The SCAN-System is a comprehensive computer system that can be widely used in the operations of the SESC, including in the investigation of criminal cases, the investigation of administrative monetary penalties, the inspection of disclosure documents inspection, the inspection of financial instruments business operators, day-to-day market surveillance, and in market oversight. Even after the completion of its fundamental development in 2001, efforts to review and enhance each of its functions have been continuously made aimed at achieving more efficient operations. In FY 2010, the system modifications of the data import functions have been implemented in order to adapt to the introduction of "J-GATE", a new derivatives trading system, in Osaka Securities Exchange.

Note: The SCAN-System consists of two major functional modules: the "Securities Companies Inspection System" and the "Market Oversight System." In addition, there are some supporting systems in the SCAN-System: the "SCAN-Internet Patrol System (SCAN-IPS)," the "SCAN-Surveillance by Technical Analysis of Corporation Finance System of Electronic Disclosure (SCAN-STAF)," and the "Information Control System" for efficiently processing information provided from the general public.

(2) Better Staff Training

The SESC uses OJT and training, etc. for staff to learn various know-how it has built up in surveillance techniques such as inspections. Staff also learn the latest information on financial and capital markets from lectures by outside lecturers, etc. These are part efforts to enhance staff quality.

The SESC also must respond to new challenges of more complex and diverse transaction forms, development of new financial instruments such as CDS and other OTC derivatives, growth of cross-border transactions, faster transaction techniques, etc. Also, the occurrence of global financial crises and the attendant reconstruction of international framework of regulations are examples of radical changes in the environment enveloping Japanese markets.

To accurately respond to these conditions, in addition to previous actions, training is being provided to enable each staff to learn advanced specialized knowledge and skills, new financial instruments and transaction techniques, investigation techniques using digital forensics, etc.

As the development and utilization of the SESC personnel becomes more significant, the role played by middle-level supervisors in providing guidance to their subordinates is becoming more and more important. Therefore, meetings for middle-level supervisors have been held in an attempt to foster their awareness.

3. Enhancement of Systems Infrastructures to Support Market Surveillance

In FY 2010, at the phase of systems design for the next-generation system (Integrated Financial Services Agency (FSA) Business Support System) based on the "Optimization Plan of Business Processes and Systems on the Inspections and Supervision of Financial Institutions and Securities and Exchange Surveillance," which was founded on the philosophy of the program for Building e-Government (as per the decision dated March 28, 2006 by the

e-Government Promotion Conference, FSA), the SESC considered ways of having IT systems design incorporate the necessary system functions for each business process, and completed the IT system design process. The primary concern is the systems development to contribute not only to raise business efficiency but also to sophisticate business processes incorporating changes in external environments like the adoption of XBRL technology in the EDINET system. Also in processes after the IT system development in the future, the SESC will continue to observe closely whether the necessary IT system functions for each business process are provided.

Additionally, with respect to Digital Forensics, the SESC is committed to considering means of incorporating those techniques and technologies into the SESC. The necessary system equipment and materials for the functions of "Data Recovery" were prepared. Also those for "Data Analysis" and the necessary environment were considered for the best way to use the Digital Forensic Technologies in market surveillance, and specific preparation for procurement has been advancing.

2) Dialogue with Market Participants and Efforts to Strengthen the Provision of Information to the Market

As part of its "collaboration with stakeholders for market integrity," which is the second mainstay of the policy statement, Towards Enhanced Market Integrity, the SESC mentions enhancing dialogue with market participants and providing more information to markets. As such, the SESC is making efforts to communicate with individual investors and other market participants actively and widely. The SESC uses a variety of creative means to do this, including exchange of views, lectures, public talks, press releases, contribution to various public relations media, and the SESC website. By providing details of its activities and other information in a timely and easily understood fashion, the SESC aims to increase the understanding of its efforts among market participants and to deepen their confidence in the financial and capital markets.

In FY2010, as a new tool for provision of information, the SESC issued and delivered "the SESC Email Magazine" once a month, which summarizes the current activities by the SESC and its awareness of problems, etc.

3) Cooperation with Related FSA Departments

In order to ensure market fairness and transparency and investor protection, in properly executing its work, it is essential that the SESC shares its awareness of issues with the FSA, which is the regulatory agency for Japan's financial and capital markets. The SESC works on using various opportunities to cooperate with the FSA. For example, in addition to daily exchanges of information, the "Meeting for Sharing Opinions with Market Related Departments" has been held a few times a year continually since January 2008, widely sharing problems of the moment between executives and personnel in charge. For the supervisory college established for large and complex financial institutions as a response to the financial crisis, the SESC cooperates with the FSA and exchanges information with foreign authorities. From the standpoint of its role in surveillance of market rules, the SESC thus exchanges information with the FSA regarding market governance.

The SESC delegates part of its work to Directors-General of Local Finance Bureaus, etc. The surveillance officers unit of each local finance bureaus performs its delegated work under the Director-General, etc., who receives instructions and supervision from the SESC. At occasions such as the Local Finance Bureaus Director-Generals Meeting held by the FSA, the SESC works to build plenty of mutual understanding with each the local finance bureaus, etc. The inspectors in the local finance bureau Meeting is held every year, with the aim of sharing awareness of problems regarding matters which require national cooperation, such as problems in market surveillance. From the viewpoint of sharing awareness of problems regarding unfair financing, the Joint Conference for Local Finance Bureau Inspectors and Financial Instrument Exchange Supervisory Officers and Securities Inspectors (hereinafter referred to as the "Trilateral Joint Conference") has been held regularly as part of the SESC's efforts to share and deepen awareness of problems.

4) Cooperation with Overseas Securities Regulators

1. Activities in IOSCO (International Organization of Securities Commissions)

IOSCO is an international organization acting with the aim of establishing international harmony of securities regulations and mutual collaboration among regulatory authorities. At present, IOSCO is composed of 196 organizations representing each country or region. The SESC became an associate member of IOSCO in October 1993. (Note: As a body representing Japan, the FSA participates in IOSCO as an ordinary member.)

In IOSCO, the Annual Conference led by the Presidents Committee which is the supreme decision-making body of IOSCO is held every year, where the top-level officials of securities regulators from various countries meet together to discuss and exchange opinions on the current situation and challenges in each securities regulations. As the number of international transactions in financial and capital markets increases, it is extremely important to deepen international collaborative relationships through the exchange of information and opinions with regulators from various countries in order to carry out proper market surveillance in Japan. Therefore, from the SESC, the Chairman or the Commissioner attends the Annual Conference of IOSCO. In addition, the SESC also participates in the Asia-Pacific Regional Committee (APRC) which is one of the Regional Standing Committees of IOSCO to discuss specific regional problems. In this way, the SESC is striving to enhance cooperation with overseas regulators.

For the purpose of discussing major regulatory issues faced by international markets and proposing practical solutions for such issues, IOSCO has established the Technical Committee, which is made up of the regulatory authorities of developed countries or regions, and as a substructure, it has established six Standing Committees (SC). The SESC is a member of the Standing Committee 4 (SC4) on enforcement and exchange of information which was set up to discuss ways of cooperation among securities regulatory authorities from different countries concerning enforcement issues and information exchange in order to respond to international securities crimes. This year, the SC4 had a discussion on promotion of dialogues with uncooperative jurisdictions and some other issues, warning about problematic business operators to investors The SESC also explained about recent market misconduct in the securities market. The SESC also participates in meetings of the Screening Group (SG) to

examine countries/jurisdictions applying for the signing of the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (Multilateral MOU) adopted in the Annual Conference in May 2002, which is an information sharing framework among multiple securities regulators.

At the Annual Conference held in Colombo in April 2005, it was adapted that the Multilateral MOU would be an "international benchmark" for the cooperation and information exchange in relation to enforcement issues, and the IOSCO members would sign the Multilateral MOU, or make an official commitment to seek a legal authority to enable signing the Multilateral MOU, by January 1, 2010 at the latest (All IOSCO members are required to sign the Multilateral MOU by January 1, 2013.) In May 2006, Japan submitted an application to sign the Multilateral MOU, and in February 2008, Japan was approved as a signatory country. As a result, the SESC has become able to mutually exchange information with signatories as necessary for enforcement purpose.

Like this, in addition to the participation in IOSCO, the SESC has made efforts for proactive contributions to international discussion in cooperation with the FSA, taking into account the awareness obtained through market surveillance.

2. Use of Information Exchange Framework

The SESC has recognized that it is absolutely essential to share information among securities regulators in different countries, as there is concern that market misconduct that may impair fairness of transactions in multiple countries' markets would increase while international activities of market participants such as cross-boarder transactions and investment funds in financial and capital markets have become everyday affairs.

With regard to building the information exchange framework to exchange information smoothly with overseas regulators, the FSA has entered into bilateral information sharing agreements with the following regulatory bodies:

- China Securities Regulatory Commission (CSRC), China
- Monetary Authority of Singapore (MAS), Singapore
- Securities and Exchange Commission (SEC), United States
- Commodity Futures Trading Commission (CFTC), United States
- Australian Securities and Investments Commission (ASIC), Australia
- Securities and Futures Commission (SFC), Hong Kong
- Securities Commission (SC), New Zealand

As mentioned above, the FSA became a signatory to the Multilateral MOU in February 2008. As a consequence, it has become possible for the FSA including the SESC to mutually exchange information with other signatories as necessary for surveillance and law enforcement purpose. The SESC intends to ensure fairness in cross-border markets under international cooperation.

As a result of information exchange with overseas securities regulators through these information exchange frameworks stemming from the SESC's daily market monitoring, three cases were charged by overseas regulators under their local laws and regulations. Furthermore, in April 2009, the SESC cooperated with Singapore authorities to file a formal complaint against malicious conduct using cross-border transactions.

However, as it is difficult to detect market misconduct using cross-border transactions, the SESC has advocated “response to the globalization of markets” as one of three pillars of the SESC’s Policy Statement for the 7th Term, being aware that figuring out its realities is a critical issue (See Chapter 2, 2 for details of the SESC’s Policy Statement for the 7th Term). Furthermore, in the “Action Plan for the New Growth Strategy” (hereinafter referred to as the “Action Plan”) published by the FSA on December 24, 2010, it was revealed that the cooperation with market surveillance authorities in Asian countries would be enhanced, based on the awareness of the necessity of enhancing market oversight related to cross-border transactions, especially in Asia. The SESC will appropriately respond to violations using cross-border transactions, taking advantage of information provided by overseas authorities through the information exchange framework among securities regulators in multiple countries, as well as requesting investigations by overseas authorities. While giving attention to the entire primary and secondary markets in order to preclude any loopholes in market oversight, the SESC also intends to reinforce surveillance of cross-border transactions.

3. Exchange of Views and Information Provision

The SESC is working on identifying recent trends in international financial and capital markets appropriately, and efforts by overseas regulators for ensuring market integrity. The SESC is also working to promote understanding of its activities. Therefore, the SESC collects information on a daily basis, and interviews securities companies and self-regulatory organizations as needed in order to understand actual market conditions. Furthermore, the SESC actively exchanges views with overseas regulators and foreign financial institutions. In FY 2010, the SESC exchanged views with overseas regulators of such countries as USA, Australia and China, and foreign financial institutions and international industry organizations. Furthermore, the SESC’s staff served as a lecturer of a seminar for overseas authorities to report the recent activities of the SESC, as part of the SESC’s efforts to deliver information.

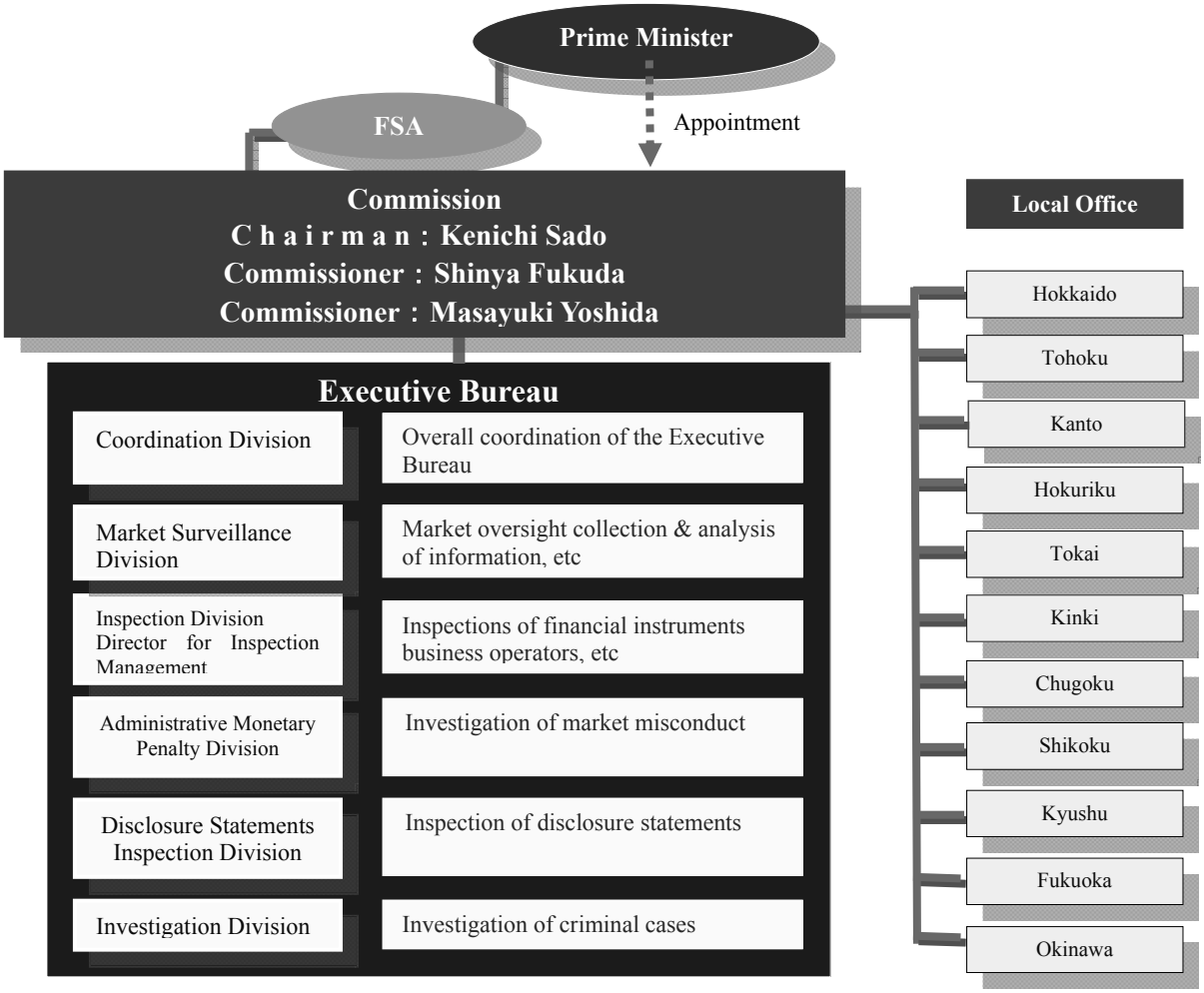
4. Sending the SESC’s Staff to Overseas Regulators

In order for the SESC’s officials to learn the surveillance and inspection techniques used by regulatory authorities overseas, and to then apply those techniques in market surveillance operations at the SESC, the SESC has sent staff to participate in short-term training courses hosted by the US Securities and Exchange Commission (SEC), the US Commodity Futures Trading Commission (CFTC) and by the UK Financial Services Authority (FSA), and has also seconded staff to the U.S. SEC and CFTC, and the Hong Kong Securities and Futures Commission (SFC). As stated in the Action Plan mentioned above, the SESC will further develop human resources, for example by sending more staff to overseas securities regulators including Asian countries, from the viewpoint of enhancing surveillance of cross-border transactions.

Supplements

Table 1

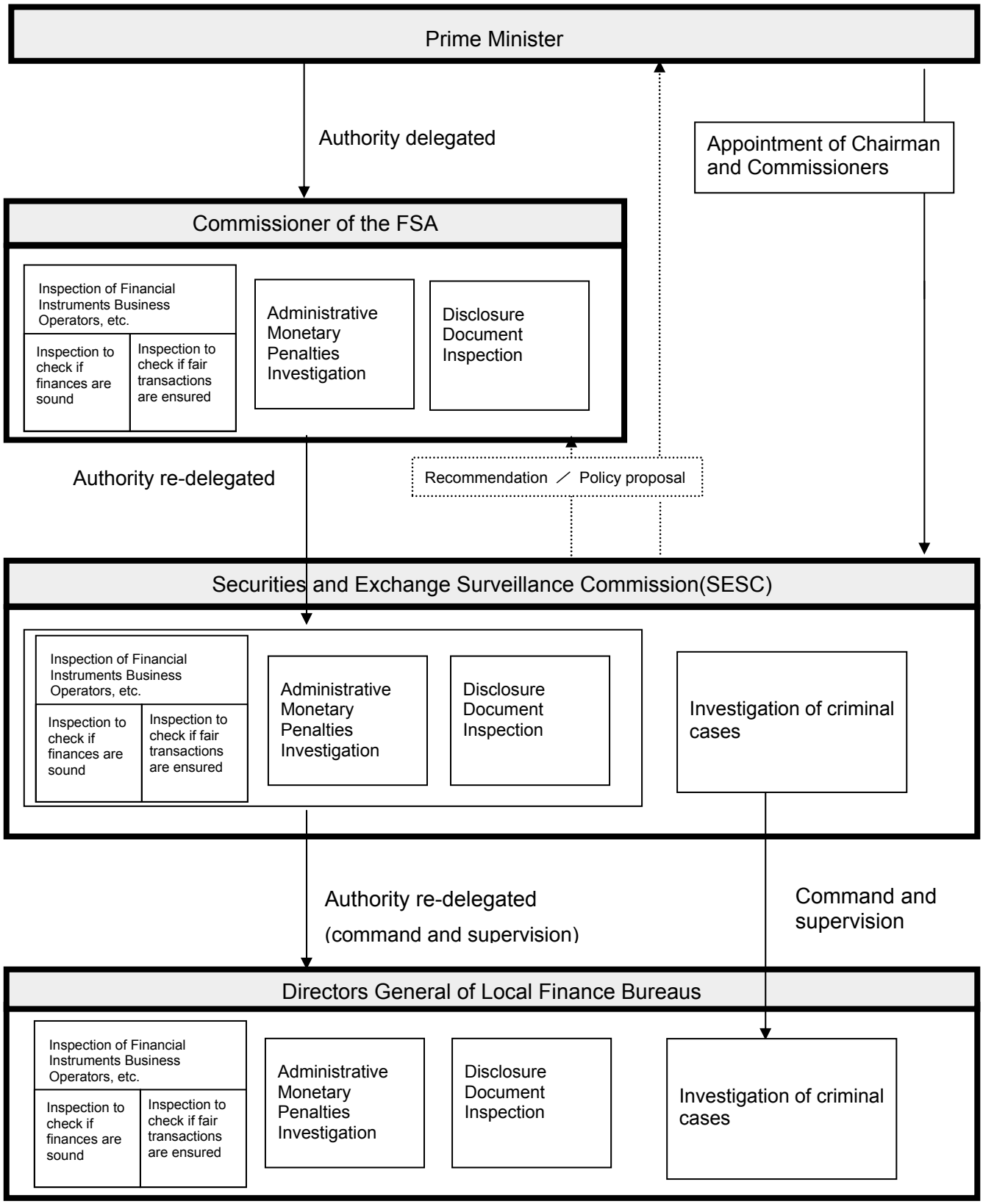
Organization of the SESC



Note: In July 2006, the SESC was transformed from two divisions (the Coordination and Inspection Division and the Investigation Division) and three offices (the Compliance Inspection Office, the Market Surveillance Office and the Office of Penalties Investigation and Disclosure Documents Examination) under the Coordination and Inspection Division into five divisions (the Coordination Division, the Market Surveillance Division, the Inspection Division, the Civil Penalties Investigation and Disclosure Documents Inspection Division, and the Investigation Division). Furthermore, in July 2011, the Civil Penalties Investigation and Disclosure Documents Inspection Division was divided into the two divisions of the Administrative Monetary Penalty Division and the Disclosure Statements Inspection Division, meaning that the SESC was transformed into six divisions.

Table 2

Conceptual Chart of Relationship among the Prime Minister, the Commissioner of the FSA, the SESC, and Directors General of Local Finance Bureaus



(Note 1) For the authority that the SESC delegates to Director General of Local Finance Bureau or the Director of its branch office, the SESC directs and supervises Director General of Local Finance Bureau or the Director of its branch office. (FIEA: Article 194-7 (7))

(Note 2) For an investigation of a criminal offence, the SESC directs and supervises the Director General of a Local Finance Bureau or the Director of its branch office. The SESC may, deeming it necessary for investigating a criminal offence, direct and supervise firsthand an official of a Local Finance Bureaus or the Director of its branch office. (FIEA: Article 224(4) and (5))

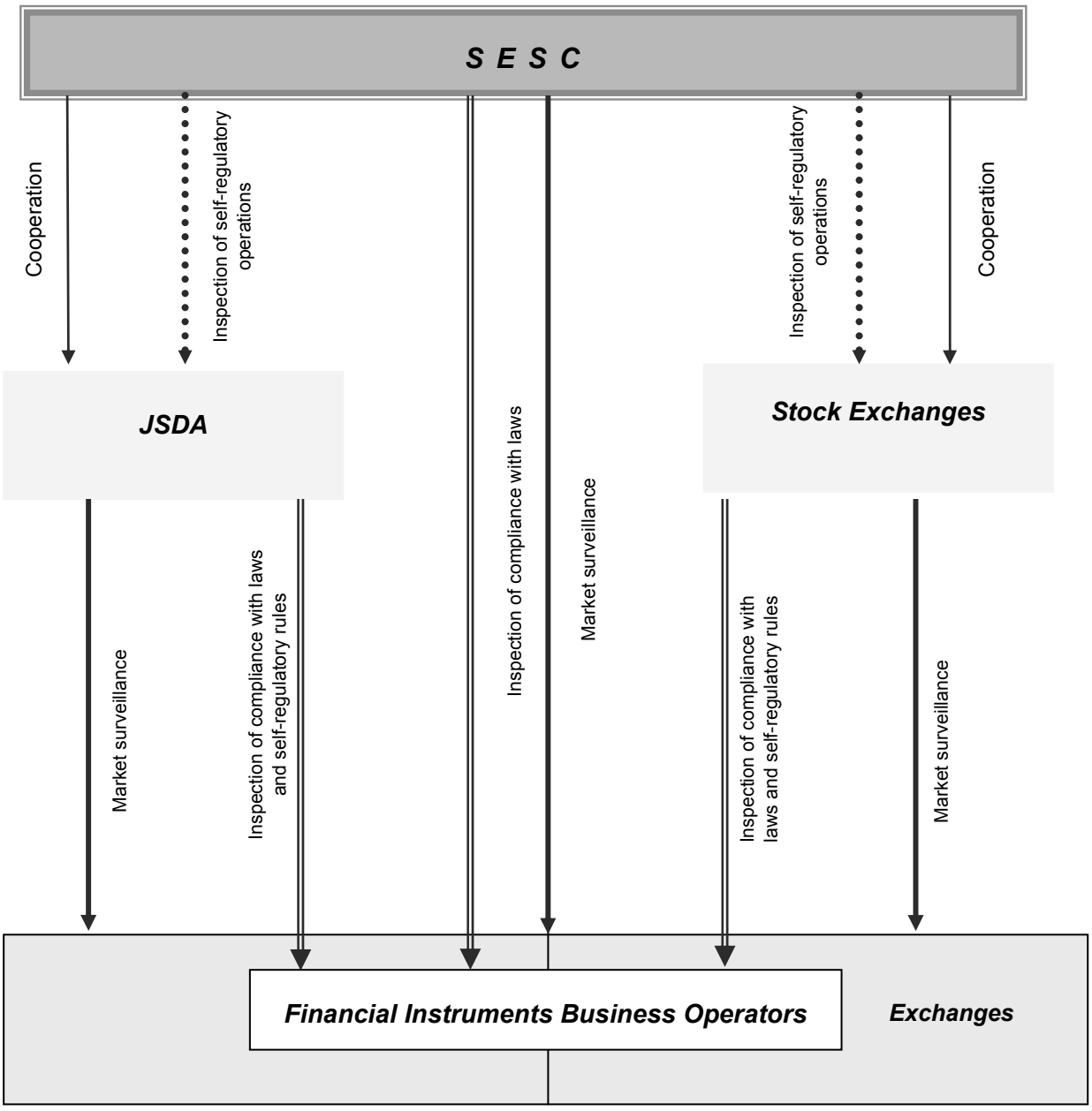
(Note 3) The SESC does not delegate authority to the Director-General of local finance bureaus, etc. related to financial instruments business operators etc designated in the following public notices

- The public notice to designate a financial instruments business operator, etc. under paragraph 5, Article 44 of the Order for Enforcement of the FIEA and paragraph 2, Article 136 of the Order for Enforcement of Act on Investment Trust and Investment Corporation
- The public notice to designate a financial instruments business operators, etc. under paragraph 6, Article 24 of the Order for Enforcement of Act on the Prevention of Transfer of Crime Proceeds

(Note 4) In addition to the above, filing in court to prohibit or suspend violations based on provisions of FIEA Article 192 Paragraph 1, and its prerequisite investigation authority based on provisions of FIEA Article 187, are delegated from the Commissioner of the FSA to the SESC. The FIEA was amended to enable redelegation of said filings and investigation authority to Director General of Local Finance Bureau or the Director of its branch office.

Table 3

Relationship to Self-Regulatory Organizations



Note: The same system applies to financial futures.

Table 4 The SESC's activities in figures

Table of Summary

Unit: Number of cases

category \ business year	1992 to 2003	2004	2005	2006	2007	2008		2009	2010	Total
Criminal charges (# of cases)	63	11	11	13	10	13	(4)	17	8	142
Recommendation (# of cases)	270	17	39	43	59	50	(19)	74	63	596
Recommendations based on securities inspections	270	17	29	28	28	18	(4)	21	18	425
Recommendations concerning orders to pay administrative monetary penalties	—	—	9	14	31	32	(15)	53	45	169
Recommendations concerning an order to submit revised reports	—	—	1	1	0	0	(0)	0	0	2
Petition for a court injunction , etc., against unregistered business operator, solicitation without filing, etc. (#. of cases)	—	—	—	—	—	0	(0)	0	2	2
Proposals (# of cases)	7	0	5	3	0	4	(4)	4	2	21
securities inspections: Financial Instrument Businesses Operators	〔864〕 1,106	[83] 113	[111] 150	[107] 150	[132] 187	[156] 191	([50]) (62)	[133] 176	[122] 148	[1,658] 2,159
Type I Financial Instruments Businesses Operators	〔864〕 1,106	[83] 113	[86] 111	[80] 99	[111] 138	[99] 117	([16]) (20)	[72] 90	[74] 91	[1453] 1,845
Former domestic securities companies	[862] 981	[83] 96	[73] 88	[68] 78	[63] 89	[78] 89	([13]) (15)	[60] 72	[52] 63	[1326] 1,541
Former foreign securities companies	[0] 123	[0] 17	[0] 10	[0] 9	[0] 1	[0] 7	([0]) (2)	[0] 6	[4] 9	[4] 180
Former financial futures dealers	[2] 2	[0] 0	[13] 13	[12] 12	[48] 48	[21] 21	([3]) (3)	[12] 12	[18] 19	[123] 124
Type II Financial Instruments Businesses Operators	[—] —	[—] —	[—] —	[—] —	[0] 2	[0] 1	([0]) (1)	[17] 23	[6] 6	[23] 31
Investment Advisories/Agencies, Asset Management Firms	[—] —	[—] —	[25] 39	[27] 51	[21] 47	[57] 73	([34]) (41)	[44] 63	[42] 51	[182] 283
Registered Financial Institutions	[72] 88	[20] 27	[23] 28	[26] 27	[29] 32	[24] 25	([4]) (4)	[24] 24	[26] 28	[240] 275
Specially Permitted Business Notifying Firms for Qualified Institutional Investors	[—] —	[—] —	[—] —	[—] —	[0] 0	[0] 0	([0]) 0	[1] 1	[2] 2	[3] 3
Financial Instruments Intermediaries	[0] 0	[0] 0	[1] 1	[1] 1	[1] 1	[0] 0	([0]) (0)	[1] 1	[1] 1	[5] 5
Self-Regulatory Organizations	5	0	2	6	1	5	(2)	5	1	23
Investment Corporation	—	—	2	7	10	7	(1)	9	6	40
Other	—	—	0	1	2	0	(0)	0	0	3
Companies acknowledged as having problems	753	67	93	142	121	112	(35)	123	101	1,477
Market oversight (# of cases)	[1559] 3,825	[307] 674	[320] 875	[408] 1,039	[500] 1,098	[538] 1,031	([144]) (276)	[430] 749	[467] 691	[4385] 9,706

Note:

1. "Business year basis" (July to June the following year) until BY2008. "Accounting year basis" (April to March the following year) since FY2009. Numbers in parentheses ( ) in business year 2008 are in the period (April-June 2009) which overlaps with FY2009 for the transition to "accounting year basis."
2. The total number of cases of securities inspections refers to the number of cases that have been started. The total number of cases in the market oversight refers to the number of cases that have been completed.
3. The numbers in the brackets concern Local Finance Bureaus.
4. In addition to the investigations of the financial instrument business operators indicated above (former securities companies), Local Finance Bureaus and other organizations conduct inspections of individual branches of those financial instrument business operators (former securities companies) that are assigned to the Commission.

Introduction of Chairman and Commissioners

Chairman　Kenichi SADO

Kenichi SADO was appointed Chairman of the SESC in July 2007. Before being appointed to the Commission, he served as superintending public prosecutor of the Sapporo High Public Prosecutors Office (2005–2006) and superintending public prosecutor of the Fukuoka High Public Prosecutors Office (2006–2007).

Commissioner　Shinya FUKUDA

Shinya FUKUDA was appointed a commissioner of the SESC in July 2007. Before being appointed to the Commission, he served as a Senior Partner, TOHMATSU-AOKI Audit Corporation (present TOHMATSU Audit Corporation).

Commissioner　Masayuki YOSHIDA

Masayuki YOSHIDA was appointed a commissioner of the SESC in December 2010. Before being appointed to the Commission, he served as a Advisor, Nagashima Ohno & Tsunematsu Law Firm .

Logo of Securities and Exchange Surveillance Commission

SESC

"for investors, with investors"

∗ Note: The two ellipses crossing each other symbolize the securities markets and financial futures markets, which are both subject to our surveillance; the cooperation between the SESC and other domestic authorities concerned; and, what's more, our relationship with investors.

And the slogan "for investors, with investors" represents the principle position of the SESC, which was established to protect investors and respect its relationship with them.

The Securities and Excange Surveillance Commission
3-2-1 Kasumigaseki,Chiyoda-ku,Tokyo 100-8922, Japan
Tel: +81(3)3581-7868
Fax: +81(3)3581-9846
Website: http://www.fsa.go.jp/sesc/english/index.htm