

## Welcome and Keynote Speech

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At the beginning of the SESC's 25th Anniversary International Conference, please allow me to offer my thoughts on this memorial moment.

First of all, I would like to express my heartfelt appreciation for the attendance in this conference by representatives not only from self-regulatory organizations and associations, the security industry, listed companies and other relevant organizations in Japan but also from foreign securities authorities of more than 10 countries and regions.

It is a great pleasure for us to hold the ceremony to commemorate the 25th anniversary of the SESC's establishment with the attendance of so many people.

In particular, I would like to offer my sincere appreciation to Japan Exchange Group and the Japan Securities Dealers Association for providing strong support for the holding of this conference.

The SESC owes its development to all of you attending this conference and all those involved, so once again, I would like to express my appreciation for the support you have provided to us.

### *1. Establishment of the SESC*

This year marks a quarter century since the SESC was established in 1992.

The SESC was established as an inspection and surveillance organization independent from the supervisory functions held by the Ministry of Finance, with the aim of realizing a free, fair, transparent and sound securities market. The SESC operates on the collective decision - making among the chairman and two commissioners.

The direct trigger for the establishment of the SESC was a series of cases of serious misconduct involving securities companies in 1991. However, the creation of the SESC was also necessary against the backdrop of the turmoil in the securities market after the bursting of Japan's economic bubble that continued from the latter

half of the 1980s to the early 1990s.

While major criminal cases involving Japanese companies occurred and insider trading emerged as a major problem, there was no organization specialized in market surveillance.

Initially after its establishment, the SESC engaged in such activities as conducting criminal investigation of cases of serious and malicious crimes and filing criminal complaints with prosecutors. In light of the situation of the market during the early period of the SESC's operation, these activities were very important for eradicating illicit behavior.

However, in order to file criminal complaints, the SESC had to clear a high bar—gathering evidence necessary for proving crimes beyond a reasonable doubt. Not only did this process take a very large amount of time and effort, but it was also difficult in some cases to alarm the market at an early stage due to confidentiality of the SESC's criminal investigation and law enforcement authorities' investigations.

## 2. *Development of the SESC*

A major turning point came after the administrative monetary penalty system was introduced in 2005 and the Financial Instruments and Exchange Act came into force in 2007. With its authority and functions strengthened, the SESC entered a new stage of activity.

In addition to the tough approach of seeking criminal filing, a relatively soft approach—investigating a broad range of illegal acts, including relatively minor cases, without seeking criminal filing—also became available as a new option for the SESC. This made it possible for the SESC to take action quickly to warn the market, which is constantly moving.

Moreover, as the scope of its inspection and investigation was gradually expanded and its organizational structure was developed and enhanced, the SESC strengthened the surveillance function in cooperation with the surveillance divisions of the Ministry of Finance's 11 local finance bureaus across the nation. By exercising deterrence against various acts of violation of the Financial Instruments and Exchange Act through the combination of the tough and soft approaches, the SESC increased its presence as a market watchdog.

On the other hand, securities exchanges' trading examination systems have become more and more sophisticated and the internal control systems of securities companies and other parties have improved. As a result, the perception has been

taking hold that ensuring the fairness of the market, even with certain cost, is beneficial for the market and industry as a whole from a broad perspective.

Amid the growing interest in the transparency of the market, I also believe that awareness about information disclosure concerning financial results and business performance is generally increasing, as listed companies have made progress in terms of compliance with mandatory disclosure and investor relations (IR) activity.

Therefore, it is not too much to say that as a result of the strengthened surveillance function, increased awareness about compliance and the exercise of fairly strong self-discipline in the market, the market landscape has changed, with fairness and transparency rising to a level which we can be proud of.

### 3. *Future of the SESC*

Going forward, the SESC must focus efforts on the following five points in order to contribute to the formation, maintenance and the development of a fair and transparent market, namely a market where all users comply with rules and which is trusted by everyone.

The first point is enhancing the information capabilities in consideration of the domestic and international environments.

At a time when the market structure is changing rapidly, the SESC will conduct not only conventional surveillance activities based on ex-post checks but also forward-looking surveillance activities, including analysis conducted from the macro viewpoint, in order to prevent and detect problems at an early time.

The second point is quickly and efficiently conducting inspection and investigation.

While making active use of the administrative monetary penalty system to quickly and efficiently conduct inspection and investigation, the SESC will strengthen the effect of deterrence against serious and malicious crimes through the filing of criminal complaints by enhancing criminal investigation in cooperation with relevant organizations, including law-enforcement authorities.

The third point is conducting in-depth analysis and implementing measures to enhance market discipline.

When violations of laws and regulations have been recognized, the SESC will not

only recommend administrative disciplinary actions but also prevent the recurrence of problems by examining and pointing out their root causes after grasping the full picture of the problems. The SESC will also make active contributions to the development of a better market environment by identifying the market's structural problems, disclosing information to the public and encouraging relevant parties to make improvements.

The fourth point is promoting the use of IT and training personnel to acquire IT skills.

In order to ensure effective market surveillance in response to changes in the market structure caused by the evolution of IT such as the arrival of high frequency trading and FinTech, the SESC will consider introducing a new market surveillance system using IT, including data analysis by artificial intelligence, and continue to develop further human resources to achieve this purpose.

The fifth point is promoting cooperation with domestic and foreign self-regulatory organizations and other stakeholders.

In addition to further strengthening cooperation with self-regulatory organizations and foreign authorities, the SESC will promote exchange of opinions and cooperation with a broad range of stakeholders, including relevant organizations and associations, with respect to efforts to ensure the fairness and transparency of the market. In this way, the SESC will enhance the market surveillance functions as a whole.

In order to promote the SESC's activities that I mentioned, I hope that today's conference will become an opportunity for useful exchange of opinions.

In this conference, there will be three sessions, which will discuss the following themes: (1) the key to a shift from savings to asset formation; (2) governance at globally active enterprises; and (3) market surveillance adapted to the era of technological innovation. I hope that brisk discussions will be held by panelists from within and outside Japan who have professional expertise in various fields and who are representing various positions.

After lunch, Mr. Takafumi Sato, president of Japan Exchange Regulation, will make a keynote speech. After the closing of all sessions, Mr. Ashley Alder, chief executive officer of the Securities and Futures Commission of Hong Kong, will make a keynote speech.

I am looking forward to valuable opinions that will help us consider the future

course and role of the SESC.

4. *Closing remarks*

Finally, for Japan's economic growth, it is very important to enhance the transparency of the market by preventing and eliminating unfair practices that could deter investment activity. Therefore, the role of the SESC, which is responsible for market surveillance, will become increasingly important.

Creating and developing a market that is trusted by everyone means steadily dealing with various problems and incidents one by one every day. That also means that we should work with all of you attending this conference to enhance the effect of market discipline.

Let me conclude my speech by once again expressing my pleasure at holding the SESC's 25th anniversary conference with the attendance of so many people. Thank you very much for gathering here to celebrate this memorial moment with us.

(End)