



SESC's Strategy and Policy for Market Oversight

Kiyotaka Sasaki
Director General
Securities and Exchange
Surveillance Commission (SESC)
Japan



New Board member of SESC (Dec. 2017)

- **Chairman: Mr. Hasegawa,
prosecutor**
- **Commissioner: Mr. Hamada, CPA**
- **Commissioner; Ms. Indo, Financial
analyst**



Background of Strategy

- **Environmental scan and SWOT analysis**
- **A quarter-century history**
- **Strategy looking for new stage of SESC**

Mission, Vision and Values

Strategy & Policy of the SESC 2017-2019 - Building on a Quarter-Century of Achievement -





Strategic Objectives of Market Oversight

1. Holistic

- **All new products/transaction**
- **All financial markets**
- **Bigger picture**

2. Timely

- **Early detection**
- **Preemptive actions**
- **Early corrective actions**

3. In-depth

- **Root cause analysis**
- **Horizontal analysis**

Environmental Scan	Global Macroeconomic Uncertainties	Increasing Market Globalization	Further Advancement of Information Technology	Effective Deployment of Household Financial Assets
Strategic Objectives	Holistic market oversight <ul style="list-style-type: none"> All new products/transactions All financial markets Bigger picture in addition to details 	Timely market oversight <ul style="list-style-type: none"> Early detection of potential market misconduct Preemptive actions against market abuse Effective investigation and early corrective action 	In-depth market oversight <ul style="list-style-type: none"> Root-cause analysis Horizontal analysis for system-wide issues 	
Concrete Measures	1. Intelligence Gathering <ul style="list-style-type: none"> Forward-looking analysis of potential market misconduct from macro-economic perspective Enhanced cooperation with foreign authorities Oversight of all new products/transactions 	<ul style="list-style-type: none"> ➤ Forward-looking analysis of potential market misconduct from macro-economic perspective ➤ Enhanced cooperation with foreign authorities ➤ Oversight of all new products/transactions 	3. In-depth Analysis of Investigation Results	<ul style="list-style-type: none"> ➤ Root-cause analysis ➤ Leveraged use of outputs of oversight activities ➤ Enhanced public outreach ➤ Contribution to policy development for better market environment ➤ Contribution to international cooperation for market oversight
	2. Prompt/ Effective Examination/ Investigation <ul style="list-style-type: none"> ➤ Effective use of monetary penalty investigation ➤ Proactive response to cross-border matters ➤ Response to material market abuse with criminal investigation ➤ Effective risk-based monitoring of regulated entities 	<ul style="list-style-type: none"> ➤ Effective use of monetary penalty investigation ➤ Proactive response to cross-border matters ➤ Response to material market abuse with criminal investigation ➤ Effective risk-based monitoring of regulated entities 	4. IT and HR Development	<ul style="list-style-type: none"> ➤ Development of RegTech[Ⓜ] ➤ Response to FinTech development ➤ Enhanced expertise of SESC staff with a broader perspective
			5. Co-operation with SROs and other stakeholders	<ul style="list-style-type: none"> ➤ Closer cooperation with SROs for effective/efficient market oversight ➤ Enhanced cooperation with various stakeholders for market integrity



[Ⓜ] RegTech means the use of IT innovation in connection with regulatory and enforcement authority.

Continuous Review of Market Oversight Approach



Forward looking and preventive approach

(Past)

- **micro/firm specific**
- **backward looking**

(Now)

- **top down; analysis of impact of macro/system-wide developments to individual firm**
- **Forward looking and preventive approach**



Macro perspectives

- **Global and Japanese economic developments; interest rate hike in the U.S., negative interest rates in Japan, commodity prices, Chinese economy...**
- **Global political events; Brexit, Elections in the U.S and Europe**
- **Global regulatory environment**



Top down approach with big picture

(Past)

- **Focus on details**
- **Micro perspective**
- **Bottom up**

(Now)

- **Bigger picture**
- **Macro perspective**
- **Top down**



Root cause analysis

- **Deep dive analysis of root causes behind non-compliance and deficiencies**
- **Root causes; business model, governance, incentives, tone at the top, culture, ...**
- **Prevent recurrence of problems**
- **5 times Why?**



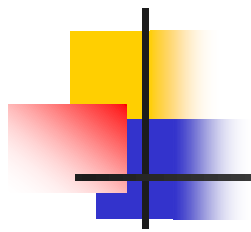
Focus on corporate governance

- **Board of Directors**
- **Audit Committees**
- **Internal audit**
- **External audit**
- **Focus on their effectiveness/implementation, not just formalities (Policies, procedures, organizations...)**



IFIAR Permanent Secretariat in Tokyo (April 2017)

- **IFIAR(International Forum of Independent Audit Regulators); created in 2006, 52 members**
- **Mission; upgrade audit quality of audit firms**
- **First international financial institution with head office in Tokyo**
- **Office in Otemachi (April 2017)**



Thank you