

## CHAPTER XVII

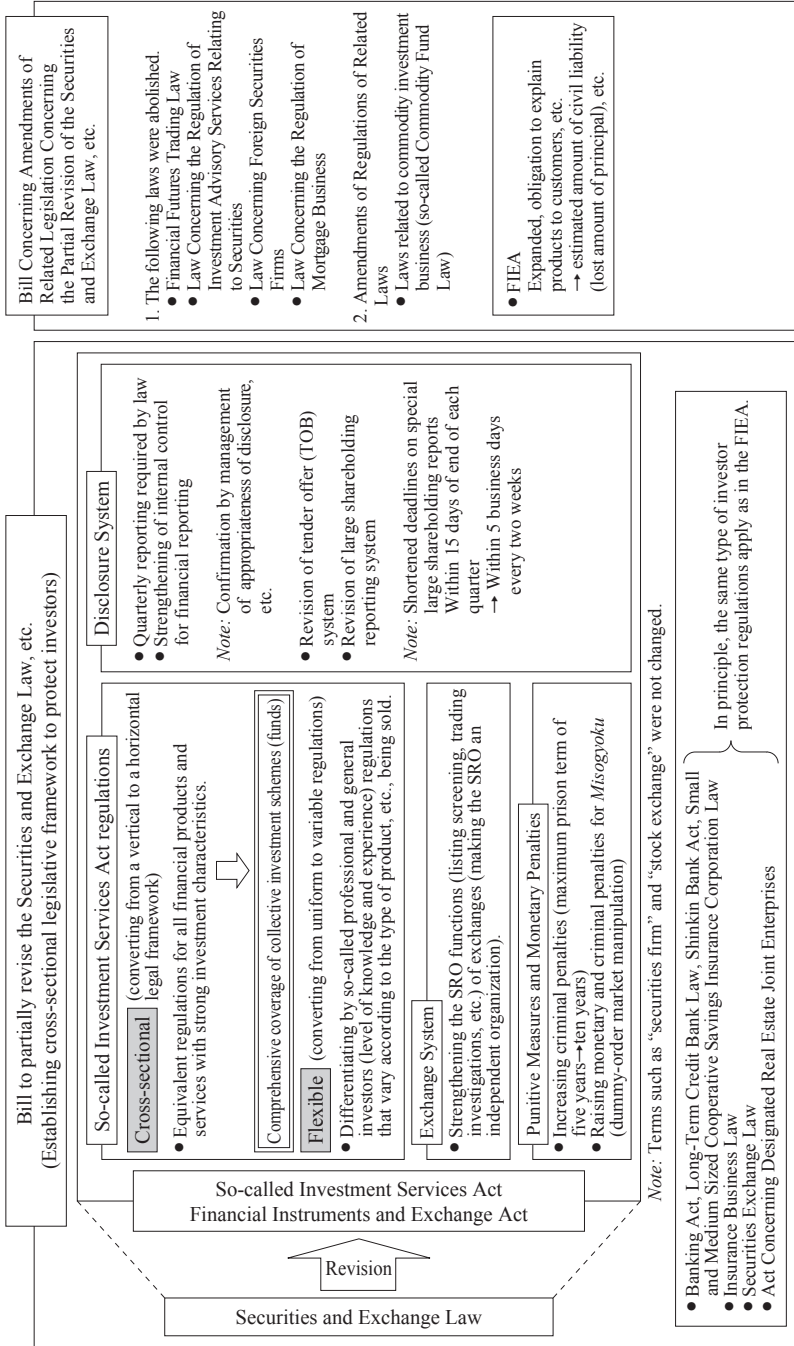
### The Securities Regulatory System

#### 1. Financial Instruments and Exchange Act

In 2006, the Securities and Exchange Act underwent major revisions and was renamed the Financial Instruments and Exchange Act (FIEA). These revisions were enforced for the purpose of introducing cross-sectional regulations and flexibility into the financial system. Introduction of cross-sectional regulations meant reviewing vertical regulations and applying the same types of rules to financial instruments with similar economic functions and risks. This was achieved by expanding the FIEA's scope of application and by revising various related laws and regulations. More specifically, the scope of application was extended to include not only general investment trust beneficiary rights and mortgage securities, etc. but also collective investment schemes, making it possible to implement regulations comprehensively. In addition, various related laws were revised to establish a regulatory framework where financial instruments not covered by the FIEA but sharing many of the same aspects were subject to similar rules. Another move to cross-sectional application was the standardization of the registration of sales and solicitation, investment advisory, asset management, and asset administration, etc., businesses under the umbrella of Financial Instruments Business Operators with the aim of applying as common a code of conduct as possible.

The authorities introduced flexibility into the law through (1) disclosure regulations, (2) industry regulations, and (3) separating rules for dealing with different classes of investors. More specifically, (1) they placed strict disclosure obligations on highly liquid securities, strengthening the disclosure system by requiring listed companies. In contrast, illiquid securities, in principle, are exempt from these disclosure regulations. (2) While all Financial Instruments Business Operators are required to register under the comprehensive industry regulations, businesses are classified into the three categories of Type I and Type II Financial Instruments Businesses, Investment Advisory and Agency Business, and Asset Management Business, with separate rules applying for each category. In addition, (3) customers are classified into professional investors and general investors, with various exceptions to the gen-

Chart XVII-1. Transition from Securities and Exchange Act to Financial Instruments and Exchange Act



Source: Materials produced by the FSA.

eral industry code of conduct applying to dealing with professional investors.

Major revisions to the FIEA included those relating to firewall regulations between securities companies, banks and insurance companies enforced in 2008, the introduction of public regulations on credit-rating agencies, establishment of the Alternative Dispute Resolution (ADR) System in the financial sector, establishment of a framework for alliances among financial instruments exchanges and commodity exchanges that went into effect based on the revisions in 2009, and the introduction of a disclosure system relating to rights offering that was made based on the revisions enforced in 2011. Subsequently, in the 2015 revision, regulations on funds for professionals (specially permitted businesses for Qualified Institutional Investor, etc.) were amended. And the 2017 amendments included the introduction of rules on high-speed trading (HST) where a registration system for high-speed traders was adopted and the introduction of the Fair Disclosure Rules. The 2019 amendment (1) established regulations on derivative transactions involving crypto-assets and (2) established electronically recorded transferable rights as “paragraph 1 securities”, bringing the trading thereof under the regulations pertaining to Type-I Financial Instruments Business Operators. The 2021 amendment established a notification system for the investment management business for overseas investors.

## **2. Other Laws and Regulations Related to the Securities Market**

While the Financial Instruments and Exchange Act (FIEA) serves as the most fundamental law concerning securities, securities business operators, and transactions on the securities markets, there are, in fact, many other related laws and regulations.

As previously stated, in addition to the enforcement of the FIEA, from the point of view of investor protection, other laws were revised so that they shared, to the extent possible, common regulations with the FIEA for financial instruments not covered by the FIEA but having the same economic function. For example, such related laws as the Banking Act (Art. 13-4), Insurance Business Act (Art. 300-2) and the Trust Business Act (Art. 24-2) implemented provisions equivalent to the FIEA’s code of conduct. Specifically, these laws have regulation of advertising, etc.; obligation to clarify conditions of transactions in advance; delivery of document prior to conclusion of contract; behavior prohibitions; prohibition of compensations of loss, etc.; and best execution policy.

The Act on Sales, etc. of Financial Instruments (renamed to Act on the Provision of Financial Services (Financial Services Provision Act) in the 2020 amendment) was formulated to provide cross-sectional regulations re-

Table XVII-1. Banking Act, Insurance Business Act, and Trust Business Act

1. Acts that have sales and solicitation rules equivalent to those of the FIEA for deposits, insurance policies, and investment trusts with strong investment characteristics

(Points of view on which regulations have been implemented for each act)

	Banking Act (specified deposits, etc.)	Insurance Business Act (specified insurance policies, etc.)	Trust Business Act (specified trust agreements)
Advertising, regulations, etc.	<ul style="list-style-type: none"> <li>In the case of derivative deposits, if the bank has the right to extend the term of the deposit, it must indicate to the customer the risk that the interest rate could fall below the market rate to the disadvantage of the customer.</li> </ul>		
Obligation to deliver written documents	<ul style="list-style-type: none"> <li>Exceptions to the obligation to deliver written documents               <ul style="list-style-type: none"> <li>- When a document on foreign currency deposit, etc. was delivered within the past year</li> <li>- When a similar document was delivered within the past year</li> </ul> </li> <li><i>Note:</i> Establish transitional measures at the time of enforcement (can be issued prior to enforcement; can be issued within three months of enforcement)</li> <li>In the case of derivative deposits, the document prior to conclusion of contract must contain the same contents as the items shown in the advertisement, etc.</li> </ul>	<ul style="list-style-type: none"> <li>The document prior to conclusion of contract must contain notes on material items in accordance with provisions in supervisory guidelines regarding the contract outline and cautionary information</li> <li>Eg.: The contract outline is dictated on the statutory level, while cautionary information is dictated on the cabinet office order level.</li> <li>Items covered in the document delivered upon conclusion of contract can be adjusted in line with the items included in the insurance policy, etc.</li> <li>Eg.: Items regarding the type and content of the contract can be omitted from the document delivered upon conclusion of contract if they are contained in the insurance policy, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Exceptions to the obligation to deliver the document prior to conclusion of contract</li> <li>(Documents regarding a similar contract has previously been delivered, and the customer has made it clear that issuance of documents is not necessary, etc.)</li> </ul>
Prohibited acts	<ul style="list-style-type: none"> <li>Generally prohibited acts in the banking business</li> <li>Concluding a contract without adequate explanation necessary for understanding the document prior to conclusion of contract or the document on foreign currency deposits, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Generally prohibited acts for concluding or soliciting purchase of insurance policy</li> <li>Concluding a contract without adequate explanation necessary for understanding the document prior to conclusion of contract</li> </ul>	<ul style="list-style-type: none"> <li>Generally prohibited acts in underwriting trusts</li> <li>Concluding a contract without adequate explanation necessary for understanding the document prior to conclusion of contract</li> </ul>
Professional investors ( <i>Tokutei Toushika</i> ) (Type of contract)	<ul style="list-style-type: none"> <li>One type (contract for specified deposits, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>One type (contract for specified insurance policies, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>One type (contract for specified trusts)</li> </ul>

2. Business scope of banks and insurance companies (Auxiliary businesses)

- Expanded to include agency or intermediary business for concluding investment advisory and discretionary investment contracts (banks only).
- Expanded to include emission rights derivatives trading. (intermediary and consulting services for emission rights trading also permitted as incidental businesses).

3. Business scope of banking and insurance company subsidiaries

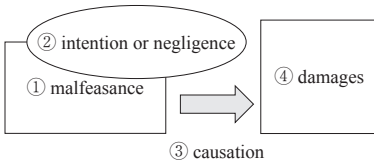
- Business scope of securities subsidiaries expanded (full coverage of Financial Instruments Businesses).
- Scope of financial-related businesses expanded (private placements, investment advisory and agency business, self-management, emission rights trading, emission rights derivatives trading, etc.).

Source: The FSA.

Chart XVII-2. Enhancement of the Act on Sales, etc. of Financial Instruments

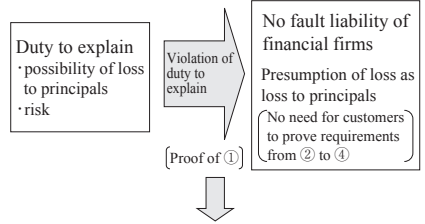
Principles on actions for damages under civil act (section 709 of the Civil Law)

Customers (sufferers) shall prove all the requirements from ① to ④ to win actions for damages against financial firms.



Financial Products Sales Act

The act prescribes special treatment on actions for damages regarding a wide range of financial products, including deposits, insurance, securities, etc.



**Strengthening Financial Products Sales Act**

- Enlarging the scope of duty to explain
  - Adding a possibility of losses beyond original principals and important part of schemes of financial instruments in the scope of duty to explain
- Introducing prohibition of provision of conclusive judgment
  - no-fault liability and presumption of loss in case of the violation

Source: The FSA.

garding the sale and solicitation of sales for deposits, investment trusts, insurance, securities, and other financial instruments. The law was revised in 2006 at the same time the FIEA came into force to make it easier for customers to press civil liability suits. For example, the law expanded the scope of obligation to explain products to customers (Article 3, Paragraph 1, Items (ii), (iv) and (vi)) and added a suitability rule (Article 3, Paragraph 2). These revisions defined the responsibility, in the case of a violation of the suitability rule, to compensate the customer for damages, which are presumed to be any loss of principal (Article 6). The Commodity Exchange Act (currently the Commodity Derivatives Transaction Act) was also reformed to include similar regulations for its financial instruments. The revisions implemented advertising regulations and inserted an obligation to explain financial products in a manner appropriate to the customer. Furthermore, loss compensation was prohibited and made punishable by penalties. The 2020 amendment created a new category of financial services intermediary business (Article 11(1)) (see Chapter 12).

While most of the business and code of conduct regulations regarding the investment trust intermediary business and asset management business of investment corporations have been included in the FIEA, the Act on Investment Trusts and Investment Corporations (Investment Trust Act) was left to

focus solely on investment trust regulations and to serve as one of the pillars of investment trust regulations along with the FIEA.

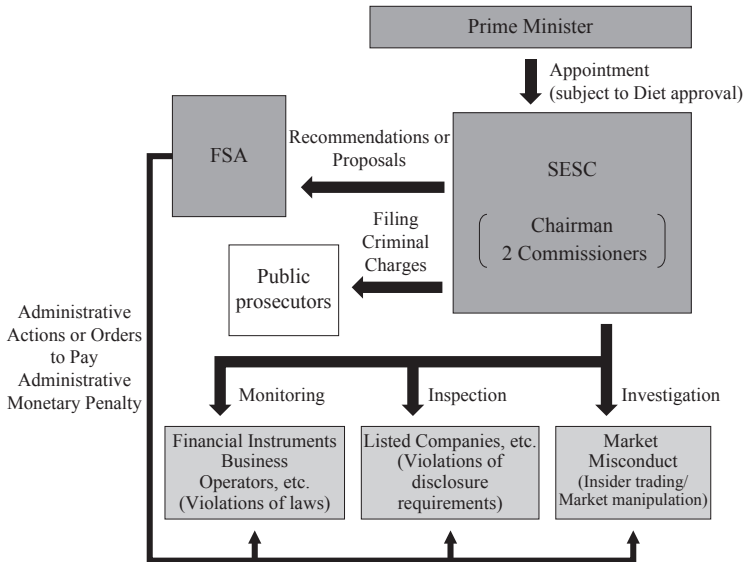
There are several laws pertaining to issuance of securities. Issuing of public bonds is approved based on the provisions of the Public Finance Act and the Local Government Finance Act while deficit-covering bonds are governed by the special law of each fiscal year (The Special Deficit-Financing Bond Law of 2021 set the issuance period for special bonds up to 2025, maintaining the multi-year framework adopted from 2012). There are also laws concerning issuing administration for government bonds. For private securities, the Companies Act provides for the issuance of stocks and corporate bonds by corporations. As for corporate bonds and other bonds, the Secured Bond Trust Act and the Enterprise Mortgage Act are separately enforced in regard to collateral. In addition, the Act on the Securitization of Assets is in place regarding the issuance of asset-backed securities.

### **3. Organization of the Securities Regulatory System**

After the war, the Securities and Exchange Act was in place and the Securities and Exchange Commission was modeled after the U.S. Securities and Exchange Commission (SEC) was established as an external bureau of the Ministry of Finance to oversee the securities regulatory system. However, after the end of the U.S. occupation in 1952, the securities regulatory system was once again placed under the control of the Securities Business Division in the Finance Bureau of the Ministry of Finance. Then in 1964, the Securities Bureau was created within the Ministry of Finance. The Securities Bureau regulated the securities business as a core authority for overseeing the license system of securities business operators over a period of about 30 years under the revised Securities and Exchange Act of 1965. During Japan's bubble economy years, the country's securities market demonstrated significant growth to become one of the major markets on a global level. On the other hand, the market came under severe criticism for lacking openness and being scandal-ridden. This, in particular the major financial and securities scandals in 1991, prompted efforts to strongly promote reforms of the securities regulatory system along with market reforms.

In 1992, the Ministry of Finance bolstered its market surveillance by establishing the Securities and Exchange Surveillance Commission (SESC) and transferring surveillance to this body. Further change came in June 1998 when the government set up the Financial Supervisory Agency as an external bureau (Article 3, "Committees" of the National Government Organization Act) of the Prime Minister's Office, to which the Ministry of Finance transferred the SESC. Subsequently, with the enforcement of the Act on Revision,

Chart XVII-3. Securities Administration and the Monitoring System for Securities Transactions, etc.

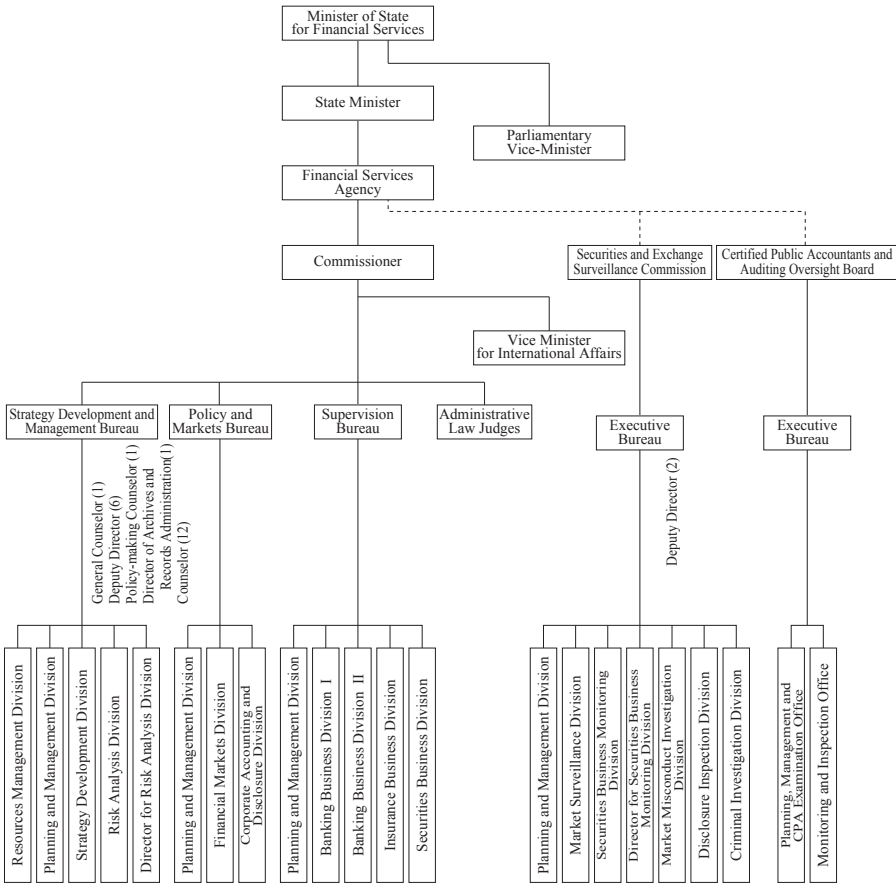


Source: Materials available on the website of the Securities and Exchange Surveillance Commission.

etc. of Related Acts for the Financial System Reform in December 1998, the Financial Supervisory Agency took over the role of overseeing the securities regulatory system. Concurrently, the Financial Reconstruction Commission, which was established around the same time, was given the highest responsibility over the financial and securities regulatory system.

Then in 2000, the Financial Supervisory Agency was reorganized as the Financial Services Agency (FSA) to which the Ministry of Finance transferred the financial system planning and law drafting functions in 2001, the same year as the Financial Reconstruction Commission was transferred to the FSA and the SESC also became part of the FSA. Through this process, the major portion of securities regulation in Japan was consolidated into a system administered by the FSA and the SESC. And the policy on securities regulation shifted from preventative administration to regulatory violation surveillance. Behind this shift was the clarification of the objective of the administration to increase the welfare of people in Japan primarily through promoting sustainable growth of corporations and the economy and stable asset formation, following the winding-down of a bad debt issue among others after the collapse of the bubble economy.

Chart XVII-4. Securities Administration Organization Chart



Source: FSA materials.

The FSA was reorganized in July 2018 into three bureaus-Strategy Development and Management Bureau; Policy and Markets Bureau and Supervision Bureau-with an eye toward enhancing strategy planning function and expertise of the FSA as an administrative body, and strengthening its ability to deal with the advancement of Fintech, etc. Under this system, the following measures are being implemented: (1) support for businesses (2) promotion of the Doubling Asset-based Income Plan to realize an asset management nation (3) facilitation of financing for start-ups (4) implementation of corporate governance reform and enhancement of corporate information dis-



closure (5) promotion of sustainable finance, and (6) preparation for dealing with various risks, including money laundering (as of August 2023).

#### 4. Law Enforcement by the Financial Services Agency

The executive authority for the Financial Instruments and Exchange Act lies with the prime minister of Japan, the top cabinet minister, who in turn oversees the Financial Services Agency (FSA). In actual practice, the prime minister delegates this authority (with some exceptions such as the authority on approval and other treatment) to the commissioner of the FSA as stipulated in Article 194-7 “Delegation of Authority to the Commissioner of the FSA.” Major types of authority delegated to the commissioner include the authority to issue a Business Improvement Order to Financial Instrument Business Operators and Registered Financial Institutions (Article 51, Article 51-2) or an order to suspend operations or rescind their registration or approval (Article 52, Article 52-2). The FSA commissioner is also required to issue an Administrative Surcharge Payment Order if certain conditions are met. Primary examples subject to the issuance of the Administrative Surcharge Payment Order include non-submission of securities registration statements, etc. and false statement (Articles 172, 172-2, 172-3, and 172-4) and non-submission, misrepresentation and false statement of the public announcement of the start of an offering or the Tender Offer Notification (Articles 172-5 and 172-6). When any case of unfair trading practice is noted based on facts of spreading rumors, use of fraudulent means, market manipulation, or insider trading (Articles 173, 174, 174-2, 174-3, and 175), an Administrative Surcharge Payment Order is normally decided through a trial procedure and based on a draft produced by examiners (Articles 178, 185-6, and 185-7).

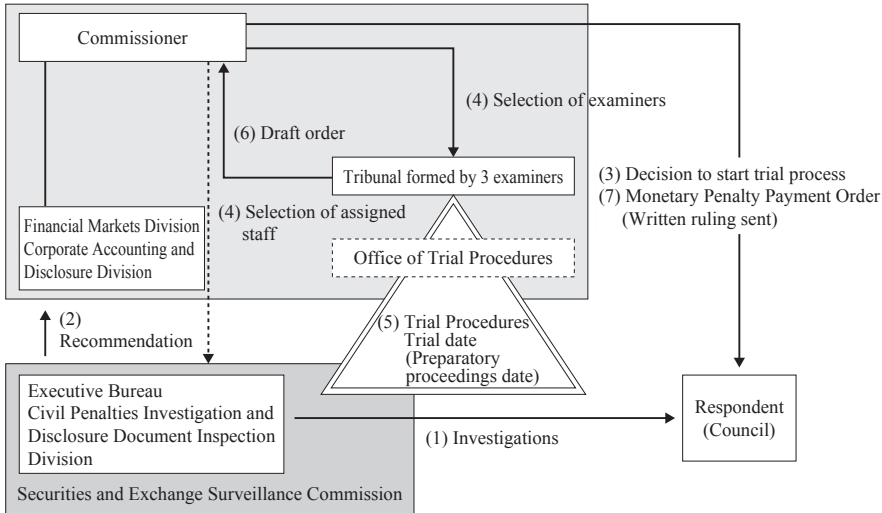
In addition, the following inspection authority for issuing disciplinary action by order or measures by the FSA is delegated by the commissioner to the SESC. Certain other matters and some of the matters delegated to the commission may be delegated to the Director-General of the Finance Bureau or to the Director-General of the local finance bureau. The Director-General of the Finance Bureau collaborates with the Director of Securities and Exchange Surveillance Department of each location.

(1) The authority to require Financial Instruments Business Operators and parties executing transactions with Financial Instruments Business Operators to produce or submit for inspection reports related to the business and assets of such operators

(2) Similar authority over Authorized On-Exchange Transaction Service Operators (Foreign Securities Companies), etc.

(3) Similar authority over licensing and accrediting associations or those

Chart XVII-5. Flow Leading to the Payment of Administrative Surcharge



*Note:* Designated staff members are selected among the employees by the FSA Commissioner to assert and verify the violations, etc., in the trial proceedings. They submit preparatory documents and give evidence, etc.

*Source:* Materials available on the website of the Securities and Exchange Surveillance Commission.

Table XVII-2. Major Legal Basis of Inspection and Supervision by the FSA

Financial Instruments and Exchange Act	
Article 56-2	Financial Instruments Business Operators, Etc.
Article 60-11	Authorized On-Exchange Transaction Service Operators, Etc.
Article 63-6	Specially Permitted Business Notifying Persons, Etc.
Article 66-22	Financial Instruments Intermediary Service Providers, Etc.
Article 75	Authorized Financial Instruments Firms Association, Etc.
Article 79-77	Investor Protection Fund, Etc.
Article 106-6, Article 106-20	Major Shareholders, Etc. of Financial Instruments Exchanges and Their Holding Companies
Article 151	Financial Instruments Exchange, Etc.
Article 153-4	Self-Regulatory Organizations
Article 155-9	Foreign Financial Instruments Exchange, Etc.
Article 156-5-8	Major Shareholders, Etc. of Clearing Organization
Act on Investment Trusts and Investment Corporations	
Article 22	Investment Trust Management Companies and Trustee Companies, Etc.
Article 213	Investment Corporations, Etc.

entrusted by such associations

(4) Similar authority over issuers of OTC or tradable securities

(5) The authority to require financial instruments exchanges and their subsidiaries, issuers of securities listed on respective exchanges and foreign financial instruments exchanges to produce and submit reports and be inspected

(6) The authority to require related parties of incidents subject to administrative surcharge to produce and submit reports and be inspected

The commission carry out their investigations within the permissible scope and when considered necessary, the commission may recommend the prime minister or the FSA commissioner to take an administrative disciplinary action (Act for Establishment of the Financial Services Agency, Article 20) and other measures.

## 5. The Securities and Exchange Surveillance Commission

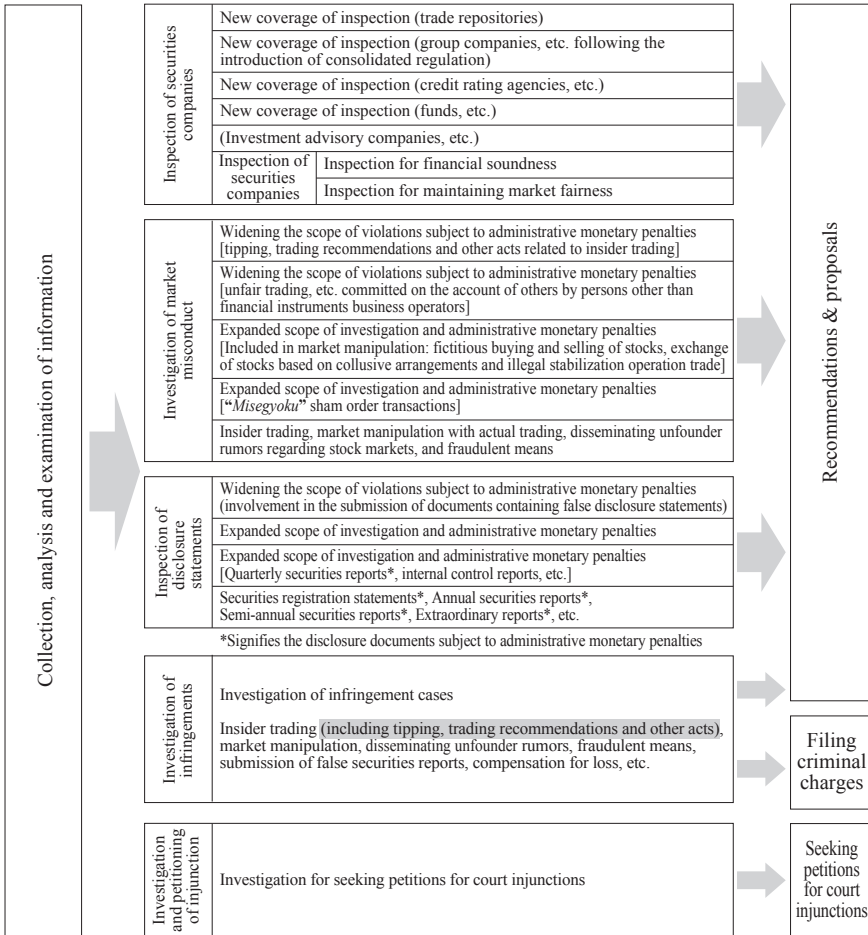
The Securities and Exchange Surveillance Commission (SESC) comprises a chairman and two members appointed by the prime minister with the approval of the house of representatives and the house of councilors (Act for Establishment of the Financial Services Agency, Arts. 10 to 12). As described in the preceding section, the commission has the authority delegated by the FSA commissioner to require a wide range of people related to Financial Instruments Business Operators and registered financial institutions to produce or submit for inspection reports and materials (FIEA Art. 56-2, Art. 60-11, Art. 63, Art. 66-22, Art. 75, Art. 79-4, Art. 79-77, Art. 151, Art. 156-15, Art. 156-

Table XVII-3. Number of criminal accusations by Business Year (as of March 31, 2022)

Business Year	92 – 17	2018	2019	2020	2021	2022
Fake statement of Disclosure documents	41	3	1	0	0	0
Disseminating Unfounder Rumors · Fraudulent Means	28	0	0	0	2	0
Market manipulation	31	0	0	1	1	1
Insider trading	81	5	1	1	5	7
Others	11	0	1	0	0	0
Total	192	8	3	2	8	8

Source: The website of the Securities and Exchange Surveillance Commission's Initiatives (August 2023).

Chart XVII-6. Activities of the SESC



Source: Data disclosed by Securities and Exchange Surveillance Commission.

34, etc.). The commission also has the authority to demand the production or submission for inspection of reports and materials from the submitters of securities registration statements or Statements of Large Volume Holders and tender offers (FIEA Art. 26, Art. 27-22, Art. 27-30, etc.).

Based on this process, the commission mainly carries out the following tasks: (1) market analysis screening (daily market surveillance) involving a review of the securities trading activity of Financial Instruments Business Operators; (2) securities inspections involving wide-ranging and detailed

branch inspections of Financial Instruments Business Operators and registered financial institutions; (3) disclosure inspections to ensure the appropriateness of disclosure by submitters of securities registration statements and annual securities reports; and (4) administrative surcharge investigations undertaken to determine whether certain behavior requiring an Administrative Surcharge Payment Order, such as unfair trading practices or disclosure violations, has occurred. Furthermore, in the case of a criminal investigation, such as the misrepresentation of material facts in a securities registration statement or annual securities report submitted or market manipulation, officials of the commission are authorized to arbitrarily investigate by questioning, examination, retention, etc. and keeping documents in custody (FIEA Article 210). In such criminal investigations, the officials also have inspection, search, and seizure authority within the scope of the warrant issued by a judge (FIEA Article 211, etc.).

As described in the preceding section, after the commission has made its recommendations based on its securities investigations, the FSA commissioner issues orders to improve business operations, rescinds registration, or suspends operations. When the commission recommends action as a result of its administrative surcharge investigations, the commissioner issues an Administrative Surcharge Payment Order when he/she is convinced that regulations have been violated. Furthermore, when the commission is convinced that irregularities have been committed following the investigation in a criminal case, it must report the case to the Public Prosecutors Office pursuant to the provision of Article 226, Paragraph 1 of the FIEA.

In the 2008 revision of the FIEA, the authority to petition for Prohibition and Stay Orders (Article 192, Paragraph 1) was delegated from the court to the Securities and Exchange Surveillance Commission. It first used this power to crack down on a business operator not registered as a Financial Instruments Business Operator in 2010. More recently, petitions for the issuance of Prohibition and Stay Orders were submitted to the court for misconducts by Thousand Ventures in 2022, S DIVISION HOLDINGS INC. in 2023, and others.

## **6. Self-Regulatory Organizations**

A self-regulatory organization is an organization established voluntarily by intermediaries, etc. under the respective legal framework with the purpose of ensuring fair and smooth trading of securities and other transactions and of contributing to the protection of investors. It takes on the role of securing the public nature of the securities market through formulating its own rules and ensuring adherence to those rules along with the laws, regulations and other

Table XVII-4. List of Self-Regulatory Organizations Governed by the FIEA (September 2023)

	Rules, etc.	Organization
Financial Instruments Exchange	Licensed	Japan Exchange Regulation (see main text)
	Same as above	Nagoya Stock Exchange
	Same as above	Fukuoka Stock Exchange
	Same as above	Sapporo Securities Exchange
Financial Instruments Firms Associations	Authorized	JSDA
	Certified	The Investment Trusts Association, Japan
	Same as above	Japan Investment Advisers Association
	Same as above	Financial Futures Association of Japan
	Same as above	Type II Financial Instruments Firms Association
	Same as above	Japan Virtual and Crypto assets Exchange Association
Investor Protection Organization	Certified	Financial Instruments Mediation Assistance Center (FINMAC)

Source: Compiled based on data available on the website of the FSA, etc.

Table XVII-5. Principal Rules of the Japan Securities Dealers Association (as of September 2023)

Self-Regulatory Rules
Rules Concerning Solicitation for Investments and Management of Customers, Etc. by Association Members
Rules Concerning Establishment of Confidential Corporate Information Management System by Association Members
Rules Concerning Establishment of Order Management System by Association Members
Rules Concerning Application for Confirmation, Examination, Confirmation, Etc. of Incidents
Rules Concerning Financial Instruments Intermediary Services Providers
Rules Concerning Elimination of Relationships with Antisocial Forces
Rules Concerning Qualification and Registration, Etc., of Sales Representatives of Association Members
Guideline for Protection of Personal Information
Rules Concerning Maintenance of and Compliance With Ethical Code by Association Members
Uniform Practice Rules
Rules Concerning Handling of OTC Incident-Related Securities
Rules Concerning Processing of Rights in Case of Forgetting Entry of a Name Change on Stocks
Rules Concerning Exchanges of Bonds Drawn for Redemption by Lottery in OTC Trading
Rules Concerning Elimination of Fails in Bonds, Etc.
Dispute Handling Rules
Rules Concerning Outsourcing, etc. for Resolution of Disputes, Etc. Between Customers and Association Members
Rules Concerning Mediation of Disputes Between Association Members

rules set out by the government.

The Financial Services Agency (FSA) acknowledges the money lending associations, certified payment service associations and designated dispute resolution organizations as self-regulatory organizations in addition to the Financial Instruments Firms Associations. Financial Instruments Firms Associations are categorized into authorized financial instruments firms associations approved by the prime minister under the FIEA (Article 67-2) and certified financial instruments firms associations designated by the prime minister under the FIEA (Article 78). The JSDA is currently the only Authorized Financial Instruments Firms Association and its members comprise Financial Instruments Business Operators and registered financial institutions. The JSDA has in place Articles of Association; fair, conventional regulations; board resolutions; and dispute handling rules; and its members are required to carry out securities transactions in compliance with these regulations and rules. The JSDA is also empowered to take disciplinary action when its members violate these association rules. The scope of its disciplinary action may include reprimand, imposition of monetary penalties, suspension or limitation of membership or expulsion, or the issuing of a formal warning (JSDA Articles of Association, Article 28, Article 29).

Certified Financial Instruments Firms Associations include The Investment Trusts Association, Japan that has investment trust management companies, trust companies, etc. that serve as trustees in investment trusts without instruction by trustor, and securities companies and registered financial institutions that purchase and sell beneficiary certificates of investment trusts as members, and The Japan Investment Advisers Association having investment advisory companies as members.

The Financial Instruments and Exchange Act (FIEA) distinguishes between a “stock company that operates financial instruments exchange markets” and a “self-regulatory organization” and recognizes a “financial instruments exchange” or “its self-regulatory organization” as a self-regulatory organization relating to the exchange market. With the authorization of the prime minister, the self-regulation-related service of Japan Exchange has been commissioned to Japan Exchange Regulation pursuant to Article 85 of the FIEA. Those services include the listing and delisting of financial instruments, inspections of compliance of members with laws and regulations, etc., and other measures specified by cabinet office order for the purpose of ensuring fair trading practices (Article 84, Paragraph 2). Japan Exchange Regulation’s organizational structure contains a listing examination department that screens listing applicants for suitability; a listing compliance department that maintains and improves the quality of the financial instruments listed on the exchange; a market surveillance and compliance department that investigates and seeks to prevent unfair trading practices; and a participant examination

and inspection department that monitors compliance and implements disciplinary action. Under rule 34 of the Trading Participant Rules, violations of laws or rules and regulations by participants are punishable by revocation of trading qualifications, suspension or restriction of trading, and monetary penalties or official warnings, etc.

## **7. International Organization for Securities Regulation**

The International Organization of Securities Commissions (IOSCO) is an international organ that sets forth global standards for the securities sector in various countries. It takes on the role of promoting, in particular, the development and implementation of, and compliance with, internationally recognized securities regulations. In the process of implementing reforms to the international rules after the financial crisis, IOSCO worked in cooperation with the G20 and the Financial Stability Board (FSB) below. The IOSCO framework was established in 1974 as the Inter-American Association of Securities Commissions. In 1983, the code of the organ was revised to expand membership beyond the Americas, and the organization was renamed as IOSCO at the Paris Annual Conference in 1986. As of September 2021, there were a total of 230 member organizations, representing the regulators of over 95% of the world's securities markets. The Securities Bureau of Japan's Ministry of Finance became an ordinary member in 1988. The FSA has succeeded the position and is an ordinary member at present. Besides the FSA, the Securities and Exchange Surveillance Commission is an associate member, along with the Ministry of Economy, Trade and Industry and the Ministry of Agriculture, Forestry and Fisheries, both of which oversee commodity futures. Meanwhile, Japan Exchange Group, Inc. and the JSDA are affiliate members. IOSCO has published a wide range of principles, policies, standards, guidance, codes, recommendations, and practices regarding securities trading that have been implemented in many countries. IOSCO's documents are important also for Japan's securities regulators, which have taken steps to implement policies through defining laws and self-regulatory systems. The Financial Services Agency closely follows IOSCO trends and publishes them on its website.

The Financial Services Board (FSB) was established as an international body in April 2009, as the successor to the Financial Stability Forum (FSF) founded in 1999, with a broadened mandate to promote financial stability, the function of the FSF. Members of the FSB include financial supervising organs and central banks of 25 major countries and regions, including Japan. In addition, international organizations such as IOSCO, IMF, the World Bank, the Bank for International Settlements (BIS), and the Basel Committee on



Chart XVII-7. IOSCO Organization Chart

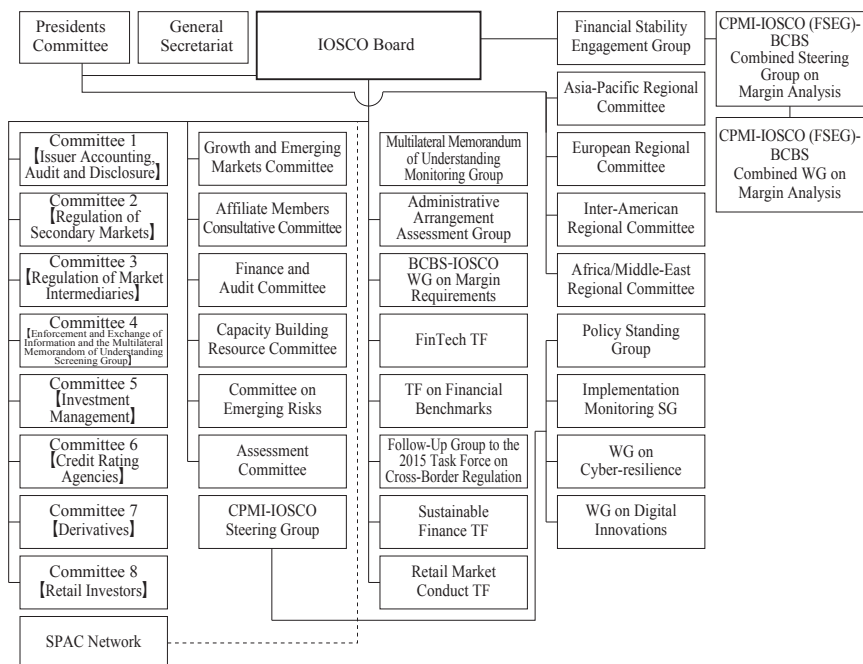


Table XVII-6. Major IOSCO Committees

Presidents Committee	The Presidents Committee is composed of all the Presidents (Chairs) of ordinary and associate members and meets once a year during the Annual Conference. It has the right to make decisions on all matters necessary for the IOSCO to achieve its objectives.
The IOSCO Board	The IOSCO Board is comprised of securities regulators of 34 countries, including the FSA. It is the governing and international standard-setting body for the securities industry. Under the Board are (1) several policy committees that discuss policy issues and conduct policy work; among other committees is (2) the Growth and Emerging Markets Committee, comprised of regulators of emerging markets and countries, which seeks to promote the development and greater efficiency of emerging markets by establishing principles and standards and providing training, etc.
Regional Committees	There are four regional committees—Asia-Pacific Regional Committee, Inter-American Regional Committee, European Regional Committee, and African/Middle-East Regional Committee—and they discuss specific issues pertinent to their own regions. Japan belongs to the Asia-Pacific Regional Committee.

Source: Websites of IOSCO and the FSA.

Banking Supervision are also members of the FSB. From Japan, the Bank of Japan, the FSA and the Ministry of Finance are participating members. According to the FSB Charter, the organization is responsible for the monitoring and assessment of vulnerabilities affecting the global financial system and for identifying and reviewing regulations, supervisory and related actions needed to address these vulnerabilities and their outcomes. Particularly important tasks of the FSB include the authorization of global systemically important financial institutions (G-SIFI) crucial for systems that are in place across borders and the formulation of guidelines for establishing the supervisory college. The organization also examines international standards and principles relating to the shadow banking system and other activities that have not been subject to regulations thus far, and serves as an intermediary function to coordinate matters among related entities. The outcomes of activities of the FSB are reported and addressed as recommendations when appropriate at the G20 summit.