

# Annual Report 2019/2020 (April 2019 – March 2020)

## Overview



*"for investors, with investors"*

July 2020

Securities and Exchange Surveillance Commission

# 1. About the SESC

## Chairman and Commissioners (2019-2020)



**Commissioner  
HAMADA Yasushi**

HAMADA Yasushi was appointed as SESC Commissioner in December 2016 (reappointed in 2019). Previously, he served as the Senior Partner and Director of KPMG AZSA LLC, and a professor of Graduate School of Professional Accountancy, Aoyama Gakuin University.

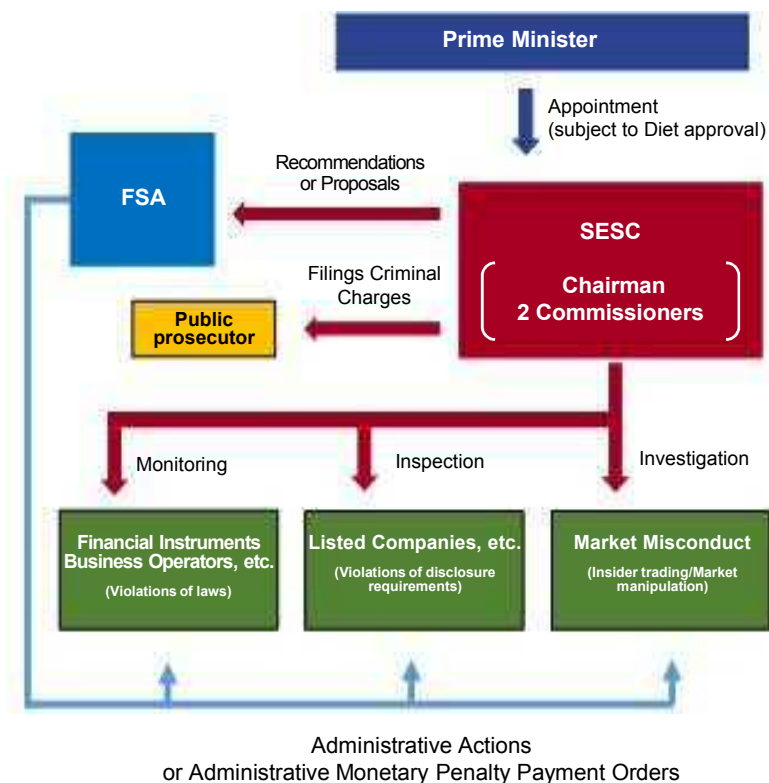
**Chairman  
HASEGAWA Mitsuhiro**

HASEGAWA Mitsuhiro was appointed as SESC Chairman in December 2016 (reappointed in 2019). Previously, he served as the Chief Public Prosecutor of Nagoya District Public Prosecutors Office and the Superintending Public Prosecutor of Hiroshima High Public Prosecutors Office.

**Commissioner  
KATO Sayuri**

KATO Sayuri was appointed as SESC Commissioner in December 2019. Previously, she served as Director of the Consumer Affairs Agency, Vice-Governor of Nagano Prefecture, and Executive Vice President of the National Consumer Affairs Center of Japan.

## Overview of the SESC



# 1. About the SESC(Continued)

## Strategy & Policy of the SESC 2020-2022\* - For Trusted and Attractive Capital Markets -

\*Published on January 24, 2020

### Mission

Through proper and appropriate market oversight, the SESC

1. Ensures market fairness and transparency, and protects investors
2. Contributes to the sound development of capital markets
3. Contributes to sustainable economic growth

### SESC's Market Vision

Markets with strong confidence, where market participants share their commitment towards the sound development of capital markets and solid investor protection, fulfill their expected roles and exercise their professionalism

### Philosophies and Goals

Fairness

Accountability

Forward-looking

Effectiveness and Efficiency

Close Cooperation

Commitment to Excellence

**<Based on these philosophies, the SESC aims to achieve the following in terms of market surveillance>**

#### Holistic oversight

- Vigilance against new financial products and transactions
- Surveillance of multiple markets and cross-market activities
- Protecting investors of diverse characteristics
- Holistic and comprehensive investigation of cases and cross-sectoral application of findings
- Enhanced outreach to stakeholders

#### Timely oversight

- Early detection of market misconduct
- Preemptive actions against market misconduct
- Effective investigation and inspection, and swift corrective action

#### In-depth oversight

- Identifying root causes of problems
- Recognizing structural issues of the markets through in-depth and cross-sectoral analysis

## 2. Overview

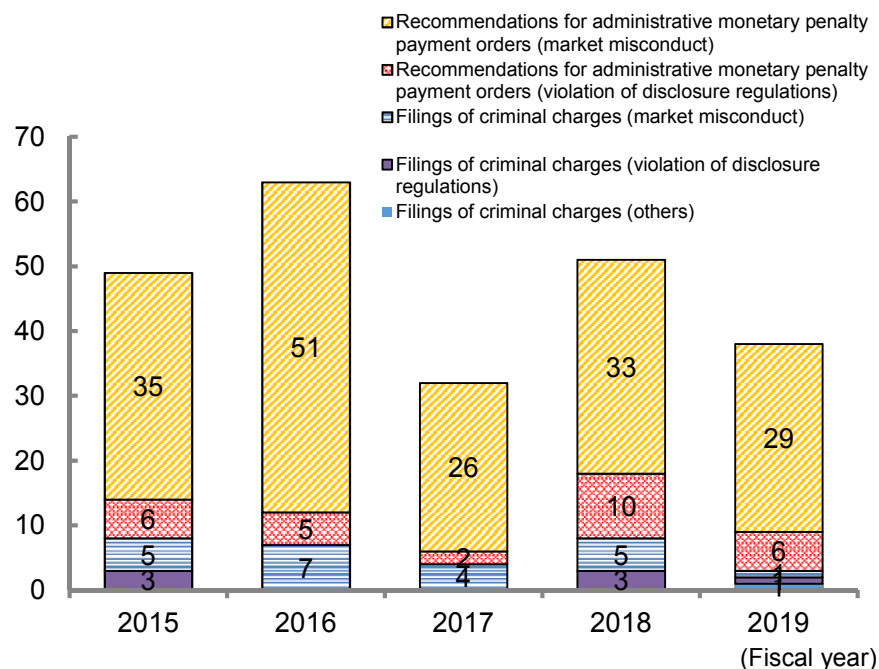
- Timely market surveillance with a focus on potential risks from macro-economic perspectives
  - Ensuring sound market functioning through rigorous market monitoring against COVID-19 related market abuse\*
- Risk-based monitoring of securities business
- Swift and effective investigations through use of the administrative monetary penalty system
- Rigorous enforcement of criminal investigation against serious and egregious market misconduct
- Root-cause analysis and engagement with stakeholders to prevent recurrences of violations

\* See a statement issued by the Minister for Financial Services on March 24, 2020. <https://www.fsa.go.jp/en/announce/state/20200324.html>

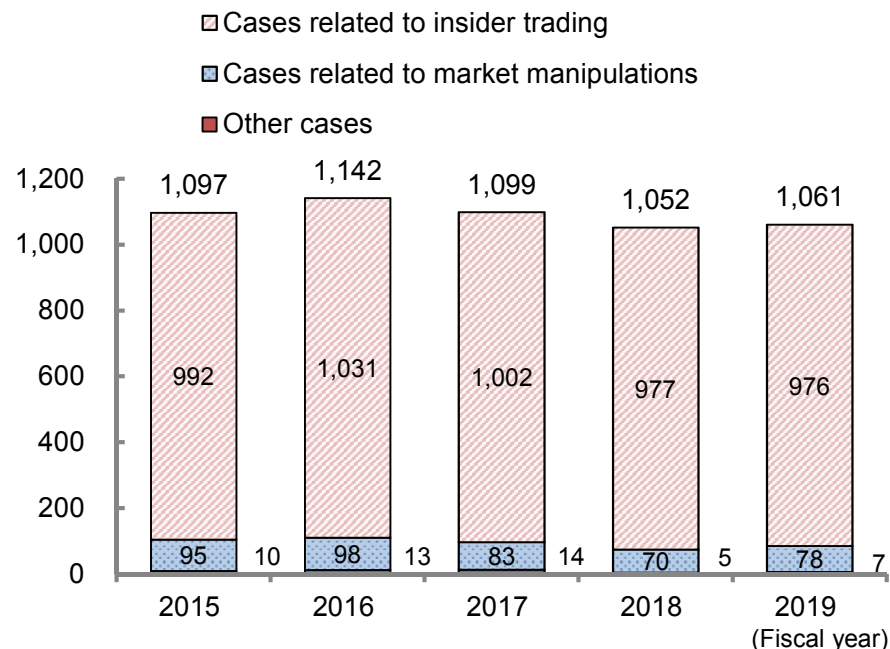
# 3. Market Misconduct

- 29 recommendations for administrative monetary penalty payment orders
  - Insider trading: 24 cases
  - Market manipulation: 5 cases
- 1 filing of criminal charges for criminal offense (Insider trading)
- Over 1,000 cases were examined in 7 consecutive years

**Recommendations and Filings of Criminal Charges**



**Examined Cases for Market Misconduct**



# 3. Market Misconduct (Continued)

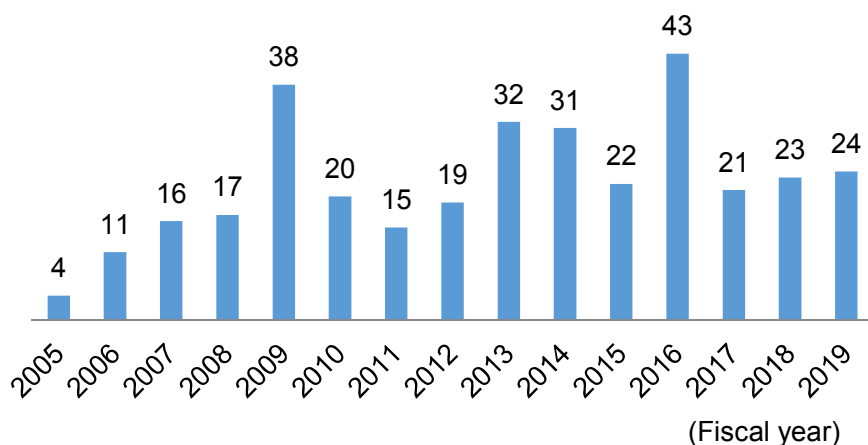
## ➤ Insider trading

- Cases of trading on business alliances and new share issuances are still prevalent
- First case of recommendation for administrative order for transaction encouragement for avoiding losses

## ➤ Market manipulation

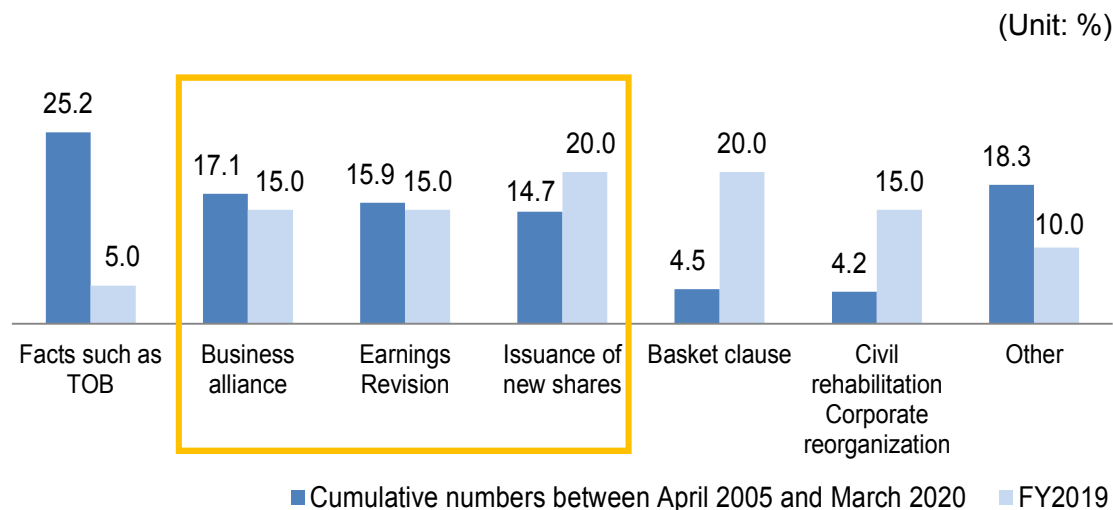
- A case of placing multiple spoofing orders across a wide range of prices
- A case of raising prices by repeatedly placing minimum unit orders

**Number of Insider Trading Cases**



Note: The numbers include cross-border cases.

**Breakdown of Cases by type of Insider Information**



## 4. Violation of Disclosure Regulations

- 6 recommendations for administrative monetary penalty payment orders
- 1 filing of criminal charges
- Recommendation in cases of misstatements concerning non-financial information in securities reports
- Close cooperation with the Certified Public Accountants and Auditing Oversight Board (CPA/OB) on the case of misstatements
- Conducted dialogue on the root causes of violations with the management and outside directors of listed companies to prevent recurrences of violations

### Results of the Inspections of Disclosed Statements

		Overview	Backgrounds
<b>Number of inspected cases</b>  (of which)	18	<ul style="list-style-type: none"> <li>• Premature revenue recognition</li> <li>• False statements regarding the corporate governance section of securities reports</li> </ul>	<ul style="list-style-type: none"> <li>• Then CEO's lack of awareness of compliance</li> <li>• Corporate culture that tolerated fraudulent accounting</li> <li>• Total malfunction of governance</li> </ul>
	Recommendations for administrative monetary penalty payment orders  6	False statement regarding executive officer's compensation	<ul style="list-style-type: none"> <li>• Concentration of power in the representative director and chairman</li> <li>• Lack of transparency over the activities of some business management divisions</li> <li>• Dysfunctional board of directors</li> </ul>

# 5. Monitoring of Financial Instruments Business

## Operators (FIBOs)\*

### Risk Assessments

Analyzing the risks of regulated firms' business models



### On-site Inspection

- 73 cases of on-site inspection
- 14 recommendations for administrative actions
- Encouraging to build effective internal control environments (e.g. through sharing the findings with the firms)

### Typical Cases for Administrative Actions

Securities companies	<ul style="list-style-type: none"> <li>• Failure to identify market manipulation due to deficiencies of a transaction monitoring system related to listed derivatives (long-term JGBs Futures)</li> <li>• Compensation for losses of customers</li> </ul>
Investment management firms	Failure to faithfully conduct business for the interests of beneficiary owners
Investment advisors/agents	<ul style="list-style-type: none"> <li>• Name lending to a third-party</li> <li>• Seriously misleading advertisements</li> <li>• Unfounded advisory aiming at pursuing interests of the de facto rulers</li> </ul>

\* "FIBOs" stands for any business operator subject to securities monitoring, including Financial Instruments Business Operators, registered financial institutions, financial instruments intermediary service providers, Qualified Institutional Investor Business Operators, and credit rating agencies.

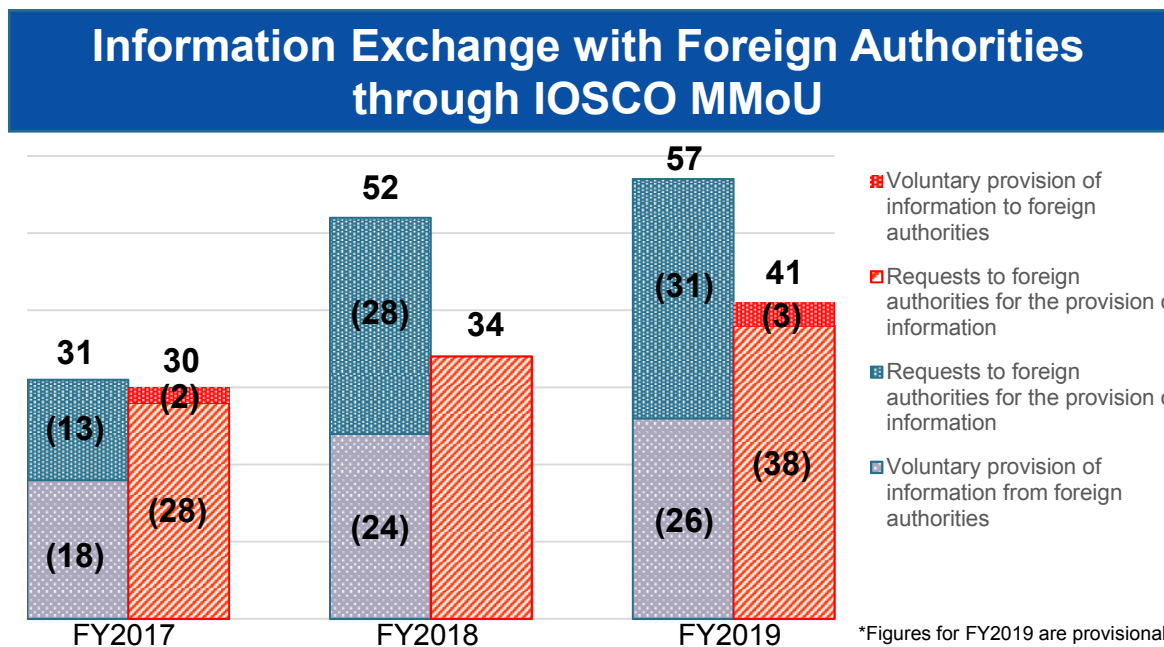


## 6. Digitalization and HRs

- Enhancing surveillance system
- Promoting digitalized technologies for efficient oversight
  - Surveillance system with the function of detecting and analyzing possible market misconduct from a large volume of orders and transactions data
  - Surveillance system with the function of detecting signs of fraud in markets from big data available via the internet, including SNS
  - Development of technologies that effectively share data necessary for oversight with market participants
- Further enhancing digital forensics
- Improving staff expertise and hiring skilled personnel

# 7. International Coordination for Close Market Surveillance

- Proactively participated in the IOSCO discussions
  - IOSCO Annual Conference, APRC, C4, CER
- Active information exchange through IOSCO MMoU for enforcement actions against misconduct in cross-border transactions
- Strengthened cooperative network and sharing common issues
  - Staff exchange, short-time training programs, etc.



## 8. Cooperation with SROs and Proactive Communication

- Close cooperation with SROs in market surveillance
  - Information sharing on a daily basis
  - Periodic discussions to share emerging issues in a timely manner
- Proactive communication on the significance and root causes of the cases with stakeholders
  - Websites, casebooks, articles, lectures, etc.
  - Message towards Market Participants: “Emerging Issues” & “Messages from the SESC to Market Participants” (Annual Report 2019/2020)

Emerging Issues	Messages from the SESC to Market Participants	
Global market surveillance and closer cooperation with foreign authorities	Market participants	Title
	Recommendation for administrative actions against inappropriate sales and solicitation activities that may harm investors (investment advisors)	Corporate members
Institutional investors		“We are also looking out for market manipulations in derivatives”
Listed companies		“Check your own role once again to prevent recurrence of violations”
		“Non-financial information is also important for investment decisions”
FIBOs	"Better preparation for cyberattacks!"	