Annual Report 2014/2015

Securities and Exchange Surveillance Commission

JAPANESE GOVERNMENT

Message from the Chairman

The Securities and Exchange Surveillance Commission (SESC) is fulfilling its mission of ensuring the integrity of capital markets and protecting investors. This year is the 24rd year since its establishment in 1992.

Amid the restructuring of international regulatory frameworks, Japanese markets have been experiencing dynamic changes. For instance, a series of amendments has been made to the Financial Instruments and Exchange Act (FIEA), and innovations continue to be made in financial products and trading methods. In order for the SESC to conduct efficient and effective market oversight, it needs to respond appropriately to these changes. Two further issues for the SESC in connection with the inspection of financial instruments business operators are: (1) further improving its risk sensitivity with respect to the diverse business types of financial instruments business operators, to the characteristics of customers (personal investors, corporate pensions, etc.), and to financial instruments and transactions, which are becoming increasingly complex and diverse; and (2) strengthening its capacity for collecting and analyzing information accordingly. Moreover, the SESC will need to cooperate closely with overseas regulators in dealing with cross-border transactions, which are conducted frequently, and it will need to continue to take firm action against unfair trading and unlawful activities, etc. committed by professional investors in Japan and overseas.

Since sound market operation requires shared recognition of problems and close information exchange with self-regulatory organizations, relevant authorities and organizations playing important roles in market fairness, in addition to further strengthening its cooperative relationships with such organizations, the SESC aims to reinforce its dialogue with market participants and its dissemination of information to the market.

The SESC commits itself to pursuing its mission of being “feared by wrongdoers and trusted by ordinary investors.”

September 2015

Kenichi SADO
Chairman
Securities and Exchange Surveillance Commission

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[Disclaimer: This is an unofficial translation and provided for reference only]

Abbreviations

FSA Establishment Act	Act for Establishment of the Financial Services Agency (Act No. 130 of 1998)
FIEA	Financial Instruments and Exchange Act (Act No. 25 of 1948)
SEA	Securities and Exchange Act (Renamed the "Financial Instruments and Exchange Act" due to the Act for the Amendment of the Securities and Exchange Act, etc. (Act No. 65 of 2006))
Anti-Criminal Proceeds Act	Act on Prevention of Transfer of Criminal Proceeds (Act No. 22 of 2007)
Investment Trust Act	Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951)
SPC Act	Act on Securitization of Assets (Act No. 105 of 1998)
Act on Transfer of Bonds, etc.	Act on the Book-Entry Transfer of Company Bonds, Shares, etc. (Act No. 75 of 2001)
Order for Enforcement of the FIEA	Order for Enforcement of the Financial Instruments and Exchange Act (Cabinet Order No. 321 of 1965)
FIB Cabinet Office Ordinance	Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007)
Ordinance on Security Deposits	Cabinet Office Ordinance on Transactions under Article 161-2 of the Financial Instruments and Exchange Act and Deposits Related Thereto (Ordinance of the Ministry of Finance No. 75 of 1953)

Introduction(Towards Enhanced Market Integrity)

The Securities and Exchange Surveillance Commission (the “SESC”) is engaged in market surveillance under a mission of ensuring the integrity of capital markets and protecting investors.

The SESC for the 8th term was established in December 2013, and it announced “Towards Enhanced Market Integrity” as a medium-term policy statement (the “Policy Statement”; See Appendix 2-1) in January 2014. Under the Policy Statement, the SESC formulated three policy directions consisting of: (1) Market oversight with prompt and strategic actions; (2) Enhanced surveillance in response to the globalization of markets; and (3) Efforts for enhanced market integrity. Pursuant to these three policy directions, the SESC continues to strive to secure effective and efficient market surveillance with strong emphasis on prioritized items: (1) Proactive market oversight through enhanced information-collecting ability; (2) Strict action against severe and malignant market misconduct and false disclosure statements; (3) Timely and efficient inspections in response to disclosure violations; (4) Use of administrative monetary penalty system against market misconduct, etc.; (5) Efficient and effective inspections corresponding to the characteristics of firms to be inspected; (6) Responding to malicious businesses engaged in fraudulent operations; (7) Effective dissemination of information; and (8) Enhanced cooperation with self-regulatory organizations.

1. Activities in FY2014

During FY2014 (April 1, 2014-March 31, 2015), which is the period covered by this publication, the SESC was engaged in market surveillance as described below and strategically utilized the power and human resources with which it has been vested.

With respect to routine market surveillance, the SESC continued its efforts, including accepting information from ordinary investors, etc., conducting market oversight targeting primary and secondary markets, cooperating with overseas regulators in view of the globalization of markets, reviewing insider trading, market manipulation and fraudulent activities, and responding to new financial instruments, etc. Sometimes the information collected or the market oversight would reveal certain conducts impairing the fairness of transactions as well as other problems. In these events, following an investigation and inspection by the relevant divisions within the SESC, the SESC would make a recommendation for administrative disciplinary actions or file a criminal charge.

Inspections of financial instruments business operators and the like revealed cases in which a type I financial instruments business operator failed to establish an appropriate trading screening system for proprietary trading of exchange-traded derivatives thereby overlooking market manipulation, and another type I financial instruments business operator who caused losses to customers through the book-value trading of privately-placed bonds which had declined in value between funds in a conflict of interest. The inspections of type II financial instruments business operators also revealed cases in which one operator obtained approval for registration based on false amounts on the balance sheet attached to the submitted application, and another operator, recognizing the intended misappropriation of the

received capital contribution, had lent its name to an unregistered business operator to solicit customers for the purchase of funds using pamphlets stating yields, etc., at levels without reasonable grounds. In addition, with regard to investment advisories/agencies, the SESC found cases in which operators who were not registered as type I or type II financial instruments business operators acted as intermediaries for OTC derivatives and engaged in offerings of overseas funds, etc. Further, there was an investment manager who, despite an existing discretionary investment contract with a pension fund, did not take the necessary actions on trades that were deemed unfavorable to the trust fund and caused losses to the pension fund, thereby breaching his duty of care. In cases where a serious violation of laws or regulations was found, including the financial instruments business operators involved in these cases, the SESC has made recommendations for administrative disciplinary actions.

Furthermore, the SESC has also filed petitions for court injunctions pursuant to Article 192 “Prohibition Order or Order for Suspension Issued by Court” of the Financial Instruments and Exchange Act (FIEA) against financial instruments business operators which committed violations of the FIEA such as by providing customers with false information for fund solicitation and selling funds without proper registration. Additionally, as a result of investigations and inspections of persons making notifications for businesses specially permitted for qualified institutional investors, etc., the SESC also announced the names of financial instruments business operators which had violated relevant laws and regulations such as by soliciting customers for a fund purchase without obtaining a capital contribution from a qualified institutional investor, thereby failing to meet the special eligibility for operating the business permitted for qualified institutional investors and providing customers with false information for fund solicitation; and financial instruments business operators with issues from the investor protection point of view, including misappropriation of received funds, careless monitoring of subscriptions to and performance of the related fund, issuance of performance reports containing false statements, and dividend payouts using funds received while there is no income from investments.

With respect to market misconduct, the SESC made recommendations for administrative monetary penalty payment orders against several cases, including an officer of a tender offeror committing insider trading based on information on the scheduled TOB obtained during the course of his/her duties, with several individuals who received such information from the officer also committing insider trading, and market manipulation in a manner intended to raise the share prices by placing buying orders at high limit prices and executing them at high prices, and by matching buying orders and selling orders placed at high limits at around the same time for the purpose of inducing sales and purchases of the shares.

In addition, with respect to cases of market misconduct by both Japanese and foreign professional investors using cross-border transactions, etc., the SESC, in close collaboration with overseas regulators with the aid of a global framework for cooperation and information exchange, conducted close investigation of market manipulation cases including those done through selling and buying orders for the purpose of inducing market trading of derivatives without any intention of executing them, a large volume of orders 30 seconds before the close of the market in sync with a change in the constituents of a stock index and a corporate entity which had been subject to an SESC recommendation to issue an administrative monetary payment order in the past. As a result, the SESC also made recommendations for administrative monetary penalty payment orders.

With respect to the violation of disclosure requirements, the SESC made recommendations to the FSA to order an administrative monetary penalty against a listed company that had submitted securities registration statements and annual securities reports, etc., containing material misstatements on important matters including reporting sales by executing sales agreements while, in reality, there were no executions of a trade based on such agreements and assets (software in progress) by faking the software development. Further, even in the case where the SESC finds no material misstatement on important matters in the disclosure documents as a result of inspection, the SESC urges issuers to revise their annual securities report, etc., voluntarily, when deemed necessary.

With respect to malicious offenses which impair fairness of markets, the SESC filed criminal charges against cases of insider trading by an individual who obtained information on the planned TOB in conspiracy with his/her acquaintance, market manipulation by day traders in a conspiracy regarding 4 listed shares through deceptions of layering of order book and spoofing, etc., and submission of an annual securities report containing material misstatements by recording fictitious sales and inflated recoveries from receivables that had been written off. Furthermore, the SESC continuously watched the overall market and exposed a wide range of malicious criminal acts, including filing criminal charges against the perpetrators. For example, in cooperation with law enforcement agencies, the SESC investigated and filed criminal charges against the cases of market manipulation regarding one listed share through wash trading, price ramping and marking the close, and submission of an annual securities report containing material misstatements through recording fictitious sales amounts.

With respect to the enhancement of market discipline, the SESC has worked with financial instruments exchanges and financial instruments firms associations, etc., to share their respective awareness of problems through periodic exchanges of information. In addition, the SESC has continued to actively engage in dialogue with market participants and dissemination of information to the market so as to encourage the voluntary efforts of each market participant. Specifically, the SESC made speeches at compliance forums for listed companies organized by different securities exchanges throughout Japan, and contributed articles to various public relations and mass media. The SESC also used the SESC Email Magazine to disseminate details of its activities, its awareness of problems and other information in a timely manner. Furthermore, in order to enhance the transparency of market surveillance administration and to encourage the self-discipline of market participants, the SESC published an edition of the *Casebook on the Administrative Monetary Penalties under the FIEA (Market Misconduct and Violation of Disclosure Requirements)* in August 2014, which are compilations of preceding cases recommended to the commissioner of the FSA for administrative monetary penalties.

2. Future Challenges

As described above, the SESC has been engaged in effective and efficient market surveillance for the past year.

On the other hand, given the dynamically changing environment surrounding the Japanese

market, as seen in situations where revisions of FIEA and where innovative financial instruments and trades have advanced with the aid of information technology, the SESC's market surveillance needs to address these changes appropriately. In addition, in conducting inspections of financial instruments business operators, the SESC believes it is essential to further enhance its ability to identify potential problems with consideration given to each characteristic of diverse business types of financial instruments business operators, customers, and increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly. Furthermore, with regard to violations involving cross-border transactions, the SESC is required to continue to respond harshly to market misconduct by both Japanese and foreign professional investors, while enhancing surveillance on frequently conducted cross-border trading in cooperation with overseas regulators.

The SESC will continue to do its best to handle these challenges appropriately, perform more effective and efficient market surveillance, and sustain investors' confidence in the market to secure the protection of investors.

January 21, 2014

Securities and Exchange Surveillance Commission

Toward Enhanced Market Integrity

- SESC's Policy Statement for the 8th Term* -

1. Mission

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

○ To ensure the integrity of capital markets, and

○ To protect investors

2. Policy Directions

The Japanese capital markets have been experiencing dynamic changes. A series of amendments have been made to the Financial Instruments and Exchange Act (FIEA). Innovations are continuing in financial products and trading methods through the use of IT, etc. Cross-border transactions are expanding. The SESC is determined to handle issues that need to be addressed in a timely manner by constantly keeping an eye on such market trends and collecting/analyzing information with even greater sensitivity.

(1) Market oversight with prompt and strategic actions

- Strategic use of our regulatory tools (e.g. recommendations, criminal charges, court petitions and policy proposals), early handling of current issues in the market and cooperation with supervisory authorities and self-regulatory organizations (SROs) to effectively address issues according to their contents
- Timely acknowledgement and proactive responses to emerging issues by summing up and analyzing recent market trends as well as information obtained from external sources and through oversight activities

(2) Enhanced surveillance in 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 as well as their increasing impact on Japanese markets and investors
- Effective inspections of globally active and large-scale securities firms with consideration of their international business, utilizing international supervisory frameworks such as information exchanges with overseas regulators
- Fostering personnel that can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel

(3) Efforts 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 cooperation with SROs and other channels, to encourage their self-discipline in the interests of market integrity. Closer communications with market participants and more effective dissemination of information in order to communicate the concerns of the SESC effectively

The SESC believes that our contributions toward fair, transparent and quality capital markets will help develop the Japanese capital markets and vitalize their international competitiveness through the implementation of comprehensive and effective market oversight activities based on the policy directions set out above.

* *SESC Chairman Kenichi Sado and Commissioners Masayuki Yoshida and Mari Sono were appointed and started their new 3-year term on December 13, 2013*

3. Policy Priorities

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

(1) Proactive market oversight through enhanced information-collecting ability

- Timely detection of issues in the market through summary/analysis of information obtained through various channels and through examinations of individual transactions and research of market trends, to proactively carry out market surveillance
- A multifaceted surveillance of both primary and secondary markets, to unravel the overall picture of market abuse and carry out appropriate law enforcement
- Paying attention to transactions that have been recognized as problematic from a market fairness perspective, even though they have not always been our surveillance objects before, and considering how to address them
- Clarification of facts of cross-border market abuse and carrying out appropriate law enforcement against them, through investigation requests of overseas regulators with active use of exchange-of-information frameworks amongst securities regulators

(2) Strict action against severe and malignant market misconduct and false disclosure statements

- Taking strict action against severe and malignant market abuse such as insider dealing, market manipulation, spreading of rumors, fraudulent means and false disclosure statements, by exercising the right to investigate criminal cases. Cooperating with investigative authorities, overseas regulators and other related organizations to effectively clarify facts and seek liability, according to the contents of the matter

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

- Implementation of timely and efficient disclosure inspections 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 accurate corporate information to the market as well as encouraging related parties to achieve such appropriate disclosure. Pointing out business management issues that were the cause of the false disclosure statements and other abuse, if necessary, and suggest improvement

(4) Use of administrative monetary penalty system against market misconduct, etc.

- Implementation of timely and efficient inspections and investigations, taking advantage of the administrative monetary penalty system, for insider dealing, market manipulation, spreading of rumors, fraudulent means, and other market misconduct, etc.
- Continuing to making necessary proposals on the regulatory system regarding market misconduct, based on investigation results

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

- Conducting efficient and effective inspection through strengthening the capabilities to collect and analyze information, establishing a system to select firms and business areas to be inspected based on information and analysis results, as well as development and establishment of know-how and inspection methods corresponding to the characteristics of firms to be inspected, due to the expansion of scope of firms to be inspected
- Conducting inspections of globally active securities firms, verifying the appropriateness of internal controls and risk management systems and, from a forward-looking perspective, utilize information that the inspection and supervisory departments of the Financial Services Agency (FSA) collect through their monitoring activities

(6) Responding to malicious businesses engaged in fraudulent operations

- Conducting inspections of malicious Financial Instruments Business Operators and Persons making Notification for Business Specially Permitted for Qualified Institutional Investors that are engaged in fraudulent operations and cause damage to investors at an early stage in order to identify violations of the law and to prevent the expansion of damage, from the perspective of protecting investors. Collecting/analyzing information through various channels upon selecting the firms to be inspected and enhancing the system to promptly respond to problematic firms. Taking strict actions against highly malicious firms, in cooperation with the organizations concerned.
- Taking proactive actions against the selling of funds by unregistered entities, by enhancing cooperation with the FSA, the Local Finance Bureaus and investigative authorities, and actively utilizing the authority to seek petitions for court injunctions (Article 192 of the FIEA)

(7) Effective dissemination of information

- Specific explanation to ensure accurate communication of the contents of the matter and issues in press announcements related to recommendations and other individual matters
- Effective outreach through enhancing the contents of announcements for cases of administrative monetary penalty and major findings in securities inspections from the perspective of preventing violations
- Reviewing the website of the SESC to make it easier for users and information providers to use, as well as focusing on outreach in English

(8) Enhanced cooperation with SROs

- Implementing surveillance by sharing information and concerns with SROs, to enhance the overall market surveillance function. Further cooperation with SROs in areas including oversight of member firms, rule-making, as well as outreach to market participants and investors

Chapter 1 Organization

1) The Securities and Exchange Surveillance Commission

The Securities and Exchange Surveillance Commission (SESC) was established pursuant to Article 54 of the Act for Establishment of the Cabinet Office and Article 6 of the Act for Establishment of the Financial Services Agency. The SESC is a so-called "Article 8 committee" (positioned as a committee as set forth in Article 8 of the National Government Organization Act), which consists of a chairman and two commissioners. The Executive Bureau is organized within the SESC to implement the operations.

1. The SESC

A decision of the SESC may be made by the approval of two or more members thereof. Both the chairman and commissioners may use their authority independently, and they are appointed by the prime minister with the consent of both Houses. The term of office is three years and may be reappointed. Except where there is a specific legal reason, they shall not be dismissed against their will during their service.

The SESC commenced its first term in July 1992. The eighth term of the SESC commenced as of December 13, 2013, and Mr. Kenichi Sado, chairman, and Mr. Masayuki Yoshida, commissioner, were reappointed, while Ms. Mari Sono began her tenure as a commissioner.

2. The Executive Bureau

Under the supervision of the Secretary General, the Deputy Secretary General (Note 1) and the Deputy Secretary-General for International and Information Affairs, the Executive Bureau of the SESC is composed of six divisions: the Coordination Division, the Market Surveillance Division, the Inspection Division, the Administrative Monetary Penalty Division, the Disclosure Statements Inspection Division, and the Investigation Division (Note 2). The total number of staff placed at the Executive Bureau is 410 in FY2015, reflecting an approved increase (13 in FY2014 and four in FY2015) for the purpose of promoting the improvement and expansion of the market surveillance framework.

(1) The Coordination Division is responsible for overall coordination of the SESC and the management of meetings for the SESC.

(2) The Market Surveillance Division is responsible for the acceptance of information from retail investors, the collection and analysis of information related to securities transactions, and inspection of the transactions.

(3) The Inspection Division is responsible for the inspection of financial instruments business operators, etc. (the "Securities Inspection").

(4) The Administrative Monetary Penalty Division is responsible for the investigation of cases pertaining to administrative penalties for market misconduct, such as insider trading (the "Investigation of Market Misconduct"). In addition, the Office of Investigation for International Transactions and Related Issues is responsible mainly for the investigation of transactions, etc., conducted by persons in foreign countries.

(5) The Disclosure Statements Inspection Division is responsible for the inspection of

disclosure statements, such as securities reports (the "Inspection of Disclosure").

(6) The Investigation Division is responsible for the investigation of criminal cases hindering the fairness of transactions.

(Note 1) In July 1, 2007, the number was increased to two, from the one originally planned.

(Note 2): On July 1, 2006, the SESC was transformed from two divisions (the Coordination and Inspection Division and the Investigation 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 two divisions (the Administrative Monetary Penalty Division and the Disclosure Statements Inspection Division), resulting in the SESC being transformed into six divisions.

2) Local Operations

The Director of the Securities and Exchange Surveillance Department (responsible for specializing in handling operations under the control of the SESC) is appointed at each local office under the supervision of the Director-General of a Local Finance Bureau, the Director-General of a Local Finance Branch Bureau, or the Director-General of the Okinawa General Bureau (the "Director-General of a Local Finance Bureau, etc."). The number of staff at the Securities and Exchange Surveillance Department as of March 2015 was 354, reflecting an approved increase (22 for FY2014 and 11 for FY2015) for the purpose of promoting the improvement and expansion of the market surveillance framework.

The Director of the Securities and Exchange Surveillance Department is commissioned by the SESC to conduct Market Surveillance, Securities Inspection, Investigation of Market Misconduct and Inspection of Disclosure, and also engages in investigation of criminal cases under the direction of the SESC. (Note)

(Note) The SESC entrusts some of its investigation and inspection authorities as well as the authority to order the submission of reports and documents to the Director-General of a Local Finance Bureau, etc. (however, if necessary, the SESC may exercise the authorities by itself).

Chapter 2. Market Surveillance

1) Outline

1. Purpose of Market Surveillance

Market surveillance is positioned as the “entrance for information” at the Securities and Exchange Surveillance Commission (SESC), which aims not only to collect and analyze extensive amounts of information on overall financial and capital markets for the realization of comprehensive and proactive market surveillance corresponding to the changing environments surrounding the markets, but also to detect any suspicious or market misconduct or services as early as possible by conducting market surveillance targeted at the primary and secondary markets. For the above reason, the SESC receives a wide range of information from the public, such as ordinary investors, on a daily basis, and promptly circulates this information to the relevant divisions within the SESC (or to the relevant division within the Financial Services Agency (FSA), etc. if the information relates to affairs under the jurisdiction of the FSA, etc.). The SESC also cooperates with self-regulatory organizations (SROs) to gather a variety of information related to financial and capital markets. Based on this information, the SESC analyzes the background of individual transactions and market trends, examines transactions for possible market misconduct, and reports to the SESC’s relevant divisions, if any suspicious transactions are discovered.

2. Activities Conducted in FY2014

Financial and capital markets have been facing challenges, such as the growth of electronic trading and high-speed transactions, the growing cross-border transactions and international activities by investment funds and other market participants, and the occurrence of fraud and misconduct in fundraising through the stock market, etc. In facing these challenges, the Market Surveillance Division has, in FY2014, made efforts to achieve comprehensive and proactive market surveillance.

The SESC focused on collecting useful information through several means. Specifically, the SESC received 5,688 items of information from ordinary investors and other market participants. It also prepared posters and leaflets requesting investors to provide more information to be distributed to local governments and the police, etc. Furthermore, on the SESC website it provided more friendly examples of information it is collecting in order to enable ordinary investors to understand them more easily. In addition, the SESC collected a wide range of information regarding financial and capital market trends, such as overseas regulations on high-frequency trading (the "HFT") and checking of antisocial problems regarding the allocation of new shares to a third party, making in-depth analysis on the backgrounds of individual transactions and market trends in order to conduct market surveillance targeting primary and secondary markets.

Based on such information, the SESC strove to improve the market oversight and made speedy analysis of transactions that could potentially impair market integrity among those actually performed in the market. In FY2014, the SESC reviewed 1,084 transactions consisting of price formation (94), insider trading (978), and others (12).

2) Receiving 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 part of its information gathering from financial and capital markets.

Such information is important and useful because it reflects the candid opinions of investors in various events of the markets, and therefore can lead the SESC to exercise its authority to conduct inspections of securities companies and other entities, investigations of market misconduct, investigations of international transactions and related issues, inspections of disclosure statements, and investigations of criminal cases.

Therefore, the SESC receives information by a variety of means, such as telephone, letters, visits and the internet, to hear from as many people as possible.

As initiatives to attract a variety of useful information from investors, the SESC has proactively called for information through various means, including public seminars led by officers of the SESC. In addition, with regard to the receipt of phone calls, the SESC introduced a navi-dial service (with a nationwide flat rate) in October 2014, in consideration of the cost burden of information providers for improving convenience. Furthermore, the SESC has requested financial instruments business operators to establish a link to the SESC's website on the SESC's information collector, as needed.

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 the information 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 business operators. 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.

When accepting the information, the SESC takes all possible measures to maintain the confidentiality of each provider's personal information and the details of the information.

2. Receiving Information

In FY2014, the SESC received 5,688 reports of information from the public, of which nine reports were received by the Pension Investment Hotline (described below). The breakdown of the means used by the public in providing the information were 3,733 referrals via the internet, 1,375 by telephone, 458 in writing, 54 visits, and 68 referrals from the local finance bureaus, showing that referrals via the internet accounted for approximately 70% of the total.

In terms of the contents, there were reports on individual stocks (3,904), such as market manipulation, insider trading, or spreading of rumors, on issuers (410), such as suspicious financing or false disclosure statements with annual securities reports, etc., on financial instruments business operators for their sales practices or other issues (652), and on others (722), such as opinions, etc.

Among the reports related to individual stocks, suspicions of market manipulation

(2,400) are most common, followed by suspicions of spreading of rumors / use of fraudulent means (544), and insider trading (364).

The reports on issuers were on false disclosure statements with annual securities reports, etc. (161), on suspicious financing (49), and on timely disclosure (38), etc.

Diverse information was also provided on financial instruments business operators for their sales practices or other issues, such as trouble in trading systems (31), and inappropriate solicitations in light of the customer's knowledge (10), etc.

〈Contact Address〉
SESC Information Service Desk
Securities and Exchange Surveillance Commission
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Direct No. (Navi Dial Service number): 0570-00-3581
*Phone calls from some IP phones are to be made to +81-3-3581-9909.
Facsimile: +81-3-5251-2136
Internet: https://www.fsa.go.jp/sesc/watch/

In addition, the SESC provides the Pension Investment Hotline, a dedicated contact for collecting important and useful information regarding pension management, in order to figure out the actual operations of discretionary investment management business operators.

All of the information provided to the Pension Investment Hotline is delivered to pension professionals at the SESC for conducting active and high quality analyses. The SESC utilizes such analyzed data for efficient and effective inspections.

〈Pension Investment Hotline〉
SESC Pension Investment Hotline Desk
Securities and Exchange Surveillance Commission
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3506-6627
E-mail: pension-hotline@fsa.go.jp

[Examples of desired information]

(i) Information regarding suspicious management of assets by DIM business operators;
(ii) Information regarding inappropriate solicitation of discretionary pension fund management agreements;
(iii) Information regarding inappropriate provision of information for solicitation of discretionary pension fund management agreements;
(iv) Information regarding investment management by DIM business operators, without complying with agreements or commitments

[Points to be considered in providing the information]

- Informants disclose their "names" in light of the provision of useful information;
- "Pension professionals" will listen to problems in the case that an informant provides specially detailed information.

Furthermore, the SESC set up a whistleblowing contact and also provides telephone counseling. The SESC makes it a rule to keep each informant's information strictly confidential. In addition, pursuant to the Whistleblower Protection Act (enforced in April 2006), whistleblowers are protected from dismissal and other forms of disadvantageous treatment administered on the grounds that the person has reported information for the sake of public interest.

〈Contact Address〉
SESC Contact for Whistle-blowing and Assistance
Address: 3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan
Telephone: +81-3-3581-9854*
Email: koueki-tsuho.sesc@fsa.go.jp
Facsimile: +81-3-5251-2198
URL: http://www.fsa.go.jp/sesc/koueki/koueki.htm
* Whistle-blowing is to be submitted in writing (mail correspondence, e-mail or FAX) whereas consultations are conducted by phone.

3. Use of Information Provided

The SESC receives approximately 5,000 to 6,000 items of information per year. After close investigation, information is promptly circulated to the relevant divisions within the SESC and subsequently they review the details thereof. Each relevant division at the SESC utilizes the information for market oversight, inspections of securities companies and other entities, investigations of market misconduct, investigations of international transactions and related issues, inspection of disclosure statements, investigations of criminal cases and other purposes, according to their degree of importance and usefulness.

In view of conducting efficient and effective inspections and investigations with limited human resources, the SESC is now collecting and investigating various information provided by the Financial Services Agency and other relevant ministries and agencies, overseas regulators, self-regulatory organizations, financial instruments business operators, and others. Together with the information described above, the information provided at the SESC Information Reception Service Desk has been utilized for identifying problems.

In addition, a wide variety of information is provided at the SESC Information Reception Service Desk. In March 2014, the SESC renewed the website of the SESC Information Service Desk for the purpose of improving the utilization of information provided, and posted examples of information including changes in entry form to achieve improved user-friendliness.

4. Be Alert for Malicious Phone Calls Pretending to Be from the SESC!

The FSA and the SESC have strongly urged investors to beware of and provide information on malicious solicitation of investment instruments, such as private equities. The SESC requests investors to pay greater attention via its website in October 2013, given that it has recently received an increasing number of reports of people pretending to be from the SESC making one or more of the claims listed below (some added in March 2015):

○ A person referring to himself/herself as a staff member of the SESC phoned and claimed, "I want to raise your attention to the fact that a list of private equity fraud victims (including your name) is being circulated."

○ A person referring to himself/herself as a staff member of the SESC phoned and claimed, "You can recover damages for private equity. Institution A will assist you."

○ Company B asked me to use my name for the purpose of buying the private equity stake on the condition that the purchase money shall be paid by Company B. I allowed them to use my name for the purchase of the private equity stake. However, a person referring to himself/herself as a staff member of the SESC phoned and claimed, "Since it is against the law to lend your name to others, you must make up the sum needed to make a cancellation."

○ After I had acquired a private equity interest, a person referring to himself/herself as a staff member of the SESC phoned and claimed, "Since your action corresponds to insider trading, I will have to search your house."

○ After I received investment material on Company C by mail, a person referring to himself/herself as a staff member of the SESC phoned and claimed, "Company C is a safe investee firm."

(Note) If you are a victim of fraud relating to a private equity, etc., please immediately contact your nearest police station. If the other party has not yet received the money in question immediately after the transfer, in some cases the damage can be mitigated.

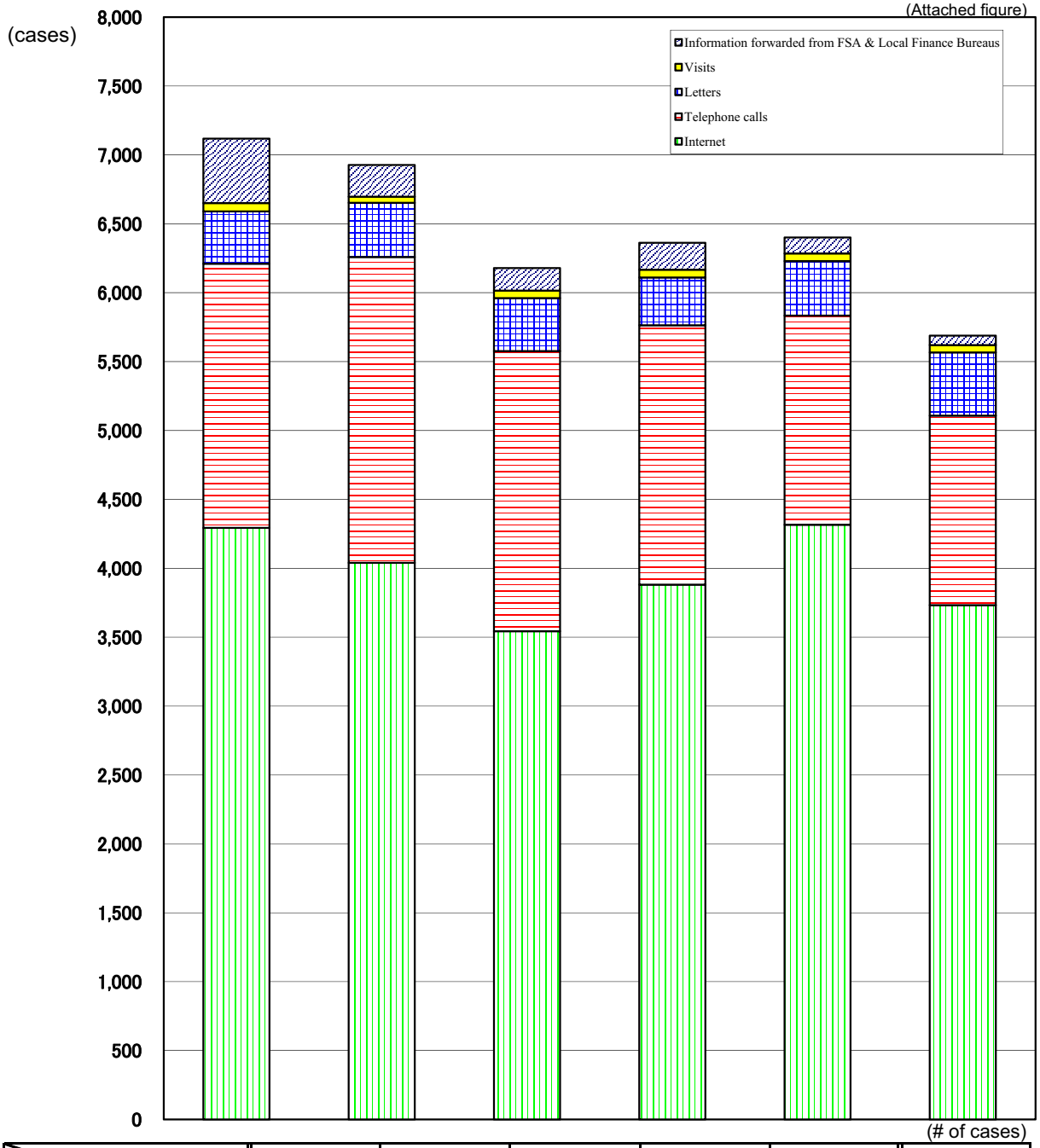
Please be very careful regarding suspicious calls such as the above. Staff of the SESC will never phone you to provide any information on a private equity, nor provide any individual information on a specific trade or a specific company's credit standing.

In addition to phone calls for the solicitation of private equity interest or the like as stated above, the SESC received information from an investor to the effect that the investor had received a phone call from a person referring to himself/herself as a staff member of the SESC, requesting the investor to mail a subsidiary's staff register of the listed parent company (the suspicious person never provided any explanation regarding the legal grounds for investigation or proof evidence through a direct visit (added on March 23, 2015)).

In addition, both the FSA and the SESC in their joint names in June 2009 raised awareness regarding malicious phone calls claiming to be from the FSA and/or the SESC officials through a news agency, and provided damage information to investigative authorities, as necessary.

Information Received

(Attached figure)



(# of cases)

Category \ Fiscal year	2009	2010	2011	2012	2013	2014
Total	7,118	6,927	6,179	6,362	6,401	5,688
Pension Investment Hotline	–	–	–	23	18	9
Internet	4,293	4,040	3,543	3,881	4,316	3,733
Telephone calls	1,917	2,219	2,033	1,883	1,518	1,375
Letters	380	393	385	346	395	458
Visits	60	45	54	57	56	54
Information forwarded from FSA & Local Finance Bureaus	468	230	164	195	116	68

Note : Pension Investment Hotline started in April 2012.

Received Information, Classified by Content

(No. of cases)

Classification \ Fiscal Year	2009	2010	2011	2012	2013	2014
A. Individual stocks						
a. Transaction constraints						
1. Spreading rumors or use of fraudulent n	627	608	813	990	401	544
2. Market manipulation	2,753	2,468	1,995	2,297	2,735	2,400
3. Insider trading	385	463	327	252	279	364
0. Other	50	58	80	201	615	580
b. Disclosure						
1. False statements in large holdings repo	11	5	6	4	0	2
2. Not submitting large holdings reports	54	34	6	7	9	11
0. Other	9	4	0	0	1	3
(Subtotal)	3,889	3,640	3,227	3,751	4,040	3,904
B. Issuers						
a. Legal disclosure						
1. Unreported offering	45	29	19	21	3	1
2. Financing	143	64	20	15	17	49
3. Annual securities reports, etc., containir	152	141	136	110	224	161
4. Not submitting annual securities reports	109	25	27	21	16	6
5. Internal controls reports	2	5	10	0	0	0
6. Takeover bids without prior notice	14	3	1	0	1	0
0. Other	65	38	32	17	12	8
b. Association or securities exchange rules						
1. Timely disclosure	53	62	22	51	34	38
0. Other	2	3	5	6	1	3
c. Other						
1. Governance, etc.	27	17	19	8	10	39
0. Other	223	210	149	187	84	105
(Subtotal)	835	597	440	436	402	410
C. Financial instruments business operators						
a. Prohibited acts, etc.						
1. Solicitation with decisive predictions	20	16	18	19	9	21
2. Unauthorized transactions	57	17	19	22	16	11
3. Profit guarantee and loss compensation	4	3	6	3	2	12
4. False notification	-	-	-	-	-	0
5. Unregistered solicitation or private place	-	-	-	-	-	0
0. Other legal violations	153	101	135	162	100	89
b. Business administration						
1. Inappropriate solicitations in light of the customer's knowledge	122	79	55	11	7	10
2. System-related	141	219	76	37	102	31
3. Investment management-related	-	-	-	-	-	16
0. Other items concerning sales practices	752	626	443	319	371	303
c. Accounting						
1. Irregularities in legal account books	20	22	32	13	19	20
2. Financial health, risk management	25	21	5	5	5	13
d. Association or securities exchange rules						
1. Violation of self-regulatory rules	12	3	19	10	12	16
e. Other						
0. Other	43	35	70	189	264	110
(Subtotal)	1,349	1,142	878	790	907	652
D. Other						
a. Opinions, requests, etc.						
1. Opinions on SESC, etc.	34	77	362	296	171	72
2. Opinions on securities administration or	107	97	79	76	61	48
b. Other						
1. Unregistered business operators	208	258	277	192	242	278
2. Unlisted stock	471	732	559	376	77	46
3. Funds	29	70	46	58	82	41
0. Other	196	314	311	387	419	237
(Subtotal)	1,045	1,548	1,634	1,385	1,052	722
Total	7,118	6,927	6,179	6,362	6,401	5,688

(Note) The information categories "Ca4," "Ca5" and "Cb3 were newly established in April 2014.

3) Market Trend Analysis

1. Outline

The SESC broadly analyzes the background of individual transactions and market trends based on gathered information on financial and capital market trends and takes advantage of them to exercise timely market surveillance.

Specifically, for the purpose of dealing with fraud and misconduct in fundraising through the stock market (fraudulent finance), in addition to market surveillance in both the primary and secondary markets, the SESC has also been engaged in comprehensive and proactive market surveillance, including assessment of the structure and influence on the market of new financial instruments, etc.

2. Market Surveillance Covering Both Primary and Secondary Markets

(1) Responding to fraudulent finance

In recent years, cases of market misconduct have been detected in the financial market as well as in the capital market. For example, a suspect acquires newly issued shares through fictitious capital contribution (paid-in by pretense money), contributions in kind of overvalued real estate properties, or abuse of debt equity swaps and so on, and then he/she sells the shares on a secondary market using a complex combination of insider trading, market manipulation, and spreading of rumors. As a result, he/she obtains unfair profits. “Fraudulent finance” refers to these kinds of market misconduct, consisting of inappropriate behavior both in the primary market in fundraising (issuing of new shares, warrants, etc.) and in the secondary market.

The allocation of new shares to a third party is a typical technique of such fraudulent finance. In general, the allocation of new shares to a third party is a method in which a listed company that needs to raise funds allocates new shares to specific persons and accepts investments from them. Compared with public offerings, the allocation of new shares to a third party makes it difficult for independent parties from the company and the third party to assess the procedure of fundraising. It could potentially cause inappropriate behavior, including cases where expenditure spent by the company issuing new shares could be flowed back to the persons and/or firms underwriting the allocation of new shares to a third party and used as contribution by them, or where a property contributed in kind could be excess fair value due to over-evaluation of assets. In addition, the issuance of a lot of new shares via such fundraising could bring about a dilution of existing shareholders’ interests. As a result, persons who are undesirable from the points of view of existing executives and shareholders of the company could take control of the company. And they could change the board members or make cash of the company flow out through an inappropriate financial transaction.

In close cooperation with the Director of the Securities and Exchange Surveillance Department and securities auditors responsible for accepting the submission of securities registration statements or securities reports at local finance bureaus as well as with financial instruments exchanges (listed control division and the trading examination division), the SESC monitors fraudulent finance cases, covering both the primary and secondary markets through the collection and analysis of disclosed information on listed companies and information from financial instruments exchanges, as well as information

provided by ordinary investors and securities companies and other market participants.

From the viewpoint of monitoring fraudulent finance, the SESC also endeavors to find the actual status of allocations of new shares to third parties by listed companies, through analyzing the results of prior consultations between the listed companies and local finance bureaus / financial instruments exchanges.

In detecting fraudulent finance, the SESC has grasped the overall activities related to fraudulent finance and applied Article 158 of the Financial Instruments and Exchange Act stipulating fraudulent means to investigate persons and firms related to fraudulent finance. Up to now, the SESC has filed criminal complaints in 7 cases and recommended an order of an administrative monetary penalty payment in 1 case.

(2) Analysis of issues underlying market trends

In tandem with the aforementioned collection and analysis of information on individual stocks or individual transactions, the SESC also collects and analyzes a wide range of information in order to grasp the context of market trends.

Focused areas of activities in FY2014 are as follows.

(i) Trend of third party allocation of new shares

a. Number of third-party allocations of new shares

As part of market surveillance, the SESC has independently aggregated the number of financing cases through third-party share allocation, including the number of cases of in-kind contribution since 2009.

(Note) For the purpose of aggregating the number thereof, the SESC excluded cases even in the form of third-party allocation of new shares where fraudulent finance means are unlikely, such as disposal of treasury stock through a third party allocation, over-allotment of third party allocation of new shares to a lead managing underwriter, and issuance of stock acquisition rights for the purpose of stock options, etc.

The number of third-party allocations of new shares based on the above aggregation had declined constantly from 253 cases in FY2009 (based on a resolution for issuance; the same applies hereinafter), to 104 cases in FY2012, then increased to 130 cases in FY2013 (25.0% year-on-year), and 161 cases in FY2014 (23.8% year-on-year), indicating a significant increase for two consecutive years.

This was primarily attributable to a strong increase in the number of cases of stock acquisition rights underwritten by securities companies (an increase of five cases year-on-year) resulting from active proposals by investment banking divisions of securities companies, reflecting a strong stock market in FY2014 following the previous fiscal year.

Furthermore, investment companies and funds have increasingly invested in stock acquisition rights of poor performing companies (an increase of four cases year-on-year).

b. Situation of third party allocations of new shares using in-kind contributions

Among the cases of third-party allocation of new shares based on the above

aggregation, the number of third-party allocations of new shares using in-kind contributions has declined steadily to six cases in FY2014 from a peak of 26 cases in FY2010. The properties paid in kind consisted of five cases of monetary claims (debt equity swap) and one case of listed shares. The SESC has so far carried out accusations of fraudulent finance cases of overvalued real estate properties. However, since 2011, there have been no cases of contributions in kind of overvalued real estate properties.

(ii) Situation analysis regarding checking of antisocial means conducted for third party allocation of new shares, etc.

When conducting a third-party allocation of new shares, listed companies are required to abide by the "Cabinet Office Ordinance on Disclosure of Corporate Information, etc." Specifically, it must be described in the Securities Registration Statement submitted to the local finance bureau "whether or not the allocatee falls under individuals, corporations or other entities (the "Specified Organizations, etc." in the paragraph) who intend to obtain economic benefits by using threats or violence, or by conducting fraudulent means or other criminal acts, as well as the checking results and the methodology of checking whether the allocatee has connections with any Specified Organizations, etc." Financial instruments exchanges are also obliged to check listed companies in the same manner as described above and disclose the results on a timely basis. These checking acts are commonly referred to as checking of antisocial means.

There are no special provisions relating to the checking methodologies of antisocial means. However, in most cases, each issuer with the intention of conducting a third-party allocation of new shares entrusted a research company to conduct research on allocatees other than listed companies, the listed parent company or subsidiaries/affiliates, securities companies, banks or officers of the issuer. The issuer obtained from the entrusted research firm an investigation report on the allocatees and the parties concerned, and then described the investigation results from the research report in the securities registration statement and timely disclosure documents. Since there are also no special arrangements as to survey items and style of the research report required for a research company, there were large differences in analysis quality and quantity among research firms. In particular, when only the research results were indicated in the reports without any information for making a decision in the process, the local finance bureau or the financial instruments exchange requested the issuing company to provide a reason or background for making the decision based on the report, and confirmed the effectiveness of checking of antisocial means.

3. Changes in the Market Structure and Market Trend Analysis

The SESC believes that it is required to accurately grasp changes in the domestic and international market structure, and conduct examinations and inspections on market misconduct in response to changes in the market structure. In the light of these points, the SESC conducted the following surveys on the actual state of new financial instruments, transaction techniques and events, etc., in FY2014, that have been or will potentially increase in importance in both domestic and overseas markets.

<Examples of analyzed cases in FY2014>

(1) Case studies of market misconduct using swap contracts

In recent years, swap transactions whose underlying assets are securities have been expanding. Given that the swap transactions may be concluded together with hedging transactions by a securities company serving as a counterparty of the customer, the anonymity of the customer could be a problem. Accordingly, the SESC conducted case studies on market misconduct in both Japan and the United States using swap transactions.

(2) Survey on HFT regulations in Japan, US and Europe

In recent years, an increase in trades using the HFT (high frequency trading) in international exchanges have caused speedy and frequent orders, corrections and cancellations, which have heightened public concern among market participants.

Under these circumstances, the SESC conducted surveys of the US regulations established as a result of the so-called “flash-crash” in May 2010, the directive on markets in financial instruments (MiFID 2) formulated in May 2014 in Europe, and the self-regulations in the future market conducted by the Osaka Exchange, Inc.

(3) Study on the accusation of market misconduct with HFT in the United States

As the first case of accusation of market manipulation against a HFT trader, the US SEC imposed on Athena Capital Research LLC a fine in the amount of US$ 1 million (approximately ¥120 million) and also ordered them to exclude the misconduct in October 2014. Accordingly, the SESC also studied the case separately from the cases described in (2) above.

(4) Disclosure by companies on cyber attack

Cyber-security measures are among the most important challenges for current corporate activities. A cyber attack on a listed company could potentially cause further risk of a secondary attack, depending on the disclosure status against the response. Accordingly, the SESC conducted a survey on the latest trends in the United States with a focus on what countermeasures should be taken.

The results of these surveys have been shared within the SESC and have proven useful in comprehensive and proactive market surveillance, including in responding to new financial instruments. Furthermore, the SESC has also exchanged information with the relevant FSA departments and with SROs, etc., in an effort to share its awareness of market surveillance issues and problems.

4) Market Oversight

1. Outline

In market oversight, which is conducted 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 which 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 market integrity. At the same time, the SESC examines whether the financial instruments business operators involved in these transactions have committed any misconduct, such as violating regulatory rules of conduct.

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

2. Legal Basis

In market oversight, when the SESC finds it necessary and appropriate for ensuring the 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 Oversight

(1) Results

The number of market oversight conducted by the SESC and the local finance bureaus in FY2014 are as follows.

The number of transactions examined	FY2014 (April 2014 - March 2015)	FY2013 (April 2013 - March 2014)
Total	1,084	1,043
SESC	447	410
Local Finance Bureaus	637	633
(Breakdown of examination items)		
Price formation	94	86
Insider trading	978	943
Other matters (fraudulent means, etc.)	12	14

The SESC and the local finance bureaus conduct day-to-day market surveillance in the markets, and examine particular transactions as necessary. Along with collecting information related to market oversight, at the stage of market oversight examination, the SESC strives to conduct swift analyses of actual individual market transactions that are suspected of violating market integrity.

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

(2) Cases examined

The following are some of the common examples of market oversight.

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

(a) After the announcement of Company A's takeover bid (TOB) for the shares of Company B, the share price of Company B rose significantly, so an examination was conducted into the transactions of Company B stock prior to the TOB.

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

(c) When Company D 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 information from a securities company that "someone gained large profit through insider trading" in the shares of Company E, the SESC conducted an examination.

(e) The SESC conducted an examination on the shares of Company F, based on whistle-blowing information to the effect that a corporate insider of Company F was involved in insider trading.

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

(a) The price and trading volume of Company G shares rose sharply for no apparent reason.

(b) As a result of reviewing the price formation for shares of Company H, a report was received from a financial instruments exchange that a specific client was suspected of market manipulation using the technique of *Misegyoku* sham order transactions.

(c) The SESC conducted an examination on trades of Company I stock, based on whistle-blowing information to the effect that specific persons were involved in market manipulation.

(d) The SESC conducted an examination on trades concerning the shares of Company J, based on specific information reported by an ordinary investor to the effect that a person who boosted the share prices through stock price manipulation had posted a lot of recommendations to buy the stock on Internet bulletin boards.

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

(a) Company K published the development of new products, and after the publication the stock price soared. However, the SESC detected some unclear details in the publicly disclosed information and conducted an examination as to the spread of rumors.

(b) Company L implemented finance amid the ongoing deterioration of operating results. However, there was whistle-blowing information to the effect that an officer of Company L had leaked the finance information to raise the share prices to sell the shares of Company L held by him/her, and thus the financing

was found to be doubtful. As a result, the SESC conducted an examination.

(c) After Company M had raised funds, it was acknowledged that unauthorized outflow of financial funds had been observed. Consequently, the SESC conducted a review of fraudulent means, etc.

(d) Specific information that hinted at the possibility of a surge in the prices of several stocks had been posted on internet bulletin boards, and the share prices had risen sharply. Consequently, the SESC conducted a review concerning the spread of rumors, etc.

(3) Response to cross-border transactions

As seen in Japanese stock markets where the trading value of brokerage trading by foreign investors accounted for approximately 60% of overall brokerage trading in 2014, cross-border transactions are becoming matters of course. Therefore, the SESC has been making efforts to preclude any loopholes in market oversight by collecting information on cross-border transactions, if necessary, from financial instruments business operators, even at the stage of market surveillance examination (see Chapter 9 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, etc., and Financial Instruments Firms Associations. The SESC cooperates closely with these SROs.

(1) Cooperation with financial instruments exchanges and financial instruments firms associations

In addition to monitoring the price movements and orders instigated by investors in secondary markets in real time, financial instruments exchanges, etc., also conduct ex-post trading examinations of orders and transactions suspected of being in violation of a law or regulation. The results of these trade reviews are reported to the SESC as required. A system is also in place for financial instruments exchanges (Trading Examination Division) to share information promptly with the SESC, especially in cases where unusual transactions are recognized that have a high possibility of constituting market misconduct. In the primary markets as well, information exchange between the SESC and the listing review and control divisions of financial instruments exchange is also promoted with regard to movements of listed companies.

In October 2008, the Japan Securities Dealers Association (JSDA), an authorized financial instruments firms association, made a partial amendment to the *Regulations Concerning Establishing a Sale and Purchase Management System for the Prevention of Market Misconduct* (effective in April 2009), requiring JSDA members to report to the SESC and to the JSDA if they become aware of possible insider trading. Based on this, since April 2009, the SESC has utilized the Trading Examination Results Reports received from JSDA members as initial information in its transaction reviews pertaining to insider trading, and as reference information in transaction reviews that are already in progress. The JSDA also examines the sales and purchases of over-the-counter securities, and reports the results of these examinations to the SESC.

Furthermore, the JSDA also operates the Japan-Insider Registration & Identification

Support System (J-IRISS), a system for registering and managing information on the executive officers of listed companies in order to prevent insider trading. Financial instruments exchanges as well as the FSA and the SESC are making cooperative efforts designed to expand the number of listed companies participating in J-IRISS.

Specifically, in January 2011, Review Teams for the Prevention of Insider Trading were established at the JSDA and securities exchanges nationwide to conduct in-depth examinations on more effective measures for preventing insider trading. In June 2011, the results of this initiative were published in the *Report on the Review into the Use of J-IRISS for Preventing Insider Trading*.

In light of these developments, the Director-General of the Planning and Coordination Bureau and the Director-General of the Supervisory Bureau at the FSA, together with the Secretary-General of the Executive Bureau at the SESC, sent a joint letter to the Chairman of the JSDA and to the presidents and the chairpersons of the boards of directors at each exchange in June 2011. The letter was entitled *Efforts for the Prevention of Insider Trading through the Use of J-IRISS and Other Means (Requests)*, and it called for cooperation to further promote action for the prevention of insider trading, such as by utilizing the J-IRISS. In addition, the SESC has also supported various initiatives aimed at preventing insider trading, such as introducing its significance through various types of publicity activities.

Additionally, note that the registration rate of listed companies to J-IRISS is 80.8% as of March 31, 2015.

(2) Use of “Compliance WAN”

The “Compliance WAN” system uses a dedicated line connecting the network of nationwide securities companies with nationwide financial instruments exchanges, the JSDA, the SESC, and with the local finance bureaus, and electronically transfers the transaction data. 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, Compliance WAN has the following advantages:

(i) A reduction in 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 oversight activities; and

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

5) Future Challenges

The market surveillance operations collect and analyze a broad range of information on the overall financial and capital markets, and also examine transactions if necessary, thereby functioning as the “entrance for information” for the SESC. The success of the ensuing inspections of securities companies, investigations of market misconduct, investigations of international transactions and related issues, inspection of disclosure statements, investigations of criminal cases, disclosure statement inspections, 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.

Looking at current market trends, cross-border transactions have become a part of everyday trading. For instance, in recent years, the majority of orders for trading on Japanese stock markets have been conducted from overseas, and the majority of trading is being performed by professional investors in Japan and overseas. In addition, as seen in HFT, trades have become more highly advanced and complicated, while new financial instruments are being developed one after the other. In order to grasp the new methodologies of market misconduct using such contracts and financial instruments, and to detect any cause of fraudulent activities, it is necessary to collect a wider range of information and analyze and utilize it continuously.

Given these situations, the Market Surveillance Division needs to fulfill its mission as an “entrance for information” while cooperating with a wider range of market participants for market surveillance.

(1) Initiatives aimed at proactive market surveillance

Leveraging comprehensive analysis of information collected through various channels as well as the review and research of individual transactions and market trends, the SESC will identify problems in the market on a timely basis and carry out market surveillance in a proactive manner with the aim of monitoring the overall primary and secondary markets for securities in a multifaceted way.

In addition, given the possibility that some new form of serious misconduct, such as fraudulent finance cases, could always be committed, the SESC will also conduct market surveillance, paying close attention to the emergence of any new types of misconduct, while analyzing the problems behind market trends in response to the changing environment surrounding the market.

(2) Establishment of more highly effective systems for collecting, analyzing and utilizing information

The SESC will continuously strive to expand and diversify external information sources, strengthen the capacity to analyze the information collected, and establish a more highly effective and valid framework for market oversight, inspections of securities companies and other entities, investigation of market misconduct, investigation of international transactions and related issues, inspection of disclosure statements, investigation of criminal cases, and other purposes.

(3) Strengthening of response to cross-border transactions and professional investors in Japan and overseas

With respect to cross-border transactions, the SESC will actively collect information from overseas regulators, etc. In addition, the SESC will actively strive to grasp market misconduct carried out by professional investors in Japan and overseas who are well versed in investment techniques and who have ample funds.

(4) Strengthening of response to a shift to electronic trading and high-speed transactions

The SESC will pay close attention to transactions in the market, keeping a watchful eye on the trend toward faster transaction techniques and changes in volatility such as

through HFT, etc., and algorithmic trading.

Furthermore, given that cases of market misconduct conducted via non-face-to-face internet transactions ("*Misegyoku*" sham order transactions, etc.) are frequently seen, the SESC will continue to strive to grasp these kinds of acts of market manipulation, and will continue to cooperate with SROs and other organizations.

Chapter 3. Inspections of Securities Companies and Other Entities

1) Outline

1. Purpose of Inspections of Securities Companies and Other Entities

The objective of the inspections of securities companies and other entities for ensuring fairness and transparency of the Japanese capital and financial markets and protecting investors is to ensure investor confidence in the markets, through conducting on-site examination of the business operations and financial soundness of financial instruments business operators, and by urging them to conduct businesses in accordance with laws, regulations and market rules on the basis of self-discipline, and fulfill the market intermediary function including duties as gatekeepers, in a proper manner.

2. Authority of Inspections of Securities Companies and Other Entities

(1) Since its inception in 1992, the Securities and Exchange Surveillance Commission (SESC) has conducted inspections to ensure fairness in financial transactions. Furthermore, in July 2005, when the revised Securities and Exchange Act (SEA, the predecessor to the Financial Instruments and Exchange Act (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 Financial Services Agency (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, in April 2010, the authority to inspect credit rating agencies and designated grievance machinery, etc. was granted to the SESC. In addition, since November 2012, regulation and oversight on trade repositories (TRs) were introduced. Thus, 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 enabled the FSA to order financial instruments business operators to improve their business conduct, 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.

The main persons subject to SESC securities inspections are as follows:

(i) Financial Instruments Business Operators, etc. (Article 56-2, Paragraph 1 and Article 194-7, Paragraph 2, Item 1 and Paragraph 3 of the FIEA)

No. 1 and Paragraph 3)
(ii) Major Shareholders, etc., of Financial Instruments Business Operators (hereinafter referred to as FIEA Article 56-2, Paragraphs 2 through 4, and Article 194-7, Paragraph 2, Item 1 and Paragraph 3 of the FIEA)
(iii) Subsidiaries of Special Financial Instruments Business Operators (Article 57-10, Paragraph 1 and Article 194-7, Paragraph 3 of the FIEA)
(iv) Financial Instruments Business Groups with International Operations (Article 57-23 and Article 194-7, Paragraph 3 of the FIEA)
(v) Major Shareholders of the Financial Instruments Business Groups with International Operations (Article 57-26, Paragraph 2 and Article 194-7, Paragraph 3 of the FIEA)
(vi) Authorized Transaction-At-Exchange Operators (Article 60-11 and Article 194-7, Paragraph 2, Item 2 and Paragraph 3 of the FIEA)
(vii) Specially Permitted Business Notifying Persons (Article 63, Paragraph 8 and Article 194-7, Paragraph 3 of the FIEA)
(viii) Financial Instruments Intermediaries (Article 66-22 and Article 194-7, Paragraph 2, Item 3 and Paragraph 3 of the FIEA)
(ix) Credit Rating Agencies (Article 66-45, Paragraph 1 and Article 194-7, Paragraph 2, Item 3-2 and Paragraph 3 of the FIEA)
(x) Authorized Financial Instruments Firms Associations (Article 75 and Article 194-7, Paragraph 2, Item 4 and Paragraph 3 of the FIEA)
(xi) Authorized Financial Instruments Firms Associations (Article 79-4 and Article 194-7, Paragraph 2, Item 5 and Paragraph 3 of the FIEA)
(xii) Investor Protection Funds (Article 79-77 and Article 194-7, Paragraph 3 of the FIEA)
(xiii) Persons Submitting a Notification of Holding Subject Voting Rights on Stock Company-Type Financial Instruments Exchange (Article 103-4 and Article 194-7, Paragraph 3 of the FIEA)
(xiv) Major Shareholders of a Stock Company-Type Financial Instruments Exchange (Article 106-6 and Article 194-7, Paragraph 3 of the FIEA)
(xv) Persons Submitting a Notification of Holding Subject Voting Rights on a Financial Instruments Exchange Holding Company (Article 106-16 and Article 194-7, Paragraph 3 of the FIEA)
(xvi) Major Shareholders of a Financial Instruments Exchange Holding Company (Article 106-20 and Article 194-7, Paragraph 3 of the FIEA)
(xvii) Financial Instruments Exchange Holding Companies (Article 106-27 and Article 194-7, Paragraph 3 of the FIEA)
(xviii) Financial Instruments Exchanges (Article 151 and Article 194-7, Paragraph 2, Article 6 and Paragraph 3 of the FIEA)
(xix) Self-Regulation Organizations (Article 151 and Article 194-7, Paragraph 2, Item 6 and Paragraph 3 of the FIEA as applied mutatis mutandis pursuant to Article 153-4 thereof)
(xx) Foreign Financial Instruments Exchanges (Article 155-9 and Article 194-7, Paragraph 2, Item 7 and Paragraph 3 of the FIEA)
(xxi) Persons Submitting a Notification of Holding Subject Voting Rights on a Financial Instruments Clearing Organization (Article 156-5-4 and Article 194-7, Paragraph 3 of the FIEA)
(xxii) Major Shareholders of a Financial Instruments Clearing Organization (Article 156-5-8 and Article 194-7, Paragraph 3 of the FIEA)

(xxiii) Financial Instruments Clearing Organizations (Article 156-15 and Article 194-7, Paragraph 3 of the FIEA)
(xxiv) Foreign Financial Instruments Clearing Organizations (Article 156-20-12 and Article 194-7, Paragraph 3 of the FIEA)
(xxv) Securities Finance Companies (Article 156-34 and Article 194-7, Paragraph 3 of the FIEA)
(xxvi) Designated Dispute Resolution Organizations (Article 156-58 and Article 194-7, Paragraph 3 of the FIEA)
(xxvii) Trade Repositories (Article 156-80 and Article 194-7, Paragraph 3 of the FIEA)
(xxviii) Investment Trust Management Companies, etc. (Article 22, Paragraph 1 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxix) Organizers, etc., of the Investment Corporation to be Established (Article 213, Paragraph 1 and Article 225, Paragraph 2 and 3 of the Investment Trust Act)
(xxx) Investment Corporations (Article 213, Paragraph 2 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxxi) Asset Custody Company(ies), etc., of an Investment Corporation (Article 213, Paragraph 3 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxxii) Executive Officers, etc., of an Investment Corporation (Article 213, Paragraph 4 and Article 225, Paragraph 3 of the Investment Trust Act)
(xxxiii) Specified Transferor (Article 217, Paragraph 1 and Article 290, Paragraph 2, Item 1 and Paragraph 3 of the SPC Act as applied mutatis mutandis pursuant to Article 209, Paragraph 2 thereof)
(xxxiv) Special Purpose Companies (Article 217, Paragraph 1 and Article 290, Paragraph 3 of the SPC Act)
(xxxv) Original Settlors of Specific Purpose Trusts (Article 217, Paragraph 1 and Article 290, Paragraph 2, Item 2 and Paragraph 3 of the SPC Act as applied mutatis mutandis pursuant to Article 286, Paragraph 1 thereof)
(xxxvi) Depositary Trust Company (Article 20, Paragraph 1 and Article 286, Paragraph 2 of the Act on Transfer of Bonds, etc.)
(xxxvii) Other persons who are subject to SESC securities inspections pursuant to the laws as set forth in the above (i) through (xxxvi).
(Note) The description in the parentheses refers to SESC's inspection authority and the provisions of delegation to the SESC.

(2) With regard to inspections based on the authorities delegated by the Prime Minister and the Commissioner of the Financial Services Agency pursuant to the Anti-Criminal Proceeds Act, the SESC also conducts the inspections in the same manner as those conducted pursuant to the authorities as defined in (1) above in the cases where the persons to be inspected are as listed below. These inspections are conducted for the purpose of preventing the persons subject to the inspections from being abused for money laundering, etc., by encouraging the subject persons to put in place and improve the customer management system.

The specific persons subject to SESC securities inspections are as follows:
(i) Financial Instruments Business Operators and Specially Permitted Business Notifying Persons (Article 15, Paragraph 1 and Article 21, Paragraph 6, Item 1 of the Act on Prevention

of Transfer of Criminal Proceeds)
(ii) Registered Financial Institutions (Article 15, Paragraph 1 and Article 21, Paragraph 6, Item 2 of the Act on Prevention of Transfer of Criminal Proceeds)
(iii) Securities Finance Companies, Depositary Trust Companies, and Account Management Institutions (Article 15, Paragraph 1 and Article 21, Paragraph 7 of the Act on Prevention of Transfer of Criminal Proceeds)
(Note) The description in parentheses refers to the SESC's inspection authority and the provisions of delegation to the SESC.

Note that the SESC delegates some of its authorities regarding inspections and collection of reporting and documentations related to (1) and (2) above to the Director General of the Finance Bureau, etc. (However, if necessary, the SESC may exercise its authorities by itself.)

(3) Based on the results of these inspections, the SESC may recommend to the prime minister and the commissioner of the FSA that administrative disciplinary actions should be taken for ensuring the fairness of transactions, protecting investors and securing other public interests.

In response to such a recommendation, etc., if appropriate, the prime minister, the commissioner of the FSA, the Director-General of the Local Finance Bureau or any other competent authorities may take administrative disciplinary 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 a formal hearing with the entity.

In addition, when the SESC recommendation is made against a sales representative of a financial instruments business operators, a registered financial institution, or a financial instruments intermediary, a 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 with the association member to which such sales representative belongs.

3. Activities in FY2014

The circumstances surrounding SESC securities inspections have undergone considerable changes. For example: (i) There has been a diversification and an increase in the number of business operators subject to inspection (a total of approximately 8,000 firms); (ii) There has been diversification and increased complexity in financial instruments and transactions; (iii) From the experience of the global financial crisis, efforts have been taken to grasp the situation of the entire financial group based on the experience of the global financial crisis; and (iv) It has been increasingly important to ensure the reliability of IT systems forming the trading infrastructure. Recently, securities inspections have revealed cases of extremely serious violations of laws and regulations in succession with regard to public interest and investor protection, such as the AIJ incident, insider trading cases concerning public stock offerings and MRI incidents. In addition, it has become clear that damages incurred by individual investors and consumers have increased due to sales and solicitation of suspicious funds by unregistered entities and persons making notification for

business specially permitted for qualified institutional investors (QII Business Operators), which has become a social problem.

Given these situations, during FY2014, from the viewpoint of performing efficient, effective and valid inspections, the SESC has been trying to determine risk-based priorities for conducting inspections in consideration of each business category and other characteristics, introducing inspections with prior notice, and strengthening coordination with supervisory departments.

With respect to securities groups that engage in large and complex group-wide business operations, the SESC conducted more efficient and effective inspections for the full year through cooperation with the relevant supervisory departments, by figuring out the actual operating status through off-site interviews, etc., as well as focusing on key subjects regarding on-site inspection.

In addition, with respect to acts in violation of the FIEA by unregistered entities and QII Business Operators, the SESC used its authority to make securities inspections and file petitions for court injunctions (Article 187 of the FIEA). When observing any problematic behavior in violation of the FIEA or any act deemed problematic in terms of investor protection, the SESC filed a petition for court injunctions (Article 192 of the FIEA), when necessary, and disclosed the trading name, representative's name and the relevant act in violation of the law.

As a result of these approaches, in FY2014, the SESC conducted inspections of 266 cases (commencement basis) (a total of 381 cases) and notified points to be corrected at 105 business operators where problems were detected with respect to violations of laws and regulations and internal control structure, etc. In addition, the SESC also made recommendations for administrative disciplinary actions against 16 cases in which serious violations of laws or regulations were detected, including cases of type II financial instruments business operators who lent their names to unregistered entities, and cases of illegal sales and solicitation of overseas funds by unregistered investment advisories/agencies.

With respect to the filing of a petition for court injunctions, the SESC filed a petition against six cases with likelihood of illegal behaviors out of unregistered entities and QII Business Operators who had violated the FIEA. With regard to 17 cases in which the SESC identified serious violations of laws and regulations by QII Business Operators, the SESC made public the inspection results of these cases (16 cases of inspection results and one case of an investigation result under Article 187 of the FIEA).

2) Securities Inspection Policy and the Program

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

In order to conduct securities inspections systematically, the SESC develops a Securities Inspection Policy and the Program for every inspection year.

The Basic Inspection Policy stipulates inspection priorities and other fundamental inspection policies for the relevant inspection year. The Securities 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 Securities Inspection Policy and the Program for FY2014 were published on March

25, 2014.

(Provisional Translation)

March 25, 2014

Securities and Exchange Surveillance Commission

The Securities Inspection Policy and the Program for 2014

I. Securities Inspection Policy

1. Basic Direction

(1) Role of securities inspections

The mission of the Securities and Exchange Surveillance Commission (SESC) is to ensure fairness and transparency of the Japanese capital and financial markets and to protect investors.

The objective of securities inspections for the achievement of this mission is to ensure investor confidence in the markets, through conducting on-site examination of financial instruments business operators (FIBOs) with regard to the business operations and their financial soundness, and by urging them to operate businesses in accordance with laws, regulations and market rules on the basis of self-discipline, and play the market intermediary function including duties as gatekeepers, in a proper manner.

Therefore, the SESC should, through securities inspections, examine FIBOs' compliance of laws and regulations, and verify the internal control systems behind individual problems.

The SESC will continue to take rigorous actions against illegal activities that undermine confidence in the fairness and transparency of the markets or impair investors' rights, by exercising its own authority and mobilizing all its human resources and capabilities, and will thus play a role in sending alerts to the markets.

(2) Environmental changes surrounding securities inspection

—Diversification and increase in the number of BOs—

As a result of a series of regulatory reforms, including the implementation of the Financial Instruments and Exchange Act (FIEA), business operators (BOs) subject to inspection have diversified and they have increased to around some 8,000 in total. In addition, technological developments in finance, and prevalent cross-border transactions and international activities of market participants, such as investment funds, lead to more diverse and complex financial instruments and transactions being conducted by FIBOs.

In the wake of the global financial turmoil, authorities around the world have been making

efforts to be able to ascertain the business and risks of entire financial groups for large-scale securities groups. Under these circumstances, it is necessary to constantly monitor the groups' financial soundness as a whole for those engaged in complex business operations as a group.

It has become more important than ever to ensure the security of IT systems as a trading infrastructure, because individual investors have increased transactions via the Internet, and institutional investors have increased the execution of massive and complex transactions, using the systems that process a large volume of diverse and high speed orders.

In particular, a systems failure at a financial instruments exchange or FIBO could have a significant impact on the market and on customer transactions. Therefore, the IT system needs intensive verification in terms of the appropriateness of risk management.

(3) Challenges surrounding securities inspections

Recently, securities inspections have revealed cases of extremely serious violations of laws and regulations in succession with regard to market integrity and investor protection, such as the AIJ incident, the other case in which the Japan Investor Protection Fund had to make compensation, and the insider trading cases concerning public stock offerings. With regard to Type II FIBOs, including the case of MRI International, it was revealed that some FIBOs handling high-risk financial products for individual investors committed wrongdoings that harm the public interest or investors, such as misappropriating investment, issuing false notifications to investors, etc.

To prevent such serious wrongdoings that damage investors confidence in the market intermediary function of FIBOs, it is necessary to implement securities inspections rapidly and properly. Furthermore, securities inspections need not only to verify compliance with individual laws and regulations, but also to continuously urge FIBOs to improve their compliance posture and professional ethics in the course of business management and internal control activities.

In addition, there have been many cases of illegal sales and solicitation of unlisted stocks and funds by unregistered BOs causing losses to retail personal investors and consumers, resulting in social problems in recent years. Therefore, as for unregistered BOs and persons making notification for business specially permitted for qualified institutional investors ("QII business operators"), committing violations of the FIEA, the SESC will need to continue to take rigorous actions in close cooperation with relevant authorities to make full use of its faculty to file petitions for court injunctions and to conduct investigations therefor.

(4) Towards efficient, effective and viable securities inspections corresponding to the characteristics of the BOs subject to inspection

In order to adjust to environmental changes surrounding securities inspections, such as diversification and the increase in the number of BOs, and in order to tackle the challenge of recovering investors confidence in the market's intermediary function, the SESC needs to utilize limited human resources appropriately and effectively in order to conduct efficient, effective and viable inspections.

Toward this direction, it will be required to properly determine inspection priorities. Therefore, the SESC will further enhance its ability to identify potential problems with consideration of (i) the characteristics of diverse business types of FIBOs, (ii) the characteristics of customers, and (iii) the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly.

Furthermore, when determining inspection priorities for individual BOs, the SESC will collect and analyze a variety of information concerning them, corresponding to their business types, sizes, other characteristics and the market conditions at the time, and then utilize a risk-based approach to decide which BOs to inspect, considering their market positions and inherent problems in a comprehensive manner. In addition, with regard to the execution of inspections, the SESC also clarifies the scope of inspections and inspection measures according to its inspectorial targets and its issues.

As for business operators conducting discretionary investment management business ("DIM business operators"), the SESC will continuously conduct inspections on them, analyzing and examining problems, discovered in the course of intensive inspections conducted since FY2012.

On the other hand, the SESC will increase the number of inspections in order to reduce the number of small and medium-sized FIBOs which have not been inspected for a long period of time and to reduce their risks to investor protection.

In addition, the SESC will conduct a broad review on how to conduct more efficient, effective and viable inspections, and continue working to strengthen its posture and capabilities.

2. Inspection Implementation Policy

(1) Focuses of verification corresponding to the characteristics of BOs

1) Verifications focused on business types and other characteristics

A. Verification of the market intermediary functions of FIBOs

In order to secure fair, transparent and high-quality financial and capital markets, it is extremely important for FIBOs to fully exercise their duties of gatekeepers in preventing market abuse by persons and entities participating in financial and capital markets, through customer management, transaction surveillance, and underwriting examination. The SESC therefore focuses on verifying whether FIBOs fulfill these missions properly.

In view of the revised Act on Prevention of Transfer of Criminal Proceeds, taking into consideration the importance of personal identification at the time of transactions and the appropriate reporting of suspicious transactions in terms of international cooperation in anti-money laundering and combating against terrorist financing, the SESC verifies whether FIBOs examine their customers' objectives of transactions and their occupations when a new account is opened, whether they properly conduct re-identification of customers when identity theft is suspected, whether they properly report suspicious transactions, and whether they have established systems for conducting these activities properly. The SESC will also examine whether FIBOs have established an internal system to prevent new transactions with anti-social groups, to examine the existing transactions with them, and to address dissolving such transactions, if any, under the proactive involvement of top management, in order to block relations with them organizationally.

FIBOs play an important role in intermediary functions through the securities underwriting business by which enterprises can raise funds for business operations from investors in the market. The SESC will examine whether FIBOs properly engage in securities underwriting business, including underwriting examinations, information control, transaction surveillance and securities allotment from the perspective of the capital markets' integrity and investor protection. In particular, in connection with new listings, the SESC will verify whether examination systems appropriately function in underwriting public offering. In addition, as for FIBOs that arrange and distribute securitized instruments and high-risk derivatives products, their risk management systems and sales management systems will be examined.

B. Verification of the management of material non-public information (prevention of unfair insider trading)

In view of insider trading problems in connection with public stock offerings and the revision of the FIEA as a result of these problems, the SESC will focus on verifying whether FIBOs strictly manage material non-public information from the perspective of preventing unfair insider trading. Specifically, the SESC will verify whether FIBOs have developed viable management systems with regard to registration and information barriers (e.g. Chinese wall) of such material non-public information as public stock offerings of listed companies, surveillance of insider transactions, and prevention of any improper distribution and misuse of information.

C. Verification of measures against conduct that may hinder fair pricing

The SESC will verify whether there are any practices that could hinder fair pricing by means of direct and/or brokered orders, and further examine the transaction surveillance systems of FIBOs to prevent such practices. In doing so, the SESC will verify whether viable transaction surveillance is conducted from the viewpoint of preventing unfair trading. In particular, the SESC will examine whether surveillance is focused on specific dates, such as the pricing date for public stock offering, and on specific trading timing, such as just before closing, or on specific customers who repeatedly place large orders that could affect pricing in the market, as well as whether measures are taken to identify the original customers for orders consigned from foreign-related entities. The SESC will also examine management systems, including the management of delivery failures, for short selling regulations (such as checking the indication of short selling, price regulations, the prohibition of naked short selling, and the obligation to deliver documents related to public stock offering).

As far as FIBOs with online trading or electronic facilities for DMA (direct market access) are concerned, in view of the cases of revelation of market manipulation by means of *misegyoku* (false orders to manipulate prices) using Internet transactions, the SESC will examine whether FIBOs have established viable trade surveillance systems based on the peculiarities of electronic transactions, such as customer orders feeding directly into the market.

D. Verification of the solicitation for investment

In order to protect investors and secure genuine and fair sales and solicitation operations, the SESC will focus on verifying whether FIBOs solicit customers for investment in an appropriate manner and take good care of them.

Regarding verification of solicitation for investment, the SESC will verify, from the viewpoint of the principle of suitability, whether FIBOs are appropriately soliciting investment in light of customers' knowledge, experience, and assets, as well as the investment purpose, and whether they are fully held accountable for their solicitation in accordance with the characteristics of individual customers.

In particular, the SESC will also examine whether, upon sales and cancellations, including switching of investment trusts, appropriate explanations are provided regarding important information that affects customers' investment decision-making, such as product characteristics, risk characteristics, profits/losses, dividends, commissions, and investment trust fees.

For the sale of over-the-counter (OTC) derivatives products and complex structured bonds similar to OTC derivatives products, the SESC will examine whether appropriate explanations are provided regarding important risks and other factors that affect decisions for investment in such products, including the probable maximum losses and the settlement money on cancellation.

In addition, the SESC will verify whether FIBOs have established systems for soliciting and explaining to aged customers or those customers with less knowledge of and experience with investment who utilize the Nippon Individual Savings Account (NISA).

Moreover, the SESC will verify whether widely exposed advertisements to investors, solicitation material, include any misstatements or misleading indications regarding investment returns, market factors and the state of orders. The SESC will also examine the establishment of the troubleshooting system important for investor protection.

E. Verification of the appropriateness of business and legal compliance of IMBOs

While investment management business operators, etc. (IMBOs) are entrusted with fund management for investors' interests, it is very difficult for the investors to directly monitor how their assets are being managed. Since many IMBOs incorporate external funds, including overseas ones, in their management portfolios, it is increasingly important for them to conduct due diligence and monitoring activities in a proper manner.

In particular, recent inspections of IMBOs revealed that they have violated laws and regulations, including misleading explanations about important matters in customer

solicitation activities, etc., the provision of special profits to customers, the violation of the duty of loyalty for discretionary investment management services and of the duty of care of a good manager. Therefore, the SESC will properly collect and analyze related information by utilizing the Pension Investment Hotline, determine the inspection priorities, and examine the viability of due diligence and monitoring activities, the appropriateness of investment solicitation activities, the status of compliance with laws and regulations concerning the duty of loyalty and the duty of care of a good manager, their systems for managing conflicts of interest in relation to transactions with interested parties, etc.

F. Verification of the business management systems of CRAs

The SESC will verify whether credit rating agencies (CRAs) have established business management systems, and whether they have appropriately disclosed information relating to their rating policies from the perspective of preventing conflicts of interest and preserving the fairness of the rating process.

G. Verification of FBOs' compliance with laws and regulations

Regarding BOs engaging in the fund management and sales of interests of collective investment schemes (funds) (meaning IMBOs engaged in self-management business and Type II FIBOs, including QII business operators; "FBOs"), inspections have revealed many cases of legal violations, such as failure in segregation management of funds (misappropriation of funds and unexplained expenditure), false explanations and notices, misleading indications, name-lending to unregistered BOs, and QII business operators selling and managing funds without satisfying the conditions for specially permitted businesses of notification. In light of these circumstances, the SESC will examine FBOs' compliance with laws and regulations, including the appropriateness of business operations and the segregation in fund management.

In cases of overseas funds, it is difficult to check detailed contents or characteristics of products directly, and if Japanese laws and regulations cannot apply to such products directly, it is difficult to protect the rights and interests of investors. In view of this, the SESC will make efforts to examine whether BOs selling such products conduct sufficient and appropriate due diligence and monitoring activities for related funds and their issuers, managers, etc. in consideration of the risks involved in such products, and whether there are any problems of customer solicitation activities, in light of the principle of suitability and other investor protection.

Furthermore, with regard to QII business operators, securities inspections have identified malicious cases in which some operators committed violations of the FIEA and other wrongdoings. Thus, SESC will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions, etc. If violations of the FIEA or acts impairing investor protection are confirmed in the securities inspections or investigations, the SESC will file petitions for injunctions and/or publicize the names of the inspected or investigated entities, the names of their representatives, acts of violation of laws and regulations, etc., where necessary.

H. Verification of compliance with laws and regulations by investment advisors/agencies

FY2013 inspections revealed that some investment advisors/agencies committed serious legal violations of selling and soliciting financial instruments to customers without necessary registration as Type I or Type II operators. Some of them stated that they did not receive sales commissions, etc. from overseas funds, but in fact they did receive commissions from issuers, etc. of overseas funds, according to the amount of purchase by customers, by way of their overseas subsidiaries. In view of these cases, the SESC will focus on examining, especially investment advisors'/agencies' compliance with laws and regulations, and their systems for soliciting and explaining to customers whether there are similar cases.

I. Verification of the functions of SROs etc.

As for self-regulatory organizations (SROs), the SESC will examine capabilities and functions of self-regulatory operations, as well as their systems necessary for exercising their functions properly. Specifically, the SESC will conduct verification with regard to the establishment of self-regulatory rules for their members, their regulatory enforcement, such as on-site and off-site reviews, and penalties, listing examination and transaction surveillance. In conducting verification of listing examination, the SESC will also look into the SROs' on-going measures to thwart intrusion of anti-social forces in the financial and capital markets, including the collection of information on the involvement of anti-social forces in issuing companies and listed companies.

As for financial instruments exchanges, clearing houses, depository trust institutions, etc., in consideration of the "Principles for Financial Market Infrastructures" finalized by the IOSCO, the SESC will examine the development of their systems, such as IT system risk management, in order to verify whether they are well prepared to function as financial market infrastructure.

J. Dealing with unregistered BOs

To deal with serious FIEA violations, such as sales and solicitations of unlisted stocks and funds by unregistered BOs, the SESC will strengthen ties with supervisory departments and investigative authorities, and, where necessary, will make proper use of its authority to conduct investigations necessary to file petitions for court injunctions. If such conducts are confirmed as violating the FIEA or impairing investor protection, the SESC will file petitions for injunctions etc., and publicize the names of unregistered BOs, the names of their representatives, facts of violation of laws and regulations, and other relevant information.

2) Verification of internal control systems and financial soundness

A. Verification of internal control systems

In the case where an inspection shows problems related to business operations, the SESC will endeavor to comprehend the whole picture of problems by examining the appropriateness and viability of the internal control systems and risk management systems (internal control systems etc.). In examining internal control systems, etc., the SESC will pay attention to the engagement and commitment of the senior management and concerned parties in the system management.

In particular, as for a large-scale securities group engaging in complex business operations as a group for which establishing internal control systems, etc., is considered to be important given its market position and business characteristics, the SESC will constantly monitor the status of the group's business operation and financial situation as a whole, and conduct inspections by putting weight on the appropriateness of the internal control systems, etc., from a forward-looking viewpoint. Specifically, the SESC will identify problems and risks common to the industry by fully monitoring the actual conditions of business operations through off-site hearings throughout the year in further collaboration with supervisory departments and implement more effective and efficient on-site inspections by focusing on specific examination themes. In addition, a cycle will be established so as to effectively utilize findings of inspections in the monitoring of the following year.

B. Verification of IT system risk management

In recent years, FIBOs have become increasingly dependent on IT systems in their business operations. At the same time, online participation in securities transactions and FX trading have become usual among individual investors. Accordingly, IT systems are important infrastructures of financial transactions.

Under these circumstances, it is very important to secure the stability of IT systems and establish crisis management measures from the viewpoint of protecting investors and ensuring public confidence in the market and FIBOs. The SESC will examine the appropriateness and viability of management systems for the IT systems risk preventive measures, and the efficacy of business continuity plans, including erroneous order placement prevention, IT systems troubleshooting, information security management, and outsourcing management. At the same time, the SESC will also verify whether the top management fully understands the importance of the IT systems risk preventive measures and whether they proactively engage in the investment and management of the IT systems and the risk management activities.

C. Verification of financial soundness

Inspections of Type I FIBOs have shown cases that seem attributable to deterioration of financial conditions, such as the misappropriation of the Trusts for the Separate Management of Money and Securities (TSMMS) and the Trusts for the Segregated Management of Cash Margins and Other Deposits (TSMCM), and defects in net assets and capital adequacy ratios against statutory requirement. The SESC will focus its examination on the status of TSMMS and TSMCM, and the status of net assets and capital adequacy ratios in close corporation with the supervisory department, the Japan Securities Dealers Association, and the Japan Investor Protection Fund.

(2) Implementation of efficient, effective and viable inspections

1) Risk-based prioritization of the inspection reflecting business type and other characteristics

The SESC will take on a risk-based approach in selecting which BOs to inspect based on the following viewpoints in principle, taking into account the business types, sizes and other characteristics of the BOs subject to inspection, and adjusting to the market condition at the time.

When cross-sectoral issues in the market have been identified, the SESC will flexibly conduct special inspections, as needed, on the BOs facing the same issues.

Prior to the onset of the inspection of individual BOs the SESC will identify issues to be examined, and will conduct inspections focused on them.

A. BOs to inspect on a regular basis

Type I FIBOs (including registered financial institutions) conduct transactions with a large number of investors including individual investors, thereby playing a central role in the market, and IMBOs are entrusted with fund management for investors' interests. The SESC will, in principle, conduct regular inspections on Type I FIBOs and IMBOs in view of their positions to play central roles in the markets. The SESC will conduct regular inspections on Type II FIBOs, particularly on those which sell funds to many individual investors from the viewpoint of investor protection.

CRAs assign credit ratings highly influential on the investors' decision-making, and publish and widely provide them to users. The SESC will, in principle, conduct regular inspections on CRAs in light of their roles as information infrastructure in the financial and capital markets and in view of the purpose of the international financial regulatory reform.

In effect, however, due to the severe human resource constraint at the SESC, it would be difficult to conduct regular inspections uniformly across all the above business types. The SESC will take a flexible approach in deciding the frequency and the scope of inspection of each business type, while endeavoring to grasp the overall circumstances in close cooperation with supervisory departments.

The SESC will select BOs to inspect through actively collecting and analyzing information provided by supervisory departments and external sources, and at the same time, taking into account changes in the market conditions, the position in the market, and inherent problems of individual BOs in a comprehensive manner.

B. BOs to inspect as needed

With regard to investment advisors/agencies, financial instruments intermediaries, etc., given their business types, sizes and other characteristics, and the situation where the number of BOs is extremely large compared with human resources of the SESC, the SESC will select BOs to inspect individually through actively utilizing information provided by supervisory departments and external sources, taking into account their membership in SROs and status of compliance with laws and regulations.

Furthermore, with regard to QII business operators, the SESC will actively utilize information on compliance status with laws and regulations, information provided by supervisory departments and external sources to select QII business operators to inspect

individually, and will make proper use of its authority to conduct securities inspections and investigations necessary to file petitions for court injunctions.

C. Inspection of registered information

For Type II FIBOs and investment advisors/agencies, in addition to A and B above, the SESC will check the setup status in terms of whether they have established a business management system as reported in the application for registration as early as possible after their registration (hereinafter the "Inspection of Registered Information").

D. Unregistered BOs

In order to deal with serious FIEA violations by unregistered BOs such as the sale or solicitation of private equity, funds, the SESC will select BOs to inspect individually as in B above, and appropriately conduct investigations necessary to file petitions for court injunctions.

2) Implementation of viable inspection

A. Inspection with prior notice

The SESC initiates inspections without prior notice in principle. The SESC, however, will give prior notice to specific BOs, where necessary, taking into full account the characteristics of their businesses, the focuses and the efficiency of inspection, and the reduction of burden on the inspected BOs in a comprehensive manner.

B. Enhancement of interactive dialogue

The SESC will endeavor to share its recognition of problems in business operation through interactive dialogue with the inspected BOs. In particular the SESC will ascertain their perception of the senior management team responsible for the development of internal control systems, etc. by exchanging opinions, and encourage them to make voluntary efforts for improvement.

C. Rigorous actions against conduct hindering the efficacy of inspections

On one hand, most BOs gain a better understanding of the importance of interactive dialogue in inspections, but on the other, some BOs refuse inspection and make other conduct hindering the efficacy of inspections. The SESC will take rigorous actions against such conduct in order to fulfill its mission.

3) Enhancement of cooperation with the FSA and Local Finance Bureaus

The SESC will strengthen the cooperation with supervisory offices of the FSA and Local Finance Bureaus in the Ministry of Finance by sharing information and recognition through timely exchanging useful information between supervision and inspection. Furthermore, for large-scale securities groups that engage in complex business operations as a group, the SESC will seek seamless cooperation between its on-site inspections and the supervisory departments' off-site monitoring.

With respect to the relationship with the Inspection Bureau of the FSA, in order to share common awareness of the issues and to implement effective inspection on entities within the same financial business group, the SESC will collaborate with the Inspection Bureau in initiating inspections of entities constituting a financial conglomerate, and further strengthen coordination concerning the establishment of verification themes, the time and method of on-site inspections, and other matters.

The SESC will strengthen cooperation with overseas securities regulators through the exchange of necessary information and the coordination of implementation of inspection with regard to inspections on foreign-owned BOs operating in Japan, Japanese BOs with overseas offices, foreign BOs operating overseas for Japanese investors, and Japanese BOs with overseas business connections. In addition, the SESC will appropriately cooperate with major overseas securities regulators with regard to the inspection on CRAs and to its participation in supervisory colleges established for large-scale global-based securities companies.

Given the identified cases of fraudulent practices by FBOs as well as the sale and solicitation of unlisted stocks and funds by unregistered BOs, the SESC will strengthen its cooperation with the supervisory departments and police and prosecutors.

4) Cooperation with SROs

With respect to relationship with the SROs, the SESC will further enhance coordination between its own inspection and the SROs' audits and examinations on their members so as to improve all the functions of the oversight activities over FIBOs. From this perspective, the SESC will promote cooperation with the SROs, through coordination for inspection programs, information exchange and training programs.

5) Revision and publication of the Inspection Guideline and the Inspection Manual

From the perspective of rigorous action against conduct hindering the efficacy of inspections as well as more efficient and effective inspections, the SESC will revise both the Securities

Inspection Guideline, which stipulates the procedures and other fundamental matters for inspections, and the Inspection Manual for FIBOs in accordance with regulatory reforms. The SESC will publish updated guidelines and manuals so as to improve the transparency and predictability of its inspections.

This Inspection Policy has been prepared based on the situation surrounding the markets as of March 2014, and is subject to revision as necessary.

II. Securities Inspection Program

1. Basic Concept

(1) The SESC formulates the Inspection Implementation Program in accordance with the Inspection Implementation policy in line with the Securities Inspection Policy above. It should be noted that exceptional action may be taken in response to any changes in market conditions and/or factors related to specific BOs.

(2) In conducting inspections, the SESC and all the Securities and Exchange Surveillance Departments of Local Finance Bureaus in the Ministry of Finance will conduct efficient and effective inspections together, concerning how to actively use joint inspections and inspectors exchange. The SESC will also work together with such departments, and support them by sharing inspection techniques and information, and processing inspection results.

2. Basic Securities Inspection Program

Type I FIBOs (including Registered Financial Institutions), Type II FIBOs, IMBOs, and CRAs	150 companies (110 out of 150 to be inspected by the SESDs)
Investment Advisories/Agencies, QII Business Operators, and Financial Instruments Intermediaries, etc.	To be inspected based on individual information and the conditions
Inspection of Registered Information	To be inspected depending on the number of cases of registration, etc.
SROs etc.	To be inspected as necessary
Unregistered BOs	To be inspected as necessary

Note: The above numbers of inspections are subject to change due to revisions of the Inspection Program within the year and/or implementations of special inspections.

3) Amendment of Inspection Manual for Financial Instruments Business Operators, etc.

1. Background for Amendment

(1) Amendment regarding the response to anti-social forces

The partial amendment of the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." was announced in order for the Financial Services Agency to promote initiatives to cut off relations with antisocial forces.

Based on this partial amendment, the SESC made a partial amendment of the “Inspection Manual for Financial Instruments Business Operators, etc.,” effective June 4, 2014 after the public comment period. The SESC will use the amended manual for inspection purposes on and after the date.

(2) Amendment regarding the liquidity coverage ratio regulations

Based on the policy that the guidance on the liquidity coverage ratio shall be applicable to ultimate financial instruments business groups with international operations effective March 31, 2015, the SESC made a partial amendment of the “Inspection Manual for Financial Instruments Business Operators, etc.,” effective March 26, 2015, after putting its proposals out for public comment (from February 6, 2015, to March 9, 2015). The SESC will use the amended manual for inspection purposes on and after March 31, 2015.

(*) The liquidity coverage ratio is an indicator representing whether a financial instruments operator has sufficient assets (the numerator) that can be realized in a short period of time to cover the expected outflow of funds (the denominator) for 30 days under stress.

(3) Amendment regarding the system risk management structure

The Financial Services Agency made a partial amendment of the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.," in order to improve viewpoints and verification items related to the system risk management structure.

Based on this partial amendment, the SESC announced the proposed partial amendment of the “Inspection Manual for Financial Instruments Business Operators, etc.” After putting its proposals out for public comment (from February 13, 2015 to March 16, 2015), the SESC made a partial amendment of the “Inspection Manual for Financial Instruments Business Operators, etc.), effective April 22, 2015. The SESC will use the amended manual for inspection purposes on and after the date.

2. Points of Amendments

(1) Amendment regarding the response to anti-social forces

Given that key points required for the arrangement of a framework, consisting of (1) prevention of transactions with antisocial forces (entrance), (2) after-the-fact checking and internal control (midstream), and (3) exclusion of transactions with antisocial forces (exit), are added to the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc., the SESC added the inspection items regarding the response against antisocial forces.

(2) Amendment regarding the liquidity coverage ratio regulations

The SESC added verification items relating to the liquidity coverage ratio regulations.

(3) Amendment regarding the system risk management structure

Given that key points required for the arrangement of a framework, consisting of (1) the enhancement of information security management, and (2) the enhancement of cyber security management, etc., are added to the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc., the SESC added inspection items regarding the system risk management structure.

4) Record of Inspections

(1) The following describes the implementation status of securities inspections conducted by the SESC and the Director General of Finance Bureau, etc. (see the Table on page 51).

(i) Type I financial instruments business operators, etc. (operators subject to inspection on a continuing basis)

In FY2014, the SESC planned to make inspections of 150 type I financial instruments business operators, etc., and commenced the inspections of 169 operators (77 type I financial instruments business operators, one registered financial institution, 72 type II financial instruments business operators (of which, inspections were conducted on registration only for 26 operators), 17 investment management firms (15 investment management firms and two investment corporations), and two credit rating agencies).

Out of the inspections commenced during FY2014, the SESC completed the inspections of 133 operators (58 type I financial instruments business operators, one registered financial institution, 62 type II financial instruments business operators (of which, inspections were conducted on registration only for 23 operators), and 12 investment management firms (11 investment management firms and one investment corporation)).

In addition, by the end of FY2014, the SESC completed all of the inspections of 63 operators which had been commenced in FY2012 or FY2013 and had not been completed in FY2013 (28 type I financial instruments business operators, 32 type II financial instruments business operators (of which inspections were conducted on registration only for six operators), and three investment management firms).

(ii) Investment advisories/agencies, etc. (operators subject to the inspection as needed)

In FY2014, the SESC planned to conduct inspections on investment advisories/agencies, QII Business Operators, financial instruments intermediaries, and so forth, on an as-needed basis. In fact, the SESC commenced the inspections of 91 operators (42 investment advisories/agencies (of which, inspections were conducted on registration only for 15 operators), 31 QII Business Operators, and 18 financial instruments intermediaries).

Out of the inspections commenced during FY2014, the SESC completed the inspections of 60 operators (31 investment advisories/agencies (of which, inspections were conducted on registration only for 12 operators), 14 QII Business Operators, and 15 financial instruments intermediaries).

In addition, by the end of FY2014, the SESC completed all of the inspections of 18 operators which had been commenced in FY2012 or FY2013 and had not been completed in FY2013 (seven investment advisories/agencies, 10 QII Business Operators, and one financial instruments intermediary).

(iii) Self-regulatory organizations, etc.

In FY2014, the SESC planned to make inspections of self-regulatory organizations, etc., on an as-needed basis. In fact, the SESC commenced the inspections of one financial instruments exchange, one financial instruments exchange holding company and one self-regulation organization.

(iv) Others

In FY2014, the SESC commenced inspections of one financial holding company group and two financial instruments business groups with international operations. The inspection of the financial holding company group was completed within the same fiscal year.

In addition, by the end of FY2014, the SESC completed all of the inspections of two financial instruments business groups which had commenced in FY2013 and had not been completed in FY2013.

(Note) Each inspection is acknowledged to have been completed upon the issuance of an inspection completion notice to each operator subject to the inspection (however, the SESC did not issue such notice to some operators due to their internal situation).

For the 223 inspections out of 277 that were completed in FY2014, the SESC issued the inspection completion notice within three months after the completion of on-site inspection.

In addition, with regard to the number of inspections planned and commenced on financial instruments operators, they are categorized and recorded based on core business when they engage in concurrent businesses. However, the concurrent business operations shall be subject to a securities inspection.

Note that, out of the inspections mentioned above, the SESC conducted effective and efficient inspections of three type I financial instruments business operators and two financial instruments business groups, by focusing on verification subjects regarding on-site inspections as well as clarifying the tasks and risks, based on an in-depth grasp of the actual operating status through off-site interviews throughout the year through coordination with supervisory departments, aiming at integrated on-site and off-site monitoring.

In addition, the Opinion Submission System has been in place for securities inspections since 2001, with the aim of improving the quality of the inspections and securing the transparency of inspection procedures. Specifically, with respect to any matter on which there is disagreement between the inspector(s) and the inspected firm after thorough discussions, the inspected firm may submit an opinion letter to the Secretary-General of the SESC. In the case where such opinion letter is submitted, a person belonging to a division other than the Inspection division of the SESC will prepare a proposed result of the review, which shall be delivered by the SESC from a third-party perspective.

Out of the inspections of 277 financial instruments business operators, etc., that were completed in FY2014 (including those that commenced in FY2012 and FY2013), four operators submitted an opinion letter to the Secretary-General of the SESC, and the SESC took the required procedures concerning these opinions.

(2) Among the inspections of financial instruments business operators, etc., that were completed during FY2014 (including those commenced in FY2012 and FY2013), the SESC

made recommendations to the prime minister and the commissioner of the FSA to take administrative disciplinary actions against 16 cases in which the SESC identified material violations of laws and ordinances. Based on the recommendations, the relevant supervisory departments already took administrative disciplinary actions.

In addition, with respect to any problems detected in the inspections not limited to the cases subject to the above recommendations, the SESC notifies each of the financial instruments business operators and also the relevant supervisory departments of such problem with the aim of serving the objective of off-site monitoring.

Also note that for the purpose of timely dissemination of information, disclosure recommendation cases are posted on the website upon occurrence, and the main problems are provided quarterly.

Separate Table: Progress of Inspections in FY2014

Type of business	Plan [Number of operators inspected] (Note 1)	Actual				Actual [Number of operators inspected] (Note 1) (completion)	Of which commenced in FY2012 and FY2013
		[Number of operators inspected] (Note 1) (Commenced)	[Total number of inspections] (Note 2) (Commenced)	Number of operators to be inspected (Note 3) [Total] (Note 2)			
Type I financial instruments business operators	150 operators	77	78	277		86	28
Registered financial institutions		1	1	1,087		1	0
Type II financial instruments business operators		72	120	1,234		94	32
Investment management firms		15	23	328		14	3
Investment corporations		2	2	69		1	0
Credit rating agencies		2	2	7		0	0
Investment advisories/agencies	Inspected as needed	42	89	989		38	7
QII Business Operators		31	40	3,123		24	10
Financial		18	20	818		16	1

instruments intermediaries							
Self-regulatory organizations	Inspected as necessary	3	3	13		0	0
Other	-	3	3	―		3	2
Total		266	381	7,945		277	83

Notes: 1. The numbers of business operators inspected which have registered for multiple business types have been classified according to their respective main businesses.

2. With respect to the total number of inspections, the numbers of business operators which have been inspected and have registered for multiple business types have been classified according to their respective main businesses.

3. The number of business operators subject to inspection is as of March 31, 2015.

(3) The average total inspection person-days per operator inspected by the SESC and the Director- General of the Local Finance Bureau, etc. (the on-site inspection period) are as follows: Type I financial instruments business operators: 112 person-days; Type II financial instruments business operators: 39 person-days; Investment advisories/agencies: 29 person-days: Investment management firms: 144 person-days; Registered financial institutions: 38 days; QII Business Operators: 58 person-days; Financial instruments intermediaries: 15 person-days. Note that, among type I financial instruments business operators, the minimum number of person-days per operator was 32, whereas the maximum number of person-days per operator was 415.

5) Summary of Inspection Results

1. Inspections of Type I Financial Instruments Business Operators

In FY2014, inspections of 87 type I financial instruments business operators etc., (including registered financial institutions; the same applies hereafter in this chapter) were completed, and problems were found in 36 of them. Of these, seven business operators had problems related to market misconduct, 16 had problems related to investor protection, five had problems related to financial soundness or accounting, and 18 had problems related to other business operations. With regard to three of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

In FY2014, the SESC detected behaviors in violation of the FIEA, such as overlooking of market manipulation without putting in place an appropriate administration framework on the proprietary trading of market derivatives, as well as trading of depreciating private placement bonds between funds at book value with conflict of interests that caused losses to customers.

Other cases indicate that operators had problems on the restriction of trading of stocks with a focus on specific dates, such as a date immediately prior to the change in stock composition of the Nikkei Average and other indexes, due to the likelihood of transactions that would distort fair price formation in the market. The problematic operator failed to put in place an appropriate trading system.

In addition, there were cases in which despite an increasing number of complaints

received from customers, the problematic operator failed to analyze the causes of the problem and neither attempted to improve customer service nor formulate preventive measures.

2. Inspections of Type II Financial Instruments Business Operators

In FY2014, inspections of 94 type II financial instruments business operators were completed and problems were found in 28 business operators (including business operators which mainly engage in business other than type II financial instruments business and in which problems were found related to type II financial instruments business). Of these, 23 business operators had problems related to investor protection, eight had problems related to financial soundness or accounting, and 17 had problems related to other business operations. With regard to five of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

○ Verification based on the MRI Incident

Among funds that may be handled by type II financial instruments business operators under the FIEA, when handling "business-type funds," it is essential for the operators to provide appropriate explanation to each customer on a face-to-face basis, because they are not required to provide general public disclosure of information aimed at potential investors.

Under the situation, MRI International, Inc., a type II financial instruments business operator (against which the SESC recommended that the FSA should take administrative actions in April 2013) was acknowledged to have collected a large amount of capital from individual investors by providing them with false explanations and announcements, and to have diverted the capital to the payment of dividends and redemption money for other customers without investing the capital in the original business purposes, constituting an extremely serious problem.

In light of this situation, since FY2013, the SESC has placed great importance on compliance with laws and regulations by type II financial instruments business operators, including but not limited to the adequacy of their explanations to customers, appropriate operations, and segregation management.

As a result, the SESC detected several problems, such as false explanations and notifications to customers (dividend yields without reasonable grounds, etc.), misleading statements, unsegregated management of assets, solicitation under the state of inappropriate capital management and operations (diversion and unaccounted-for expenditure), and name-lending to unregistered entities.

3. Inspections of Investment Advisories/Agencies

In FY2014, inspections of 38 investment advisories/agencies were completed, of which problems were found in 15 business operators (including the business operators mainly engaged in business other than investment advisories/agencies, in which problems related to investment advisory and agency business were found). Of these 15 business operators, 11 operators had problems related to investor protection, and nine had problems related to other business operations. With regard to six of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

In FY2014, the SESC detected unregistered handling of intermediaries of over-the-counter transactions of securities-related derivatives, public offerings, or private placements of foreign investment securities.

4. Inspections of Investment Management Firms, etc.

In FY2014, inspections of 15 investment management firms, etc. (meaning investment management firms and investment corporations), were conducted, and problems were found in five business operators. Of these, one business operator had problems related to investor protection, and five had problems related to other business operations. With regard to one of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

In FY2014, the SESC detected some problems in the violation of fiduciary duty in the discretionary investment management agreement with the pension fund. Specifically, some operators failed to address unfavorable transactions for the funds and caused the pension funds to incur losses.

○ Intensive inspections of discretionary investment management businesses operators

With respect to discretionary investment management businesses operators, following the revelation of the AIJ case, the SESC deemed it necessary to prioritize verifying their status of operations and compliance with laws and regulations in consideration of the business category and the customer characteristics of the corporate pension funds. Accordingly, the SESC and Local Finance Bureaus inspected 47 discretionary investment management businesses operators as part of intensive inspections on discretionary investment management firms that have been carried out from FY2012 through FY2014, based on the results of sweeping surveys of discretionary investment management firms conducted by supervisory departments.

In conducting the intensive inspections in FY2014, the SESC made extensive reviews on the following points based on the AIJ case:

- Whether or not the relevant operator performs approaches, solicitations and explanations in an appropriate manner in the process of concluding discretionary investment contracts;
- Whether or not the relevant operator makes investment decisions and instructions in an appropriate manner on the basis of a sufficient survey of assets under management at the commencement of investment management under a discretionary investment contract;
- Whether or not the relevant operator appropriately monitors the state of investment assets under the discretionary investment contract and reports the state properly to each customer, and others

As a result, since six operators proved to have violated laws and regulations, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

The details of the violations detected were as follows:

- The operator failed to conduct careful valuations, etc., or careful studies when providing investment instructions under the discretionary investment contract (violation of a prudent manager’s obligation of due care).
- Solicitation materials for the discretionary investment indicated a track record containing the return of other instruments (false and misleading statements).
- When soliciting or concluding a discretionary investment contract with a sole investment

in a single investment trust, the relevant operator failed to explain the material fact that there were restrictions on the termination and extension of redemption with regard to other investment trusts with the same final investment target as the above investment trust (misleading statements).

- The relevant operator provided "deemed public servants" with frequent entertainment for the purpose of the conclusion of the discretionary investment contract (provision of special benefits).
- The relevant operator received excess management fees in respect to the discretionary investment contract concluded with a customer, and the reported net asset value of the investment assets without proper evaluation at the market value (violation of a prudent manager's obligation of due care, etc.).
- The relevant operator engaged in providing investment instruction to acquire securities at the price with no regard to the decline in value (violation of a prudent manager's obligation of due care, etc.).

In addition, problems were found in 20 business operators, some of whom failed to conduct appropriate monitoring and due diligence in respect to external funds (including overseas funds) that were incorporated in the assets under management.

5. Inspections of Financial Instruments Intermediaries

In FY2014, inspections of 16 financial instruments intermediaries were completed, and problems were found in three of them. Of these, two business operators had problems related to investor protection, and two had problems related to other business operations. With regard to one of these operators, the SESC recommended that the prime minister and the commissioner of the FSA take administrative disciplinary actions against them.

In FY2014, the SESC detected problems regarding unauthorized acts conducted by persons who had not been registered as sales representatives.

6. Inspections of Persons Making Notification for Business Specially Permitted for Qualified Institutional Investors (QII Business Operators)

In FY2014, inspections of 24 QII Business Operators were completed, and problems were recognized in 22 of them. Given that QII Business Operators are exempt from administrative disciplinary actions, the SESC has the policy of disclosing the trading name, the representative's name and the relevant act in violation of the law of the relevant operator when they are acknowledged to have conducted an action in violation of the FIEA or any acts undermining investor protection. Accordingly, the SESC published the inspection results of 16 problematic operators. (In addition, the SESC published investigation results of one case based on Article 187 of the FIEA.)

Specifically, the problems detected include conducting solicitation or investment management without meeting the requirements of QII Business Operators, due to failure to receive contributions from qualified institutional investors under the FIEA, acts in violation of the FIEA on soliciting funds by making a false statement using solicitation materials, etc., describing facts significantly contrary to the actual state, such as management procedures and performance, sloppy management of investments and operations, soliciting funds using the name of the business operator under agreement with the financial instruments business operator, and diverting money contributed to funds, etc., deemed as having significant problems in terms of operational management in light of investor protection.

6) Recommendations Based on the Results of Inspections, etc.

The cases in which the SESC made recommendations for administrative disciplinary actions, etc., in FY2014 are described below.

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

(1) Musashi Securities Co., Ltd.
(Date of recommendation: June 13, 2014)

○ The SESC detected inadequacies in the trading examination framework regarding market derivative transactions relating to stock certificates.
[Article 51 of the FIEA]

The problematic operator has overlooked market manipulation action regarding proprietary trading of market derivative transactions. Even though the problematic operator received warnings on the proprietary trading twice from the exchange, it failed to appropriately establish any trading examination framework.

* The SESC made a recommendation to the prime minister and the commissioner of the Financial Services Agency that an administrative disciplinary action, etc., be issued based on the results of the securities inspection above and the investigation of international transactions (See Chapter 5. 2-2 (1)).

(2) Bansei Securities Co., Ltd.
(Date of recommendation: June 13, 2014)

○ The SESC determined that the Company had serious problems concerning dealings of shipping-related private placement bonds from the viewpoint of investor protection.
[Article 51 of the FIEA]

With regard to the commodity fund virtually managed by the problematic operator, while it might cause a conflict of interest between the commodity fund in which the operator itself invested and the other commodity fund in which clients (Pension Fund A) of Bansei Asset Management Co., Ltd. invested, the operator traded shipping-related private placement bonds at book value while the price declined significantly, an action which was overlooked by the management. Significant problems were observed with business operations from the perspective of the public interest and investor protection. (See Chapter 3. 6-4).

(3) FX Corporation
(Date of recommendation: August 29, 2014)

○ Net assets and capital-to-risk ratio below the legal standards
[Article 46-6, Paragraphs 1 and 2, Article 50, Paragraph 1 and Article 52, Paragraph 1, Item 3 of the FIEA (in the case where it falls under Article 29-4, Paragraph 1, Item 5-b of the FIEA)]

In spite of a situation in which the Company's net asset value and capital-to-risk ratio fell below the required values as set forth by laws and regulations, the Company failed

to make the notification required by laws and regulations, calculated the capital-to-risk ratio based on a false net asset value, and notified it to the authorities in order to conceal the fact.

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

(1) Interes Capital Management Co., Ltd.

(Date of recommendation: April 15, 2014)

(i) (Significant problems with the handling of private placement of funds from the perspectives of the public interest and investor protection)

[Article 52, Paragraph 1, Item 9 of the FIEA]

While Interes Capital Management Co., Ltd. recognized the occurrence of serious problematic acts in terms of investor protection, such as diversion of the customers' capital, submission of false reports, and distributing profits without meeting the distribution criteria, with regard to private offering funds (each of which was managed by Alpha Media Co., Ltd., Interes CX Co., Ltd. and G-Quest Co., Ltd. acting as business operators), the problematic company continued the handling of private placement of the funds (Reference: Chapter 3. 6-6- (3)).

(ii) Unregistered handling of private placements of bonds

[Article 29 of the FIEA]

The problematic company handled private placement of new funds issued by Alpha Media Co., Ltd. and Interes CX Co., Ltd. without registration as a type I financial instruments business as required by the FIEA.

(2) Ohisama Energy Fund Co., Ltd.

(Date of recommendation: May 16, 2014)

(i) Conducting solicitation of the acquisition of fund equities without securing segregated management

[Article 40-3 of the FIEA]

Ohisama Energy Fund Co., Ltd. failed to secure segregated management of the money contributed to the funds, and conducted solicitation for the acquisition of fund equities without reviewing the fund administration framework, while the problematic company was in a position to learn of the fact.

(ii) False reporting in response to an order for the production of reports

[Article 52, Paragraph 1, Item 6 of the FIEA]

In reply to an order for production of a report from the director-general of the Kanto Local Finance Bureau, the Company made a false report about the fact of the misleading displays for solicitation as mentioned above (i).

(3) G3 Co., Ltd.

(Date of recommendation: July 3, 2014)

(i) Significant problems with business operations from the perspectives of public interest and investor protection

[Article 38, Item 1 and Article 52, Paragraph 1, Item 9 of the FIEA]

G3 Co., Ltd. was acknowledged to have been involved in the following problematic

acts: (a) soliciting overseas funds by the problematic company under the name of Grant Co., Ltd. and/or with the aid of several agencies not registered as a financial instruments business operator (hereinafter referred to as "Unregistered Agencies"); (b) continuing the solicitation of overseas funds using Unregistered Agencies, etc., while recognizing that the capital was used for purposes other than fund management; and (c) soliciting funds using solicitation materials with a description of dividend yield without reasonable grounds, etc. (Reference: Chapter 3. 8- (1) (ii)).

(ii) Having unregistered entities solicit or sell fund equities in the name of the problematic company

[Article 36-3 of the FIEA]

The problematic company made Unregistered Agencies solicit customers to buy overseas funds, highlighting its own name using business cards with the trade name of the problematic company.

(iii) Insufficient personnel structure to carry out financial instruments business appropriately

[Article 52, Paragraph 1, Item 1 of the FIEA (in the case where it falls under Article 29-4, Paragraph 1, Item 1-d of the FIEA)]

While the Representative Director of the problematic company recognized it illegal to make Grant Co., Ltd. and Unregistered Agencies solicit overseas funds, he helped them engage in the illegal acts. In addition, he himself committed illegal acts (unregistered solicitation of bonds, etc.). The problematic company was deemed as a person who did not have a sufficient personnel structure to conduct Financial Instruments Business in an appropriate manner from the fact that there were effectively no officers or employees other than the Representative Director.

(4) Real Capital Management Co., Ltd.

(Date of recommendation: October 17, 2014)

(i) Pretending as though investments were made from qualified institutional investors

[Article 52, Paragraph 1, Item 9 of the FIEA]

Real Capital Management Co., Ltd. was asked by a person who would like to engage in specially permitted businesses for qualified institutional investors, etc. ("specially permitted business-notifying person applicant") to introduce a qualified institutional investor to make equity investments in a fund that would be organized by the person. Accordingly, the problematic company promised to have Securities Company A, a qualified institutional investor, make investment in the fund through Company B, named as a representative of Security Company A. However, in fact, the problematic company and Company B misappropriated a part of the capital received from the specially permitted business-notifying person applicant to the fund organized by the said person through Company B, and there were no investments from the Securities Company A (Reference: Chapter 3. 6-6- (5) (i)).

(ii) Having another person solicit or sell fund equities in the name of the problematic company

[Article 36-3 of the FIEA]

The problematic company had Clean Control Vietnam LLC solicit the funds organized and managed by the problematic company using its name (See Chapter 3. 6-6- (5) (ii)).

(iii) Failure to deliver legal documents

[Article 31, Paragraph 1, Article 37-3, Paragraph 1, Article 37-4, Paragraph 1, and Article 47 and Article 47-2 of the FIEA]

The problematic company violated the laws and regulations in that they failed to deliver the required documents prior to conclusion of the contract.

(iv) Insufficient personnel structure to conduct Financial Instruments Business in an appropriate manner

[Article 52, Paragraph 1, Item 1 of the FIEA (in the case where it falls under Article 29-4, Paragraph 1, Item 1-d of the FIEA)]

Most of the operations at the problematic company were proactively handled by the representative director alone. However, the representative director was significantly lacking in compliance awareness, and the operating revenues were achieved through operations through violations of laws and regulations, etc. For this reason, the problematic company was recognized as a "person who does not have a sufficient personnel structure to conduct Financial Instruments Business in an appropriate manner."

(5) Japan Industrial Promotion Fund Co., Ltd.

(Date of recommendation: March 6, 2015)

(i) Receipt of the registration of a financial instruments business operator by wrongful means

[The first sentence of Article 29-4, Paragraph 1 and Article 52, Paragraph 1, Item 5 of the FIEA]

Japan Industrial Promotion Fund Co., Ltd. posted a fictitious value of deposits on the balance sheet as listed in a document attached to an application for registration as a type II financial instruments business. While recognizing that the amount of "cash and deposits" was a false amount of money in excess of the actual value by the posting of fictitious cash, the problematic company submitted the registration application form to the director-general of the Kanto Local Finance Bureau, and received registration as a type II financial instruments business.

(ii) Insufficient personnel structure to conduct financial instruments business in an appropriate manner

[Article 47-2 and Article 52, Paragraph 1, Item 1 of the FIEA (in the case where it falls under Article 29-4, Paragraph 1, Item 1-d of the FIEA)]

The officer was engaging in business alone and lacked awareness of compliance with laws and regulations. Accordingly, since the problematic company failed to recruit the required personnel, such as officers or employees well-versed in legal matters, it received the registration of a type II financial instruments business by fraudulent means, and also submitted business reports containing false values to the director-general of the Kanto Local Finance Bureau. Therefore, the problematic company was recognized as a "person who does not have a personnel structure sufficient to conduct financial instruments business in an appropriate manner."

3. Recommendations Based on the Results of Inspections of Investment Advisories/ Agencies

(1) Vienna Capital Japan Co., Ltd.

(Date of recommendation: May 20, 2014)

(i) Illegal handling of private placement of overseas funds by unregistered entities

[Article 29 of the FIEA]

Vienna Capital Japan Co., Ltd. was involved in private placements of equities in a foreign collective investment program (hereinafter referred to as "Overseas Fund") without registration as a type II financial instruments business as required by the FIEA.

(ii) Failure to submit a document required by a specific order for the submission of the report.

[Article 52, Paragraph 1, Item 6 of the FIEA]

Although the problematic company was twice asked by the authorities to submit a document by a specific order for the submission of the report, it failed to submit it without reasonable grounds.

(iii) Insufficient personnel structure to conduct investment advisory and agency business in an appropriate manner

[Article 52, Paragraph 1, Item 1 of the FIEA (in the case where it falls under Article 29-4, Paragraph 1, Item 1-d of the FIEA)]

The problematic company failed to improve and maintain the required internal structure for compliance with laws and regulations, including officers and employees with sufficient knowledge and experience in investment advisory and agency business. As a result, it was acknowledged to be involved in violation of the laws and regulations in many behaviors, including but not limited to unregistered handling of private placements of Overseas Funds, and improper statements on documents provided prior to the conclusion of contracts. Given that the representative director, the only full-time officer/employee, was significantly lacking in awareness of compliance with laws and regulations, the problematic company was recognized as a "person who does not have a personnel structure sufficient to conduct Financial Instruments Business in an appropriate manner."

(2) Chart Master Inc.

(Date of recommendation: May 30, 2014)

(i) Acting as an intermediary in carrying out over-the-counter transactions of securities-related derivatives without registration

[Article 29 of the FIEA]

Without registration as a type I financial instruments business as required by the FIEA, the problematic company sold automated trading software for carrying out foreign exchange margin trading and acting as an intermediary in carrying out over-the-counter FX margin trading between foreign securities traders and domestic customers (OTC derivatives).

(ii) Having unregistered entities solicit or sell fund equities in the name of the problematic company

[Article 36-3 of the FIEA]

The problematic company caused unregistered entities to engage in investment advisory services including the conclusion of investment advisory agreements and advisory services in the name of the company.

(3) Traffic Corporation

(Date of recommendation: June 17, 2014)

(i) Significant problems with fund operations from the perspective of the public interest and investor protection

[Article 51 of the FIEA]

Traffic Corporation misappropriated some money received from specially permitted businesses for qualified institutional investors, etc. (hereinafter referred to as "specially permitted businesses") for purposes other than the investment business.

(ii) Unregistered handling of private placements of equities in investment funds

[Article 29 of the FIEA]

The problematic company regarded Partnership A as the sole qualified institutional investor for the investment in the fund. However, given that the problematic company acted as not only as a business operator of the fund but also as an executing person of Partnership A, the contribution of money to the fund by Partnership A may not be acceptable as an appropriate solicitation to a qualified institutional investor. Therefore, the private placement of the fund equity by the problematic company cannot be regarded as meeting the requirements for specially permitted businesses.

(4) Life Style Investment Co., Ltd.

(Date of recommendation: June 17, 2014)

○ Unregistered handling of the offering or private placement of foreign stocks and acceptance of deposit of money from customers

[Article 29 of the FIEA]

Without registration as a type I financial instruments business as required by the FIEA, Life Style Investment Co., Ltd. was involved in the handling of offerings of stocks issued by foreign companies, and accepted the money deposited from investors.

(5) Consulting Alpha, Inc.

(Date of recommendation: August 1, 2014)

○ Unregistered handling of public offerings or private placements of foreign investment securities

[Article 29 of the FIEA]

Consulting Alpha, Inc. received the registration of investment advisory and agency business. While it did not receive registration as a type I financial instruments business, the problematic company was involved in offering securities (rights to be granted to securities or certificates which have been issued by a foreign state or foreign person and have the nature of stock and bond securities issued by foreign persons) beyond the scope of the investment advisory business.

(6) Next Trust Co., Ltd.

(Date of recommendation: December 9, 2014)

○ Name-lending

[Article 36-3 of the FIEA]

For the purpose of making Granter Co., Ltd. act as an intermediary for the conclusion of a discretionary investment management agreement between its affiliate and a

customer, Next Trust Co., Ltd. permitted Granter to use its name. As a result, Granter engaged in investment advice and agency business in the name of the problematic company. (Reference: Chapter 3. 8- (1) (iii))

4. Recommendations Based on the Results of Inspections of Investment Management Firms

○ **Bansei Asset Management Co., Ltd.**
(Date of recommendation: June 13, 2014)

○ Violation of fiduciary duty in a discretionary investment management agreement with a pension fund
[Article 42, Paragraph 1 of the FIEA]

Pursuant to a discretionary investment management agreement with Pension Fund A, Bansei Asset Management Co., Ltd. invested the money of the pension fund in a commodity fund that was virtually managed by Bansei Securities Co., Ltd. Although the problematic company knew that Bansei Securities allocated shipping-related private placement bonds at book value while the price declined significantly, the problematic company failed to take any measures and caused the pension fund to incur losses. (See Chapter 3. 6 1- (2).)

5. Recommendations Based on the Results of Inspections of Financial Instruments Intermediaries

○ **Zai Consulting Co., Ltd.**
(Date of recommendation: September 26, 2014)

○ Acts to make employees conduct the duties of sales representatives without statutory registration of sales representatives
[Article 64, Paragraph 2 of the FIEA as applied mutatis mutandis pursuant to Article 66-25 thereof]

While Zai Consulting Co., Ltd. recognized that persons who have received the registration of a sales representative are allowed to solicit investors to buy investment trusts, the problematic company had its employees conduct the duties of sales representatives without statutory registration as sales representatives.

6. Announcement of the Results of Inspections of Persons Making Notification for Business Specially Permitted for Qualified Institutional Investors (QII Business Operators)

(1) K.K. ROE
(Announcement date: April 11, 2014)

(i) Making false reporting to customers with respect to the conclusion or solicitation of the financial instrument transaction contracts
[Article 38, Paragraph 1 of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63, Paragraph 4 of the FIEA]

K.K. ROE conducted solicitation of the acquisition of fund equities, using solicitation

materials, etc., with a description such that its proprietary automatic dealing system on foreign exchange margin trading should be automatically operated for 24 hours per day. However, the inspection proved that the description was totally contrary to the facts. In fact, there was no such trading system, and the problematic company failed to engage in foreign exchange margin trading except for a certain period of time, constituting false reporting to customers in relation to the conclusion and solicitation of a financial instruments transaction contract.

(ii) Problems with operational management in light of investor protection

The problematic company diverted the capital of the fund for its own expenses.

(2) Asia Investment Co., Ltd.

(Announcement date: April 11, 2014)

(i) Extremely sloppy management of investments and operations

Asia Investment Co., Ltd. described in its solicitation materials on four anonymous associations ("the Funds") that it had outsourced investments to several external entities. The problematic company mentioned that it had dissolved the Funds and entered into a liquidation procedure on the grounds that an externally entrusted foreign entity had gone bankrupt. However, the problematic company did not know anything about the fund management situation by the external entity.

(ii) Extremely sloppy management of contributions from investors

The problematic company failed to keep anonymous association agreements with contributors regarding the Funds, except in some cases. Accordingly, the problematic company had problems due to a lack of materials to grasp the investment situations of the investors.

(iii) Improper solicitation

While the bank forcibly terminated an account held in an individual's name with the bank which was described as an account to be remitted by contributors in two documents prior to conclusion of the contracts, the problematic company continued to describe the account as a remittance account to receive the capital in the documents for a certain period. The solicitation under the conditions enabled the problematic company to enter into a silent partnership contract.

(3) Alpha Media Co., Ltd., Interes CX Co., Ltd. and G-Quest Co., Ltd.

(Announcement date: April 15, 2014)

(i) Significant problems with operational management in light of investor protection

Alpha Media Co., Ltd., Interes CX Co., Ltd., and G-Quest Co., Ltd. diverted the capital of each fund in which each of them acted as a business operator, and also issued false investment reports to customers. In addition, Alpha Media Co., Ltd. and Interes CX Co., Ltd. distributed profits to customers without meeting the distribution criteria. (Reference: Chapter 3. 6-2 - (1) (i)).

(ii) False reporting in response to an order for the production of reports

[Article 63, Paragraph 7 of the FIEA]

In reply to an order for the production of a report from the director-general of the Kanto Local Finance Bureau, G-Quest Co., Ltd. made a false report about the investees and the state thereof.

(4) Kazuhiko Watanabe

(Announcement date: September 26, 2014)

(i) Engaging in type II financial instruments business and investment management business without registration

[Article 29 of the FIEA]

The problematic person engaged in solicitation of equity and managing capital without receiving registration as a type II financial instruments business. In addition, he made a notification of specially permitted businesses for qualified institutional investors, etc. ("specially permitted businesses"). In these specially permitted businesses, he organized and managed two anonymous partnerships as a business operator ("the Funds"). Later, when a contract on the Funds with a qualified institutional investor was terminated, he continued to manage the Funds on the following date after the termination of the same contract, without receiving investments from qualified institutional investors and without registration as an investment management business operator.

(ii) Submission of false notification of changes

[Article 63, Paragraph 3 of the FIEA]

In order to avoid the revelation of a situation where the Funds no longer meet the requirements of specially permitted businesses with no investments from qualified institutional investors, he submitted a false report on the specially permitted businesses to the director-general of the Kinki Local Finance Bureau to the effect that the Funds had been dissolved.

(5) Clean Control Vietnam LLC

(Announcement date: October 17, 2014)

(i) Unregistered business operations related to type II financial instruments business

[Article 29 of the FIEA]

Clean Control Vietnam LLC mentioned that a qualified institutional investor investing in the fund was Securities Company A, an overseas entity. However, without receiving any investments from any qualified institutional investors, including Securities Company A, the problematic company solicited customers to buy equities in the fund, which did not meet the requirements of specially permitted businesses for qualified institutional investors, etc. (See Chapter 3. 6-2- (4) (i).)

(ii) Solicitation of offers to acquire fund equity, misusing the name of a financial instruments business operator

The problematic company had entered into an agreement with Real Capital Management Co., Ltd. (a type II financial instruments business operator) to misuse the name of the financial instruments business operator with the aim of soliciting investors to acquire the fund equity. (See Chapter 3. 6-2- (4) (ii).)

(iii) Diversion of money contributed to the fund

The problematic company diverted the capital to expenses, etc., for its employees and affiliates without using the money for the business as defined in the fund contract.

(6) Winvol Co., Ltd. and Three Other Associated Companies

(Announcement date: December 17, 2014)

(i) Diversion of money contributed to a fund, etc.

Winvol Co., Ltd. and three other associated companies made payments of

distribution through reduction of the principal in silent partnership funds (hereinafter referred to as "funds"), in which each of them acted as a business operator. When the funds matured the capital was returned to the investors without deducting the distributions that were reduced from the principal, which were offset by diversion of money contributed to other funds. In addition, the problematic company also diverted capital of the funds for its expenses.

(ii) Inappropriate solicitation activities

Even in the context of (i) above, the problematic company and the three companies continued to solicit customers to acquire the fund equity to attract new capital.

(7) KSG Resource Co., Ltd.

(Announcement date: January 16, 2015)

(i) Unregistered business operations related to type II financial instruments business [Article 29 of the FIEA]

While the requirements of the specially permitted businesses for qualified institutional investors, etc. were to receive capital contributed from qualified institutional investor(s), KSG Resource Co., Ltd. continued to solicit customers to acquire fund equity without receiving capital contributed from qualified institutional investor(s).

(ii) Problems with operational management in light of investor protection

The problematic company mentioned in the document provided prior to the conclusion of the contract that it would manage the fund assets separately from the problematic company's assets. However, in fact, the account of the funds was mixed with money borrowed by the group company, which made it difficult to determine the fund's assets clearly. In addition, the problematic company did not understand the operational status of the fund capital.

(8) êxito Co., Ltd.

(Announcement date: January 23, 2015)

(i) Unregistered business operations related to type II financial instruments business and investment management business [Article 29 of the FIEA]

While the requirements of the specially permitted businesses for qualified institutional investors, etc. were to receive capital contributed from qualified institutional investor(s), the problematic company continued to solicit customers to acquire fund equity without receiving capital contributed from qualified institutional investor(s).

(ii) Problems with operational management in light of investor protection

The problematic company diverted a part of the capital for its expenses without appropriating it for the purposes as defined in the anonymous partnership contract.

(9) DoorWave Inc.

(Announcement date: February 24, 2015)

(i) Making false statements to customers in relation to the conclusion of financial instruments transactions and their solicitation

[Article 38, Paragraph 1 of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63, Paragraph 4 of

the FIEA]

DoorWave Inc. either did not manage the capital contributed to Fund A or did not achieve any operating profits on a continuing basis if Fund A was managed. However, for the purpose of solicitation of equity of Fund A, the problematic company explained about the investment track record and management methodology to customers, which was contrary to the actual situation.

(ii) Unregistered business operations related to type II financial instruments business. [Article 29 of the FIEA]

While the requirements of the specially permitted businesses for qualified institutional investor, etc., were to receive capital contributed from qualified institutional investor(s), DoorWave Inc. continued to solicit customers to acquire Fund B's equity without receiving capital contributed from qualified institutional investor(s). Also, for the solicitation of Fund B's equity, the problematic company provided an explanation on the redemption of the capital and the distribution rate of operational profits, contrary to the actual status.

(iii) Sloppy management of assets under management

The problematic company agreed with customers to the effect that it would not distribute any dividends if there was no operational profit. Contrary to the agreement, the problematic company distributed dividends to customers using the capital of Funds A and B during the period when both funds were not operated, and diverted a part of the capital to Fund B for purposes other than investment purposes.

(10) Quest Capital Management Co., Ltd.

(Announcement date: March 3, 2015)

(i) Unregistered business operations related to type II financial instruments business [Article 29 of the FIEA]

While the requirements of the specially permitted businesses for qualified institutional investors, etc. were to receive capital contributed from qualified institutional investor(s), Quest Capital Management Co., Ltd. continued to solicit customers to acquire a fund in which it had acted as a business operator without receiving capital contributed from qualified institutional investor(s).

(ii) Significant problems with operational management in light of investor protection

The problematic company had some partners, such as limited liability partnerships who had not received registration as financial instruments business operators, solicit customers to acquire an equity interest in the partnerships and paid money.

In addition, although dividends should not have been distributed without profits generated from the capital, the problematic company diverted money by paying the dividends to the partners on a regular basis through reduction of the principal of the capital.

In addition, the problematic company issued false investment reports to some partners of the partnership.

(11) Japan Veritas Co., Ltd.

(Announcement date: March 20, 2015)

○ Sloppy management of capital

Japan Veritas Co., Ltd. and Person A, a substantial administrator of the operation of the problematic company, ("President A") solicited customers to acquire equities of three funds in which the problematic company acted as a business operator. President A aggregated money collected by the problematic company from general investors into another company in which President A acted as the representative director. Although there was not enough investment income to be appropriated for dividends to the customers, the problematic company distributed the maximum amount through reduction of capital for a long period of time. In addition, the problematic company misappropriated the majority of the capital for expenses of salaries, etc., of the problematic company's officers and employees. As a result, the capital management was extremely sloppy. In addition, the problematic company issued a dividend payment notice stating the false operation rate exceeded the investment rate.

7) Other Main Problems Observed with Respect to Inspections of Securities Companies and Other Entities

In addition to the cases in which the SESC made recommendations for administrative disciplinary actions, etc., the main problems observed in the inspections of financial instruments business operators, etc., that were completed in FY2014 were as follows.

1. Problems Observed with Respect to Inspections of Type I Financial Instruments Business Operators

(1) Problems related to market misconduct

(i) Deficiencies regarding the management system of material non-public information

According to the problematic company, while material non-public information should have been processed according to a procedure depending on the degree of importance through the judgment of a manager or a higher ranking person, in fact, most of the information was handled only by persons in charge, without being confirmed in depth. Accordingly, improper processing including a delay in registration was observed.

In addition, as for the handling of additional material non-public information, the problematic company had a rule of appending new material non-public information in the remarks column, instead of registering new material non-public information. Therefore, it was not possible to properly manage the persons involved regarding the additional information.

(ii) Deficiencies in addressing acts harming a fair price formation

The problematic company had problems on market examination with a focus on trading on specific dates, such as a date immediately prior to the change in stock composition of the Nikkei Average, and other indexes, due to the likelihood of transactions that would distort fair price formation in the market, as well as placing orders just before the closing and involvement of a specific time zone.

(2) Problems related to investor protection

(i) Insufficient sales structure of corporate bonds

For the sales and solicitation of corporate bonds, the problematic company failed to sufficiently instruct sales representatives to recognize the most recent risk level of the bonds (occurrence of redemption risk, rapid expansion of CDS spreads, decrease in liquidity, etc.), as well as considerations to ensure the appropriateness of solicitation. Accordingly, sales representatives engaged in solicitation without sufficient awareness of such risks of the bonds.

(ii) Problems in light of investor protection regarding the handling of slippage

With regard to contract for difference (CFD) transactions (over-the-counter derivatives transactions on securities), when slippage occurred that was unfavorable to the customer (the contract price was more unfavorable than the price of the order placed by the customer, and thus more favorable to the problematic company), the problematic company made a deal at the contract price reflecting the occurrence of the slippage. However, if slippage occurred that was favorable to the customer (the contract price was more favorable than the price at the time of the order placed by the customer, and thus more unfavorable to the problematic company), the problematic company made a deal at the price of the order placed by the customer without reflecting the occurrence of the slippage. The problematic company thus engaged in asymmetric handling on slippage.

(3) Problems related to financial soundness, accounting, etc.

○ **Deficiencies in internal control systems regarding the capital-to-risk ratio calculation**

With regard to the calculation of capital adequacy ratio, the problematic company was pointed out by an external organization, such as the self-regulatory organization, as having calculation errors in its audit. However, the problematic company failed to take preventive measures, such as cause investigation and review of verification system. As a result, it made repeated calculation errors in its capital-to-risk ratio, and was recognized as having deficiencies in the calculation system relating to its capital-to-risk ratio.

(4) Problems related to other business operations

(i) Insufficient complaint management system regarding the intention to terminate investment trusts, etc.

The problematic company's compliance department recognized that there had been increasing complaints from customers to the effect that the "sales department never accepts the termination of investment trusts, etc." However, it was acknowledged to have failed to analyze the causes, report the analysis results to the top management, and take measures to prevent the recurrence or improve customer service.

(ii) Improper situation regarding the sale and solicitation management of structured notes with regard to financial instruments intermediary business

The problematic company entered into a financial instruments intermediary contract with Bank X, on the condition that the financial instruments to be solicited by Bank X

should be confined to those individually entrusted by the problematic company as stipulated in the internal control regulations. However, due to an insufficient internal control system, including the failure to conduct internal auditing and monitoring regarding financial instruments intermediary business, sales staff, etc., of the problematic company provided conditions on the organization of the structured bonds whose intermediary services were not entrusted to Bank X, and then Bank X provided explanation to customers on the structured notes for solicitation.

(iii) Insufficient management of an electronic data processing system regarding the financial instruments business

[Article 123, Paragraph 1, Item 14 of the FIB Cabinet Office Ordinance, based on Article 40, Paragraph 2 of the FIEA]

In the system development process, the problematic company was acknowledged as having the following problems: (a) incomplete identification of test cases when adding a requirement definition; (b) failure to implement a user acceptance test on the part of business flow; and (c) obsolescence in self-evaluation of system risk (test attendance alone by a person in charge).

In addition, in the event of system failures, the problematic company analyzed the causes and formulated preventive measures, but caused system faults repeatedly due to the failure to implement the preventive measures.

Furthermore, in spite of the occurrence of system failure that could actually or potentially affect the use of customers, etc., the SESC observed that the problematic company failed to report the failure to the authorities.

(iv) Insufficient internal system to exclude relationships with anti-social forces related to existing customers

The problematic company has established the rules for blocking relationships with anti-social forces, with the aim of reviewing existing customers every year as to whether or not they fall under anti-social forces. However, since the enactment of the regulations, the problematic company has not undertaken any examination. Therefore, the problematic company was acknowledged as having deficiencies in terms of the exclusion of relationships with anti-social forces.

(v) Failure of notification of suspicious transactions

[Article 8, Paragraph 1 of the Act on Prevention of Transfer of Criminal Proceeds]

The problematic company failed to provide internal training and make notification regarding the reporting of suspicious transactions over a period of approximately two years. In addition, the department in charge failed to notify any suspicious transactions it had learned of. Therefore, the problematic company was deemed to have deficiencies in the reporting of suspicious transactions in the internal control systems.

2. Problems Observed with Respect to Inspections of Type II Financial Instruments Business Operators

(1) Problems related to investor protection

(i) Making representations that would cause a misunderstanding of important matters

[Article 117, Paragraph 1, Item 2 of the Cabinet Office Ordinance on Financial Instruments Business based on Article 38, Paragraph 7 of the FIEA]

With regard to subscription fees to be borne by investors to Fund A, while the problematic company received from the investors' money virtually equivalent to the fees, there was a description in the documents prior to conclusion of the contract to the effect that such fees were not required, which could cause misunderstanding on important matters about fees.

In addition, in the case of Fund B, the business operator already acquired the rights, etc., to engage in the business by advance payment, and the equity capital by private placement was to be appropriated to the repayment of advances paid by the business operator, which was significantly contrary to the description in the documents prior to the conclusion of the contract to the effect that the problematic company would acquire the rights, etc., upon receipt of the equity capital. This could have caused misunderstanding on important matters about the use of capital.

(ii) Misstatement

[Article 117, Paragraph 1, Item 2 of the Cabinet Office Ordinance on Financial Instruments Business based on Article 38, Item 7 of the FIEA]

For subsequent offering of funds, while the problematic company added new investees in the subsequent offering, it failed to examine the actual situation of the additional investees. Instead, the problematic company provided explanation to customers using the initial solicitation materials without description of the new investees.

(2) Problems related to financial soundness, accounting, etc.

○ **Inadequate confirmation of fund property, etc.**

The problematic company defined in the internal regulations that, with regard to the handling of private placement funds, it would strictly check the operational situations, such as segregated management. However, with regard to the funds managed by Company A, the problematic company only checks the moves of the dedicated accounts of the two funds without reconciling the moves in bank accounts of Company A. As a result, the problematic company could not figure out the differences in deposit and withdrawals in the funds from the actual situation.

Furthermore, while the prepayment of compensation to the business operator was contrary to the provisions of the anonymous partnership contract of the fund, it accepted it easily without considering it adequately.

3. Problems Observed with Respect to Inspections of Investment Advisories/Agencies

○ **Problems related to other business operations**

○ **Inability to properly carry out the investment advisory business**

Even though the president of the problematic company recognized that the actual business status differed significantly from the description, etc., to the authorities at the

time of registration, he failed to take appropriate measures, which proved that the internal operation execution structure was not well organized. As a result, the problematic company had operating problems, such as violations of laws and regulations in deficiencies of legal documents.

4. Problems Observed with Respect to Inspections of Investment Management Firms

○ **Problems related to other business operations**

(i) Deficiencies regarding the audit system on sale brochures for distributors of investment trusts for solicitation

For the preparation and examination of sales materials of investment trusts organized and managed by the problematic company (materials for distributors for solicitation), the problematic company failed to secure staff with specialized knowledge, etc., with respect to the merchantability and management methodology of investment trusts, so as to verify the accuracy and adequacy of the description involved. This situation was deemed to constitute deficiencies in the examination system of sales material. Accordingly, the problematic company provided descriptions on some part of its sales materials that could mislead investors about the recognition of and investment decisions regarding the credit risk of the investment trust.

(ii) Deficiencies regarding the development of financial instruments

For the development and organization of fund investment trusts, the problematic company simply confirmed the management style of each individual investment fund roughly, to determine the allocation of funds without confirming the management policies from each prospectus and other documents, etc. This situation was deemed to constitute deficiencies in the development of financial instruments. Accordingly, there were some changes in the investment policy of the fund after the determination of allocation, which could affect the marketability of the investment trust.

8) Petitions for Court Injunctions Against Unregistered Entities, etc.

With regard to unregistered entities and QII Business Operators involved in fraudulent business (hereinafter referred to as “Unregistered Entities, etc.”), the FSA and the SESC have taken actions such as provision of information to police agencies, issuance of warning letters to Unregistered Entities, and announcement of names of such business operators, followed by actions of investigative authorities, because of the difficulty of applying the FSA/SESC’s usual administrative disciplinary actions such as supervision and inspection against them, unlike business operators that have registered under the FIEA.

However, as damage to investors in recent years due to illegal sales of private equities is expanding, and fund equities by Unregistered Entities, etc., have been recognized as a social problem, the FSA and SESC have been expected to make use of petitions to the court for injunctions against Unregistered Entity, etc., under Article 192 of the FIEA (hereinafter referred to as “Article 192 petition” in this section) and investigations pursuant to 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.

Articles similar to Articles 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 had not been utilized for a substantial amount of time. An amendment to 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 to 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 Article 192 Petition and Article 187 Investigation to the director-general of a Local Finance Bureau, etc.

Furthermore, an amendment to the FIEA in 2011 has expanded regulations concerning unregistered entities as follows:

- Nullification, in principle, of a sales and purchase contract, etc. in cases where an unregistered entity has made a sale or other type of transfer of unlisted securities;
- Prohibition of acts for solicitation and advertisement by unregistered entities (imprisonment with work for not more than one year, and a fine of not more than one million yen);
- Increased penal provisions for unregistered entities
  Before revision: imprisonment with work for not more than three years, and a fine of not more than three million yen
  After revision: imprisonment with work for not more than five years, and a fine of not more than five million yen;
- Penal provisions against corporations conducting business without registration or without license made heavier than provisions for non-corporations
  ⇒ For a corporation conducting financial instruments business without registration: a fine of not more than 500 million yen; and
- Previously, an Article 192 petition was only possible at the district court governing the domicile of the respondent. Now, an Article 192 petition can also be filed with the district court governing the place where the offense is committed (expansion of jurisdiction for Article 192 petitions).

In response to these institutional developments, the SESC worked vigorously to collect and analyze information on Unregistered Entities, etc., in cooperation with the supervisory departments of the FSA and local finance bureaus as well as investigative authorities. Then, in FY2010, the SESC filed an Article 192 petition, for the first time since the introduction of the system, against a company and its officers who had been in the business of soliciting private equities without registration, and this resulted in an order being issued by the court. The SESC successively endeavored to work in line with these institutional developments.

In addition, since FY2012, even in cases where the SESC does not file an Article 192 petition, it has made public the company name, representative name, conduct in violation of laws and regulations, and other information if the results of the Article 187 investigation reveal any act of violation of the FIEA or any problem in the light of the protection of investors.

The following is a list of cases in FY2014 where the results of an Article 192 petition and an Article 187 investigation were announced.

(1) Petitions for court injunctions, etc.

(i) UAG Co., Ltd.

(Petition date: June 6, 2014)

UAG Co., Ltd (a QII Business Operator; hereinafter referred to as "Company U"), Representative Director A and Employee B of Company U (hereinafter referred to as "Company U, etc."), without a registration under the FIEA, solicited many retail investors to purchase rights under an investment contract in which Company U's overseas subsidiary was to manage the money contributed and distributed profits to the investors, and caused many of them to acquire rights. Subsequently, Company U, etc., organized a new anonymous partnership, with the aim of activating the solicitation of customers for the acquisition of rights relating to the anonymous partnership on a more large-scale and frequent solicitation.

Therefore, on June 6, 2014, the SESC filed an Article 192 petition with the Osaka District Court for an injunction against Company U, etc., for violations of the FIEA (engaging in the business of handling public offerings or private placements of rights listed in Article 2, Paragraph 2, Item 5 or 6 of the FIEA, without a registration under the FIEA).

In response to this petition, the Osaka District Court issued an injunction against Company U, etc., on June 23, 2014, as per the content of the petition.

(ii) Grant Co., Ltd

(Petition date: July 3, 2014)

Grant Co., Ltd. (hereinafter referred to as "Company G"), Representative Director A, Person B and Person C of Company G (hereinafter referred to as "Company G, etc.) engaged in soliciting a large number of retail investors to acquire financial instruments corresponding to a foreign collective investment program equity (hereinafter referred to as "Foreign Funds") by themselves at Company G, in which Person B was acting as Chairman and/or misusing many agencies without registration of financial instruments business (hereinafter referred to as "Unregistered Agencies"). In addition, Representative Director A, Person B and Person C had envisaged the program to increase the number of Unregistered Agencies and had also solicited multiple corporations, including also financial instruments business operators, to acquire Foreign Funds.

Therefore, on July 3, 2014, the SESC filed an Article 192 petition with the Osaka District Court for an injunction against Company G, etc., for violations of the FIEA (engaging in the business of handling public offerings or private placements of rights listed in Article 2, Paragraph 2, Item 5 or 6 of the FIEA, without registration under the FIEA).

In response to this petition, the Osaka District Court issued an injunction against Company G, etc., on July 28, 2014, as per the content of the petition.

(iii) Granter Co., Ltd.

(Petition date: August 6, 2014)

Granter Co., Ltd. (hereinafter referred to as "Company G"), Representative Director A and Employee B of Company G (hereinafter referred to as "Company G, etc."), solicited many retail investors to open wrap accounts managed by Company G's overseas subsidiary, and concluded discretionary investment contracts between a number of retail investors and the subsidiary. In addition, they also solicited investors to acquire financial instruments corresponding to a foreign collective investment scheme equity and/or member's rights of a joint corporation. In addition, Company G, etc., had planned to continue solicitation and had also solicited investors to acquire the equity of the fund organized by Company G or its subsidiaries.

Therefore, on August 6, 2014, the SESC filed an Article 192 petition with the Tokyo District Court for an injunction against Company G, etc., for violations of the FIEA (engaging in the business of handling public offerings or private placements of rights listed in Article 2, Paragraph 2, Item 3, 5, or 6 of the FIEA, without a registration under the FIEA).

In response to this petition, the Tokyo District Court issued an injunction against Company G, etc., on September 5, 2014, as per the content of the petition.

(iv) ES plus Co., Ltd.

(Petition date: September 12, 2014)

ES plus Co., Ltd. (hereinafter referred to as "Company E") and Representative Liquidator A of Company E (hereinafter referred to as "Company E, etc.") solicited a number of retail investors to buy equity of a foreign corporation, a subsidiary of Company E, planning to invest the contributed capital in mine development projects managed by another foreign corporation in which Representative Liquidator A acted as Chairman of the Board of Directors. In addition, they also solicited investors to acquire rights under the limited liability partnership agreement. Furthermore, although Company E was registered to the effect that the dissolution was resolved, Company E, etc. continued the solicitation as described above, and also solicited investors to buy equity of funds organized by a different corporation established by Liquidator A.

Therefore, on September 12, 2014, the SESC filed an Article 192 petition with the Nagoya District Court for an injunction against Company E, etc., for violations of the FIEA (engaging in the business of handling public offerings or private placements of rights listed in Article 2, Paragraph 2, Item 5 or 6 of the FIEA, without registration under the FIEA).

In response to this petition, the Nagoya District Court issued an injunction against Company E, etc., on October 22, 2014, as per the content of the petition.

(v) Masters DPB Limited

(Petition date: January 14, 2015)

Masters DPB Limited (hereinafter referred to as "Company M") and Person A serving as Representative Director of Company M and Representative Person in Japan (hereinafter referred to as "Company M, etc.") were authorized to make investment decisions on and manage the funds deposited and entrusted by a large number of Japanese retail investors. Company M, etc., received money entrusted in an account managed by Company M, and entered into a discretionary investment management agreement. Also, Company M, etc., started the handling of a service under a new name,

accepted funds after the delegation of operation and conducted extremely sloppy fund management.

Therefore, on January 14, 2015, the SESC filed an Article 192 petition with the Tokyo District Court for an injunction against Company M, etc., for violations of the FIEA (entered into a discretionary investment contract, and engaged in money management under the agreement through investment in securities, etc., on the basis of investment decisions with a focus on the analysis of value, etc., on financial instruments without registration under the FIEA).

In response to this petition, the Tokyo District Court issued an injunction against Company M, etc., on February 23, 2015, as per the content of the petition.

(vi) Japan Verita Co., Ltd. and Gifter Japan Co., Ltd.
(Petition date: March 20, 2015)

Japan Verita Co., Ltd. (a QII Business Operator; hereinafter referred to as "Company V") and Person A, Representative Director of Company V (hereinafter referred to as "Company V, etc.") solicited investors to acquire rights based on three anonymous partnership agreements with a common investment target, and received a large number of investors. However, Company V did not meet the requirements of specially permitted businesses for qualified institutional investors, etc., Gifter Japan Co., Ltd. (a QII Business Operator; hereinafter referred to as "Company G") and Person A, virtually a controlling person of Company G (hereinafter referred to as "Company G, etc."), regardless of the presence or absence of investment income, aimed to distribute monthly maximum dividends through the reduction of capital, and continued to pay dividends. However, such intention and handling were not disclosed to the investors. In fact, they were involved in private placement of rights based on the two named anonymous partnership agreements, indicating to each investor that distributions will not be made without investment profits. In addition, Company V, Company G and Person A planned to continue solicitation, and they diverted the capital for distribution of dividends to other investors or payment of expenses.

Therefore, on March 20, 2015, the SESC filed an Article 192 petition with the Tokyo District Court for an injunction against Company V, etc., for violations of the FIEA (Company V, etc.: engaging in the business of handling public offerings or private placements of rights listed in Article 2, Paragraph 2, Item 5 or 6 of the FIEA, without a registration under the FIEA; and Company G, etc.: making false statements to customers in relation to the solicitation of financial instrument transaction contracts when engaging in operations of private placements as set forth in Article 63, Paragraph 1, Item 1 of the FIEA).

In response to this petition, the Tokyo District Court issued an injunction against Company G, etc., on May 22, 2015, as per the content of the petition.

(2) Announcement of investigation results

○ **Money Management Strength Co., Ltd.**
(Announcement date: January 30, 2015)

(i) Making false statements to customers in relation to the conclusion of financial instrument transaction contracts and their solicitation

[Article 38, Paragraph 1 of the FIEA as applied by being deemed a financial instruments business operator pursuant to the provisions of Article 63, Paragraph 4 of the FIEA]

Money Management Strength Co., Ltd. (a QII Business Operator; hereinafter referred to as "Company M") explained that, for the purpose of solicitation or conclusion of an anonymous partnership contract on the fund, money contributed from investors would be solely used for business for investment target entities, and that dividends would be sourced from commission fees paid to the problematic company from investment target entities, which were described in the fund contract. However, in fact, the money contributed was not appropriated to the investment target entities, and dividends were paid by contributed money that was remitted to the fund account.

(ii) Unregistered business operations related to type II financial instruments business

[Article 29 of the FIEA]

The requirements of the specially permitted businesses for qualified institutional investors, etc., were to receive capital contributed from qualified institutional investor(s). While Company M mentioned that it received contribution from Investment Limited Partnership X as a qualified institutional investor, it continued to solicit customers to acquire the fund equity without receiving capital contributed from qualified institutional investor(s) including Investment Limited Partnership X.

Given that acts (i) and (ii) violated the FIEA, names and other information of the operators were disclosed to the public, since the SESC determined it appropriate to make the acts publicly available in light of the seriousness and maliciousness of the conduct.

9) Future Challenges

In inspections of securities companies and other entities, the SESC needs to address the environmental changes, such as diversification and increase in the number of business operators subject to inspection, the internationalizing activities of market participants on a routine basis, as well as diversification and complexity in financial instruments business operators, etc. In addition, damage incurred by consumers has been increasing, especially due to the offering and solicitation of funds, etc., by unregistered entities and QII Business Operators, which has been recognized as a social problem.

For this reason, the SESC will address the measures shown below in the SESC's Policy Statement for the Eighth-term and the Securities Inspection Policy and the Program for FY2015 (see following pages) with the object of performing efficient and effective inspections of securities companies and other entities.

(1) Based on diversification and an increase in the number of business operators subject to inspection, in light of implementing effective and efficient inspections, the SESC aims to enhance the collection and analysis of information. In particular, the SESC will establish a framework to select business operators subject to inspection and incentive inspection subjects. In line with the policy, it will also enhance the risk sensitivity in light of the

characteristics of diversifying financial instruments business operators, the attributes of customers, and the quality of financial products with complexity and diversification. The SESC plans to conduct well-modulated inspection of securities companies with initiatives that include risk-based selection of targets and narrowing-down of the key points for inspection.

(2) When the SESC needs to verify cross-cutting subjects and common issues and matters concerning the market, it will conduct inspection of plural operators with a focus on specific topics, if required. As for management control systems and internal control systems, etc., the SESC will implement interactive communications with each operator in light of business categories, format, scale and properties. If necessary, we will urge operators to improve their business operations.

(3) The SESC will strengthen its cooperation with the Financial Services Agency, in the fields of onsite inspection and offsite monitoring. The SESC will implement inspections with a focus on priority measures and items that are listed as supervision viewpoints on the "Financial Monitoring Basic Policy."

(4) For securities companies that provide large-scale and complex services as an entire group, the SESC will continue to identify tasks and risks through in-depth understanding of the actual status from a forward-looking perspective with the aid of integrated on-site and off-site monitoring. By so doing, it will verify the appropriateness of internal control systems and risk management systems, while making the inspections more effective and efficient by narrowing down the verification issues.

(5) As for malicious and fraudulent financial instruments business operators and QII Business Operators that harm or could potentially harm investors, the SESC will commence inspection of these operators as early as possible. By so doing, the SESC will strive to clarify the actual state of violations and prevent the damage from spreading. For the selection of operators to be inspected, we will collect and analyze the information through various channels, and strengthen the readiness to respond quickly to a problematic operator. In addition, against material acts in violation of the FIEA by unregistered entities and QII Business Operators, the SESC will strengthen cooperation with supervisory and investigative authorities and appropriately utilize the authority to conduct securities inspections and investigations necessary to file petitions for court injunctions. If violations of the FIEA or impairing of investor protection are identified, the SESC will, where necessary, file petitions to the court for injunctions, etc., and publicize the company names, representative names, conducts in violation of laws and regulations, and other relevant information.

(Provisional Translation)

April 3, 2015

Securities and Exchange Surveillance Commission

The Securities Inspection Policy and the Program for FY2015

I. Securities Inspection Policy

1. Basic Direction

(1) Role of securities inspections

The mission of the Securities and Exchange Surveillance Commission (SESC) is to ensure the fairness and transparency of the Japanese capital and financial markets and to protect investors.

The objective of securities inspections for the achievement of this mission is to ensure investor confidence in the markets, by conducting on-site examinations of financial instruments business operators (FIBOs) with regard to the business operations and their financial soundness, and by urging them to operate businesses in accordance with laws, regulations, and market rules on the basis of self-discipline, and play the market intermediary functions, including duties as gatekeepers, in a proper manner.

Therefore, through securities inspections, the SESC should examine FIBOs' compliance with laws and regulations, and verify the internal control systems behind individual problems.

The SESC will continue to take rigorous actions against illegal activities that undermine confidence in the fairness and transparency of the markets or impair investors' rights by exercising its own authority and mobilizing all its human resources and capabilities, and will thus play a role in sending alerts to the markets.

(2) Environment and issues facing securities inspection

Business operators (BOs) subject to inspection have diversified and increased to around some 8,000 in total. In addition, the widespread international activities of market participants have led to more diverse and complex financial instruments and transactions conducted by FIBOs.

Under these circumstances, the SESC's inspections should mainly focus on the following issues.

(i) Constantly monitor large-scale securities company groups' financial soundness as a

whole, given that they are required to upgrade their governance and risk management to be level with their business models while keeping up to date on economic and financial conditions and the progress in international discussions regarding financial regulations;

(ii) In view of the recent fraud cases involving AIJ and MRI and insider trading cases concerning public stock offerings, implement securities inspections rapidly and properly to prevent serious wrongdoings that may damage investors' confidence in the market intermediary function of FIBOs; For securities inspections, not only verify compliance with individual laws and regulations, but also continuously urge FIBOs to improve their compliance posture and professional ethics in the course of business management and internal control activities;

(iii) Given that the reliability of IT systems is becoming increasingly important on the back of increased internet trading, high-frequency trading (HFT), direct market access (DMA), etc., concentrate on verifying the appropriateness of IT system risk management in order to avoid adversely affecting capital/financial markets and trades executed by customers; and

(iv) In view of the situation where losses to retail investors and consumers from sales and solicitation of funds are growing and resulting in social problems in recent years, from the viewpoint of protecting investors, continue to take rigorous actions against unregistered BOs and persons making notifications for business specially permitted for qualified institutional investors ("QII business operators"), which violates the Financial Instruments and Exchange Act ("FIEA"), In close cooperation with relevant authorities, make full use of the faculty to file petitions for court injunctions regarding activities prohibited under the FIEA, conduct investigations, and disclose the results of investigations where necessary.

(3) Toward efficient, effective, and viable securities inspections

Under the above circumstances, the SESC, while working to obtain an accurate understanding of existing overall business conditions through close cooperation with related supervisory departments will utilize its limited human resources appropriately and effectively by determining the inspection priority and frequency in order to achieve efficient, effective, and viable inspections.

Toward this direction, the SESC will further enhance its ability to identify potential problems with consideration of (i) the characteristics of diverse business types of FIBOs, (ii) the characteristics of customers, and (iii) the characteristics of increasingly complex and diverse financial instruments and transactions. Also, the SESC will strengthen its capabilities to collect and analyze information accordingly.

Furthermore, when determining inspection priorities for individual BOs, the SESC will collect and analyze a variety of information concerning them, corresponding to their business types, sizes, other characteristics, and the market conditions at the time, and then utilize a risk-based approach to decide which BOs to inspect, considering their market positions and inherent problems in a comprehensive manner. In addition, with regard to the execution of inspections, the SESC also clarifies the scope of inspections and inspection measures according to its inspectorial targets and its issues.

Additionally, when it is necessary to examine issues encompassing multiple markets and common issues, the SESC, where necessary, will conduct inspections targeting multiple BOs for specific inspection items.

Further, for governance and internal control issues, the SESC will hold interactive discussions considering business condition, scale, characteristics, etc. of the BOs under inspection, and, as necessary, urge them to improve their business operations.

(4) Securities inspection keeping the Financial Monitoring Policy in mind

The SESC will work in cooperation with the Financial Services Agency ("FSA") and implement combined on- and off-site monitoring. To this end, the SESC will conduct inspections keeping in mind the key priority measures and focuses of supervisions/inspections that are stipulated in the Financial Monitoring Policy for 2014-2015 (September 2014) from the viewpoint of building a positive cycle that will contribute to medium- to long-term market growth and help FIBOs generate a steady stream of profits, including:

- Effectively responding to the needs of customers (upgrading asset management capacity)
- Fulfilling the functions toward providing funds for growth
- Ensuring customer trust/security
- Forward-looking risk management of large-scale securities company groups, etc. and supervision from a global viewpoint
- Managing business risks in small and medium-sized securities companies, investment companies, etc.

For example, from the viewpoint of effective response to the needs of customers (upgrading asset management capacity), the SESC will endeavor to understand the existing business conditions and establish a common view with BOs under inspection through interactive communications for better business management, in cooperation with the relevant supervisory departments, regarding issues such as whether fiduciary duties(*1) are incorporated in investment managers' product development and operation to provide products that truly

satisfy customer needs and interests, whether their investment activities are sufficiently independent of group sales companies; and whether securities companies offer products/services that truly meet customer needs and interests, regardless of the level of commission/fees and the corporate group association.

(*1) A general term for the extensive and various roles and duties of a trustee who must fulfill certain obligations entrusted by the counterparty (entrustor)
(*2) The Securities Inspection Policy and the Program for FY2015 is subject to change in alignment with the FSA's financial monitoring policy.

2. Inspection Items in Securities Inspection

(1) Focuses of verification corresponding to the types of businesses

1) Large-scale securities company groups.

In view of the Financial Monitoring Policy, the SESC, from a forward-looking perspective, will verify the appropriateness of internal control, governance, and risk management in large-scale securities company groups. Specifically, in addition to the focus of verification regarding Type I FIBOs stipulated in item 2) below, this would include verification of the appropriateness of group-wide, comprehensive risk management, such as whether governance and risk management frameworks in large-scale securities company groups can respond forcefully to changes in the global market environment, and whether they appropriately manage profitability and potential impacts on equity capital, including from the aspect of financial resilience against changes in market conditions. Further, in view of the increase in overseas and cross-border business and the fact that there are a number of cases where financial institutions have been imposed with large penalty payments by foreign supervisory authorities, the SESC will verify whether large-scale securities company groups are taking appropriate action to improve their operational risk and compliance risk management.

In conducting inspections, the SESC will endeavor to cooperate with relevant supervisory departments smoothly through combined on- and off-site monitoring, etc., and will identify/clarify issues and risks by conducting off-site interviews throughout the year, thereby getting a grasp of the existing conditions of business operations in large-scale securities company groups. The SESC will also conduct targeted on-site inspections with specific inspection themes to improve effectiveness and efficiency.

2) Type I FIBOs

A. Verification of the management of material non-public information (prevention of

unfair insider trading)

The SESC will continue to focus on verifying whether FIBOs strictly manage material non-public information from the perspective of preventing unfair insider trading. Specifically, the SESC will verify whether FIBOs have developed viable management systems with regard to registration and information barriers (e.g. Chinese wall) of such material non-public information as public stock offerings of listed companies, surveillance of insider transactions, and prevention of any improper distribution and misuse of information.

B. Verification of measures against conduct that may hinder fair pricing

The SESC will continue to focus on verifying whether there are any practices that could hinder fair pricing by means of direct and/or brokered orders, and further examine the transaction surveillance systems of FIBOs to prevent such practices. In doing so, the SESC will verify whether viable transaction surveillance is conducted from the viewpoint of preventing unfair trading. In particular, the SESC will examine whether surveillance is focused on specific dates, such as the pricing dates for public stock offerings, and on specific trading timing, such as just before closing, or on specific customers who repeatedly place large orders that could affect pricing in the market, as well as whether measures are taken to identify the original customers for orders consigned from foreign-related entities. The SESC will also examine management systems, including the management of delivery failures, for short selling regulations (such as checking the indications of short selling, price regulations, the prohibition of naked short selling, etc.).

C. Verification of the progress on establishing viable trade surveillance systems for DMA, etc.

As far as FIBOs with online trading or electronic facilities for DMA (direct market access) are concerned, in view of the cases of revelations of market manipulation by means of *misegyoku* (false orders to manipulate prices) using Internet transactions, the SESC will continue to focus on examining whether FIBOs have established viable trade surveillance systems based on the peculiarities of electronic transactions, such as customer orders feeding directly into the market.

D. Verification of the appropriateness of securities underwriting

Type I FIBOs play an important role in intermediary functions through the securities underwriting business by which enterprises can raise funds for business operations from investors in the market. The SESC will examine whether Type I FIBOs properly engage in securities underwriting business, including underwriting examinations, information control, transaction surveillance and securities allotment from the perspective of the capital

markets' integrity and investor protection. In particular, in connection with new listings, the SESC will verify whether examination systems appropriately function in underwriting public offering. In addition, as for FIBOs that arrange and distribute securitized instruments and high-risk derivatives products, their risk management systems and sales management systems will be examined.

E. Verification of financial soundness

Previous inspections of Type I FIBOs have revealed violations arising from deterioration of financial conditions, such as the misappropriation of the Trusts for the Separate Management of Money and Securities (TSMMS) and the Trusts for the Segregated Management of Cash Margins and Other Deposits (TSMCM), and defects in net assets and capital adequacy ratios against statutory requirement. The SESC will continue to focus its examination on the status of TSMMS and TSMCM, and the status of net assets and capital adequacy ratios in close corporation with the supervisory department, the Japan Securities Dealers Association, and the Japan Investor Protection Fund.

F. Verification regarding money laundering and terrorism financing

In view of the implementation of the revised Act on Prevention of Transfer of Criminal Proceeds, taking into consideration the importance of personal identification at the time of transaction and appropriate reporting of suspicious transactions in terms of international cooperation in anti-money laundering and combating against terrorist financing, the SESC will continue to conduct inspections focusing on whether FIBOs examine their customers' objectives of transactions and their occupations at the time of new account opening, whether they properly conduct re-identification of customers when identity theft is suspected, whether they properly report suspicious transactions, and whether they have established systems for conducting these activities properly.

G. Verification of FX business operators

Among Type I FIBOs, the SESC will review FX business operators, focusing on whether they are taking appropriate measures against trades that use software that allow automatic trading (system trading) and against the slippage associated with their FX transactions in accordance with the guidelines for supervision and other relevant self-regulatory rules. Further, in view of potential sudden changes in the economic and financial environment, the SESC will also focus on FX business operators' foreign exchange risk management.

3) Type II FIBOs (fund business operators))

For inspections of Type II FIBOs, investment management business operators (IMBOs),

and QII business operators engaging in the fund management and sales of interests of collective investment schemes (funds) (collectively referred to as "fund business operators" or "FBOs"), these inspections will continue to focus on legal and regulatory compliance issues that include the appropriateness of business operations, such as segregation management of funds (whether there is any misappropriation of funds and unexplained expenditure), false explanations and notices, misleading indications, and name-lending to unregistered BOs.

In cases of overseas funds, it is difficult to check the detailed contents or characteristics of products directly, and if Japanese laws and regulations cannot apply to such products directly, it is difficult to protect the rights and interests of investors. In view of this, the SESC will examine whether BOs selling such products conduct sufficient and appropriate due diligence and monitoring activities for related funds and their issuers, managers, etc. in consideration of the risks involved in such products, and whether there are any problems of customer solicitation activities, in light of the principle of suitability and other investor protection.

4) IMBOs

Since many IMBOs incorporate external funds, including overseas funds, in their management portfolios, it is increasingly important for them to conduct due diligence and monitoring activities in a proper manner.

Under such circumstances, previous inspections, especially of business operators conducting discretionary investment management business ("DIM business operators"), have identified legal and regulatory violations including misleading explanations about important matters when soliciting customers, etc., provision of special profits to customers, and breaches of duties of loyalty in relation to providing discretionary investment management services. As such, the SESC will collect and analyze information appropriately and prioritize inspection targets, and inspect focusing on the viability of due diligence and monitoring activities, the appropriateness of investment solicitation, and the status of compliance with laws and regulations such as the duty of loyalty and the duty of care, as well as inspections of their systems for managing conflicts of interest in relation to transactions with stakeholders.

5) Credit rating agencies

The SESC will utilize information obtained through cooperation with supervising authorities in various countries and confirm whether credit rating agencies (CRAs) have

established business management systems from a viewpoint of preventing conflicts of interest, assuring fairness of rating processes, and preventing administrative errors, and whether they have appropriately disclosed information in relation to credit ratings assigned by them and their rating policies.

6) Investment advisors/agencies

Previous inspections revealed that some investment advisors/agencies committed legal violations of selling and soliciting financial instruments to customers without necessary registration as Type I or Type II operators. Some of them stated that they did not receive sales commissions, etc. from overseas funds, but in fact they did receive commissions from issuers of overseas funds, according to the amount of purchase by customers, by way of their overseas subsidiaries. In view of these cases, the SESC's inspection will continue to focus on whether there are similar cases to the above, as well as their status of compliance with laws and regulations and their systems for soliciting and providing explanations to customers.

7) Self-regulatory organizations

As for self-regulatory organizations (SROs), the SESC will conduct verifications with regard to the establishment of self-regulatory rules for their members and their regulatory enforcement, such as through on-site and off-site reviews and penalties, listing examinations, and transaction surveillance. In conducting verifications of listing examinations, the SESC will also look into the SROs' ongoing measures to thwart the intrusion of anti-social forces in the financial and capital markets, including the collection of information on the involvement of anti-social forces in issuing companies and listed companies.

As for financial instruments exchanges, clearing houses, depository trust institutions, etc., in consideration of the "Principles for Financial Market Infrastructures" finalized by the IOSCO, the SESC will examine the development of their systems, such as IT system risk management, in order to verify whether they are well-prepared to function as financial market infrastructure.

8) QII business operators

In addition to the misappropriation of funds and false explanations/notices as described in item 3) above, the SESC will confirm whether QII business operators engage in the unregistered selling/managing of funds that do not qualify for specially permitted businesses by notification, whether they appropriately collect/manage necessary

information about funds provided by customers and the performance of investments managed by the appointed investment managers, whether they appropriately provide information on investment performance, etc. to customers, and whether they conduct business by making false notifications to relevant supervisory authorities and engage in other problematic business. If the inspection reveals any violation of the FIEA or other problems in relation to investor protection, the SESC will continue to take rigorous action, including, for example, publicizing the names of the business operators subjected to inspection/investigation, the names of their representatives, and the committed violation of laws and regulations. Additionally, the SESC will utilize its authority to conduct investigations to file petitions for court injunctions, and file petitions where necessary.

9) Dealing with unregistered BOs

To deal with serious FIEA violations, such as sales, etc. of funds, etc. by unregistered BOs, the SESC will strengthen ties with supervisory departments and investigative authorities, and, where necessary, will make proper use of its authority to conduct investigations necessary to file petitions for court injunctions. If such conduct is confirmed as violating the FIEA or impairing investor protection, the SESC will continue to take rigorous action by filing petitions for injunctions, etc. and by publicizing the names of unregistered BOs, the names of their representatives, the facts of their violation of laws and regulations, and other relevant information.

(2) Cross-sectional focuses of verifications

1) Focus of verification on sales/solicitations of financial instruments

In order to protect investors and ensure that sales and solicitations by FIBOs are trustworthy and fair, the SESC will continue to focus on verifying whether FIBOs solicit customers for investment in an appropriate manner and handle customers properly.

Regarding verifications of sales and solicitations for financial instruments, the SESC will verify, from the viewpoint of the principle of suitability, whether FIBOs are appropriately soliciting investment in light of customers' knowledge, experience, and assets, as well as the investment purpose, and whether they are fully held accountable for their solicitation in accordance with the characteristics of individual customers.

In particular, the SESC will also examine whether appropriate explanations are provided regarding important information that affects customers' investment decision-making in relation to sales and cancellations, including the switching of investment trusts, such as product characteristics, risk characteristics, profits/losses, dividends, commissions, and

investment trust fees.

For the sale of over-the-counter (OTC) derivatives products and complex structured bonds similar to OTC derivatives products, the SESC will examine whether appropriate explanations are provided regarding important risks and other factors that affect decisions for investment in such products, including the probable maximum losses and the settlement money on cancellation.

In addition, the SESC will verify whether FIBOs have established systems for soliciting and providing explanations to aged customers or those customers who have limited knowledge and experience related to investments who utilize Nippon Individual Savings Accounts (NISA).

Moreover, the SESC will verify whether widely exposed advertisements to investors and other solicitation materials include any misstatements or misleading indications regarding investment returns, market factors, and the state of orders. The SESC will also examine the establishment of a troubleshooting system important for investor protection.

2) Verification of IT system risk management

In recent years, IT systems have become essential infrastructure for financial transactions, and it is very important to secure the stability of IT systems and establish crisis management measures from the viewpoint of protecting investors and ensuring public confidence in the market and FIBOs. The SESC will continue to examine the appropriateness and viability of management systems for the IT systems risk preventive measures, as well as the efficacy of business continuity plans, including erroneous order placement prevention, IT systems troubleshooting, information security management, cybersecurity measures, and outsourcing management. At the same time, the SESC will also verify whether the top management fully understands the importance of the IT systems risk preventive measures and whether they proactively engage in the investment and management of the IT systems and the risk management activities.

3) Verification of measures to eliminate relations with anti-social groups

The SESC will continue to examine whether FIBOs have established an internal system to prevent new transactions with anti-social groups, to conduct *ex post* reviews of the existing transactions with them, and to address dissolving such transactions, if any, under the proactive involvement of top management, in order to eliminate connections with anti-social groups in organization-wide efforts,

(3) General verification items

In addition to those described above, the SESC will review issues associated with governance, legal/regulatory compliance, internal control, risk management, audits, and crisis management (collectively referred to as "Internal Control Systems, etc.") through the use of "Inspection Manual for FIBOs," etc.

Upon identification of any issue related to business, the SESC will check the appropriateness and viability of the Internal Control System, etc. that seems to be causing problems in order to gain a thorough understanding of the issue. In examining the Internal Control Systems, etc., the SESC will pay attention to the engagement and commitment of the senior management and concerned parties in the system management.

II. Securities Inspection Program

(1) For FY2015, the SESC intends to conduct inspections of 270 business operators (of which 220 will be inspected by relevant Local Finance Bureaus).

(2) Type I FIBOs, Type II FIBOs, IMBOs, and CRAs remain subject to routine inspection.
For investment advisories/agencies, financial intermediaries, etc., in view of their types of businesses, scales, and other characteristics and the limited availability of human resources at the SESC/Local Finance Bureaus in light of the substantial number of business operators subject to inspection, the SESC will continue to prioritize inspection targets using the information provided by the relevant supervisory departments and externally available information, and conduct inspections on an as-needed basis considering these business operators' statuses of legal/regulatory compliance and participation in self-regulated organizations.
Self-regulatory organizations will be inspected when it is considered necessary.

(3) For Type II FIBOs and investment advisors/agencies, the SESC will continue to verify as soon as possible following their registration, whether they have established the same business management systems as reported in their applications for registration ("post-registration review").

(4) For registered financial institutions, inspections in FY2015 will be conducted if it is deemed necessary to conduct on-site inspection based on the information provided by the FSA's Inspection Bureau and Supervisory Bureau, external information, and the results of off-site monitoring, etc.

(5) For QII business operators, the SESC will continue to inspect them appropriately, utilizing information actively provided by the Supervisory Bureau, external information, etc. Additionally, given the extremely large number of operators subjected to inspection, the SESC will endeavor further to improve inspection methods to increase the number of business operators covered by inspection.

(6) The SESC plans to develop inspection methods for crowdfunding business operators, in cooperation with SROs, in accordance with the legal framework for such business developed in the revised FIEA in FY2014

(7) In conducting inspections, the SESC and Local Finance Bureaus will continue to endeavor to conduct efficient and effective inspections together by exchanging inspectors, etc.

Joint on-site inspections by the SESC and Local Finance Bureaus, which mainly target head offices and branches of Type I FIBOs, will be conducted when necessary based on the results of off-site monitoring, in view of the administrative burden on inspected business operators, in FY2015.

(8) The SESC will continue to conduct investigation against unregistered business operators in an timely manner, utilizing external information.

(9) The SESC, in an effort to fulfill its missions adequately, will take rigorous actions against any conduct that would hinder the viability of inspections, such as attempts to avoid inspection.

Note: Depending on the nature of environmental changes and each BO's circumstances, there may be situations where we need to take actions flexibly without relying on this Securities Inspection Program.

Chapter 4. Investigation of Market Misconduct

1) Outline

1. Purpose of Investigation of Market Misconduct

Investigation of market misconduct is conducted based on the FIEA, under which acts are subject to administrative monetary penalties, such as insider trading, market manipulation, spreading of rumors and fraudulent means, for the purpose of ensuring the fairness of transactions in securities markets.

[Administrative monetary penalty system]

The administrative monetary penalty system was introduced in April 2005 through amendment to the Securities and Exchange Act (SEA) in 2004, in order to impose administrative monetary penalties on violators and to achieve the administrative objectives of deterring unlawful acts so as to ensure the effectiveness of regulations, in addition to criminal charges, against certain acts stipulated under the FIEA such as insider trading, market manipulation, spreading of rumors and fraudulent means, as well as false disclosure statements.

The SESC is working to implement prompt and efficient investigation utilizing features of the administrative monetary penalty system in order to achieve prompt and strategic market surveillance which responds to environmental changes surrounding markets, thereby ensuring market integrity and transparency, and protecting investors.

If violations are revealed as a result of investigation of market misconduct, 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”). Upon the Recommendation, the commissioner of the FSA (delegated by the prime minister) determines the commencement of trial procedures. After trial examiners conduct trial procedures, they prepare a draft decision on the case. Based on this draft decision, the commissioner of the FSA (delegated by the prime minister) makes the decision on whether to issue an order to pay an administrative monetary penalty.

2. Authority for Investigation of Market Misconduct

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 to:

(1) Order persons concerned with a case or witnesses to appear, to question or have these persons submit a written opinion or a written report;
(2) Order persons concerned to submit books and documents or other items, or to retain the submitted items;
(3) Enter any business office of the persons concerned with a case and other necessary sites to inspect books, documents, and other items; and
(4) Request public offices or public or private organizations to provide necessary information.

3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties

After the introduction of the Administrative Monetary Penalty System, a series of amendments to the FIEA, etc. have expanded the scope of market misconduct subject to administrative monetary penalties and have raised the amounts of administrative monetary penalties.

Currently the scope of the acts of market misconduct 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)

Administrative monetary penalty:

Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on 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

Note: If a financial instruments business operator, etc., conducts market misconduct on account of a customer, etc., in cases where it is conducted in the fund operations, the amount of administrative monetary penalty shall be equal to three times the amount of investment. In other cases, the amount of administrative monetary penalty shall be equal to the sum of fees, rewards and other considerations (the same applies hereinafter).

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

Administrative monetary penalty:

Difference between the value of sales, etc. (purchases, etc.) related to short (long) position on 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)

Administrative monetary penalty:

Aggregate of (i) the profit or loss locked in on 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 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)

Administrative monetary 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 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)

Administrative monetary penalty:

Difference between the value of sales, etc. (purchases, etc.) related to the violation (insider trading) (limited to those made during 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.)

(6) Tipping and trade recommendation (Article 175-2 of the FIEA)

Administrative monetary penalty:

Computed as the value of the benefit from trading performed by the recipient based on an act of violation (tipping and trade recommendation) multiplied by 1/2

Note: The violating act is newly subject to an administrative monetary penalty by the enforcement of the Act for Amendment of the Financial Instruments and Exchange Act (Law No. 5, 2013), which shall be applicable to violating acts committed on or after April 1, 2014.

Notes: 1. In cases where the violator has received an administrative monetary penalty payment order within the past five years, the amount of the administrative monetary penalty shall be multiplied by a factor of 1.5.

2. For cases of insider trading related to the acquisition of treasury stock by a listed company, etc., where the violator made a declaration prior to the investigation by the authorities, the amount of the administrative monetary penalty shall be halved.

4. Activities in FY2014

In FY2014, there were 38 cases of market misconduct (on the basis of the number of violators) recommended to the commissioner of the FSA (prime minister). The administrative monetary penalty applicable to these cases amounted to 104,710,000 yen (excluding cases related to Chapter 5; the same applies to Chapter 4.2 below).

2) Recommendations for Orders to Pay Administrative Monetary Penalties Based on the Results of Investigation of Market Misconduct

1. Overview of Recommendations

(1) In FY2014, there were 38 Recommendations made on market misconduct. Among these, 31 were insider trading cases, and seven were market manipulation cases. The insider trading cases accounted for a significant portion successively from FY2013. Looking at the amount of administrative monetary penalty, insider trading amounted to 38,820,000 yen and market manipulation amounted to 65,890,000 yen in FY2014 (the maximum amount of penalty applied to a violator was 43,670,000 yen in a market manipulation case, and the minimum was 90,000 yen in an insider trading case). As a result, since April 2005, when the administrative monetary penalty system was

introduced, the total number of Recommendations on insider trading has reached 192 (by 183 individuals and by nine corporations) amounting to 368,050,000 yen, while the total number of Recommendations on market manipulation has reached 41 (all by individuals) amounting to 170,920,000 yen.

The Recommendations relating to insider trading in FY2014 are characterized as a large portion of the cases related to tender offers, or 22 cases out of 31 (over 70%). Tender offers can be more easily misused for insider trading than other material facts in that: tender offers are most likely to be profitable by trading prior to the announcement of the tender offer, because premiums are added when determining tender offer prices in tender offers; many parties are generally involved with tender offer deals; and it usually takes a longer time to finalize the tender offer conditions and make an announcement. Accordingly, the SESC has brought further needed attention to tender offers against listed companies and parties involved with tender offers.

Looking at the cases related to tender offers recommended by the SESC in FY2014, the follow four cases were recommended by the SESC against multiple violators:

- Cases concerning Taiyo Nippon Sanso shares: nine persons
- Cases concerning Daiei shares: four persons
- Cases concerning Tomen Electronics shares: four persons
- Cases concerning IMI shares: two persons

The result highlights that tender offers can be easily misused for insider trading.

The recommendations relating to market manipulation in FY2014 are characterized as a large portion of the cases in which the share prices were raised by consecutively placing large buy orders at higher prices than the latest contract price (six cases out of seven). In addition, four cases were conducted by matching buying orders and selling orders placed at high limits at around the same time.

(2) Looking at the attributes of violators in the recommendations made related to insider trading in FY2014, cases committed by primary recipients of tender offer information accounted for 20 cases out of 31 (64.5%).

Looking at the attributes of persons who passed on insider information on tender offers, officers and/or employees of tender offerors and offerees accounted for 14 cases out of 20 (70%). In addition, persons involved in the conclusion of a tender offer contract with a tender offeror accounted for two cases out of 20.

Changes in Number of Recommendation Cases by Attribute of Violator

	FY2013	FY2014
Corporate insider	10	5
Officer, etc. of issuer	4	3
Party to a contract	6	2
Tender offeror or other concerned party	0	2
Officer, etc. of tender offeror	0	1
Tender offeror and party to a contract	0	1
Primary recipient of information	18	24
Corporate material fact	13	4
Tender offer	5	20
No. of recommendation cases, by FY	28	31

Changes in Number of Recommendation Cases by Type of Material Fact

	FY2013	FY2014
Issuance of stock, etc.	6	1
Acquisition of treasury stock	1	0
Stock split	1	1
Merger	3	0
Corporatization of new products or new technologies	0	1
Business alliance or dissolution thereof	5	0
Share transfer resulting in a transfer of controlling interest of a subsidiary	0	2
Commencement of a new business	0	0
Revision of earnings forecast, etc.	6	4
Basket clause	0	0
Event about a subsidiary	2	0
Tender offer	5	22
No. of recommendation cases, by FY	28	31

Changes in Number of Recommendation Cases, by Attribute of Transmitter of Information

	FY2013	FY2014
Transmission of material facts	13	4
Officer, etc. of issuer	4	3
Party to a contract	9	1
Transmission of information on tender offer	5	20
Officer, etc. of tender offeror	2	3
Tender offeror and party to a contract	3	17
Officer, etc. of target party	3	10 (*1)

Notes: 1. "FY" is April to March of the following year.
2. No. of recommendation cases is recorded on the basis of the number of violators.
3. As for No. of recommendation cases, 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 number of cases in each box may not be consistent with the figure in No. of cases recommendations, by FY.

(*1) Of which, nine cases were those that fell under the category of tender offer related party as an issuer of stock issues related to a tender offer due to the amended FIEA in April, 2014. For convenience, they are included in "Tender offeror and party to a contract."

2. Brief Summary of Recommendations Issued in FY2014

With respect to the cases recommended for orders to pay administrative monetary penalties on market misconduct in FY2014, the following is a brief summary of those cases:

(1) Recommendation on insider trading

(i) Recommendation on insider trading by a party to a contract with Nojima Corporation

[Date of Recommendation] April 22, 2014

[Violation subject to the Recommendation]

The violator, a person who entered into a legal adviser contract with Nojima Corporation (hereinafter referred to as “Nojima”), came to know of material nonpublic information in the course of fulfilling the contract. The information concerned the material fact (hereinafter referred to as "Public Offering") that the organ that was responsible for making decisions on the execution of the operations of Nojima had decided to solicit underwriters for the shares to be issued. While knowing of the Public Offering, the violator sold a total of 2,000 Nojima shares on his/her own account in the amount of 1,946,900 yen on November 15, 2013, prior to the above fact being announced on November 19, 2013.

[Amount of administrative monetary penalty] 390,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: April 22, 2014
Date of order to pay administrative monetary penalty: August 21, 2014

With regard to the recommendation, the respondent submitted a written reply denying the facts of the violation, insisting that the Public Offering had been determined at the Board of Directors meeting held on November 19, 2013, and that he never knew the material fact prior to the date. Therefore, in this case, this point was in dispute.

Following the trial procedures, the Commissioner of the FSA made the decision to order payment of the administrative monetary penalty, arguing that the Public Offering was determined on September 2, 2013, and that the violator had sold Nojima shares knowing the material fact prior to the announcement.

* In relation to the decision in this case, the person filed an action for revocation of the administrative disposition with the Tokyo District Court on September 19, 2014.

(ii) Recommendation on insider trading by an employee of a party negotiating the conclusion of a contract with Flight System Consulting, Inc.

[Date of Recommendation] May 20, 2014

[Violation subject to the Recommendation]

The violator was an employee of (then) SoftBank Mobile Corp. (hereinafter referred to as “SoftBank Mobile”) who came to know of material nonpublic information in the course of negotiations for conclusion of the contract between Flight System Consulting, Inc. (hereinafter referred to as “Flight System Consulting") and SoftBank Mobile. The information concerned the material fact that the organ, which was responsible for making decisions on the execution of the operations of Flight System Consulting, had decided to launch a new settlement device. While knowing the fact, the violator purchased a total of 100 Flight System Consulting shares on his/her own account in the amount of 1,799,000 yen on April 10, 2013, prior to the fact being announced on April 11, 2013.

[Amount of administrative monetary penalty] 1,370,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: May 20, 2014
Date of order to pay administrative monetary penalty: June 17, 2014

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

(iii) Recommendation on insider trading by an employee of JAMCO Corporation

[Date of Recommendation] May 20, 2014

[Violation subject to the Recommendation]

The violator was an employee of JAMCO Corporation (hereinafter referred to as “JAMCO”), who, in the course of his/her duties, came to know material nonpublic information. The information concerned the material fact regarding that, compared to the most recent forecast for current profit of the business group to which JAMCO belonged for the period ending March 31, 2013, which had been announced on May 11, 2012, a difference had arisen in the newly calculated forecast, which was regarded under criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While knowing the information, the violator purchased a total of 4,200 JAMCO shares on his/her own account in the amount of 1,968,900 yen on February 7, 2013, prior to it being announced on February 8, 2013 that the newly calculated forecast of the business group’s current profit for the period ending March 31, 2013, was 2,200,000,000 yen.

[Amount of administrative monetary penalty] 400,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: May 20, 2014

Date of order to pay administrative monetary penalty: June 17, 2014

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

(iv) Recommendation on insider trading related to shares of The Daiei, Inc. by an officer of tender offeror and persons receiving information therefrom

[Date of Recommendation] May 30, 2014

[Violation subject to the Recommendation]

The violator (i) was an officer of Aeon Co., Ltd. (hereinafter referred to as "Aeon") and had come to know of the material nonpublic information in the course of his/her duties. The information concerned a material fact that the organ that was responsible for making decisions on the execution of the operations of Aeon had decided to make a tender offer for the shares of The Daiei, Inc. (hereafter referred to as "Daiei"). While knowing the information, the violator purchased Daiei shares as indicated below, prior to the above fact being announced on March 28, 2013.

Violators (ii) through (iv) received the above information from violator (i). While in receipt of the information, violators (ii) through (iv) purchased Daiei shares as indicated below, prior to the above fact being announced on March 28, 2013.

○ Violator (i)

Purchased a total of 14,000 Daiei shares on his/her own account in the amount of 3,144,100 yen during the period from February 14, 2013 to March 5, 2013.

○ Violator (ii)

Purchased a total of 14,000 Daiei shares on his/her own account in the amount of 3,154,100 yen during the period from February 14, 2013 to March 5, 2013.

○ Violator (iii)

Purchased a total of 10,000 Daiei shares on his/her own account in the amount of 2,295,000 yen on March 13 and 14, 2013.

○ Violator (iv)

Purchased a total of 5,000 Daiei shares on his/her own account in the amount of 1,145,000 yen on March 13 and 15, 2013.

[Amount of administrative monetary penalty]

Violator (i) 1,970,000 yen
Violator (ii) 1,960,000 yen
Violator (iii) 1,360,000 yen

Violator (iv) 680,000 yen

[Process following Recommendation]
(The same date applied to all of the violators)
Date of decision on commencement of trial procedures: May 30, 2014
Date of order to pay administrative monetary penalty: June 26, 2014

Since written replies admitting these facts were submitted by these violators (i) through (iv), no trial was conducted.

(v) Recommendation on insider trading related to shares of Royal Electric by a person receiving information from an officer of a party to a contract with a tender offeror

[Date of Recommendation] June 20, 2014

[Violation subject to the Recommendation]
The violator received material nonpublic information from an officer of MIRAI Consulting, Inc. (hereinafter referred to as “MIRAI Consulting”) who had come to know information regarding the fulfillment of an advisory agreement concluded between MIRAI Consulting and Odawara Engineering Co., Ltd. (hereinafter referred to as "Odawara Engineering"). The information concerned a material fact that the organ that was responsible for making decisions on the execution of the operations of Odawara Engineering had decided to make a tender offer for the shares, etc., of Royal Electric Co., Ltd. (hereinafter referred to as “Royal Electric”). While in receipt of the information, the violator purchased a total of 17,000 Royal Electric shares on his/her own account in the amount of 6,330,700 yen during the period from August 1, 2013 to August 9, 2013, prior to the fact being announced on August 13, 2013.

[Amount of administrative monetary penalty] 2,420,000 yen

[Process following Recommendation]
Date of decision on commencement of trial procedures: June 20, 2014
Date of order to pay administrative monetary penalty: July 18, 2014

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

(vi) Recommendation on insider trading related to shares of IMI by a staff of a party to a contract with a tender offeror and a person receiving information therefrom

[Date of Recommendation] June 20, 2014

[Violation subject to the Recommendation]
The violator (i) was a staff of Ernst & Young Tax Co. (hereinafter referred to as

“Ernst & Young”) who came to know of material nonpublic information in the course of his/her duties through his colleague. The information concerned the material fact that the organ that was responsible for making decisions on the execution of the operations of KTC Co., Ltd. (hereinafter referred to as “KTC"), had decided to make a tender offer for the shares of IMI Co., Ltd. (hereinafter referred to as "IMI"), which the colleague had come to know in the course of fulfilling the contract between KTC and Ernst & Young. While knowing the information, the violator (i) purchased IMI shares as described below, prior to the fact being announced on July 6, 2013.

Violator (ii) received the above material fact from Violator (i). While in receipt of the information, violator (ii) purchased IMI shares as described below, prior to the fact being announced on July 6, 2013.

○ Violator (i)
Purchased a total of 200 IMI shares on his/her own account in the amount of 312,000 yen on June 13, 2013.

○ Violator (ii)
Purchased a total of 400 IMI shares on his/her own account in the amount of 624,000 yen on June 13, 2013.

[Amount of administrative monetary penalty]
Violator (i) 210,000 yen
Violator (ii) 420,000 yen

[Process following Recommendation]
(The same date applied to all of the violators)
Date of decision on commencement of trial procedures: June 20, 2014
Date of order to pay administrative monetary penalty: July 18, 2014

Since written replies admitting these facts were submitted by violators (i) and (ii), no trial was conducted.

(vii) Recommendation on insider trading by an officer of Giken Kogyo Co., Ltd.

[Date of Recommendation] September 9, 2014

[Violation subject to the Recommendation]
The violator was an officer of Giken Kogyo Co., Ltd. (hereinafter referred to as “Giken Kogyo”), who, in the course of his/her duties had come to know material nonpublic information. The information concerned the material fact regarding that, compared to the most recent forecast for net sales of Giken Kogyo for the period ending March 31, 2014, which had been announced on May 14, 2013, a difference had arisen in the newly calculated forecast, which was regarded under the criteria

specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While knowing the information, the violator purchased a total of 3,000 Giken Kogyo shares on his/her own account in the amount of 486,000 yen on July 29, 2013, prior to it being announced on August 1, 2013 that the newly calculated forecast of the company's net sales for the period ending March 31, 2013, was 13,700,000,000 yen.

[Amount of administrative monetary penalty] 220,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: September 9, 2014
Date of order to pay administrative monetary penalty: October 3, 2014

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

(viii) Recommendation on insider trading by a person receiving information from an employee of Yume no Machi Souzou Iinkai Co., Ltd.

[Date of Recommendation] October 10, 2014

[Violation subject to the Recommendation]

The violator received information from an employee of Yume no Machi Souzou Iinkai Co., Ltd. (hereinafter referred to as "Yume no Machi Souzou Iinkai"), who had come to know the information in the course of his/her duties. The information concerned the material fact that the organ that was responsible for making decisions on the execution of the operations of Yume no Machi Souzou Iinkai had decided to make an acquisition of the entirety of the shares of Satsuma Ebisu-do Co., Ltd. to make it a wholly owned subsidiary. While in receipt of said information, the violator purchased a total of 8,600 Yume no Machi Souzou Iinkai shares on his/her own account in the amount of 4,719,500 yen during the period from April 19, 2013 to May 16, 2013, prior to the fact being announced on May 17, 2013.

[Amount of administrative monetary penalty] 2,560,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: October 14, 2014
Date of order to pay administrative monetary penalty: November 6, 2014

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

(ix) Recommendation on insider trading related to the shares of Chimney Co., Ltd. by a person receiving information from another person negotiating a conclusion of a contract with a tender offeror.

[Date of Recommendation] November 11, 2014

[Violation subject to the Recommendation]

The violator received the material nonpublic information from a person who had come to know the information in the course of negotiation on the conclusion of a tender offer and subscription with Yamaya Corporation (hereinafter referred to as “Yamaya”). The information concerned the material fact that the organ that was responsible for making decisions on the execution of the operations of Yamaya had decided to make a tender offer for shares of Chimney Co., Ltd. (hereinafter referred to as “Chimney”). While in receipt of said information, the violator purchased a total of 1,500 Chimney shares on his/her own account in the amount of 1,621,500 yen during the period from October 22, 2013 to October 24, 2013, prior to the fact being announced on November 7, 2013.

[Amount of administrative monetary penalty] 440,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: November 12, 2014
Date of order to pay administrative monetary penalty: December 4, 2014

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

(x) Recommendation on insider trading related to shares of Hitachi Medical by a person receiving information from an employee negotiating the conclusion of a contract with a tender offeror

[Date of Recommendation] December 5, 2014

[Violation subject to the Recommendation]

The violator received material nonpublic information from an employee of Hitachi Medical Corporation (hereinafter referred to as "Hitachi Medical") who had negotiated with a tender offeror and had come to know the information in the course of his/her duties. The information concerned the material fact that the organ that was responsible for making decisions on the execution of the operations of Hitachi Co., Ltd. (hereinafter referred to as "Hitachi") had decided to make a tender offer for shares of Hitachi Medical. While in receipt of said information, the violator purchased a total of 1,000 Hitachi Medical shares on his/her own account in the amount of 1,353,000 yen on November 12, 2013, prior to the fact being announced on November 13, 2013.

Regarding the information regarding the implementation of the tender offer above, an officer of Hitachi Medical had come to know said information in the course of his/her duties of negotiating the tender offer conditions between Hitachi Medical and Hitachi, and subsequently, another employee of Hitachi Medical had come to know said information in the course of his/her duties.

[Amount of administrative monetary penalty] 440,000 yen

[Process following Recommendation]
Date of decision on commencement of trial procedures: December 8, 2014
Date of order to pay administrative monetary penalty: January 15, 2015

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 WirelessGate Inc.

[Date of Recommendation] December 12, 2014

[Violation subject to the Recommendation]
The violator received material nonpublic information from an officer of WirelessGate Inc. (hereinafter referred to as “WirelessGate”) who had come to know of the information in the course of his/her duties. The information concerned a material fact that the organ that was responsible for making decisions on the execution of the operations of WirelessGate had decided to make a stock split. While in receipt of said information, the violator purchased a total of 1,000 WirelessGate shares on his/her own account in the amount of 5,480,000 yen during the time from about 10:12 AM on July 19, 2013, prior to the above fact being announced at about 3:00 PM on July 19, 2013.

[Amount of administrative monetary penalty] 520,000 yen

[Process following Recommendation]
Date of decision on commencement of trial procedures: December 12, 2014
Date of order to pay administrative monetary penalty: January 15, 2015

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

(xii) Recommendation on insider trading by a person receiving information from an officer of Nisshin Fudosan Co., Ltd.

[Date of Recommendation] December 19, 2014

[Violation subject to the Recommendation]
The violator received material nonpublic information from an officer of Nisshin Fudosan Co., Ltd. (hereinafter referred to as “Nisshin Fudosan”), who had come to know the information in the course of his/her duties. The information concerned the

material fact that, compared to the most recent forecast for the company's dividends of surplus to shareholders for the period ending March 31, 2014 of 10 yen, which had been announced on May 10, 2013, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While in receipt of said information, the violator purchased a total of 9,700 Nisshin Fudosan shares on the account of a family-owned company of the violator of 6,863,300 yen at about 10:34 AM on October 21, 2013, prior to it being announced around at 3:00 PM on October 21, 2013 that the newly calculated forecast of the company's dividend of surplus to shareholders for the same period was 12 yen.

[Amount of administrative monetary penalty] 1,040,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: December 19, 2014
Trial procedures underway (as of April 30, 2015)

(xiii) Recommendation on insider trading by an employee of Kaji Technology Corporation

[Date of Recommendation] February 20, 2015

[Violation subject to the Recommendation]

The violator was an employee of Kaji Technology Corporation (hereinafter referred to as "Kaji Technology"), who had come to know material nonpublic information in the course of his/her duties. The information concerned the material fact regarding that, compared to the most recent forecast for the company's net sales for the period ending March 31, 2014, which had been announced on April 30, 2013, a difference had arisen in the newly calculated forecast, which was regarded under the criteria specified by a Cabinet Office Ordinance as a difference that may have a material influence on the decisions of investors. While knowing the information, the violator sold a total of 10,000 Kaji Technology shares on his/her own account in the amount of 3,820,000 yen at the time of about 0:30 PM on October 24, 2013, prior to it being announced around 4:30 PM on October 24, 2013 that the newly calculated forecast of the company's net sales was 5,000,000,000 yen.

[Amount of administrative monetary penalty] 710,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: March 2, 2015
Date of order to pay administrative monetary penalty: March 18, 2015

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

was conducted.

(xiv) Recommendation on insider trading related to Tomen Electronics shares by persons receiving information from an officer negotiating a contract with a tender offeror

[Date of Recommendation] March 24, 2015

[Violation subject to the Recommendation]

The violators (i) through (iv) received material nonpublic information from an officer negotiating with a tender offeror. The information concerned the material fact that the organ responsible for making decisions on the execution of the operations of Toyota Tsusho Corporation had decided to make a tender offer for shares of Tomen Electronics Corp. (hereinafter referred to as "Tomen Electronics"). While in receipt of said information, the violators purchased Tomen Electronics shares as described below, prior to the fact being announced on January 28, 2014.

○ Violator (i)
Purchased a total of 2,000 shares of Tomen Electronics on his/her own account in the amount of 2,531,100 yen on January 14, 2014

○ Violator (ii)
Purchased a total of 2,000 shares of Tomen Electronics on his/her own account in the amount of 2,534,000 yen on January 9, 2014

○ Violator (iii)
Purchased a total of 1,000 shares of Tomen Electronics on his/her own account in the amount of 1,266,900 yen on January 14, 2014

○ Violator (iv)
Purchased a total of 200 shares of Tomen Electronics on his/her own account in the amount of 239,200 yen on January 8, 2014

[Amount of administrative monetary penalty]

Violator (i) 760,000 yen
Violator (ii) 760,000 yen
Violator (iii) 380,000 yen
Violator (iv) 90,000 yen

[Process following Recommendation]

(The same date applied to all of the violators)

Date of decision on commencement of trial procedures: March 27, 2015
Date of order to pay administrative monetary penalty: April 23, 2015

Since written replies admitting these facts were submitted by these violators (i) through (iv), no trial was conducted.

(xv) Recommendation on insider trading related to Taiyo Nippon Sanso Corporation shares by persons receiving information from an officer, etc.

[Date of Recommendation] March 27, 2015

[Violation subject to the Recommendation]

The violators (i) through (viii) received material nonpublic information from an officer and/or an employee of Taiyo Nippon Sanso Corporation (hereinafter referred to as "Taiyo Nippon Sanso"). The information concerned the material fact that the organ, which was responsible for making decisions on the execution of the operations of Mitsubishi Chemical Holdings Corporation (hereinafter referred to as "Mitsubishi Chemical Holdings") had decided to make a tender offer for shares of Taiyo Nippon Sanso. While in receipt of said information, the violators purchased shares of Taiyo Nippon Sanso as described below prior to the fact being announced at 3:00 PM on May 13, 2014.

The violator (ix), in the course of his/her duties, had come to know the information through an officer of the company for which he/she was employed. The officer had received the information from an employee of Taiyo Nippon Sanso Corporation in the course of his/her duties, While knowing the information, the violator purchased shares of Taiyo Nippon Sanso as described below prior to the fact being announced at 3:00 PM on May 13, 2014.

Regarding the information regarding the implementation of the tender offer above, an officer of Taiyo Nippon Sanso received the information from an officer of Mitsubishi Chemical Holdings in the course of his/her duties and subsequently, said officer and employees of Taiyo Nippon Sanso had come to know the information as described above in the course of his/her duties.

○ Violator (i)

Purchased a total of 40,000 Taiyo Nippon Sanso shares on his/her own account in the amount of 31,644,000 yen on May 9, 2014.

○ Violator (ii)

Purchased a total of 3,000 Taiyo Nippon Sanso shares on his/her own account in the amount of 2,360,000 yen on May 9, 2014.

○ Violator (iii)

Purchased a total of 25,000 Taiyo Nippon Sanso shares on his/her own account in the amount of 19,791,000 yen on May 8, 2014.

○ Violator (iv) (corporation)

Purchased a total of 20,000 Taiyo Nippon Sanso shares on its own account in the amount of 17,800,000 yen between 2:07 PM and 2:08 PM on May 13, 2014.

○ Violator (v)

Purchased a total of 10,000 Taiyo Nippon Sanso shares on his/her own account in the amount of 8,970,000 yen around 10:13 AM on May 13, 2014.

○ Violator (vi)
Purchased a total of 13,000 Taiyo Nippon Sanso shares on his/her own account in the amount of 10,296,000 yen on May 8, 2014.

○ Violator (vii) (corporation)
Purchased a total of 50,000 Taiyo Nippon Sanso shares on its own account in the amount of 39,600,000 yen on May 8, 2014.

○ Violator (viii)
Purchased a total of 14,000 Taiyo Nippon Sanso shares on his/her own account in the amount of 11,054,000 yen on May 8 & 9, 2014.

○ Violator (ix)
Purchased a total of 4,000 Taiyo Nippon Sanso shares on his/her own account in the amount of 3,124,000 yen on May 9, 2014.

[Amount of administrative monetary penalty]

Violator (i)	5,030,000 yen
Violator (ii)	390,000 yen
Violator (iii)	3,130,000 yen
Violator (iv)	540,000 yen
Violator (v)	200,000 yen
Violator (vi)	1,620,000 yen
Violator (vii)	6,250,000 yen
Violator (viii)	1,780,000 yen
Violator (ix)	540,000 yen

[Process following Recommendation]
(The same date applied to all of the violators)

Date of decision on commencement of trial procedures:	March 27, 2015
Date of order to pay administrative monetary penalty:	April 23, 2015

Since written replies admitting these facts were submitted by violators (i) through (ix), no trial was conducted.

(xvi) Recommendation on insider trading by a person receiving information from an officer negotiating a conclusion of a contract with Mitsubishi Chemical Holdings Corporation

[Date of Recommendation] March 27, 2015

[Violation subject to the Recommendation]

An officer of the violator (corporation) received information from an officer of Taiyo Nippon Sanso Corporation (hereinafter referred to as “Taiyo Nippon Sanso”) who had come to know material information in the course of his/her duties. The information concerned the material fact that the organ that was responsible for making decisions on the execution of the operations of Mitsubishi Chemical Holdings Corporation (hereinafter referred to as “Mitsubishi Chemical Holdings”) had decided to make a tender offer for the outstanding shares of Taiyo Nippon Sanso to make it a subsidiary of Mitsubishi Chemical Holdings. While in receipt of said information, the violator purchased a total of 20,000 Mitsubishi Chemical Holdings shares on his/her own account in the amount of 8,300,000 yen around 2:26 PM on May 13, 2014, prior to the fact being announced at 3:00 PM on May 13, 2014.

Regarding the information above, an officer of Taiyo Nippon Sanso had come to know the information from an officer of Mitsubishi Chemical Holdings in the course of his/her duties of negotiating the tender offer conditions between Taiyo Nippon Sanso and Mitsubishi Chemical Holdings, and subsequently, said officer of Taiyo Nippon Sanso had come to know the information in the course of his/her duties.

[Amount of administrative monetary penalty] 240,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: March 27, 2015
Date of order to pay administrative monetary penalty: April 23, 2015

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

(2) Recommendation on market manipulation

(i) Recommendation on market manipulation related to the shares of Sanyo Trading

[Date of Recommendation] April 22, 2014

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of the shares of Sanyo Trading Co., Ltd., during the period of two trading days from about 9:11 AM on June 17, 2013 to about 2:58 PM on June 18, 2013, the violator purchased a total of 83,600 Sanyo Trading Corp. shares while selling a total of 58,900 shares of the company, including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Amount of administrative monetary penalty] 10,420,000 yen

[Process following Recommendation]
Date of decision on commencement of trial procedures: April 22, 2014
Date of order to pay administrative monetary penalty: May 26, 2014

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 Media Create

[Date of Recommendation] July 29, 2014

[Violation subject to the Recommendation]
For the purpose of inducing sales and purchases of the shares of Media Create, Co., Ltd., during the time from about 8:05 AM to about 9:22 AM on April 10, 2013, the violator sold a total of 18,000 shares, while conducting behavior such as placing buying orders for 313,000 shares, including in a manner intended to raise the share price by placing a large volume of multiple buying orders at lower levels. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Amount of administrative monetary penalty] 710,000 yen

[Process following Recommendation]
Date of decision on commencement of trial procedures: July 29, 2014
Date of order to pay administrative monetary penalty: August 21, 2014

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

(iii) Recommendation on market manipulation related to the shares of TASAKI

[Date of Recommendation] July 29, 2014

[Violation subject to the Recommendation]
For the purpose of inducing sales and purchases of shares of TASAKI Co., Ltd., during the period of two trading days from about 1:46 PM on December 13, 2012 to about 3:00 PM on December 14, 2012, the violator purchased a total of 8,400 shares of the company, including in a manner intended to raise the share price by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. In this way, on his/her own

account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases of the shares and entrustment that would cause fluctuations in the market price of the shares.

[Amount of administrative monetary penalty] 1,720,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: July 29, 2014
Date of order to pay administrative monetary penalty: November 6, 2014

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

(iv) Recommendation on market manipulation related to the shares of Hokushin

[Date of Recommendation] September 9, 2014

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of the shares of Hokushin Co., Ltd., during the period of four trading days from about 9:00 AM on September 28, 2012, to about 1:44 PM on October 3, 2012, the violator purchased a total of 324,100 shares of the company, while selling a total of 922,500 shares of the company, including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Amount of administrative monetary penalty] 43,670,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: September 9, 2014
Date of order to pay administrative monetary penalty: October 17, 2014

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

(v) Recommendation on market manipulation related to the shares of Kawaguchi Chemical Industry

[Date of Recommendation] October 10, 2014

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of the shares of Kawaguchi Chemical Industry Co., Ltd., during the period of two trading days from about 1:42 PM on July 11, 2013, to about 9:17 AM on July 12, 2013, the violator purchased a total of 22,000 Kawaguchi Chemical shares while selling a total of 46,000 shares of the company, including in a manner intended to raise the share price by placing a large volume of multiple buying orders at lower levels, and by consecutively placing buy orders at higher prices than the latest contract price, to make them be executed at higher prices. At the same time the violator made consignment to purchase 94,000 shares of the company. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Amount of administrative monetary penalty] 930,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: October 14, 2014
Date of order to pay administrative monetary penalty: October 30, 2014

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

(vi) Recommendation on market manipulation related to the shares of Ise Chemicals

[Date of Recommendation] November 11, 2014

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of the shares of Ise Chemicals Corporation, during the period of two trading days from about 1:28 PM on October 25, 2012, to about 2:54 PM on October 26, 2012, the violator purchased a total of 91,000 shares of the company while selling a total of 46,000 shares of the company, including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Amount of administrative monetary penalty] 1,050,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: November 12, 2014
Date of order to pay administrative monetary penalty: December 4, 2014

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

was conducted.

(vii) Recommendation on market manipulation related to the shares of Takada

[Date of Recommendation] February 27, 2015

[Violation subject to the Recommendation]

For the purpose of inducing sales and purchases of shares of Takada Corporation, during the period of 15 trading days from about 9:35 AM on December 18, 2013, to about 12:55 PM on January 15, 2014, the violator purchased a total of 100,000 Takada Corporation shares while selling a total of 83,500 shares of the company, including in a manner intended to raise the share price by matching buying orders and selling orders placed at high limits at around the same time, and by consecutively placing large buy orders at higher prices than the latest contract price, to make them be executed at higher prices. In this way, on his/her own account, the violator created the misunderstanding that there was active trading in these shares, and conducted a series of sales and purchases that would cause fluctuations in the market price of the shares.

[Amount of administrative monetary penalty] 7,390,000 yen

[Process following Recommendation]

Date of decision on commencement of trial procedures: March 2, 2015
Trial procedures underway (as of April 30, 2015)

3. Subsequent Progress of Recommendations Issued Prior to FY2013

(1) Trial procedures

Among the cases recommended by the SESC in or before FY2013, the following is a summary of the subsequent process of a case in which an order for an administrative monetary penalty payment had not yet been issued before the “Annual Report 2013/2014” was released.

(i) Recommendation on insider trading by an employee of a party to a contract with Tanaka Chemical Corporation and by a person receiving information from the employee

With regard to the recommendation, Respondent (i) and Respondent (ii) submitted a written reply denying the facts of the violation to the effect that: Respondent (i) did not know the material fact; and Respondent (ii) did not receive the material fact. Therefore, in this case, these points were in dispute.

Following the trial procedures, on December 4, 2014, the commissioner of the Financial Services Agency (FSA) made the decision to order payment of the administrative monetary penalty, arguing as follows regarding the points in dispute:

Respondent (i), while knowing the material fact, purchased the shares of Tanaka

Chemical, prior to the above fact being announced; and
Respondent (ii), while in receipt of the material fact from Respondent (i), purchased the shares of Tanaka Chemical, prior to the above fact being announced.

* In relation to the decision in this case, the persons filed an action for revocation of the administrative disposition with the Tokyo District Court on December 24, 2014.

(ii) Recommendation on market manipulation related to the shares of FinTech Global Incorporated

With regard to the recommendation, the respondent submitted a written reply denying the facts of the violation, insisting that the transactions did not fall under activities to create the misunderstanding that there was active trading in these shares, nor did they fall under those causing fluctuations in the market price of the shares. In addition, the respondent asserted that he/she had no intention to induce other investors to follow sales and purchases of the shares. Therefore, in this case, this point was in dispute.

Following the trial procedures, on August 21, 2014, the Commissioner of the FSA made the decision to order payment of the administrative monetary penalty, arguing that, in conducting the transactions in this case, it could be recognized that the transactions fell under activities to create the misunderstanding that there was active trading in these shares and to cause fluctuations in the market price of the shares, and that the transactions were made with intention to induce investors to follow sales and purchases.

(2) Revocation actions against a decision of administrative monetary penalty payment

Among cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2013, the following is a summary of the subsequent process of a case in which the court's judgment had not yet been made before the "Annual Report 2013/2014" was released.

(i) Recommendation on market manipulation related to the shares of The Gifu Bank, Ltd.
[Recommendation for an administrative monetary penalty payment order (November 16, 2012); Issuance of an administrative monetary penalty payment order (April 16, 2013); Action for revocation of an administrative disposition with the Tokyo District Court (May 15, 2013); Judicial decision by the Tokyo District Court (January 16, 2015); and Appeal to the Tokyo High Court (January 27, 2015)]

Action for revocation is pending as of April 30, 2015.

(ii) Recommendation on market manipulation related to shares of Mimaki Engineering Co., Ltd.
[Recommendation for an administrative monetary penalty payment order (February 5, 2013); Issuance of an administrative monetary penalty payment order (December 10, 2013); Action for revocation of an administrative disposition with the Tokyo District Court (December 26, 2013); and Judicial decision by the Tokyo District Court (May 28, 2015)]
On May 28, 2015, the Tokyo District Court pronounced a judgment to the effect that the

court would reject the claim of the plaintiff (respondent) on the grounds that the plaintiff was acknowledged to be aiming to make such inducement.

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 appropriate to the level and state of violations for which criminal charges are not essential. Furthermore, it 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 to achieve prompt and strategic market surveillance, by conducting speedy and efficient investigations and addressing the issues shown below:

(1) Given that market misconduct cases have become increasingly diversified, complex, and sophisticated, the SESC will strive to make investigations more speedy and efficient by improving its investigation methods, boosting its investigation ability through training, etc., and fostering personnel.

(2) Given that there have been several misconduct cases of insider trading in which material facts were extensively leaked, the SESC will also actively select and identify persons to be investigated in a broad context from a wider perspective to carry out investigations more quickly and flexibly.

(3) Amid ongoing digitalization, given the fact that electromagnetic records have been mainly used for storage of evidence on violators, etc., up to now, the SESC will promote the further use of operations such as preserving, restoring and analyzing electromagnetic records (digital forensics).

(4) In order to prevent market misconduct, the SESC will improve its database on recommendation cases as well as diversifying its dissemination of information channels, and promoting voluntary enhancement of discipline by market participants.

(5) Given that information transmissions and trade recommendations have become newly subject to insider trading regulations in April 2014 or later, the SESC will keep a more watchful eye on investigations on backgrounds and situations on information transmission.

Chapter 5. Investigation of International Transactions and Related Issues

1) Outline

1. The Purpose and Authority of Investigation of International Transactions and Related Issues

The Purpose and Authority of Investigation of international transactions and related issues (investigation of market misconduct made mainly by persons residing in foreign countries) are the same as those described in Chapter 4. Investigation of Market Misconduct (see 1) Outline: Section 1. Purpose of Investigation of Market Misconduct, Section 2. Authority for Investigation of Market Misconduct, and Section 3. Acts Subject to Administrative Monetary Penalties, and Amounts of Administrative Monetary Penalties).

2. Activities in FY2014

(1) The SESC is strengthening its cooperation with overseas regulators, by visiting overseas regulators for discussions and collaborative investigations as well as by exchanging information based on the information exchange framework of the Multilateral Memorandum of Understanding (the “MMOU”; see 1) in Chapter 9). Accordingly, it has achieved steady results, such as detecting market misconduct using cross-border transactions. Looking at the current financial and capital markets, market participants such as investment funds have been increasingly involved in cross-border transactions or other international activities as part of their day-to-day operations. These trends have had an increasingly important effect on Japanese stock markets and investors. Given these trends, the SESC has taken steps to strengthen collaboration with overseas regulators so as to dedicate itself to reinforcing global market surveillance.

In light of such circumstances, the SESC set “response to the globalization of markets” as one of the new pillars of its policy directions in the *SESC's Policy Statement for the 7th Term*, which was formulated in January 2011 (this idea has been also inherited as "Enhancement of surveillance in response to the globalization of markets" in the SESC *Policy Statement for the 8th Term*, which was formulated in January 2014), thereby laying out its policy of strengthening global market surveillance. Under this initiative, as a response to the globalization of markets, the SESC stepped forward to further develop its human resources and organizational structures, and as part of these efforts, in August 2011, it established the Office of Investigation for International Transactions and Related Issues in the Administrative Monetary Penalty Division, which specializes in investigating any possible market misconduct involving cross-border transactions by investors including Japanese and foreign professional investors.

(2) During FY2014, the Office of Investigation for International Transactions and Related Issues investigated misconduct cases, and it filed four recommendations for administrative monetary penalty payment orders (totaling 458,632,935 yen) (see 2) 2 below). These four cases consist of a case of market manipulation in TOPIX Futures by Musashi Securities Co., Ltd., which was recommended by the SESC on June 13, 2014, a case of market manipulation of Long-term Japanese Government Bond Futures by an

overseas resident, which was recommended by the SESC on September 5, 2014, a case of market manipulation by Areion Asset Management Company Limited, which was recommended by the SESC on December 5, 2014, and a case of market manipulation by Select Vantage Inc., which was recommended on March 6, 2015.

Among the four cases above, three cases were misconduct cases involving cross-border transactions. In addition, with respect to the case of market manipulation of Long-term Japanese Government Bond Futures, the SESC recommended an administrative monetary penalty order through close cooperation with the Monetary Authority of Singapore. In respect to the case of insider trading by Areion Asset Management Company Limited, the SESC recommended an administrative monetary penalty order through close cooperation with the Securities and Futures Commission of Hong Kong. Furthermore, with regard to the case of market manipulation by Areion Asset Management Company Limited, the SESC recommended an administrative monetary penalty order as a result of close collaboration with the Financial Conduct Authority of the United Kingdom.

Note that the case of market manipulation on TOPIX Futures by Musashi Securities Co., Ltd. was the first recommendation case related to market transactions of derivatives. In addition, the case of market manipulation by Select Vantage Inc. was not only the first recommendation case related to market manipulations conducted through transactions overarching between PTS and a stock exchange during lunch breaks between the morning and afternoon sessions, but also the first recommendation case for which the SESC made recommendations to the prime minister and the commissioner of the FSA to take the action against the same corporation. Furthermore, the case of market manipulation by Areion Asset Management Company Limited was characterized by the placement of a series of successive large purchase orders, causing the share price to increase in a short time just for 30 seconds before the closing of the securities exchange.

The above-mentioned recommendation cases involved market manipulations through repetitive orders placed in a short time. Since some of the orders seems to have been made by automatic order execution for algorithm trading, the SESC investigated and identified the actual state of market manipulations using a high-speed trading system in cooperation with the Japan Exchange Regulation.

2) Recommendations for Orders to Pay Administrative Monetary Penalties Based on the Results of Investigation of International Transactions and Related Issues

1. Overview of Recommendations

In FY2014, there were four recommendations made on international transactions and related issues, all of which were market manipulation cases. The maximum administrative monetary penalty applied to an offender was 430,740,000 yen, and the minimum was 330,000 yen.

2. Brief Summary of Recommendations Issued in FY2014

With respect to the cases recommended for orders to pay administrative monetary penalties on international transactions and related issues in FY2014, the following is a brief

summary of those cases:

(1) Recommendation for administrative monetary penalty payment order for market manipulation by Musashi Securities Co., Ltd.

[Date of Recommendation] June 13, 2014

[Violation subject to the Recommendation]

Musashi Securities Co., Ltd. (the offender subject to the administrative monetary order; the "Musashi") is a corporation registered by the prime minister to conduct type I financial instruments business.

By placing a large number of purchase and sales orders of futures at the best bid or offer prices without intention to execute them with the purpose of inducing market transactions of derivatives in TOPIX Futures (Future Contract Month: September 2013), Musashi purchased and sold 2,016 units in total while placing orders for the purchase of 43,554 units and for the sale of 44,889 units in total on its own account through its dealer during six trade days in total from July 29 to July 31, 2013 and from September 9 to September 11, 2013. This constituted a series of market transactions of derivatives and offers that would mislead other persons into believing that market transactions of derivatives were thriving and would cause fluctuations in the prices of said futures.

[Amount of administrative monetary penalty] 5,430,000 yen

[Process following Recommendation]

Date of decision to start trial procedures: June 13, 2014
Date of order to pay penalty: June 26, 2014

Since a written reply admitting these facts was submitted by the offender, no trial was held.

(*) Apart from the recommendation for an administrative monetary penalty payment order for market manipulation by Musashi based on the findings of the investigation as described above, the SESC made a recommendation that the prime minister and the commissioner of the FSA take administrative action against Musashi based on the the findings of the investigation and the securities inspection.

(2) Recommendation for administrative monetary penalty payment order for market manipulation of Long-term Japanese Government Bond (JGB) Futures

[Date of Recommendation] September 5, 2014

[Violation subject to the Recommendation]

The offender subject to the administrative monetary order committed the following

acts concerning Long-term JGB Futures (Future Contract Month: September 2013) with the purpose of inducing market transactions of derivatives: From 9:33 AM to 2:58 PM on June 26, 2013, the person placed a large number of purchase orders at prices equal to or below the best bid and a large number of sales orders at prices equal to or above the best offer without the intention of executing the orders. In total, the person purchased and sold 39 units of Long-term JGB Futures while placing orders for the purchase of 1,672 units and for the sales of 757 units on the person's own account. This constituted a series of market transactions of derivatives and entrustments that would mislead others into believing that market transactions of derivatives were thriving and would cause fluctuations in the prices of the said futures.

[Amount of administrative monetary penalty] 330,000 yen

[Process following Recommendation]

Date of decision to start trial procedures: September 5, 2014

Date of order to pay penalty: November 6, 2014

Since a written reply admitting these facts was submitted by the offender, no trial was held.

(3) Recommendation for an administrative monetary penalty payment order for market manipulation by Areion Asset Management Company Limited

[Date of Recommendation] December 5, 2014

[Violation subject to the Recommendation]

Areion Asset Management Company Limited (the offender subject to the administrative monetary order; the "Areion") is a limited company incorporated in Hong Kong, and has the discretionary investment management right on the assets of Hareion Fund ("Hareion"), an exempted unit trust established under the Trusts Law (Revised) of the Cayman Islands, pursuant to the investment advisory agreement entered into between Ogier Trustees (Cayman) Limited as the trustee of Hareion, Zillion Capital Limited as the investment manager, and Areion as the investment advisor.

Areion, through its representatives and others and in relation to its business, traded shares of Nitto Denko Corporation from 14:59:30 to 15:00:00 on September 25, 2013, with the purpose of inducing the sale and purchase of securities by others for those shares, by placing a series of large market orders and purchase orders at prices higher than those at which orders had been executed previously, which in turn caused the share prices to increase, and by placing a series of large market orders and purchase orders at prices lower than those at which orders had been executed previously. Thus, in total, Areion purchased 7,886,900 shares, of which 7.25%, equivalent to its officers' contribution ratio to Areion as of September 2013, were on its own account and the rest were on the accounts of other investors of Areion, while placing orders for the purchase of 1,311,200 shares. These constituted a series of sales and purchases of securities

and entrustments that would mislead others into believing that the sale and purchase of the shares were thriving and would cause fluctuations in the prices of the shares.

[Amount of administrative monetary penalty] 430,740,000 yen

[Process following Recommendation]
Date of decision to start trial procedures: January 16, 2015
Trial procedures underway (as of April 30, 2015)

(4) Recommendation for an administrative monetary penalty payment order for market manipulation by Select Vantage Inc.

[Date of Recommendation] March 6, 2015

[Violation subject to the Recommendation]
Select Vantage Inc. (the offender subject to the administrative monetary order; the "Select Vantage"), registered in Anguilla, a British overseas territory, is a proprietary trading firm, which generates earnings from trading with its own funds.

In regards to a total of 45 symbols which are listed on financial instruments exchange markets including Japan Drilling Co., Ltd. and with the purpose of inducing orders from other market participants who use the proprietary trading system ("PTS"), Select Vantage conducted transactions in relation to its business through traders who engage in proprietary trading on a total of 28 trading days between April 9 and May 23, 2014 during the time between the closing of the morning session and the opening of the afternoon session of the financial instruments exchange. These transactions included the following: boosting quotations before the opening of the afternoon session by placing on the financial instruments exchange market a large amount of market purchase orders or limit purchase orders at prices higher than the previous quotation without intention to execute the orders; placing sell limit orders on the PTS; and matching a part of the sell orders with its own purchase orders to raise the share price, at which favorable price it executed the rest of the sell orders on the PTS. Thus, Select Vantage, on its own account, with respect to the symbols mentioned above, purchased 252,600 shares and sold 276,800 shares while placing purchase orders for 1,538,200 shares and sell orders for 171,200 shares. These constituted a multiple series of sales and purchases of securities and entrustments that would mislead others into believing that the sale and purchase of the shares were thriving and would cause fluctuations in markets of the shares.

[Amount of administrative monetary penalty] 22,132,935 yen

[Process following Recommendation]
Date of decision to start trial procedures: April 7, 2015
Trial procedures underway (as of April 30, 2015)

3. Subsequent Progress of Recommendations Issued in or Before FY2013

(1) Trial procedures

Among the cases recommended by the SESC in or before FY2013, the following is a summary of the process of a case in which the order for the administrative monetary penalty payment had not yet been issued before the “Annual Report 2013/2014” was released.

(i) Recommendation for an administrative monetary penalty payment order for market manipulation by Juggernaut Capital Management Pte. Ltd.

With regard to the recommendation made on July 31, 2013 for an administrative monetary penalty payment order for a case of market manipulation by Juggernaut Capital Management Pte. Ltd., on August 1, 2014, the Commissioner of the FSA made the decision to order the respondent to pay an administrative monetary penalty of 431,180,000 yen.

(ii) Recommendation for an administrative monetary penalty payment order for using fraudulent means regarding the securities of Wedge Holdings Co., Ltd.

With regard to the recommendation made on November 1, 2013 for an administrative monetary penalty payment order for using fraudulent means regarding the securities of Wedge Holdings Co., Ltd., trial procedures are currently underway (as of April 30, 2015).

(iii) Recommendation for an administrative monetary penalty payment order for insider trading by Stats Investment Management Co., Ltd.

With regard to the recommendation made on December 2, 2013, for an administrative monetary penalty payment order for insider trading by Stats Investment Management Co., Ltd., the Commissioner of the FSA made the decision to order the respondent to pay an administrative monetary penalty of 540,000 yen on October 30, 2014.

* In relation to the decision in this case, the respondent filed an action for revocation of the administrative disposition with the Tokyo District Court on November 28, 2014, and the action for the revocation of said administrative disposition is pending (as of April 30, 2015).

(iv) Recommendation for an administrative monetary penalty payment order for insider trading by MAM Pte. Ltd.

With regard to the recommendation made on December 2, 2013, for an administrative monetary penalty payment order for insider trading by MAM Pte. Ltd., on December 26, 2014, the Commissioner of the FSA made the decision to order the respondent to pay an administrative monetary penalty of 8,040,000 yen.

* In relation to the decision in this case, the respondent filed an action for revocation of the administrative disposition with the Tokyo District Court on February 3, 2015, and the action for the revocation of said administrative disposition is pending (as of April 30, 2015).

The respondent was dissatisfied with the progress of the administrative trial

proceedings. On September 17, 2014 and on October 14, 2014, the respondent filed a state compensation suit with the Tokyo District Court. In addition, on November 28, 2014, the respondent filed with the Tokyo District Court a petition for a provisional injunctive order against the order for the administrative monetary penalty payment, a petition for an injunctive order against the order for the administrative monetary penalty payment, and a petition for the revocation of the recommendation for an administrative monetary penalty payment order. (On December 24, 2014, the Tokyo District Court dismissed the petition for a provisional injunctive order against the order for the administrative monetary penalty payment. With regard to the immediate appeal filed on December 25, 2014 against the judicial decision of dismissal, the Tokyo High Court dismissed it on January 19, 2015. Furthermore, on April 13, 2015, the respondent withdrew the petitions for the order for the administrative monetary penalty payment and for the revocation of the recommendation for an administrative monetary penalty payment order).

(2) Action for the revocation of an administrative disposition

Among cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2013, the following is a summary of the process of a case in which the court's judgment had not yet been made before the "Annual Report 2013/2014" was released.

・Recommendation on insider trading by a recipient of information from an employee of a company that was in negotiations for a contract with Tokyo Electric Power Company, Inc.

[Recommendation for an administrative monetary penalty payment order (June 8, 2012); Issuance of an administrative monetary penalty payment order (June 27, 2013); Action for revocation of an administrative disposition with the Tokyo District Court (July 26, 2013)]

Action for revocation is pending as of April 30, 2015.

3) Future Challenges

Looking at the current financial and capital markets, market participants such as investment funds have increasingly been involved in cross-border transactions or other international activities as part of their day-to-day operations. These trends have had an increasingly important effect on Japanese stock markets and investors. Given these trends, the SESC needs to address the challenges as given below, make efficient and effective identification of the facts in cases of market misconduct using cross-border transactions and global money flows, and also aim to secure fairness and transparency in the markets in cooperation with overseas securities regulators.

(1) Strengthening further cooperation with overseas securities regulators

As seen in the cases of market manipulation of Long-term Japanese Government

Bond Futures, market manipulation by Areion Asset Management Company Limited, and market manipulation by Select Vantage Inc. that were recommended by the SESC in FY2014, these cases of misconduct were carried out by persons and/or related entities residing in foreign countries. This is the reason why the SESC needs to closely coordinate with overseas securities regulators. Up to now, the SESC has actively visited overseas securities regulators for discussions and cooperated with them through information exchange frameworks among these regulators such as the MMOU with the aim of coping with the ongoing globalization of market misconduct. From now on, it will strengthen further communications with overseas securities regulators and enhance the global network. On that basis, the SESC will address the clarification of facts of market misconduct using cross-border transactions with the aim of securing effective information exchange frameworks.

(2) Developing human resources capable of responding to international transactions

In the process of investigating market misconduct using cross-border transactions, it is essential to secure human resources with global communication skills as well as language and specialist expertise for coordination with overseas regulators and analysis of information. Therefore, the SESC needs to develop its staff to achieve these skills and expertise.

Specifically, the SESC will promote personnel exchanges with overseas securities regulators and send officials to training sessions presented by overseas regulators. By so doing, it will endeavor to foster human resources capable of responding appropriately to on-going globalization trends, aiming to improve its ability to analyze and investigate market misconduct using cross-border transactions and enhance overseas networks.

(3) Reinforcing the capacity to respond to increasingly complex and diversified financial instruments and transactions

With the progress of innovation in global financial and capital markets, financial instruments and transactions have also become more and more complex and diverse. Looking at the transaction form, high-speed transactions such as HFTs have increased. In order to address these changes appropriately, the SESC will strive to clarify the facts regarding new financial instruments and transaction types precisely so as to detect and uncover market misconduct using them.

Chapter 6. Inspection of Disclosure Statements

1) Outline

1. Purpose of Inspection of Disclosure Statements

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 and other relevant persons of securities, by obligating issuers of securities to submit various disclosure documents, including a securities registration statement, and by making the documents available for public inspection in order to encourage investors to make adequate investment decisions in the primary and secondary markets for securities. By doing so, it aims to protect investors.

To ensure effectiveness in 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, an annual securities report or a shelf registration statement, or a tender offeror or a person who has filed a report of possession of large volume, etc. to submit reports or materials, or may arrange inspection of their books, documents and other articles (hereinafter the “inspection of disclosure statements”).

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

If, as a result of inspection of disclosure statements, disclosure documents are found to contain false disclosure statements, etc. on material issues, the SESC recommends that the prime minister and the commissioner of the FSA issue an order to pay an administrative monetary penalty. The SESC also recommends that the prime minister and the commissioner of the FSA issue an order to submit an amendment report, etc., if necessary.

Even in cases where false disclosure statements in financial reports are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily, from the viewpoint of requiring appropriate disclosure, when it is acknowledged that annual securities reports, etc., should be corrected.

2. Authority of Inspection of Disclosure Statements

In the financial and capital markets in Japan, based on the provisions of the FIEA, disclosure documents are submitted from issuers obliged to submit annual securities reports, etc., including from approximately 3,500 listed companies. The specific authority for inspection of disclosure statements of disclosure documents includes the following:

(1) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 submission of reports and materials from a company that is an issuer of the shares, etc. related to a report of possession of large volume, or a witness (Article 27-30(2) of the FIEA)

(6) The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 appearance, questioning, or provision of opinions or reports with respect to cases related to an administrative monetary penalty against a person who has facilitated or induced submission of disclosure documents containing false statements, etc. (hereinafter the "Involvement in False Statements, etc."), and/or entering of business office thereof and conducting inspection of books, records and other materials (Article 177(1) of the FIEA)

(8) The authority over requiring submission of reports and materials 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 submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a person who has filed a securities registration statement before the effective date of the statement (Article 38-2(1)(i) of the FIEA Enforcement Order)
- The authority over requiring the submission of reports and materials, and/or implementation of inspection of books, records and other materials with respect to a person who has filed a shelf registration statement before the effective date of the statement (Article 38-2(1)(ii) of the FIEA Enforcement Order)
- The authority over requiring submission of reports and materials, and/or implementation of inspection of books, records and other materials 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 authorities listed below:

- The authority over submission of reports and materials, out of items (1) through (6) and (8) above (proviso of Article 38-2(1) of the FIEA Enforcement Order); and
- The authority over submission of reports and materials, out of item (7) above (proviso of Article 194-7(2) of the FIEA)

3. Recommendations Based on the Results of Inspection of Disclosure Statements

(A) Recommendations for orders to pay administrative monetary penalties

If, as a result of inspection of disclosure statements, disclosure documents are found to contain false disclosure statements, etc. on material issues, the SESC makes a recommendation for 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 decides whether to issue an 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 76 of 2005 law), the Act for the Partial Amendment of the Securities and Exchange Act, etc. (Act 65 of 2006 law), the Act for the Partial Amendment of the Financial Instruments and Exchange Act, etc. (Act 65 of 2008 law), and the Act for the Partial Amendment of the Financial Instruments and Exchange Act, etc. (Act 86 of 2012 law).

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

(1) The act of having securities acquired or selling securities, through a public offering or secondary distribution, etc., despite the non-acceptance of required notification for reasons including the failure to submit a securities registration statement (offering disclosure for public offering or secondary distribution, etc.) (Article 172 of the FIEA)

Penalty: 4.5% of the total amount of public offering or secondary distribution of shares, etc. (2.25% in the case of items other than shares, etc.)

(2) The 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 disclosure statements (Article 172-2 of the FIEA, Article 172 of the former FIEA)

Penalty: 4.5% of the total amount of public offering or secondary distribution of shares, etc. (2.25% in the case of items other than shares, etc.)

(3) The 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 where 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) The act of submitting an annual securities report (continuous disclosure documents for each business year), etc., containing false disclosure statements (Article 172-4 of the FIEA, 172-2 of the former FIEA)

Penalty: 6 million yen or 6/100,000ths 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) The act of purchasing or accepting share certificates, etc. without issuing a public notice for commencing a tender offer (Article 172-5 of the FIEA)

Penalty: 25% of the total purchase amount

(6) The act of issuing a public notice for commencing tender offer containing false disclosure 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) The act of not submitting reports of possession of large volume, 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) The act of submitting reports of possession of large volume, 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) The act of conducting a specified solicitation or offer, etc., having securities acquired or selling securities while specified information on securities is not provided or publicized (Article 172-9 of the FIEA)

Penalty: 4.5% of the total amount of public offering or secondary distribution of shares, etc. (2.25% in the case of items other than shares, etc.)

(10) The act of conducting a specified solicitation or offer, etc., through the provision or publication of specified information on securities containing false information, having securities acquired or selling securities (Article 172-10 of the FIEA)

Penalty:

(a) in the case where the specified information on securities is publicized:

4.5% of the total amount of public offering or secondary distribution of shares, etc . (2.25% in the case of items other than shares, etc.)

(b) in the case where the specified information on securities is not publicized:

the amount obtained by multiplying the amount listed in (a) by the number listed below:

$$\frac{\text{the number of persons receiving the specified information on securities}}{\text{the number of persons subject to the specified solicitation or offer, etc.}}$$

(11) The act of providing or publicizing information on the issuer, etc., that contains a false statement, etc. (Article 172-11 of the FIEA)

Penalty:

(a) in the case where the information on the issuer, etc., is publicized:

6 million yen or 6/100,000ths of the total market value of the issuer, whichever is greater

(b) in the case where the information on the issuer, etc., is not publicized:

the amount obtained by multiplying the amount listed in (a) by the number listed below:

$$\frac{\text{the number of persons receiving the information on the issuer, etc.}}{\text{the number of persons subject to receipt of the information on the issuer, etc.}}$$

(12) The act of involvement in specified activities (Article 172-12 of the FIEA)

Penalty: Amount equal to the fees, commissions, or other rewards that have been paid or are to be paid to persons involved in specified activities

Note: The amendment of the FIEA in 2012 has made the above-mentioned act subject to administrative monetary penalties, which shall be applicable to any violations conducted on or after September 6, 2013.

Additionally, with regard to the violations listed in (2), (4), (7), (10), (11) and (12) above, if the violator made a declaration prior to the investigation by the authorities, the amount of the administrative monetary penalty shall be halved (Article 185-7 (14) of the FIEA). On the other hand, if the violator has received an administrative monetary penalty payment order within the past five years, the amount of the administrative monetary penalty shall be increased 1.5-fold (Article 185-7 (15) of the FIEA).

(B) Recommendations for orders to submit an amendment report, etc.

As a result of inspection of disclosure statements, if disclosure documents are found to contain false statements, etc., on material issues and an amendment report, etc., for such disclosure documents has not been submitted, the SESC will recommend that the prime minister and the commissioner of the FSA issue an order to submit the amendment report, etc. (Article 20 of the Act for Establishment of the FSA).

4. Activities in FY2014

(1) In FY2014, the SESC completed inspections of disclosure statements of 18 listed companies, and based on the results of those inspections, there were eight cases subject to the recommendations for orders to pay administrative monetary penalties, totaling 604,640,000 yen, in relation to violations of disclosure requirements such as disclosure documents containing false disclosure statements, etc., on important matters.

In a case where false disclosure statements are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily, when it is acknowledged that annual securities reports, etc., should be corrected.

Total number of inspections completed		18
(of these inspections)	Recommended for an order to pay an administrative monetary penalty	8 (7)
	Did not recommend for an order to pay an administrative monetary penalty, but urged voluntary amendment	2

＊The parentheses in the table above means the number of inspections in the recommendations.

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

1. Overview of Recommendations

The recommendations made in FY2014 in relation to the violations of disclosure regulations included those related to false disclosure statements of securities registration statements and annual securities reports.

The SESC found various types of false disclosure statements in the process of disclosure statements inspection. For example, the SESC found overstating of net sales, understating of allowance for doubtful accounts, recording of fictitious assets, and overstating of work in process. Also cases were found where the number of shares held by a large shareholder as well as the ratio of shares owned by the large shareholder was not appropriately stated.

In FY2014, the largest amount of administrative monetary penalty in relation to the violation of disclosure requirements was 194,260,000 yen. The recommendation for an order to pay for this penalty was made to the prime minister and commissioner of FSA against false statements in annual securities reports, etc., of SJI Inc.

2. Brief Summary of Recommendations Issued in FY2014

In FY2014, an outline of the cases subject to the recommendations for orders to pay administrative monetary penalties is as follows:

(i) Recommendation in relation to false disclosure statements in annual securities reports, etc., of TAIYO SHOKAI INC.

[Date of Recommendation] April 22, 2014

[Violation subject to the Recommendation]

TAIYO SHOKAI INC. (hereinafter referred to in this subparagraph (i) as "TAIYO") recorded fictitious sales for the fiscal year ended March 31, 2013, by entering into contracts for the sale of goods without actual transactions.

As a result of this fraudulent act, TAIYO submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., "containing false statements on material issues," 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	Statement on Finance and Accounting	Content (note)	Accounting item
1	June 28, 2013	Annual securities report for the 11th business year	Consolidated accounting period from April 1, 2012 to March 31, 2013	Consolidated income statement	Consolidated ordinary income was found to be 5 million yen, but was stated as 43 million yen. Consolidated net income was found to be 11 million yen, but was stated as 50 million yen.	・ Recording fictitious sales ・Overstating net assets
				Consolidated balance sheet	Consolidated net assets were found to be negative 30 million yen, but were stated as positive 7 million yen.	
2	August 14, 2013	1st quarterly securities report for the 12th business year	1st quarter consolidated accounting period from April 1, 2013, to June 30, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 21 million yen, but were stated as positive 24 million yen.	Overstating net assets due to the fictitious sales recorded in the previous year.

3	November 14, 2013	2nd quarterly securities report for the 12th business year	2nd quarter consolidated accounting period from July 1, 2013, to September 30, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 44 million yen, but were stated as positive 858 thousand yen.	Overstating net assets due to the fictitious sales recorded in the previous year.
4	February 14, 2014	3rd quarterly securities report for the 12th business year	3rd quarter consolidated accounting period from October 1, 2013, to December 31, 2013	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 78 million yen, but were stated as negative 32 million yen.	Overstating net assets due to the fictitious sales recorded in the previous year.

(Note) Amounts are rounded down to the nearest million yen. In addition, a negative figure means a state of insolvency.

[Amount of administrative monetary penalty] 12,000,000 yen

[Process following Recommendation]

Date of decision to start trial procedures: April 22, 2014

Date of order to pay penalty: May 26, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(ii) Recommendation in relation to false disclosure statements in annual securities reports, etc., of SANEI ARCHITECTURE PLANNING CO., LTD. and false disclosure statements in change reports on shares of the company

[Date of Recommendation] June 5, 2014

[Violation subject to the Recommendation]

1. SANEI ARCHITECTURE PLANNING CO., LTD. (hereinafter referred to in this subparagraph (ii) as “SANEI”) submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in 172-4 (1) of the FIEA, as described in the table below.

Disclosure document		False statement	
Submission date	Document	Accounting period	Content
November 25, 2011	Annual securities report for the 18th business year	Accounting period from September 1, 2010 to August 31, 2011	・The number of shares held by large shareholders stated in IV. Company Information," 1. Stock information," (7) "Big shareholders" of annual securities report was found to be 6,840,200, but was stated as 6,554,000. In addition, the ratio of shares owned by large shareholders in the total number of shares issued by SANEI was found to be 72.32%, but was stated as 69.29%. ・The number of shares held by large shareholders stated in IV. Company Information," 5. Officers" of annual securities report was found to be 6,840,200, but was stated as 6,554,000.

2. SANEI submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below “containing false statements on material issues,” as stipulated in Article 172-2 (1) (i) of the FIEA, through the offering based on the offering disclosure documents:

(1) its securities registration statement (for public offering) incorporating the annual securities report for the fiscal year ended August 2011 (see the table shown above) which contained false statements on material issues, on July 13, 2012; it then had others acquire 2,000,000 of its shares in the amount of 1,410,200,000 yen, through the offering based on said securities registration statement on August 3, 2012.

(2) its securities registration statement (for private placement) incorporating the annual securities report for the fiscal year ended August 2011 (see the table shown above), which contained false statements on material issues, on July 13, 2012; it then had others acquire 300,000 of its shares in the amount of 211,530,000 yen, through the offering based on said securities registration statement on August 28, 2012.

3. A large-volume holder of shares of SANEI submitted to the Director General of the Kanto Local Finance Bureau a change report containing false statements on material issues as stipulated under Article 172-8 of FIEA, as described in the table below. Specifically, the false statements were made on each "submission date" regarding the shares of the "issuer" that issued the shares listed on the financial instruments exchange.

No.	Issuer	Document	Submission date	False statement
1	SANEI ARCHITECT-URE PLANNING CO.,LTD	Change Report No.3	November 16, 2009	・The share ownership was found to be 18,329 shares, but was stated as 17,900 shares. The shareholding ratio was found to be 77.94%, but was stated as 75.70%.
2	SANEI ARCHITECT-URE PLANNING CO.,LTD	Change Report No.4	May 19, 2010	・The share ownership was found to be 3,481,500 shares, but was stated as 3,350,000 shares. The shareholding ratio was found to be 74.04%, but was stated as 70.83%.
3	SANEI ARCHITECT-URE PLANNING CO.,LTD	Change Report No.5	August 13, 2010	・The share ownership was found to be 3,419,200 shares, but was stated as 3,277,000 shares. The shareholding ratio was found to be 72.72%, but was stated as 69.29%.
4	SANEI ARCHITECT-URE PLANNING CO.,LTD	Change Report No.6	July 27, 2012	・The share ownership was found to be 13,540,200 shares, but was stated as 12,946,800 shares. The shareholding ratio was found to be 72.00%, but was stated as 68.44%.

[Amount of administrative monetary penalty]

SANEI ARCHITECTURE PLANNING CO., LTD.: 78,960,000 yen

A large-volume holder of shares of SANEI ARCHITECTURE PLANNING CO., LTD.: 410,000 yen

[Process following Recommendation]

Date of decision to start trial procedures: June 5, 2014

Date of order to pay penalty: July 1, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(iii) Recommendation in relation to false disclosure statements in annual securities reports, etc., of AIREX INC.

[Date of Recommendation] June 19, 2014

[Violation subject to the Recommendation]

AIREX INC. (hereinafter referred to in this subparagraph (iii) as "AIREX") recorded fictitious sales calculated on falsified data overstating the working hours of staff members dispatched temporarily and engaging in system development projects, and overstated products-in-progress for a system development project that should have been stated as expenses such as labor costs paid after the completion of the project.

As a result of these fraudulent acts, AIREX submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc. "containing false statements on material issues" 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	Statement on Finance and Accounting	Content (note)	Accounting item
1	June 25, 2012	Annual securities report for the 70th business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated income statement	Consolidated ordinary income was found to be 211 million yen, but was stated as 335 million yen. Consolidated net income was found to be 124 million yen, but was stated as 248 million yen.	Recording fictitious sales, etc.
2	August 14, 2012	1st quarterly securities report for the 71st business year	1st quarter consolidated accounting period from April 1, 2012, to June 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 596 million yen, but were stated as 806 million yen.	Overstating work in process, etc.

3	November 14, 2012	2nd quarterly securities report for the 71st business year	2nd quarter consolidated cumulative period from April 1, 2012, to September 30, 2012	Quarterly consolidated income statement	Consolidated quarterly ordinary income was found to be negative 14 million yen, but was stated as positive 190 million yen. Consolidated quarterly net income was found to be negative 68 million yen, but was stated as positive 135 million yen.	・ Recording fictitious sales ・ Overstating work in process, etc.
			2nd quarter consolidated accounting period from July 1, 2012, to September 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 545 million yen, but were stated as 899 million yen.	
4	February 14, 2013	3rd quarterly securities report for the 71st business year	3rd quarter consolidated cumulative period from April 1, 2012, to December 31, 2012	Quarterly consolidated income statement	Consolidated quarterly ordinary income was found to be negative 16 million yen, but was stated as positive 129 million yen. Consolidated quarterly net income was found to be negative 75 million yen, but was stated as positive 69 million yen.	・ Recording fictitious sales ・ Overstating work in process, etc.
			3rd quarter consolidated accounting period from October 1, 2012, to December 31, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 551 million yen, but were stated as 846 million yen.	

5	June 10, 2013	Amendment report for 2nd quarterly report for the 71st business year	2nd quarter consolidated cumulative period from April 1, 2012, to September 30, 2012	Quarterly consolidated income statement	Consolidated quarterly ordinary income was found to be negative 14 million yen, but was stated as positive 68 million yen. Consolidated quarterly net income was found to be negative 68 million yen, but was stated as positive 13 million yen.	・ Recording fictitious sales ・ Overstating work in process, etc.
			2nd quarter consolidated accounting period from July 1, 2012, to September 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be 545 million yen, but were stated as 715 million yen.	

(Note) In principle, amounts are rounded down to the nearest million yen. In addition, negative means loss.

[Amount of administrative monetary penalty] 15,000,000 yen

[Process following Recommendation]
Date of decision to start trial procedures: June 19, 2014
Date of order to pay penalty: July 18, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(iv) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Japan Asset Marketing Co., Ltd.

[Date of Recommendation] June 19, 2014

[Violation subject to the Recommendation]

1. Japan Asset Marketing Co., Ltd. (hereinafter referred to in this subparagraph (iv) as "Japan Asset Marketing") inappropriately inflated its sales in the course of selling software. In particular, Japan Asset Marketing overstated sales whose amount includes that of an agency fee on a sham selling agent contract paid for the purpose of repaying the buyer.

As a result of this fraudulent act, Japan Asset Marketing submitted to the Director General of the Kinki Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” as stipulated in Article 172-4 (1) of the FIEA, as described in the table below.

Submission date	Document	False statement			
		Accounting period	Statement on Finance and Accounting	Content (note)	Accounting item
June 28, 2012	Annual securities report for the 13th business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated income statement	Net sales were found to be 83 million yen, but were stated as 103 million yen.	Overstating net sales

(Note) In principle, amounts are rounded down to the nearest million yen.

2. Japan Asset Marketing submitted to the Director General of the Kinki Local Finance Bureau its offering disclosure documents as listed below "containing false statements on material issues," as stipulated in Article 172-2 (1) (i) of the FIEA, through the offering based on the offering disclosure documents:

(1) its securities registration statement (share options) incorporating the annual securities report for the fiscal year ended March 2012 (see the table shown above) which contained false statements on material issues, on September 7, 2012; it then had others acquire 342 of its share options in the amount of 302,642,640 yen (including the amount to be paid at the exercise of said share options), through an offering based on said securities registration statement on September 24, 2012.

(2) its securities registration statement (common stock shares) incorporating the annual securities report for the fiscal year ended March 2012 (see the table shown above) which contained false statements on material issues, on September 7, 2012; it then had others acquire 379,746 of its shares in the amount of 299,999,340 yen, through the offering based on the above-mentioned registration statement on September 24, 2012.

(3) its securities registration statement incorporating the annual securities report for the fiscal year ended March 2012 (see the table shown above), which contained false statements on material issues, on March 1, 2013; it then had others acquire 1,300,000 of its shares in the amount of 1,690,000,000 yen, through the offering based on the above-mentioned registration statement on April 22, 2013.

[Amount of administrative monetary penalty] 109,150,000 yen

[Process following Recommendation]

Date of decision to start trial procedures: June 19, 2014

Date of order to pay penalty: July 18, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(v) Recommendation in relation to false disclosure statements in annual securities reports, etc., of Inspire Inc.

[Date of Recommendation] September 2, 2014

[Violation subject to the Recommendation]

1. Inspire Inc. (hereinafter referred to in this subparagraph (v) as "Inspire") improperly recorded fictitious assets, such as software in progress. In particular, Inspire pretended that it had developed software related to the card business, which had not been actually developed.

As a result of these fraudulent acts, Inspire submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues,” 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	Statement on Finance and Accounting	Content (note)	Accounting item
1	November 16, 2009	2nd quarterly securities report for the 19th business year	2nd quarter cumulative period from April 1, 2009, to September 30, 2009	Quarterly income statement	Quarterly net income was found to be negative 354 million yen, but was stated as negative 194 million yen.	Recording a fictitious statement of software in progress, etc.
			2nd quarter accounting period from July 1, 2009, to September 30, 2009	Quarterly balance sheet	Net assets were found to be 216 million yen, but were stated as 376 million yen.	
2	February 15, 2010	3rd quarterly securities report for the 19th business year	3rd quarter cumulative period from April 1, 2009, to December 31, 2009	Quarterly income statement	Quarterly net income was found to be negative 459 million yen, but was stated as negative 301 million yen.	Recording a fictitious statement of software in progress, etc.
			3rd quarter accounting period from October 1, 2009, to December 31, 2009	Quarterly balance sheet	Net assets were found to be 192 million yen, but were stated as 351 million yen.	
3	June 28, 2010	Annual securities report for the 19th business year	Accounting period from April 1, 2009, to March 31, 2010	Income statement	Net income was found to be negative 698 million yen, but was stated as negative 535 million yen.	Recording a fictitious statement of software in progress, etc.
				Balance sheet	Net assets were found to be 97 million yen, but were stated as 259 million yen.	

4	August 16, 2010	1st quarterly securities report for the 20th business year	1st quarter accounting period from April 1, 2010, to June 30, 2010	Quarterly balance sheet	Net assets were found to be 17 million yen, but were stated as 180 million yen.	Recording a fictitious statement of software in progress
5	November 15, 2010	2nd quarterly securities report for the 20th business year	2nd quarter accounting period from July 1, 2010, to September 30, 2010	Quarterly balance sheet	Net assets were found to be negative 101 million yen, but were stated as positive 44 million yen.	Recording a fictitious statement of software in progress
6	February 14, 2011	3rd quarterly securities report for the 20th business year	3rd quarter accounting period from October 1, 2010, to December 31, 2010	Quarterly balance sheet	Net assets were found to be negative 192 million yen, but were stated as negative 46 million yen.	Recording a fictitious statement of software in progress
7	June 28, 2011	Annual securities report for the 20th business year	Accounting period from April 1, 2010, to March 31, 2011	Balance sheet	Net assets were found to be negative 276 million yen, but were stated as negative 158 million yen.	Recording a fictitious statement of software in progress
8	August 15, 2011	1st quarterly securities report for the 21st business year	1st quarter accounting period from April 1, 2011, to June 30, 2011	Quarterly balance sheet	Net assets were found to be negative 343 million yen, but were stated as negative 228 million yen.	Recording a fictitious statement of software
9	November 14, 2011	2nd quarterly securities report for the 21st business year	2nd quarter accounting period from July 1, 2011, to September 30, 2011	Quarterly balance sheet	Net assets were found to be negative 383 million yen, but were stated as negative 275 million yen.	Recording a fictitious statement of software
10	February 14, 2012	3rd quarterly securities report for the 21st business year	3rd quarter accounting period from October 1, 2011, to December 31, 2011	Quarterly balance sheet	Net assets were found to be negative 439 million yen, but were stated as negative 337 million yen.	Recording a fictitious statement of software
11	June 29, 2012	Annual securities report for the 21st business year	Accounting period from April 1, 2011, to March 31, 2012	Balance sheet	Net assets were found to be negative 85 million yen, but were stated as positive 10 million yen.	Recording a fictitious statement of software

12	August 14, 2012	1st quarterly securities report for the 22nd business year	1st quarter accounting period from April 1, 2012, to June 30, 2012	Quarterly balance sheet	Net assets were found to be negative 99 million yen, but were stated as negative 9 million yen.	Recording a fictitious statement of software
13	November 22, 2012	2nd quarterly securities report for the 22nd business year	2nd quarter accounting period from July 1, 2012, to September 30, 2012	Quarterly balance sheet	Net assets were found to be negative 116 million yen, but were stated as negative 31 million yen.	Recording a fictitious statement of software

(Note) In principle, amounts are rounded down to the nearest million yen. In addition, a negative figure represents a loss in an income statement or a state of insolvency in a balance sheet.

2. Inspire submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below "containing false statements on material issues," as stipulated in Article 172-2 (1) (i) of the FIEA, through the offering based on the offering disclosure documents:

(1) its securities registration statement (common stock shares) incorporating the annual securities report for the fiscal year ended March 2011 (see No. 7 of the table shown above) and the quarterly securities report for the 3rd quarter ended December 2011 (see No. 10 of the table shown above) which contained false statements on material issues, on February 20, 2012; it then had others acquire 307,977 of its shares in the amount of 322,759,896 yen, through the offering based on the above-mentioned registration statement on March 30, 2012.

(2) its securities registration statement (share options) incorporating the annual securities report for the fiscal year ended March 2011 (see No. 7 of the table shown above) and the quarterly securities report for the 3rd quarter ended December 2011 (see No. 10 of the table shown above) which contained false statements on material issues, on February 20, 2012; it then had others acquire 1,250 of its share options in the amount of 107,562,500 yen (including the amount to be paid at the exercise of said share options), through an offering based on said securities registration statement on March 30, 2012.

[Amount of administrative monetary penalty] 43,360,000 yen

[Process following Recommendation]

Date of decision to start trial procedures: September 2, 2014

Date of order to pay penalty: October 3, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(vi) Recommendation in relation to false disclosure statements in annual securities reports, etc., of JALCO Holdings Inc.

[Date of Recommendation]　November 21, 2014

[Violation subject to the Recommendation]

1. JALCO Holdings Inc. (hereinafter referred to in this subparagraph (vi) as "JALCO") recorded fictitious sales by having its consolidated subsidiary enter into an installment sales contract without actual transactions.

   As a result of this fraudulent act, JALCO submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., “containing false statements on material issues” 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	Statement on Finance and Accounting	Content (note)	Accounting item
1	August 13, 2012	1st quarterly securities report for the 2nd business year	1st quarter consolidated accounting period from April 1, 2012, to June 30, 2012	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 138 million yen, but was stated as 108 million yen.	Overstating net sales, etc.
2	November 14, 2012	2nd quarterly securities report for the 2nd business year	2nd quarter consolidated cumulative period from April 1, 2012, to September 30, 2012	Quarterly consolidated income statement	Net sales were found to be 537 million yen, but were stated as 914 million yen.	Overstating net sales, etc.
					Consolidated quarterly net loss was found to be 259 million yen, but was stated as 178 million yen.	
			2nd quarter consolidated accounting period from July 1, 2012, to September 30, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 5 million yen, but were stated as positive 81 million yen.	
3	February 12, 2013	3rd quarterly securities report for the 2nd business year	3rd quarter consolidated cumulative period from April 1, 2012, to December 31, 2012	Quarterly consolidated income statement	Net sales were found to be 718 million yen, but were stated as 1,860 million yen.	Overstating net sales, etc.
					Consolidated quarterly net loss was found to be 342 million yen, but was stated as 219 million yen.	
			3rd quarter consolidated accounting period from October 1, 2012, to December 31, 2012	Quarterly consolidated balance sheet	Consolidated net assets were found to be negative 96 million yen, but were stated as positive 33 million yen.	
4	June 26, 2013	Annual securities report for the 2nd business year	Consolidated accounting period from April 1, 2012, to March 31, 2013	Consolidated income statement	Net sales were found to be 904 million yen, but were stated as 3,351 million yen.	Overstating net sales, etc.
					Consolidated net loss was found to be 421 million yen, but was stated as 219 million yen.	

5	August 7, 2013	1st quarterly securities report for the 3rd business year	1st quarter consolidated accounting period from April 1, 2013, to June 30, 2013	Quarterly consolidated income statement	Net sales were found to be 266 million yen, but were stated as 1,421 million yen. Consolidated quarterly net income was found to be 168 million yen, but was stated as 229 million yen.	Overstating net sales, etc.
6	November 6, 2013	2nd quarterly securities report for the 3rd business year	2nd quarter consolidated cumulative period from April 1, 2013, to September 30, 2013	Quarterly consolidated income statement	Net sales were found to be 646 million yen, but were stated as 3,111 million yen. Consolidated quarterly net income was found to be 131 million yen, but was stated as 267 million yen.	Overstating net sales, etc.
7	February 5, 2014	3rd quarterly securities report for the 3rd business year	3rd quarter consolidated cumulative period from April 1, 2013, to December 31, 2013	Quarterly consolidated income statement	Net sales were found to be 980 million yen, but were stated as 4,801 million yen. Consolidated quarterly net income was found to be 150 million yen, but was stated as 363 million yen.	Overstating net sales, etc.

(Note) In principle, amounts are rounded down to the nearest million yen. In addition, a negative figure represents a loss in an income statement or a state of insolvency in a balance sheet.

2. JALCO submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below “containing false statements on material issues,” as stipulated in Article 172-2 (1) (i) of the FIEA, through the offering based on the offering disclosure documents:

(1) its securities registration statement (common stock shares) incorporating the quarterly securities report for the 2nd quarter ended September 2012 (see No. 2 of the table shown above) which contained false statements on material issues, on December 26, 2012; it then had others acquire 26,000,000 of its shares in the amount of 1,300,000,000 yen, through the offering based on the above-mentioned registration statement on February 21, 2013.

(2) its securities registration statement (common stock shares) incorporating the annual securities report for the fiscal year ended March 2013 (see No. 4 of the table shown above) and the quarterly securities report for the 1st quarter ended June 2013 (see No. 5 of the table shown above) which contained false statements on material issues, on November 1, 2013; it then had others acquire 8,411,217 of its shares in the amount of 1,800,000,438 yen, through the offering based on the above-mentioned registration statement on November 18, 2013.

[Amount of administrative monetary penalty] 151,500,000 yen

[Process following Recommendation]

Date of decision to start trial procedures: November 21, 2014

Date of order to pay penalty: December 16, 2014

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

(vii) Recommendation in relation to false disclosure statements in annual securities reports, etc., of SJI Inc.

[Date of Recommendation] March 27, 2015

[Violation subject to the Recommendation]

1. SJI Inc. (hereinafter referred to in this subparagraph (vii) as "SJI") failed to appropriately provide an allowance for doubtful accounts with regard to the misappropriation of money by an officer of SJI which was virtually bankrupt, as well as loans to a company in which an acquaintance of the officer of SJI served as a representative director.

As a result of these fraudulent acts, SJI submitted to the Director General of the Kanto Local Finance Bureau its annual securities reports, etc., "containing false statements on material issues," 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	Statement on Finance and Accounting	Content (note)	Accounting item
1	February 14, 2011	3rd quarterly securities report for the 22nd business year	3rd quarter consolidated cumulative period from April 1, 2010, to December 31, 2010	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 865 million yen, but was stated as 363 million yen.	Understating provision of allowance for doubtful accounts, etc.
2	June 29, 2011	Annual securities report for the 22nd business year	Consolidated accounting period from April 1, 2010, to March 31, 2011	Consolidated income statement	Consolidated net income was found to be negative 950 million yen, but was stated as positive 8 million yen.	Understating provision of allowance for doubtful accounts, etc.
3	August 15, 2011	1st quarterly securities report for the 23rd business year	1st quarter consolidated cumulative period from April 1, 2011, to June 30, 2011	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 1,785 million yen, but was stated as 266 million yen.	Understating provision of allowance for doubtful accounts, etc.

			Accounting period 1st quarter consolidated accounting period from April 1, 2011, to June 30, 2011	Quarterly consolidated balance sheet	Consolidated net assets were found to be 9,318 million yen, but were stated as 11,796 million yen.	
4	November 14, 2011	2nd quarterly securities report for the 23rd business year	2nd quarter consolidated cumulative period from April 1, 2011 to September 30, 2011	Quarterly consolidated income statement	Consolidated quarterly net income was found to be negative 788 million yen, but was stated as positive 930 million yen.	Understating provision of allowance for doubtful accounts, etc.
5	February 22, 2012	3rd quarterly securities report for the 23rd business year	3rd quarter consolidated cumulative period from April 1, 2011, to December 31, 2011	Quarterly consolidated income statement	Consolidated quarterly net income was found to be negative 998 million yen, but was stated as positive 697 million yen.	Understating provision of allowance for doubtful accounts, etc.
6	June 28, 2012	Annual securities report for the 23rd business year	Consolidated accounting period from April 1, 2011, to March 31, 2012	Consolidated income statement	Consolidated net income was found to be negative 582 million yen, but was stated as positive 795 million yen.	Understating provision of allowance for doubtful accounts, etc.
7	February 14, 2014	3rd quarterly securities report for the 25th business year	3rd quarter consolidated cumulative period from April 1, 2013, to December 31, 2013	Quarterly consolidated income statement	Consolidated quarterly net loss was found to be 1,351 million yen, but was stated as 526 million yen.	Understating provision of allowance for doubtful accounts, etc.
8	June 27, 2014	Annual securities report for the 25th business year	Consolidated accounting period from April 1, 2013, to March 31, 2014	Consolidated income statement	Consolidated net loss was found to be 6,714 million yen, but was stated as 6,149 million yen.	Understating provision of allowance for doubtful accounts, etc.

2. SJI submitted to the Director General of the Kanto Local Finance Bureau its offering disclosure documents as listed below "containing false statements on material issues," as stipulated in Article 172-2 (1) (i) of the FIEA, through the offering based on the offering disclosure documents:

(1) its securities registration statement (common stock shares) incorporating the annual securities report for the fiscal year ended March 2011 (see No. 2 of the table shown above) and the quarterly securities report for the 1st quarter ended June 2011 (see No. 3 of the table shown above) which contained false statements on material issues, on September 22, 2011; it then had others acquire 109,000 of its shares in the amount of 1,417,000,000 yen, through the offering based on the above-mentioned registration statement on October 17, 2011.

(2) its securities registration statement (share options), including a description of

consolidated quarterly net income of 795 million that should have been stated as a net loss of 582 million yen for the consolidated fiscal year from April 1, 2011 to March 31, 2012 by understating the provision of allowance for doubtful accounts, etc., on November 27, 2012; it then had others acquire its share options in the amount of 2,500,000,000 yen, through an offering based on said securities registration statement on December 14, 2012.

[Amount of administrative monetary penalty] 194,260,000 yen

[Process following Recommendation]
Date of decision to start trial procedures: March 27, 2015
Date of order to pay penalty: April 23, 2015

Since a written reply admitting these facts was submitted by the violator, no final hearing was held.

3. Subsequent Progress of Recommendations Issued Prior to FY2013

(1) Trial procedures

Among the cases recommended by the SESC in or before FY2013, the following is a summary of the processes of cases in which the trial procedures are still in pending and orders for the administrative monetary penalty payment had not yet been issued before the “Annual Report 2013/2014” was released.

○ Recommendation for an order to pay an administrative monetary penalty in relation to false disclosure statements in annual securities reports, etc., of Japan Wind Development Co., Ltd.

With regard to the case of false statements in annual securities reports, etc., of Japan Wind Development Co., Ltd. that was recommended by the SESC on March 29, 2013, the respondent submitted a written answer denying the facts of the violation. The following points: (i) whether the respondent had provided services based on the arrangement contract for wind power generators; and (ii) whether or not finder’s fees were paid, were the issues.

Following the trial procedures, the commissioner of the FSA commented that the respondent had simply insisted that acts deemed not necessary for wind power generator manufacturers should be regarded as the provision of services regarding the arrangement contract for wind power generators, which were actually conducted solely for its own business with the aim of accounting manipulation. Accordingly, the commissioner determined that the respondent's acts had no supporting evidence based on the arrangement contract for wind power generators, and that there were considerations for the services based on the contract because wind power generator manufacturers did not pay any finder’s fee to the respondent and there was no fact of a finder’s fee. Therefore, on August 28, 2014, the commissioner of the FSA made the decision to order payment of the administrative monetary penalty.

* In reply to this order, Japan Wind Development Co., Ltd. filed an action for the

revocation of the decision at the Tokyo District Court on September 26, 2014.

(2) Revocation actions against decision of administrative monetary penalty payment

Among the cases in which respondents filed an action for the revocation of an administrative disposition in or before FY2013, the following is the summary of the process of the case in which the court's judgment had not been made before "Annual Report 2013/2014" was released.

○ Recommendation in relation to false disclosure statements in annual securities reports, etc., of JVC Kenwood Holdings, Inc.

[The SESC made a recommendation for an order to pay an administrative monetary penalty on June 21, 2010; the commissioner of the FSA made a decision to order payment of the administrative monetary penalty on December 9, 2010; JVC Kenwood Holdings, Inc. filed an action for revocation of an administrative disposition on December 24, 2010; the Tokyo District Court rendered a judgment on June 29, 2012 (the plaintiff appealed the ruling); and the Tokyo High Court rendered a judgment on March 28, 2013 (the appellant appealed to the Supreme Court); and the Supreme Court rendered a judgment on January 22, 2015.]

On June 29, 2012, the Tokyo District Court rendered a judgment that thoroughly rejected the claims made by the plaintiff (respondent), and the plaintiff appealed the ruling.

On March 28, 2013, the Tokyo High Court rendered a decision and rejected the defendants' appeal with the following rationales for calculating the amount of administrative monetary penalty on share option certificates related to misstatements of securities registration statements: (a) the exercise price of share options (initial exercise price) shall be unambiguously determined at the time of acquisition of share options; (b) with regard to Article 172-2 (1)(i) of the FIEA, the time when the plaintiff made others acquire the share options should be the base point in time to determine the amount of the administrative monetary penalty; and (c) the amount to be paid at exercise of the share options should be interpreted as the amount of the exercise price of the share options (initial exercise price) at the time when the plaintiff made others acquire the share options. Then, the appellant filed a final appeal and a petition for the acceptance of a final appeal to the Supreme Court.

On January 22, 2015, the Supreme Court made the final decision to reject and dismiss the appeal.

○ Recommendation in relation to false disclosure statements in annual securities reports, etc., of Crowd Gate Co., Ltd.

[The SESC made a recommendation for an order to pay an administrative monetary penalty on January 27, 2012; the commissioner of the FSA made a decision to order payment of the administrative monetary penalty on March 2, 2012, and October 22, 2012; Crowd Gate Co., Ltd. filed an action for revocation of an administrative disposition on November 20, 2012; the Tokyo District Court rendered a judgment on February 14, 2012 (the plaintiff appealed the ruling); the Tokyo High Court rendered a judgment on June 26, 2014 (the appellant appealed to the Supreme Court); and the Supreme Court rendered a judgment on January 22, 2015.]

On February 14, 2014, the Tokyo District Court rendered a decision and rejected the defendants' appeal. Then, the plaintiff appealed the ruling.

On June 26, 2014, the Tokyo High Court rendered a decision and rejected the plaintiff's appeal with the following rationales: (a) for the purpose of determining the administrative monetary penalty pursuant to the provisions of Article 172-2 (1) of the FIEA, it should be reasonable to interpret that there are no requirements as to where the issuer had any specific economic benefit or where there was any general or abstract possibility to cause the issuer to have any specific economic benefit; (b) the term "material issues" listed in Article 172-2 (1) of the FIEA shall not solely refer to primary investors who could be solicited directly by the issuer, and all indirect investors who could achieve financial instruments from the primary investors should be considered when referring to conditions having an impact on investors' decisions; (c) it should be reasonable to interpret that there is no causal relationship required between false statements in offering disclosure documents and the act of having others acquire shares; and (d) with regard to an administrative monetary penalty payment order pursuant to the provision of administrative monetary penalty, intentional acts or acts of gross negligence shall not be required in the case of false statements. Then, the appellant filed a final appeal and a petition for the acceptance of a final appeal to the Supreme Court.

On January 22, 2015, the Supreme Court made the final decision to reject and dismiss the appeal.

○ Recommendation for an order to pay an administrative monetary penalty in relation to false disclosure statements in annual securities reports, etc., of Japan Wind Development Co., Ltd.

[The SESC made a recommendation for an order to pay an administrative monetary penalty on March 29, 2013; the commissioner of the FSA made a decision to order payment of the administrative monetary penalty on August 28, 2014; and Japan Wind Development Co., Ltd. filed an action for revocation of an administrative disposition on September 26, 2014.]

With regard to the case of false statements in annual securities reports, etc., relating to Japan Wind Development Co., Ltd., for which a recommendation for an administrative monetary penalty payment order had been made on March 29, 2013, an action for revocation of the administrative disposition is in process at the Tokyo District Court as of April 30, 2015.

(3) Revocation actions against order regarding submission of amendment report, etc.

Among the cases in which respondents filed an action for the revocation of order regarding the submission of an amendment report, etc., in or before FY2013, the following is a summary of the process of a case in which the court's judgment had not been made before "Annual Report 2013/2014" was released.

○ Recommendation for an order to submit an amendment report with respect to the annual securities report containing false disclosure statements that was submitted by Japan Wind Development Co., Ltd.

[The SESC made a recommendation for an order to submit an amendment report on March 29, 2013; the Director General of the Kanto Local Finance Bureau made a decision

to order submission of an amendment report on April 12, 2013; Japan Wind Development Co., Ltd. filed an action for revocation of the order regarding the submission of an amendment report on April 12, 2013.]

With regard to the case of false disclosure statements in annual securities reports, etc., of Japan Wind Development Co., Ltd. that was recommended by the SESC on March 29, 2013, an action for revocation of the administrative disposition is in process at the Tokyo District Court as of April 30, 2015.

3) Voluntary Amendment, etc., Based on Results of Inspection of Disclosure Statements

In cases where false disclosure statements are not recognized as material as a result of inspection, the SESC urges issuers to revise their statements voluntarily, from the viewpoint of requiring appropriate disclosure when it is acknowledged that annual securities reports, etc., should be corrected. The following is an overview of cases for voluntary amendments in FY2014.

(i) Company A (listed on the Tokyo Stock Exchange, Inc., First Section, Industry: securities and commodities broker or dealer)

· Company A made fair value assessment on several unlisted stock shares that were held by overseas consolidated subsidiaries based on the International Financial Reporting Standards (IFRS) for the purpose of recording consolidated net sales. However, the SESC reasonably acknowledged that Company A had inappropriately evaluated some of the unlisted stock shares using the comparable multiple valuation method through a selection of a wide range of comparable companies. As a result, the SESC urged Company A to correct the annual securities reports, etc.

· Company A excluded Investment Partnership B from the scope of consolidation, for the reason of exceptions to the scope of consolidation (14 (2) of the Accounting Standards on Consolidated Financial Statements). However, the SESC reasonably acknowledged that Investment Partnership B should be included in the consolidation because Investment Partnership B had a large volume of transactions with Company C, a consolidated subsidiary of Company A. As a result, the SESC urged Company A to correct the annual securities reports, etc.

(ii) Company D (Listed on the Tokyo Stock Exchange, Inc., JASDAQ (Standard), Industry: Retail)

· Company D furnished payments to several clients for the construction of medical malls and the rental or leasing of pharmacy stores, and all of the payments were refunded to Company D due to the termination of the contracts on transactions. However, it turned out that the funds paid from the Company were remitted to an officer of Company D immediately after they were credited to each customer, and that funds refunded to Company C due to termination were remitted by the name of clients using the money borrowed by said officer individually. Therefore, the transactions were deemed as provisional payments or refunding of provisional payments, and the SESC urged Company B to correct the annual securities reports, etc.

· Company D had acquired land from Business Partner E, but the original owner of the land was Medical Corporation F, deemed as Company D's related party. Accordingly, Client E simply served as a nominal intermediary. Since the SESC recognized that the transactions were virtually made between Company D and Medical Corporation F, and that notes on transactions with the relevant parties were required, the SESC urged Company B to correct the annual securities reports, etc.

4) Future Challenges

In performing inspection of disclosure statements, taking into account that the environment surrounding securities markets is changing, the SESC will strive to conduct more diverse and advanced inspection of disclosure statements, from the following perspectives:

(1) In order to implement quick and efficient disclosure statements inspections with an eye to ensuring that market participants are fairly and equally provided with accurate corporate information without delay, the SESC will strive to improve the capacity of its inspections, by improving inspection techniques and by developing human resources through training. Furthermore, in order to efficiently detect signals of concealed false disclosure statements, etc., the SESC will continue striving to collect an extensive variety of information inside and outside the markets, and will also improve the associated analytical techniques.

(2) If a listed company or any other issuer has made false disclosure statements, the SESC will encourage it to initiate self-directive and timely disclosure of accurate corporate information to the market and will also encourage the related parties to achieve such appropriate disclosure. In so doing, the SESC will, where appropriate, point out findings regarding problems on the internal control serving as a cause for false disclosure statements, etc., to urge it to improve them.

(3) Amid the ongoing progress of information technologies, based on the fact that, for evidence of misstatements, the SESC has increasingly relied on electronic records that are stored in electronic devices, such as servers or personal computers, it will promote the use of inspection methods and techniques (digital forensics) for the conservation, restoration, analysis and evidence of electromagnetic records.

(4) If a doubt arises with respect to accounting fraud through a cross-border transaction by a listed company or a foreign consolidated subsidiary, the SESC will obtain materials in close cooperation with overseas securities regulators and examine the cases.

(5) From the perspective of enhancing its market surveillance functions, the SESC will promote cooperation with financial instrument exchanges and the Japanese Institute of Certified Public Accountants (JICPA), as well as with the relevant departments of the FSA, by sharing the SESC’s identified challenges and related information on false statement cases, etc. In addition, from the perspective of enhancing its market discipline functions, the SESC will work on publicizing the easily understandable dissemination of information

on administrative monetary penalty case examples, etc.

Chapter 7. Investigation of Criminal Cases

1) Outline

1. Purpose of Investigation of Criminal Cases

For the purpose of maintaining financial and capital markets in which investors and other market participants are able to participate with trust, it is important to strictly punish any offenders of market rules, as a precondition to ensuring the fairness and transparency of these markets, and to nurture feelings of trust among all market participants. With the aim of clarifying the truth behind any malicious acts that impair the fairness of financial instruments and transactions for the protection of investors, since the establishment of the Securities and Exchange Surveillance Commission (SESC) in 1992, SESC officials have been exclusively authorized to conduct investigation of criminal cases. Currently, the SESC is also partially authorized to investigate criminal cases under the Act on Prevention of Transfer of Criminal Proceeds (APTCP), which was established to prevent global money laundering.

Amid greater diversity, and as globalized financial instruments and transactions become more complex and complicated, the SESC investigates criminal cases comprehensively and proactively in both primary and secondary markets.

2. Authority and Scope of Investigation of Criminal Cases

Specifically, two types of authority are stipulated under the Financial Instruments and Exchange Act (FIEA) with regard to the investigation of criminal cases: voluntary investigation (as defined in Article 210 of the FIEA) and compulsory investigation (as defined in Article 211, etc., of the FIEA). The SESC is authorized to conduct administrative level (voluntary) investigation, including questioning a suspect of the criminal case, inspecting articles that a suspect of criminal case possesses or has left, or retain articles that a suspect of criminal case has voluntarily submitted or left. The SESC is also authorized to carry out compulsory investigation, visits, searches and seizures conducted based on a permit issued by a judge.

The scope of criminal cases is prescribed in 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, or the spreading of rumors, fraudulent means, or market manipulation by any persons.

Under the APTCP, in cases where a financial instruments business operator confirms the identity of customers, an act by a customer to conceal his or her name or address is also subject to investigation as a criminal case (Article 30 of the APTCP).

A SESC official shall, when he or she has completed the investigation of criminal cases, report the results of investigation to the SESC (Article 223 of the FIEA, Article 30 of the APTCP). The SESC shall, when it has become convinced of a criminal case through investigation, make an accusation, and in case there are any retained articles or seized articles, it shall take them over with a retention list or seizure list. (Article 226 of the FIEA, Article 30 of the APTCP).

3. Activities in FY2014

In FY2014, the SESC filed criminal complaints in six cases, out of which five cases were filed with the Tokyo District Public Prosecutor's Office, and the other was filed with the Kobe District Public Prosecutors Office. The SESC continued to investigate criminal cases with a broader vision in FY2014.

In particular, the SESC filed complaints in a fraudulent means case regarding shares of Inoue Kogyo Co., Ltd. and a false annual securities report case concerning disclosure of TAIYO SHOKAI INC. in close cooperation with the Metropolitan Police Department, and a market manipulation case concerning the shares of fonfun corporation in close cooperation with the Hyogo Prefectural Police Department.

2) Outcome of Complaints

1. Summary

In FY2014, based on the results of investigation of criminal cases, the SESC filed criminal charges with the following district public prosecutor's offices for a total of six cases (twelve individuals), consisting of one case (two individuals) of suspected insider trading, two cases (three individuals) of suspected market manipulation, one case (one individual) of fraudulent means and two cases (six individuals) of suspected submission of false disclosure statements.

Name of case	Accusation date	Prosecutors office
Case concerning submission of false annual securities reports of Index Corporation	June 16, 2014	Tokyo District Public Prosecutor's Office
Fraudulent means case regarding shares of Inoue Kogyo Co., Ltd. (2) *	August 8, 2014	Tokyo District Public Prosecutor's Office
Market manipulation case utilizing "*Misegyoku"* sham order transactions etc. on four stock issues by day traders	October 7, 2014	Tokyo District Public Prosecutor's Office
Market manipulation case concerning shares of fonfun corporation	December 19, 2014	Kobe District Public Prosecutors Office
Case concerning submission of a false annual securities report of TAIYO SHOKAI INC.	February 2, 2015	Tokyo District Public Prosecutor's Office
Insider trading case concerning shares of TOMEN ELECTRONICS CORPORATION	March 24, 2015	Tokyo District Public Prosecutor's Office

*With regard to the fraudulent means case regarding shares of Inoue Kogyo Co., Ltd. (1), the SESC filed criminal charges with the Tokyo District Public Prosecutor's Office on December 12, 2011.

2. Summary of Cases

The summary of the criminal cases in FY2014 is as follows:

(1) Formal complaints against market misconduct

(i) Fraudulent means case regarding shares of Inoue Kogyo Co., Ltd. (2)

This was a case in which the SESC had already filed a criminal charge against the accomplice on December 12, 2011. A suspect who was residing overseas at that time was transferred to Japan and was arrested by the Metropolitan Police Department in July 2014. Then, the SESC newly filed a criminal charge with respect to the suspect.

[Investigation and accusations]

The SESC filed a criminal complaint against the suspect with the Tokyo District Public Prosecutor's Office on August 8, 2014, as a violation of the FIEA (Article 158 and others: Prohibition of Fraudulent Means) after the completion of the necessary investigation in cooperation with the Metropolitan Police Department.

[Criminal acts against which the SESC filed a criminal charge]

When it was publicly announced on August 28, 2008 that Inoue Kogyo Co., Ltd. (hereinafter "Inoue Kogyo") would implement third party allocation of new shares to Apple Limited Liability Partnership (hereinafter "Apple LLP"), the suspect conspired to make a fictitious payment of 1,500 million yen out of the issue price in the amount of 1,800 million yen, and announced false information using fraudulent means for issuing new shares and keeping stock prices high. With the aim of issuing new shares and keeping the share prices of Inoue Kogyo high, the suspect conspired, with three persons as well as the Head of the CEO's Office of Inoue Kogyo, to transfer 800 million yen and 700 million yen, respectively, from a bank account of Inoue Kogyo to a bank account of Apple LLP through a bank account in another name. Then, the suspect ordered transfer of the money from the bank account of Apple LLP to another bank account of Inoue Kogyo on September 24, 2008. Furthermore, on the same date, the suspect concealed the above fact and made Inoue Kogyo disclose false information that the above-mentioned payments of a total 1,800 million yen were completed as procedures for issuance of new shares via TDnet (Timely Disclosure network) provided by Tokyo Stock Exchange. With all of the above-mentioned schemes, the suspect conducted fraudulent means for the purpose of transactions of the securities and manipulating markets.

[Process following the filing of the complaint]

On August 13, 2014, the suspect was prosecuted.

On October 21, 2014, the Tokyo District Court passed judgment and gave the

defendant a sentence of two years' imprisonment suspended for three years, with the following reasons: (i) the defendant played an important role in instructing employees of Inoue Kogyo to make fictitious payments for the purpose of making a large amount of profits from the offering of the new shares, etc.; and (ii) the defendant's criminal responsibility was significant for even while the defendant initially had no intention to make fictitious payments, the defendant afterwards became involved in the fictitious payments and other fraudulent means dependently.

(ii) Market manipulation case utilizing "*Misegyoku"* sham order transactions etc. on four stock issues by day traders

This was a case in which two suspects conspired to induce orders from other market participants at higher prices through the placement of large orders to the extent that they were not to be executed immediately (so-called *Misegyoku* sham order transactions by placing large orders and canceling them before they are executed with the intent of market manipulation). This was the fifth case against which the SESC filed criminal charges in so-called *Misegyoku* sham order transactions, but this was the first case in which the two suspects aimed to induce other market participants to place sell orders.

[Investigation and accusations]

The SESC filed a criminal complaint against the two suspects with the Tokyo District Public Prosecutor's Office on October 7, 2014, as a violation of the FIEA (Article 159, Paragraph 2, Item 1: Prohibition of Market Manipulation, etc.) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

With the intent of obtaining economic benefit through the market manipulation of share prices of the companies listed on the Tokyo Stock Exchange, the two suspects conspired to sell the shares at higher prices, specifically by buying shares to attract selling orders of other market participants through the creation of selling-demand, as well as by selling shares to induce buying orders from other market participants through the creation of buying demand, in order to raise the share prices:

A. For the purpose of inducing sales and purchases of the shares of Orient Corporation, on February 15, 2013, the suspects purchased approximately 580,000 shares of the company in the market under their own names, etc., through securities companies, including the purchase of the shares at lower limit prices by placing a large volume of multiple selling orders at higher levels as well as by placing a large volume of multiple buying orders at lower levels. In addition, the suspects placed purchase/selling orders of approximately 950,000 shares of the company. In this way, the suspects conducted a series of sales and purchases of the shares taking advantage of fluctuations of the price of the shares for the purpose of misleading other persons that there was active trading of the shares. Following a rise in the share prices, the suspects sold approximately 580,000 shares of the company.

B. For the purpose of inducing sales and purchases of the shares of Tokuyama Corporation, on March 11, 2013, the suspects purchased a total of 580,000 shares of the company in the market under their own names, etc., through securities companies in the same manner as mentioned in A. In addition, the suspects placed purchase/selling orders of approximately 1,230,000 shares of the company. In this way, the suspects conducted a series of sales and purchases of the shares taking advantage of fluctuations of the price of the shares that were caused by the misleading that there was active trading of the shares. Following a rise in the share prices, the suspects sold a total of 580,000 shares of the company.

C. For the purpose of inducing sales and purchases of the shares of Japan Bridge Corporation, on August 5, 2013, the suspects purchased approximately 380,000 shares of the company in the market under their own names, etc., through securities companies, in the same manner as mentioned in A. In addition, the suspects placed purchase/selling orders of approximately 960,000 shares of the company. In this way, the suspects conducted a series of sales and purchases of the shares taking advantage of fluctuations of the price of the shares for the purpose of misleading other persons that there was active trading of the shares. Following a rise in the share prices, the suspects sold approximately 380,000 shares of the company.

D. For the purpose of inducing sales and purchases of the shares of Kobe Steel, Ltd., during the trading hours on August 22, 2013, the suspects purchased a total of 2,500,000 shares of the company in the market under their own names, etc., through securities companies, in the same manner as mentioned in A. In addition, the suspects placed purchase/selling orders of approximately 8,330,000 shares of the company. In this way, the suspects conducted a series of sales and purchases of the shares taking advantage of fluctuations of the price of the shares for the purpose of misleading other persons that there was active trading of the shares. Following a rise in the share prices, the suspects sold a total of 2,500,000 shares of the company.

The suspects were engaged in trading the shares by taking advantage of the fluctuations of the price of the shares.

[Process following the filing of complaint]

On October 8, 2014, the suspects were prosecuted, and the rulings are pending in the Tokyo District Court (as of April 30, 2015).

(iii) Market manipulation case concerning shares of fonfun corporation

This was a typical market manipulation case, in which the suspect was involved in placing large buying orders of the above shares at higher prices to make them be executed at higher prices and influencing the closing price of the shares, as well as buying and selling the shares at the same price at the same time (“wash trade” [*Kasou*]) using the suspect’s own account and the accounts of others.

[Investigation and accusations]

The SESC filed a criminal complaint against the suspect with the Kobe District Public Prosecutors Office on December 19, 2014, as a violation of the FIEA (Article 159, Paragraph 1, Item 1: Prohibition of Market Manipulation, etc.) after the completion of the necessary investigation in cooperation with the Hyogo Prefectural Police Department.

[Criminal acts against which the SESC filed a criminal charge]

With an intent of making a profit through market manipulation of the shares of fonfun corporation listed on the Osaka Stock Exchange for six trading days from April 16, 2013, to April 23, 2013, the suspect purchased a total of approximately 40,000 shares of the company on the account of an acquaintance, in an attempt to raise the share prices artificially and induce sales and purchases of the shares by consecutively placing large buying orders at higher prices (limit orders and market orders) than the latest contract price to make them be executed at higher prices. In addition, the suspect also bought and sold approximately 6,000 shares of the company on the accounts of his wife and acquaintance without transferring the rights at the same time. In this way, the suspect misled other market participants that there was active trading of the shares, and executed a series of sales and purchases of the shares. Following a rise in the share prices, the suspect sold a total of approximately 110,000 shares of the company on the accounts of his wife and acquaintance. As a result, the suspect was engaged in trading the shares by fluctuating share prices artificially.

[Process following the filing of complaint]

On December 26, 2014, the suspect was prosecuted.

On April 14, 2015, the Kobe District Court passed judgment and gave the defendant a sentence of two years and eight months' penal servitude without a stay of execution, a 5 million yen fine, and a collection of equivalent value of approximately 32,910,000 yen, with the following reasons: (i) the defendant's acts were deemed to be malicious in that he intended to trade the shares using accounts of his wife and another person through several schemes such as consecutive placement of large buying orders of the shares at higher prices to make them be executed at higher prices, influencing the closing price of the shares, and making fictitious transactions; and (ii) the impact in the market was significant due to the rising of share prices.

The defendant appealed and the trial is pending at the Osaka High Court (as of April 30, 2015).

(iv) Insider trading case concerning shares of TOMEN ELECTRONICS CORPORATION

This was a typical insider trading case with one suspect being a person receiving information from a director of a company negotiating a contract regarding a tender offer with a tender offeror, and another suspect being an acquaintance thereof, in which these suspects had come to know a material fact regarding the execution of the tender offer, and the suspects in conspiracy purchased a large number of shares of the company prior to the material fact being announced.

[Investigation and accusations]

The SESC filed a criminal complaint against the two suspects with the Tokyo District Public Prosecutor's Office on March 24, 2015, as a violation of the FIEA (Article 167, Paragraph 3, etc.: Prohibited Acts of Information Recipients) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

A director of a company was negotiating with Toyota Tsusho Corporation (hereinafter "Toyota Tsusho") regarding the transfer of shares of TOMEN Electronics Corporation (hereinafter "TOMEN ELECTRONICS"), listed on the Tokyo Stock Exchange. On about November 12, 2013, Suspect A received information from the director who had come to know said information in the course of the negotiations. The information concerned the material fact that the organ responsible for making decisions on the execution of the operations of Toyota Tsusho had decided to make a tender offer for the shares of TOMEN ELECTRONICS. Suspect B is an acquaintance of Suspect A. While in receipt of said information, in spite of the absence of provisions on exemption, these two suspects conspired to purchase a total of 30,000 TOMEN ELECTRONICS shares on the account of Suspect B in the amount of 35,340,000 yen on November 19, 2013, prior to the above material fact being announced.

[Process following the filing of complaint]

On March 25, 2015, the suspects were prosecuted, and the rulings are pending in the Tokyo District Court (as of April 30, 2015).

(2) Formal complaints against false disclosure documents

(i) Case concerning submission of a false annual securities report of Index Corporation.

This was a case in which the SESC filed a criminal charge against the suspected corporation and two directors with regard to the submission of a false annual securities report of the suspected corporation for the fiscal year ended August 2012. The two directors conspired to submit an annual securities report containing false statements of ordinary income, net income before income taxes, and net assets by fraudulent means, such as recording fictitious sales and reducing the provision for allowance for doubtful accounts by fictitious collection of claims posted provision in the prior fiscal years.

[Investigation and accusations]

The SESC filed a criminal complaint against the suspected corporation and two directors with the Tokyo District Public Prosecutor's Office on June 16, 2014, as a violation of the FIEA (Article 197, Paragraph 1, Item 1 etc.: Submission of Annual Securities Report which Contains Misstatement on Important Matters) after the completion of the necessary investigation.

[Criminal acts against which the SESC filed a criminal charge]

The two suspects managed the overall operations of Index Corporation as

Chairman and Director (Suspect A) and President and Representative Director (Suspect B). On November 27, 2012, by way of recording files in the electronic computer used by the Cabinet Office through the Electronic Data Processing System for Disclosure from the input-output device installed at the company's head office, the two suspects, in conspiracy, submitted to the Director General of the Kanto Local Finance Bureau the company's annual securities report containing a false consolidated income statement and a false consolidated balance sheet for the fiscal year from September 1, 2011 to August 31, 2012 (ordinary income was found to be 86 million yen (amounts of less than one million yen are rounded down; the same applies hereinafter), but 917 million yen was stated; net income before income taxes was found to be 605 million yen in the red, but 204 million yen was stated; and net assets were found to be 411 million yen in the red, but 398 million yen was stated) by ways of recording fictitious sales and reducing the provision for allowance for doubtful accounts by fake collection of claims disposed of in the prior fiscal years. As a result, the suspects submitted an annual securities report containing false statements on important matters.

[Process following the filing of a complaint]

On June 17, 2014, the two suspects were prosecuted, and the rulings are pending in the Tokyo District Court (as of April 30, 2015).

(ii) Case concerning submission of a false annual securities report of TAIYO SHOKAI INC.

This was a case in which the SESC filed a criminal charge against the suspected corporation and two directors with regard to the submission of a false annual securities report of the suspected corporation for the fiscal year ended March 2013. The two suspects conspired to submit an annual securities report containing false statements of net sales, net income before income taxes, and net assets by fraudulent means, such as recording fictitious sales.

[Investigation and accusations]

The SESC filed a criminal complaint against the suspected corporation and two suspects with the Tokyo District Public Prosecutor's Office on February 2, 2015, as a violation of the FIEA (Article 197, Paragraph 1, Item 1 etc.: Submission of Annual Securities Report which Contains Misstatement on Important Matters) after completion of the necessary investigation in cooperation with the Metropolitan Police Department.

[Criminal acts against which the SESC filed a criminal charge]

The suspected corporation, TAIYO SHOKAI INC. (which had changed its company name from the former "NowLoading Co., Ltd." on April 1, 2014) lists its shares in the Centrex market established by the Nagoya Stock Exchange. On June 28, 2013, by way of recording files in the electronic computer used by the Cabinet Office through the Electronic Data Processing System for Disclosure from the input-output device installed at the company's head office, Suspect A (Representative Director), in

conspiracy with Suspect B (Director), submitted to the Director General of the Kanto Local Finance Bureau the company's annual securities report containing a false consolidated income statement and a false consolidated balance sheet for the fiscal year from April 1, 2012 to March 31, 2013 (net sales were found to be 77,448,000 yen (amounts less than one thousand yen are rounded down; the same applies hereinafter), but 221,258,000 yen was stated; net income before income taxes was found to be 50,561,000 yen in the red, but 50,798,000 yen was stated; and net assets were found to be 93,526,000 yen in the red, but 7,833,000 yen was stated) by way of recording fictitious sales and other fraudulent procedures. As a result, the suspects submitted an annual securities report containing false statements on important matters.

[Process following the filing of a complaint]

On February 3, 2015, the suspects were prosecuted, and the rulings are pending in the Tokyo District Court (as of April 30, 2015).

3) Summary of Judgments of Cases in and Before FY2013

With regard to the cases against which the SESC filed criminal charges in and before FY2013, the following are a summary of the judgments made during the period from April 2014 to April 2015

(i) Market manipulation case concerning shares of CENTRAL GENERAL DEVELOPMENT CO., LTD.

[The SESC filed complaint charges in the case on July 12, 2013. The Tokyo District Court passed judgment on the case on July 4, 2014.]

On July 4, 2014, the Tokyo District Court passed judgment and gave the defendant a sentence of three years' imprisonment suspended for four years, a 20 million yen fine and a collection of equivalent value of approximately 82,860,000 yen, with the following reasons:

- The defendant's acts were deemed to be sophisticated, crafty and malicious in the following points: after the defendant bought more than 200,000 shares using the majority of the assets under management for stock trading, leveraging the defendant's own expertise and stock investment experience for a long time; the defendant used several schemes such as consecutive placement of large buying orders of the shares at higher prices to make them be executed at higher prices, price keeping operations, influencing closing price of the shares, and making fictitious transactions for nine trading days; the defendant tried to avoid the SESC's detection by using other persons' accounts and reducing the trade volume per trade.
- As a result, the defendant raised the share price from 425 yen to 670 yen in the market, thus impairing the fairness of the stock market that should reflect a natural supply and demand relationship, and misleading retail investors to believe that the market manipulation brought about fair market prices based on natural supply and demand, which had significant impacts in the market.
- The defendant sold 138,800 shares at a profit to take advantage of the market

manipulation in which he was heavily involved.

The defendant appealed and the trial is pending at the Tokyo High Court (as of April 30, 2015).

(ii) Case concerning submission of false annual securities reports of Produce Co., Ltd. including a Securities Registration Statement at the time of listing in conspiracy with a certified public accountant.

[The SESC filed complaint charges against the case on April 28, 2009. The Supreme Court made the final decision on the case on September 17, 2014.]

On January 30, 2012, the Saitama District Court passed judgment and gave the defendant (the certified public accountant) a sentence of three years and six months' penal servitude without a stay of execution. However, the defendant appealed. On January 11, 2013, the Tokyo High Court made the decision to reject and dismiss the appeal. Then, the defendant appealed to the Supreme Court.

On September 17, 2014, the Supreme Court made the final decision to reject and dismiss the appeal.

(iii) Fraudulent means case regarding shares of Celartem Technology, Inc.

[The SESC filed complaint charges against the case on March 26, 2012. The Supreme Court made the final decision on the case on October 16, 2014.]

On April 12, 2013, the Tokyo District Court passed judgment and gave defendant corporation an 8 million yen fine, and gave each of Defendant A (Director and Chief Financial Officer of Celartem Technology, Inc.) and Defendant B (Representative Director of Celartem Technology, Inc.) a sentence of two years and six months' imprisonment suspended for four years and a 4 million yen fine respectively. Defendant A accepted the court's ruling as final. However, the defendant corporation and Defendant B appealed to the Tokyo High Court.

On January 17, 2014, the Tokyo High Court rejected and dismissed the appeals from the defendant corporation and Defendant B. However, the defendant corporation and Defendant B appealed to the Supreme Court.

On October 16, 2014, the Supreme Court made the final decision to reject and dismiss the appeals.

(iv) Case concerning submission of false annual securities reports of Olympus Corporation

[The SESC filed complaint charges against the case on March 6, 2012 and March 28, 2012. The Tokyo District Court passed judgment on the case on December 8, 2014.]

On December 8, 2014, the Tokyo District Court passed judgment and gave the defendant (director) a sentence of one year and six months' imprisonment suspended for three years and a 7 million yen fine, with the following reasons:

- The defendant played supportive roles in overstating the consolidated net assets by 117.8 billion yen at the maximum in the case over four consecutive consolidated fiscal years. The false statements in the annual securities reports of Olympus Corporation (hereinafter “Olympus”) listed on the First Section of the Tokyo Stock Exchange, are deemed to have a strong negative impact in the market.
- When the defendant was employed by a securities company in 1991, the

defendant was asked by Olympus management as to how to deal with losses on financial instruments. Since then, the defendant had been cooperating with directors of Olympus using the defendant's own human network and international business expertise over many years. Specifically, the defendant crafted a scheme to hide losses taking advantage of off balance sheet. Then, for the involvement of the case, the defendant continued to maintain the malicious scheme, and was involved in the disposal of dividend preferred shares, etc., under the guise of financial advisory fees. In fact, the defendant played important roles enabling Olympus to commit the felonious crime, and received large compensation.

- Every crime in this case was initiated by Olympus management. Specifically, Olympus itself posted fictitious "goodwill," leveraging the M&A opportunities. Therefore, the crimes were not initiated or activated by the defendant; the defendant played a subordinate role.

It should be noted that the defendant appealed and the trial is pending at the Tokyo High Court (as of April 30, 2015).

(v) Insider trading by a deputy director general of the Ministry of Economy, Trade and Industry (hereinafter "METI")

[The SESC filed complaint charges in the case on January 31, 2012; The Tokyo High Court passed judgment on the case on December 15, 2014.]

On June 28, 2013, the Tokyo District Court passed judgment and gave the defendant a sentence of one year and six months' imprisonment suspended for three years, a 1 million yen fine and a collection of equivalent value of approximately 10,310,000 yen. The defendant appealed.

On December 15, 2014, the Tokyo High Court rejected and dismissed the appeal for the following reasons:

- The original decision had no factual errors.

- As for the defendant's allegation of inappropriate sentencing, the original decision had no unreasonableness for determination of the appropriate punishment for the following reasons: (i) contrary to the defendant's position as deputy director general of METI with a key role of contributing to the development of the Japanese economy, the defendant abused confidential information for his own self-interest; (ii) his act falls under inappropriate behavior significantly lacking of awareness that his role is entrusted by the people in Japan, and is subject to harsh disapproval by the people; (iii) the settlement price of the purchasing shares amounted to 7,950,000 yen, a significant amount.

It should be noted that the defendant appealed, and the trial is pending at the Supreme Court (as of April 30, 2015).

(vi) Fraudulent means case regarding execution of discretionary agreements with pension funds by AIJ Investment Advisors Co., Ltd.

[The SESC filed complaint charges against the case on July, 9, 2012, July 30, 2012, September 19, 2012, and October 5, 2012. The Tokyo High Court passed judgment on the case on March 13, 2015.]

On December 18, 2013, the Tokyo District Court passed judgment, and gave Defendant A (Representative Director of AIJ Investment Advisors Co., Ltd), Defendant

B (Director of AIJ Investment Advisors Co., Ltd) and Defendant C (Representative Director of a securities company), imprisonment sentences of fifteen years, seven years, and seven years, respectively, and the forfeiture of approximately 568,840,000 yen (depositary claims under the name of AIA), and a collection of equivalent value of approximately 15,698,090,000 yen (jointly by the three defendants). However, the three defendants appealed.

On March 13, 2015, the Tokyo High Court rejected and dismissed the appeal for the following reasons:

- The original decision had no legal errors as there was no unreasonableness in its logic and rules of thumb.
- As for the defendant's allegation of inappropriate sentencing, the original decision had no unreasonableness in terms of determination of the appropriate punishment based on the following reasons: (i) the pension funds came to suffer huge losses; (ii) the defendants received large compensations individually based on their self-centered policy of extending the life of the companies at the expense of the losses of the pension funds; and (iii) the defendants were responsible for repeatedly committing large scale criminal acts.

It should be noted that the defendants appealed, and the trial is pending at the Supreme Court (as of April 30, 2015).

(vii) Case concerning offering of unregistered bonds issued by Marubi Co., Ltd.

[The SESC filed complaint charges in the case on February 9, 2011. The Supreme Court made the final decision on the case on April 1, 2015.]

On July 3, 2013, the Fukuoka District Court passed judgment and gave the defendant (Chairman and Representative Director) a sentence of six years' penal servitude without a stay of execution, and a 3 million yen fine. However, the defendant appealed. On February 27 2014, the Fukuoka High Court made the decision to reject and dismiss the appeal. Then, the defendant appealed to the Supreme Court.

On April 1, 2015, the Supreme Court made the final decision to reject and dismiss the appeal.

(viii) Market manipulation case by a Representative Director, etc., of Union Holdings Co., Ltd. regarding the shares thereof and an insider trading case by a substantial manager of TOKYO KOKI Co., Ltd. regarding treasury stock.

[The SESC filed complaint charges in the cases on February 9, 2010 and March 16, 2010. The Supreme Court made the final decision on the cases on April 8, 2015.]

On June 6, 2012, the Osaka District Court passed judgment on both cases to be judged at the same time, and gave the defendant (substantial manager) a sentence of three years' imprisonment suspending for five years, a fine of 4,000,000 yen, and a collection of equivalent value of approximately 376,370,000 yen. However, the defendant appealed. On October 25, 2013, the Osaka High Court dismissed the appeal. Then, the defendant appealed to the Supreme Court.

On April 8, 2015, the Supreme Court made the final decision to reject and dismiss the appeal.

(An accomplice who was charged at the same time as the above-mentioned defendant for the insider trading case did not appeal, and his conviction was decided in the first trial.)

4) Future Challenges

With regard to investigation of criminal cases, the SESC will address the following issues in order to react flexibly and promptly to environmental changes of markets and to improve the effectiveness of surveillance.

Through these efforts, by speedy criminal filings against malicious violations, the SESC is trying to warn market participants, including private investors, and will prevent any recurrence of similar types of criminal cases.

(1) Strict actions against severe and malicious market misconduct and false disclosure statements

As stated in the SESC's Policy Statement for the 8th Term (published on January 21, 2014; see Chapter 2-1), the SESC focuses on "Strict actions against severe and malicious market misconduct and false disclosure statements" as one of its priority items. In particular, the SESC will take strict actions against severe and malicious market misconduct through the investigation of criminal cases such as insider trading, market manipulation, spreading of rumors, fraudulent means, and false disclosure statements.

In addition, in cases where there is a likelihood of anti-social forces or crimes other than the violation of the FIEA and APTCP, or where cross-border transactions are utilized, the SESC will continue to cooperate with investigative authorities, overseas regulators and other related organizations to effectively clarify facts and seek liability, according to the contents of the cases. In fact, recently, the SESC cooperated with the police when filing criminal complaints in the fraudulent means case regarding shares of Inoue Kogyo, the market manipulation case concerning shares of fonfun corporation and the case concerning submission of a false annual securities report of TAIYO SHOKAI INC. Furthermore, with regard to the case of exaggerated advertising by MRI International Inc. (hereinafter "MRI") (type II financial instrument business operator), since MRI has its headquarters in the United States, the money invested by Japanese investors was managed in the United States, so the SESC engaged in close cooperation with the U.S. Securities and Exchange Commission (SEC) to clarify facts and seek liability of the involved parties. At the request of the SESC, the SEC filed a complaint against MRI, and the United States District Court for the State of Nevada ordered an asset freeze, etc., on MRI and its representatives, etc., in the State of Nevada.

(2) Monitoring a wide variety of market misconduct

Market misconduct cases impairing the fairness of the market include insider trading, market manipulation, spreading of rumors, fraudulent means, false disclosure statements, and the submission of false annual securities reports, etc. (window-dressing of accounts), have become increasingly complex and sophisticated. The SESC continues to address a wide range of these categorized market misconduct

cases to conduct more effective and efficient market surveillance.

(i) Approach to insider trading

In recent years, reflecting the ongoing change and diversification of business models as well as intensified global competition, the enhancement of capital through public offering or the allocation of new shares to a third party by listed companies became popular as well as the method of being unlisted through management buyout (MBO), etc. In such situation, the risks of insider trading are high in these transactions.

Thus, the SESC will continue its surveillance of the overall market and all transactions suspected of being insider trading — for example, a transaction made in a timely manner prior to a material fact being announced — bearing in mind the recent trends and risks concerning insider trading as seen earlier in this report. The SESC will also strive to set up preventive measures and communicate with Self-Regulatory Organizations, listed companies, and relevant industries about problems and features of recent cases of insider trading.

(ii) Approach to market manipulation

The SESC recognizes two types of broad trends in recent cases of market manipulation: manipulation using techniques such as *Misegyoku* sham order transactions in which individual day traders exploit Internet trading, and more methodical and artificial price manipulation performed by *shite-suji*, professional speculators. In cooperation with stock exchanges, the SESC will endeavor to detect market manipulation at an early stage, and will continue to take all possible measures when engaging in surveillance over market manipulation.

(iii) Approach to window-dressing

The SESC will continue its work of analyzing and reviewing the disclosure documentation of listed companies to facilitate the prompt exposure of malicious cases of window dressing designed to deceive investors. The SESC is going to charge all suspects who are involved in window dressing, regardless of whether they are inside or outside the company.

As a matter of fact, companies facing financial problems tend to commit window dressing, and such companies also face the risk of committing fraudulent finance because of their cash-strapped condition. Hence, the SESC tries to conduct investigation of window-dressing cases in combination with surveillance of fraudulent finance from a multidimensional perspective.

(iv) Approach to spreading of rumors

In line with the trend of Internet trading becoming increasingly popular among investors in recent years, electronic bulletin boards have also become utilized as information resources for investors. The SESC has received a large amount of information relating to the spreading of rumors, most of which has been caused by “whispering information” given over the Internet such as electronic bulletin boards. Therefore, the SESC will engage in surveillance for such conduct and take strict actions against those who are acknowledged to have violated the laws and

regulations.

(3) Responding to the globalization of markets

Along with the globalization of financial industries and rapid economic growth of emerging markets like Asian countries, the numbers of cross-border transactions and expansions of foreign capitals or foreign investors into Japanese markets are continuously increasing. Under such circumstances, in addition to market misconduct such as insider trading, market manipulation and fraudulent means have been caused by those who are well versed in financial instruments and exchange transactions across borders.

For example, the case of exaggerated advertising by MRI could be regarded as a financial fraud case in which a type II financial instrument business operator with its headquarters in the United States' State of Nevada fraudulently managed customers' money through its managed account in the United States, which was directly remitted by Japanese customers.

Thus, the SESC will continue to cooperate with the SEC and other overseas regulators much more actively to ensure thoroughly intensive market surveillance and deal strictly with cases such as that involving MRI. Especially, the SESC will make the most of international information exchange frameworks, including the Multilateral Memorandum of Understanding (MMOU) adopted by the International Organization of Securities Commissions (IOSCO).

(4) Responding to the spread of market misconduct in rural areas

As seen in the case of market manipulation conducted by day traders residing in rural areas, the SESC acknowledged that the nationwide spread of Internet trading facilitates rural investors' involvement in market misconduct related to securities transactions, and also acknowledged that there is certain risk of insider trading or other for such people who are close to emerging listed companies in rural areas.

Amid such circumstances, the SESC will continue to strengthen its cooperation with the investigative authorities and local finance bureaus, etc., in each area, and will adopt a stance of clarifying the truth behind offenses, no matter where they are committed, and filing accusations with public prosecutors.

(5) Proactive use of digital forensics

As information technology is developing, digital forensics is essential in the investigation of criminal cases for collecting evidence through the seizure of computers, mobile phones, and other electronic devices in order to restore and analyze the data saved on those devices.

Consequently, for the purpose of acquiring and accumulating digital forensic know-how, the SESC will implement practical training for the staff and, under the support of its digital forensics team, will continue its endeavor to promote greater application of digital forensics operations in an effort to conduct investigation of criminal cases more effectively and more efficiently.

(6) Development of human resources

In conducting investigation of criminal cases, the SESC focuses on developing staff

members' skills of questioning suspects or witnesses, and of reviewing and analyzing seized articles.

The SESC will continue its commitment to developing the required human resources, such as through personnel exchanges with prosecutors and enhancing training, and through human-resource management oriented toward development and training.

Chapter 8. Policy Proposals

1) Outline

1. Objective 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 appropriately maintained 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 situation 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 the 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 FY2014

In FY2014, the SESC submitted to the prime minister and the commissioner of the FSA one policy proposal based on its inspection of QII Business Operators, etc. ("Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, etc."). From its inception in 1992 through FY2014, the SESC submitted 24 policy proposals.

2) Specific Policy Proposals and Measures Taken Based on Policy Proposals

1. Specific Policy Proposals

The specific contents of the policy proposals submitted in FY2014 are as follows:

○ Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, etc.

With regard to collective investment programs (the "Funds"), as a result of inspection regarding Specially Permitted Business Notifying Persons who have sold and managed such Funds sponsored by qualified institutional investors, etc. (one or more of qualified institutional investors, and 49 persons or less of those other than qualified institutional investors) (so-called Funds for professionals), the SESC detected many egregious cases in violation of the FIEA, causing harm to retail investors, in which the following acts were

committed:
- False statements were made to customers;
- Funds were sold and managed without statutory registration and with failure to comply with the requirements of businesses specially permitted for qualified institutional investors, etc.
- Money contributed to the Funds was diverted for suspicious purposes.

In addition, with regard to some Specially Permitted Business Notifying Persons with high probability of repeating a violation of the FIEA after having already diverted contributions, the SESC filed a petition to the court to issue a prohibition order or order for suspension.

Therefore, given these situations, in order to protect investors especially against Funds, it is necessary to take appropriate measures to prevent retail investors from suffering any damages by establishing more rigorous requirements regarding the Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, etc.

2. Actions Taken Based on Policy Proposals

In FY2014, actions taken based on the policy proposal described above are as follows:

○ Measures taken based on a policy proposal for Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, etc.

In September 2014, the Minister for Financial Service advised the Financial System Council to study several tasks on the system of the Funds in light of investor protection and smooth capital supply to small and medium-sized enterprises for further growth. In response to the advisory, the Financial System Council established the "Working Group on Investment Management," which has studied and deliberated the tasks six times since October 2014, and the “Report” compiled by the working group was announced on January 28, 2015. Given the Report, on March 24, 2015, the FSA submitted a bill to partially amend the Financial Instruments and Exchange Act, including a review of the Special Provisions Concerning Specially Permitted Businesses for Qualified Institutional Investors, etc., to the Diet, which was promulgated on June 3, 2015.

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 information exchanges with administrative departments of the FSA and self-regulatory organizations, and urges necessary policy responses. The SESC endeavors to contribute to the revisions of systems and the amendment of rules in self-regulatory organizations.

3) Future Challenges

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 this.

Chapter 9. Measures to Respond to the Globalization of Markets

1) Cooperation with Overseas Regulators and Global Market Surveillance

The SESC set “Enhanced surveillance in response to the globalization of markets” as one of the new pillars of its policy directions in the *SESC’s Policy Statement for the 8th Term*, which was formulated in January 2014, thereby laying out its policy of strengthening global market surveillance. Among others, the SESC stepped forward to fostering personnel that can handle international matters as well as enhancing networks with overseas regulators through exchanges of opinion and personnel (see Chapter 2). The SESC will share information using the framework among multiple securities regulators and request overseas regulators to assist investigation on market misconduct using cross-border transactions. At the same time, it will keep its eye on both primary and secondary markets and strengthen its monitoring of cross-border transactions so as to ensure thoroughly guarded market surveillance.

1. Activities at the International Organization of Securities Commissions (IOSCO)

The International Organization of Securities Commissions (hereinafter the “IOSCO”) is an international organization acting with the aim of establishing international harmony of securities regulations and mutual collaboration among securities regulators. IOSCO is composed of 203 organizations representing each country or region (of which 124 are ordinary members, 15 are associate members, and 64 are affiliate members). The SESC became an associate member of IOSCO in October 1993. (Note: the FSA participates in IOSCO as an ordinary member representing Japan.)

In IOSCO, the Annual Conference led by the Presidents Committee, the supreme decision-making body of IOSCO, is held. At the conference, the top-level management of securities regulators from various countries and regions meet together to discuss and exchange opinions on the current situation and challenges in respective securities regulations. As the number of cross-border transactions in financial and capital markets increases, it is extremely important to strengthen 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 Commissioner attends the Annual Conference of IOSCO. In addition, the Commissioner also participates in the Asia-Pacific Regional Committee (APRC), which is one of the regional committees of IOSCO, to focus on regional issues relating to securities regulation. In this way, the SESC is striving to enhance cooperation with overseas regulators. In March 2015, when the APRC meeting was held in Tokyo, Commissioner Yoshida and secretariat staff participated in the meeting. Taking this opportunity where securities regulators in the Asia-Pacific region gather in Tokyo, Commissioner Yoshida exchanged opinions on an individual basis with major securities regulators in the Asia-Pacific region.

For the purpose of discussing major regulatory issues faced by international markets and proposing practical solutions for such issues, IOSCO has established the IOSCO Board, which is made up of the regulatory authorities of various countries or regions, and eight Policy Committees were created under it. The SESC has been a member of Committee 4 (C4), which was set up to carry out discussion of law enforcement issues and information exchange.

C4 is working on the exchange of information and cooperation in law enforcement among the national regulators with the aim of dealing with market misconduct and securities crimes using so-called cross-border transactions across multiple countries. In FY2014, C4 had a discussion on exploring elements that work as a credible deterrence in the sanction system in each country against market misconduct as well as promoting dialogue with uncooperative regulators of countries and regions. The SESC also explained about recent market misconduct in the securities markets and its cooperation with overseas regulators at the C4 on-site meetings. In addition, C4 discussed the recent trends regarding regulatory and law enforcement in each country.

The SESC has also participated in meetings of the Screening Group (SG) to examine the documents submitted to the IOSCO secretariat by regulators applying for participation in the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (the "MMOU"), which is an information sharing framework among multiple securities regulators. Given that more than 10 years have passed since the MMOU was adopted, the SG has also been examining the possibility of functional enhancement of the MMOU since May 2013 in light of changes in the market.

2. Utilization of Information Exchange Frameworks

(1) It is absolutely essential to share information among securities regulators in different countries in order to address market misconduct that may impair the fairness of transactions in multiple countries' markets, as international activities of market participants such as cross-border transactions and investment funds in financial and capital markets have become increasingly common.

With regard to building the information exchange framework with overseas securities 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) (currently, Financial Markets Authority (FMA)), New Zealand

(2) With respect to the MMOU, IOSCO resolved at its Annual Conference held in Colombo in April 2005 that each member regulator was required to become a signatory of the MMOU or to commit to securing the required legal authority to be a signatory of the MMOU not later than January 1, 2010. Later, at IOSCO's Annual Conference held in Montreal in 2010, IOSCO resolved to ask all participating regulators to become MMOU signatories by January 1, 2013. With regard to unsigned regulators, IOSCO has actually taken steps to provide technical assistance to such regulators and post the progress of establishment of the legal system to become a signatory of the MMOU on its website. IOSCO plans to take step-by-step measures including restricting representatives of

unsigned regulators from assuming important positions, including IOSCO Board Members, the Chairperson of the Regional Committee and the Chairperson or Vice Chairperson of the Policy Committee from September 2013, requesting representatives of unsigned regulators assuming the positions above to resign from the positions from March 2014, prohibiting unsigned regulators from participating in any policy committee from June 2014, and restricting unsigned regulators from exercising their voting rights from September 2014.

As of March 31, 2015, the number of signatories of the MMOU is 105, and the number of unsigned regulators that committed to securing the required legal authority to be a signatory of the MMOU is 18.

In Japan, after screening by SG following the application to IOSCO submitted in May 2006, the FSA was approved as a signatory to the MMOU in February 2008. As a consequence, it has become possible for the SESC, through the FSA, to mutually exchange information with other signatories if necessary for surveillance and law enforcement purposes.

(3) Utilizing these frameworks for information exchange, the SESC filed petitions for court injunctions, announced the investigation results, and recommended issuance of orders to pay administrative monetary penalties on violations and market misconduct using cross-border transactions in the Japanese market in FY2014. The main cases are as follows:

(i) Petitions for court injunctions.

○ The SESC filed a petition to the Osaka District Court for an injunction against UAG Co., Ltd., Persons making notification for business specially permitted for qualified institutional investors, to prohibit and suspend its solicitation of shares of collective investment schemes. Based on the investigation of the company, the SESC identified that the company's conduct of handling beyond the permitted number of investors as business without statutory registration. In addition, the company's subsidiary or affiliate incorporated in Hong Kong was engaged in organizing and managing the Fund, and the SESC obtained information regarding the fund based on the MMOU. (See Chapter 3. 8 (1) (i).)

○ The SESC filed a petition to the Nagoya District Court for an injunction against ES plus Co., Ltd. and its manager to prohibit and suspend its solicitation of shares in collective investment schemes. Based on an investigation of the company, the SESC identified that it had solicited shares in collective investment schemes without statutory registration. In addition, the company's subsidiary or affiliate incorporated in Hong Kong was engaged in organizing and managing the Fund, and the SESC obtained information regarding the fund based on the MMOU. (See Chapter 3. 8 (1) (iv).)

○ The SESC announced the results of an investigation of Money Management Strength Co., Ltd., Persons making notification for business specially permitted for qualified institutional investors. Based on the investigation of the company, it was acknowledged that the company provided customers with false information for fund solicitation, and engaged in the type Ⅱ financial instruments business without statutory registration. In addition, the SESC identified that a U.S. company, Money Management Strategies, LLC, was involved in purported business which expends the investment

assets, and the SESC obtained information regarding the company based on the MMOU. (See Chapter 3. 8 (2)).

○ The SESC filed a petition to the Osaka District Court for an injunction against Grant Co., Ltd., as well as the CEO and related key figures, to prohibit and suspend its solicitation of shares of foreign collective investment schemes. Based on the investigation of the company, the SESC identified that the company, the CEO, and relevant key figures had solicited shares of foreign collective investment schemes without statutory registration. In addition, for the purpose of investigating overseas funds, the SESC obtained information regarding the fund based on the MMOU. (See Chapter 3. 8 (1) (ii).)

(ii) Recommendation for issuance of orders to pay Administrative Monetary Penalties

○ Market manipulation (three cases)

With regard to the case in which an individual residing abroad made a series of transaction of derivatives concerning Long-term JGB Futures (Future Contract Month: September 2013) with the purpose of inducing market transactions of derivatives, and the cases where Areion Asset Management Company Limited (a limited company incorporated in Hong Kong) and Select Vantage Inc. (registered in Anguilla, a British overseas territory) engaged in a series of transactions with the purpose of inducing the sale and purchase of securities listed on the Japanese stock exchange market, which would mislead others into believing that the sale and purchase of the shares were thriving and would cause fluctuations in prices of the shares, the SESC obtained information regarding the said individual and the companies based on the MMOU. Then the SESC made recommendation for issuance of orders to pay administrative monetary penalties. (See Chapter 5. 2-2-(2), (3), (4).)

(4) In addition to the cases described above, there were some cases in which overseas securities regulators imposed administrative sanctions on violators pursuant to local laws and regulations as a result of the exchange of information with regulators based on the original information given by the market surveillance of the SESC. Thus, the SESC steadily reinforced its cooperation with overseas securities regulators.

3. Exchange of Views

The SESC is working on identifying recent trends in international financial and capital markets as well as the efforts by overseas regulators for ensuring market integrity. The SESC is also working to promote understanding of its activities. Therefore, the SESC actively exchanges views with overseas securities regulators and globally active financial institutions. In FY2014, the Asia-Pacific Regulators Dialogue on Market Surveillance was held in Tokyo with a view to facilitating opinion exchange on practical level issues among Asian market surveillance regulators. The SESC also exchanged views with overseas securities regulators, including those in the United States, Europe, and Asia, as well as with financial institutions with global operations and international industry organizations, etc.

2) Development of Organizational Structures and Human Resources

1. Development of Organizational Structures in Response to the Globalization of Markets

The SESC has proceeded to develop organizational structures for conducting global

market surveillance and inspections utilizing international inspection and supervisory frameworks. Specifically, in addition to newly establishing the position of Deputy Secretary General of International and Intelligence Services, staff members in charge of international transactions have been assigned to each division within the SESC, such as specialist examiners and specialist investigators related to international matters, to conduct investigations by utilizing information exchange frameworks.

Given the fact that cross-border transactions by both Japanese and global professional investors accounted for a large percentage in the Japanese securities market in recent years, the SESC established the Office of Investigation for International Transactions and Related Issues in the Administrative Monetary Penalty Division in August 2011, which specializes in investigating possible market misconduct by professional investors both in Japan and overseas using cross-border transactions, in response to the ongoing globalization of the markets.

2. Participation in Short-Term Training Courses and Secondment to Overseas Regulators

In order for the SESC's staff members to acquire the surveillance and inspection techniques used by overseas regulators, and to then apply those techniques in market surveillance operations at the SESC, or to share the methodologies and know-how accumulated by the Japanese regulators to the overseas regulators, the SESC has sent its staff members to participate in short-term training courses hosted by the US SEC, the US CFTC, the UK Financial Services Authority (FSA; currently changed to the Financial Conduct Authority (FCA) in the UK), the Hong Kong Securities & Futures Commission (SFC) and the Securities and Exchange Commission of Thailand.

In addition, the SESC has dispatched its staff members to participate in short-term training courses hosted by the International Organization of Securities Commissions (IOSCO) and each national authority.

Furthermore, in April 2014, the Asian Financial Partnership Center (AFPAC) was established within the Financial Services Agency. The SESC provided training programs on the surveillance of securities market and investigation of misconducts to officials from Asian financial authorities invited by the AFPAC.

Now, the SESC is facilitating the exchange of opinions among staff dispatched to foreign regulators and the staff at those foreign regulators as well as visits by executive level officials to promote the sharing of problem awareness and enhance networks among the authorities, aiming at reinforcing the global market surveillance framework.

3) Future Challenges

Amid an increase in cross-border transactions in financial and capital markets, the SESC will continue to have the policy of adopting an appropriate response against any market misconduct made by overseas investors in the Japanese market in close cooperation with overseas regulators, comprehensively taking into account the maliciousness, the effectiveness of punishment, and responses of overseas regulators, etc. on the basis of each case.

At the same time, the SESC needs to address the challenges listed below, recognizing it as essentially important to enhance international cooperation with securities regulators as well as developing human resources through personal exchanges with overseas regulators and improving organizational systems, in order to secure effective inspections using an international

inspection/supervision framework and global market surveillance.

(1) To respond effectively to market misconduct using cross-border transactions, through active collection of information with the aid of an information exchange framework and enhanced cooperation with overseas securities regulators.

(2) To further develop human resources capable of addressing global cases, through the enhancement of a training program at each division within the SESC and the dispatch of its staff members to short-term training courses hosted by overseas regulators and international organizations.

(3) To strengthen international cooperation with overseas regulators including by actively exchanging views at international meetings and by strengthening information transmission of the SESC's activities to overseas countries.

(4) To activate cooperation with securities regulators in emerging Asian countries, and to provide support for the maintenance of market surveillance systems in emerging Asian countries, such as by offering know-how on the inspection of securities companies or law enforcement.

Chapter 10. Efforts to Enhance Surveillance Activities and Functions

1) Reinforcement and Strengthening of the Market Surveillance System

1. Reinforcement of Organization

(1) Reinforcement of Organization

The Securities and Exchange Surveillance Commission (SESC), which initially had a two-division system comprising the Coordination and Inspection Division and the Investigation Division, now has six divisions with extensive and diverse roles divided by the functions of the SESC in line with the past process of delegating authority to conduct administrative monetary penalty investigations and expanding its authority to conduct inspections for the purpose of enhancing and strengthening the market surveillance function.

Amid severe conditions for overall quotas of national public service personnel, an increase of four officers was approved in the FY2015 budget as a result of requesting an increase in personnel for the purpose of developing an inspection framework on QII Business Operators, etc. and operators engaging in investment-oriented crowdfunding, as well as improving and enhancing digital forensic systems. This brings the total SESC staff quota to 410 as of the end of FY2015.

As to the securities transactions surveillance officers (divisions) at the local finance bureaus, an increase of 11 officers was approved, mainly for improving the system of inspection of financial instruments business operators, etc., bringing the quota to 354 as of the end of FY2015. Combined with the staff quotas of the SESC, the total number stands at 764.

(2) Strengthening of the Market Surveillance Function by the appointment of Private-Sector Experts

From the perspective of ensuring effective market surveillance and boosting professional expertise among its officers, the SESC reinforced its investigation and inspection systems during FY2014 by employing a total of 24 private-sector experts with specialized knowledge and experience in the securities business, including attorneys and certified public accountants. The appointment of private-sector experts started in 2000, and, as of the end of FY2014, 121 such professionals were employed at the SESC.

2. Improvement of Capacity for Collecting and Analyzing Information

(1) Utilization of the Securities Comprehensive Analyzing System

Due to the need to ascertain all of 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” since 1993 in order to enhance operational efficiency. This IT system is a comprehensive information system that can be widely used in the operations of the SESC, including the investigation of criminal cases, the investigation of market misconduct, the inspection of disclosure statements, the inspection of securities companies and other entities, day-to-day market surveillance, and market oversight. This

IT system has contributed to improving operational efficiency, including the speedy preparation of basic materials related to insider trading and market manipulation and preparation of materials for inspections of securities companies, as well as analysis of financial data listed in annual securities reports, and quick processing of market information provided by the general public.

It should be noted that, based on the “Optimization Plan for Business Processes and Systems concerning the Inspection and Supervision of Financial Institutions and Securities and Exchange Surveillance” (as per the decision dated March 28, 2006, by the e-Government Promotion Conference, FSA), the Securities Comprehensive Analyzing System integrated its role into the Financial Services Agency Business Support Integrated System in March 2015, and the SESC will continue to use it effectively as a sub-system.

(2) Better Staff Training

The SESC has aimed at improving the quality of the staff by providing them with OJT and seminars for the acquisition of know-how about oversight techniques on investigations and inspections. Staff members also learn the latest information on financial and capital markets from lectures by outside instructors, etc. These are some of the efforts to enhance staff quality.

In order to accurately respond to new challenges of more complex and diverse types of transactions, the increase of cross-border transactions, and trading techniques on a rapid basis, training is being provided to enable each staff member to acquire specialized knowledge and skills regarding new financial instruments and transaction techniques, investigation techniques on cross border transactions, and investigation techniques using digital forensics, etc.

3. Enhancement of Systems Infrastructures to Support Market Surveillance

For the purpose of enhancement to analyzing restoring and evidencing electronic records on inspection and investigation, the SESC started to consider its introduction of digital forensics technology from FY2008, and completed the first equipment plan to secure an operating environment on restoring and evidencing electronic records in FY2010. In FY2011, the SESC advanced its analytical tools through the development of the data analysis environment as the second equipment plan. In FY2013 and FY2014, the SESC procured additional equipment in light of the changing IT environment, such as higher performance and larger capacity.

2) Dialogue with Market Participants and Efforts to Strengthen the Dissemination of Information to the Market

1. Outline

As part of its “Outreach activities for enhanced market integrity,” which is the third mainstay of the policy statement, *Towards Enhanced Market Integrity*, the SESC mentions enhancing dialogue with individual investors and other market participants, and providing more information to markets. As such, the SESC is making efforts to communicate with market

participants actively and widely, and uses a variety of creative means to do so, including information exchanges, lectures, public talks, press releases, contribution to various public relations media, and the SESC website and email magazine. 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.

2. Dissemination of Information through Mass Media, etc.

When the SESC makes a recommendation for administrative disciplinary actions or files a criminal accusation based on its investigations or inspections, or when it makes an important policy decision, the SESC publicizes the case or decision through a press conference. In so doing, the SESC has a policy not only to provide a mere description of each case but also to explain the detailed impact on the market and society with the aim of providing the audience with an accurate understanding of each case. Furthermore, the SESC also actively addresses requests for interviews and writings, etc., from various media, such as newspapers, magazines, and TV.

3. Status of Exchanging Information with Market Participants and Holding Forums, etc.

As part of approaches to prevent market misconduct, etc., the SESC actively engages in exchanging information with organizations with important roles in ensuring market integrity practices, and holding forums for market participants with the view of sharing the awareness of key issues identified by the SESC.

Specifically, the SESC provides lectures on the compliance forum for listed companies across the nation and regularly contributes articles to several media outlets to provide guidance on how to establish an internal control system of listed companies, etc. In addition, the SESC also transmits information to a wide range of audiences including financial instruments business operators, etc., self-regulatory organizations, attorneys and audit firms, aiming to encourage each market participant to strengthen its self-discipline.

Furthermore, the SESC provide lectures on its activities for university and law school students through forums, etc.

4. Enhancement of Website

The SESC transmits information through its website in a timely manner, including an overview of recommendations for administrative disciplinary action or criminal accusations, and details of lecture presentations and writings, from the viewpoint of helping market participants understand the SESC's market surveillance. In addition, the SESC also provides "mail delivery services" to those who have registered their e-mail address. Each registrant receives new information, such as an overview on recommendations for administrative disciplinary action or criminal accusations, details of lecture presentations and writings, and other matters that are listed on the website on a daily basis. Furthermore, the SESC publishes "the SESC Mail Magazine" on a monthly basis, which contains the activities of the SESC and the key points on the awareness of issues. The number of the registrants has increased constantly, and the number of the registrants is approximately 4,400 as of the end of FY2014.

(http://www.fsa.go.jp/haishin/sesc/)

In addition, from the viewpoint of enhancing overseas dissemination of transmission, the SESC posts on its English website the SESC's profile (English version), its annual report,

which was partially translated into English from "Activities of the Securities and Exchange Surveillance Committee," the "Inspection Manual for Financial Instruments Business Operators" and the "Securities Inspection Policy," which are likely to arouse the interest of overseas market participants, etc.

Furthermore, following February 2014, the SESC renewed the layout of its website in both the Japanese and English versions, reflecting users' opinions in March 2015.

3) Cooperation with Relevant Authorities

1. Cooperation with the Related FSA Departments

In order to ensure market integrity 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 information exchanges, it widely shares problems of the moment between executives and personnel in charge. For the supervisory college established for large and globally active financial institutions, the SESC fulfills its role to provide explanations and cooperates with the FSA and exchanges information with overseas regulators. From the standpoint of its role in the 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 bureau performs its delegated work under the director-general, etc. The Local Finance Bureau Inspectors 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 fraudulent finance, the Joint Conference for Local Finance Bureau Inspectors and Financial Instrument Exchange Supervisory Officers and Securities Inspectors with the Supervisory Bureau and the Planning and Coordination Bureau of the FSA (the "Trilateral Joint Conference") has been held regularly as part of the SESC's efforts to share and deepen awareness of problems among the related FSA departments.

2. Close Cooperation with Self-Regulatory Organizations

Self-regulatory organizations (financial instruments exchanges, the Financial Instruments and Exchange Dealers Association, etc.) conduct day-to-day market surveillance activities, such as by checking trading examination screening and listing control or assessing the appropriateness of operations conducted by operators belonging to each institution or listing management and market surveillance. For this reason, from the point of view of achieving efficient and effective market surveillance, the SESC has been working on close coordination with each market surveillance department of these self-regulatory organizations.

In addition, in order to achieve further cooperation with self-regulatory organizations to enhance its market integrity and market surveillance functions, the SESC actively exchanges information on various problems and issues in the field of market surveillance with self-regulatory organizations, aiming to share awareness.

Specifically, the SESC receives from each self-regulatory organization reports of its activities on a regular basis for exchanging information. In addition, the SESC holds information exchange meetings with the Japan Securities Dealers Association and the Japan

Exchange Regulation on a wide range of subjects. In FY2013, the SESC also exchanged information with the Type II Financial Instruments Firms Association and the Financial Instruments Mediation Assistance Center. At the “Trilateral Joint Conference” as mentioned above, the SESC invited persons in charge at other self-regulatory organizations in order to implement active discussions and information exchanges.

Furthermore, the SESC also provides arrangements on inspection planning for each securities inspection, etc., to enhance collaboration.

The Japan Securities Dealers Association has conducted training sessions for internal control supervisory managers and assistant internal control supervisory managers as defined in the self-regulatory rules with the aim of enhancing the compliance capability of members, etc. The SESC has dispatched lecturers to these training sessions. Officials of self-regulatory organizations also participate in the SESC training programs for SESC officials in order to share know-how, etc.

4) Future Challenges

The SESC will address the following issues in order to accurately respond to changes in the conditions surrounding markets, and to achieve more effective and efficient market surveillance as a whole.

(1) Reinforcement of organization and development of human resources

Along with advances in innovation of financial instruments and transactions, cross-border transactions and international activities by investment funds and other market participants have become everyday occurrences. Amid such circumstances, the market environment is also undergoing changes. One such change is that the techniques of misconduct are becoming more diverse and complex, including market misconduct committed by professional investors in Japan and overseas. In addition, the SESC also needs to address the expansion of market surveillance due to the revision of the FIEA.

The SESC believes that, on top of enriching its organization and personnel, developing human resources equipped with specialized knowledge and skills is important for responding accurately to these kinds of changes. On this basis, the SESC will continue its efforts to develop human resources with the abilities to contribute to the achievement of the basic mission of the SESC—"ensuring market integrity and investor protection"—such as by implementing personnel exchanges with other ministries and agencies, utilizing on-the-job training, enriching its staff training, and by making planned appointments of staff to certain positions.

(2) Improvement in information collection and analysis capabilities

The SESC will respond to changes in the environments surrounding markets, collect information regarding movements, and analyze problems behind market trends and individual transactions with the aim of facilitating market surveillance flexibly.

In addition, the SESC will review and enhance the internal systems of information for improvement of accuracy and credibility in risk-based market surveillance.

Furthermore, the SESC intends to enhance its ability to identify potential problems with consideration of the characteristics of diverse business operators, the characteristics of their customers, and the characteristics of increasingly complex and diverse financial

instruments and transactions, and strengthen its capabilities to collect and analyze information accordingly.

In addition, based on the fact that the Information Analysis Office will be established in FY2015, the SESC will strengthen the management structure of digital forensics to carry out more rapid and efficient investigation and inspection.

(3) Improvement in dissemination of information

In addition to the cooperation with self-regulatory organizations, etc., that has been addressed so far, the SESC will improve its disclosure and dissemination of information to investors with the aim of ensuring market integrity and protecting investors against market misconduct and fraudulent solicitation from unregistered operators, given an increase in insider trading cases by primary recipients of information and fraudulent transactions of private equities.

At the same time, in order to enhance the transparency of the market surveillance administration and encourage market participants to be self-disciplined, the SESC will actively transmit information on past cases in which administrative monetary penalties were imposed.

Furthermore, with regard to the points at issue under the laws and regulations that have been found in the process of market surveillance activities, the SESC intends to notify such points to the FSA and/or self-regulatory organizations for the purpose of playing a part in improving the market rules.

(4) Further cooperation with the regulators concerned

Turning to the circumstances surrounding the SESC, as a result of a series of regulatory reforms, including the enforcement of the Financial Instruments and Exchange Act (FIEA), the scope of securities companies and other entities subject to inspection has diversified, and the number of these entities has reached almost 8,000. The SESC is also being called on to respond strictly to serious and malicious market misconduct, especially to malicious operators involved in fraudulent solicitation and sales that could damage investors. Moreover, as progress in online trading is helping to eliminate geographical restrictions on securities transactions, the SESC is also being required to respond to the geographical spread of violations of laws and regulations, including market misconduct.

Under these circumstances, in order for the SESC to achieve its mission, it will need to conduct efficient, effective and viable market surveillance, by accurately and effectively utilizing its limited human resources, including those in the securities and exchange surveillance departments at local finance bureaus. Thus far, the SESC has promoted the sharing of its awareness of problems and the unification of viewpoints on surveillance activities with local finance bureaus through day-to-day exchange of information and various kinds of meetings and training. Going forward, though, the SESC will exercise its overall strength so that effective market surveillance can be carried forward and facilitate the enhancement of overall market surveillance activities through the active exchange of information with the FSA and self-regulatory organizations for the purpose of sharing awareness of problems.

In addition, the SESC will further enhance cooperation with investigative authorities and overseas securities regulators, etc. based on the already-established close cooperative relationship with these entities, aiming to conduct efficient and effective market

surveillance.

CONCLUSION

The SESC performs its duties with the mission of ensuring the integrity of capital market as well as of protecting its investors. The SESC, in accordance with the provisions of the FSA Establishment Act, is required to announce the annual operations. Accordingly, this "Activities of the Securities and Exchange Surveillance Commission" (hereinafter the "Annual Report") describes the recommendations, complaints and other actions performed to strengthen market discipline during FY2014, in conjunction with the relevant materials with reference to specific cases.

We hope this Annual Report will improve your understanding of the activities of the SESC and also help various market participants strengthen their voluntary discipline.

Finally, the SESC has set up the FSA Counseling Office with the aim of receiving the information of consumers including investors via telephone, documents (including facsimile), visits, the Internet and other information tools. The SESC accepts information from the general public on suspected market misconduct as part of its data and information collection activities. Examples include: information related to specific stocks, such as market manipulation, insider trading and spreading of rumors; information related to issuers, such as the inclusion of false statements in annual securities reports and suspicious financing; information related to misconduct by financial instruments business operators; and information related to the solicitation of suspicious financial instruments and suspicious funds, as well as information related to investment fraud, which will be useful for the SESC in order to take immediate action. If you obtain such suspicious information, please do not hesitate to contact us and provide information to the SESC.

In addition, the SESC has also established the Pension Investment Hotline as a dedicated point of contact for people to provide useful information on pension investment by discretionary investment business operators, using their real names. The hotline is committed to collecting a broad range of information such as on suspicious investments by an investment management business operator. In cases where particularly detailed information is provided, support will be provided by specialists in pension fund management.

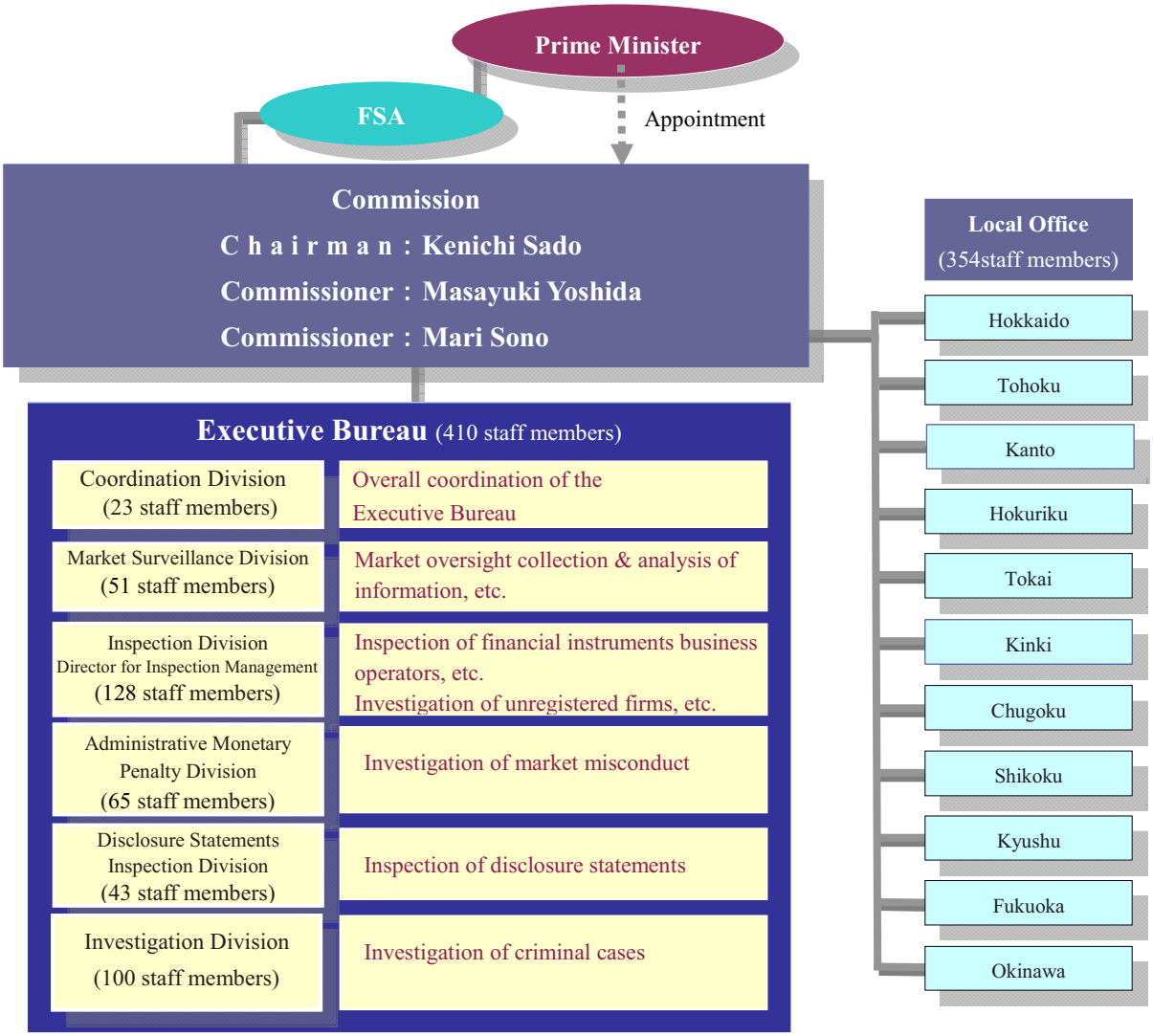
Furthermore, in addition to the above dedicated point of contact, we have established another point for people to report public-interest information under the Whistleblower Protection Act. If a worker reports any act related to law violation for the public interest, he/she will be protected from disadvantageous treatment, such as dismissal or the like.

Your cooperation in providing information via the website is greatly appreciated.

Appendices

Table 1

Organization

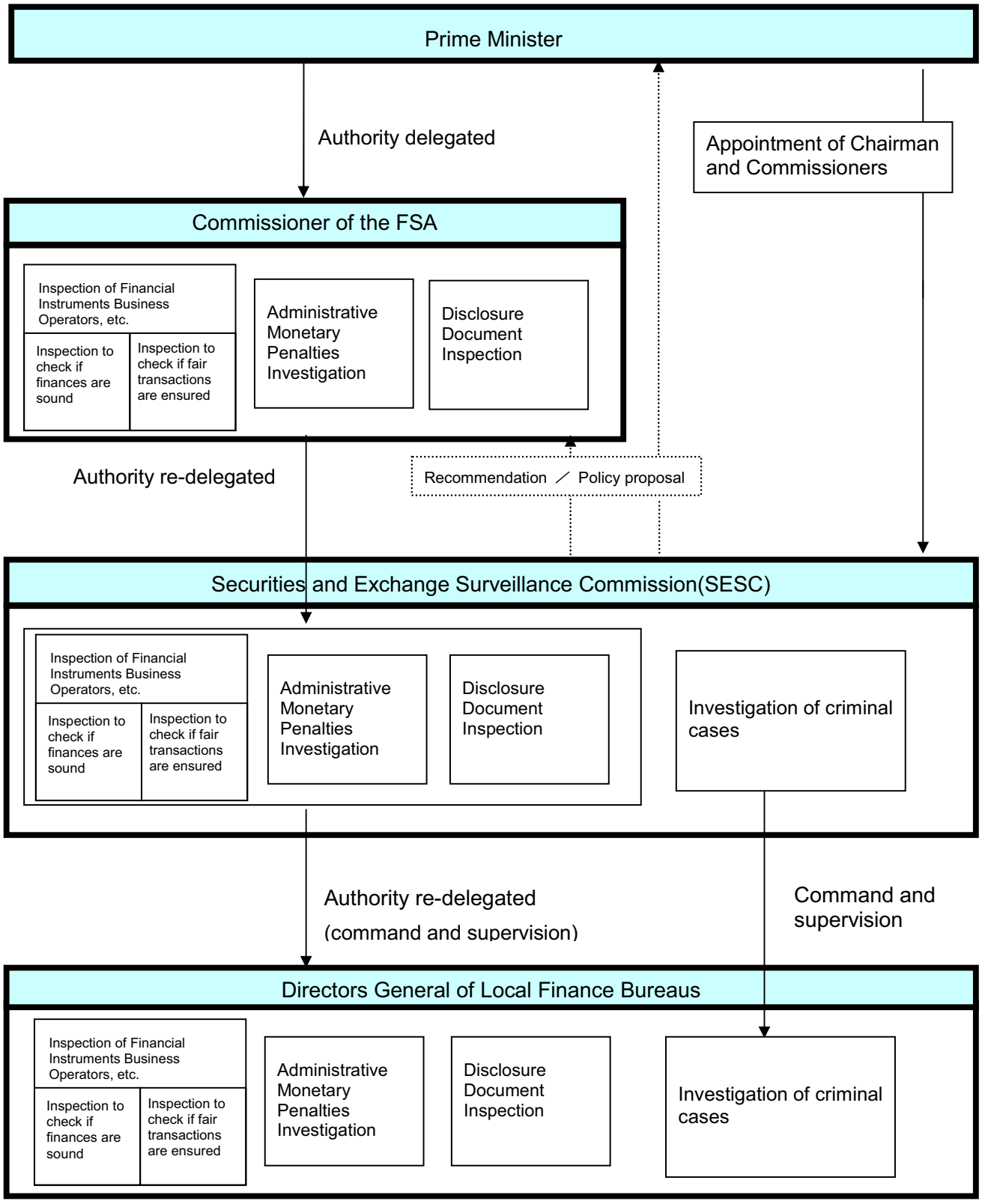


Note1: Staff members of Executive Bureau are quota as at the end of FY2015.

Note2: 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 two divisions (the Administrative Monetary Penalty Division and the Disclosure Statements Inspection Division), meaning that the SESC was transformed into six divisions. In August 2011, the Office of Investigation for International Transactions and Related Issues was established within the Administrative Monetary Penalty Division, to investigate transactions, etc. conducted by persons in foreign countries.

Table 2

Conceptual Chart of Relationships 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 (8))

(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))

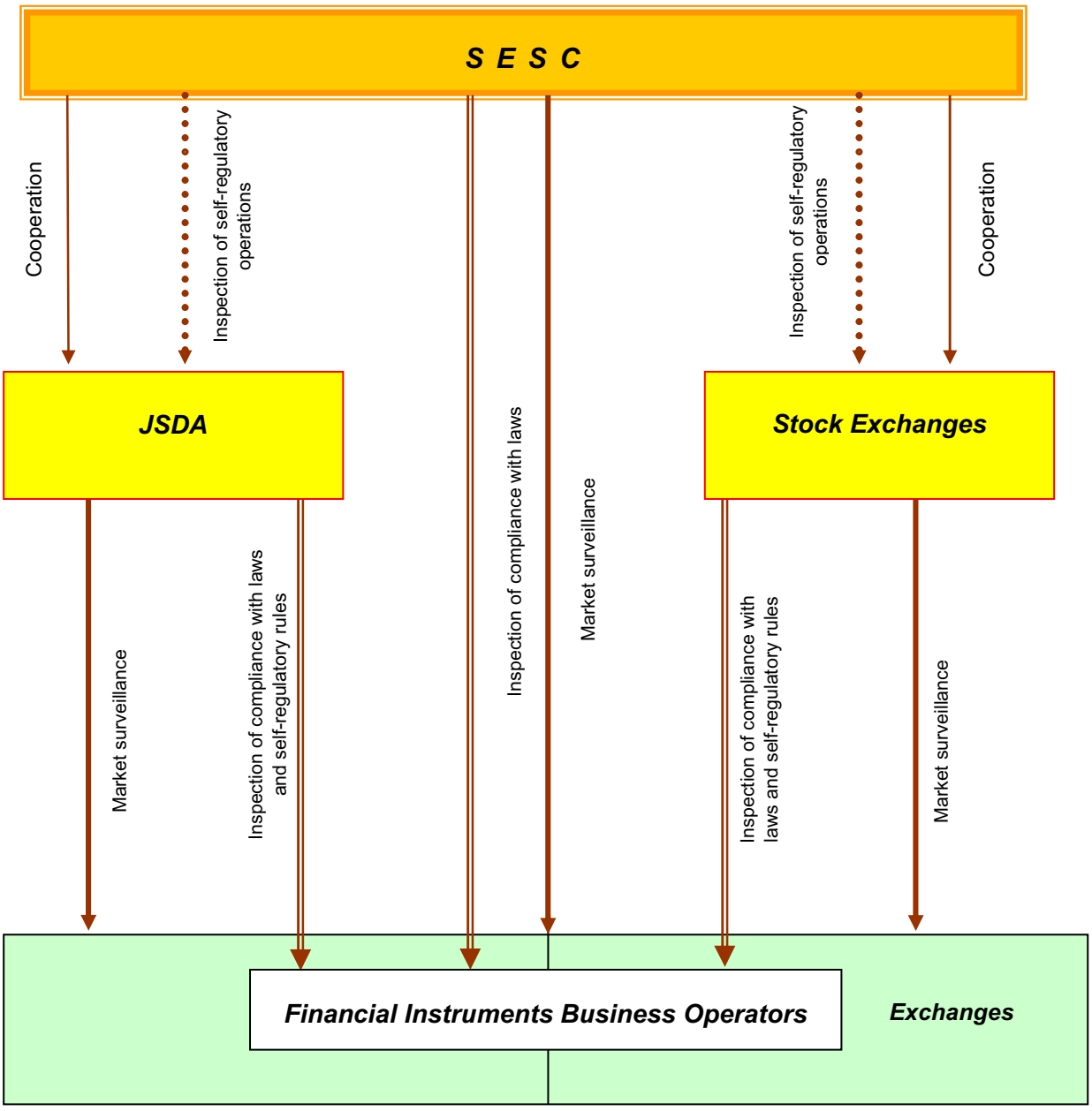
(Note 3) The SESC does not delegate authority to the Director-General of local finance bureaus, etc. related to financial instruments business operators etc designated in the following public notices

- 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 28 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 with Self-Regulatory Organizations



Note: The same system applies to financial futures.

Table 4

Activities in Figures

Table of Summary

Unit: Number of cases

Category \ Fiscal year	1992 to 2009	2010	2011	2012	2013	2014	Total
Criminal charges	134	8	15	7	3	6	173
Recommendations	533	64	45	62	70	66	840
Recommendations based on securities inspections	407	19	16	20	18	16	496
Recommendations to pay administrative monetary penalty (market misconduct)	92	26	18	32	42	42	252
Recommendations to pay administrative monetary penalty (false statements in disclosure statements, etc.)	32	19	11	9	9	8	88
Recommendations for order to submit revised report, etc.	2	0	0	1	1	0	4
Announcement of results of Inspection of Persons making notification for business specially permitted for qualified institutional investors	0	1	0	13	11	17	42
Petition for a court injunction , etc., against unregistered business operator or solicitation without the filing of securities registration statements	0	2	3	1	2	6	14
Proposals	19	2	1	1	0	1	24
Securities inspections: Financial instrument businesses operators	2,011	148	148	153	222	206	2,888
Type I financial instrument businesses operators	1,755	91	85	57	69	77	2,134
Type II financial instrument businesses operators	24	6	14	20	108	72	244
Investment management firms Investment advisories/agencies	232	51	49	76	45	57	510
Registered financial institutions	247	28	32	28	9	1	345
Persons making notification for business specially permitted for qualified institutional investors	1	2	6	21	23	31	84
Financial instruments intermediaries	4	1	9	9	8	18	49
Credit rating agencies	-	0	4	3	0	2	9
Self-regulatory organizations	22	1	0	0	3	3	29
Investment corporations	34	6	2	0	3	2	47
Other	3	0	1	0	3	3	10
Total	2,322	186	202	214	271	266	3,461
Market oversight	9,015	691	913	973	1,043	1,084	13,719

Notes
1. Total number of securities inspections refers to the number of cases that have been started.
2. In addition to the inspections of Type I financial instrument businesses operators (former domestic securities companies) above, Local Finance Bureaus and other organizations conduct inspections of individual branches of those Type I financial instrument businesses operators (former domestic securities companies) that are assigned to the SESC.

Introduction of the 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　Masayuki YOSHIDA

Masayuki YOSHIDA was appointed a commissioner of the SESC in December 2010. Before being appointed to the Commission, he served as an Advisor at Nagashima Ohno & Tsunematsu Law Firm.

Commissioner　Mari SONO

Mari SONO was appointed a commissioner of the SESC in December 2013. Before being appointed to the Commission, she served as a Senior Partner at Ernst & Young ShinNihon LLC.

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 moreover our relationship with investors.

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 Exchange Surveillance Commission

3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922, Japan

Website: http://www.fsa.go.jp/sesc/english/index.htm