



Securities and Exchange Surveillance Commission



"for investors, with investors"

The Government of Japan

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Securities and Exchange Surveillance Commission

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A Message from the Chairman

The Securities and Exchange Surveillance Commission (SESC) has worked to ensure the fairness and transparency of markets and to protect investors, and its 11th term was launched in December 2022.

The SESC has filed criminal charges in cases of serious and malicious market misconduct and has made recommendations for administrative monetary penalty payment orders and administrative actions for violations of laws and regulations. The SESC has also enhanced market oversight through its investigations and inspections to accomplish its mission.

In recent years, market movements have become faster and greater due to progress in digitalization and globalization, while market mechanisms and legal systems have accumulated changes. The new Nippon Individual Savings Account (NISA) program was launched in January 2024 in conjunction with the formulation of Policy Plan for Promoting Japan as a Leading Asset Management Center. In addition, the market is undergoing changes, including uncertainty about global economic and price developments, and heightened geopolitical risks. Furthermore, structural changes are occurring in the environment, such as a declining population, declining birthrate, and aging population.

In light of these changes in the environment surrounding markets, we believe it is important for the SESC to have adequate capability to be called a professional agency for market surveillance and to demonstrate its power actively in order to appropriately deal with atypical and new types of cases that could threaten market integrity.

Under the 11th term, the SESC has worked to achieve a virtuous cycle of "Information Gathering and Analysis for Comprehensive Market Oversight," "Effective and Efficient Investigations and Inspections," and "Effective Initiatives to Enhance Market Discipline" in order to contribute to the sound development of capital markets.

Based on its accumulated market oversight skills and experiences and its cooperation with relevant organizations in Japan and other countries, we strive to enhance communication within the SESC, develop capabilities to find out the truth, and engage in market oversight with a straight and broad vision. The SESC will continue to fulfill its mission and respond to the trust that you place in us. Your continuous understanding and cooperation would be greatly appreciated.



NAKAHARA Ryoichi
Chairman
Securities and Exchange Surveillance Commission
June 2025

Chairman and Commissioners



**Commissioner
KATO Sayuri**

KATO Sayuri was appointed as SESC Commissioner in December 2019 (reappointed in 2022). 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.

**Chairman
NAKAHARA Ryoichi**

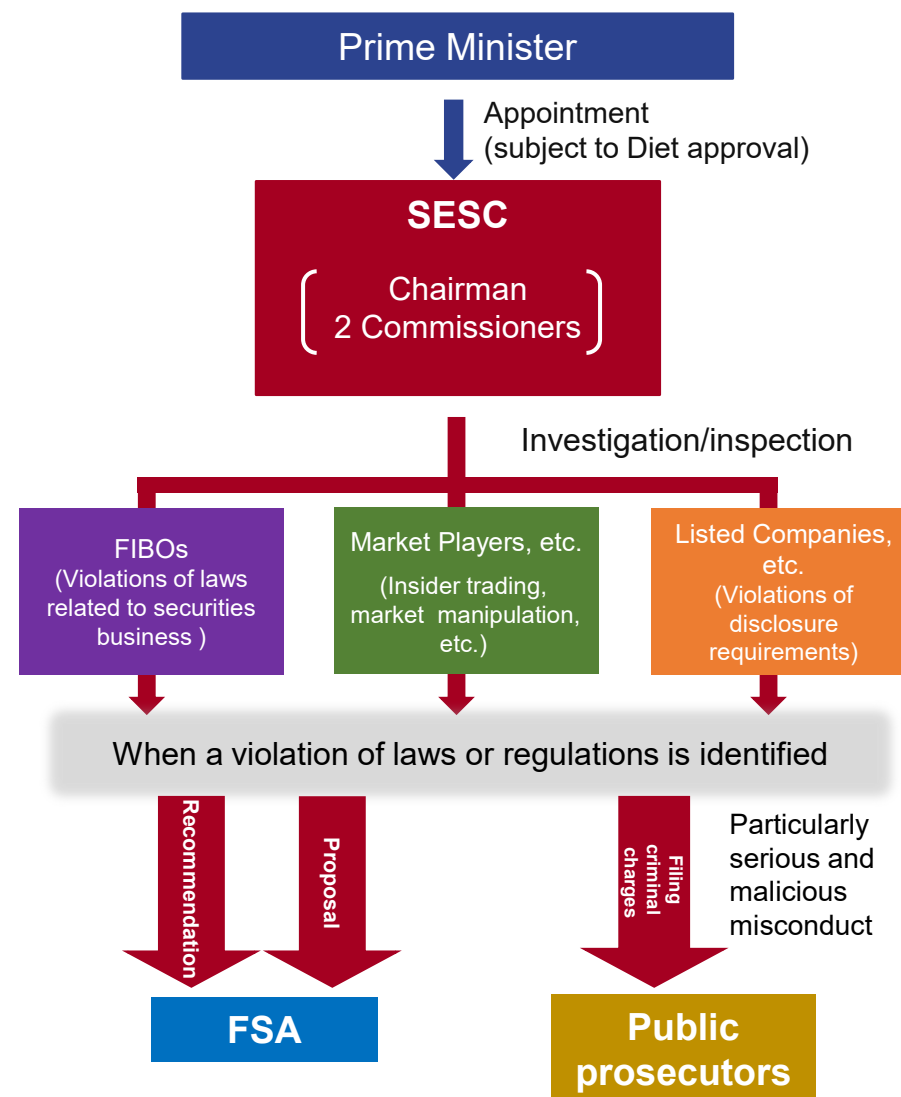
NAKAHARA Ryoichi was appointed as SESC Chairman in December 2022. Previously, he served as the Chief Public Prosecutor of the Hiroshima and Fukuoka High Public Prosecutors Offices.

**Commissioner
HASHIMOTO Takashi**

HASHIMOTO Takashi was appointed as SESC Commissioner in December 2022. Previously, he served as a professor at Nihon University College of Commerce and at Aoyama Gakuin University Graduate School of Professional Accountancy.

I. Organization and Objectives

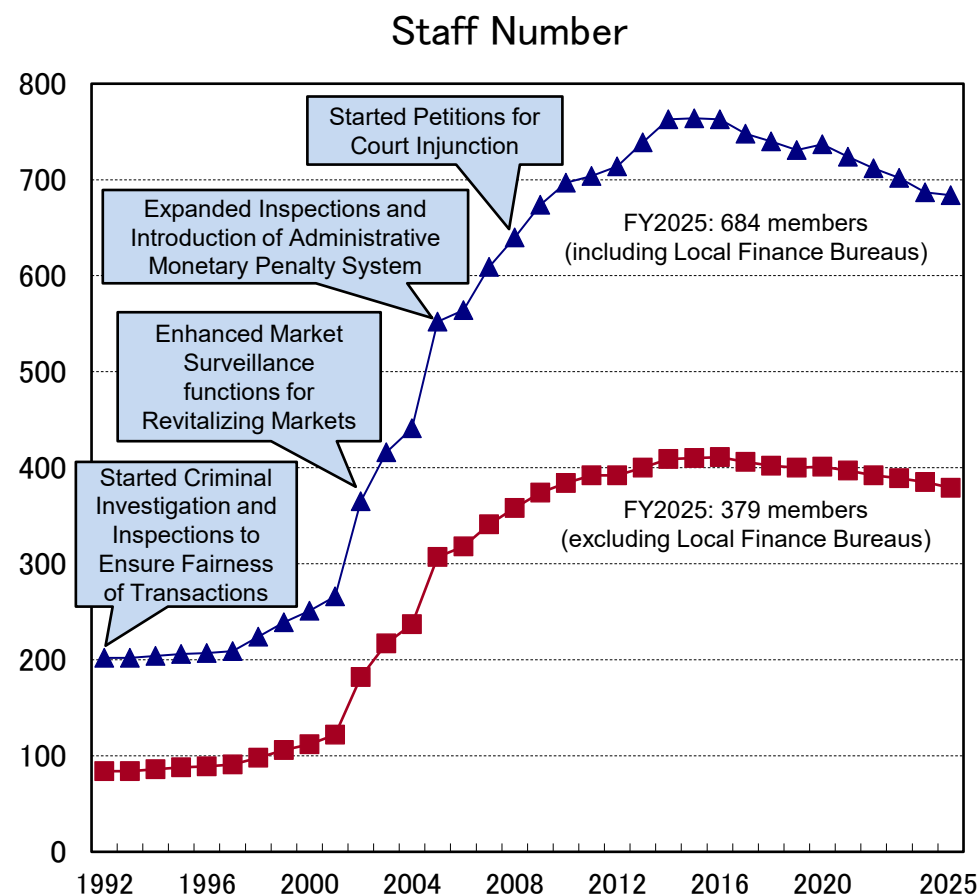
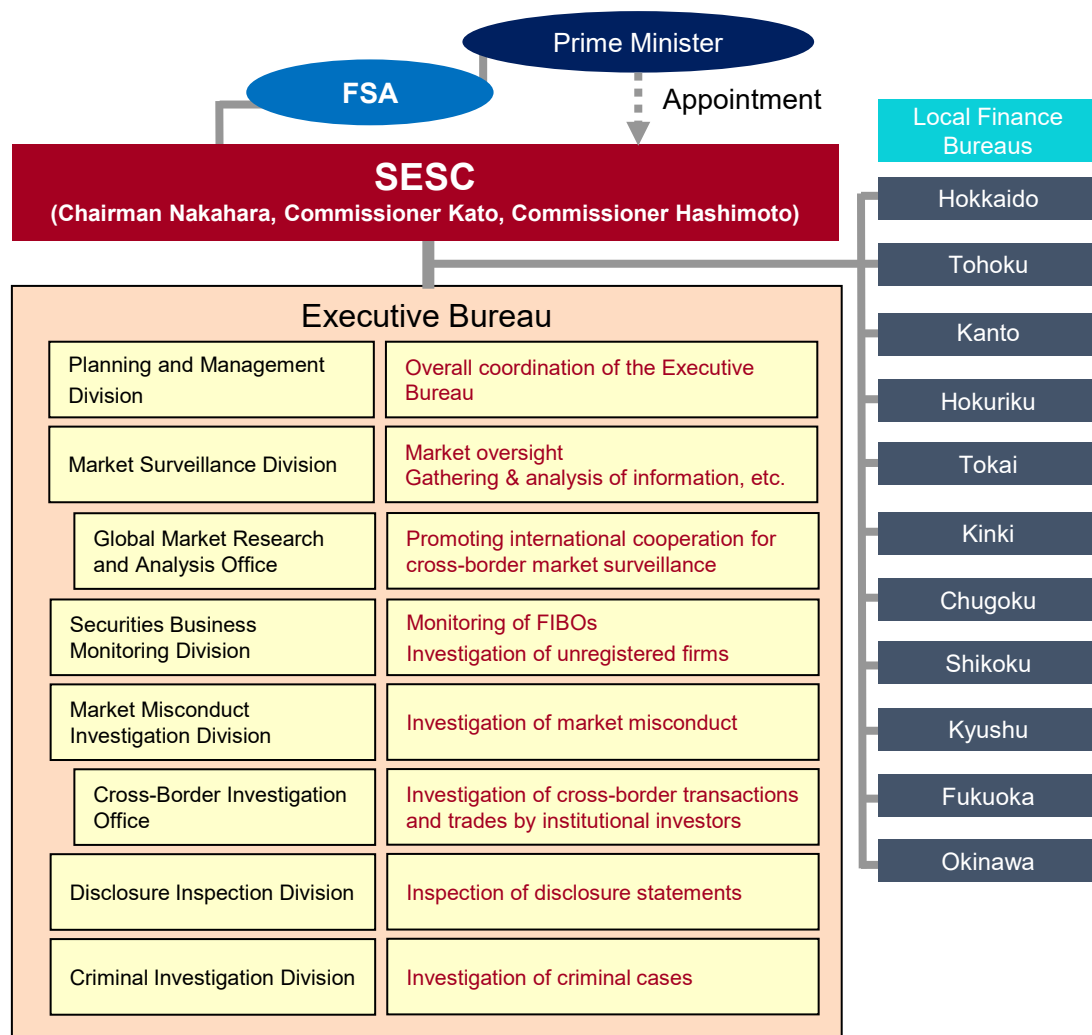
- ◆ The SESC is a collegiate organization within the Financial Services Agency (FSA), founded in 1992.
- ◆ A Chairman and two Commissioners are appointed by the Prime Minister and function as independent agents. (Term of office: 3 years)
- ◆ The SESC aims to ensure the fairness and transparency of markets and to protect investors.
 - Inspections of violations of laws and regulations related to securities business by Financial Instruments Business Operators (FIBOs)*
 - Investigations of market misconduct, including insider trading and market manipulation
 - Inspections of violations of disclosure requirements by listed companies
 - Recommendations for administrative actions or administrative monetary penalty payment orders, policy proposal, or filing criminal charges based on the results of the above investigations or inspections



* "FIBOs" stands for Financial Instruments Business Operators and includes any business operator subject to inspections, such as registered financial institutions, financial instruments intermediary service providers, and qualified institutional investors

(Ref.) Organizational Structure and Resources

- ◆ The Executive Bureau is composed of the following six divisions: Planning and Management Division, Market Surveillance Division, Securities Business Monitoring Division, Market Misconduct Investigation Division, Disclosure Inspection Division, and Criminal Investigation Division.
- ◆ In addition to the Executive Bureau in Tokyo, the SESC has staff members at the Local Finance Bureaus, which perform mainly inspections of FIBOs located in respective areas.
- ◆ There are 684 staff members in total (379 of which work for the Executive Bureau) as of March 31, 2026, the end of fiscal year 2025.



(Ref.) History of the SESC

Since its establishment in 1992, the SESC has expanded its administrative investigations beyond its investigation of criminal cases to strengthen its functions as a market surveillance organization

Jul. 1992

SESC established within the Ministry of Finance, consisting of two divisions: the Coordination and Inspection Division and the Criminal Investigation Division

Jun. 1998

SESC moved to the Financial Supervisory Agency

Jul. 2000

FSA was established through reorganization of the Financial Supervisory Agency.

Apr. and Jul. 2005

Introduction of administrative monetary penalty system

Addition of authority to inspect disclosure statements and to conduct investigations to impose administrative monetary penalties to the SESC

Sept. 2007

Addition of authority to conduct inspections on investment funds

Dec. 2008

Addition of authority to file petitions for court injunctions against violations by unregistered business operators

Jul. 2011

SESC was reorganized into its current structure of six divisions:
Planning and Management, Market Surveillance, Securities Business Monitoring, Market Misconduct Investigation, Disclosure Inspection, and Criminal Investigation

Aug. 2011

Cross-Border Investigation Office was established within the Market Misconduct Investigation Division to respond to market misconduct involving cross-border transactions by institutional investors

Apr. 2014

Introduction of insider trading regulations for encouragement of transactions

Apr. 2015

Digital Forensic Solutions Office was established to preserve evidence on electromagnetic records (digital forensics)

Apr. 2018

Addition of authority to conduct inspections on high speed trading business operators

Nov. 2021

Addition of authority to conduct inspections on financial service intermediaries that provide securities intermediary services

Apr. 2022

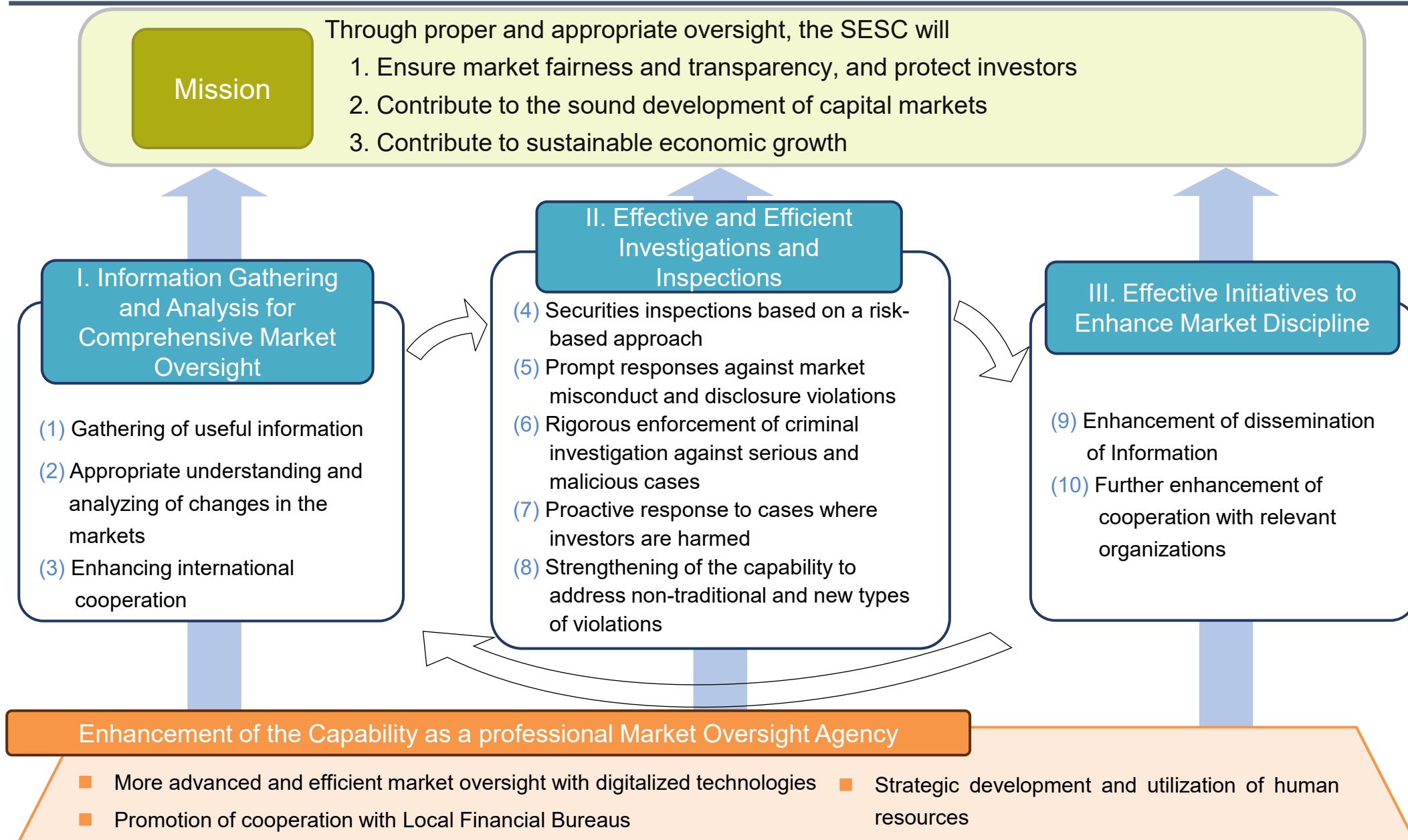
Foreign Securities Business Monitoring Office was established as part of the environmental improvement accompanying the establishment of international financial markets

Jul. 2024

Global Market Research and Analysis Office was established to promote cooperation with overseas authorities and to collect and analyze information on issues related to cross-border transactions

II. Strategy & Policy of the SESC 2023-2025

- For Trusted, Fair and Transparent Markets
in Response to the Changing Times -



III. Activities of the SESC

—1 Market Surveillance

Entry Point: The SESC gathers and analyzes a wide range of information and detects signs of market misconduct.

Market Monitoring:

Gathering and analyzing a wide range of information on markets



- The SESC receives tips, complaints and referrals from investors (about 7,000 per year).
- Collecting information from market participants, such as securities companies and self-regulatory organizations.^(*)
- The SESC grasps trends in both primary and secondary markets and across individual companies.
- The SESC analyzes new financial instruments and transaction patterns and structural market changes in Japan and other countries.
- The SESC maintains close relationships for sharing information on the listed companies with compliance divisions of self-regulatory organizations.^(*)

Sharing
Information

Sharing
Information

Examination of Transactions:

Early detection of signs of market misconduct in securities trading



- The SESC gathers and analyzes suspicious transaction data that may be related to market misconduct, such as insider trading, market manipulation and use of fraudulent means (e.g. fictitious increase in capital) (about 1,000 cases per year).
- The SESC maintains close relationships for sharing information with the surveillance divisions of self-regulatory organizations.

Referring Cases

Investigation or Inspection Divisions

^(*) "Self-regulatory organizations" refers to financial instruments firms associations, financial instruments exchanges, and self-regulatory organizations

III. Activities of the SESC

—2 Securities Business Monitoring

The SESC implements effective and efficient monitoring to ensure an environment in which investors can invest with confidence.

Selection of FIBOs for Inspection Based on a Risk-based Approach

- To implement effective and efficient monitoring, of FIBOs, the SESC conducts business model analysis and risk assessment focusing on the appropriateness of risk management for all of the approximately 8,800* FIBOs, and selects FIBOs for inspection on a risk basis.

*Number at the end of March 2025

Inspection

- The SESC examines the appropriateness of FIBO's business operations after in-depth analysis of their products, transaction strategies and explanations to customers.
- The SESC addresses identified problems not only by pointing out violations of laws and regulations, but also by determining their root-causes through a review of management policies, governance, and personnel and remuneration policies.

When the SESC identifies a serious violation of laws or regulations

Recommendation for administrative disciplinary actions, etc.

- The SESC recommends administrative disciplinary actions, etc. to the Prime Minister and the Commissioner of the FSA.

Prevention of recurrence of violations

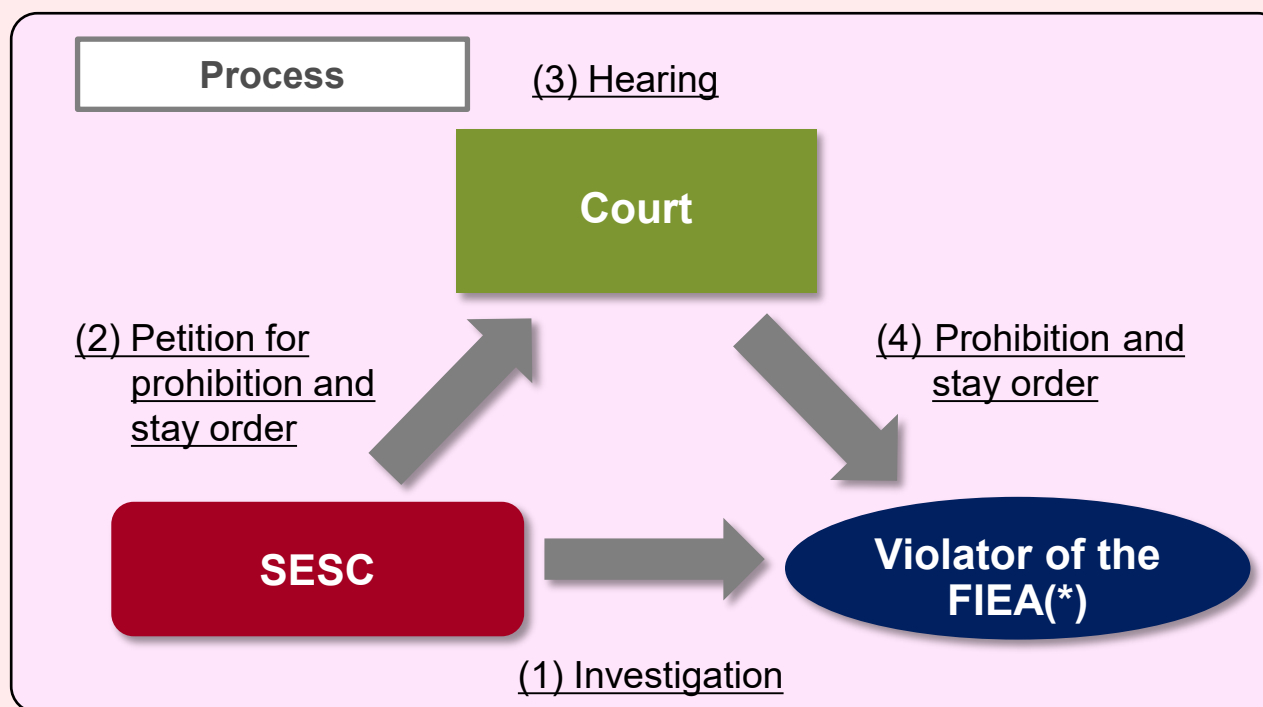
- The SESC publishes "Overview of Securities Business Monitoring and Case Studies" to be used for FIBO's voluntary initiatives to enhance and strengthen their internal control frameworks.



Actions against Unregistered Business Operators

Petitions to the Court for Prohibition and Stay Orders

- In cooperation with law enforcement authorities, the SESC conducts investigations to prevent the spread of damage to investors from fraud caused by unregistered business operators.
- Based on the investigation results, the SESC files petitions with the court for the issuance of prohibition and stay orders against acts in violation of the law.
- Where necessary, the SESC may publicly disclose the name and other information of violators.



(*) Financial Instruments and Exchange Act

III. Activities of the SESC

—3 Investigation of Market Misconduct

(1) Investigations of Domestic Transactions

The SESC conducts timely investigations of those who engage in market misconduct, including insider trading and market manipulation.

On-site inspections and interviews

- The SESC conducts on-site inspections and/or interviews with traders and/or listed companies to determine whether market misconduct, including insider trading, market manipulation, or use of fraudulent means has occurred.



When the SESC identifies a violation of laws

Recommendation for administrative monetary penalty payment orders

- The SESC will make a recommendation to the Prime Minister and the Commissioner of the FSA to issue an order to pay an administrative monetary penalty.
- A person who is in a position to know insider information at a listed company becomes subject to an administrative monetary penalty payment order if he/she provides the information or recommends transactions in shares of the company to others for the purpose of leading them to earn profits.



Prevention of recurrence of violations

- The SESC shares information with self-regulatory organizations after searching for root causes of market misconduct.
- The SESC publishes "Casebook of Administrative Monetary Penalties (Market Misconduct)," which compiles the characteristics of cases for recommendations, contributing to enhancing listed companies' insider trading management systems and securities companies' examination of market transactions.

III. Activities of the SESC

—3 Investigation of Market Misconduct

(2) Investigation of Cross-Border Transactions and Trades by Institutional Investors

The SESC also investigates cross-border transactions and transactions by professional investors.

Investigation of cross-border transactions

- The SESC conducts investigation of market misconduct accessed from overseas investors.
- The SESC requests foreign authorities to obtain information pursuant to the IOSCO MMoU.^(*)
- The SESC conducts investigation with reference to the information provided.

Investigation of trades by institutional investors

- The SESC conducts on-site inspections and interviews concerning trades in question by institutional investors.



When the SESC identifies a violation of laws

Recommendation of administrative monetary penalty payment orders

- The SESC will make a recommendation to the Prime Minister and the Commissioner of the FSA to issue an order to pay an administrative monetary penalty.

^(*) International Organization of Securities Commissions (IOSCO) established Multilateral Memorandum of Understanding (MMoU) concerning Consultation and Cooperation and the Exchange of Information in 2002. (130 authorities had signed at the end of March 2025.)

III. Activities of the SESC

—4 Inspection of Disclosure Statements

The SESC ensures appropriate disclosure by inspecting disclosure statements of listed companies, etc.

Gather and analyze information

- The SESC gathers and analyzes information through various channels, such as SESC's Contact Point for Providing Information.
- The SESC monitors the appropriateness of disclosure from various perspectives, including the environment surrounding listed companies, etc.



On-site Inspections of listed companies

- The SESC inspects listed companies suspected of submitting disclosure documents with false statements (e.g. securities registration statements, annual securities reports and large-shareholding reports).



Recommendation for administrative monetary penalty payment orders

When the SESC recognizes a violation of disclosure requirements

- When a violation of disclosure requirements, such as a false statement about a material particular contained in disclosure documents, is recognized, the SESC recommends the issuance of an administrative monetary penalty payment order to the listed company concerned.
- Even if such a recommendation is not made, the SESC urges the company to make voluntary improvements in its disclosed documents, as necessary.



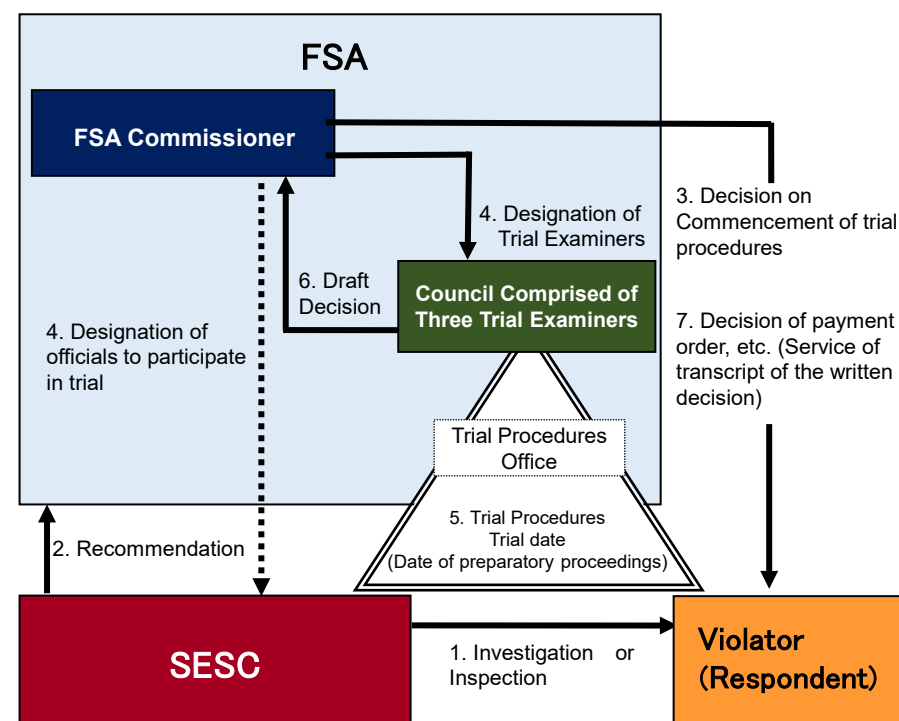
Prevention of recurrence of violations

- The SESC discusses the background and root cause of the violations of disclosure requirements with the listed company's management.
- By sharing awareness of problems, the SESC urges the company to build an appropriate disclosure structure.
- The SESC publishes "Case book of Inspection of Disclosure Statements," which compiles details and backgrounds of cases for recommendations etc.

(Ref.) Administrative Monetary Penalty System

- ◆ The administrative monetary penalty system was introduced as an administrative measure to impose a financial burden on persons who violate certain provisions of the FIEA.
- ◆ This measure is intended to achieve the administrative objective of preventing misconduct and ensuring effectiveness of the regulation.
- ◆ Subjects of the administrative monetary penalty include: false statements in securities registration statements and annual securities reports, spreading of rumors, use of fraudulent means, market manipulation, and insider trading.
- ◆ When the SESC identifies a violation as a result of an investigation of market misconduct or inspection of disclosure statements, the SESC will make a recommendation* to the Prime Minister and the Commissioner of the FSA to issue an administrative monetary penalty payment order.

- Outline of Administrative Monetary Penalty System -

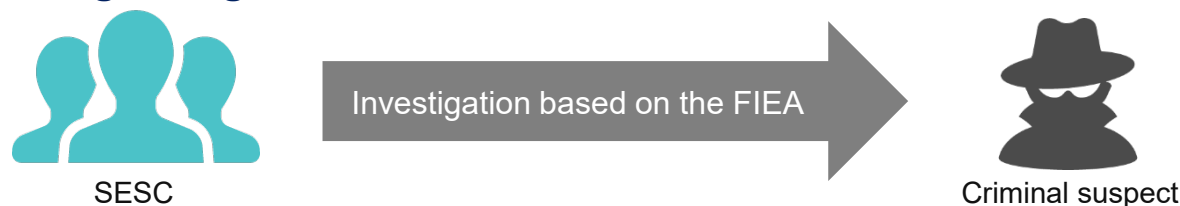


*After receiving a recommendation from the SESC, the FSA commences an administrative trial procedure by trial examiners. Upon receiving a decision by the trial examiners, the Commissioner of the FSA decides whether to order payment of an administrative monetary penalty.

III. Activities of the SESC

—5 Criminal Investigations

The SESC reveals facts of serious and malicious violations and demands criminal prosecution by filing charges.



Investigations of serious and malicious violations

The SESC investigates cases of serious and malicious breaches of applicable laws, such as insider trading, market manipulation and submission of false securities reports.

Non-compulsory Investigation

The SESC may question a suspect or witness in a criminal case and examine objects in the possession of a suspect or witness.

Compulsory Investigation

The SESC may search a company and a residence of a suspect or witness and seize relevant documents in accordance with a warrant issued by a judge.

* Experts, such as Certified Public Accountants and IT professionals (for digital forensics), participate in investigations.

Filing of Criminal Charges

The SESC files criminal charges with public prosecutors against suspects based on the results of investigations.

IV. SESC's Activities in FY 2024

Securities Business Monitoring of FIBOs (Recommendations for Administrative Disciplinary Actions)

- The SESC conducted risk assessment based on business size and type
 - analyzed operational risks and issues by business size and type
- The SESC conducted inspections based on the risk assessment
 - inspected 86 FIBOs and made nine recommendations for administrative disciplinary actions
- The SESC recommended administrative disciplinary actions for the following violations:
 - Inappropriate sharing of customer information between a bank and securities firms, etc., and securities services conducted by a registered financial institution
 - Inappropriate investment solicitation targeting elderly customers

Securities Business Monitoring of FIBOs (Unregistered Business Operators, etc.)

- The SESC filed a petition with the court for the issuance of a prohibition and stay order against acts in violation of the FIEA committed by unregistered business operators, in order to prevent the spread of investor damage.
- The SESC enhanced cooperation with relevant organizations, including the FSA's related divisions, Local Finance Bureaus, law enforcement authorities, and the Consumer Affairs Agency.

IV. SESC's Activities in FY 2024

Investigations of Market Misconduct (Recommendations for Administrative Monetary Penalty Payment Orders)

- Insider trading
 - In one case, five people were subject to administrative monetary penalty payment orders, including an attorney at law who was expected to maintain a high ethical standard concerning compliance.
- Market manipulation, spreading of rumors, and fraudulent means
 - An individual investor engaged in spreading rumors for the purpose of causing fluctuations in the market price of a listed company's shares, which influenced the market price of the shares.

Inspections of Violations of Disclosure Requirements (Recommendations for Administrative Monetary Penalty Payment Orders)

- The SESC made recommendations for the following cases:
 - Cases in which the statement of large-volume holdings or statements of changes* were not submitted by the due date or contained a false statement, etc.;
 - * A statement that must be submitted when there are changes regarding a material particular after the submission of the statement of large-volume holdings.
 - Cases in which "Transactions with Related Parties" or "Contingent Liabilities (guarantee for debt)" are not noted in the financial statements;
 - Cases of improper accounting treatment, such as non-accruing of loss of valuation of investment securities, and overstatement of crypto-assets.
- The SESC discusses the background and causes of violations of disclosure requirements with management officials of the listed companies to share awareness of the issues to prevent the occurrence and recurrence of the violations.

IV. SESC's Activities in FY 2024

Criminal Investigations (Filing of Criminal Charges)

- The SESC exercises its authority for criminal investigation to take rigorous actions against severe and malicious market misconduct in order to achieve fair and transparent markets.
- The SESC made filing of criminal charges for the following insider trading cases:
 - An FSA official came to know tender offer information in the course of his/her duties and purchased shares before the announcements.
 - An employee of the Tokyo Stock Exchange provided his/her father with tender offer information that he/she came to know in the course of his/her duties, and the father purchased shares before the announcements.
 - The representative director of a consulting company came to know a material fact of a contractor and sold shares before the announcement to avoid losses.
 - A manager of the stock transfer agency business department of a trust bank came to know tender offer information in the course of his/her duties and purchased shares before the announcements.

Other activities

- Strengthen cooperation and collaboration with relevant authorities, such as local finance bureaus, public prosecutors, and the police authorities, as well as with self-regulatory organizations by sharing awareness of issues through exchange of opinions, in addition to day-to-day cooperation in market surveillance operations.
- Establish the Global Market Research and Analysis Office to further strengthen cooperation with relevant domestic and overseas organizations and to develop a framework for collecting and analyzing information on issues related to cross-border transactions.
 - As a major initiative of the Office, the SESC hosted an international conference in Tokyo in March 2025, where securities authorities around the world, including the SESC, engaged in discussions and exchanged opinions.

V. Reference Cases and Statistics

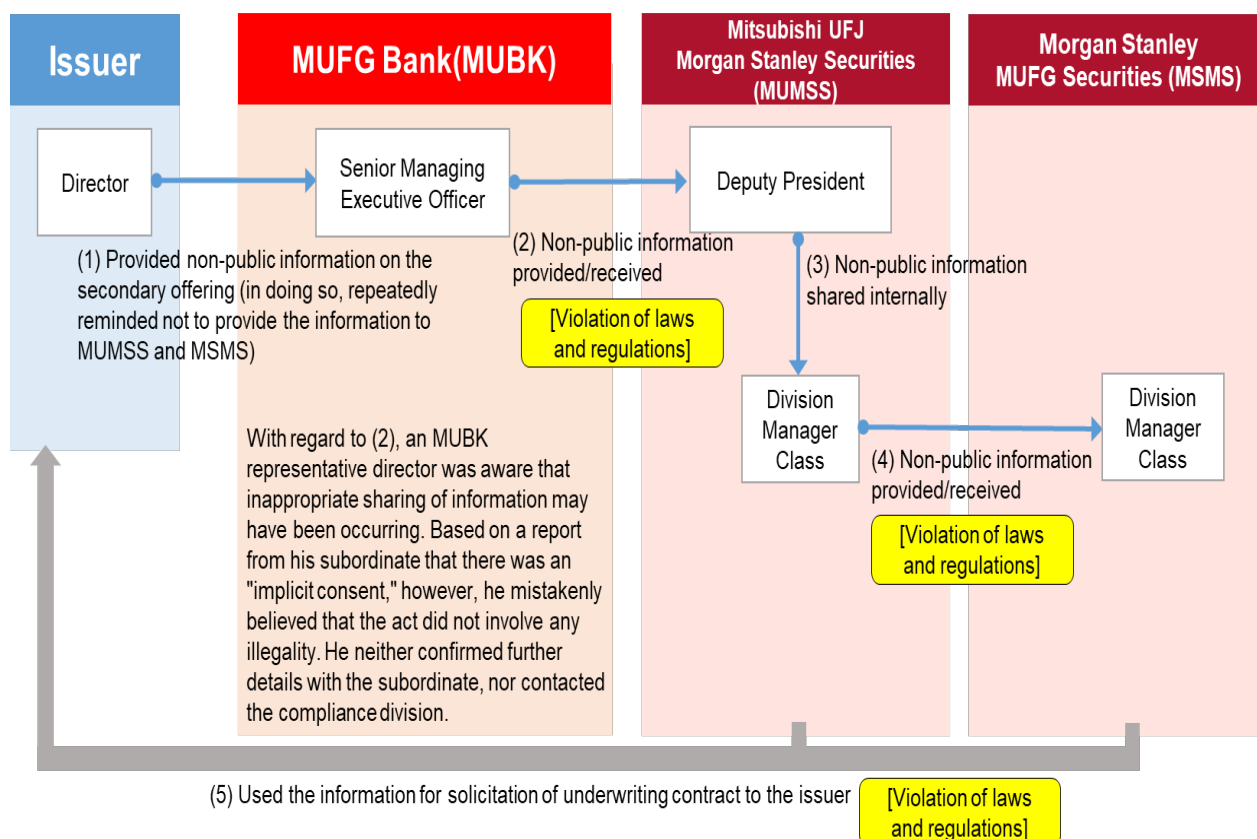
1. Recent Major Cases (1)

Recommendation for Administrative Disciplinary Action (Inspection of FIBOs)

Administrative Disciplinary Action Recommended against MUFG Bank, Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and Morgan Stanley MUFG Securities Co., Ltd. (Inappropriate sharing of customer information, etc.)

Recommendation date:
June 14, 2024

(i) Prohibition of provision/receipt of non-public information (breach of firewall regulations)



Overview (i)

(i) Prohibition of provision/receipt of non-public information (breach of firewall regulations)

Three firms (MUBK, MUMSS, MSMS) repeatedly exchanged non-public client information knowing that the client had prohibited, or had not consented to, the sharing of information among them.

Among such cases, an MUBK senior managing executive officer himself provided information to an MUMSS deputy president, who then used the information with MSMS for customer solicitation. Even though an MUBK representative director was aware that inappropriate sharing of information may have been occurring, MUBK did not take appropriate corrective measures.

Overview (ii)

(ii) Inadequate control environment for the management of corporate information

In addition to (i), the three firms managed corporate information inappropriately, such as failing to follow their internal rules. An MUBK employee opened a securities account in his spouse's name, and conducted the purchase and sale of securities on his own account many times, including during working hours, solely in pursuit of speculative profits. These transactions were mainly through short-term reversing trade of the same issues on margin, and involved inappropriate ones based on corporate information obtained in the course of duties.

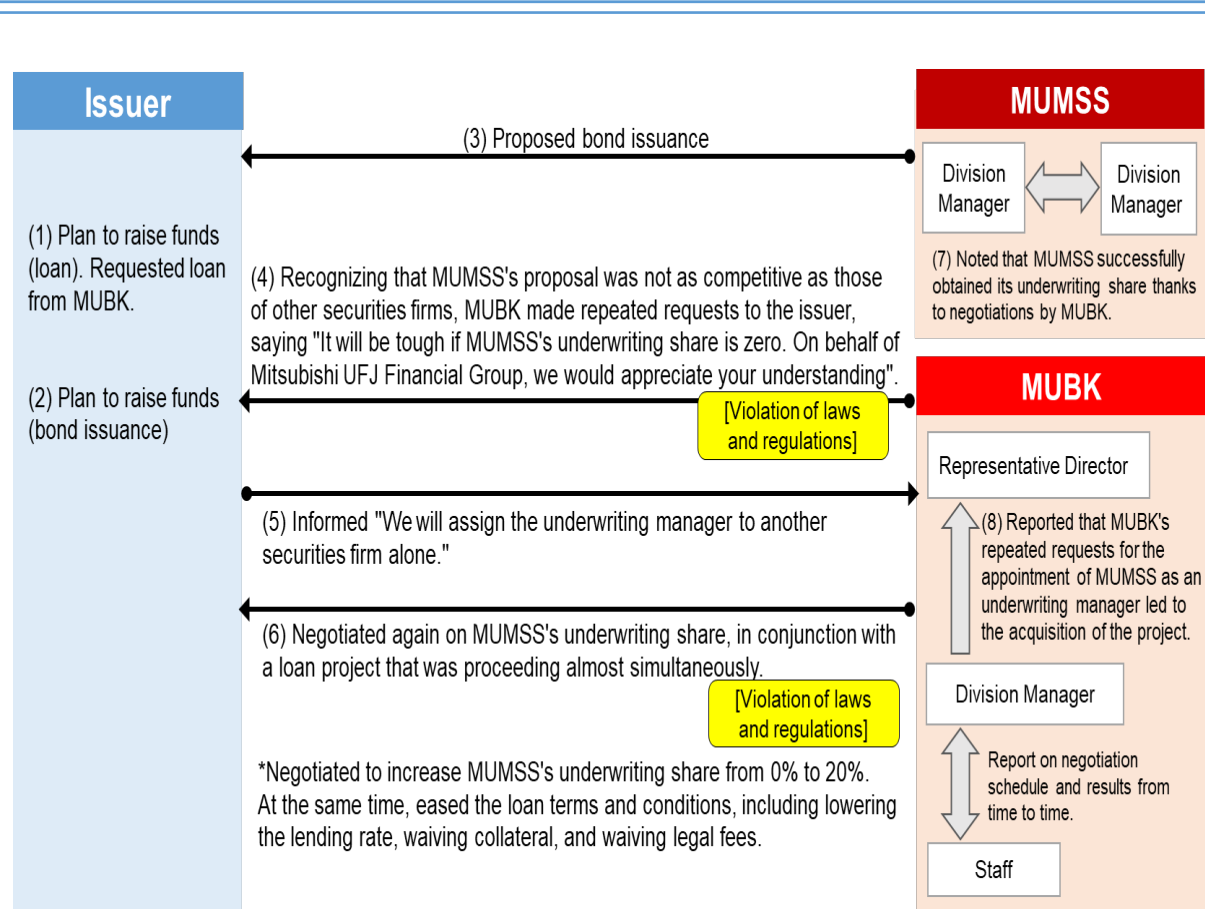
V. Reference Cases and Statistics

1. Recent Major Cases (1)

Recommendation for Administrative Disciplinary Action (Inspection of FIBOs)

Administrative Disciplinary Action Recommended against MUFG Bank, Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and Morgan Stanley MUFG Securities Co., Ltd. (Prohibition of Securities Services by Registered Financial Institutions)

Recommendation date:
June 14, 2024



Overview

Even though banks are prohibited from conducting securities services (underwriting businesses), MUBK repeatedly engaged in negotiations for MUMSS's underwriting share, including a tie-in negotiation with loan contracts. Among such cases, MUBK's then director was aware of inappropriate solicitations for underwriting.

Despite knowing that MUBK was engaging in negotiations for the underwriting of securities as above, MUMSS overlooked and facilitated the situation to enter into a financial instruments transaction contract. In addition, despite knowing that MUBK was conducting underwriting businesses that were not permitted, that MUBK was engaging in a tie-in negotiation for MUMSS's larger underwriting share as a minimum condition for loans with certain contract terms, and that MUBK was providing loans with the contract terms, MUMSS entered into an underwriting contract with a customer.

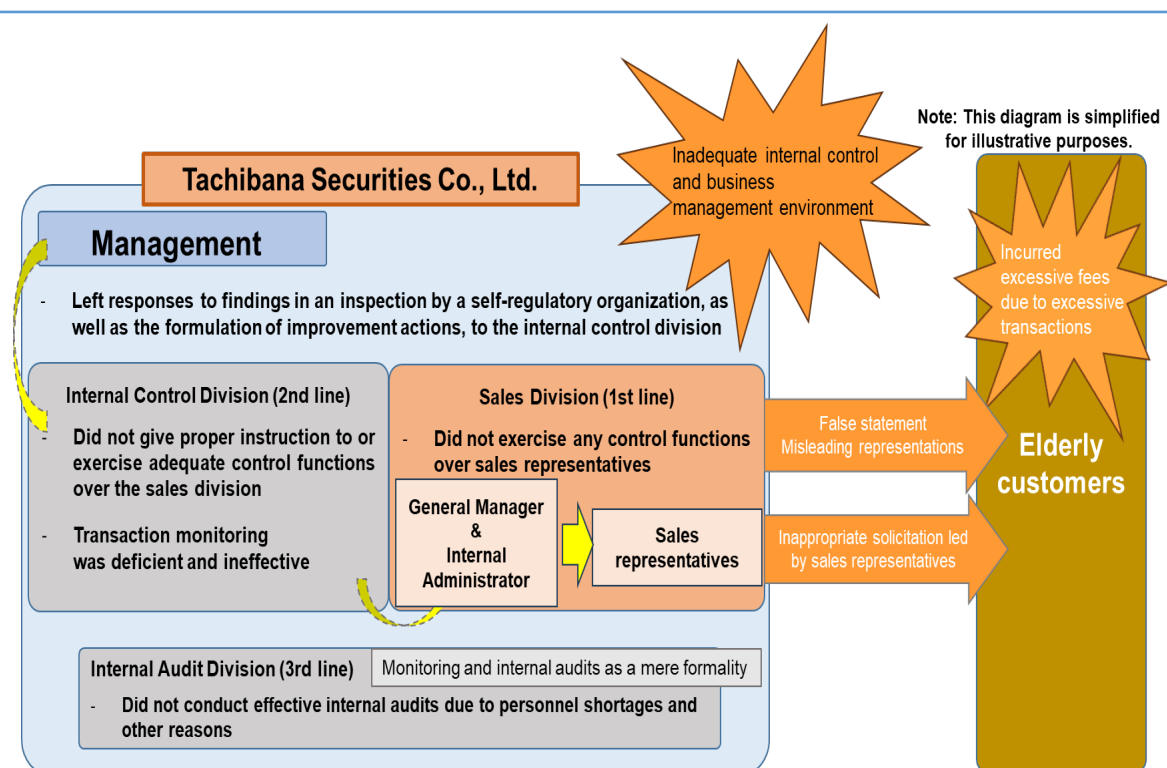
V. Reference Cases and Statistics

1. Recent Major Cases (2)

Recommendation for Administrative Disciplinary Action (Inspection of FIBOs)

Administrative Disciplinary Action Recommended against Tachibana Securities Co., Ltd.

Recommendation date:
March 28, 2025



[Background to the problem]

- The performance evaluation standards and rewards for sales representatives were based on an incentive system that was heavily skewed toward fee-based performance
- The management had fostered a sales-first corporate culture for many years by maintaining the incentive system heavily skewed toward fee-based performance, without developing an effective compliance environment

Overview

In connection with solicitation of domestic stocks targeting elderly customers, Tachibana Securities Co., Ltd. (hereinafter "the Company") repeatedly provided them with false information about the profits and losses of stocks they sold, for the purpose of earning fees. In addition, despite findings on its inappropriate solicitation in an inspection by a self-regulatory organization in 2023, the Company continued to place priority on earning fees and repeated such solicitation.

As a result, those elderly customers conducted excessive transactions and incurred excessive fees.

The Company failed to develop an effective internal control environment, with deficiencies in each of the first through third lines, such as inadequate control functions over the sales division. In addition, the Company had an inadequate business management environment, as the management did not take the findings by the self-regulatory organization seriously and left the issue to the internal control division without instructing an appropriate investigation or formulating improvement actions.

As the background to the above, the management had fostered a sales-first corporate culture for many years by maintaining an incentive system for sales representatives that was heavily skewed toward fee-based performance, without developing an effective compliance environment.

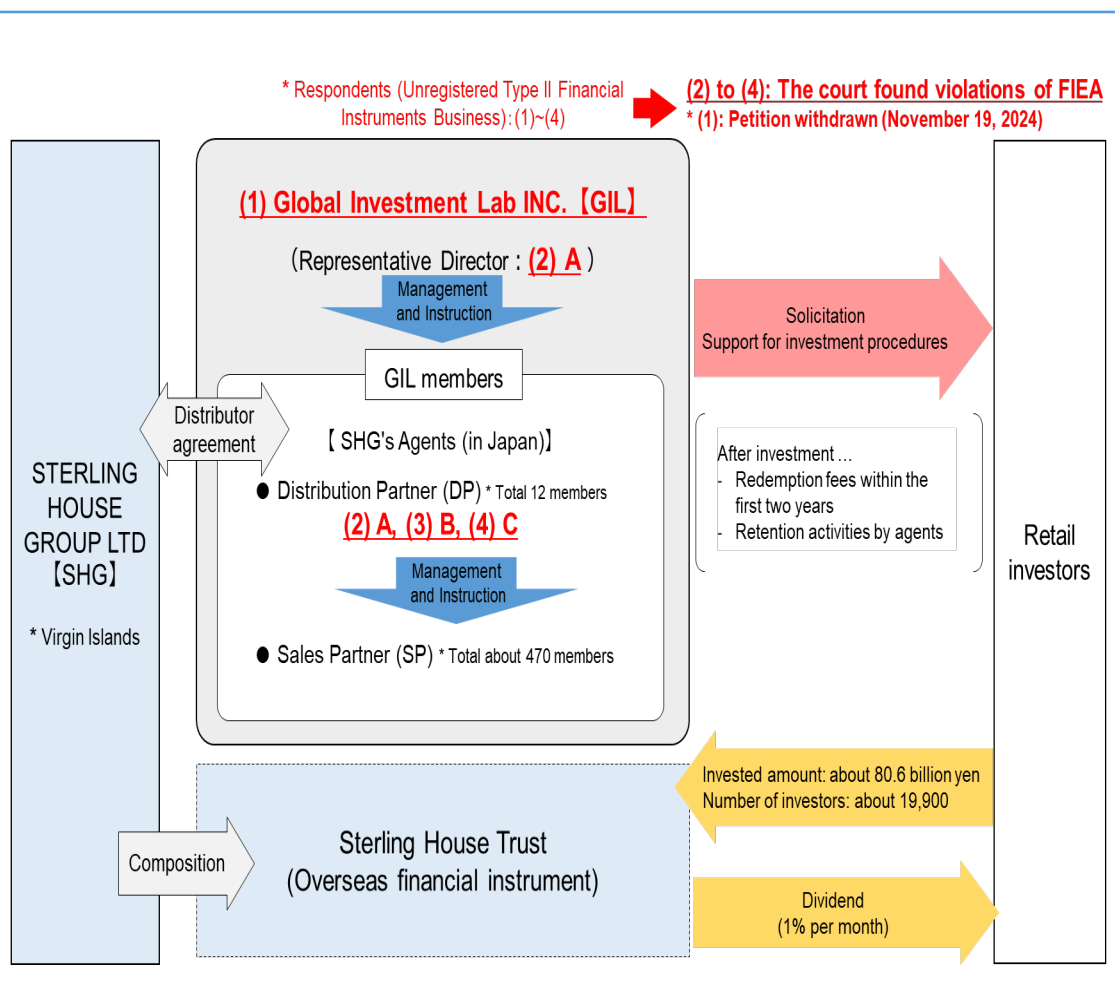
V. Reference Cases and Statistics

1. Recent Major Cases (3)

Petition to the Court for Prohibition and Stay Orders

Petition for Prohibition and Stay Order against Global Investment Lab INC., its representative director and key members

Petition filing date: June 25, 2024
Court issuance date: October 31, 2024



Overview

The SESC filed a petition with the Tokyo District Court to issue a prohibition and stay order against Global Investment Lab INC. (hereinafter "GIL"), Mr. A, GIL's Representative Director, and Mr. B and Mr. C, GIL's key members, who solicited shares in collective investment schemes subject to foreign laws without the registration required under the FIEA.

Note: The SESC has withdrawn the petition regarding GIL, considering that GIL was dissolved by a resolution of its general shareholders meeting and is in the process of liquidation.

Case Characteristics

- Through various channels, such as financial educational seminars, social media, networking events, and referrals from acquaintances, GIL, Mr. A, Mr. B and Mr. C attracted retail investors who were interested in asset management, and solicited investment in Sterling House Trust, an overseas financial product composed by STERLING HOUSE GROUP LTD, an overseas corporation. They described Sterling House Trust as highly favorable with extremely low risk (principal protection, dividend of 1% per month, etc.), and for those who expressed intention to invest, they provided support with administrative procedures, such as the conclusion of contracts.
- As a result, between March 2015 and May 2024, approximately 19,900 retail investors invested a total of approximately 80.6 billion yen.

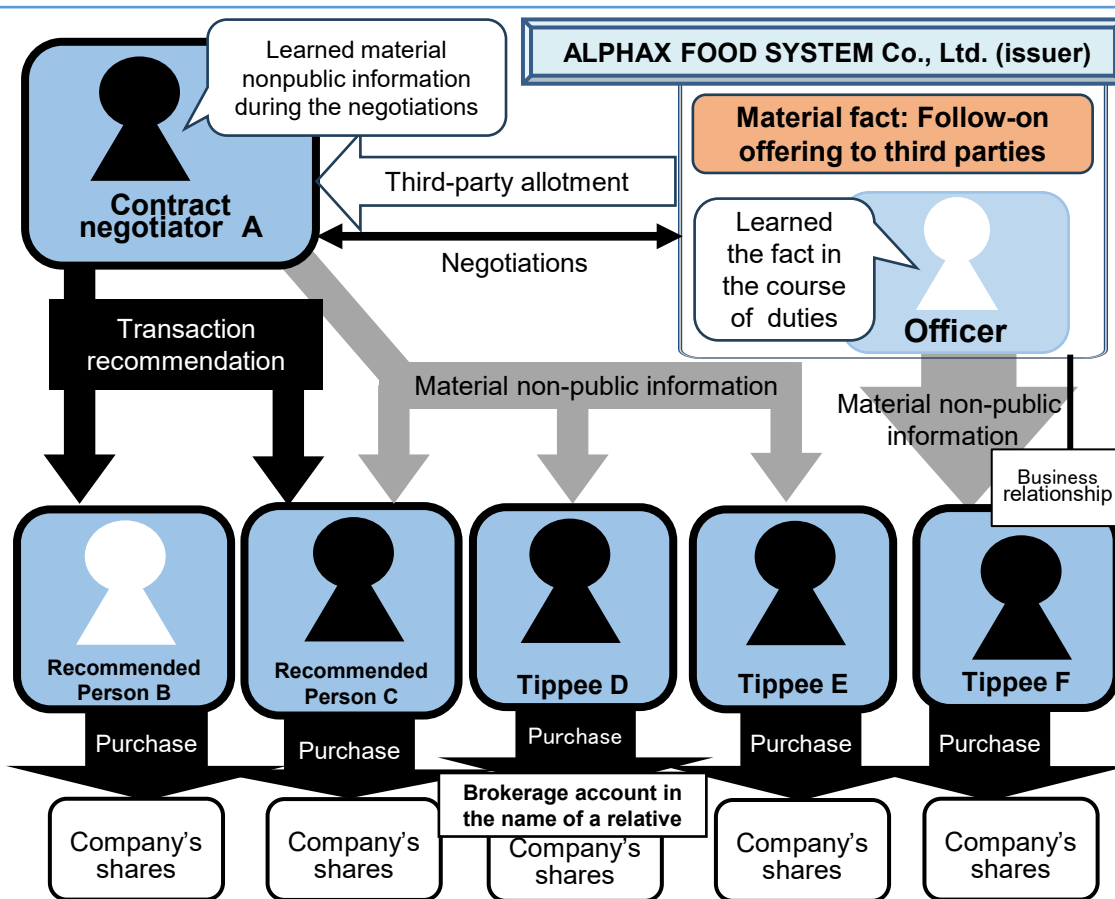
V. Reference Cases and Statistics

1. Recent Major Cases (4)

Recommendations for Administrative Penalty Payment Orders (Investigation of Domestic Transactions)

Administrative Monetary Penalty Payment Orders Recommended against a person ("Contract Negotiator") who negotiated entering into a contract with ALPHAX FOOD SYSTEM Co., Ltd. and encouraged others to trade in the Company's shares, and against four people for insider trading who were tipped by the Contract Negotiator or an officer of the Company.

Recommendation date:
October 25, 2024



Overview

Contract negotiator A, who learned material nonpublic information about a third-party allotment during the contract negotiations, recommended the purchase of the Company's shares for two acquaintances ("Recommended Person B and Recommended Person C") to make profits, and they did.

Person C, Tippee D and Tippee E were tipped by Contract negotiator A, and then purchased the shares based on the information.

Tippee F was tipped by an officer of the Company, who learned the information during the course of duties, and then purchased the shares based on the information.

Case Characteristics

In this matter, five people were subject to administrative monetary penalty payment orders, of whom one was an attorney at law who was expected to maintain a high ethical standard concerning compliance. In this case, the SESC made the recommendation even though the administrative monetary penalty on the individuals would be small.

V. Reference Cases and Statistics

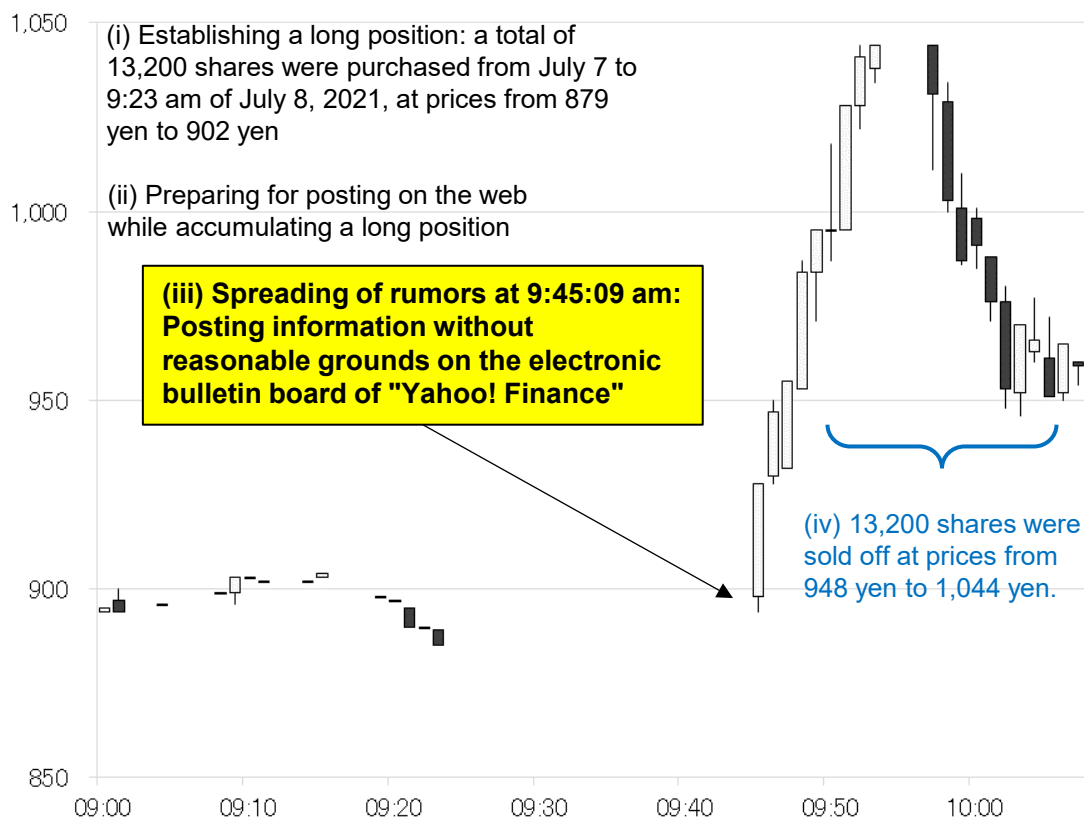
1. Recent Major Cases (5)

Recommendations for Administrative Penalty Payment Orders (Investigation of Domestic Transactions)

Administrative Monetary Penalty Payment Order Recommended against the spreading of rumors about the shares of Human Metabolome Technologies Inc.

Recommendation date:
July 26, 2024

Share price before and after the violation



Overview

The individual investor engaged in spreading rumors by posting information about the Company on the electronic bulletin board of "Yahoo! Finance" without reasonable grounds in an attempt to gain profits by raising the price of the Company's shares and selling them off. In this way, the individual investor raised the price of Company's shares by spreading rumors available to the public for the purpose of trading securities and causing a fluctuation in the market price.

Case Characteristics

This matter was the first recommendation in which the SESC found the "spreading of rumors" as stipulated in Article 158 of the Financial Instruments and Exchange Act.

The spreading of rumors through electronic bulletin boards on the Internet, as seen in this case, is a contemporary form of misconduct with the characteristic that information is disseminated in the blink of an eye to a large number of investors.

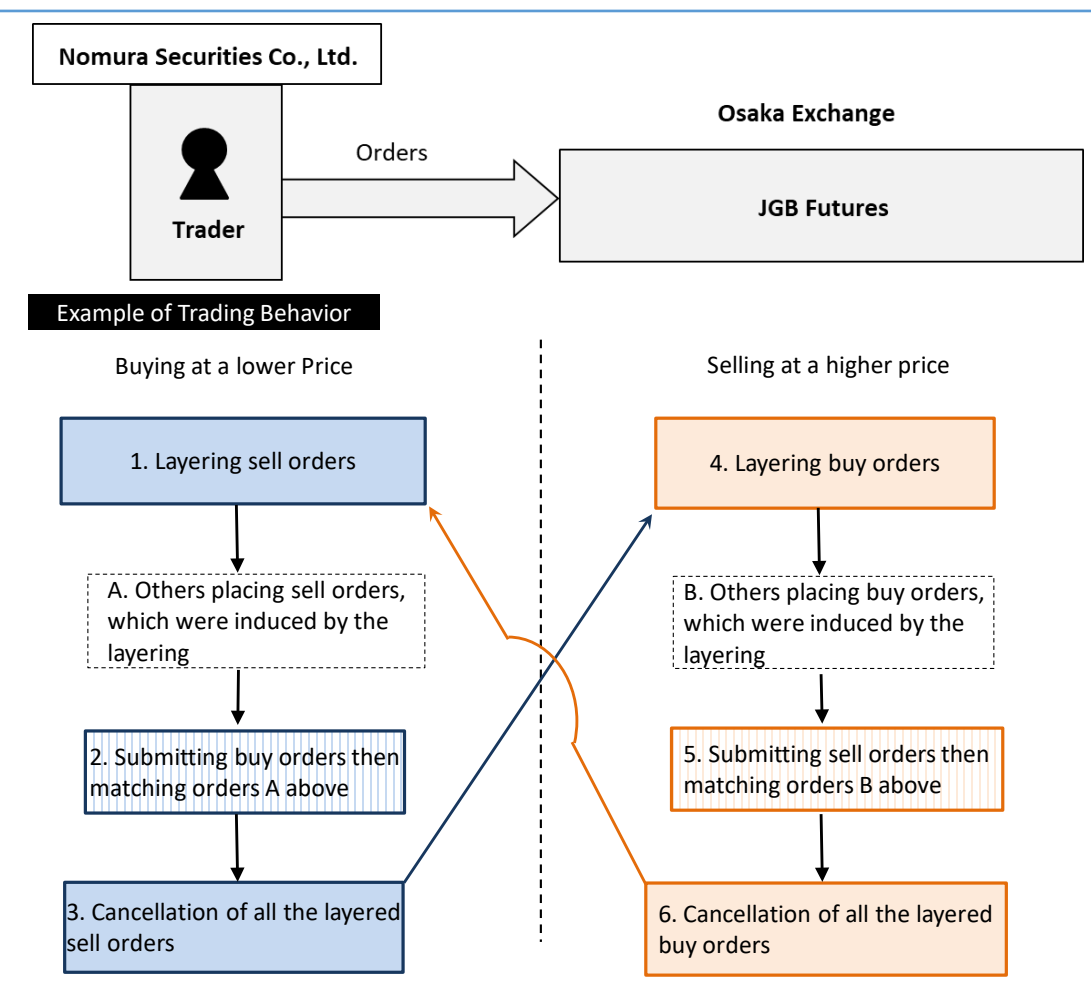
V. Reference Cases and Statistics

1. Recent Major Cases (6)

Recommendations for Administrative Monetary Penalty Payment Orders (Trades by Institutional Investors)

Administrative Monetary Penalty Payment Order Recommended for Market Manipulation in JGB Futures by Nomura Securities Co., Ltd.

Recommendation date:
September 25, 2024



Overview

Nomura Securities Co., Ltd., through its trader during the course of his duties, engaged in manipulative trading known as layering in 10-year Japanese Government Bond Futures ("JGB Futures") listed on the Osaka Exchange for the purpose of inducing others to buy or sell JGB Futures.

【Example of Trading Behavior】

1. Layering multiple sell orders at the best offer or inferior prices.
→ Others were induced to place sell orders at a lower price (A).
 2. Submitting buy orders to match the induced sell orders above at a low price.
 3. Cancellation of all the layered sell orders described in 1 above.
- * When layering buy orders to sell on the opposite side at a higher price, the way of placing sell/buy orders above were in reverse.
- The trades above were repeated back and forth, and bona fide orders were executed in their favor.

Case Characteristics

This matter was an engagement in layering in listed derivatives transactions by a broker-dealer, which was obligated to strive to ensure the fairness and transparency of the market as its gatekeeper. It was a serious breach of trust and confidence by a broker-dealer.

V. Reference Cases and Statistics

1. Recent Major Cases (7)

Recommendation for Administrative Monetary Penalty Payment Orders (Inspection of Disclosure Statements)

Administrative Monetary Penalty Payment Order Recommended for Violation of Disclosure Requirements by Large-Volume Holders of Shares of SAKAI Holdings CO., LTD.

Recommendation date:
September 10, 2024

[Summary of major violation]

Although Sakai Co., Ltd. and Sanwa Co., Ltd. were joint holders, they failed to submit a statement of large-volume holdings, etc. or submitted a statement of changes containing a false statement about a material particular.

Shareholder
(Sakai Co., Ltd.)

Agreement to jointly exercise voting
rights as shareholders
(Corresponding to joint holders)

Shareholder
(Sanwa Co., Ltd.)

SAKAI Holdings CO., LTD.

Overview

【Overview of the large-volume holdings reporting system】

- Under the large-volume holdings reporting system, a holder (irrespective of a corporation or an individual) must submit a statement of large-volume holdings or a statement of changes, in principle within five business days from such date if they fall under (1) or (2) below:
 - (1) when their holding ratio of listed companies' share certificates, etc. exceeds 5% (a statement of large-volume holdings)
 - (2) when their holding ratio changes by 1% or more (a statement of changes)
- The holding ratio of share certificates, etc. must be calculated by the sum of the number of share certificates, etc. that are held by the holder and the joint holders (a person who has agreed to jointly acquire the share certificates, etc., or to jointly exercise voting rights as the issuer's shareholders with other holders).

【Overview of the case】

- Sakai Co., Ltd. and Sanwa Co., Ltd., shareholders of SAKAI Holdings CO., LTD. agreed to make a shareholder proposal (election of directors) to SAKAI Holdings CO., LTD. and to jointly exercise the voting rights as shareholders in favor of such proposal (corresponds to a joint holder).
- Although Sakai Co., Ltd. and Sanwa Co., Ltd. were joint holders, they failed to submit a statement of large-volume holdings, etc. or submitted a statement of changes containing a false statement about a material particular.

Case Characteristics

- This is the first case in which the SESC has recommended administrative monetary penalty payment orders on the grounds that Sakai and Sanwa were found to be joint holders because they had agreed to jointly exercise their voting rights.

Recommendation for Administrative Monetary Penalty Payment Orders (Inspection of Disclosure Statements)

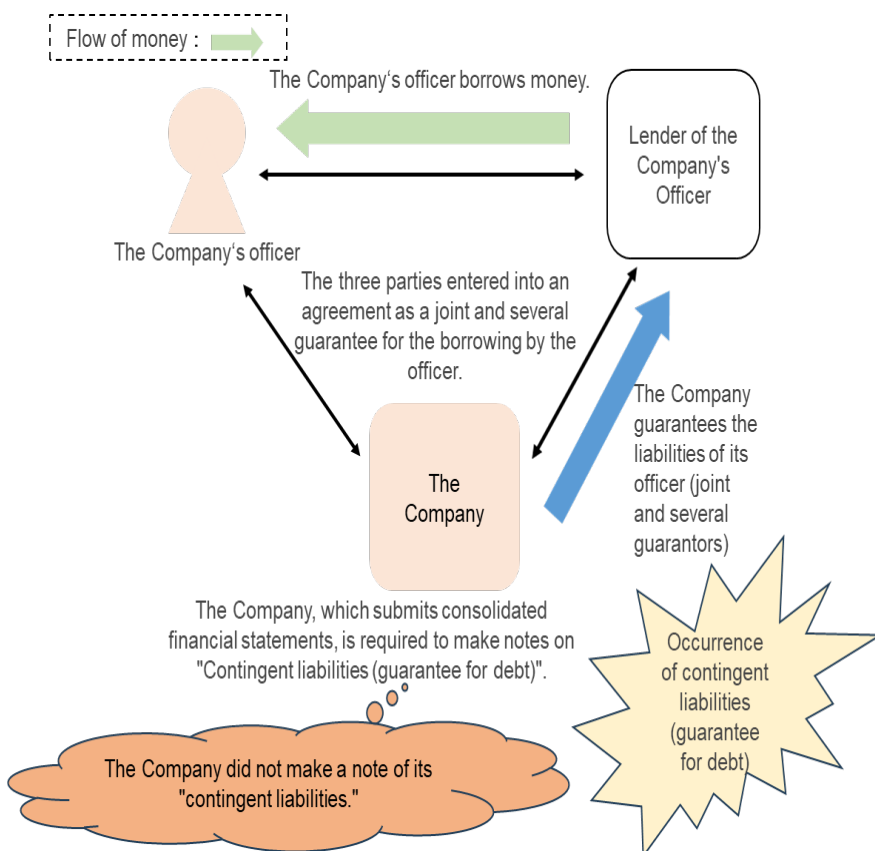
Administrative Monetary Penalty Payment Order Recommended against PIXELCOMPANYZ INC. for making false statements in its disclosure documents

Recommendation date: February 21, 2025

[Summary of major violation]

<Recommendation date: February 21, 2025>

(Non-disclosure of contingent liabilities (guarantee for debt))



Overview

- The Company had submitted Annual Securities Reports, etc. that contained false statements about a material particular or did not include statements of material particular that should have been included. As a result, the Company had received a recommendation for an administrative monetary penalty payment order twice.
- The Company and its subsidiaries' major improper accounting was as follows:

<Recommendation on December 19, 2017>

A consolidated subsidiary of the Company overstated sales in equipment sales transactions even though the equipment had not been delivered.

<Recommendation on February 21, 2025>

- The Company's consolidated subsidiary did not accrue a loss related to fictitious advance payments.
- The Company failed to disclose transactions with an officer of the company, etc. in Notes on "Transactions with Related Parties" as well as the joint and several guarantee for debts held by that officer in Notes on "Contingent Liabilities" in its consolidated financial statements.

Case Characteristics, Background and Cause

【Characteristics】

- This is the first case in which the SESC has recommended an administrative monetary penalty payment order in response to non-disclosure of contingent liabilities.
- The Company submitted disclosure documents containing false statements (February 8, 2023 and five other cases) within five years of the administrative monetary penalty payment order (March 19, 2018) for violation of disclosure requirements. Therefore, for the first time, the SESC recommended an administrative monetary penalty payment order equivalent to 1.5 times the amount of an ordinary administrative monetary penalty.

【Background and Cause】

- The Company's officer caused a consolidated subsidiary to disburse funds in order to repay the officer's personal loans using group funds. This not only resulted in damage to the Company Group's assets but also involved misconduct and concealment for personal gain, demonstrating a lack of awareness of compliance with laws and regulations.
- Checks and balances by the Board of Directors and Audit & Supervisory Board members were not functioning.

V. Reference Cases and Statistics

1. Recent Major Cases (9)

Filing of Criminal Charges

Filing a Criminal Charge Against an FSA Official for Committing Insider Trading

Filing date: December 23, 2024

The suspect, who was a deputy director of Corporate Accounting and Disclosure Division, Policy and Market Bureau, FSA, was engaged in such duties as examination and disposition of tender offer statements at FSA and came to know of the launches of tender offers of 10 companies' shares in the course of exercising authority for the duties. The suspect purchased shares in each of the 10 companies before each of the announcements.

Filing Criminal Charges of Insider Trading Involving an Employee of Tokyo Stock Exchange, Inc.

Filing date: December 23, 2024

Suspect A, who worked in the Corporate Disclosure Office of the Listing Department of the Tokyo Stock Exchange, inc., in the course of performing a listing agreement, etc., came to know of the launches of tender offers of three companies' shares and provided the information to Suspect B, who was Suspect A's father, to enable him to gain profits. Suspect B subsequently purchased shares in each of the three companies before each of the announcements.

Filing a Criminal Charge of Insider Trading of OKWAVE, Inc. Shares

Filing date: March 11, 2025

The suspect, who was the representative director of a consulting company and a certified public accountant, came to know, in the course of performing a financial advisory contract with a listed company, that a risk of default had arisen with regard to the listed company's claim for a refund of the deposits and investment profits against a fund management company. As the result, the suspect sold the company's shares to avoid losses before the announcement.

Filing a Criminal Charge Against an Employee of a Trust Bank for Committing Insider Trading

Filing date: March 24, 2025

The suspect, who was a manager in the stock transfer agency business department of a trust bank, was engaged in the management of insider information related to listed companies of customers. The suspect came to know of launches of tender offers of three companies shares for which it was providing stock transfer agency services, etc., and purchased shares in each of the three companies before each of the announcements.

V. Reference Cases and Statistics

1. Recent Major Cases (10)

Policy Proposal

Policy Proposal for Enhancing Market Surveillance Functions

Policy proposal date:
June 20, 2025

Background

- Under the circumstances where the public and private sectors are working together to promote Japan as a leading asset management center and anyone can become an investor, it is important to further enhance the market surveillance function and establish fair and transparent markets where both existing and new investors can invest with confidence.
- Given the increasing complexity, sophistication, and internationalization of financial instruments transactions, the SESC has identified the following cases, based on the results of its inspections and investigations in recent years. It is therefore necessary to develop effective measures to appropriately address these cases.
Case 1: An act considered to be improper cannot be captured as a violation under existing laws and regulations.
Case 2: A case where the amount of administrative monetary penalty is low (or not directly subject to penalties) and the deterrent effect against violations is insufficient
Case 3: Difficulty in effective and efficient inspection and investigation

Details

Proposal 1: Scope of parties concerned in insider trading regulations

There have been cases in which a person who received information from a person who should be regarded as an insider equivalent to a person related to a tender offeror, etc., such as a party to a contract with the issuer, was not subject to the insider trading regulations, although such acts were considered to be illegal in light of the purpose of the regulations.

- Need to expand the scope of parties related to a Tender Offeror, etc. to include parties that should be regarded as insiders equivalent to each party related to a Tender Offeror, etc.

Proposal 2: Scope of application and calculation standard of administrative monetary penalty

There has been a number of malicious cases, including market misconduct using accounts provided by third parties under their names. Some of the cooperators were not subject to an administrative monetary penalty, even though they provided their accounts with the knowledge that the recipients would use them for market misconduct. In addition, there have been cases in which the current level of the administrative monetary penalty was deemed to be insufficient as a deterrent effect compared to the expected amount of profits, such as the failure to submit large-shareholding reports by investors who continuously accumulate shares. Furthermore, there have been cases of market misconduct through new forms of transactions, such as high-speed trading, that may make it difficult to calculate an administrative monetary penalty by conventional methods.

- Need to take appropriate measures regarding administrative monetary penalties, such as raising the level and expanding the scope of application, and reviewing calculation methods in response to new forms of transactions, in order to demonstrate effective deterrence.

Proposal 3: Measures for effective and efficient implementation of inspection and investigation

- Along with increasing the level of administrative monetary penalties mentioned in Proposal 2, it is also important to further improve the effectiveness and efficiency of inspections and investigations.
 - Need to take appropriate measures, such as expanding the deduction system, in order to encourage voluntary cooperation by people subject to the inspections and/or investigations.
- There is a diversification of FIBOs and listed companies subject to the SESC's inspections and progress in international cooperation between the authorities.
 - Need to take appropriate measures in relation to inspections of domestic businesses and cooperation in investigations with foreign authorities, such as adding the authority to issue orders to appear, and making efforts toward early signing of the IOSCO Enhanced Multilateral Memorandum of Understanding (EMMoU).
- It is necessary to appropriately respond to cases where multiple violations are suspected, such as market misconduct (e.g. fraudulent means or market manipulation) conducted by people engaged in financial instruments businesses without registration.
 - Need to take appropriate measures, such as expanding the authority to conduct criminal investigations of unregistered firms.

V. Reference Cases and Statistics

2. SESC Activities in Figures (1)

Number of Cases Examined^(*)

Unit: Cases

Fiscal Year Category	2020	2021	2022	2023	2024
Total	965	969	1,065	1,183	982
Market Manipulation	60	43	29	26	17
Insider Trading	900	922	1,024	1,147	957
Others (e.g., Use of Fraudulent Means)	5	4	12	10	8
(Ref.) Breakdown by Entity					
SESC	429	377	448	478	343
Local Finance Bureaus	536	592	617	705	639

(*) The number of cases where the SESC analyzed trading order data from securities companies and financial instrument exchanges and examined whether transactions amounted to market misconduct.

Number of Tips and Information Received

Unit: Cases

Fiscal Year Category	2020	2021	2022	2023	2024
Total	6,300	6,324	6,713	7,786	7,349
Breakdown by providing means					
By Internet	4,529	4,630	5,127	5,964	5,991
By Telephone Call	1,328	1,279	1,087	1,312	986
By Letter	385	386	392	482	361
By Visitation	11	12	11	8	5
From Local Finance Bureaus and Others	47	17	96	20	6
Breakdown by Topic					
Individual Stock	4,703	4,927	5,061	5,932	5,555
Issuer	270	261	250	310	793
Conduct of Financial Instruments Business Operators	408	358	563	580	371
Others (opinions and inquiries)	919	778	839	964	630

V. Reference Cases and Statistics

2. SESC Activities in Figures (2)

Number of Recommendations and Filed Criminal Charges

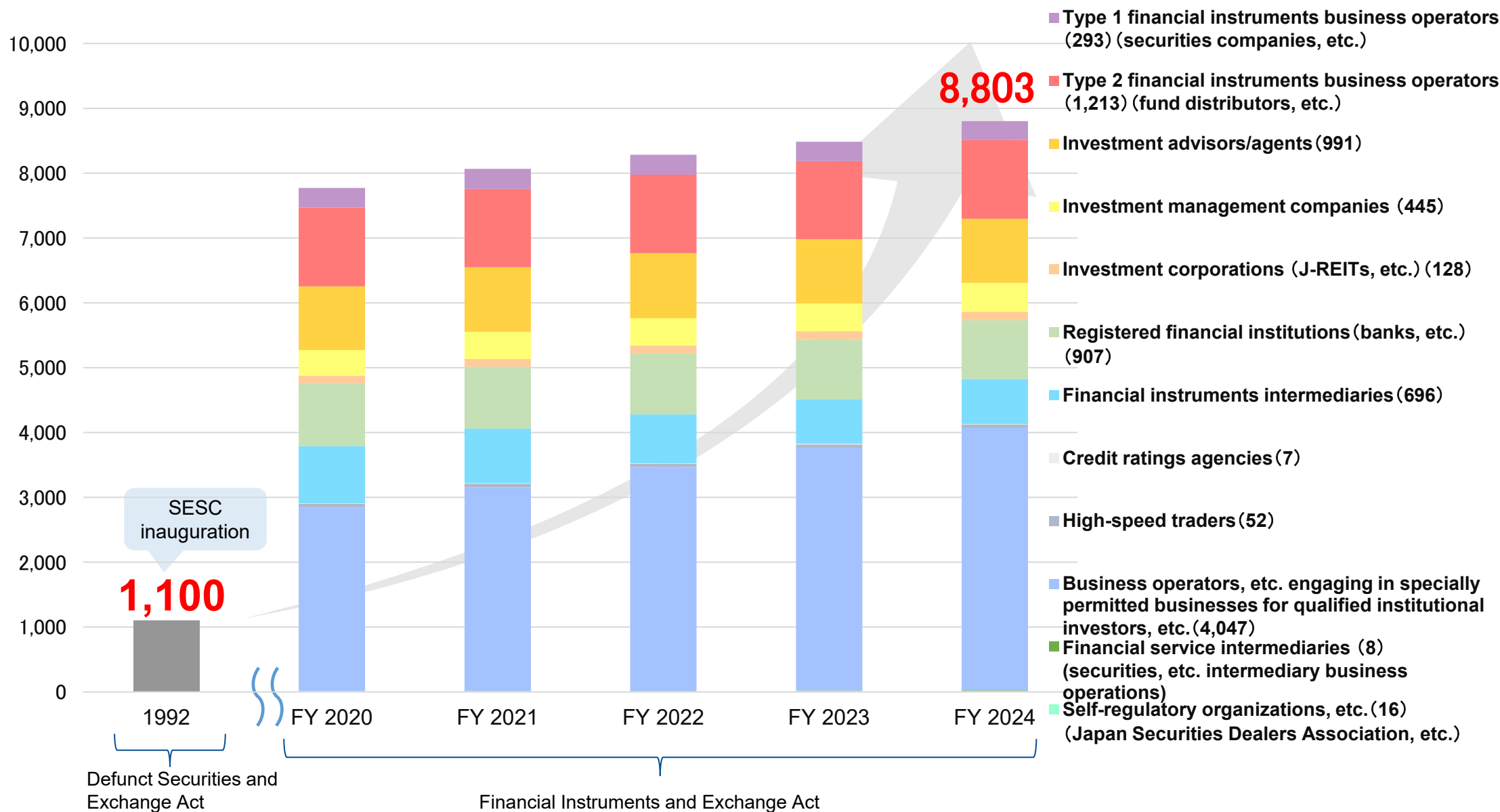
Category \ Fiscal Year	1992 to 2019	2020	2021	2022	2023	2024	Total
Recommendations	1,131	29	20	26	33	38	1,277
Recommendations to Take Administrative Actions Against Operators *1	584	5	2	5	8	9	613
Recommendations to Issue Orders to Pay Administrative Monetary Penalties *2	543	24	17	21	25	28	658
Disclosure Containing False Statements	117	10	5	7	8	14	161
Spreading of Rumors, Use of Fraudulent Means	5	0	0	0	1	1	7
Market Manipulation	85	6	6	6	3	1	107
Insider Trading	336	8	6	8	13	12	383
Recommendations for Order to Submit Revised Report, etc.	4	0	1	0	0	1	6
Filed Criminal Charges	203	2	8	8	4	7	232
Disclosure Containing False Statements	45	0	0	0	1	0	46
Spreading of Rumors, Use of Fraudulent Means	28	0	2	0	1	0	31
Market Manipulation	31	1	1	1	1	0	35
Insider Trading	87	1	5	7	1	7	108
Others	12	0	0	0	0	0	12
Announcements of Inspection Results of QII Business Operators	88	0	0	1	0	2	91
Petitions for Prohibition and Stay Order	25	1	1	2	1	1	31
Policy Proposals	26	0	0	1	0	0	27

*1: In line with the revision of the FIEA (enforced in Mar. 2016), the SESC began to make recommendations to take administrative actions against business operators, etc. engaging in specially permitted businesses for qualified institutional investors, etc. ("QII Business Operators") as well from FY2016.

*2: "Spreading of Rumors, Use of Fraudulent Means", "Market Manipulation" and "Insider Trading" count persons subject to orders to pay administrative monetary penalties.

V. Reference Cases and Statistics

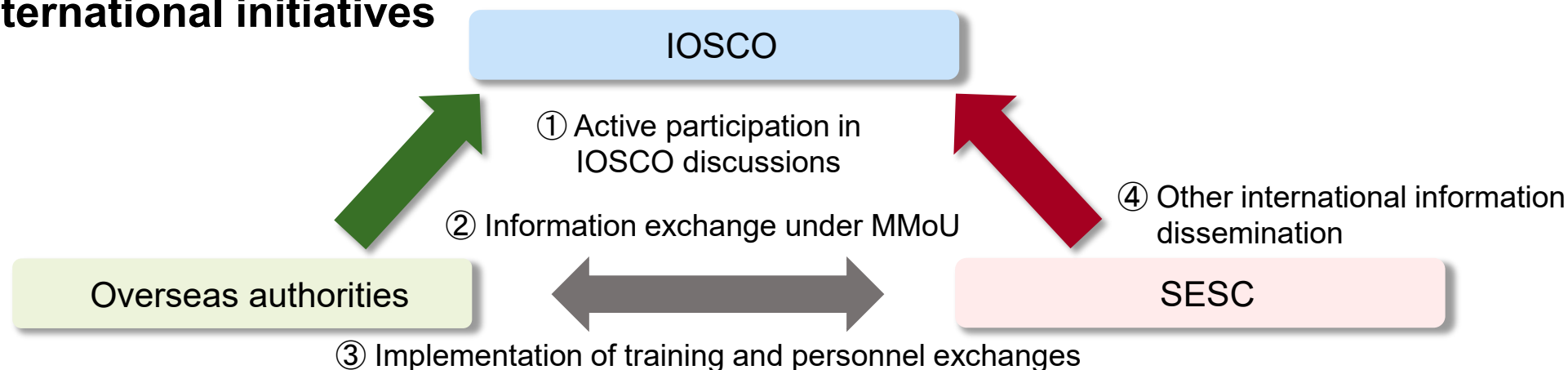
3. Trend of Number of Business Operators Subject to Securities Inspections



Note: "1992" refers to business year

V. Reference Cases and Statistics

4. International initiatives



① Active participation in IOSCO discussions

The IOSCO's Annual Meeting, where top officials from various securities regulatory authorities including the SESC, was held in Doha, Qatar, in May 2025 to discuss and exchange views on the current state and issues facing securities regulation. The SESC has been a member of groups such as Committee 4 (Law Enforcement and Information Sharing), which is under the IOSCO Board. The SESC held meeting of the groups in Tokyo in March 2025, thereby further strengthening relationships between securities regulatory authorities. In the meeting, member authorities, including the SESC, shared and discussed how to respond to online market misconduct related to financial instruments and how to further promote information exchange between securities authorities.

② Information exchange under MMoU

To date, the SESC has exchanged information with overseas authorities based on the Multilateral Memorandum of Understanding (MMoU). In FY 2024, the SESC received information on 79 cases from overseas authorities, and proactively conducted investigations on violations through cross-border transactions (see page 12). In addition, the SESC voluntarily provided information to overseas authorities based on the MMoU on matters found in the course of investigations, as necessary.

③ Implementation of training and personnel exchanges

The SESC has continuously provided training on Japan's market surveillance and investigation of market misconduct to emerging economies' financial regulators as part of human resource development programs organized by external organizations. In FY 2024, the SESC gave a lecture at the Tokyo Roundtable of the Asian Securities Forum (ASF) hosted by the Japan Securities Dealers Association and also supported a technical assistance project of the Japan International Cooperation Agency (JICA) for the Vietnamese equity market. In addition, the SESC has continuously sent staff members to certain overseas authorities to learn about and analyze the ways in which they conduct monitoring, investigation, and inspection, thereby contributing to enhancing cooperation with them, as well as to global market surveillance.

④ Other international information dissemination

The SESC has also disseminated information on its activities to overseas authorities, investors, and financial institutions, thereby raising its profile in terms of how it serves to realize fairness, transparency, and investor protection in Japan's markets. In FY 2024, the SESC delivered speeches at the International Bankers Association (IBA), and other conferences.

VI. SESC Website and Publications

On the SESC's website, you can find press releases, case studies by category and messages to the market participants and other stakeholders.

[URL] <https://www.fsa.go.jp/sesc/english/index.html>



SESC X (formerly Twitter) account

X@SESC_JAPAN



This X account is not intended to receive information from the public.

If you wish to provide information to the SESC, please use the contact details stated on the back cover of this document.

Case Studies by Category

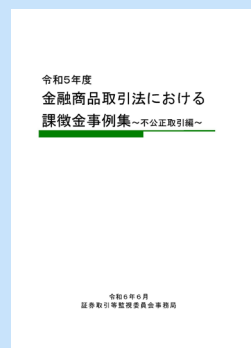
Casebooks introduce the SESC's recent recommendations for administrative monetary penalty payment orders, and illustrate issues identified through the SESC's securities monitoring.

- Casebook of Administrative Monetary Penalties (Market Misconduct) and Casebook of Inspection of Disclosure Statements :

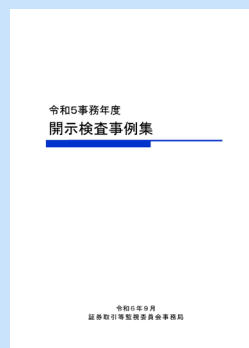
[URL] <https://www.fsa.go.jp/sesc/jirei/index.html> (Japanese Version Only)

- Securities Monitoring Overview and Case Studies:

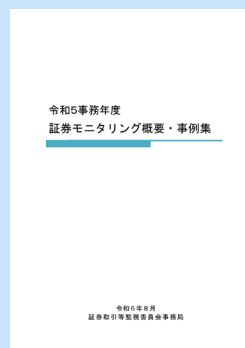
[URL] <https://www.fsa.go.jp/sesc/kensa/shitekijirei.html> (Japanese Version Only)



Casebook of Administrative Monetary Penalties (Market Misconduct)



Casebook of Inspection of Disclosure Statements



Securities Monitoring Overview and Case Studies

Monitoring Priorities for Securities Businesses

Basic policy and monitoring priorities for financial instruments business operators

[URL] <https://www.fsa.go.jp/sesc/english/guideline/index.html>



Annual Report

Summary of the SESC's activities over the year (annual publication under Article 22 of the Act for Establishment of the Financial Services Agency)

[URL] <https://www.fsa.go.jp/sesc/english/reports/reports.html>



SESC Latest Topics

Quick summary of latest cases of recommendations and criminal charges (updated about once a month)

[URL] <https://www.fsa.go.jp/sesc/english/topics/index.html>



SESC's Contact Point for Providing Information

<https://www.fsa.go.jp/sesc/watch/>



<For information provision by phone or FAX>

SESC Providing Information  Search

Direct line: Call 0570-00-3581 (or +81-(0)3-3581-9909 when using an IP phone, etc.)

FAX [only for the elderly and people with disabilities]: **+81-(0)3-3506-6699** (Clearly enter "To SESC's Contact Point of Providing Information")

◆ The SESC encourages the public to submit **any tips and information such as "accounting fraud (recording of fictitious sales or fictitious profits, etc.)," "problems relating to investor protection (financial instruments with an extremely high yield, etc.)," "market misconduct (insider trading, market manipulation, etc.)."**

Accounting
fraud

Investment
fraud

Inappropriate
solicitation of
financial
instruments

Insider
trading

Market
manipulation

Spreading
of rumors

◆ If you have information on the above, please provide such information to us via the Internet (SESC website), telephone, mail, etc.

* Please note that the SESC cannot respond to questions or provide advice.

* The SESC takes all possible security protection against leakage of the contents of the provided information, including your personally identifiable information, to the outside. (You can submit the information anonymously.)

<Providing information by post>

3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8922 (Kasumigaseki Common Gate West Tower)

Market Surveillance Division, the Securities and Exchange Surveillance Commission



公正な市場を守るため、
あなたの情報提供を
待っています。

相場操縦
インサイダー取引
投資詐欺
金融商品の不適切な勧誘
ディスクロージャー違反

証券取引等の不正に関する情報提供は、こちらまでお願いします。

0570-00-3581 03-3581-9909
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SESC 証券取引等監視委員会
Securities and Exchange Surveillance Commission