

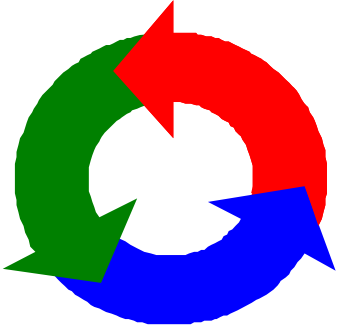
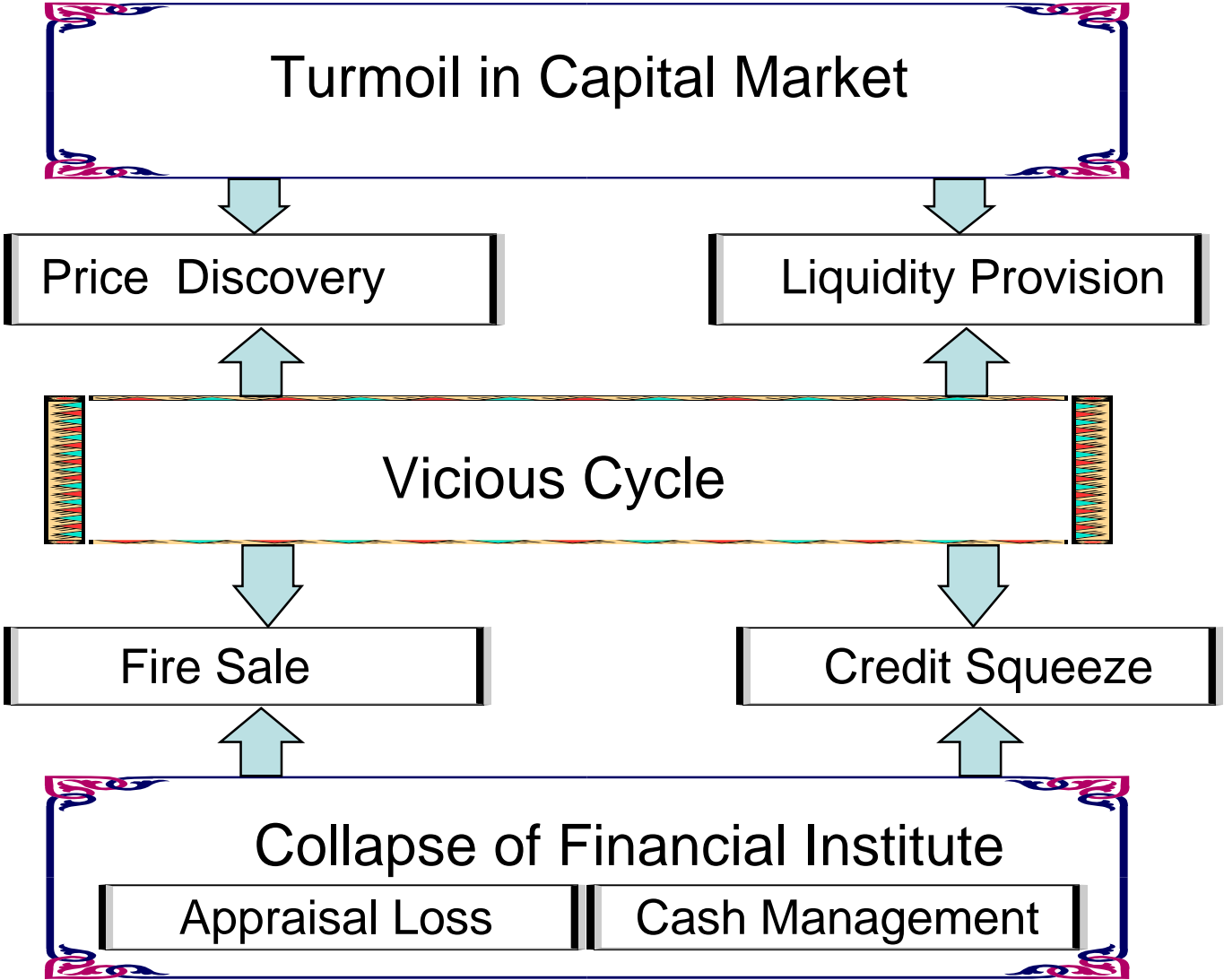
Japan's Capital Market Regulation in the Aftermath

March 31, 2010

Nobuyuki Kinoshita

Securities and Exchange Surveillance Commission

Bird's Eye View of the Global Financial Crisis



Originate-to-Distribute Model

Traditional Loans

Private Information

Quasi Rent

Commercial Banks

Information Creation



Capital Market Products

Public Information

Various Businesses

Securities Firms
Institutional Investors

OTD Model

CRAs
Hedge Funds
CDS providers



Response of Financial Intermediary Activities to the Regulation

Regulation

Coordination of Market Participants



Lost Integrity of the Market with OTD Model

Financial Intermediaries

Inadequate Disclosure

CRA's

Poor Performance

Hedge Funds

Acceleration of Turmoil

CDS Providers

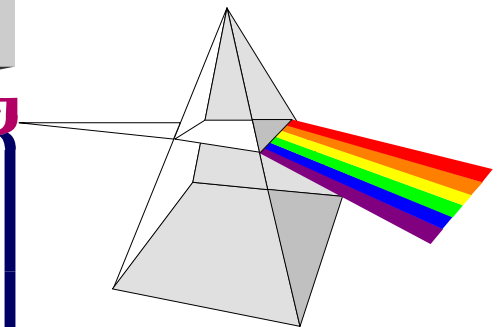
Cause of Disturbance

Shift from Regulated Entities to Less Regulated

Unbundling of Balance Sheet

Shift of Business

Outsource of Function



International Regulatory Responses

G20 Pittsburg Summit

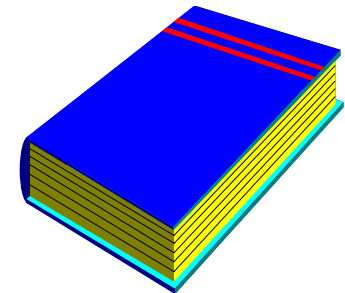


The IOSCO Technical Committees (International Organization of Securities Commissions)

The Role of CRAs in Structured Finance Market (May 2008)
<Rating Process, Independence, Responsibilities, Disclosure >

Hedge Funds Oversight (June 2009)
<Registration, Regulatory Requirements, Prime Brokers, Information>

Unregulated financial Markets and Products (September 2009)
Structured Products
< Retaining Economic Exposure, Disclosure, Suitability >
CDS
< CCP, Standardization, Disclosure >



Reform Measures in Japan

Existing

CRAs	Introduction of Regulation (2009)
Hedge Funds	Registration Requirement (2007)

Proposal for FIEA Amendment (2010)

Blueprint 'Development of Institutional Frameworks
Pertaining of Financial and Capital Market'

Hedge Funds	Expansion of Reporting Requirements
OTC derivatives	CCPs (domestic, foreign, link system) Domestic CCP for certain CDS Local Governments



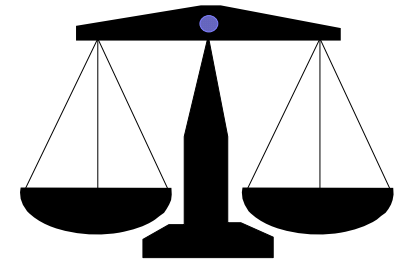
Detailed Design of the Regulatory Reforms

Capital Market Regulation

Effectiveness

Side Effect

< Incentive for the addressed Entities >



CRA's

Prohibiting Securities Firms from using the Credit Ratings of unregistered CRA without informing customers

Hedge Funds

Comprehensive Coverage of Financial Products of FIEA

CDS

International Transaction
Local Information on Defaults



Implementation of the Regulation

CRA_s

Oversight of the Business Methods
International Consistency

Collective Investment Schemes

Investigate Abuse of Registration
(Swindles, Ponzi Schemes)
Public Relations
(Warnings to general Investors)

CDS

Standardization and Management of CCP
Surveillance of the Market



Enforcement of the Capital Market Regulation

Private Enforcement

Private Litigation

Investors Discipline

Internal Control System

Public Disclosure

Public Enforcement

Implementation of Regulation

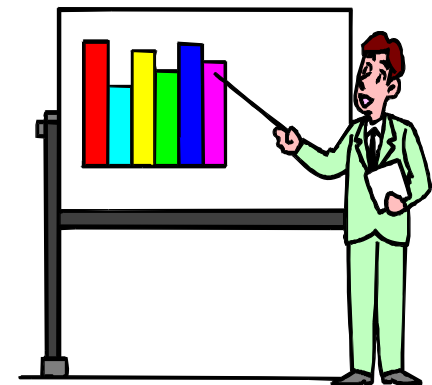
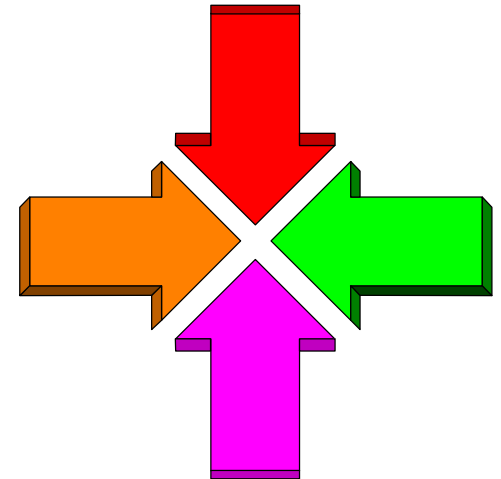
Contribute to Private Enforcement

Significant Role of SESC

Enhancer of the Public Disclosure

Information Providing

Communication with the Market Participants



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